

The Determinants of SME Succession in Malaysia, From Entrepreneurship Perspective

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Article Info

Received: 05.11.2013
Accepted: 20.11.2013
Published online: 01.12.2013

ISSN: 2231-8275

ABSTRACT

This study aims to investigate the determinants of small and medium enterprises succession amongst Malaysian entrepreneurs. The term "succession" is defined as profit and growth with intrinsic factors like entrepreneur's satisfaction and their sense of achievement. Three hundred and eighty six employers and employees from Klang Valley were surveyed. Data was collected using a questionnaire that was conducted through online distribution and face to face approach. Twenty five Likert-style questions were used to determine the determinants of the small and medium enterprises succession in Malaysia from entrepreneurship perspective. Findings revealed that the determinants of small and medium enterprises succession in Malaysia are managing skills in finance, social networking, creativity of business products or services and level of education of entrepreneur. In conclusion, the findings indicated that several similarities are shared amongst entrepreneurs in terms of succession in small and medium enterprises despite differences across education levels.

Keywords: Small and Medium Enterprise, Entrepreneurship, Succession

1. Introduction

Small and Medium Enterprises (SME) contributes the growth of economy for Malaysia. There are few studies on the succession of SME stating the factors and challenges making them hard to survive. These factors and challenges include lack of financing access, lack of managerial capabilities and lack of information on potential markets.

In 2009, only 4.3% of new businesses survived beyond 42 months. In 2012, it has increased to 7% (smeanalysis.blogspot.com, 2013). Although there is an increase, but the survive rate still very low. Most research concentrate on the failure of managing finance in SME. Government agencies like Small and Medium Enterprise Corporation Malaysia (SME CORP Malaysia) and Malaysia External Trade Development Corporation (MATRADE) are established to provide assistants and financial supports to SMEs. However, SMEs face high

failure rate in their first five years in many different countries. In Australia, the SMEs failure rate is reported to be 23% while in Malaysia the failure rate is alarmingly high at 60% (Ahmad and Seet, 2009). In order to check the increasing number of SMEs failure, focusing on entrepreneurs as the subject of investigation will help us understand the affection of entrepreneurship and improve the likelihood of business success (Stokes and Blackburn, 2002).

Chong (2012) defined success in both traditional criteria; as profit and growth and also with intrinsic factors such as personal satisfaction and the sense of achievement. At issue in the study is whether small firms progress past the first two stages of the life cycle, and is the five-stage model appropriate for all firms (Lester and Parnell, 2008). The surprise finding was that organizations in the Decline stage actually behaved like small businesses. Although firms in decline are actually operating in a manner similar to small businesses, some new prescriptions for action can be ascertained to save declining and dying organizations. In order to make definition of SME succession clearer, we can take from the five-stage model which is existing, survive success, renew and decline. Even in declining stage for large firms, they still behave like small enterprise manner but we would not accept that as a SME succession.

Our aim is to find out the main reason of succession or failure of SME and to examine the effect of managing skills of an entrepreneur to SME succession in Malaysia. This paper investigates the effect of entrepreneurship as the determinants of SME succession in Malaysia. Entrepreneurs in Malaysia should recognize the importance of managing skills and get training to manage finance, social skills and creativity of business.

2. Literature Review

Based on previous researchers on SME for several determinants of SME's succession, we can conclude one critical determinant that affect the succession of SME in Malaysia which is the entrepreneurship. Naqvi (2011) Entrepreneurship is becoming of vital importance in the economies like Pakistan. Entrepreneurship is strongly related to small medium enterprise (SME), which is considered to be the main developing force of the developing economies market like Malaysia.

Environment of Malaysia would affect the succession of SME like corporate governance, legal framework and institutional environment. Some researchers suggest that the capital structure decision of firms is influenced by the environment in which they operate, as well as firm-specific factors identified in the extant literature. Profitability has significant influence on capital structure of Malaysia firms. (Deesomsak, Paudyal and Pescetto, 2004) Although environment is one of the determinants of SME succession but we are considering the succession based on owner's ability as one's management abilities can overcome environment's affection.

Saleh and Ndubisi, (2006) said that the government lack of helping, entrepreneur should more depend to private sponsors or own self to get access to new markets and expand own customer base. Malaysian entrepreneurs are also limited capability for technology management and knowledge acquisition. Entrepreneurs must aware of the technology advanced so fast and Malaysians are hardly to compete with the global competition.

Chong, (2012) determined three most critical success factors: reputation of honesty, good customer service and hard work. The least important factors were political involvement

and satisfactory government support. Zimmerman and Chu, (2013) said that the limitations are competition, weak economy, and foreign exchange ,while good general management skills, appropriate training, accurate record keeping, and political involvement are success factors. However, this research will not focus on the political environment of Malaysia but good general management skills and appropriate training for entrepreneurs are important in contributing to SME succession in Malaysia.

Stefanovic et al. (2010) mentioned seven success factors for business reputation: position in society, interpersonal skills, approval and support, competitive product/service, leadership skills. . An exploratory factor analysis yields five key factors covering: perception of government policies; perception of human capital; perception of availability of infrastructure; perception of business competition; and perception of financial issues (Saleh et al., 2008).

Hoq et al. (2009) claimed that these weaknesses include the limited utilization of technology, limited involvement in R&D activities, the lack of technical professional and management expertise and entrepreneurial skills, and the inability to explore market opportunities. Entrepreneur's decisions and actions decides their own survival and success in the market (Ahmad et al., 2010). They should carefully manage their internal and external resources. Although some resources are naturally available in the environment, it still depends on the ability of entrepreneurs to transform the opportunities into positive outcomes. Above three researchers also have similar opinions about the managing skills of entrepreneurs for finance, networking and innovation for business.

Mullins et al. (2011) said that SME's lack the required knowledge, regarding how companies identify their system needs and how they choose appropriate software vendors and products for one of their most significant areas of operation. Entrepreneurs that apply correct information system would affect the survival or failure of a business. Now global markets most depend on advance information system to upgrade their business. If Malaysian entrepreneurs still using traditional information system, they would fail for global competitive market.

The Determinants

1. Finance

Kozan, Oksoy and Ozsoy, (2011) claimed that personal sacrifices in time and effort had a positive effect on continuous growth, both singularly and in interaction with firm's environment, size and strategic planning. Sacrifices in personal finances were negatively associated with continuous growth, which is interpreted as an outcome of internal financing and risk-avoidance by Turkish firms. As for Malaysia, finance as the determinants of succession need to be managed wisely might change the result as like in Turkish.

We found there is a negative correlation between having a bank loan and business survival, and a positive correlation between having a non-bank loan and survival. However, having a bank loan was a *ceteris paribus* positive predictor of the survival of start-up companies. (Åstebro and Bernhardt, 2001) As for capital, succession of SME can still dependable on owner choosing the correct investors like bank loans or other informal investors.

Developing countries like Malaysia have constraints in managing finance in SME. This affects the succession in SME for continuous growth. It means finance is important to define the succession for SME in Malaysia. Beck et al., (2006) Using a firm-level survey database covering 48 countries, we investigate how financial and institutional development affects financing of large and small firms. Our database is not limited to large firms, but includes small and medium firms and data on a broad spectrum of financing sources, including leasing, supplier, development and informal finance. Small firms and firms in countries with poor institutions use less external finance, especially bank finance. Protection of property rights increases external financing of small firms significantly more than of large firms, mainly due to its effect on bank and equity finance. Managing finance in SME would be an important determinant for SME succession. We use management in finance in one of our determinants for this research. The most effective way of improving small firms' access to external finance appears to be through institutional reforms addressing the weaknesses in legal and financial systems. SME faced larger growth constraints and have less access to formal sources of external finance. So in the absence of well-developed institutions, specific financing tools like leasing and factoring are useful in favor of accessing to finance. Malaysian entrepreneurs that can manage finance like mentioned above can help a lot for SME survival and success.

2. Social Skills

Liet al. (2013) studied the underlying process about how shared cognition influences new business development. Results from a survey on entrepreneur social network in China demonstrate that strong ties bring decision-making constraints for entrepreneurs to bear, while trust helps to lessen such restriction. From China, we can conclude trust and good relationship with partners and suppliers can help SME from developing.

Hinzet al. (2014) in their empirical study of more than 300 students reveals the low explanatory power of friendship networks (e.g., Facebook) and undirected-advice networks (e.g., LinkedIn). This study contradicts this common assumption and reveals that structural equivalence drives product adoption more than cohesion because advisees' adoption pressures advisers to purchase the product as well. Social network can also influence humans purchasing behavior. It's definitely one of the determinants of SME succession in Malaysia because continuous getting attraction of people into one company's product can bring up sales and growth of company.

Social network includes not only one owner with another owner. Its including the relationship of owner's with customers. Having good relationships with partners can manage a company in correct direction of growing. Having good relationships with customers can build up royalty for customers and maintaining or even improve sales for one company.

Tatarko (2013) In the process of consulting entrepreneurs, we recommend paying more attention to their social contacts. Future entrepreneurs should arrange their contacts according to importance and, primarily, maintain the most important relationships; focusing time and energy on the most important social contacts allows them to optimize the time they can invest in their entrepreneurial endeavors, and the benefits of their social capital.

3. Creativity or Innovation

The typical new start-up firm acquires external financing in stages through its development. The later stages of financing (venture capital and initial public offerings) have been frequently examined. There are information asymmetries and moral hazard problems inherent in the funding of a start-up firm. Institutional investors seem to rely on their abilities to reduce the information asymmetry and the quality of investor protection to reduce the moral hazard. (Nofsinger and Wang, 2009) New products will influence more investors to invest. For continuous growth of SME, continuous financial support of investors is critical. Most SME need investors like angel investors to help start up and growing. For investors, they would like to see potential of an owner. If the owner have unlimited creativity on business, the owner would attract more investors to invest. This is the determinants for some SME succession in Malaysia.

Mullins, Christos and Iannacci, (2011) An empirical study of ERP implementation, in Small and Medium Enterprises in Greece examines information systems from a socio-technical approach. It seeks to examine not how specific information systems work, but how and why people choose and use information systems. This study has identified that SME's lack the required knowledge, regarding how companies identify their system needs and how they choose appropriate software vendors and products for one of their most significant areas of operation. The findings from the study also suggest that expenses have a negative effect on the usage of the ERP system, but implementation of the ERP system does present positive overall affects on the SME if done correctly. So, having an information system like ERP or SCM can be helpful for SME to success.

Klapper and Richmond, (2011) Needs to encourage and inspire greater experimentation and innovation among African entrepreneurs are highlighted as the growth rate of firms in Cote d'Ivoire is low. Malaysian's entrepreneurs in the same condition as developing country and low growth rates also need the encouragement and inspiration of innovations.

4. Level of Education

An entrepreneur that is highly educated may manage his/her own business better than an entrepreneur that is not well educated. But there are many exceptions. So we want to find out whether the level of education related to SME succession so we can find out whether highly educated entrepreneur can bring SME success. Sluis, Praag, and Vijverberg, (2008) The impact of education on selection into entrepreneurship is insignificant and the effect of education on performance is positive and significant. This means that level of education high doesn't mean managing business skills is better.

Saleh and Burgess, (2009) Some studies found that there are a number of factors that hinder SMEs willingness to use ICT in their organization. Among the major hindrances is finance, employee education levels, in particular, in relation to ICT skills, the high cost of ICT infrastructure and non availability of skilled human capital present major challenges for Malaysian SMEs in the adoption of ICT. Lack of level of education would not relate much ICT to business. So this might affect the succession of SME.

Kihlgren, (2002) The higher levels of educational attainment and the more "Western mentality" make the citizens of St. Petersburg more prone to engage in entrepreneurial activity. Lin, (1998) Entrepreneur's technical skills and their concern about the production

are less important than their management skills and management concepts of business founders. Kihlgren mentioned about the levels of education might not relate with the managing skills. A person with higher education might not have higher managing skills. We will come into this investigation if possible.

As previous researchers had mentioned, we can categorize the entrepreneurs managing skill in finance, social network, creativity and their level of education as the determinants of the succession of SME in Malaysia. Above researchers had proven that there is a significant relationship between the determinants to the SME succession, while this paper is investigating the significant effect of determinants to SME succession.

3. Methodology

Figure 1 shows the conceptual framework. The Figure shows four hypothesis as below:

Hypothesis 1: There is a significant effect of entrepreneur's managing finance skills to succession of SME in Malaysia.

Hypothesis 2: There is a significant effect of entrepreneur's managing social skills to succession of SME in Malaysia.

Hypothesis 3: There is a significant effect of entrepreneur's managing creativity skills to succession of SME in Malaysia.

Hypothesis 4: There is a significant effect of entrepreneur's level of education to succession of SME in Malaysia.

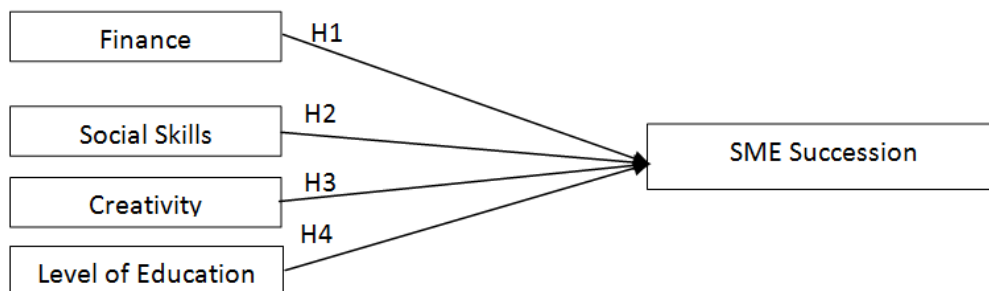


Figure1: conceptual framework

Reliability Analysis

Reliability analysis was carried out for each variable: finance, social skills, creativity, level of education and SME succession. The results score ranged from .741 to .92. The results are normally within acceptable limit for social studies.

Normality Distribution Analysis

The normality of the data was assessed using the skewness and kurtosis statistics derived from the descriptive statistics which should have a range of -1 to +1 and -3 to 3 respectively. The results for skewness score ranged from -.327 to .878. As for kurtosis, the results score ranged from -1.903 to .607. The range belongs to the acceptable range, so the distribution is normally distributed and therefore there is a no need for transforming the data to normal distribution in order to perform the necessity statistical tests. (Refer Table 1)

Table 1 (Frequencies)

		Statistics			
		Gender	Age	LevelEducation	YearWorking
N	Valid	386	386	386	386
	Missing	0	0	0	0
Mean		1.5803	1.8109	2.4741	2.4767
Std. Deviation		.49415	.64706	.91487	.83166
Variance		.244	.419	.837	.692
Skewness		-.327	.203	.189	.878
Std. Error of Skewness		.124	.124	.124	.124
Kurtosis		-.903	-.678	.116	.607
Std. Error of Kurtosis		.248	.248	.248	.248
Range		1.00	2.00	4.00	4.00
Minimum		1.00	1.00	1.00	1.00
Maximum		2.00	3.00	5.00	5.00

This paper will provide results in more insights into the SME succession perceived by entrepreneurs so that policy makers or government can help entrepreneurs better by providing suitable trainings and information that they need.

This paper was conducted in Klang Valley over a period of few weeks. Klang Valley is suitable for this survey because its economic growth is more active compare with other place for SMEs development. Klang Valley includes Kuala Lumpur and its suburbs, and adjoining cities and town all around Selangor. Klang Valley also holds 6 million populations in a place in Malaysia which is equal to 25% of Malaysia population in 2010 (Department of Statistics, 2011). It is the most important economic growth for Malaysia's industry and commerce.

Kuala Lumpur as the capital is the most active commercial centre for Malaysia. Because of the growth of economic that creates job opportunities and modern amenities in Kuala Lumpur, local and foreign people largely migrant into this heartland of Malaysia. Many kinds of businesses are created within this small region to cater the needs for the people inside.

Data of assessing the SME succession in Malaysia were collected through a survey on people around Klang valley. The targets are not only employer, employees are also suitable for this survey because people who know management and work for their employer can evaluate their own opinion well for the relationship between entrepreneurs and SME.

All the questionnaires not only through email, but some also filled out in the presence of the authors. After completed the questionnaire, author was asked to give a referral of another SME's owner in Klang Valley. This method is useful because the author are more accurate in specifying the SME's owner and easier to approach the other author through referral program. So there are total of 400 questionnaires done throughout Klang Valley.

A self-report questionnaire was designed to measure the determinants of SME succession in Malaysia. This questionnaire has been proven reliable under various contexts of economic development. The questionnaire was designed into threeparts. A total of 25 items

were inserted in the first part. A five-point Likert-style scale was utilized in this section (1 = Strongly Disagree; 5 = Strongly Agree) to evaluate the importance of managing skills in succession of SME for entrepreneurs. The second part was filled up with the personal and demographical data of the respondents. The third part is about the comment of people for extra evaluation. The questionnaire was created in 1 language which is English and it's enough because Malaysian mostly can read in English.

4. Findings and Results

4.1 Descriptive Analysis

For the responding descriptive analysis there were 162 (42 percent) male respondents, while 224 (58 percent) of the respondent are female. Besides, there are 10 (2.6 percent) respondent attained PhD level, 22 (5.7 percent) master level, 170 (44 percent) bachelor levels, 123 (31.9 percent) pre-university level and 61 (15.8 percent) secondary level. (Refer Table 1).

4.2 Regression Analysis

Refer to Table 2:

Respondents were asked to identify the determinants they perceived SME succession for entrepreneurs. The questions on the determinants required the respondents to rate their levels of agreement and disagreement on a five-point Likert style scale from 1 indicating "Strongly Disagree" to 5 indicating "Strongly Agree". Table 2 summarizes the determinants given by respondents for deciding what contribute to their success. Based on survey responses, entrepreneur's managing finance, social skills, creativity and level of education are significant effect in order to success in SME. We can generate a linear regression formula from Table 2.

$$\text{SME} = 1.168 + 0.355 \text{ Fin} + 0.182 \text{ SS} + 0.051 \text{ Cr} + 0.088 \text{ Le}$$

SME: SME succession

Fin: Finance

SS: Social Skills

Cr: Creativity

Le: Level of Education

Table 2 (Regression)

		Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	1.168	.210		5.569	.000	.756	1.581
	Finance	.309	.043	.355	7.156	.000	.224	.394
	Social	.179	.055	.182	3.235	.001	.070	.289
	Creativity	.054	.063	.051	.858	.392	-.070	.179
	Level	.082	.044	.088	1.853	.065	-.005	.170

a. Dependent Variable: Succession

5. Conclusion

SMEs are major contribution for economic growth role in Malaysia. Around ninety percent of economic contribution in Malaysia's companies are SMEs. Malaysia government has established the SME Corp Malaysia in order to improve SMEs' entrepreneurial and management skills. This organization is responsible for designing and delivering SMEs training programs for potential entrepreneurs. The research findings are not exhaustive and conclusive in revealing the perceptions of Malaysian entrepreneurs on the SME succession, but the respondents believe that individual determinants such as manage finance skills, manage social skills, and manage own creativity into business are more important than environmental factors like government support or political involvement. We hope that our findings can provide some thoughts and be an information for the creation of new programs and policies to increase the number of entrepreneurs in Malaysia.

Below are two limitations for this research. First, all the survey data were self-reported. The subjected report is just some number of cognitive and motivational biases and errors. These data prone to the problems of self-serving bias, memory distortion and social desirability bias. But, we just hope that this study is used to elicit the perception of entrepreneurship rather than just used to measure the determinants of SME succession. Second, snowball sampling might cause the result biased. Respondents that are isolated from the community will cause the data under sampled, whereas others who have more contacts and acquaintances will cause data to be oversampled.

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