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Factors Affecting Business Success of Small and Medium Enterprises in Malaysia

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ABSTRACT

The aim of this study is to determine the factors affecting the business success of Small and Medium Enterprises (SMEs) in Malaysia and to identify which of these factors affects the business success of SME the most. A set of questionnaire has been distributed to SMEs located in Negeri Sembilan in which only 120 questionnaires were usable. Descriptive analysis was conducted to analyze the data specifically using Pearson correlation as well as Multiple Regression Analysis. The R square value for this study is 0.811 which is considered very high and means that the multicollinearity is a potential problem. Hence, Variance Inflation Factor (VIF) was conducted to detect the severity of multicollinearity and it was found that multicollinearity is not serious. The multiple regression analysis results indicate that all three variables appear to be significant and have influence toward the business success of SMEs in Malaysia This study provides a greater understanding of factors affecting the business success of SMEs.

Key Words: Business Success, Financial Management, Management Skill, Marketing Strategy, Small and Medium Enterprises.

1. INTRODUCTION

Small and medium enterprises (SMEs) play a significant role in the economic development, social uplifting and political stability of every country (Khalique, Isa, Shaari, Abdul and Ageel, 2011). It can be considered as the backbone of the national economy (Amini, 2004). SMEs in Malaysia play an important role as one of the industries that can support the economic growth. There are various definitions about

SME. SME is defined as an enterprise comprising less than 500 employees (Audrestch, 1999). Meanwhile, the European Union (2003) defines SMEs as an enterprise with a maximum of 250 employees and annual turnover not exceeding €50 million. SMEs in this study is defined as an enterprise with sales turnover not exceeding RM20 million or full time employees not exceeding 75 workers (BNM, 2013).

The financing in SME is necessary to help them set up and expand their operations, develop new products and invest in new staff or production facilities. According to Schlogl (2004), SMEs dominate the economy in Malaysia in terms of employment and number of companies. SMEs are considered as an engine of innovation and growth, help to reduce poverty as they are more labour-intensive but are constrained by institutional and market failures (Biggs, 2002). According to the Malaysia SME websites, the SMEs make up more than 97% of total businesses and employ 65% of the workforce in Malaysia. Since 2004, SMEs has contributed to the Malaysian gross domestic product (GDP) that exceeds the overall GDP growth. Based on the statistics, it shows that SMEs has a significant role in the economic growth. The contribution of SMEs is due to the success of their business. The success of SMEs is influenced by various factors whether internal or external factors. The internal factors include the success of the business owner. The ability of business owner in terms of finance, management and strategy is very important to sustain the business in the market. Therefore, this study is undertaken to determine the factors affecting the business success of SMEs and which of these factors affects the business success the most.

2. LITERATURE REVIEW

According Chittithaworn, Islam, Keawchana and Yusuf (2011), business success is usually the outcome of the way of doing business and co-operation. Inter-firm co-operation, consultation, performance measurement and flexibility may play an important role in business success. Successful firms were likely to spend more time communicating with partners, customers, suppliers and employees. The use of outside professionals and information provided by customers and suppliers is also important for business success. There are many factors affecting business success of SMEs in Malaysia. In this study, the researcher is focusing on three factors which are financial management, management skills and marketing strategy.

Financial management is the management of finances of a business in order to achieve the financial objectives of the business (Abanis, Sunday, Burani and Eliabu, 2013). Good financial management practices have been viewed as critical element in the success of SME (Abanis et.al., 2013). From the research, inefficient financial management may damage business efficiency and this will continuously affect the growth of small and medium enterprises. However, efficient financial management is likely to help SMEs to strengthen their business efficiency. McMahon, Holmes, Hutchinson. and Forsaith (1993) defines financial management based on mobilizing and using sources of funds: financial management is concerned with raising the funds needed to finance the enterprise's assets and activities, the allocation of funds and ensuring that the funds are used effectively and efficiently in achieving the enterprise's goal. From Abanis et.al., (2013) study, financial management composed of five (5) constructs and these include: working capital management which is also subdivided into cash management, receivables management and inventory management. Other constructs under financial management include: investment, financing, accounting information systems and financial reporting and analysis.

According to Zarook, Rahman and Khanam (2013), management skills are necessary for SMEs to plan, organize, control and direct its operations. There are some of the basic skills for any manager, even those in large organizations. In managing SMEs, planning is critical given the limited availability of resources in terms of finance, labour and technology. Besides that Fatoki and Odeyemi (2010) stated that managerial skills play a key role in the success of small enterprise as they determine its growth. According to Agbim (2013), entrepreneurial learning capability and productivity have been identified as key dimensions of management skills. Richter and Kemter (2000) found that having the ability and competence to control and plan the whole business is an important management skill for business success. In addition, Richter and Kemter (2000) stated that more successful business owners have good management skills. They offer special services and pay attention to quality and design of their products and services.

The other independent variable in this study is marketing strategy. According to The Times 100 websites, marketing strategy is a long-term plan to achieve certain objectives. Although making a profit is important, an organization should also develop its market share and search for brand leadership as well. The marketer must monitor the profitability of the business and attempt to anticipate the likely trends. Marketing strategy is a procedure by which companies react to situations of competitive market and forces of market or react to environment forces and internal forces to enable the firms to achieve its objective in the target market (Hult & Olson, 2010). Traditionally, marketing strategy is a plan for pursuing the firm's objective or how the company is going to obtain its marketing goals within a specific market segment (Walker and Mullins, 2011). The ability of using the successful marketing strategies in market competition is critical for a company's performance (Mavrogiannis, Bourlakis, Dawson & Ness, 2008).

Figure 1 shows the proposed research model used for this study. The dependent variable for this study is business success while the three independent variables are financial management, management skills and marketing strategy. The research hypotheses developed for this study are:

H1: Financial management has an influence towards business success of SMEs

H2: Management skills has an influence towards business success of SMEs

H3: Marketing strategy has an influence towards business success of SMEs

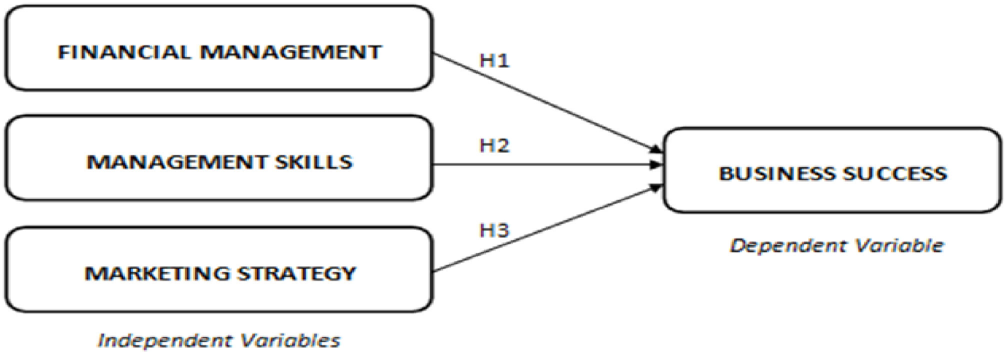

Figure 1: Research Model

3. METHODOLOGY

A set of questionnaire was constructed by the researcher which was adapted from several previous studies. The questionnaire has five sections where the first section focuses on the demographic of respondents as well as the business ownership structure. It questions the types of business, years of establishment, ownership structure, types of financial aid and employment size (Chittithaworn et al., 2011). The rest of the sections cover questions on the variables namely financial management, management skills, marketing skills, marketing strategy and business success (Agbim, 2013). The questionnaires are distributed to SMEs using random sampling where the respondents have the equal chance of being selected as the nature is generalized. This method is selected as it is the most easily accessible and very quick. A total of 150 sets of questionnaires were distributed and only 120 were usable.

4. RESULTS

The profile of the respondents who participated in this study is shown in Table 1. Majority of the respondents operated their business in the urban area and most of them are from the food and beverages industry with the highest percentage of 38.3% compared to other type of business industry. In terms of years of establishment, 62.5% of SMEs in Negeri Sembilan have been established 1-5 years, which is the highest percentage compared to other years of establishment. Most of the SMEs in Negeri Sembilan is owned by Bumiputera which is 78.3%, compared to that owned by other non-Bumiputera and joint local/foreign ownership which is 20% and 1.7% respectively. Based on the survey, most of the owners of the SMEs use their own funds to start their businesses. This represents 41.7% compared to utilizing other financial resources such as commercial banks, microfinance institution, and financials aids at 20.8%, 9.2%, and 28.3% respectively. Majority of these SMEs have less than 10 workers with the highest percentage of 93.3%, with 5.8% employing 10-22 workers and 0.8% employing more than 51 employees.

Table 1: Business Background

		Frequency	**Percentage (%)**
Location	Urban area	69	57.5
	Rural area	51	42.5
Type of business	Textiles & apparel	30	25.0
	Wholesale & retail trade	5	4.2
	Food & beverages	46	38.3
	Gift ware & jewelry	1	0.8
	Furniture & related product	5	4.2
	Household product	5	4.2
	Footwear & leather product	8	6.7
	Transportation	3	2.5
	Others	17	14.2
Years of operation	Less than 1 year	26	21.7
	1-5 years	75	62.5
	6-10 years	10	8.3
	11-15 years	9	7.5
Ownership Structure	Bumiputera owned	94	78.3
	Non-bumiputera owned	24	20.0
	Joint local / foreign	2	1.7
Financial Assistance	Commercial banks	25	20.8
	Own funds	50	41.7
	Microfinance institution	11	9.2
	More than 1 financial aid	34	28.3
Employment size	Less than 10 workers	112	93.3
	10-20 workers	7	5.8
	51-150 workers	1	0.8

The results of the reliability test were conducted to determine the internal consistency of the measures and are shown in Table 2. All variables are accepted as the values are more than 0.6 which is higher than that recommended by Hair, Money, Page and Samouel (2007).

Table 2: Reliability results

Variables	**Cronbach's Alpha**	**Items**
Business Success	.816	3
Management Skills	.941	5
Marketing Strategy	.864	5
Financial Management	.880	5

Table 3 shows the correlation analysis between all the independent variables and dependent variables. Based on the results, all the variables have positive relationship with each other with financial management significant at 0.693, management skill at 0.806 and marketing strategy at 0.810.

Table 3: Correlation analysis

Variables	Business Success
Management Skills	.693
Marketing Strategy	.806
Financial Management	.810

The result from regression analysis is used to determine the significance of the variables between independent variables (financial management, management skill and marketing strategy) and dependent variable (business success). The R square value is 0.811 which shows that that 81.1 percent changes in business success are explained by the changes of all independent variables. This is shown in Table 4.

Table 4: R square Results

Model	R	R-square	Adjusted R-square
1	.900[a]	.811	.806

a. Predictors: (Constant), MAR, FIN, MAN

Multicollinearity is detected when the R-squared is very high. In this study, the R2 is 0.811 which mean that the multicollinearity is a potential problem. To measure whether there is multicollinearity or not in the regression, the researcher used the VIF (Variance Inflation Factor) to detect the severity of multicollinearity which is depicted in Table 5. Based on the result, the VIF for all independent variable is less than 5 when FIN = 2.047, MAN = 2.599 and MAR = 1.734. A common rule of thumb for multicollinearity is when VIF $\geq$ 5. Since all VIF for independent variables are less than 5, so there is no severe multicollinearity. The solution for this multicollinearity problem for this study is to do nothing because as long as some of the coefficients in a regression model are statistically significant, it is a signal that multicollinearity is not that serious.

Table 5: Results for Multicollinearity

Model		t	Sig.	Collinearity Statistics	
				Tolerance	VIF
1	(constant)	.696	.488		
	FIN	3.313	.001	.489	2.047
	MAN	5.530	.000	.385	2.599
	MAR	9.004	.000	.577	1.734

Table 6 shows the results of multiple linear regression model coefficient analysis by using regression analysis. The column Beta and the standardized Coefficients indicate that the highest Beta is marketing skills at 0.479 which is significant at 0.000. This is followed by management skills at 0.360 which is also significant at 0.000. As for financial management, the beta value is 0.191 which indicates that it is significant at 0.001. These indicate that all the variables do affect business success of SMEs in Malaysia. Hence, all hypotheses are supported.

Table 6: Coefficients Results

Model	Unstandardized Coefficient		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Financial management	.182	.055	.191	3.313	.001
Management skills	.355	.064	.360	5.530	.000
Marketing strategy	.428	.047	.479	9.004	.000

a. Dependent Variable: Business Success

5. CONCLUSION AND DISCUSSION

From the survey conducted, the study found that that all independent variables which are financial management, management skills and marketing skills do have influence towards the business success. This is in line with studies conducted by earlier researchers. This study also unveils that among the three variables, marketing strategy is the most important factor that influences the business success of SMEs. This indicates that for SMEs to go further in business, they must have knowledge in marketing and must enhance the marketing skills of relevant personnel. The four marketing aspects that are important to SMEs are product, price, place and promotion) as these are important marketing mix of the marketing strategy. The marketing strategy is a business tool that is used by the management of organizations which enable them to remain competitive in a global competitive environment (Owomoyela, Oyeniyi & Ola, 2013). These marketing mixes are used to develop strong promotion, improve the satisfaction of consumer and improve ability for innovation of product/service. These strategies can influence the business success of SMEs in Malaysia.

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