

The Factors Influencing Small Medium Enterprise (SMEs) Success in Kelantan

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In Malaysia, Small and Medium-Sized Enterprise (SMEs) are the great contributor to national income. This is due to the fact that certain agencies were appointed by the Malaysia Government in order to improve SMEs industry in the current marketplace. Indeed, individuals in Kelantan are starting to develop their businesses in order to join SMEs industry. Therefore, this study aims to identify the relationship of factors influencing SMEs success in Kelantan. Three independent variables have been selected for this research which are: entrepreneur characteristics, management and know-how and product quality. This study was carried out using quantitative research and 380 SME Kelantan entrepreneurs were randomly selected for data collection. All responses were analysed by SPSS software. The data results indicate that three independent variables in this study are related to SME success in Kelantan.

Key words: *Entrepreneur Characteristics, Management and Know-How, Product Quality, Small Medium Enterprise (SMEs).*

Introduction

Compared to big companies, small medium-sized enterprises (SMEs) are defined as a private company that has a specific small number of employees. Indeed, there are a variety of perceptions as well as a definitions for SME, for instance, SMEs in the European Union are defined as having up to 250 employees. Based on Kuratko (2016), every individual who wants to become an entrepreneur must demonstrate certain values such as applicability,

trustworthiness, honesty, and confidence. Indeed, entrepreneurs must be professionalism as well as self-disciplined when managing business. Currently, the Malaysian government has appointed SME Corporation as a representative agency in order to improve current performance for SME entrepreneurs. This indicates that government can be a supportive component to improve SMEs entrepreneurship in the current marketplace.

Based on the data provided from the Department of Statistics Malaysia in 2016, SMEs contributed 36.3% in 2015 compared to 35.9% in 2014 in national income. There is no doubt that SMEs have become the bright star for the country since SMEs are one of the industries that contributes positive income to national income. However, SMEs have faced a variety of issues in current business development as well as future development. Based on Thorpe, Cope, Ram, and Pedler (2009) who proposed that the lifetime for SMEs, was not more than 5 years due to barriers that needed to be addressed such as lack of talented workers, weakness in cost and expense management, as well as heavy reliance on export. These barriers appended by Thorpe et al. (2009) are external factors that can influence the successfulness of SMEs. However, the characteristics of entrepreneurship cannot be ignored since this characteristic is also considered a key determinant for SME success. Therefore, this study intends to identify the relationships between factors influencing SME success in Kelantan, Malaysia.

Literature review

SME Success

According to Sarwoko, Surachman, and Hadiwidjojo (2013), business performance can be influenced by entrepreneurship characteristics. This showed that if individuals have a variety of entrepreneurial characteristics their capability to increase success rate as well as business efficiency for SME business improves. In this vein, research from Eriksson and Li (2012) and Islam, Khan, Obaidullah, and Alam (2011) added that entrepreneurship characteristics can determine the success of SMEs in Gnosjo as well as Bangladesh. Moreover, the correct leadership behaviours can improve SME business performance and Arham, Boucher, and Muenjohn (2013) state that individuals who have a special effect on leadership behaviours are able to increase the probability of entrepreneurial success either in large or small firms.

Other factors such as market and capital, lack of infrastructure, and political environment capable to determine entrepreneurship contribute to success or failure (Chowdhury, Alam, & Arif, 2013). This can be supported by Kemayel's (2015) study which stated that internal factors such as SME characteristics, managerial characteristics and whether the business is managed capably determine business success. Kamunge, Njeru, and Tirimba (2014); Ushakov, (2017) posited that the possibility for an entrepreneur to access business information, infrastructure, as well as the supportive of government policy can be a key influences. Indeed, past research investigated entrepreneurship characteristics, internal factors, and external factors regarding

their significant roles and impact on SME success. Therefore, in this research it was decided to investigate entrepreneurial characteristics, management and know-how, as well as product quality to determine SME success in Kelantan.

Entrepreneur Characteristics

Shafeek (2009) stated that individuals who are entrepreneurial typically have positive characteristics when managing business activities. Furthermore, Shafeek (2009) added educational level, gender, industry expertise and past experiences as determinants for the growth possibility of SMEs. According to Appiah, Possumah, Ahmat, and Sanusi (2018), entrepreneurial characteristics can be divided into five determinants which influence business performance: demographic characteristics, individual characteristics, personal characteristics, entrepreneurship orientation, and entrepreneurial readiness. Demographic characteristics referred to as age, gender etc., (Kristiansen, Furuholt, & Wahid, 2003) are individual characteristics that contribute to efficiency, effectiveness, academic qualification, and working experience (Ganyaupfu, 2013), as well as personal characteristics defined as behaviour patterns for individuals such as critical thinking.

Entrepreneurship orientation is known as the loading used to decide a firm's structure based on characteristics, risk faced, and competitive factors (Covin & Lumpkin, 2011; Var, 2018). Lastly, entrepreneurial readiness is identified as the belief individuals have that enables them to achieve targets (Cromie, 2000). Indeed, based on the literature review conducted for this study, the claim that entrepreneurial characteristics are related to Kelantan SME success is justified. Therefore, the proposed hypothesis is:

H₁: There is a relationship between entrepreneur characteristics and SME success in Kelantan.

Management and Know-How

Appiah et al. (2018) stated that effective management tends to make business a success. There is no doubt that great management teams have specialised strengths for certain management skills which contribute to improved efficiency and the consequent survivor rate for firms in the current highly competition marketplace (Westhead, Wright, & Ucbasaran, 2001). Westhead et al. (2001) suggested that individuals who have certain specific management team skills for a speciality industry have the capability to increase the survival chance for their firms. Moreover, company size can be one of the success determinants since business performance is related to company size based on the review by Indarti and Langenberg (2004). Therefore, the research justifies that SME entrepreneur can be successful if they have great management factors. As a result, the following hypothesis is proposed:

H₂: There is a relationship between Management and Know-How and SME success in Kelantan.

Product Quality

Based on the review by Scott, Peng, and Prybutok (2015), product quality becomes an important characteristic for a business. This tends to be reflected in that customers are satisfied if the products are of high quality and fulfil their needs (Xu, Blankson, & Prybutok, 2017). Moreover, Xu et al. (2017) posed that product quality not only improves customer satisfaction but is capable of influencing repurchase intention among customers, as well improving current relationships at the loyalty level. Therefore, the research justifies that if SME entrepreneurs are capable of maintaining product quality as well as services, this will result in business success. Therefore, the following hypothesis is proposed:

H₃: There is a relationship between product quality and SME success in Kelantan.

Research Framework

Figure 1. Research Framework

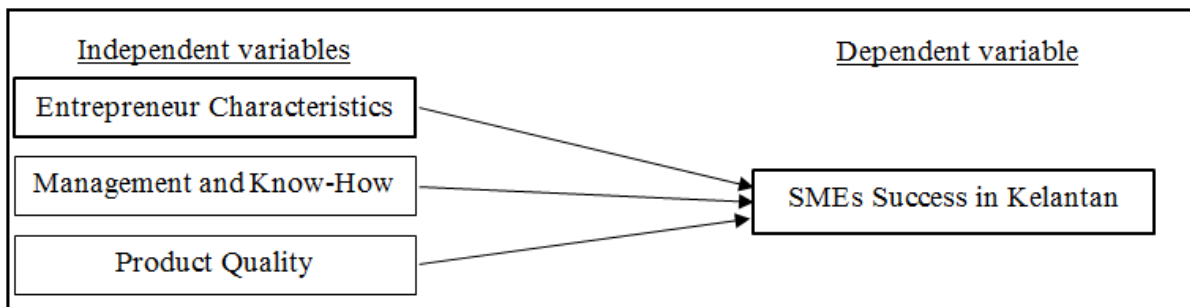


Figure 1 shows the research framework in this study. The independent variables in this study are entrepreneurial characteristics, management and know-how, as well as product quality. Meanwhile, the dependent variable in this study is SMEs Success in Kelantan.

Methodology

This research was carried out through a quantitative study with probability sampling and utilized a simple random method. 380 SME Kelantan entrepreneurs were randomly selected in order to collect data. Further, the sample size in this research was calculated under the Krejcie and Morgan (1970) table based on the data provided from the Department Statistics Malaysia in 2016 and indicated that 37 823 individuals are SME entrepreneurs in Kelantan.

All responses were collected by distributing a questionnaire and all items were designed to be straightforward and prevent target respondent confusion. Moreover, the questionnaire in this study was prepared in two languages: Malay and English, in order to increase accessibility for

target respondents. Five parts were designed in this questionnaire: Part A focuses on the demographic profile of target respondents; Part B identifies the feedback of target respondents towards entrepreneur characteristics; Part C identifies the feedback of target respondents towards management and know-how; Part D identifies the feedback of target respondents towards product quality; and Part E identifies the factors of influence for SME success in Kelantan. All items in Part B, C, and D are designed with the five-point Likert scale while Part A is designed in nominal scale.

All data collected was analysed by SPSS version 22.0 and three data analysis methods which are: reliability test, frequency analysis, and Pearson Correlation Analysis were used. Each data analysis method will be further discussed in the next paragraph. A reliability test was used to identify the stability of the questionnaire used for this study. Therefore, the researchers measured the consistency of items in this study based on Cohen Kappa value by selecting 30 target respondents Based on Cohen (1960) and the value for all indicators exceeded 0.6 as moderated and defined as consistent for this study.

Frequency analysis is the summary of the demographic profile of target respondents in this study. This research used frequency analysis to summarise demographic profile for target respondents and also investigated percentage as illustrated in table 1 below. Based on Hair, Hult, Ringle, and Sarstedt (2016), frequency analysis assists researchers to transform data into useful information. The researchers used Pearson Correlation Analysis to identify the relationship and strength of indicators in this study. As a result, this analysis helps researchers identify the relationship between entrepreneurial characteristics, measurement and know-how, product quality, and success factors which influence Kelantan SMEs.

Data Findings

Reliability Test

The Cohen Kappa value capability is in the identification of whether target respondents in this study understand the study items based on certain measurement values. Table 1 shows the value is 0.612 to 0.812 which indicates all indicators are reliable due as they exceed the recommended value of 0.6.

Table 1: Reliability Analysis

Factors	Number of items	Cohen Kappa Value
Entrepreneur characteristics	6	0.743
Management and Know-How	6	0.812
Product Quality	4	0.612
Factor influence SME success in Kelantan	4	0.654

Respondents Demographic Characteristics

Table 2 shows the summary of respondents' demographic characteristics:

Table 2: Respondent's demographic characteristics

Demographic	Frequency	Percentage
Gender		
Male	185	48.7
Female	195	51.3
Age		
< 30	119	31.3
31-40	128	33.7
41-50	74	19.5
>51	59	15.5
Race		
Malay	282	74.2
Chinese	31	8.2
Indian	66	17.4
Others	1	0.3
Education		
Diploma	80	21.1
Degree	95	25.0
Master	16	4.2
Others	189	49.7

Table 2: Respondent's demographic characteristics (Continued)

Demographic	Frequency	Percentage
Position		
Owner	139	36.6
Manager	61	16.1
Worker	152	40.0
Others	28	7.4
Experiences		
<5 years	185	48.7
6-10	120	31.6
11-16	47	12.4
>16 years	28	7.4

Based on the table above, the majority of target respondents in this study are female with a total number of 195 or 51.3%. Regarding age of respondents, the majority are aged between 31

and 40 years old with 33.7% following by those aged less than 30 years old with 31.3%. Moreover, most respondents are Malay (74.2%), followed by Chinese (17.4%). Furthermore, the majority hold higher education degrees as well as being the owner of the business. Most target respondents in this study have less than 5 years experiences in the SME industry.

Pearson Correlation Analysis

Table 3: Correlation between variables for SME Success in Kelantan

		Entrepreneur Characteristics	Management and Know-How	Product Quality
SMEs Success in Kelantan	Pearson Correlation	0.556**	0.599**	0.927**
	Sig. (2-tailed)	0.000	0.000	0.000
	N	380	380	380

** . Correlation is significant at the 0.01 level (2-tailed)

The table above shows the result of the Pearson Correlation Coefficient Analysis for this study. The r value between Entrepreneur Characteristics and SMEs Success in Kelantan is 0.556 and between Management and Know-How and SME Success in Kelantan is 0.599 while Product Quality and SME Success in Kelantan is 0.927. Since the r value for this study is a positive value, this indicates that all independent variables in this study are positively related to SME Success in Kelantan. Therefore, these findings can support all hypothesis proposed by the researcher.

Discussion and Managerial Implication

This research intends to identify the relationship between factors influencing SME success in Kelantan through a Pearson Correlation Analysis. Based on this result from the Pearson Correlation Analysis, the hypothesis in this study was supported. The first objective of the study is to identify the relationship between entrepreneurial characteristics and SME success in Kelantan. Based on the result from table 3, entrepreneur characteristics positive related to SMEs success in Kelantan. Therefore, the researcher justifies that the successful Kelantan SME entrepreneur must exhibit positive entrepreneurial characteristics such as daring to be a risk taker in order to succeed in the business. Ganyaupfu (2013) states that individual characteristics play a determining factor in overall SME success.

The secondary objectives of this study are to identify the relationship between management and know-how in terms of SME success in Kelantan. Based on the results from table 3, management and know-how are positively related to SME success in Kelantan. Therefore, this research justifies the perception that Kelantan SME entrepreneurs must have effective management skills and knowledge in order for business to be successful. This can be supported

by the study from Appiah et al. (2018) which stated that effective management plays an important role as a critical success factor to determine a firms' vision and strategy.

The final objectives of this study are to identify the relationship between product quality and SME success in Kelantan. Based on the results from table 4, product quality is positively related to SME success in Kelantan. Therefore, this research validates the perception that Kelantan SME entrepreneurs need to maintain high quality in product and service provision. This is in line with the study from Scott et al. (2015) which stated that overall business success and viability can be determined by product quality since it plays a vital role in business efficacy.

Conclusion

In summary, this study identified the relationship between entrepreneurial characteristics, management and know-how, as well as product quality in terms of SME success in Kelantan. The independent variables are entrepreneurial characteristics and management and know-how, as well as product quality. Further, while the identified dependent variable is a key factor in Kelantan SME success, all independent variables identified are also related to SME success.

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