

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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PROFILING OF ENTREPRENEURS AND SMEs: Issues & Challenges

*Suharni Binti Maulan, Yusof Ismail, Royyan Ramdani Djayusman,
Roghiebah Jadwa Faradisi, and Bedjo Santoso*

ABSTRACT

As Malaysia aims to become a high-income country by the year 2020, where the small medium enterprises (SMEs) play critical roles, this chapter focuses on profiling the SMEs and the challenges that they are currently facing. This finding confirms that the majority of Malaysian SMEs is of micro and small size where the issues of financial accessibility and sufficiency are still prevailing. Using factor analysis, 344 data was analyzed, and it was found that the challenges faced by Malaysian SMEs can be divided into four factors, namely: "human resource management (HRM) challenges", "external challenges", "entrepreneur competency challenges" and "organizational-related challenges". It is hoped that these findings will assist the government to identify relevant policies to further enhance the performance of SMEs in Malaysia.

KEY WORDS: Small and Medium Enterprises (SMEs), Malaysia, SMEs Profile and Challenges

1.0 INTRODUCTION

Small and medium enterprises (SMEs) continue to be the backbone of an economy of a country. In Malaysia, 98.5 percent of business establishments are SMEs. In 2017, these businesses were respon-

sible for 37.1 percent of the country's GDP, 66% of the country's employment, and 17.3 percent of Malaysia's exports. The annual growth of these SMEs' contributions towards the GDP, employment and exports are 7.2 percent, 3.4 percent and 7.9 percent respectively (SME Annual Report 2017/2018). This performance is in tandem with Malaysia's SME Masterplan 2012-2020 that assumed a greater role for SMEs not only as an enabler, but also as a driver and 'game changer' to move the economy towards becoming a high income nation.

However, it is indeed a challenging task to accelerate the growth of SMEs as the businesses are known as operating with scarce resources and complex environment (Ng & Kee; 2012). For Malaysian SMEs, six factors which influence their performance are identified namely: innovation and technology adoption; human capital development, access to financing, market access, legal and regulatory environment; and infrastructure (SME Masterplan 2012-2020). Hence the Government's role is to effectively act as facilitator and catalyst, creating an enabling environment and ecosystem for SMEs to thrive. Under the National SME Development Council (NSDC), various ministries and agencies have been brought together to work towards achieving this national agenda (Chin & Lim 2018).

Therefore, this chapter is significant because Malaysia aims to become a high-income country by the year 2020. SMEs have been an important driver of Malaysia's economic transformation since the 1990s to an upper-middle income nation; and it is very clear that her transition to a high-income economy will also highly depend on SMEs' contribution to the country's GDP growth (SME Masterplan 2012-2020). Thus, the objectives of this chapter are to profile the SMEs in Malaysia and to identify issues and challenges faced by them. The profiling includes information on the demography, business experi-

ences and establishment of the SMEs. The chapter also attempts to identify challenges faced by the SMEs, particularly in this era of digitization. Their perceptions on business performance are also recognized.

2.0 LITERATURE REVIEW

In general, the definition of SMEs differs from country to country (Omar, Arokiasamy & Ismail, 2009). Researchers tend to provide a definition that often differs from other academic researchers. Absence of consensus of the definition could be due to researchers' areas of focus. Despite this, available definitions have been using the number of employees as an important dimension. In China, for example, Xiangfeng (2008) defined small companies as those employing fewer than 300 employees, and the medium-sized companies as companies that employ between 301 and 2,000 employees, while in Taiwan, companies with 650 or fewer employees were defined as SMEs. On the contrary, Mozambique defined SMEs as small enterprises which have less than ten employees, whereas medium-size enterprises with employees between 11 and 50 employees (Osano & Languitone, 2016).

As for Malaysia, in 2014, the definition of SMEs had been revised based on two quantitative criteria: sales turnover and number of employees (Chin & Lim 2018). Table 1 shows that the definitions also vary according to key sectors. Regardless of the sectors, micro size SMEs are companies with sales turnover of less than RM300 000 and employees with less than five. However, in the manufacturing sector, small size SMEs refer to companies that have sales turnover between RM300 000 and less than RM15 million and employees between 5 to 75 people, while in services it is described as companies that have sales turnover between RM300 000 and less than RM3 million and employees between 5 to 30 people. As for medium size

SMEs, in the manufacturing sector it includes companies with sales turnover between RM15 million to RM50 million and employees between 75 to 200 people whereas in the services sector, companies that have sales turnover between RM15 million to RM 20 million and employees between 30 to 75 people are already considered as medium size SMEs.

TABLE1.1: SME DEFINITION

Size	Micro		Small		Medium	
	Sales turnover	Employees	Sales turnover	Employees	Sales turnover	Employees
Manufacturing	Less than RM300,000	< 5 employees	RM300,000- < 15 million	5 to < 75 employees	RM15 million - < 50 million	75 to < 200 employees
Services & other sectors			RM300,000- < 3 million	5 to < 30 employees	RM15 million- < 20 million	30 to < 75 employees

Source: SME Corp Malaysia

Given the new definition, the majority (76.5 percent) of SMEs in Malaysia is micro size, 21.2 percent are small and 2.3 percent are medium. By economic sector, 89.2 percent of the companies are in services, 5.3 percent in manufacturing, 4.3 percent in construction, 1.1 percent in agriculture and 0.1 percent in mining and quarrying. The statistics also show that 20.6 percent of SMEs are women owned (SME Corp Malaysia).

In supporting the development of SMEs in the country, the Malaysian government has initiated various policies integrating numerous ministries and agencies. For example, the recent Eleventh Malaysian Plan (11MP) and particularly SME Masterplan 2012-2020 shows that government commitment towards assisting the SMEs continues and the focus is not only domestic but also regional and global markets (Chin & Lim 2018). In line with this, under the Entrepreneurship Action Plan 2016-2020, the Malaysian Ministry of Education has also reinforced entrepreneurship education in higher learning institutions with the primary aim that the students will venture into entrepreneurship upon graduation. The graduates are encouraged to be-

come “job creator” rather than “job seeker” (The Star, 2017). Led by the Malaysian SME Corporation (SME Corp), policies are translated via programmes such as competitiveness rating, brand development, market access, financing outreach, recognition and awards, capacity building and technology and innovations (SME Corp Malaysia).

However, to achieve the targets, Malaysian SMEs have to face at least six challenges revolving issues pertaining to innovation and technology adoption and these challenges are human capital development, access to financing, market access, legal and regulatory environment, and infrastructure (SME Masterplan 2012-2020). Meanwhile, the digitization survey conducted by the SME Corporation reported that key challenges faced by SMEs in this Industry 4.0 era are lack of understanding of digital tool usage, lack of technology knowledge, lack of awareness in financing options and limited access to technology (SME Annual Report 2017/2018). Past literatures also have shown that SMEs are facing many issues related to human resource and motivation, financial capacity and management, entrepreneur competencies, organizational management, organizational innovation and market orientation that are essential to sustain the entrepreneurial success (Alom, Abdullah, Moten & Azam, 2016; Hashim, Ali & Fauzi, 2008, Saleh & Ndubisi, 2006; Saleh, Caputi & Harvey, 2008; Ng & Kee, 2012; Tehseen & Ramayah, 2015)

3.0 METHODOLOGY

The chapter employs a structured questionnaire with four parts: A, B, C and D. Part A comprises 8 background questions. Part B comprises 16 questions related to business. Part C comprises 6 questions related to finance. The last part, i.e., Part D comprises a section each on issues, business performance, financial literacy, global trading and environment.

The questionnaire was pilot-tested with respondents who held similar characteristics with the target respondents. Minor changes were made to the original version of the questionnaire before the finalized version was administered on the target sample population, i.e. SMEs in the capital of Malaysia i.e., Kuala Lumpur and neighboring cities. The chapter employed six enumerators to administer the data in public places. They were able to elicit 344 usable questionnaires.

Other than Part A, the other parts consist of Likert-like scaled items *Least agree 1 2 3 4 5 Most Agree*. Overall, the scaled items during the pilot test (ranging from .704 to .992) meet the minimum threshold of reliability of 0.700 *Cronbach alpha* (Bruin, 2006) confirming that the contents of the questionnaire may be retained. This paper employed selected variables in the survey data. It performed rudimentary analyses in order to achieve the research objectives. The data was analyzed using SPSS.

4.0 FINDINGS AND DISCUSSIONS

4.1 Respondents' Profiles

Table 1 illustrates the demographic profiles of the respondents. About 67 percent of them are male. This is consistent with the statistics that the majority of SMEs in Malaysia is owned by males (SME Corp Malaysia). Seventy-five (75) percent of the respondents are married, almost 66 percent are between the ages of 30 to 49 years old, 42 percent completed secondary school and 78.5 percent of the respondents are Muslims. Interestingly, more than 50 percent of the respondents have no prior business experience. For the 154 respondents who have prior business experiences, their involvement is less than five years. However, around 10 percent of the respondents have vast business experiences which is more than 15 years.

The respondents were also asked on their reasons for involvement.

Almost 70 percent stated that it is because of “personal interest”, followed by “for additional income” (45.2%) and “by profession” (45.6%). The highest percentage for “personal interest” as the main reason for involvement in business indicates the importance of passion in entrepreneurship (Cardon, Wincent, Singh & Drnovsek, 2009). As for training, more than half of the respondents attended training on business plan (62.8%), marketing and promotion (58.7%), operation/manufacturing (58.4%) and finance (50.3%). 42.7 percent attended training on motivation and ICT application, 39.5 percent on leadership and 34.6 percent on human resource management. Less than 30 percent attended training in accounting (29.4%) and research and development (23.5%).

TABLE1. 2 RESPONDENTS' PROFILE

Personal Profile	Frequency (n = 334)	Percent (%)
GENDER		
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	0.9
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		

RELIGION		
Buddhism	48	14.0
Christianity	3	0.9
Hinduism	16	4.7
Islam	270	78.5
Others	7	2.0
PRIOR BUSINESS EXPERIENCE		
Yes	154	44.8
No	190	55.2
YEARS OF EXPERIENCE (IF YES)		
Less than 5 years	98	63.6
6 – 15 years	41	26.6
16 - 30 years	12	7.79
More than 30 years	3	1.9
REASONS OF INVOLVEMENT (CAN CHOOSE MORE THAN 1 ANSWER)		
Personal interest	233	67.7
For additional income	159	46.2
By Profession	157	45.6
Economic Hardship	155	45.1
No other jobs	111	32.3
More Challenges	103	29.9
Inherited Business	53	15.4
Government assistance	24	7
Others	11	3.2
Training Attended (can choose more than 1 answer)		
Business Plan	214	62.8
Marketing and Promotion	202	58.7
Operation/Manufacturing	201	58.4
Finance	173	50.3
Achievement/Motivation	147	42.7
ICT Application	147	42.7
Leadership Training	136	39.5
Human Resource Management	119	34.6
Business Feasibility Study	111	32.3
Accounting	101	29.4
Research and Development	81	23.5

4.2 SMEs Profile

Table 2 shows the business profiles of the SMEs that are involved in the sample. Almost 80 percent of the businesses were established after the year 2000. However, around 5 percent have been in existence for more than 30 years. In terms of type of ownership, it is as expected that the majority of the business is sole proprietorship

(48.5%). Meanwhile for the business sector, consumer (16.9%) and trading/services (15.1%) are the most popular sectors for the respondents. The least involved are hotel/tourism, plantation and transportation in which the respondents' involvement in each business sector is less than 1 percent. This is consistent with the SME Corp statistics that almost 90 percent of Malaysian SMEs are involved in the services sector. It is understandable because SMEs are always associated with lack of funds and the services sector, in general, requires less capital than manufacturing.

For the source of funds, surprisingly, 84.9 percent used conventional financing even though the majority of respondents are Muslims. This finding is similar to the recent survey conducted by the Malaysian Central Bank (BNM) that revealed that almost 60 percent of the SMEs were not aware of the availability of Islamic business financing facilities (Bank Negara Malaysia, 2018). Indeed, most SMEs adopted conventional financing and some may still have the misconception that Islamic finance is only for Muslims (Bank Negara Malaysia, 2018). For the initial funding, the majority used personal sources - which is 69.9 percent from personal savings and 25 percent are loan from relatives and 25 percent from bank loans. Less than 50 percent obtained initial financing from banks (45.6%). This indicates that the issues of financial accessibility and sufficiency are still prevailing amongst Malaysian SMEs.

In terms of financial performance, the total asset turnover for 34.6 percent of the businesses is RM50 000 and below per year. However, there is 15.7 percent of the businesses that has a total asset turnover exceeding RM1 million. As for annual sales turnover, 36.9 percent of the businesses earn between RM101 000 and RM500 000. Around 10 perc Bank Negara Malaysia, 2018ent has more than half million sales turnover per year while the rest gain less than RM100 000. (Please

check this sentence.) As for employees, the majority of the respondents have less than 10 full-time and part time employees which are 64 percent and 97 percent respectively. In addition, 82 percent has around 1 to 5 family members working as full time staff in the business. These findings confirm that the majority of Malaysian SMEs is of micro and small size with annual sales turnover below RM500,000 with the number of employees less than 10.

TABLE1. 3 BUSINESS PROFILE

BUSINESS PROFILE	FREQUENCY (N=334)	PERCENT (%)
Year of Establishment		
1960-1970	2	0.6
1971-1980	4	1.2
1981-1990	14	4.1
1991-2000	52	15.1
2001-2010	110	32.0
2011-2018	161	46.8
Type of Ownership		
Sole proprietorship	167	48.5
Partnership	41	11.9
Private Limited	129	37.5
Co-operative	1	0.3
Others	6	1.7
Business Sector		
Consumer	58	16.9
Construction	8	2.3
Hotel and Tourism	2	0.6
Industrial	29	8.4
Plantation	2	0.6
Technology	7	2.0
Trading/Services	52	15.1
Transportation	2	0.6
Others	184	53.5
Source of Initial Financing Capital		
Personal savings	237	68.9
Bank loan	157	45.6
Loan from relatives	86	25.0
Unregistered lenders	21	6.10
Microfinancing	18	5.2
NGOs	16	4.7
Cooperative society	12	3.5
Registered lender	8	2.3
Crowdfunding	6	1.7

Rotating credit scheme	4	1.2
Others	1	0.3
Type of Financing		
Islamic	52	15.1
Conventional	292	84.9
Total Asset Turnover per year (in Ringgit)		
50k and below	119	34.6
51k -100k	48	14.0
101k -500k	102	29.7
501k – 999k	2	0.60
1 Million and above	54	15.7
Total Sales Turnover per year (in Ringgit)		
50k and below	96	27.9
51k -100k	63	18.3
101k -500k	127	36.9
501k – 999k	11	3.2
1 Million and above	26	7.6
No of Full-time Employees		
Less than 10	220	64.0
11 -20	56	16.3
21 and above	67	19.5
No of Part-time Employees		
Less than 10	334	97.1
11 -20	3	0.9
21 and above	5	1.5
No of family members working full time in the business		
No family member	20	5.8
Less than 5	282	82.0
6 and above	8	2.3

4.3 Issues and Challenges

The list of issues and challenges were listed in the questionnaire where the respondents had to choose between the 6-scales from the lowest to the highest. Table 3 summarizes the findings. It shows that “competitive advantage” scores the highest mean (4.06) which indicate that the most challenging issue faced by the SMEs is competition. A firm is said to have competitive advantage when it is implementing strategies which are different from the current or potential competitors (Barney, 1991). However, for SMEs, the lack of resources, which are rare and difficult to duplicate, accompanied by entrepre-

neurial incompetency, may cause it difficult for competitive advantage, if available, to be sustained. The other main challenges faced by SMEs are “economic fluctuations” (3.67) and “product cost” (3.67), followed by “operational cost” (3.49) and “ICT development” (3.43). All mean scores are above average and “uncertainty of market direction” is the lowest (3.01). The mean score for “foreign product competition”, however, is relatively low (3.19) indicating that SMEs may perceive that their direct competitors are local products.

TABLE1. 4 ISSUES AND CHALLENGES

Challenges	Response (Lowest to Highest)					Mean	Std. D.
	Lowest	Very low	Medium	Very high	Highest		
Competitive Advantage	0	12	73	143	116	4.06	0.829
Economic Fluctuations	1	13	127	161	42	3.67	0.749
Product Cost	2	10	108	206	18	3.67	0.635
Operational Cost	0	15	176	123	30	3.49	0.716
ICT development	4	30	158	117	35	3.43	0.834
Net Profit (Margin Profit)	1	22	182	118	21	3.40	0.713
Financial difficulties	3	38	156	120	27	3.38	0.817
Knowledge and Skills in Technology	0	33	189	98	24	3.33	0.744
Knowledge and Skills in Marketing	0	34	197	88	25	3.30	0.745
Recruiting Staff	6	32	177	119	10	3.28	0.733
Knowledge and Skills in Research & Development	2	41	195	83	23	3.25	0.762
Retaining Staff	6	26	205	89	18	3.25	0.742
Environmental Issue	6	54	153	118	13	3.23	0.819
Knowledge and Skills in Finance and Accounting	0	48	183	98	150	3.23	0.739
On-line Sales	15	42	175	73	39	3.23	0.955
Foreign Product Competition	8	61	153	100	21	3.19	0.88
Uncertainty of Market Direction	9	58	204	65	8	3.01	0.746
Others	3	29	201	14	4	2.95	0.53

Next, the data was further tested using EFA in order to determine if the issues can be themed. Thus, prior to performing the EFA, the suitability of data was assessed. Table 4 shows that the Kaiser-Meyer-

Oklin (KMO) value was 0.724, exceeding the recommended value 0.6 and the Barlett’s Test of Sphericity reached statistical significance ($p=0.000$). Therefore, this gives support that factor analysis is appropriate (Pallant, 2007).

TABLE1. 5 KMO AND BARTLETT’S TEST

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.724
Bartlett's Test of Sphericity	Approx. Chi-Square	1912.049
	Df	153
	Sig.	.000

Using extraction method of principal component analysis (PCA) and varimax rotation, the result of factor analysis revealed the presence of four components with eigenvalue exceeding 1, explaining 60.108 percent of total variance. Table 5 shows the final results after inspection on the rotated solution; cross-loadings items and items below cut-off point 0.5 were deleted. This exercise resulted in the dropping of “product cost” and “foreign product competition”. As for the four-factor solutions, all the items showed adequate factor loadings ranging between 0.547 and 0.857.

Based on the items loaded under each factor, Factor 1 can be labelled as “human resource management (HRM challenges)” in which the highest loading is “retaining staff ” (0.857). Factor 2 is labelled as “external challenges” which include competition, financial, economic, ICT and environment. Factor 3 is labelled as “entrepreneur competencies challenges” which involve entrepreneurs’ knowledge in marketing, finance and technology. Finally, Factor 4 is categorized as “organizational-related challenges” which include “operational cost”, “profit margin”, “online sales” and “knowledge in R&D”. These findings are more or less similar to Alom et al.’s (2016) findings that SMEs success depends on owners’ characteristics, firm conditions and conditions of external environment.

TABLE1. 6 FACTOR ANALYSIS FOR ISSUES AND CHALLENGES

	Rotated Component Matrix			
	Component			
	1	2	3	4
Retaining staff	0.857			
Market direction	0.809			
Other Challenges	0.785			
Recruiting staff	0.784			
Competitive advantage		0.776		
Finance difficulties		0.763		
Economic fluctuations		0.735		
ICT development		0.588		
Environmental concern		0.547		
Knowledge-Marketing			0.827	
Knowledge of Finance			0.756	
Knowledge-Technology			0.711	
Operational cost				0.797
Margin (Profit)				0.772
On-line sales				0.620
Knowledge-R&D				0.556
Eigenvalue	5.332	2.686	1.493	1.308
Percentage of variance	29.623	14.922	8.295	7.267
Cumulative (%)	29.623	44.545	52.841	60.108

TABLE1. 7 INCREASE IN BUSINESS PERFORMANCE/SUCCESS

Performance	Response (Strongly Disagree to Strongly Agree)					Mean	Std. D.
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree		
Demand for the product	0	4	84	196	60	3.91	0.677
Total asset	3	6	99	177	59	3.82	0.760
Improvement in overall business environment	1	6	144	178	15	3.58	0.620
Total sales	0	23	179	129	13	3.38	0.669
Profit margin	0	26	188	118	12	3.34	0.668
Number of employees	9	28	194	99	14	3.24	0.763
Market share	15	59	186	71	12	3.02	0.830

4.4 Perceptions on Business Performance

Finally, the respondents were also asked on their perceptions towards the performance of the business. Regardless of the challenges

faced, the respondents' perceptions towards the business performance are fairly encouraging in which the all the scores are above 3.0. Table 6 shows that the highest mean score is for the "demand for product" (3.91), followed by "total asset" (3.89), "improvement in overall business" (3.58), "total sales" (3.38), "profit margin" (3.34), "number of employees" (3.24) and "market share" (3.02).

5.0 CONCLUSION

The findings show that the majority of the SMEs' owners in Malaysia are male Muslims, below 40 years old, who are involved in business mainly because of personal interest. The chapter also reinforces the common profile of SMEs in the country in which most of the SMEs are of micro and small size, involving the service sector. Sole proprietorship is the most popular form of legal establishment in which personal source of funds such as own savings and loans from relatives remain as the main initial capital funding as compared to bank loans.

The study also found that the issues and challenges faced by the SMEs revolved around the owners' characteristics, firms' conditions and conditions of the external environment. These challenges can be categorized into four factors, namely: "human resource management (HRM) challenges", "external challenges", "entrepreneur competencies challenges" and "organizational-related challenges". Nevertheless, despite the challenges that they are facing, the SMEs have positive perceptions on their business performances.

From the findings, a few suggestions can be recommended to the SMEs and the government as policy makers. The first suggestion is the importance of training. The chapter reveals that HRM challenges are the main issues faced by the SMEs yet leadership and HRM training are among the least attended by the entrepreneurs. Training will

also increase the entrepreneur competencies and assist them to deal more effectively with internal (organizational related) and external challenges, particularly in this era of technology, where the local and global competitions are getting more intense.

The government can continue to give support in terms of capacity building, infrastructure, and financial accessibility especially *Shariah*-compliant financing which anchors on sustainable values beyond profits. The emphasis on microenterprise, women, *bumiputera* and young entrepreneurs may also continue to strengthen and further develop and grow the Malaysian SMEs.

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