



**ANTECEDENTS OF FINANCIAL PRACTICE FOR THE
SUCCESS OF SMALL AND MEDIUM ENTERPRISES
(SMEs): AN EMPIRICAL STUDY IN MALAYSIA**

BY

S. M. FERDOUS AZAM

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ABSTRACT

The world metaphorically has turned flat for the onslaught of globalization. While it has blurred the geographical divides, it has as well, as its corollary, spawned fierce competition among the enterprises in the marketplace. The competitive trade atmosphere has furnished the contemporary business industry intensely over its rivals and its ability to cope with multiple challenges to be successful, especially in terms of financial means. Although the Small and Medium Enterprises (SMEs) are considered as the backbone of economic growth of a country, however SMEs in Malaysia are noted with dismay due to unexpected business failures. Despite the fact that many scholarly works have been conducted in Malaysia, nevertheless, the strong influence of the antecedents of financial practice such as Financial Knowledge (FK) and Financial Behaviour (FB) toward Financial Practice (FP) as well as Business Success (BS) are yet to be realized pertinently. For that reason, the current study emphasizes a variety of detailed theoretical perspectives as well as the empirical foundations for achieving the research objectives. In fact, these theoretical and empirical platforms make the research feasible in the areas of Financial Knowledge (FK), Financial Behaviour (FB), Financial Practice (FP) and Business Success (BS) of Malaysian SMEs. The research method of this study is 'survey method' and the unit of analysis is the individual respondent consisting business owners and managers from various SMEs in Selangor and the greater Kuala Lumpur region. Although a suitable sample of 63 business owners and managers of different SMEs were selected for the pilot study, later on, a sample of 302 data was considered as the final sample size for the current study. Since this is a quantitative research, so the primary empirical findings are reported using SPSS (Version 18.0), and then detailed out various investigations using AMOS (Version 16.0) software for executing the suitable Structural Equation Modelling (SEM) analyses. Prior to conducting SEM, Exploratory Factor Analysis (EFA) is performed to scrutinize the underlying dimensions of Financial Knowledge (FK), Financial Behaviour (FB), Financial Practice (FP) and Business Success (BS). Subsequently, the reliability analysis is checked via Cronbach's alpha coefficient of the four extracted factors for the purpose of ensuring the internal consistency. The results indicate that, although Financial Knowledge (FK) is positively related to the Financial Practice (FP) in Malaysian SMEs, but it is not directly related to the Business Success (BS). A similar phenomenon is observed in the Financial Behaviour (FB), which is positively related to the Financial Practice (FP) but not to the Business Success (BS) for the SMEs in Malaysia. Apart from these, the Financial Practice (FP) is found assertively allied to the Business Success (BS) while Financial Practice (FP) plays the mediating roles in the Financial Knowledge (FK) and Financial Behaviour (FB) toward Business Success (BS) in Malaysia. However, a reciprocal relationship is observed justifiably between Financial Knowledge (FK) and Financial Behaviour (FB). With these findings, the current study can fulfill the research objectives assembled in the initial chapter. Finally, this research will help to identify the requirements and solutions for finding out the policy to strengthen the enterprise and maximize the productivity and sustainable development.

خلاصة البحث

لقد أصبح العالم، بلغة مجازية، مكانا سهلا لهجمة العولمة. رغم أن العولمة أهملت الانقسامات الجغرافية؛ فإنها كذلك، وكتيجة حتمية، ولدت المنافسة الشرسة بين الشركات في السوق. لقد جهزت أجواء التجارة التنافسية صناعة الأعمال المعاصرة بشكل مكثف بسبب المنافسين وقدرتها على التكيف مع التحديات المختلفة في سبيل تحقيق نجاحها، وخاصة فيما يخص الموارد المالية. بالرغم من اعتبار الشركات الصغيرة والمتوسطة العمود الفقري للنمو الاقتصادي لأية دولة، فقد لوحظ أن تلك الشركات في ماليزيا أصيبت بالفرع جراء الإخفاقات التجارية غير المتوقعة. وبالرغم من أن هناك الكثير من النشاطات العلمية التي أنشئت في ماليزيا؛ ومع ذلك فإنه ليس هنالك إدراك للصلة الوثيقة بين التأثير القوي لسوابق الممارسات المالية مثل: المعرفة المالية، والسلوك المالي، تجاه الممارسة المالية وكذا النجاح التجاري. ولذلك السبب فإن الدراسة الحالية ستتناول قضية النجاح التجاري للشركات الصغيرة والمتوسطة من زاوية مختلفة تماما. بينما يتطلب الاقتصاد العالمي ذو التغيير السريع من الشركات الصغيرة والمتوسطة أن تلعب دورا أساسيا في فرض الإستدامة المالية والنمو الاقتصادي الوطني، تأتي هذه الدراسة لتقيّم سوابق الممارسة المالية التي أدت إلى نجاح تلك الشركات في ماليزيا. ولذلك فإن هذه الدراسة تركز على وجهات نظرية مفصلة وكذا على الأسس التجريبية لتحقيق أهداف هذا البحث. في الحقيقة، إن الأسس النظرية والتجريبية تجعل من هذا البحث بحثا مفيدا في المجالات التالية: المعرفة المالية، والسلوك المالي، والممارسة المالية، وأخيرا النجاح التجاري للشركات الصغيرة والمتوسطة الماليزية. لقد أخذت هذه الدراسة بعين الاعتبار منهج البحث الإستنباطي المأخوذ من النموذج العقلي، هذا لأن هذا البحث بدأ بربط النظرية المعتمدة في الموضوع قيد الإهتمام والذي تم به بناء علاقة منطقية بين المفاهيم والفرضيات المصاغة. إن المنهج المعتمد في هذا البحث هو المنهج المسحي الذي انبثق من النموذج العقلي. بالإضافة إلى ذلك، فإن وحدة التحليل تتمثل في المحيين الأفراد والذين هم أصحاب العمل والمديرين من مختلف الشركات الصغيرة والمتوسطة في سلاقطور والجزء الأكبر من منطقة كوالالمبور، هذا لأن أغلبية الشركات تتركز في هذه المنطقة. بناء على النتائج، فرغم أن للمعرفة المالية علاقة إيجابية بالممارسة المالية في الشركات الصغيرة والمتوسطة الماليزية، فإنها ليست متعلقة بصفة مباشرة بالنجاح التجاري. وقد لوحظت ظاهرة شبيهة فيما يخص السلوك المالي الذي وجد أن له علاقة إيجابية بالممارسة المالية وليس بالنجاح التجاري للشركات الصغيرة والمتوسطة الماليزية. إلى جانب ذلك، فقد وجد أن الممارسة المالية مترابطة بقوة بالنجاح التجاري، بينما تلعب الممارسة المالية الأدوار الوسيطة لكل من المعرفة المالية، والسلوك المالي تجاه النجاح التجاري في ماليزيا. ومع ذلك فقد وجدت علاقة متبادلة مبررة بين المعرفة المالية والسلوك المالي. إلى جانب ذلك فإنه يمكن لاسم وطول العملية أن تعرض الأدوار الوسيطة على الممارسة المالية للنجاح التجاري. بناء على هذه النتائج فإنه يمكن للدراسة الحالية أن تحقق أهدافها المتضمنة في الفصل الأول. وفي نفس الوقت فإنه يمكن لتتائج الدراسة أن تقدم بعض الإقتراحات للشركات الصغيرة والمتوسطة في ماليزيا. وبما أن هنالك القليل من الدراسات التجريبية السابقة التي سلطت الضوء على سوابق الممارسة المالية لنجاح الشركات الصغيرة والمتوسطة الماليزية، ومع ذلك وكدراسة تجريبية، فإن هذا البحث يعتبر قيمة مضافة للمستوى الحالي للمعرفة في الدراسات السابقة الموجودة، وبالتالي فإن لهذا البحث اقتراحات تجريبية وأكاديمية أساسية. إضافة إلى ذلك فإن هذه الدراسة تقترح إنشاء أداة صادقة وثابتة لقياس سوابق الممارسة المالية لنجاح الشركات الصغيرة والمتوسطة في ماليزيا. بذلك، يكون هذا البحث قد ساهم بفعالية فيما يخص التطور المنهجي الذي يمكن أن يساعد أصحاب الشركات، والمديرين، ورجال أعمال الشركات الصغيرة والمتوسطة الماليزية. علاوة على ذلك، فإن هذا البحث يعمل على نقل الفكرة إلى رجال الأعمال فيما يخص البنود الأساسية المتعلقة بالمعرفة والسلوك والتي تلعب دور العلاج لأجل تحقيق النجاح التجاري بشكل سريع. فوق كل ذلك؛ فإن الدراسة الحالية أتت باقتراحات لوضعي السياسات وكذا المنظمين. في حقيقة الأمر؛ إن هذا البحث سيساعد في التعرف على المتطلبات والحلول المتعلقة بإيجاد سياسة لتقوية الشركة وزيادة الإنتاجية والتنمية المستدامة.

APPROVAL PAGE

The thesis of S. M. Ferdous Azam has been approved by the following:

Moha Asri Abdullah
Supervisor

Dzuljastri Abdul Razak
Co-Supervisor

Hamdino Hamdan
Co-Supervisor

Ahamed Kameel Mydin Meera
Internal Examiner

Juhary Ali
External Examiner

Nor Aishah Binti Buang
External Examiner

Sohirin Mohammad Solihin
Chairman

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 degree at IIUM or other institutions.

S. M. Ferdous Azam

Signature.....

Date

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Affirmed by S. M. Ferdous Azam

.....
Signature

.....
Date

Dedicated To

My Family

I think togetherness is the best inspiration in my life.

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Pursuing PhD is both painful and enjoyable experience. It is just like climbing a high pick, step by step, accompanied with bitterness, hardship, frustration, encouragement and trust and with so many people's kind help. When I found myself at the top enjoying the beautiful scenery, I realized that it was, in fact, teamwork that got me there. Though it will be not enough to express my gratitude in words to all of these people who have supported me and had their contributions in making this thesis possible, still I would like to give thanks from the bottom of my heart to all of these wonderful people.

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LIST OF ABBREVIATIONS

AGFI	Adjusted Goodness-of-Fit
ALS	Average Least Squares
AMOS	Analysis of Moment Structure
ANM	Agensi Nuklear Malaysia
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nation
AVE	Average Variance Extracted
BS	Business Success
CFA	Confirmatory Factor Analysis
CFI	Comparative Fit Index
ChiSq	Chi-Square
ChiSq/df	Normed Chi-Square
CR	Composite Reliability
C.R.	Critical Ratio
DES	Differential Emotion Scale
DF	Degree of Freedom
DOS	Department of Statistics
EFA	Exploratory Factor Analysis
et al.	(<i>et alia</i>): and others
etc	(<i>et cetera</i>): and so forth
EU	European Union
EUC	European Union Commission
FB	Financial Behaviour
FK	Financial Knowledge
FP	Financial Practice
GFI	Goodness-of-Fit Index
GLS	Generalized Least Squares
ICT	Information and Telecommunication Technology
JSBRI	Japan Small Business Research Institute
JTM	Rasmi Jabatan Tenaga Manusia
KISMEC	Kedah Industrial Skills and Management Development Centre
MITI	Ministry of International Trade and Industry
ML	Maximum Likelihood
MLE	Maximum Likelihood Estimation
MOHR	Ministry of Human Resources
MSE	Mongolian Stock Exchange
MSME	Micro, Small and Medium Enterprise
NFI	Normed Fit Index
NSDC	National SME Development Council
OLS	Compared to the Ordinary Least Squares
OSMEP	Office of Small and Medium Enterprises Promotion
PCA	Principle Component Analysis
PSMB	Pembangunan Sumber Manusia Berhad
RMSEA	Root Mean Square Error of Approximation
SD	Standard Deviation

SE	Standard Error
SMC	Squared Multiple Correlations
SME Corp.	Small and Medium Enterprise Corporation
SMEs	Small and Medium Enterprises
SMIDEC	Small and Medium Industries Development Corporation
SPSS	Statistical Package for Social Science
TLI	Tuker-Lewis Index
WLS	Weighted Least Squares

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This research, with particular emphasis on the role of financial practice in sustaining growth in business, would be able to identify the aspects how Small and Medium Enterprises (SMEs) can achieve expected business success. Chapter 1 starts with a background explaining the phenomena of the research as a whole; introduces the research questions, research objectives, problem statement, the significance of the study of the present research. In doing so, this particular chapter also concentrates a synopsis of the relevant literature and preliminary research scopes and outlines for the study. However, the structure of this chapter is demonstrated in Figure 1.1.

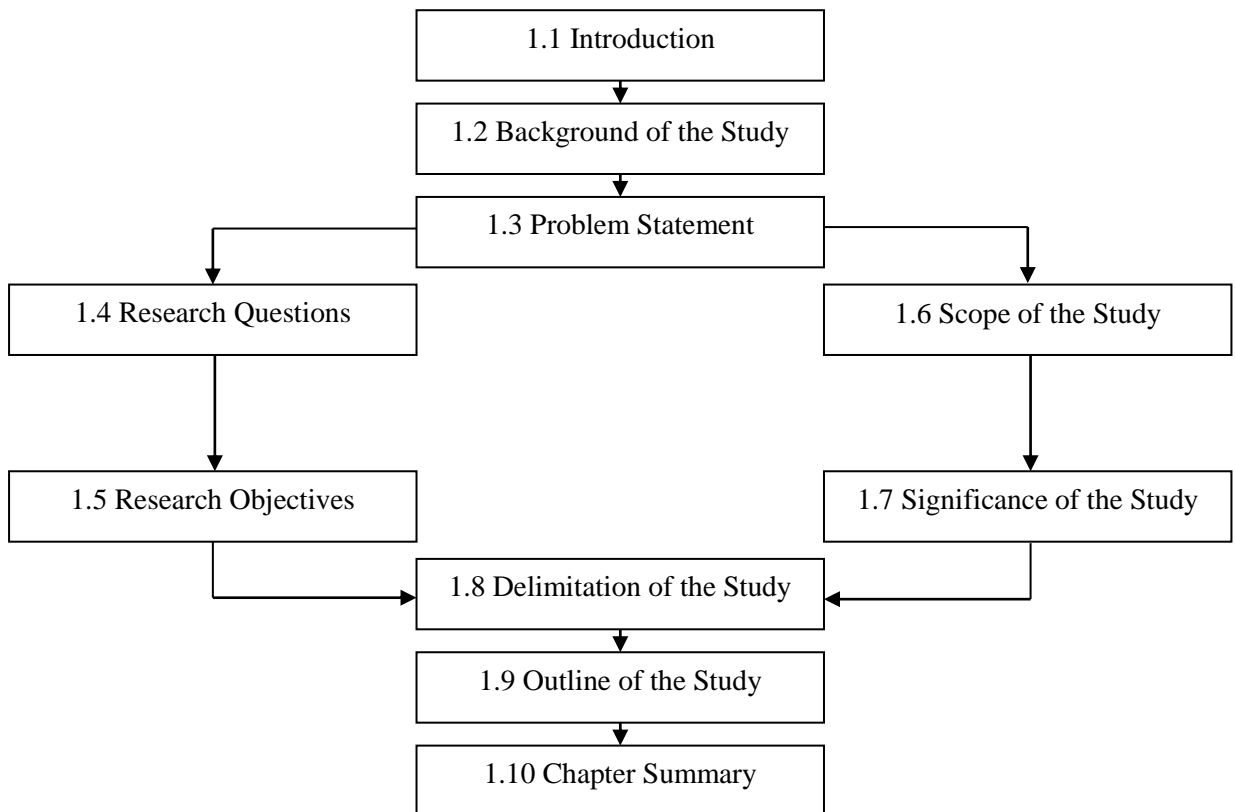


Figure 1.1 Structure of Chapter One