

**AN EMPIRICAL INVESTIGATION OF THE
BUSINESS SUCCESS OF SMALL AND MEDIUM
ENTERPRISES (SMES): EVIDENCE FROM THE
RETAIL SALE OF FOODS, BEVERAGES, AND
TOBACCO IN LABUAN**



RIDWAN BIN AJIT

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UNIVERSITI MALAYSIA SABAH

**LABUAN FACULTY OF INTERNATIONAL
FINANCE
UNIVERSITI MALAYSIA SABAH
2024**

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UMS

**THIS IS SUBMITTED IN FULFILMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER
OF BUSINESS**

**LABUAN FACULTY OF INTERNATIONAL
FINANCE
UNIVERSITI MALAYSIA SABAH
2024**

UNIVERSITI MALAYSIA SABAH

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Tarikh: 20 Disember 2023



(Dr. Nurhamiza Binti Mumin @ Osman)
Penyelia

DECLARATION

I, Ridwan Bin Ajit, declare that the materials in this study are my original study. This study does not contain other researchers' data, tables, figures, and information unless specifically acknowledged as being sourced from the previous research, and the source is detailed in the References section. This study has not been submitted for any degree or examination at any other university.

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A handwritten signature in black ink, appearing to read 'Ridwan Bin Ajit'.

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CERTIFICATION

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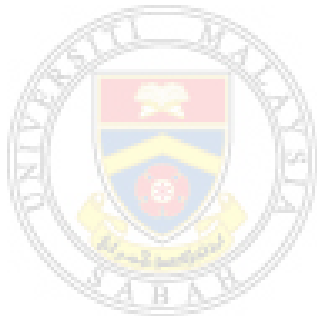
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DEGREE : **MASTER OF BUSINESS**

FIELD : **INTERNATIONAL BUSINESS**

VIVA DATE : **20 SEPTEMBER 2023**



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SUPERVISOR
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First of all, I am thankful to ALLAH (SWT) for His countless blessings and spirit. This study could not be completed without His will.

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Ridwan Bin Ajit

20 September 2023

ABSTRACT

The establishment of small and medium enterprises (SMEs) around the world increased rapidly over the past decade including in Malaysia. SMEs were one of the major contributors to Malaysia's gross domestic product (GDP). It spurs the development of the country by providing employment, increasing household incomes, and fostering economic growth. There were a huge number of studies conducted on factors that influence the success of SMEs. However, studies on rural and small geographical areas were limited. Therefore, this study examines the relationship between owner-managers personal characteristics (gender, age, ethnicity, language, education level, and experience), business characteristics (the year in business, financial resources, type of customer, and the number of employees), business location and the business success of the SMEs in Labuan. Data were gathered from 126 owner-managers of retail SMEs that sell foods, beverages, and tobacco located in Labuan. The data were collected using a questionnaire and analysed with Statistical Package for Social Science (SPSS) software version 28. Descriptive statistics, one-way analysis of variance (ANOVA), and Pearson correlation coefficient were employed to examine the relationship between owner-manager's personal characteristics, business characteristics, business location, and business success. The study found that the number of employees and business location have a significant relationship with business success. The outcome of this study provides relevant information on the factors affecting the business success of SMEs in Labuan. It enhances the literature and contributes additional knowledge, especially as a preliminary study that provides a preview of the nature of the relationship between owner-manager's personal characteristics, business characteristics, business location, and business success in a small geographical area.

ABSTRAK

KAJIAN EMPIRIKAL TERHADAP KEJAYAAN PERNIAGAAN SESEBUAH PERUSAHAAN KECIL DAN SEDERHANA (PKS): BUKTI DARIPADA PERUNCITAN YANG MENJUAL MAKANAN, MINUMAN, DAN TEMBAKAU DI LABUAN

Terdapat peningkatan jumlah penubuhan perusahaan-perusahaan kecil dan sederhana (PKS) yang pesat di seluruh dunia pada dekad keterbelakangan ini termasuk di Malaysia. PKS merupakan penyumbang utama terhadap keluaran dalam negara kasar (KDNK) Malaysia. Ia merangsang pembangunan negara dengan menyediakan peluang pekerjaan, meningkatkan pendapatan isi rumah, dan memperkukuh pertumbuhan ekonomi. Terdapat banyak kajian dijalankan terhadap faktor-faktor yang mempengaruhi kejayaan sesebuah PKS. Walaubagaimanapun, kajian terhadap kawasan luar bandar and kawasan geografi kecil adalah terhad. Oleh itu, kajian ini mengkaji hubungan di antara ciri peribadi pemilik-pengurus (jantina, umur, etnik, bahasa, tahap pendidikan, dan pengalaman), ciri perniagaan (tempoh tahun perniagaan, sumber kewangan, jenis pelanggan, dan jumlah pekerja), lokasi perniagaan, dan kejayaan perniagaan sesebuah PKS di Labuan. Data dikumpul daripada 126 pemilik-pengurus PKS yang menjual makanan, minuman, dan tembakau di Labuan. Data dikumpul menggunakan soal selidik dan dianalisis menggunakan perisian IBM Statistical Package for Social Science (SPSS) versi 28. Descriptive statistics, one-way analysis of variance (ANOVA), dan Pearson correlation coefficient telah digunakan dalam kajian untuk mengkaji hubungan antara ciri-ciri peribadi pemilik-pengurus, ciri-ciri perniagaan, lokasi perniagaan, dan kejayaan perniagaan. Kajian mendapati terdapat hubungan kepentingan antara jumlah pekerja dan lokasi perniagaan terhadap kejayaan perniagaan. Hasil kajian menyediakan informasi berkaitan faktor-faktor yang memberi kesan terhadap kejayaan perniagaan sesebuah PKS di Labuan. Ia menyumbang penambahan kajian literatur dan mengembangkan pengetahuan terutama sebagai kajian pengenalan yang menyediakan gambaran berkaitan hubungan di antara ciri-ciri peribadi pemilik-pengurus, ciri-ciri perniagaan, lokasi perniagaan, dan kejayaan perniagaan di kawasan geografi yang kecil.

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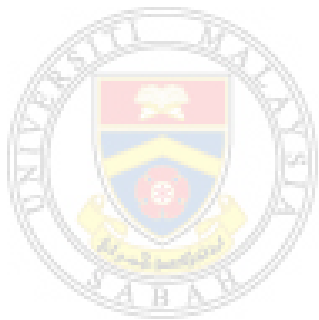


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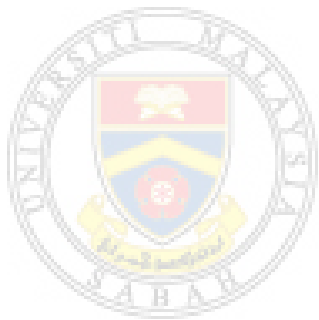
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LIST OF ABBREVIATIONS

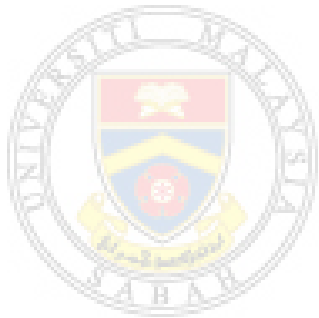
ANOVA	-	One-way Analysis of Variance
BC	-	Business Characteristics
BEEP	-	Bumiputera Enterprise Enhancement Programme
BL	-	Business Location
BNM	-	Bank Negara Malaysia
BS	-	Business Success
CVR	-	Current Validity Ratio
DV	-	Dependent Variable
EPS	-	Earnings Per Share
ICT	-	Information and Communications Technology
IOFC	-	International Offshore Financial Centre
IV	-	Independent Variable
KDNK	-	Keluaran Dalam Negara Kasar
MAMPU	-	Malaysian Administrative Modernisation and Management Planning Unit
MNCs	-	Multinational Corporations
OPC	-	Owner-manager's Personal Characteristics
PKS	-	Perusahaan Kecil dan Sederhana
PUMA	-	PROSPER Usahawan Muda
SLSSS	-	Soft Loan Schemes for Service Sector
SME	-	Small and Medium Enterprise
SMEs	-	Small and Medium Enterprises
SPED	-	Rural Economy Funding Scheme
SPiM	-	Skim Pembiayaan Mudah Jaya
SPSS	-	Statistical Package for Social Science
TUS	-	Tabung Usahawan Siswazah

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CHAPTER 1

INTRODUCTION

1.1 Research Background

Businesses and entrepreneurs have contributed to the economy for decades. It is argued that the higher entrepreneurs' involvement in businesses will lead to higher employment opportunities (Jakpar et al., 2012). This phenomenon is evident in suburban areas such as Labuan. As a small island off the coast of Sabah, Labuan's economy has also been affected by business development for the last three decades. This business development is part of the strategic restructuring exercise implemented by the Malaysian government to develop Labuan as the premier international business and financial centre in Asia Pacific (Malaysian International Business and Financial Centre, 2017). In this light, economic activities in Labuan are dominated by Small and Medium Enterprises (SMEs), providing more business and employment opportunities for people in Labuan (Selvadurai et al., 2011, 2013).

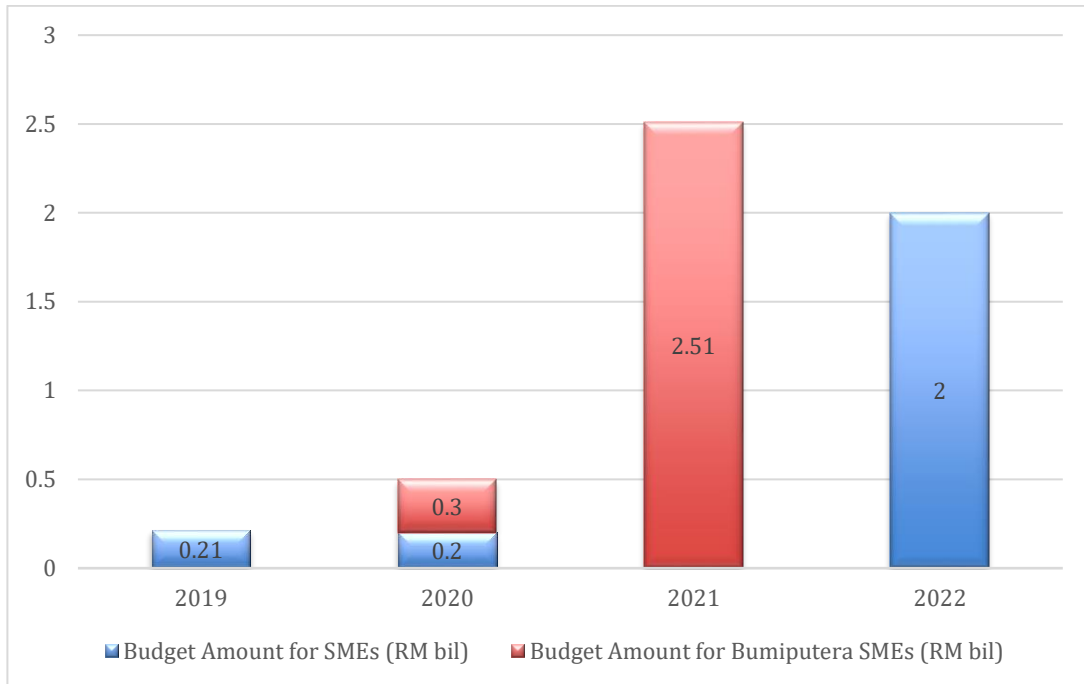


Figure 1.1: Budget allocated for SMEs and Bumiputera SMEs (RM bil)

Source: Ministry of Finance Malaysia (2018, 2019, 2020, 2021)

SMEs in Malaysia receive a specific percentage from the government's budget allocation to encourage their involvement and income generation. As shown in Figure 1.1 above, the government has allocated RM5.22 billion for SMEs from 2019 until 2022 (Ministry of Finance Malaysia, 2018, 2019, 2020, 2021). From these budgets, RM2.81 billion was allocated to Bumiputera entrepreneurs. It opens opportunities for Bumiputera entrepreneurs to be involved in SMEs. Research has largely been conducted to study factors contributing to SME growth, which has gained popularity over the years (Kemayel, 2015; Senior, 2016). The conceptualisation of SMEs and the factors contributing to their success vary depending on the scope of the research and the countries involved (Barkhatov et al., 2016; Jebna & Baharudin, 2013; Shah et al., 2013).

This study focuses on the factors affecting business success among SMEs in Labuan. The target population was narrowed down to SMEs of retailers involved in foods, beverages, and tobacco. This is because, based on data provided by the Malaysian Administrative Modernisation and Management Planning Unit (MAMPU) (2018), they are the largest group in the SME service sectors. Thus, this study's respondents represent the whole population of SMEs in Labuan. The choice of SMEs in Labuan coincides with Labuan's status as the international centre for business and

financial services (Malaysian International Business and Financial Centre, 2017). The island's economy and dramatic urban restructuring provides researchers with an excellent avenue to examine the continuation of traditional retailing stores (Selvadurai et al., 2011). In this light, even though most of the retail stores in Labuan face huge competition from modern retail structures like hypermarkets and department stores, they somehow manage to endure and succeed in their own way (Selvadurai et al., 2011). Hence, this study focuses on examining how certain factors contribute to SMEs' business success.

1.2 Problem Statement

The number of Small and Medium Enterprises (SMEs) in Malaysia has grown rapidly over the years. Subsequently, SMEs result in high business establishments and employment opportunities. They contribute more to the Malaysian economy compared to larger enterprises (Malaysian Department of Statistics, 2017). By the end of 2016, a total of 907,065 SMEs were established, which contributed 5,652,560 (64.7 per cent) of employment in Malaysia. This number increased in 2020, with a total of 920,624 SMEs established, offering employment to 7.3 million people (48.4 per cent) (The Malaysian Entrepreneurs Festival, 2021). Meanwhile, SMEs paid 52.3 per cent or RM128.5 billion in salaries, higher than larger enterprises (RM117.2 billion) (Malaysian Department of Statistics, 2017).

On the other hand, Labuan is facing a high unemployment rate, with 8.7 per cent in the second quarter of 2021 (Santos, 2021). This rate is higher compared to the Malaysian overall unemployment rate at 4.5 per cent and 4.61 per cent for the years 2020 and 2021, respectively (O'Neill, 2021). It was also reported that 3,000 people were jobless in the second quarter of 2022, which could cause Labuan to become a failed Federal Territory (Das, 2022). The increasing number of unemployment and joblessness will affect health and lower the sense of well-being (Eberl et al., 2022; Picchio & Ubaldi, 2022). It creates a burden for the government to reduce mental health issues among people in Labuan, which has been increasing for the last ten years (Bernama, 2017). New business start-ups, especially small and medium enterprises, can be a solution as they help increase job and employment opportunities (Borneo Today, 2022). Besides, a successful business can help

restructure an economy (Borneo Today, 2022). Thus, this study focuses on examining factors affecting business success, which can help build a strong and stable economy.

Many researchers focused on the business success of small and medium enterprises and examined factors such as the owner-manager's personal characteristics and business characteristics (Kemayel, 2015; Senior, 2016). It was found that business location was among the most common factors examined in past studies (Kemayel, 2015; Senior, 2016). Kumar et al. (2015) stated that business success is commonly measured by financial performance. The study considered several aspects of business success that have been used to measure financial performance, such as customer service and satisfaction, innovation and growth parameters, as well as internal business parameters (Kumar et al., 2015). In this light, financial performance is the most suitable measurement for business success, especially in measuring the performance of small businesses (Kumar et al., 2015). This is because it helps monitor the business performance based on ratios rather than implicit assumptions of customer service and satisfaction, innovation and growth parameters, as well as internal business parameters (Kumar et al., 2015). Besides, financial performance normally has a direct effect on business success and performance (Lekovic & Maric, 2015; Sarfraz et al., 2023).

Other studies have been conducted on SMEs and the factors influencing their success in various countries (Jebna & Baharudin, 2013; Kemayel, 2015; Pletnev & Barkhatov, 2016; Senior, 2016). Despite the different findings, they highlighted the importance of factors such as education level, entrepreneurial skills and experiences, financial resources, suppliers, and business location (Jebna & Baharudin, 2013; Kemayel, 2015; Pletnev & Barkhatov, 2016; Senior, 2016). The different results of relationships were found mostly due to the selection of location and respondents involved.

While there are many studies conducted on SMEs in Malaysia (Ahmad et al., 2014; Ahmad et al., 2015; Bakar et al., 2014; Chan & Quah, 2012; Chong, 2012; Hassan & Rahman, 2012; Jakpar et al., 2012; Lim et al., 2003; Muhammad et al., 2010), there is limited research on SMEs in small geographical areas like Labuan (Selvadurai et al., 2011, 2013). Despite the growth of the economy in Labuan and Sabah and higher trading activities observed across the west coast of Sabah, Labuan has always been overlooked in terms of research (Bernama, 2023; The Vibes, 2023).

This calls for the need to investigate factors affecting business success among SMEs in Labuan.

It is important to analyse the owner-managers personal characteristics, business characteristics, and business location (Senior, 2016). Highly educated business owners tend to run business smoothly, which increase the possibility of becoming more successful (Chittithaworn et al., 2011; Chong, 2012; Muhammad et al., 2010; Pletnev & Barkhatov, 2016; Watson et al., 1998). Meanwhile, strong business characteristics such as strong financial resources would help a business to improve its infrastructure and business growth (Chittithaworn et al., 2011; Chowdhury et al., 2013; Levy, 1993; Muhammad et al., 2010). Moreover, a business needs to be located near its customers, employees, and suppliers as it would ease the connection of the supply chain between suppliers and customers (Chittithaworn et al., 2011; Kemayel, 2015; Muhammad et al., 2010; Pletnev & Barkhatov, 2016).

This study has employed financial performance as a measurement of business success since it is deemed more reliable (Kumar et al., 2015). Financial performance is usually measured based on net profit, return on investment, revenue growth, and sales turnover (Kumar et al., 2015). Hence, financial performance is a superior indicator of business performance compared to implicit assumptions such as customer service, customer satisfaction, innovation, growth parameters, and internal business parameters (Kumar et al., 2015). In this study, financial performance entails the amount of sales, gross sales, profit, and current-year net income.

This study is intended to investigate factors that influence business success, specifically personal characteristics of owner-managers, business characteristics, and business location, and examine their association with business success.

1.3 Research Questions

There are three research questions, as follows:

- i. Do the Owner-manager's personal characteristics (gender, age, ethnicity, language, education level, and experience) have a significant relationship with the business success of SMEs?
- ii. Do the business characteristics (the year in business, financial resources, type of customer, and the number of employees) have a significant relationship with the business success of SMEs?
- iii. Does the business location have a significant relationship with the business success of SMEs?

1.4 Research Objectives

The three research objectives of this study include:

- i. To examine the relationship between owner-managers personal characteristics (gender, age, ethnicity, language, education level, and experience) and business success.
- ii. To examine the relationship between business characteristics (the year in business, financial resources, type of customer, and the number of employees) and business success.
- iii. To examine the relationship between the business location and business success.

1.5 Research Scope

This study involves SMEs in the service sector in Labuan. There are 158 active retail trade business entities importing and distributing foods, beverages, and tobacco products registered with Labuan Corporation (Malaysian Administrative Modernisation and Management Planning Unit (MAMPU), 2018). All 158 small retail trade business entities in the Labuan are selected as respondents for this study, and data is collected from the owners or managers through a questionnaire.