

Factors Affecting the Growth of Small and Medium Enterprises in Malaysia

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Abstract: *Small and Medium Enterprises (SMEs) are the backbone of the Malaysian economy and more importantly, for the creation and development of a modern, dynamic, and knowledge-based economy. These enterprises employ about 70% of the country's workforce, make a major contribution to the field of innovation and support regional development and social cohesion. This research focuses primarily on the influence of external and internal factors, with emphasis on access to finance, working place, marketing, government policy, infrastructure, entrepreneurship, and internal management for SMEs growth in Malaysia. A questionnaire was devised based on the factors affecting SMEs growth. A total of 384 respondents were collected. The outcome of the analysis indicates that access to finance, working place, internal management, marketing, entrepreneurship, and infrastructure are important factors and have a positive significant relationship with the growth of SMEs, whereas government policy has a positive but insignificant impact on the growth of SMEs in Malaysia.*

Keywords: SMEs, entrepreneurship, business growth

1. Introduction

Small and Medium-sized Enterprises (SMEs) play an important role in driving the economic growth amongst all countries (Lim & Teoh, 2021). It is not just to overcome the unemployment issues but indirectly serve as job creation to people. As part of the criteria, economic development of a country and the SMEs are crucial sectors which need economic reforms and development (Gherghina et al., 2020; Eton et al., 2021).

When SMEs grow, there will be determinants to be considered. Penrose (1959), the author of the theory of growth of firms has divided the factors into two categories. They are internal and external which can contribute to the growth of SMEs. Lim and Teoh (2021) and Endris and Kassegn (2022) claimed that some extended factors such as internal management and entrepreneurship were considered as internal factors while access to finance, working place, government policy, market and infrastructure were grouped as external factors which affected the growth of SMEs sectors in Bahir Dar city.

According to Daka et al. (2017), marketing skills are significant factors affecting SMEs' success and growth in a country. Mukarutesi (2018) further analysed other factors and found that entrepreneurship was positively significant to the SMEs growth and government policies. These findings have strong support for the theory of growth of firms. However, some other

studies from Karimi et al. (2021) highlighted entrepreneurship that can lead to the strategic creation of new businesses for the SMEs and organisations.

SMEs faced with challenges just to survive and sustain in the market. Access to finance, market access, legal and regulatory and infrastructure were the major challenges in Malaysia based on the study carried out in year 2018 (Sauh et al., 2019). The success of legal and regulatory in terms of definition shall be the same as government policies, which upon implementation, may be either positive or negative.

Amaradiwakara and Gunatilake (2017), Sauh et al. (2019) and Nizaeva and Coskun (2019) concluded that access to finance have impacted the growth of SMEs. The finance inadequacy with the lack of the government policy support for SMEs becomes a consideration factor for SMEs owner in their decision making to continue operations or to close down. The level of education by owners of the enterprises has a direct impact on the growth of SMEs. Further classification of their education level included entrepreneurship as the criteria and skill which the entrepreneurs possessed.

The availability of infrastructure can help the growth of the SMEs according to the research conducted by Mugo et al. (2019). They found that most of the entrepreneurs will take into consideration key infrastructure such as transportation, connecting between the city, utility of the location and the availability of the internet to be the main factors which impact the owner's decision. When the connectivity of the transportation is efficient, the smoother the delivery and goods exports.

Most of the research have concluded that the internal and external factors impacted the SME's growth. However, research conducted on the Malaysian SMEs is still considered limited. Therefore, this research study focuses on the factors affecting the growth of SMEs in Malaysia.

2. Literature Review

According to Penrose (1959), the firm's growth can be successful when there are strong principles governing the growth of firms. Both internal and external resources must be present as accelerators to help a firm grow and realise its competitive advantage. Based on this theory, innovative managerial resources can be managed to increase the growth of a firm. When top management and technical talent staff act as an engine, the firm's growth rate can be doubled. Penrose (1959) claims that ignorance of any of the internal and external factors could result in failure of competitive advantage. Assessing most of the empirical study, we have decided to use the Internal factor (Entrepreneurship and Internal Management) and External factor (Access to finance, Infrastructure, Working place, Marketing and Government policy) as the independent variables for this study based on suitability with the Malaysian demographic.

2.1 Dependent Variable

Growth, refers to the measurement value gap between before and after to differential the value change. This value change named indicator. The indicator can be in term of market share, equity, asset, profit, output, or goods inventories. For the SMEs growth, it can be measured in terms of sales increase by an enterprise; or even the number of the enterprises registered after certain period.

Nkwabi and Mboya (2019) claim that nowadays growth of SMEs in globalization is dependent on a conducive business environment. The business environment can be affected by factors

which can impact the growth speed of SMEs. When these factors are present, it could either speed up or slow down the growth of SMEs. When the value of growth is negative, the number of SMEs is reduced, while the value is positive indicating the number of SMEs increases.

Business growth can be influenced by both external and internal factors (Mekonnen, 2017). The principle of growing can be applied with SMEs as there is a linkage between. When the firm can generate more business, the expansion of business can happen to maximize the profit, directly equal to the growth of SMEs. Boosting the business will enable the growth of SMEs (Albazz et al., 2020).

2.2 Independent Variables

Access to finance includes access to financial resources such as loans, refinance, deposit and payment, transferring of money and other risk management services. When entrepreneurs plan to start up an enterprise business, the availability of finance service providers will be the source of funds for it. Awani (2020) observed that access to finance is the main challenge for SMEs growth. This challenge included the collateral requirements such as high interest rates, low returns from the enterprises and the financial stability of the enterprises. Illegal fund providers such as 'private money lenders' have created a situation which new firm enterprises are unable to last in the long run. Therefore, the bottleneck of the SMEs' growth toward access to finance has high possibility due to the third party of 'illegal fund providers'.

Working place can be defined as the location or area where someone performs the job and task. The working environment becomes the criteria for the employee to take into consideration before accepting any offer. When the firm requires a wide area of working place for employees, the growth of the firm and enterprises directly will increase. According to Rahman and Kabir (2019) location of the workplace is crucial among the other factors that influence SMEs' growth. The reason behind the statement related to the employees that prefer to have a working place near to their residential area. When the population density increases, productivity will increase and demand for workers and employees increase, directly bringing up the growth and expanding business of SMEs at the location.

Government policy is one of the important factors affecting the growth of SMEs during the pandemic period (Hoang et al., 2020). The policies included tax support, bureaucracy, licensing and anti-corruption policy. One of the problems faced by SMEs in most of the social economy is corruption. The consequences of corruption can make the SMEs unable to gain profit and the owner of enterprises may decide to surrender. This could be harmful to the economies of developing countries such as Malaysia.

Marketing is the method that SMEs need to use to promote their product and service. With excellent marketing skills and strategy, it can help to boost the enterprise's revenue and profit margin. SMEs need support to maximize productivity, access more business capital, further develop the product based on the market demand and use effective business product marketing to promote their product to local and international markets (Surya et al., 2021).

Fetene (2017) and Hamdan et al. (2021) noted that marketing significantly affects the business performance of SMEs. The marketing implementation capabilities become one of the issues which concern most of the SMEs. It has proven that marketing implementation capabilities drive the SMEs' business growth and perform above expectation. The effective marketing capabilities included product & service advertising, demand predicting for the product and market, consistency of the supply and demand chain and customer treatment after sales.

Entrepreneurship refers to the behaviours of entrepreneurs. Azra and Ummah (2019) stated that self-confidence, ability of risk taking, independence, and experience are needed for an entrepreneur to be successful. When the entrepreneurs lack of experience, they may not be able to run the business with the right direction, which could affect their low self-confidence level. A successful entrepreneur must be able to closely work with local agencies and build strong relationships and network with important stakeholders (Ambad et al., 2020).

Another factor that affected the growth of SMEs was infrastructure. Mugo (2019) mentioned that most developing countries failed to compete in the global market mainly due to improper infrastructure provided. The infrastructure may include the availability of roads, ports, power supply, telco communication networks, institutions of education and hospitals. Infrastructure can help connect other cities for the delivery and shipping of goods and services. Poor physical infrastructures can result in the low productivity of SMEs where most of the goods and services are unable to deliver to customers. The poor telco communication network has caused SMEs facing the limitation to access information and admission to technological development (Juma and Said, 2019).

Internal management in this growth of SMEs refers to the overall planning and operation within the SMEs. Shaikh et al., (2017) noted that firms supported with strong and managerial skilled employee and management able to manage and utilize the capital to increase financial growth of the company. They could minimize the operation cost and increase the operation effectiveness. With this approach, firms further expand their business and increase the business growth of firms. Ahmad and Ahmad (2021), Loku and Loku (2020), and Wiyaya and Irianto (2018) agreed that competencies and managerial skills have a significant impact to construct and drive the growth of SMEs and performance. Firms are able to sustain themselves when the resource of managerial skill is fulfilled.

3. Conceptual Framework

The model for the conceptual work is based on the variable construct as per figure 1 to investigate the relationship between the seven factors and growth of SMEs (from Penrose, 1959).

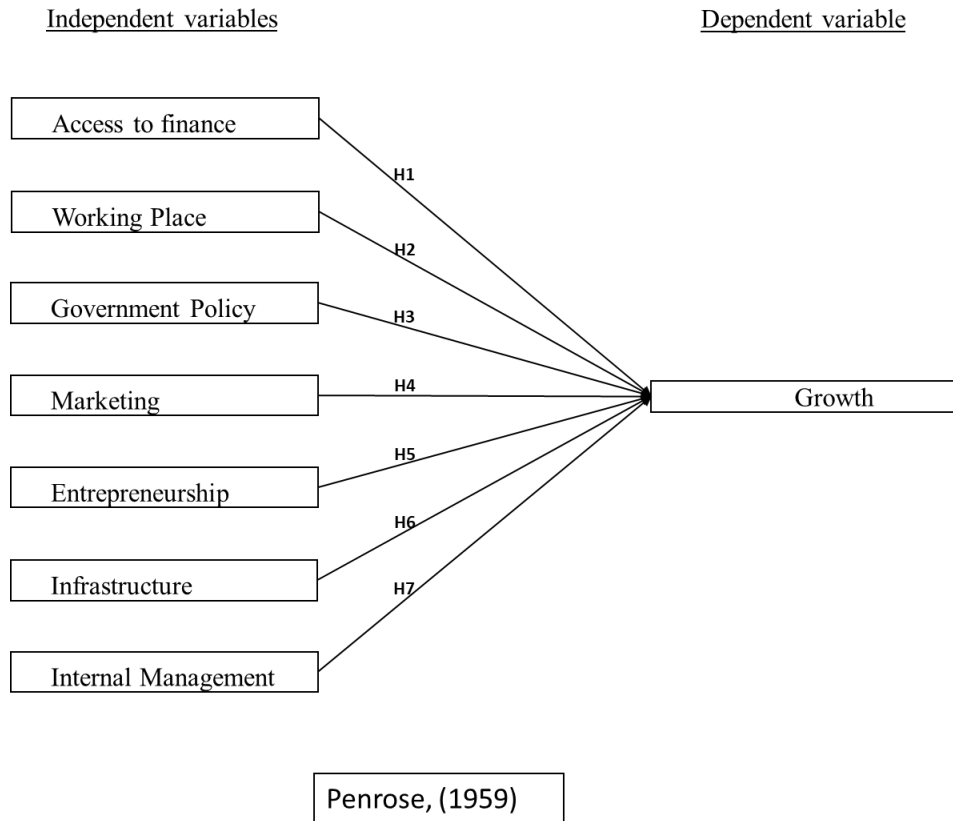


Figure 1: Conceptual Framework

Angeles (2022) and Nizaeva and Coskun (2019) stated that access to finance has a relationship with growth of SMEs. Therefore, the related hypothesis shall include access to finance crafted as follows:

H1: There is a relationship between access to finance towards the growth of SMEs in Malaysia.

Fetene (2017) and Mekonnen (2017) discovered that the workplace-related factor has a positive and significant effect on SMEs performance. Recent research conducted by Engidaw (2021) strongly supports the statement which found the same result and effect of working place on small business performance in Ethiopia. The hypothesis constructed as:

H2: There is a relationship between working place towards growth of SMEs in Malaysia.

Most of the empirical studies related to government policy toward SMEs growth have strongly proven the government policy shall have an impact and influence the growth of SMEs in most of developing country (Hoang et al., 2020; Surya et al., 2021; Bakar et al., 2020). To investigate this relationship, our research has included below hypothesis:

H3: There is a relationship between government policy towards the growth of SMEs in Malaysia.

All enterprises need marketing to boost sales and expand business growth. Therefore, marketing has been defined as one of the important factors which directly impact the growth of SMEs. Foroudi et al. (2017), Astuti (2018) and Daka et al. (2017) claim there is a significant relationship between marketing and SMEs growth. A hypothesis constructed as below:

H4: There is a relationship between marketing towards the growth of SMEs in Malaysia.

Ambad et al. (2018) and Mekonnen (2017) research confirmed entrepreneurship have strong relationship with business performance of SMEs. Since the number of registered SMEs in Malaysia keeps increasing, we believe that the entrepreneurship also have the strong relationship with SMEs growth, therefore the draft of hypothesis constructed as below:

H5: There is a relationship between entrepreneurship towards the growth of SMEs in Malaysia.

Infrastructure was found significantly affected the performance and growth of SMEs and claimed by a majority of authors in research (Fetene, 2017; Nizaeva & Coskun, 2019; Munim & Schramm, 2018; Mugo, 2019). The research were conducted before pandemic covid-19 and no up to date research conducting the relationship between infrastructure and SMEs growth after the pandemic. Therefore our research includes this factor to compose the hypothesis as:

H6: There is a relationship between infrastructure towards the growth of SMEs in Malaysia.

Lastly, empirical studies between 2017 and 2021 found that the managerial factor was one of the influences on the growth of SMEs in some countries including Ethiopia, Nigeria, Indonesia, and Philippine (Fetene, 2017; Engidaw, 2021; Sumiati et al., 2003; Mekonnen, 2017). We believe that in an Asian country such as Malaysia, the internal management does impact the growth of SMEs. Hypothesis constructed as below:

H7: There is a relationship between internal management towards the growth of SMEs in Malaysia

4. Research Methodology

A questionnaire was chosen as the research instrument since it is a low-cost, fast, and efficient approach to collect a huge number of data from a large sample. The study relied solely on primary data, which was gathered via an online Google questionnaire form to gather information on the concern of factors affecting SMEs growth. The questionnaire was prepared in both Malay and English versions to reduce the impact of the language barriers. Respondents can decide whether to answer in Malay or English for their convenience and understanding purposes. The study kept respondents' identities private and confidential because respondents have a right to their privacy. The structured questionnaire consists of multiple choices and closes ended questions to collect quantitative data from the respondents. Overall, 384 fully answered online questionnaires were collected. We further used the data for regression and correlation analysis.

5. Findings

Based on the regression analysis of the above model, access to finance has positive and significant effect on growth ($\beta = 0.097$, $p < 0.05$). Hence, hypothesis 1 was accepted. It indicates that large working capital have a positive influence on growth of SMEs. The previous study conducted by Loku and Loku (2020), Angeles (2022), Chilembo (2021), and Nizaeva and Coskun have supported that access to finance is positively related to the growth of SMEs.

Working place also has a positive and significant effect on growth ($\beta = 0.080$, $p < 0.05$). Hence, hypothesis 2 was accepted. It means that large working place and the presence of own working place have a positive and significant influence on growth. The results supported by Engidaw (2021), Rahman and Kabir (2019), Mekonnen (2017) and Fetene (2017).

Further, government policy has a positive but insignificant effect on growth ($\beta = 0.042$, $p > 0.05$). Hence, hypothesis 3 was accepted. It means sufficient government support in enterprise registration and licensing has a positive influence on growth, but it is not significant. The result is supported by Surya et al. (2021).

There is a positive and significant relationship between marketing and growth ($\beta = 0.176$, $p < 0.05$). Hence, hypothesis 4 was accepted. It indicates that the marketing factor has a positive influence on the growth of SMEs in Malaysia. Lim and Teoh (2021) study proved there is an insignificant correlation between marketing and growth of the SMEs. But our study supported and agreed with the result from studies by Foroudi et al. (2017), Astuti et al. (2018), Hamdan et al. (2021) and Daka et al. (2017).

In the regression analysis of the above model, entrepreneurship has positive and significant effect ($\beta = 0.153$, $p < 0.05$). Hence, hypothesis 5 was accepted. It means adequate entrepreneurship training and enhanced business skills have a positive influence on growth. The results are supported by Ambad et al. (2020) and Mekonnen (2017).

Moreover, the infrastructure has also influenced the growth of SMEs ($\beta = 0.129$, $p < 0.05$). It shows the positive and significant impact on the growth of SMEs in Malaysia. As such, the hypothesis 6 was accepted. It entails that, good telecommunication, water supply and electricity, have a positive influence on growth. The result supported Mugo et al. (2019), Nizaeva and Coskun (2019), Munim and Schramm (2018) and Fetene (2017).

Lastly, there is also a positive and significant relationship between internal management and the growth of SMEs ($\beta = 0.150$, $p < 0.05$). Hence, hypothesis 7 was accepted. The study results supported most of the empirical study including Engidaw (2021), Mekonnen (2017), Sumiati (2020), Fetene (2017), Loku and Loku (2020), Shaikh et al. (2019), Ahmad and Ahmad (2021), and Wijaya and Irianto (2018).

6. Discussion and Conclusion

The intention of this research study is to determine the effectiveness of the defined factors that can affect the growth of SMEs in Malaysia. The factors included marketing, access to finance, government policy, infrastructure, working place, entrepreneurship, and internal management.

Among the factors, marketing and government policy were the ones which contributed the highest and lowest impact to growth of SMEs in Malaysia. Marketing factor resulted β values with 0.176, while government policy only 0.042 of the β values. However, the study found that all the factors have positive relationship with the growth of SMEs.

Access to finance exists in the moderate positive relationship towards the growth of SMEs, it further explains that when financing institutions are available in the city, the probability of new enterprises existing will follow the number trend of financing institutions. Accessing finance lending the enterprises able to get the financing loan to operate their business even if there is a high interest rate. Entrepreneurs may consider these features due to a lack of other options in

the financing channel. However, further study may determine in which level that could affect the higher growth of SMEs toward to number of financing institutions.

Similarly, the marketing and government policy show a moderate relationship with the growth of SMEs. Insufficient market supply and demand chains have moderate influence on the growth rate of SMEs in Malaysia. Same principle applies to the government factor; tax and traffic rate, corruption, government support seems lacking in the impact of SMEs growth. It could be because most of SMEs in Malaysia are foreign and international investors. This proves that other countries may have successfully managed their SMEs well with good fiscal policies, tackling bureaucracy and corruption and providing incentives and support, resulting in the success of their SMEs abroad. Without the support of the Malaysian Government and proper marketing skills, the SMEs in Malaysia will be deplorable and faced challenges to grow their businesses.

Entrepreneurship and internal management can be grouped as similar. Both recorded β value more than 0.100 and showed a strong relationship towards the growth of SMEs. Entrepreneur skill, talent, awareness of risk and training show significance based on the research result. Without these criteria, high possibility that SMEs are unable to last more than five years in the start-up business. Internal management shows a positive relationship towards SMEs growth proven that without the proper training, failure of planning and lack of labour has affected the growth of the SMEs. Labour plays an important part as it is the company's asset which can bring progress and long-term success. Even with state-of-the-art technology and machinery, good human resources cannot be replaced in ensuring the longevity of the company.

Location of the enterprises office may be located in the city, however, far distance may lead the entrepreneur to be demotivated due to the long time spent on commuting to the office. Last and not least, the infrastructure could be improved such as a consistent supply of water, electricity, enhancing the current transportation and port, internet access and other facilities. Interruption of any resources can cause huge loss especially in the trading, manufacturing and plantation industries.

7. Limitations and Recommendations

This study only focuses on the SMEs respondents to understand their concern on the factors which could affect SMEs growth in Malaysia. Micro SME respondents were limited in this study.

Secondly, 60% of the respondents are mostly located in Peninsular Malaysia, so the outcome of the result may not represent Malaysia's SMEs business failure. The factor may vary between Peninsular Malaysia and East Malaysia (Sabah and Sarawak).

Thirdly, some of the respondents were executive level, which may not necessarily present the view of the owner of SMEs. Their responses may likely be their personal view instead of the owner's view to oversee the factors which could affect the SMEs growth.

Fourthly, our research only focuses on five industries, which are manufacturing, trading, agriculture / plantation, retail & service, and construction.

Future studies may include micro SMEs as they have the potential to be part of the SMEs in future. Their feedback could be helpful in the future direction and strategies of government to enhance the facilities to increase the number of SMEs in Malaysia.

Another recommendation is to get a more balanced sample consisting of 50% from Peninsular Malaysia and 50% from East Malaysia. This is to ensure that the data collected is presentable after analysis as this can ensure that registered SMEs at targeted area has been covered.

Thirdly, the researcher can conduct a direct face-to-face interview to enhance the accuracy of the data, and improve the communication between the interviewer and the respondents. For any unclear questions during the interview session, the interviewer can elaborate and explain further, to ensure the accuracy of the data.

Future studies may include the mining & quarrying sector as this is part of the industry in Malaysia which is categorised as SMEs.

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