

Cross Border SMEs: Malaysia & Indonesia

Edited By: MOHA ASRI ABDULLAH, RIZAL YAYA, DZULJASTRI ABDUL RAZAK

CROSS BORDER SMES: MALAYSIA & INDONESIA

Elsewhere in these two nations, SMEs are much regarded as “unsung heroes” as they play significant economic and social roles by offering new job opportunities, lowering unemployment rate, increasing competition and productivity, and providing substantial benefits to the economy of the two countries, Malaysia and Indonesia alike. The SMEs in both the neighboring nations are considered to be the backbone of the modern-day economy. Thus, it is far from being a surely not a “fish bone” anymore. The importance of this segment is undisputed. For instance, a total of 98.5 percent of the Malaysian business establishments are SMEs. In 2017, these businesses were responsible for 37.1 percent of the country’s GDP, 66 percent the total employment of the country, and 17.3 percent of the total Malaysian export. The annual growth of these SMEs’ contributions towards the GDP, employment and export are 7.2 percent, 3.4 percent and 7.9 percent respectively.

A more or less similar example can be illustrated for the Indonesian counterpart. The importance of MSMEs in the Indonesian national economy has been well noted. There are more than 56.8 million MSMEs establishments and they consist of approximately 99.9 percent of the total number of enterprises. It can be further emphasized that within MSMEs, microenterprises seem to be more dominant compared to small and medium enterprises. It covers about 98.7 percent, while small and medium enterprises represent only about 1.13 percent and 0.09 percent respectively.



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RAZAK
Design JOKO SUPRIYANTO

UMY PRESS, May 2020
First Print
UMY Press, Universitas Muhammadiyah Yogyakarta
Jalan Brawijaya, Tamantirto, Kasihan, Bantul, Yogyakarta 55183
Telpon : +62.274-387656 pesawat 159

Cross Border SMEs: Malaysia Indonesia
Editor Moha Asri Abdullah, Rizal Yaya, Dzuljastri Abdul Razak,
16,5 x 24 cm, XII + 284 hlm
Yogyakarta, UMY PRESS 2019

ISBN 978-623-91682-8-5



Preface

Much have been written in various forms with respect to Micro, Small and Medium Enterprises (MSMEs). In spite of this, a compilation of works on “cross border SMEs”, especially between Malaysia and Indonesia, has still not been made available to the public. Prior to addressing the issue at hand, let us look at what we mean by MSMEs for Malaysia and Indonesia? Micro, Small and Medium Enterprises (MSMEs) have been defined differently in both countries. So far, there has not been a unified definition that is accepted by all. In Malaysia, SME Corp, a coordinating body on SMEs, refers to micro size SMEs as companies with sales turnover of less than RM300,000 and employees less than five. However, for small size SMEs in the manufacturing sector, it refers to companies that have sales turnover between RM300,000 and RM15 million and employees between 5 and 75 people, while in the services sector it is described as companies that have sales turnover between RM300,000 and RM3 million, and employees between 5 and 30 people. As for medium size SMEs, in the manufacturing sector, it includes companies with sales turnover between RM15 million and 50 million, and

employees between 75 and 200 people. However, in the services sector, companies that have sales turnover between 15 million and RM 20 million and employees between 30 and 75 people are already considered as medium size SMEs. In Indonesia, MSMEs are defined as those enterprises which have full time employment of less than 100 employees with a substantial proportion of them consisting of micro enterprises with not more than five full-time employees.

Elsewhere in these two nations, SMEs are much regarded as “unsung heroes” as they play significant economic and social roles by offering new job opportunities, lowering unemployment rate, increasing competition and productivity, and providing substantial benefits to the economy of the two countries, Malaysia and Indonesia alike. The SMEs in both the neighboring nations are considered to be the backbone of the modern-day economy. Thus, it is far from being a surely not a “fish bone” anymore. The importance of this segment is undisputed. For instance, a total of 98.5 percent of the Malaysian business establishments are SMEs. In 2017, these businesses were responsible for 37.1 percent of the country’s GDP, 66 percent the total employment of the country, and 17.3 percent of the total Malaysian export. The annual growth of these SMEs’ contributions towards the GDP, employment and export are 7.2 percent, 3.4 percent and 7.9 percent respectively. A more or less similar example can be illustrated for the Indonesian counterpart. The importance of MSMEs in the Indonesian national economy has been well noted. There are more than 56.8 million MSMEs establishments and they consist of approximately 99.9 percent of the total number of enterprises. It can be further emphasized that within MSMEs, microenterprises seem to be more dominant compared to small and medium enterprises. It covers about 98.7 percent, while small and medium enterprises represent only about 1.13 percent and 0.09 percent respectively.

Having those figures are insufficient as there is a yawning gap between the needs, demands and policy responses in SMEs that often dampen their prospects. The recent economic turbulence has only added to SMEs' problems. In this regard, SMEs in both nations have also been struggling for the improvement in the cost reducing industries by providing relatively lower prices which bring transformation to the industrial structure and development of new markets along with large and multinational corporations (MNCs). SMEs directly and indirectly assist and facilitate growth, multiply and replicate into sufficient mass across industries and sectors. Starting in the late 70s and early 80s, SMEs have started to become more innovative and flexible in terms of reducing cost, technology adoption and diversification of products. Hence, it becomes imperative for us to ensure that SMEs, which are facing one of the toughest times in the industrial history, are strongly supported by the relevant stakeholders; governments, financial agencies, institutions and associations.

Realizing the need to leverage further on the development of small and medium enterprises (SMEs) in these two brotherly countries, Malaysia and Indonesia, a small group of scholars/researchers from IIUM, UMY, UNIDA Gontor and UNISSULA have collaboratively embarked on a little-known project known as the Research Matching Grant Schemes (RMGS), International Islamic University Malaysia (IIUM), Project ID: RMGS 17-001-0027. After a successful Malaysia-Indonesia Workshop on SMEs in 2019, that was conducted to present all the RMGS findings, a subsequent effort is to compile the selected-relevant papers in the form of a book to enable the knowledge and the latest findings to be shared with the public at large. Thus, the book, "Cross Border SMEs: Malaysia and Indonesia", is put forward as an extension of a compilation of works designed to foster the status, growth, progress and development of SMEs, espe-

cially in Malaysia and Indonesia. Such an effort has not been made elsewhere.

In view of this, we would like to extend our appreciation to the Research Management Center (RMC) of the International Islamic University Malaysia (IIUM), the research centers of *Universitas Muhammadiyah Yogyakarta (UMY)*, Universitas Darussalam (UNIDA) Gontor, and Universitas Islam Sultan Agung (*UNISSULA*) for undoubtedly giving us the opportunity by providing research grants under RMGS. The grants from our respective institutions enabled us to generate and integrate these research papers into an edited book. Therefore, special thanks and the flagship's appreciation to those who have contributed their papers and their efforts and unquestionable support which have eventually led to this edited book.

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BUSINESS SUCCESS FACTORS OF SMES IN MALAYSIA: An Empirical Study

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ABSTRACT

Small and Medium-sized Enterprises (SMEs) contribute significantly to the Malaysian economy, in terms of productivity (GDP), employment, and economic growth. Thus, to ensure the sustainability of SMEs, the success and growth of businesses must be studied by identifying key factors of business success. Therefore, this chapter identifies the background of SMEs in Malaysia and provides implications of the requirements for the success and use of SMEs in various fields. Emphasis was placed on financial challenges, external challenges, accessibility to financial capital, accessibility to Islamic finance and Knowledge Skills' Challenges. The survey was conducted using a structured questionnaire that included questions about their initial, current and future use of 11 various sources of funding and access to these resources, as well as the various challenges that SMEs face. Data collected from 344 respondents were analyzed using descriptive and inferential statistics using the Statistical Package for the Social Sciences (SPSS). After the reliability test, five variables were adopted and the variable "Technological Improvement Challenges" was deleted. The multiple regression analysis was implemented to ascertain the relationship between the variables and the degree of statistical significance. The study found that all reliable study variables have positive relationship with SMEs' business success, but only three are significant while

the two variables have no statistical significance. The chapter finally provides recommendations to various stakeholders.

KEYWORDS: SMEs, business success, financial challenges, external challenges, accessibility to Financial capital, accessibility to Islamic finance and Knowledge Skills' Challenges.

1.0. INTRODUCTION

SMEs have been successful in many sectors in Malaysia and have been, until recently, receiving government support and financial assistance from various financial bodies. Bank Negara (MNM) has adopted special programmes to support Malaysian SMEs through supporting financial institutions at the national level. The programmes include financial support, awareness raising for SMEs' owners and managers to reach financial literacy, as well as training and consumer rights.

The issue of business success has been addressed by many authors globally. Forsman, (2008) studied four Russian SMEs, using "multiple case study methodology" and "the replication approach" to assess the development projects initiated to make better business performance. The study ranked two successful and unsuccessful SMEs. The conclusion showed that the success of the business development project depends on some interconnected dimensions. Nonetheless, success in one dimension could lead to successful in other factors, thus producing a loop of ascending favorable outcomes. Failure in one dimension might lead to failure in other factors, thus leading to a descending spiral. Furthermore, Pletnev & Barkhatov (2016) surveyed more than 250 SMEs' managers to examine success patterns used by managers of SMEs in Russia to define the relationship between the business success of SMEs and the scale of their supervisors. The findings prove that the workers and their professional features are fundamentals in business success.

Small and Medium enterprises (SMEs) are an active, sensitive, and dynamic sector in economic and social development across the world (Srinivas, 2013) because of their abilities to generate employment, mobilize resources, use traditional or inherited skills, use local resources, reduce capital and technology requirements, and export potential. It is one of the most energetic and important sectors of the world's economies. According to Gulbro, (2018), in the United States, small businesses represent 97 percent of total business and engage employees about 58 percent of the whole workforce, whereas in the Southeast Asia region, for example, the evidence showed that SMEs contribute to approximately 99.9 per cent of the total enterprises in all sectors, and to GDP. It contributed to around 53 per cent and nearly 30 per cent of its total exports. Therefore, its participation in the total employment in the region represented between 51.7 to 97.2 percent (Yean & Tambunan, 2018).

According to Duncombe & Heeks, (2005), expanding the circle of SMEs will contribute significantly to generate income and livelihood opportunities for the poor in developing countries, giving further protected work possibilities for the needy, and implementing other social gains to the lower-income people - enhancing skills, increasing self-confidence, increasing women's participation, empowerment and protection toward income loss. Indeed, a crucial point that should be highlighted here is that the SMEs' business needs more investigations and research compared with other large enterprises.

The attention-grabbing significant role played by SMEs in the economies of countries, of course, faced many different challenges and problems. However, this paper focused on the following variables: financial challenges, external challenges, accessibility to financial capital, accessibility to Islamic finance and Knowledge Skills' Challenges. A total of 344 questionnaires were collected in Kuala Lumpur, Ma-

aysia, and the data were analyzed using the statistical approach. The following sections will explain all the steps of the chapter.

The paper is organized as follows. Section one is the introduction, and section two reviews the literature and discusses hypothesis development. Section three describes the methodology and the relationship between the key business success factors for SMEs. This is then followed by the findings in section five. The discussion and implications of the chapter will be followed by the last section which is the conclusion.

1.1. Problem Statement

In fact, there are various programmes that form the financial landscape for SMEs alongside BNM special funds, including government funds, credit information services, Guarantee Schemes by CGC & Prokhas, venture capital companies, leasing and factoring companies, and micro-finance institutions. Moreover, the FIN-TECH body also involves providing different assistance through Equity Crowdfunding (ECF), Peer-to-Peer (P2P), Investment Account Platform (IAP), and Leading Entrepreneur Accelerator Platform (LEAP). Although SMEs have attracted governmental attention and received diverse types of care including financial support, they are still facing different sorts of difficulties and business challenges. Some challenges may lead to business failure. Some statistics have indicated that more than half of the many new projects will not achieve long-term success (Abdul Rahman, Yaacob, & Mat Radzi, 2016).

Most pointedly, the questions that may arise after knowing the above-supporting programmes is: To what extent did the technical and financial support programmes contribute to the SMEs' business success, and what are the current problems or challenges that are representing the major obstacles to the success of SMEs. Indeed, it is

important to conduct an empirical study to identify these problems from the small and medium entrepreneurs.

1.2. Research Objectives

This research seeks to examine the variables that pose challenges to the business success of Malaysian SMEs. This chapter will focus on registered SMEs that have more than five employees or sales turnover greater than 300000 in addition to their activities or sectors (SME Corporation Malaysia, 2018). Obviously, there are many challenges such as demographic, environmental, financial and economic dimensions that are limiting the business success of such institutions, Therefore, this chapter will focus on the economic, financial and technological variables as well as knowledge skills excluding the demographic and environmental factors. Thereafter, variables that have a clear impact on business success will be selected according to the literature.

The main objective of this chapter is to identify the issues and challenges that face the business success of SMEs in Malaysia as well as highlight the access to financial services, including access to Islamic finance. To further clarify this objective, the ensuing sub-objectives have been developed:

- To identify the business success factors of SMEs in Malaysia.
- To determine the relationship between success of the various business factors and Malaysian SMEs' performance.
- To assess the business performance level of SMEs generated by the accessibility to financial services in Malaysia as well as Islamic finance.

1.3. Research Questions

To realize the research objectives mentioned earlier, the following research questions have been formulated:

.....

- What are the factors that determine the success of the business in the SMEs' sector in Malaysia?
- What is the relationship between success of the business dimensions and SMEs' performance in Malaysia?
- To what extent do Malaysian SMEs get access to financial services generally, and to Islamic Financial products, in particular?

1.4. Significance of the Chapter

There are numerous parties that can notably benefit from the results of this study. Firstly, after identifying the success factors of business for SMEs, business supervisors and entrepreneurship in the SMEs sector can improve and develop the success of their business. Secondly, financial challenges usually hamper many major financial institutions' performances, and SMEs' institutions are also more exposed to these challenges, and therefore they need to know the relationship among factors that have impact on business success in order to obtain solutions. However, identifying the current financial problems of small enterprises helps decision-makers, both in the governmental and the private sectors to develop periodical and emergency plans in an effective way that will assure performance stability. Finally, academics and researchers can identify the real problems of Malaysian SMEs and thus will have opportunities to classify their research areas and gaps with great accuracy.

1.5. Limitation of this chapter

The chapter will be limited to the Malaysian SMEs that are officially registered, according to the definition presented earlier. At least 300 questionnaires will be distributed among owners and managers surround Kuala Lumpur, using a targeted selection methodology. The study is restricted to the Kuala Lumpur City only, and therefore, it

will be limited to the study's main objective which aims to identify the SMEs' financial challenges and evaluate the relevant variables to determine their impact on the success of SMEs. The time range will be narrowed to 2018/2019.

1.6. Conceptual Framework

The chapter attempts to determine the general framework of research by identifying study variables that can provide results to answer the above research questions. The dependent variable is the SMEs' business success in Malaysia while the independent variables are as follows: accessibility to Islamic finance, accessibility to financial capital, financial challenges, external challenges, knowledge skills challenges, and technological improvement challenges. Figure 1 presents the research model.

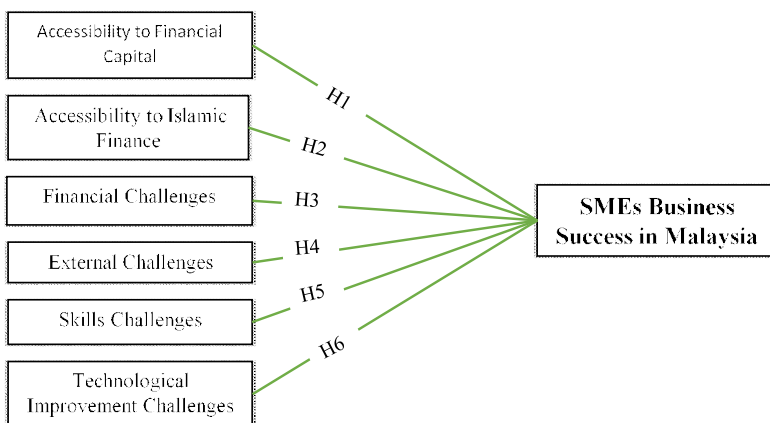


FIGURE 3. 1 RESEARCH MODEL

1.7. "Hypotheses"

The following hypotheses have been formulated to test the relationship between the dependent variable and the independent variables. The study then assesses the impact of dependent variables on SMEs' business success.

- H1: The accessibility to financial capital has effects on SMEs' business success.
- H2: The easier access to Islamic finance, the exceedingly SMEs business will succeed.
- H3: The financial challenges have a significant effect on SMEs' business success.
- H4: The less SMEs have external challenges, the more SMEs' business will succeed and grow.
- H5: The less knowledge skills challenges there are, the more SMEs' business will succeed and grow.
- H6: The technological improvement challenges has significant impact on SMEs' business success

2.0. LITERATURE REVIEW

General speaking, the definition of Small and Medium-Sized Enterprises (SMEs) differs from country to country (Omar, Arokiasamy, & Ismail, 2009; Jasra, Khan, Hunjra, Rehman, & Rauf-I-Azam, 2011). Every researcher has attempted to provide a definition that often differs from other academic researchers, and they have not proposed a standardized definition as they are used to looking at the issues from narrow angles, each according to his own specific focus. In general, SMEs from the international business perspective was defined based on the economic and social development concept of each country. In China, for example, small companies are defined as companies with fewer than 300 employees, and medium-sized companies as companies that have employees between 301 and 2,000, while in Taiwan, companies with 650 or fewer employees are defined as SME (Xiangfeng, 2008). On the contrary, Mozambique SMEs are defined as small enterprises which have less than ten employees and medium-size companies with employees between 11 to 50 employees (Osano

& Languitone, 2016).

According to SME Corporation Malaysia (2018), the definition of SMEs is based on fixed quantitative criteria such as number of employees, sales turnover, total assets, or total capital. Obviously, the definition varies according to key sectors. For instance, in the manufacturing sector, small businesses are companies that have less than 200 employees or its sales turnover is less than 50 million ringgit, while small companies are described as companies with 5 to 75 employees or has sales turnover of less than 50 million ringgit. Unlike the manufacturing sector, in the service and others sectors, any company with 30 to 75 employees or companies with sales turnover of 3 to less than 20 million ringgit is categorised as medium-size companies. On the contrary, the small companies in these sectors are companies with 5 to 30 employees or sales turnover of 300, 000 and 3 million ringgit (Council, 2005). In fact, this definition seems more reasonable, because it takes into account the characteristics of local economies which is an important concept in business performance evaluation.

TABLE 3. 1 DEFINITIONS OF MSME

CATEGORY	MICRO	SMALL	MEDIUM
Manufacturing	Sales turnover of less than RM300,000 OR Employees of less than 5	Sales turnover from RM300000 to less than RM15 million OR Employees from 5 to less than 75	Sales turnover from RM15 million to not exceeding RM50 million OR Employees from 75 to 200
Services and other sectors	Sales turnover of less than RM300000 OR Employees of less than 5	Sales turnover from RM300,000 to less than RM3 million OR Employees from 5 to less than 30	Sales turnover from RM3 million to not exceeding RM20 million OR Employees from 30 to 75

2.1. Business Success Factors of SMEs

There are many studies that addressed the variables that may affect the success of SMEs' business (Al-mahrouq, 2010; Ghosh, Liang, Meng, & Chan, 2001; Kemayel, 2015; Walker & Brown, 2004; Lückmann & Feldmann, 2017). For instance, study by Walker & Brown

(2004) was focused on non-financial variables only such as gender and location. There is no doubt that these variables are gaining importance in such studies, but after the availability of financial factors, these factors have become the cornerstone and nerve of each business project. However, the current study will investigate the financial factors that may have a significant effect on SMEs' business success.

Recently, Lückmann & Feldmann, (2017) conducted a descriptive study to determine the factors that affect the success of projects and stressed that as long as there are no studies in this subject, the descriptive study if the quantitative study will be confirmed, and an exploratory of the most important research. Thus, his research addressed various problems, such as risk management, supply, logistics and purchasing costs. The world café approach was used in this study, and 31 project managers from 23 German SMEs participated in the study which was conducted in a workshop dedicated to this purpose. The results showed that there are nine variables that influence the success of the SMEs business, but eight of came under one branch which is the organizational culture, and the rest belong to project management knowledge.

Despite the importance of this chapter, it did not focus on a specific SMEs challenge and give it enough attention. Besides this problem, the business factors for SMEs need more investigations and the studies should focus on a specific challenge and highlight the real needs of this business sector based on their specific problems. The following paragraphs will highlight several financial challenges that could significantly affect business success for SMEs in Malaysia, namely, accessibility to financial capital, accessibility to Islamic finance, external challenges, financial challenges, and technology improvement challenges.

The importance of *accessibility to Islamic finance* for SMEs is no less

than accessibility to finance in general; it may even go so far beyond that. The World Bank and Islamic development bank (2015) reported that 68 per cent of SMEs in developing countries have not able to get access to financing opportunities. From the point of view of financial institutions such as banks, the SMEs are more risky customers. They have high-risk factors such as lack of guarantees and adequacy of the credit history. As a result, this lack of funding creates a barrier to SMEs to develop and grow as emerging companies. However, according to the report of World Bank's International Finance Corporation in 2014, there is a deficit in Islamic finance of US \$ 13.2 billion in the MENA region. Despite the increasing demand for Islamic finance among SMEs, only 36 percent of banks in the region provide products for the SMEs, and only 17 percent of them provide Islamic options (Elasrag, 2016). Although this gap has been addressed by a few studies as mentioned earlier, their findings are still not satisfactory.

SMEs faces many challenges and obstacles. These hurdles could be seen through the secretions of globalization, rapid development of technology, customer expectations, and intense competition by organizations in the sector at times, and often by the institutions involved in the market and the economy (Banham & College, 2010). There are many studies which have attempted to identify the effect of external factors that can influence the business success of SMEs. The quite recent and common study is the study conducted by Wang, (2016) which aimed to analyse the business obstacles faced by SMEs. In order to realize this goal, the study selected five independent variables including external factors, namely, finance, tax competition, electricity, political, and high growth.

This paper concluded with positive results, and it highlighted the most important points which said that the external factors can be

attributed to the shortcomings of the financial system, which are due to several factors, such as fluctuations of financial markets, asymmetrical information between SMEs and banks, high costs and the lack of customized banking services for these institutions (Wang, 2016). It should be noted that these results showed the need to study the external factors of SMEs because they vary according to the environment and the market for each country. Although the author carried out good analysis, the methodology used was merely surveying the SMEs' managers by interviewing them. Indeed, inferential statistics and further analysis are quite important for this kind of study.

SMEs need proper sources of financing overhead in all their stages, namely, their establishment, operations, and outgrowth (OECD, 2018). Therefore, financial challenges is considered an international obstacle that must be addressed more methodically by different relevant parties and agencies (Malaysia World's Islamic Finance Marketplace, 2016). Therefore, access to finance has been defined as obtaining affordable and appropriate funding through an appropriate time-period (Tagoe, Nyarko, & Anuwa-Amarh, 2005). Accessibility to finance is the most crucial factor in business success. However, access to finance is critical, according to SMEs. Several studies (Abdullah, Khadijah, & Manan, 2010; Rupeika-Apoga, 2014; Woldie, Laurence, & Thomas, 2018) have pointed out that limited access to finance poses many barriers for corporate growth, in general, particularly to SMEs in many countries.

The characteristics of *access to finance* could be illustrated by several elements, namely, credit access, adequacy, affordability and duration of the credit. In the context of Malaysia, Abdullah et al., (2010) highlighted that the proportion of SMEs that had access to finance was very small and that most SMEs did not get financing opportunities despite the existence of various financing institutions in the country,

in addition to clear government directives, but they were not translated into reality significantly. Additionally, Elasrag, (2016) confirmed that around 70 percent of all SMEs in emerging economies faced challenges of financial accessibility. Hence, to achieve reliable results from Malaysian SMEs, the current study should pay attention to that factor within the study variables. Despite the importance of financing and accessibility to financial capital, which will be discussed in the next few paragraphs, only few studies have addressed them implicitly when defining terms or reviewing the literature (Abor & Biekpe, 2009; Ali, Thabit Masheko; Mnzava, 2013; Shinozaki, 2014).

As long as access to finance is a major obstacle to SMEs, alternative funding sources need to be considered. Briefly, it would be useful to mention that, the money market and capital market instruments may be preferable. However, money market instruments related to SMEs are still weak, not liquid, and investors have really limited exit options, in addition to the number of participants are few (OECD, 2018). In a like manner, capital Market funding for the SMEs is one of the biggest corporate policy challenges especially under the concept of diversified financing, which requires advanced institutional procedures and innovative reforms in order to respond to SMEs' needs. Undoubtedly, long-term financing for investment is the key to growth and a development instrument for all companies, and in particular for the SMEs. Moreover, these initiatives have been confirmed by financial experts, politicians, as well as academicians around the world (Shinozaki, 2014). As a result, the current chapter will consider financial challenges and accessibility to finance as independent variables to identify the level of financial challenges of SMEs in Malaysia to provide relevant solutions.

Technological improvement was identified as a key challenge for SMEs (Tan, Chong, Lin, & Eze, 2009). Information, communication tech-

nologies (ITCs), and the use of the Internet has witnessed great development around the world, thus affecting the business practices of enterprises regardless of their sizes. ITC improvement has become one of the most effective tools in relation to the cost and speed. In many cases, however, SMEs suffer from this development, and they need more assistance. Jasra et al. (2011) assessed the role of the main factors playing vital role in the success of SMEs in Pakistan by investigating the relationship between the determinant factors and SMEs success. The factors are entrepreneurial skills, financial resources, marketing strategies, technological resources, and government support. The results illustrated that financial resource is the principal factor in the success of SMEs, followed by technological resources and entrepreneur skills.

Knowledge skills training is needed in different areas, such as accounting, team management, marketing, communication, and technology use. Knowledge is getting enough information about someone or something (Carminati et al., 2007). It could be indicated to the theoretical or practical comprehension of the subject. The concept of knowledge may include facts, information, descriptions, or skills gained through experience or education. This can refer to the theoretical or practical understanding of the subject. In this regard, Ramukumba, (1996) found that knowledgeable and skilled workers are the key factors in product performance of South African SMEs and attracting repeat customers. Modestly, it could be said that the enhancement of technology in SMEs' sector leads to knowledge skills upgrading, and thus both will affect business success meaningfully.

3.0. METHODOLOGY

The chapter used both secondary and primary data. Secondary data includes books, published articles in high journals, and theses.

The primary data was collected through questionnaires distributed to the formal SMEs' owners or business managers in Malaysia. Approximately 344 respondents were surveyed. Six enumerators were appointed to conduct the survey and the whole survey was monitored periodically to maintain the accuracy and validity of data collection. In order to practically realise this, a set of questionnaires was designed and the questionnaires were then administered to the respondents in Malaysia. The survey was conducted using structured questionnaire that involved 16 questions in different terms. Therefore, the data collected was then analysed using descriptive statistics as well as inferential statistics through SPSS software to see the level of significance between the variables. Pearson r Correlation Coefficient test and multiple regression analysis were used. A reliability test was applied to identify multicollinearity issues and check the internal consistency of the data.

4.0. FINDINGS

4.1. Respondents Background

Table 1 presents the descriptive statistics of the profiles of the respondents. It was found that about 67 percent of the respondents were male, and 75 percent of the respondents were married. The age categories of 30-39 and 40-49 years old constituted 32 and 33 percent respectively, and those in the category of 50 years and above comprised 13.7 percent of the respondents. The data showed that about 42 percent of the respondents have completed secondary school and another 47 percent had either diploma or a first degree. However, only 6.1 percent of the respondents had a postgraduate degree. In terms of religion, 78.5 percent of the respondents were Muslims and 14 percent of them were of the Buddhist faith.

TABLE 3. 2 BACKGROUND OF THE RESPONDENTS

GENDER	FREQUENCY	PERCENT (%)
Male	229	66.6
Female	115	33.4
MARITAL STATUS		
Single	78	22.5
Married	258	75.0
Others	5	1.5
AGE		
20-29 Years	71	22.6
30-39 Years	115	33.4
40-49 Years	111	32.3
50 Years and above	47	13.7
EDUCATION		
Non-formal education	3	.9
Primary school	8	2.3
Secondary School	144	41.9
Diploma	72	20.9
First Degree/Equivalent	93	27.0
Postgraduate degree	21	6.1
RELIGION		
Buddhism	48	14.0
Christianity	3	.9
Hinduism	16	4.7
Islam	270	78.5
Others	7	2.0

4.2. Business background

Tables 2 and 3 show that about 55.2 percent of the respondents did not have any prior business experience. Those who reported to have some experience ranged from less than 3 to above 30 years, most (98) had less than five years of experience among 154 respondents. On an average, 82.0 percent of respondents had around five of their family members work full-time in their business.

TABLE 3. 3 PRIOR BUSINESS EXPERIENCE FOR SMES

ANSWERS	FREQUENCY	PERCENTAGE	MEAN	MIN.	MAX.	STD. DEVIATION
Yes	154	44.8	1.55	1	2	0.498
No	190	55.2				
Business Expertise Years						
Years	Yes		No			
Less than 5years	98		150			
6 - 15	41		0			
16-30	12		2			
31 an above	3		0			

Total sales turnover and total assets turnover per year ranged from RM10,000 to RM23 million, and RM3,000 to RM50 million respectively.

TABLE 3. 4 NUMBER OF FAMILY MEMBERS WORKING FULL-TIME IN THE BUSINESS

Answers	Frequency	Percentage	Mean	Min.	Max.	Std. Deviation
No family member	20	5.8	1.96	1	7	0.299
Less than 5	282	82.0				
6 and above	8	2.3				
Total Sales Turnover per year (Ringgit)						
Less than 5	96	27.9	2.41	10,000	23,000,000	1.17936
5 -100	63	18.3				
101 -500	127	36.9				
501 - 999	11	3.2				
1 Million and above	26	7.6				
Total Asset Turnover per year (Ringgit)						
Less than 5	119	34.6	2.46	3,000	50,000,000	1.4127
5 -100	48	14.0				
101 -500	102	29.7				
501 - 999	2	0.60				
1 Million and above	54	15.7				

4.3. Level of Challenges

To achieve the objective of the chapter, the respondents were asked to score the level of challenges (Lowest to Highest) that they will face in their business over the next three years against 17 (seventeen) selected issues.

All the issues mentioned in the questionnaire were scored as medium to very high by 40.0 to 50.0 percent of the customers. *Online sales* and *Retaining staff & Operational cost* were scored as very high by 63.6 and 68.2 percent of the respondents respectively. *Competitive advantage* and *Environmental concern* were scored as highest by 22.7 percent of the respondents. Also, 36.4 percent of the respondents scored *Margins (profit)* and *Recruiting staffs* as highest level of challenge. The mean score of all the issues shows that the level of challenges faced by the respondents ranged from medium to very high.

TABLE 3. 5 ISSUES AND LEVEL OF CHALLENGES FACED BY SMES

Challenges	Response (Lowest to Highest)						
	Lowest	Very low	Medium	Very high	Highest	Mean	SD
Competitive Advantage	0	12	73	143	116	4.06	0.829
Economic Fluctuations	1	13	127	161	42	3.67	0.749
Environmental Issue	6	54	153	118	13	3.23	0.819
Finance difficulties	3	38	156	120	27	3.38	0.817
Foreign Product Competition	8	61	153	100	21	3.19	0.880
ICT development	4	30	158	117	35	3.43	0.834
Knowledge and Skills in Finance and Accounting	0	48	183	98	150	3.30	189
Knowledge and Skills in Marketing	0	34	197	88	25	3.30	0.745
Knowledge and Skills in Technology	0	33	189	98	24	3.33	0.744
Knowledge and Skills in Research & Development	2	41	195	83	23	3.25	0.762
Net Profit (Margin Profit)	1	22	182	118	21	3.40	0.713
Operational Cost	0	15	176	123	30	3.49	0.716
On-line Sales	15	42	175	73	39	3.23	0.955
Product Cost	2	10	108	206	18	3.67	0.635
Recruiting Staff	6	32	177	119	10	3.28	0.733
Retaining Staff	6	26	205	89	18	3.25	0.742
Uncertainty of Market Direction	9	58	204	65	8	3.01	0.746
Others	3	29	201	14	4	2.95	0.530

4.4. Reliability Test

Factor analysis and Cronbach alpha were used to confirm data validity and reliability. Factor analysis showed the validity of the test and measures, while Cronbach alpha was used to evaluate reliability by exploring the inter-item consistency.

However, the factor analysis results confirmed the validity of the selected study variables, namely, accessibility to Islamic finance, accessibility to financial capital, financial challenges, external challenges, knowledge skills' challenges, and technological improvement challenges. The variables are "orthogonal" which means it is expected that they are different factors. Hence, factor analysis with varimax rotation to test was implemented for the uniqueness of the variables. Consequently, the study found that some of the variables had negative items which indicated that these items were errors and some of the items had similarities among them, and therefore, they were removed to achieve data validity and reliability.

TABLE 3. 6 KMO AND BARTLETT'S TEST

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.814
Bartlett's Test of Sphericity	Approx. Chi-Square	6318.035
	Df	528
	Sig.	0.000

The results in Table 6 affirm that there is sufficient inter-correlation as the KMO measure of sampling fitness is 0.814 (a value of greater than 0.6 is a good measure). It is a general rule of thumb that a KMO value of 0.6 is acceptable and a value closer to 1 is better. Bartlett's test of sphericity was also applied to check the significance of the relationship between the items of the construct and if there is no correlation between the items of the constructs then it is worthless to proceed with factor analysis. The Bartlett's test of Sphericity was significant ($p < 0.01$) with approximate Chi-Square of 6318.035.

TABLE 3. 7 FACTOR ANALYSIS

	Variables							
	1	2	3	4	5	6	7	8
Accessibility Kafala	0.949							
Accessibility Others	0.943							
Accessibility Qard Hassan	0.937							
Accessibility Murabaha	0.932							
Accessibility Sukuk	0.930							
Accessibility Ijara	0.910							
Accessibility Musharakah	0.909							
Accessibility Mudarabah	0.882							
Accessibility Diminishing Musharakah Ijara	0.872							
Challenges Competitive advantage		0.807						
Challenges Finance difficulties		0.744						
Challenges Economic fluctuations		0.742						
ICT development		0.559						
Challenges Environmental concern								
Challenges Retaining staff			0.843					
Challenges Market direction			0.82					
Challenges Others			0.775					
Challenges Recruiting staff			0.714					
Challenges Knowledge Marketing				0.816				
Challenges Knowledge Finance				0.748				
Challenges Knowledge Technology				0.712				
Challenges Foreign Product				0.511				
Accessibility to Cooperative Society					0.773			
Accessibility-Bank loan					0.772			

	Variables							
	1	2	3	4	5	6	7	8
Accessibility- Crowd Funding					0.75			
Accessibility- Loan from relative					0.605			
Margin f(Profit)						0.826		
Challenges Operational cost						0.627		
Challenges Knowledge-R&D						0.524		
Challenges Product cost							0.774	
Challenges On-line sales								
Accessibility NGO								0.795
Accessibility Microfinance								0.562
Eigenvalue	9.136	3.668	2.786	2.687	1.553	1.387	1.198	1.033
Percentage of variance	27.686	11.115	8.443	8.143	4.706	4.202	3.63	3.130
Cumulative (%)	27.686	38.801	47.244	55.387	60.093	64.295	67.925	71.055

Table 7 shows the Exploratory Factor Analysis (EFA) made for this chapter. After satisfying all relevant assumptions, these factors explained the accumulated variance about 66.897 percent with an eigenvalue greater than 1.0 (9.136, 3.668, 2.786, 2.687, 1.553, 1.387, 1.198, & 1.033).

TABLE 3. 8 CRONBACH ALPHA, MEAN, AND STANDARD DEVIATION

VARIABLES	NUMBER OF ITEMS	CRONBACH ALPHA	MEAN	SD
Accessibility to Islamic Finance,	9	0.978	5.46	10.329
Accessibility to Financial Capital	6	0.773	14.73	3.668
Financial Challenges,	3	0.681	10.26	1.758
External Challenges	4	0.706	14.14	2.395
Knowledge Skills' Challenges	4	0.852	13.12	2.491
Technological Improvement Challenges	2	0.418	6.66	1.425

Table 8 shows the reliability coefficients for the variables studied. The Cronbach α reliability values are all above 0.7 except for the variables "Technological Improvement Challenges (0.418)", and "Financial Challenges (0.681)". Nunnally (1978) has suggested that reliability value of .70 or greater is acceptable when used in basic social science research. Thus, the value of 0.418 for "Technological Improvement Challenges" is lower than the required value, and thus, the variable should be ignored. But the values of 0.681 for "Financial Challenges" is too close to 0.7. Up to here, the study results are in the

acceptable range. Moreover, the results of multiple regression analysis later will demonstrate that the variable is also significant.

1.1. Hypotheses Testing

TABLE 3. 9 MULTIPLE REGRESSION ANALYSIS

Variables	Standardized β	p-value	VIF
Financial Challenges	0.211	0.002*	1.672
External Challenges	0.198	0.004*	1.634
Accessibility to Financial Capital	0.096	0.074***	1.013
Accessibility to Islamic Finance	0.008	0.891	1.141
Knowledge Skills' Challenges	0.022	0.734	1.437
<i>F</i>	10.563*		
<i>R</i> ²	0.150		
Adjusted <i>R</i> ²	0.136		

Correlation Matrix:

* Correlation is significant at the 0.01 level ($p < 0.01$)

*** Correlation is significant at the 0.05 level ($p < 0.1$)

Table 9 illustrates the results of multiple regression analysis which was applied to test the hypothesis. The standardized $\hat{\alpha}$ coefficients for variables “Accessibility to Islamic Finance & Knowledge Skills’ Challenges” are insignificant ($p > 0.01$), and for this reason, they should have been removed from the multiple regression equation when based on p-value significance levels ($p > 0.01, 0.05$ & 0.10). It is important to note that R^2 value is 0.150, meaning that approximately 15 percent of the variation in business success for SMEs could be explained by the three variables- Financial Challenges, External Challenges, and Accessibility to Financial Capital. Furthermore, the f-value of 10.563 is significant with confidence level of 99 percent.

The three variables are significant and positively related to business success “Financial Challenges” ($\hat{\alpha}=0.211, p < 0.01$), “External Challenges” ($\hat{\alpha}=0.198, p < 0.01$), and “Accessibility to Financial Capital” ($\hat{\alpha}=0.096, p < 0.10$). Therefore, H1, H3, and H4 in this chapter are fully maintained while the H2 and H5 are rejected at ($\hat{\alpha} > p$ -value).

Eventually, the potential multicollinearity issues were examined, and it can obviously state that the value of Variance Inflation Factor (VIF) is less than 5 (i.e. 1.672 as bigger value). Consequently, the assessment points that there are no multicollinearity problems and the regression expectation is still valid. Accordingly, it is strongly advised to proceed with hypotheses testing through multiple regression analysis.

2.0. DISCUSSIONS & IMPLICATIONS

The hypothesis test results indicate that the three factors- financial challenges, external challenges, accessibility to financial capital are having an impact on the business success of SMEs' business in Malaysia. However, those variables were positive relationship (Standardized $\hat{\beta}$) and significant. This means that financial challenges, external challenges, accessibility to financial capital are the key factors for the SMEs' sector, and therefore their impact on business success is great.

Financial challenges are the most studied factors in the SMEs literature. Many researchers stress the importance of finding solutions to these challenges (Malaysia World's Islamic Finance Marketplace, 2016; OECD, 2018). Thus, the SMEs' owners or entrepreneurs in Malaysia also emphasise this importance through the results of this chapter (H1: is rejected). Accordingly, financial institutions around the world have developed periodic plans and programmes to assist SMEs institutions at the governments, the private sector and the global levels. This underscores the importance roles of the government's support and bank loans provided to the SMEs, because the success of SMEs will lead to achievement of common interests of government, financial institutions and the family sector in the economy. These findings correspond to the results of Emine (2012).

External challenges in this chapter consist of competition, economic fluctuations, environmental issues and foreign product com-

petitions. However, all the previous factors have significant effects on SMEs' business success, and therefore, the chapter found a positive relationship between the external challenges and SMEs business success in Malaysia in terms of statistical significance. Indeed, their promotion have attracted the attention of entrepreneurs, financial intermediaries and economic decision-makers alike.

Access to financial capital is one of the biggest growth problems for SMEs. The chapter found that there is a positive relationship between access to financial capital and the success of the business of SMEs in Malaysia with statistical significance. Although significant efforts used to be made by private and public entities to provide capital for SMEs, they are still relatively low, particularly when compared to the steady and high growth of SMEs. On the contrary, these results were somewhat contrary to the results obtained by Ali, Thabit Masheko; Mnzava, (2013) which indicated that some SMEs, especially in the rural area, have little access to financial capital, although it is available, because the SMEs' owners do not like to deal with the loans in their business and also because of the presence of internal sources of financing. Up to this point, the chapter has able to reject hypothesis H:1, H:3, and H:4.

Accessibility to Islamic finance has shown a positive relationship with the SMEs' business success, but the relationship is not significant. This finding may be explained by the fact that Islamic banks have been highly successful in obtaining a large market share in competition with their traditional counterparts, and they are still seeking to achieve higher levels of market share. However, this behavior is, most probably causing a decrease in the amount allocated for financing and lending, and thus the SMEs sector will face difficulties to access Islamic finance (Mohamed Shaban, 2016).

Knowledge Skills' Challenges presented a positive relationship with

SMEs' business success but again the relationship is not significant. The positive relationship emphasises the importance of knowledge skills for SMEs, but the chapter fails to prove the statistical significance, and therefore the result is not consistent with the literature. Moreover, in order to out the causes or reasons it would be necessary to conduct further specialised study. Therefore, the chapter failed to reject hypothesis H:2 and H:5.

Overall, the results of the empirical study showed that there is a positive relationship between the independent reliable variables (financial challenges, external challenges, accessibility to Financial capital) and the SMEs' business success. In terms of statistical significance, there were only three variables, namely, financial challenges, external challenges, and accessibility to financial capital are significant, which confirms the importance of these variables in the SMEs' owners in Malaysia. Furthermore, the other two variables (accessibility to Islamic finance and Knowledge Skills' Challenges) are important to the business success, but have a lesser degree in SMEs' sector, which can be explained by the absence of some elements that may be important but not included in this chapter.

3.0. CONCLUSION

The SMEs' sector plays a pivotal role in local and international economic development, and, therefore, their business success is entirely important. There are many factors that contribute to business success and growth, including and most importantly, access to finance in its different forms. Therefore, this chapter aimed to examine the main factors that may have an impact on the growth and success of SMEs' business in Malaysia.

The paper examined the following variables: financial challenges, external challenges, accessibility to financial capital, accessibility to

Islamic finance and Knowledge Skills' Challenges. The chapter found that all the variables have positive relationship with the success of the SMEs' business, but only three of them are significant (financial challenges, external challenges, accessibility to Financial capital). The variables' accessibility to Islamic finance and Knowledge Skills' Challenges were not significant but had positive relationship with the SMEs' business success.

In terms of implications, entrepreneurs can use the results of this chapter to focus on significant factors to ensure the success of their business. Financial institutions can also diversify funding and focus on entrepreneurs' perceptions and preferences. In addition, researchers and academicians can take advantage of the results of this chapter and conduct extensive research to clarify other variables that are not addressed in this chapter and appear to be important in SMEs' business success.

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