

EFFECT OF FINANCIAL ACCESS AND
ENTREPRENEURIAL CHARACTERISTICS ON THE
PERFORMANCE OF SMALL AND MEDIUM
ENTERPRISES (SMEs) IN A FELDA SCHEME IN
PAHANG

BY

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ABSTRACT

Despite the significant contribution of SMEs entrepreneurs in the FELDA scheme towards the rural economic development, several studies report that both access to finance from financial institutions and entrepreneurial characteristics are among the problems affecting SMEs business performance. Little is known to what extent government business support intervene the relationships between access to finance, entrepreneurial characteristics and SMEs business performance in the FELDA scheme. This study investigated the effect of access to finance and entrepreneurial characteristics (innovativeness, proactiveness and risk taking) on the performance of SMEs in a FELDA scheme in Pahang, and also determined whether these effects are moderated by entrepreneurial characteristics (age and working experience) and firm characteristics (types of business, years of business operations and annual sales). In addition, this study examined the mediating role of government business support in the relationships between access to finance and entrepreneurial characteristics (innovativeness, proactiveness and risk taking) on business performance. The study employed a cross-sectional survey and quantitative methodology. The analysis of this study was based on a sample survey consisting of 368 SMEs in a FELDA scheme in Pahang. The survey data were analysed using the IBM Statistical Social Science (SPSS) software and the AMOS Structural Equation Model (SEM) Analysis. SEM is employed to examine the interrelationship between access to finance, entrepreneurial characteristics, government business support and SMEs business performance. The results show that the effects of access to finance, innovativeness and proactiveness on business performance are not significant, while risk taking positively and significantly predicts business performance of SMEs in the FELDA scheme in Pahang. Furthermore, the results found that there is no difference between entrepreneur characteristics (age and working experience) and firm characteristics (types of business, years of business operation and annual sale) with respect to the relationships between access to finance, innovativeness, proactiveness, risk taking and business performance. This study further revealed that government business support partially mediated the relationship between risk taking and business performance. Government business support fully mediated the relationships among access to finance, innovativeness and business performance, whereas government business support had no mediation effect between proactiveness and business performance. These findings imply that government business support indirectly influence SMEs' business performance. More importantly, the results indicate the important role of government business support in easing financial access and improving SMEs capabilities in the FELDA scheme particularly in Pahang. Finally, the findings of this study provide practical implications to government agencies in redesigning SMEs entrepreneurial development programmes toward improving SMEs business performance in the FELDA scheme.

خلاصة البحث

على الرغم من المساهمة الكبيرة لأصحاب المشاريع الصغيرة والمتوسطة في خطة FELDA في التنمية الاقتصادية الريفية، تشير العديد من الدراسات إلى أن الوصول إلى التمويل من المؤسسات المالية وخصائص تنظيم المشاريع من بين المشاكل التي تؤثر على أداء أعمال الشركات الصغيرة والمتوسطة. لا يُعرف سوى القليل عن المدى الذي يتدخل فيه دعم الأعمال الحكومية في العلاقات بين الوصول إلى التمويل وخصائص تنظيم المشاريع وأداء أعمال الشركات الصغيرة والمتوسطة في مخطط FELDA. بحثت هذه الدراسة في تأثير الوصول إلى خصائص التمويل وزيادة الأعمال (الابتكار والاستباقية والمخاطرة) على أداء الشركات الصغيرة والمتوسطة في مخطط FELDA في باهانج، وحددت أيضًا إذا كانت هذه التأثيرات خاضعة للإشراف من خلال خصائص زيادة الأعمال (العمر والخبرة العملية) وخصائص الشركة (أنواع الأعمال وسنوات العمليات التجارية والمبيعات السنوية). بالإضافة إلى ذلك، فحصت هذه الدراسة الدور الوسيط لدعم الأعمال الحكومية في العلاقات بين الوصول إلى التمويل وخصائص تنظيم المشاريع (الابتكار والاستباقية والمخاطرة) على أداء الأعمال. لقد استخدمت الدراسة مسح مقطعي ومنهجية كمية. واعتمد تحليل هذه الدراسة على مسح عينة يتكون من 368 شركة صغيرة ومتوسطة في مخطط FELDA في باهانج. تم تحليل بيانات المسح باستخدام برنامج IBM Statistical Social Science (SPSS) وتحليل AMOS. .

Structural Equation Model (SEM) يتم توظيف SEM لفحص العلاقة المتبادلة بين الوصول إلى التمويل وخصائص تنظيم المشاريع ودعم الأعمال الحكومية وأداء أعمال الشركات الصغيرة والمتوسطة. تظهر النتائج أن تأثيرات الوصول إلى التمويل والابتكار والاستباقية على أداء الأعمال ليست كبيرة، في حين أن المخاطرة تنبأ بشكل إيجابي وكبير بأداء الأعمال للشركات الصغيرة والمتوسطة في مخطط FELDA في باهانج. علاوة على ذلك، وجدت النتائج أنه لا يوجد فرق بين خصائص رائد الأعمال (العمر والخبرة العملية) وخصائص الشركة (أنواع الأعمال وسنوات تشغيل الأعمال والبيع السنوي) فيما يتعلق بالعلاقات بين

الوصول إلى التمويل والابتكار والاستباقية والمخاطر أخذ وأداء العمل. كشفت هذه الدراسة أيضًا أن دعم الأعمال الحكومية توسط جزئيًا في العلاقة بين المخاطرة وأداء الأعمال. توسط دعم الأعمال الحكومية بشكل كامل في العلاقات بين الوصول إلى التمويل والابتكار وأداء الأعمال، في حين أن دعم الأعمال الحكومية لم يكن له تأثير وساطة بين الاستباقية وأداء الأعمال. تشير هذه النتائج إلى أن دعم الأعمال الحكومية يؤثر بشكل غير مباشر على أداء الشركات الصغيرة والمتوسطة. والأهم من ذلك، تشير النتائج إلى الدور المهم لدعم الأعمال الحكومية في تسهيل الوصول المالي وتحسين قدرات الشركات الصغيرة والمتوسطة في مخطط FELDA خاصة في باهانج. أخيرًا، توفر نتائج هذه الدراسة آثارًا عملية للوكالات الحكومية في إعادة تصميم برامج تنمية ريادة الأعمال للمؤسسات الصغيرة والمتوسطة من أجل تحسين أداء أعمال الشركات الصغيرة والمتوسطة في مخطط FELDA.

APPROVAL PAGE

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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Shuhaimi Mohd Sauh

Signature 

Date..... *10 September 2021*

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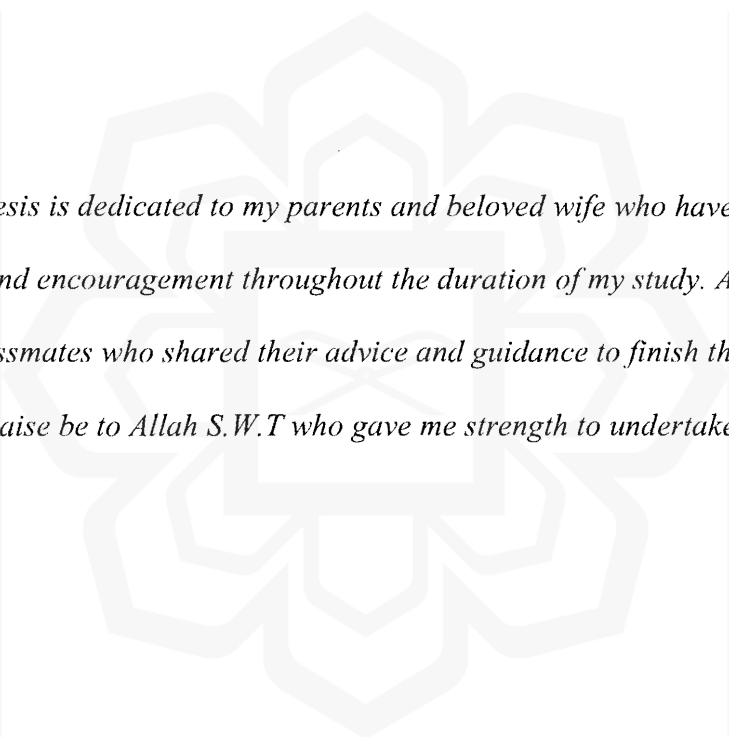
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This thesis is dedicated to my parents and beloved wife who have given countless support and encouragement throughout the duration of my study. Also, to my mentors and classmates who shared their advice and guidance to finish this study. Finally, praise be to Allah S.W.T who gave me strength to undertake this study.

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LIST OF ABBREVIATIONS

AGFI	Adjusted Goodness of Fit
AMOS	Analysis of Moment Structure
ASEAN	Association of South East Asian Nation
BP	Business Performance
ChiSq	Chi-Square
CFA	Confirmatory Factor Analysis
CGC	Credit Guarantee Corporation
C.R.	Critical ratio
DF	Degree of Freedom
DOS	Department of Statistics
ECER	East Coast Economic Region
EFA	Exploratory Factor Analysis
EO	Entrepreneurial Orientation
FELDA	Federal Land Development Authority
GFI	Goodness of Fit Index,
GSA	Land (Group Settlement Areas) Act 1960
JAKIM	Jabatan Kemajuan Islam Malaysia
KMO	Kaiser-Meyer-Olkin
MARA	Majlis Amanah Rakyat
MITI	Ministry of International Trade
ML	Maximum Likelihood
MLE	Maximum Likelihood Estimation
NFI	Normal Fit Index
OLS	Ordinary Least Squares
RBV	Resource Based View
RMSEA	Root Mean Square Error Approximation
SAWARI	Satu Wilayah Satu Industri
SD	Standard Deviation
SE	Standard Error
SIUF	Skim Insentif Usahawan Felda
SME Corp	Small and Medium Enterprise Corporation
SMEs	Small and Medium Enterprises
SMIDEC	Small and Medium Industries Development Corporation
TEKUN	Tabung Ekonomi Kumpulan Usahawan Niaga
TLI	Tucker-Lewis Index
UiTM	Universiti Teknologi MARA
VRIN	Valuable, Rare, Inimitable and Non-substitutable

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This research examined the effect of financial access and entrepreneurial characteristics on the performance of Small and Medium Enterprises (SMEs) in the FELDA scheme in the state of Pahang. The introductory chapter provides an overview of the research study. The present chapter begins with the background of the study, problem statement, research objectives and research questions. The significance of the study and the structure of the thesis are also presented in this chapter.

1.2 BACKGROUND OF THE STUDY

The introductory section offers some fresh insights into the roles of SMEs in the economic development and the issues affecting SMEs performance in Malaysia that will provide some context for the research topic of this study.

The research topic on SMEs development has attracted considerable attentions over recent years. Past studies have asserted the roles of Small and Medium Enterprises (SMEs) in the economic development of a country. SMEs have been noted as one of the pillars of economic development (Pandya, 2012; Tambunan, 2008; Aris, 2007). SMEs make a major contribution in reducing poverty (Sokoto, 2013; Yasa Kerti et al., 2013) and unemployment in a country (Urbano & Aparico, 2016; Neumark, 2011). SMEs have contributed more than three quarter of the world economic growth (Jutla, Bodorik, & Dhaliqal, 2002). In addition, the number of total full-time employees in SMEs has almost doubled from 79 million to 150 million from 2003 to 2016 across 132

business establishments are constituted by SMEs (Mohammad, 2012).

SMEs contribute more than half of the Gross Domestic Product (GDP) and provided nearly three quarter of the total employment in the Organization for Economic Corporation Development's (OECD) member countries (OECD, 2018). OECD also reported that in emerging countries and developing countries, SMEs contribute more than one third of GDP. In Europe, craft and SMEs constitute of 99.8 percent of enterprise and contribute to two-third of the employment (UEAPME, 2010). In Japan and China, SMEs constitute 90 percent of the business establishments and provide 40 percent of job opportunities and contribute more than 50 percent of GDP (Osman, Theresa & Galang, 2011).

Small and Medium Enterprises (SMEs) can be deliberated as the economic growth drivers in the ASEAN region. In ASEAN, SMEs have become the pillar of ASEAN economics. SMEs provided between 52 percent and 97 percent of employment and accounted between 30 percent and 53 percent of the total GDP (Yong & Vineles, 2016). In the context of Malaysia, SMEs contributed more than one third to Gross Domestic Product (GDP) and the government is aiming to achieve 41 percent contribution from SMEs in 2020 (Gunto & Alias, 2013).

In 2016, the SME sector in Malaysia has contributed 36.6 percent to the Malaysia Gross Domestic Product (GDP) which is about RM463.2 billion. A big chunk of the SME's GDP contributors in Malaysia came from service sector and followed by manufacturing, constitution, agriculture and import duties. In Malaysia, GDP contribution from the SMEs sector in Malaysia is expected to reach 41 percent by 2020 from 32 percent in 2010, the total employment is expected to achieve 62 percent by

2020 from 59 percent in 2010, and export contribution to reach 25 percent by 2020 from 19 percent in 2010 (Bank Negara Malaysia, 2015).

In comparison with other countries across the continents, the GDP contribution of SMEs in Malaysia is still low as compared to China and Germany, SMEs constituted more than two third of their countries GDP (“Shaping the Future of SMEs,” 2017). The GDP contribution from SME sector in Malaysia is still below 40 percent since 2010.

Given the importance of SME to the country economy, numerous studies have been conducted to understand factors influencing SMEs performance since independence. For example, several studies focused on Malay entrepreneurial development (Ungku Aziz, 1964; Popeneo, 1970; Charlesworth, 1974; Mahmud, 1977) while other studies focused on SME entrepreneurs in Malaysia (Chee et al., 1979); a qualitative study on Malay entrepreneurial development conducted by Hamidon (2009) and a study was carried out by Mahmood and Hanafi (2013) examining the development of women SMEs in Malaysia.

Access to finance, innovation and technology development, development of human capital, market accessibility, business regulation and law, and infrastructure are the the main driving forces in enhancing the growth and competitiveness of SMEs in Malaysia under the SME’s Masterplan 2020. Under the National Entrepreneurship Policy 2030 (Dasar Keusahawanan Negara 2030 or DKN 2030), the Malaysian government is aiming to increase SMEs sector contribution to total country GDP from 38.9 percent (in 2019) to 50 percent (in 2030), employs 62 percent of total employment and accounts for 25 percent of total export by the year 2030 (SME Annual Report, 2019; National Entrepreneurship Policy, 2019; Mohd Sauh, Moha Asri, & Abdullah, 2021). In achieving this target, the Malaysian government is focusing on six areas of entrepreneurial development namely access to finance, innovation based enterprises,

enhancing the capabilities and performance of SMEs, internationalization, incalculable entrepreneurial society and stimulate integrated entrepreneurial development.

Numerous studies have attempted to understand the influence of access to finance, entrepreneurial characteristics, firm characteristics and government business support on SMEs performance (Fardous Alom et al., 2016; Moha Asri & Manan, 2011; Chittithaworn et al., 2011; Indarti & Langenberg, 2004; Ghosh & Kwan, 1996; Attahir, 1995). Prior studies found mixed findings on the relationship between access to finance, entrepreneurial characteristics, firm performance and government business support on SMEs performance. Most of the prior studies on SMEs performance generally focused on Malaysia per se and limited studies examining the inter-relationship between access to finance, entrepreneurial characteristics and government business support on SMEs performance in the rural area such as in the FELDA scheme.

In the context of SMEs in the FELDA scheme, SMEs in the FELDA scheme generated RM 1.792 billion in terms of revenue (FELDA Annual Report, 2016). FELDA scheme is one of the economic drivers to the rural economic development in Malaysia. Federal Land Development Authority (FELDA) was set up on July 1, 1956. FELDA was instituted under the Land Development Ordinance of 1956. FELDA is a land development scheme with an aim to alleviate poverty through involvement in the agricultural based economy. With the land size of 450,652 hectares and 112,635 settlers reside in the FELDA scheme, the landscape of FELDA schemes present huge business opportunities and ecosystem to the FELDA settlers and the second generation of FELDA to venture into business right from managing the estate operations, transporting the fresh fruit bunches (ffb) to the oil palm mills till serving the needs of people reside in the FELDA scheme.

There are 23,036 business owners in 314 FELDA schemes who generated RM 1.792 billion in sales (FELDA Annual Report, 2016). The largest FELDA scheme is located in Pahang with 115 FELDA schemes and has 8,742 SMEs entrepreneurs involved various business activities in the three regions of FELDA scheme in Pahang. The largest SMEs revenue in the FELDA scheme contribution comes from SMEs in the in Pahang region which constitutes 38 percent of total SMEs revenue of the entire FELDA scheme.

As the land development scheme progressed, FELDA felt there was a need to look at the new approaches to assist the settlers particularly during the replanting period and also the wellbeing of the FELDA second generation group. Under FELDA Vision 2020, FELDA is aiming to produce settlers who can become high earners by 2020 through participating in business activities or non-farming activities.

According to the latest developments regarding SMEs development, FELDA has unveiled a FELDA's New Business Model. The plan is coincide with the recommendations presented in the FELDA White Paper that was tabled in April 2019 which focus in assuring the sustainability of the FELDA settlers. Under the FELDA's new business model, one of the objectives is to produce 1,000 successful entrepreneurs by the year 2025 (FELDA White Paper, 2019; Mohd Sauh, Moha Asri, & Abdullah, 2021). In achieving the objective, FELDA has formulated various initiatives under the Settler Development Programmes (SDP) to nurture SMES in the FELDA scheme such as collaboration with the Agrobank to provide micro financing to SMEs in the FELDA scheme, collaboration with Malaysia Global Innovation and Creativity Centre (MaGIC) and Malaysian Technology Development Centre (MTDC).

Despite significant contributions by SMFs to economic development and strong government financial support, access to finance has remained the main problem facing

SMEs (Abdul Saleh & Worthington, 2013; Mohd Saleh, 2012; Ting, 2004). Previous studies on SMEs in Malaysia mainly concentrated on factors influencing or determinants of SMEs business performance. Little is known about the inter-relationship between financial access and entrepreneurial characteristics influencing SMEs performance. Research in this area, particularly in the FELDA scheme in Pahang, has remained understudied. Therefore, there is a need to study the effect of financial access and entrepreneurial characteristics on the performance of SME entrepreneurs in the FELDA scheme. This study will help to enhance the growth and competitiveness of SMEs in the FELDA scheme.

To summarize, SME is one of the economic drivers of a country. As noted in the above discussion, despite various policies and initiatives were introduced to facilitate the financial needs of SMEs, financial access has remained as one of the problems faced by SMEs. Lack of research have attempted to investigate the interrelationship between determinants of SMEs business performance, particularly in the FELDA scheme. Thus, the next section discusses the research issues and problem statement related to the topic of this study.

1.3 RESEARCH ISSUES

This section presents the discussion on the research issues that will provide some insights on factors affecting SMEs performance in Malaysia and also in the FELDA scheme.

1.3.1 Access to Finance

The topic of financial access needs no introduction in research. However, the topic is still pertinent as access to finance is recognized as one of the important factors

influencing SMEs business performance. Prior studies on SMEs business performance have recognized access to finance as one of the important factors influencing SMEs business performance (Fardous Alom et al., 2016; Moha Asri & Manan, 2011; Chittithaworn et al., 2011; Indarti & Langenberg, 2004; Ghosh & Kwan, 1996; Attahir, 1995).

Financing is the lifeline for SMEs' business growth. Some scholars called it as the "bloodline" of business. SMEs need sufficient capital to sustain business operations to expand the production capacities and innovation (OECD, 2006). Lack of financial access influenced business performance (Torre, Peria, & Schmukler, 2010). Without sufficient capital and business support, SMEs used outdated technology and relied on intensive labour (Shahadan et al., 1990). Firms faced credit constraints and difficulties in growing the firm (Malhotra et al., 2007).

In operating a business, SMEs need adequate capital to operate and expand their business. There are two types of financing pattern of SMEs in Malaysia, namely, self-financing and external financing. With regard to self-financing, prior studies found most of the SMEs in this country used their own saving or borrow from their friends and families to start the business (Badri, Mohd Taib, Latif, & Salim, 2006; Omar & Marzunisham, 2006); However, the internal funding is insufficient because of low saving rates among entrepreneurs particularly in developing countries (Abd Wahab & Abdesamed, 2012). Hence, the second type of financing which is external financing become more important. Previous studies revealed that debt is the most preferable type of external funding when SMEs need additional capital for their business expansion (Moha Asri & Manan, 2011; Omar, 2006; Wattanapruttiparasan & Thitapha, 2003; Romano, Claudio, Tanewski, & Kosmas, 2002).

Unfortunately, a report noted that only one third of the SMEs could access to