



FACTORS AFFECTING BUSINESS SUCCESS OF THE MALAYSIA'S SMALL AND MEDIUM ENTERPRISES (SMES): A CONCEPTUAL PAPER

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ABSTRACT

Small and medium enterprises (SMEs) help developing countries in providing employment, increase income, and fostering economic growth. The establishment of SMEs increases over time, especially in Malaysia. SME is one of the major contributors to the gross domestic product (GDP) and job creation in Malaysia. A considerable number of researches have been conducted to investigate factors that influence the success of SMEs, which is beneficial to assist new entrepreneurs. Therefore, this study intends to discuss the details of factors that affect business success based on the previous literature. The conceptual framework introduced in this study hopefully will shed more light on the cause and effect of each factor on the success of SMEs.

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Keywords: Business success; entrepreneurship theory; small and medium enterprises (SMEs).

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1. INTRODUCTION

Based on the Malaysian Department of Statistics (2018) and the Ministry of Finance Malaysia (2018), 98.5 percent of the business entities established in Malaysia in 2016 was the backbone of Malaysia's economy. Small and medium enterprises (SMEs) contributed 37.1 percent of Malaysia's GDP and created at least 66.0 percent employment in 2016 (Malaysian Department of Statistics, 2018). This figure was based on 192,782 small enterprises and 20,612 medium enterprises that established until 2016 (Malaysian Department of Statistics, 2018). Besides, the government allocates RM8 billion for Bumiputera entrepreneurs in 2020 (an increase from RM7.2 billion in 2019) (Ministry of Finance Malaysia, 2019). In the Federal Territory of Labuan, SMEs face amount of challenges before they can survive and succeed (S. Selvadurai, Moorthy, Lyndon, & Er, 2011). SMEs refer to any companies with RM10 million net assets or shareholders (Mohd Zulkifli, Abdul Kamal, Mohd Rusdan, & Zakiah, 2010). However, based on the SME Corporation Malaysia (2013), SME can

be defined based on the size of its operation, which consists of two main categories: (1) manufacturing sectors and (2) service sector.

For the manufacturing sector, small manufacturing enterprises should have less than RM15 million sales turnovers and less than 75 employees at one time (SME Corporation Malaysia, 2013), while medium manufacturing enterprises should have less than RM50 million sales turnovers and less than 200 employees at one time (SME Corporation Malaysia, 2013). However, for the services and other sectors, the enterprises' sales turnover should be less than RM3 million with less than 30 employees at one time (SME Corporation Malaysia, 2013). As for the medium enterprises of services and other sectors, sales turnover should be less than RM20 million and employees less than 75 persons (SME Corporation Malaysia, 2013). The specific definition and category of SME were introduced by the SME Corporation Malaysia (2013) through the National SME Development Council (NSDC). In order to be categorized as SME in Malaysia, the enterprise should have at least five employees to 200 employees at one time. Moreover, the respective enterprise should have a sales turnover from RM300,000 to RM50 million. Table 1 shows the detail definitions provided by SME Corporation Malaysia (2013).

Table 1: Definition of small and medium enterprises (SMEs) by the size of the operation.

Category	Small	Medium
Manufacturing	Sales turnover from RM300,000 to less than RM15 million or full-time employees from 5 to less than 75	Sales turnover from RM15 million to not exceeding RM50 million or full-time employees from 75 to not exceeding 200
Services & Other Sectors	Sales turnover from RM300,000 to less than RM3 million or full-time employees from 5 to less than 30	Sales turnover from RM3 million to not exceeding RM20 million or full-time employees from 30 to not exceeding 75

Source: SME Corporation Malaysia (2013)

In recent years, the number of research related to the factors affecting business success has increased (Kemayel, 2015; Senior, 2016). It has gain popularity in Malaysia as one of the developing countries in the world (Sivapalan Selvadurai et al., 2013). There are numerous factors that can be consider as the factors that affect business success of SMEs such as type of customer, owner's experience, ideal location, business suppliers, financial sources, education level, and number of employees (Abdul Karim & Ahmad Suhaimi, 2013; Barkhatov, Pletnev, & Campa, 2016; Syed Fida, Tahira, Khalid, & Muhammad, 2013). Therefore, this study will examine the relationship between the factors that affect business success and business success of SMEs in Malaysia, especially in the Federal Territory of Labuan.

2. UNDERLYING THEORY

Based on previous studies, many theories can be linked to business studies, especially in examining the business success of Small and Medium Enterprises (SMEs). To better understand the concept of the relationship between factors and business success

in this study, the entrepreneurship theory form by Reynolds and White (1997) will be used.

2.1 Entrepreneurship Theory

The entrepreneurship theory by Reynolds and White (1997) has four main stages, which consist of the conception stage, gestation stage, infancy stage, and the adolescence stage, besides three transitions between the stages. Entrepreneurship theory is crucial in order to understand the establishment process of a business entity (Arenius & Ehrstedt, 2008). At the conception stage, there will be an interest, idea, or consideration on starting up a business. In the second stage, the gestation stage, a specific action will be taken towards the idea or consideration of a business start-up. Between the conception stage and the gestation stage, the first transition happens.

Before the third stage, which is the infancy stage, the second transition will occur. In the infancy stage, action will be in the form of small basic activities such as trading between supplier and business entity or business entity and customer. Then the third transition happens between the infancy stage and the adolescence stage. In the final stage, a business successfully established, with its business criteria fulfilled. Figure 1 shows the entrepreneurship theory by Reynolds and White (1997).

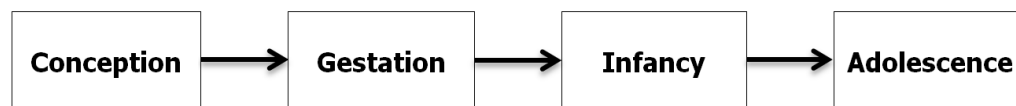


Figure 1: Entrepreneurship theory.

Source: Reynolds and White (1997)

3. FACTORS AFFECTING BUSINESS SUCCESS OF THE SMALL AND MEDIUM ENTERPRISES

Due to the challenges faced by the Small and Medium Enterprises (SMEs), many initiatives have been introduced by the government in order to help increase the competitiveness and participation of the backbone of Malaysia's economy (Malaysian Department of Statistics, 2018). Thus, it is vital to understand the factors affecting the business success of SMEs. Based on the previous studies, there are three factors that have a significant effect on the business success of SMEs, which involves owner-manager's personal characteristics, business characteristics, and business location (Senior, 2016).

3.1 Owner-manager's personal characteristics

Owner-manager's personal characteristics refer to characteristics at the individual level which related to personal demographics (Girard & Altoona, 2010; Md. Aminul, Mohammad, Abu Zafar, & M. Syed, 2011; Mohammed, Zahurul, & Md. Ifttekhar, 2013) and socioeconomic characteristics (Girard & Altoona, 2010; Park, 2001; Watson, Scott, & Wilson, 1998). Based on a study by Senior (2016), owner-manager's personal characteristics include gender, age, ethnicity, language, education level, and experience. Owner-manager's personal characteristics were found to be the main factors that affect business success (Kemayel, 2015; Senior, 2016). Owner-manager with a high education level can operate their business smoothly due to the good problem-solving skills (Barkhatov et al., 2016; Chittithaworn, Md. Aminul,

Keawchana, & Dayang Hasliza, 2011; Chong, 2012; Mohd Zulkifli et al., 2010; Syed Fida et al., 2013; Watson et al., 1998). Hence, owner-manager's personal characteristic is one of the critical factors in the business success of small and medium enterprises (SMEs), especially in Malaysia. The personal demographics and socioeconomics characteristics of the owner-manager of a business might have a positive relationship with business success.

3.2 Business characteristics

Business characteristics can be defined as its number of sales (Abdul Karim & Ahmad Suhaimi, 2013; Fairlie & Robb, 2009; Syed Fida et al., 2013), customer (Chittithaworn et al., 2011; Fairlie & Robb, 2009), as well as closure of business, employment, funds, industry of the business operates in, and characteristics that can differentiate one business with another in the same industry (Fairlie & Robb, 2009). Business characteristics are only limited to the characteristics on the level of the business itself and not included the individual or owner's level (Fairlie & Robb, 2009). For business characteristics, year in business, financial sources, type of customer, and the number of employees are among the criteria measured for business characteristics (Senior, 2016).

Business characteristics become one of the crucial factors for a successful business. A business entity with strong characteristics such as a lot of capital sources, better technologies, as well as better infrastructure has higher competitive advantage to ensure the survival of the business (Brian, 1993; Chittithaworn et al., 2011; Mohammed et al., 2013; Mohd Zulkifli et al., 2010). Meanwhile, Brian (1993) Chittithaworn et al. (2011) Mohammed et al. (2013) and Mohd Zulkifli et al. (2010). Previous research also found that a business entity with better business characteristics can improve and expand its business compared to businesses with a lack of resources (Brian, 1993; Chittithaworn et al., 2011; Mohammed et al., 2013; Mohd Zulkifli et al., 2010). Based on the study by Senior (2016), it is important that business characteristics to be included as factors that will affect the success of a business, especially towards small and medium enterprises (SMEs). Therefore, business characteristics should be included as part of the factors that will influence business success among SMEs in Malaysia.

3.3 Business Location

Business location is the place of business that operates its main business (Senior, 2016). According to Senior (2016), the business location includes elements such as business located in the neighborhood, customer lives nearby, employee lives nearby, business suppliers, as well as the ideal location. Previous studies also highlight the importance of business location as a factor that influences the business success of small and medium enterprises SMEs (Abdul Karim & Ahmad Suhaimi, 2013; Senior, 2016). Good business location will help improve the management chain between suppliers, the business entity itself, and the target customers (Chittithaworn et al., 2011; Kemayel, 2015; Mohd Zulkifli et al., 2010; Pletnev & Barkhatov, 2016). The closer the business location to its suppliers as well as customer, the better the supply chain of products or services can be distributed which will reduce the cost (Chittithaworn et al., 2011; Kemayel, 2015; Mohd Zulkifli et al., 2010; Pletnev & Barkhatov, 2016). Moreover, it is important to choose a business location to avoid business relocation in the future, which could lead to an additional cost for the

business (Abdul Karim & Ahmad Suhaimi, 2013). Thus, business location should be included in the study as the factors that will influence the success of business among SMEs in Malaysia.

4. DISCUSSION

This study focuses on small and medium enterprises (SMEs) in a small island, Federal Territory of Labuan, which may experience challenges in terms of logistics, accessibility to suppliers, and smaller target market compared to other places in Malaysia. Therefore this study may shed some light on the factors that influence business success in a small island like the Federal Territory of Labuan. This study will propose a conceptual framework based on the original framework from Senior (2016). Some modification has been made on the framework in order to fit into Malaysia situation. Study select owner-manager's personal characteristics, business characteristics, and business location as the independent variables, while business success will be the dependent variable. One independent variable, which is owner-manager's culture, was removed from the original framework. This is because owner-manager's personal characteristics (Kemayel, 2015; Senior, 2016), business characteristics (Brian, 1993; Chittithaworn et al., 2011; Mohammed et al., 2013; Mohd Zulkifli et al., 2010; Senior, 2016), and business location (Abdul Karim & Ahmad Suhaimi, 2013; Senior, 2016) are the most common indicators that influence business success among SMEs.

For the removed owner-manager's culture from the conceptual framework, this is because it is difficult to really examine the influence of culture on business success (Chong, 2012; Mazzarol et al., 1999). As the nature of Malaysian culture, it is a multicultural country. Federal Territory of Labuan located in East Malaysia, which is near to Sabah. In Sabah, we have 33 different ethnicities besides 50 languages and 80 ethnic dialects spoken by Sabah's people (Sabah State Government, 2020). Therefore, the significant influence of owner-manager's culture may be difficult to determine due to the number of ethnic involved. Figure 2 is the proposed conceptual framework adapted and modified from Senior (2016).

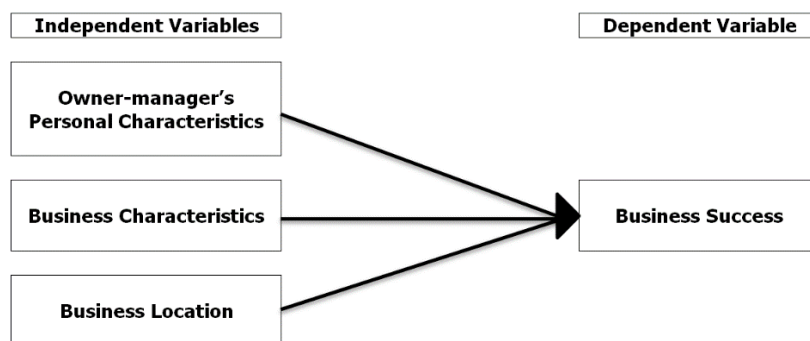


Figure 2: Proposed conceptual framework.

Source: Adapted and modified from Senior (2016)

5. SIGNIFICANCE OF THE STUDY AND CONCLUSION

It is essential to understand the relationship between factors affecting business success and business success itself in order to cope with the rapid environmental in Malaysia.

Despite a vast number of researches associated with SMEs' business success, further investigation is needed to identify the best business start-up framework. Moreover, more studies are needed to provide the SMEs community with the knowledge and guidance in the business improvement process. Assist SMEs to garner more support from the government, private sectors, and non-profit organizations in order to improve its performance as well as contribute more to economic development.

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