

The Impact of Small and Medium Enterprises Dilemmas on Business Performance

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ABSTRACT

Business performance is an important element in the business. Thus, the dilemma confronted by the small and medium enterprises will affect both financial and non-financial business performance. A study on the small and medium enterprises topic is not new but necessary in order to observe the effect of the considerable issues in business environment. Therefore, this study is conducted to investigate the dilemmas that affect the business performance among small and medium enterprises in service sector. Three dimensions have been proposed, which are transportation facilities, financial strength, and labor force skills. A total of 159 sets of questionnaires were completed by the firms' representative. The findings from this study discovered that transportation facilities, financial strength, and labor force skills have a significant and positive relationship with business performance. The results present a better understanding of transportation facilities, financial strength, and labor force skills issues from small and medium enterprises in Kuching city, which is located in Borneo Island.

Keywords – business performance; Sarawak; small and medium enterprises

Introduction

Small and medium sized industry is still in the works to grow day to day as it is a key driver for the nation development (The Borneo Post, 2012). Sarawak alone, it was pointed out that the state has a total of 43,830 or 6.8 per cent small and medium enterprise establishments in Malaysia (SME Corp Malaysia, 2011). From the mentioned figure, 40,608 enterprises establishment is categorized under service sector.

Thus, this study intends to examine the dilemmas of labor force skills, financial strength and transportation facilities that affect the business performance among small and medium enterprises in Kuching, Sarawak. In Sarawak, it is nearly 40 per cent of road projects have suffered delay (Sipalan, 2012). Noticeably, unrepaired roads will affect the transportation link and product delivery. Thus, the enterprise requires making a wise decision in choosing the mode of transportation in order to save costs (Lawless & Gore, 1999). Even though the small and medium enterprises are able to obtain the financial resources from financial institutions, the qualification of the applicants to get the loan turns into a concern (Abdullah & Manan, 2009). Not only financial institutions, the government also supports the small and medium enterprises by providing the loan and grant as well as educating the enterprises in loan application procedure (The Borneo Post, 2014). Labor force is an important driver to an organization (Saru, 2007). Most small and medium enterprises have limited ability to attract and retain the employees due to perceived unattractive and non-competitive remuneration and benefits ("SME Masterplan 2012-2020", 2013). Findings from Hill and Stewart (2000) confirmed that the organizations that able to retain the labor force could encourage the employees to commit to the organization and enhance the business performance. Therefore, a study on transportation facilities, financial strength and labor force skills is crucial in order to observe the impacts of those dilemmas on small and medium enterprises performance.

The growth population in Kuching city has attracted small and medium enterprises to embellish in this area. Service sector is chosen as it has the highest number of small and medium enterprises in Kuching city (Department of Sarawak Chief Minister, 2010). The survey is targeted to those businesses categorized under small and medium enterprises. Particularly, the responses are obtained from the participation of enterprises' representative, preferably the owners or top management group.

Thus, the objectives of this study are:

- i. To examine the relationship between labor force skills, financial strength, transportation facilities and business performance within small and medium enterprises.
- ii. To identify the most influential factor that affects the business performance within small and medium enterprises.

Literature Review

2.1 Small and Medium Enterprises (SMEs)

The government has classified the small and medium enterprises based on some characteristics. The small and medium enterprises in Kuching city are categorized into two sectors which are manufacturing sector as well as services and other sectors (Guideline for new SME definition, 2013). Literature reported that there is no accepted worldwide definition of small and medium enterprises (Hooi, 2006). Means, there is no conclusive standard on defining the small and medium enterprises globally. The definition of small and medium enterprises can be defined based on the firms' turnover or number of employment. Particularly, the firms with sales turnover from RM 300,000 to less than RM3 million or employments from 5 to less than 30 workers are classified as small enterprises while the firms with sales turnover from RM 3 million to less than RM20 million or employments from 30 to 75 workers are classified as medium enterprises in service sector (Guideline for new SME definition, 2013). In the local context, small and medium enterprises are preferably measured in fixed quantitative measure (Hashim & Abdullah, 2000b) that includes the total number of workers, the total number of capital, total number of assets and sales turnover (Hashim & Abdullah, 2000a).

2.2 Business Performance

Measuring the business performance is not new (Agus & Abdullah, 2000) as the performance measure is crucial for the business entity (Berthon, MacHulbert, & Pitt, 2004). As discovered, the performance can be influenced by certain factors comprising of labor force, cost, amount of information, number of skilled workers and financing issues (Gummeson, 1998). The literatures state the advantages of using the performance to improve the business. Performance measure is crucial in order to attain the objectives that have been set early (Berthon et al., 2004) and help the organization to further understand and try to improve the flaws (Wolff & Pett, 2006). As pointed out by Porter (1985), the organization with a high level of performance will easily achieve their goal or objective. He added, the organization with a low level of performance will hardly achieve their goal or objective and it cannot be in time.

2.3 Labor Force Skills

Labor force has linked development and training for organizational to achieve objectives and have the ability to respond to changes in the technology and environment (McLagan, 1989). In 1990's, labor force is the key for organizational strategy, external labor market strategies, changes in internal labor market needs and the value system within an organization (Hill & Stewart, 2000). Undeniably, labor force must be sent to training in order to be talented individuals for developing the organization and support to achieve organization goals (McLagan, 1989). However, organizations may concern about the cost of training the labor force. Small businesses are required to select a suitable training course for their labor force accordingly to their budget allocation and training objective (Rigg & Trehan, 2002). A study also revealed labor force helps to build up the organization and ensures the operation running smoothly (Saru, 2007). Hence, retaining workers, skill enhancement strategies and labor force expertise should be considered (Hill & Stewart, 2000). Thus, the literatures prove that investment in workers will enhance the skills and performance of an organization.

2.4 Financial Strength

Research activities on financing and funding issues related to Malaysian small and medium enterprises are quite popular (Aris, 2007; Saleh & Ndubisi, 2006). Small and medium enterprises face challenges such as gaining financing sources, shortage of financial records and insufficient documents to support loan application (Aris, 2007). Referring to the Malaysian study, 84.3 percent of respondents have experienced difficulties in obtaining external financing due to limited amount of loan approved, short-term loan duration and failure to provide the collateral (Wahab & Buyong, 2008). However, this issue is not caused by the insufficient amount of money allocated for small and medium enterprises. Abdullah and Manan (2009) revealed the main reason of this issue is due to the qualification of the small and medium enterprises to obtain the loan. They advise the business owners to play an important role in investigating their financing preference especially in deciding the financial needed to operate the organizations and making decision to achieve the business objectives. It can be concluded

the financial factor is seen as a crucial element to the growth (Cook, 2001; Hall, 2003) and the success of the business (Hall, 2003). In addition, the owner of an organization plays an important role in investigating their financial preference (Low & Mazzarol, 2006). The owner must decide on the amount of financial needed to run the business and decision made must be useful to achieve the organization goals.

2.5 Transportation Facilities

People need a transport to carry stuffs or providing services for others (Sheller & Urry, 2000). As transport is an important medium to carry goods from one place to another (Adedeji, Olafajji, Omole, & Olanibi, 2014), organizations are required to make a wise decision to transport the passengers or freights through the available transportation system (Rodrigue, Comtois, & Slack, 2006). To save costs, the right selection of transportation mode is a vital decision for organizations (Lawless & Gore, 1999). Not only cost, the decision on selecting the transportation is also influenced by several factors such as geography, infrastructure, and how passengers and freight are carried (Rodrigue et al., 2006). Previous study also reported the transportation cost accounts for 10 percent of the total cost of a product (Rodrigue et al., 2006).

Methodology

3.1 Sampling

The sampling frame of this study is obtained from the state government of Sarawak. Among the eight parts of Sarawak, Kuching city is selected for the highest number of enterprises operated in service sector (Department of Sarawak Chief Minister, 2010). Thus, the listing is considered precise as it is officially published by the state. Slovin's formula is used to calculate the sample size (Setiawan, 2007). With the population of 733 service businesses classified as small and medium enterprises in Kuching city, the sample size of 159 with margin of error of 7 percent is calculated using this formula. By conducting a convenient sampling, only the enterprises' representative consists of the owner or top management employee are invited to participate in this survey. This requirement is made as they are assumed as the right person to provide the responses (Chen & Paulraj, 2004).

3.2 Research instrument

The questionnaire comprises of five sections. Four of which are measured by using a five-point Likert scale. The scale used for transportation facilities, labor force skills and financial strength sections described the level of respondents' agreement (1 is strongly disagree; 2 is disagree; 3 is undecided; 4 is agree; 5 is strongly agree) while the business performance section is measured by using perceptual responses (1 is much worse than competitor; 2 is worse than competitor; 3 is same with competitor; 4 is better than competitor; 5 is much better than competitor) (Kroes & Ghosh, 2010). The last section identified the respondents' background information and business profile.

3.3 Data collection method

This study carried out a self-administered survey that enables the enterprises representatives to respond at their own convenience. The questionnaire was distributed within two months by walking-in and contacting the enterprises directly. Out of 240 sets of questionnaire disseminated, 159 sets were usable for analysis. Thus, the response rate for this survey is 66.25%.

Data Analysis and Findings

4.1 Respondents' and Business Profile

Majority of the respondents are top management employees (72.30%) and the rest are the owners (27.70%). Most of them have less than 19 full time employees (93.10%). The analysis showed that the majority of the small and medium enterprises ownership type is under sole proprietorship (56.30%). From 159 enterprises, 45.30% enterprises prefer to operate the business at commercial shop lots.

4.2 Factor Analysis

Factor analysis is performed on the 15 items of the independent variables order to obtain the manageable number of items (Lee, Kwon, & Severance, 2007). Next, the Keiser-Meyer-Olkin (KMO) and Barlett's test of Sphericity are performed to validate the factor analysis could be performed or not (Tabachnick & Fidell, 2001). The KMO value is 0.883 and the Barlett's test is statistically significant (Chi-Square = 2744.141, $p < 0.000$) which is adequate for factor reduction procedure. After five iterations, three components are extracted with

Eigenvalues more than 1 and contributing 85.06% of the total variance. In detail, Factor 1 and Factor 2 are made up of five variables; Factor 3 is made up of four variables respectively. The three factors were named as labor force skill, financial strength and transportation facilities.

The factors loadings of all the variables are presented in Table 1 for the constructs of small and medium enterprises dilemmas.

Table 1 *Rotated Component Matrix for Small and Medium Enterprises Dilemmas*

Variables	Labor force skill	Financial strength	Transportation facilities
I am confident of my abilities to start a business	0.847		
I have leadership skills that are needed to be an entrepreneur	0.882		
I have mental maturity to be an entrepreneur	0.904		
I have the ability to set appropriate business goals	0.898		
I have the ability to determine what customers need	0.809		
I am daring to invest		0.661	
I am able to pay back my loan		0.830	
I am able to get enough money to start my business		0.901	
Taking risk bother even if the gains involved are potentially high		0.913	
I feel comfortable getting business loan		0.909	
Good condition of roadway in this city			0.610
Excellent road maintenance in this city			0.868
The expense of the transportation is accepted			0.910
The organization using transportation during night time			0.861
Eigenvalue	8.262	1.879	1.768
% of Variance	59.015	13.422	12.625
Cumulative % of Variance	59.015	72.437	85.062

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

4.3 Reliability Analysis

The reliability test is conducted to test the accuracy, precision and consistency of the variables used to measure the factors (Cooper & Schindler, 2008) i.e. labor force skill, financial strength, transportation facilities and business performance. The coefficient value can range from 0 to 1 to indicate the internal consistency of the variables (Hair, Bush, & Ortinau, 2009). The acceptable reliability is an alpha value 0.7 and the meaningful reliability is greater than 0.8 (Sekaran, 2000). Table 2 presents the alpha value of the variables for labor force skill is 0.958, financial strength is 0.954, transportation facilities is 0.900 and business performance is 0.764. Therefore, the reliability analysis confirms that the variables for labor force skill, financial strength and transportation facilities have meaningful reliability which is an alpha value greater than 0.8 meanwhile the variables for business organization have acceptable reliability which is an alpha value greater than 0.7.

Table 2 Reliability Test

Dimensions	Number of Items Tested	Cronbach's Alpha	Outcome
Labor force skill	5	0.958	Meaningful
Financial strength	5	0.954	Meaningful
Transportation facilities	4	0.900	Meaningful
Business performance	5	0.764	Acceptable
Overall	19	0.944	Meaningful

4.4 Correlations Coefficients

The correlation is performed to describe the degree of linear relationship between two variables (Hair et al., 2009). Thus, this study examines the strength of correlation of independent variables i.e. labor force skill, financial strength and transportation facilities with dependent variable i.e. business performance by using Pearson correlation coefficient. The strength of correlation ranges between -1.00 and 1.00 is referred from Hair et al. (2009). The coefficient range from 0.81 to 1.00 is very strong, 0.61 to 0.80 is strong, 0.41 to 0.60 is moderate, 0.21 to 0.40 is weak with low correlation, and 0.00 to 0.20 is very weak to no relationship at all.

The correlation analysis presents that all the independent variables i.e. labor force skill, financial strength and transportation facilities are significantly correlated with the dependent variable i.e. business performance, at a significance level of 0.000. Not only discovering the strength of correlation, the correlation analysis could provide the information of either positive or negative relationship.

The correlation coefficient indicates that there is a moderate positive correlation between labor force skill and business performance ($r = 0.517, p = 0.000$), a moderate positive correlation between financial strength and business performance ($r = 0.581, p = 0.000$) while transportation facilities and business performance are a moderate positive correlation ($r = 0.467, p = 0.000$).

The analysis presents the correlations between independent variables and dependent variable are positively correlated below 0.60. In general, financial strength has the strongest positive correlation with business performance, indicating the more the financial strength, the better the business performance would be perceived.

4.5 Multiple Regression Analysis

Multiple regression analysis is performed and the results are illustrated in Table 3. The results show that the R square of the model is 0.400 which means that 40.00% of the variance in business performance (dependent variable) can be explained by the three independent variables namely labor force skill, financial strength and transportation facilities. The results of the ANOVA test show that the model is statistically significant ($\text{sig.} = 0.000, p < 0.05$) with F-value 34.494. The results indicate that the three indicators of the small and medium enterprises dilemmas were significantly related to business performance. The standardized beta coefficient indicates the relative importance of each indicator. Financial strength ($\beta = 0.367, p = 0.000$) generates the highest positive and significant influence on business performance and this is followed by labor force skill ($\beta = 0.206, p = 0.013$) and transportation facilities ($\beta = 0.172, p = 0.025$).

Table 3

Multiple Regressions Analysis

	Standardised (Beta)	Coefficient	t-value	Sig.
Labor force skill	0.206		2.518	0.000
Financial strength	0.367		4.491	0.013
Transportation facilities	0.172		2.268	0.025

a. Dependent Variable: Business Performance

R Square = 0.400 F-Value = 34.494

Adjusted R Square = 0.389 Sig. = 0.000

4.6 Hypotheses Testing

Based on the results above, it can be concluded that three hypotheses were supported (Table 4).

Table 4 *Hypotheses Testing*

Hypotheses	Findings
H ₁ : There is a significant and positive relationship between labor force skill and business performance.	Supported
H ₂ : There is a significant and positive relationship between financial strength and business performance.	Supported
H ₃ : There is a significant and positive relationship between transportation facilities and business performance.	Supported

Discussions and Conclusion

Small and medium enterprises have to deal with the dilemmas to operate the business. The three dimensions of small and medium enterprises dilemma namely labor force skill, financial strength and transportation facilities are tested on their effect on the business performance. The multiple regression analysis shows that the performance of micro and small enterprises is found to be significantly influenced by labor force skill. The result is consistent with Hill and Stewart (2000) who state the enhancement of skill and expertise should be strategized as it has encouraged individuals to present a higher level of commitment to reach satisfactory organization performance. As proven by previous study, the monetary concern has been taken into consideration. Small organizations are advised to select appropriate training for the workers and achieve the objectives (Rigg & Trehan, 2002). In addition, the multiple regression analysis also shows the performance of small and medium enterprises is significantly influenced by financial strength. Financial strength factor is crucial for the growth of the business (Cook, 2001; Hall, 2003). However, lacking of financial aids is not the main issue for the enterprises. The difficulty is revealed when Abdullah and Manan (2009) discovered the qualification of the small and medium enterprises to obtain the loan is not satisfactory. The multiple regression analysis presents that the performance of small and medium enterprises is found to be significantly influenced by transportation facilities. This finding also lends support to Lawless and Gore (1999) where cost saving can be achieved by selecting the correct decision on transportation.

In conclusion, this study tests three dimensions that significantly influence the performance of small and medium enterprises namely labor force skill, financing strength and transportation facilities. Financing strength is found to be the most prominent dimension that affects business performance. This study has several limitations that might influence its consideration of the research findings. First, the sample of this study is restricted to small and medium enterprises located in one area only. Future studies may extend the scope of the research area to include several cities in Sarawak. As a result, the research findings can be generalized to a larger population. Next, this study is limited to service sector only. Thus, the findings cannot be generalized to small and medium industry in this area. In this study, only three dimensions were tested. The research findings also explain that these three dimensions can only predict 40 percent of the variance in small and medium enterprises performance in service sector.

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