Management and Business Research Quarterly

2019(10)1–8

Determinants of Financial Sustainability and Access to Finance among SMEs in Malaysia: A Pilot Study

Sonia Lohana^{1,*}, Umi Kartini Binti Rashid¹, Juzaimi Nasuredin¹, Vicky Kumar²

¹ Department of Technology and Management, University Tun Hussein Onn Malaysia, Johor, Malaysia

² Faculty of Civil and Environmental Engineering, University Teknologi Petronas, Perak, Malaysia

Received 15 May 2019

Accepted 02 July 2019

ABSTRACT

The unavailability of external financing and lack of access to finance is an important research interest topic for scholars and a crucial issue for policymakers all over the world. However, compared to large companies, SMEs tend to report financing as a significant obstacle. The inadequate access to finance could dampen their potentials for growth and competitiveness in the business ecosystem. The objective of this research work is to examine and explore a small sample of data on the determinants of financial sustainability and access to finance among SMEs in Malaysia. The study adopted a quantitative survey approach to collect 53 usable questionnaires from SMEs in Johor as one of the divisions based on the stratified random sampling method. Therefore, the validity and reliability of the instruments were examined through a panel of expert and also the collected data was analysed using SPSS v22. Results, using exploratory factor analysis and Cronbach's Alpha statistics confirmed the validity and reliability of the instruments adopted and used for the pilot study. It was concluded that the items on the surveyed instrument are suitable for future use in studies in the field of access to finance, especially in the SME service sector.

Keywords: Financial Sustainability, Access to Finance, SMEs, Service Sector

Introduction

Businesses, large or small require finance to survive and thrive in the current global business ecosystem. Gaining access to financing is vital for the survival, growth, and development of SMEs (Bouazza, Ardjouman, & Abada, 2015; Quartey, Turkson, Abor, & Iddrisu, 2017). It is critical for SMEs to get access to an efficient and effective supply of finance for them to grow and compete in

the market (Gitman, Juchau, & Flanagan, 2015). However, access to finance is one of the main constraints for most SMEs in achieving sustainable development in the global market (Abdullahi, Jakada, & Kabir, 2016; Andrieş, Marcu, Oprea, & Tofan, 2018). The challenges of SMEs access to finance have evolved over time in Malaysia, which has been characterized by a lack of flexibility to accommodate a flexible condition for all categories of SMEs in the country. Malaysia is taken as a case study to illustrate the aims and objectives of the study. The Malaysian SME sector is underdeveloped mainly because of financial constraints faced by the SME sector (MoEA & ADB 2012; Abe, Troilo, & Batsaikhan, 2015). SME Corporation Malaysia (2012) reported in SME Master plan 2012-2020, in Malaysia, about 42 per cent of the firms that existed in the year 2000-ceased operation by the year 2005, therefore, the survival rate was about 58% per cent. Most of the failure was pronounced among small micro and small enterprises. Access to financing is crucial for the growth of SMEs (Aziz, N. N. A., & Samad, 2016). Consequently OMEJE, (2016); Badini, Hajjar & Kozak, (2018) enumerated the demand side lack of collateral, lack of limited business experience, lack of information and supply-side terms and conditions, lack of access to start up finance, availability of funds to banks as the problems in getting access to finance for SMEs in Malaysia. The recent OECD publication in April 2017 found that Malaysia has sustained growth in SME finance in 39 countries surveyed. This is reflected in the significant increase in SMEs' loans to total lending, the low impact on financing and the availability of market-based financing to SMEs against changing needs (Haniff, Akma, Lee & Finance, 2017). While the results of surveys conducted by the OECD and domestic surveys have revealed improved access to finance for SMEs, access to finance is still considered a problem for SMEs (Haniff, Akma, Lee & Finance, 2017). According to Browman (2008), financial sustainability is the ability of a firm to maintain sound financial management capacity in terms of asset growth, annual surplus, ability to be resilient in the short-run and the and ability to maintain its services/operations in the long-run. It is against this backdrop that this study sought to explore Financial sustainability factors (Strategic planning, sound administration-finance, revenue diversification, and own income generation, financial literacy). Financial sustainability is crucial in the bridge of issues related to SMEs access to finance. SMEs financial sustainability is a very good measure of financial performance and is dependent on mostly debt financing sources, which are mostly long-term in nature (Meher & Ajibie, 2018). Similarly, Borin, Donato and Sinapi (2017) maintained that the financial sustainability of SMEs is related to external financing. Financial sustainability is a mechanism for the avoidance and management of potential bankruptcy in SMEs It could be argued that since sustainability deals with how and where SMEs could generate external funding to cushion what they have from the inside, it becomes crucial in access to finance for SMEs (Schwab, Gold & Reiner, 2019). From the analysis of the issues and challenges, three factors in the model for SMEs namely, financial sustainability and access to finance were analysed.

It involves primarily the administration of the questionnaire to several respondents who are a representative of the target research sample and the subsequent use of statistical analysis and feedback to reduce the number of items in the questionnaire into a manageable number. Cohen et al., 2009 highlighted that the pilot data obtained from the pilot test is analysed to determine the following:

- Reliability
- Collinearity
- Multiple Regression
- Factor Analysis

This research aims to develop a financial sustainability framework for access to finance among SMEs in Malaysia.

Pilot Study

Before conducting the main survey among respondents by collecting information to achieve the stated objectives, we carried out a pilot study. The purpose of the pilot study was to ensure the reliability and validity of the developed research instrument to minimise errors in the questionnaire, makes survey runs smoothly, facilitate response rate, and provide a useful and valuable inquiry (Mujis, 2004; Fink, 2006). Mathers, Fox and Hunn (2007), pointed out that pilot-testing of questionnaire ensures the inclusion of all relevant issues; the correctness of its order; identification of ambiguous or misleading statements, and make sure there is no omission of any critical matter from the questionnaire. The pilot study improves the quality and structure of a survey (Creswell, 2013; Lodico et al., 2006). Collins & Hussy (2003) suggest testing a questionnaire through a pilot study irrespective of how best it is perceived design. The pilot sample comprises a participant selected at random and are given the survey to complete and requested to examine the study from different perspectives such as basic spelling and grammar, clarity of language and terms, breadth and depth of sub-questions and items, as well as overall psychometric properties of the instrument (Lodico et.al., 2006).

The instrument was pilot tested on the sub-sample of the study sample. The collected data from the pilot study was analysed using the descriptive of the variables. The reliability was assessed using Cronbach's Alpha coefficients based on the recommendations of (Pallant, 2011). We evaluated the normality of the data using skewness and kurtosis based on the submission of Mallery and George (2010) that the values of skewness and kurtosis should be within the range of $-/+2$ for the response to be considered normally distributed. Similarly, the missing values and outliers were observed and treated accordingly. The structure of the data was also assessed using factor analysis. The possibility of multicollinearity was examined using the Variance Inflation Factor (VIF) and Tolerance level which is required to be less than 10 and 1 respectively (Pallant, 2011).

This report is based on a questionnaire for owner-manager of the SMEs companies administrated to the respondents of the service sector within Malaysia. Section 3 presents the result of the analysis.

Pilot Instrument Administrations

Table 1 shows the number of questionnaires administered to the respondents. We distributed a total 60 questionnaires to owner-manager of the SMEs in Malaysia of which is 91.7 % were returned. However, of the returned questionnaire two were discarded due to issues of outliers and missing entries leaving 88.3% valid response for the analysis, which shows good response rate. Table 1 shows the distribution of questionnaires; the numbers returned and considered valid for analysis.

Table 1. *Pilot Instrument Administration*

Number of Questionnaire	Frequency	Percent %
Questionnaires Administered	60	100
Returned	55	91.7
Valid and Usable	53	88.3

Data Analysis

Determinants of access to finance and financial sustainability among SMEs in Malaysia

This section provides the result of the pilot study descriptive, normality, reliability and factorability according to the construct in the access to finance and financial sustainability questionnaire. These constructs are access to finance and financial sustainability (financial strategic planning, revenue diversification, sound administrations finance, own income generation, and financial literacy).

Access to Finance

Table 2. *Pilot Test Result for Access to Finance*

Code	Mean	Normality		Factor Loading	Variance Explained	Cronbach Alpha
		Skewness	Kurtosis			
ABL1	4.13	.008	.269	.788	59.660	0.968
ABL2	4.53	.045	-.111	.841		
ABL3	4.29	-.030	-.059	.783		
ABL4	4.40	-.309	.138	.755		
ABL5	4.93	.215	-.447	.710		
ABL6	4.87	.257	-.615	.754		
ADS7	4.96	-.166	-.809	.709		
ADS8	4.40	-.611	.631	.829		
ADS9	4.38	-.313	.334	.832		
ADS10	4.24	-.272	-.259	.792		
ADS11	4.65	-.193	-.012	.827		
AEF12	4.78	-.062	-.815	.816		
AEF13	4.56	-.443	-.090	.816		
AEF14	4.09	-.045	-.603	.855		
AEF15	4.67	.318	-.672	.790		
AEF16	4.42	.005	-.623	.858		
ATC17	4.00	-.032	-.802	.733		
ATC18	4.60	-.542	.178	.714		
ATC19	4.38	-.329	-.289	.668		
ATC20	4.75	-.556	.257	.795		
ATC21	4.85	-.482	.268	.835		
ATC22	4.96	-.657	.827	.897		
ATC23	4.76	-.183	-.500	.845		
ATC24	4.60	-.128	-.123	.865		

Table 2 shows that pilot result for the access to finance construct which produces mean values ranging from 4.00 to 4.96. The values of skewness and kurtosis were all the threshold of $-/+2$ (George & Mallery, 2010). Except for ADS8 and ATC18 which have kurtosis value above 2. All the variables under the construct have strong factor loading which cumulatively explained 59.660% of variance which is considered by satisfactory. The reliability of the construct was assessed using

Cronbach's alpha coefficient which produced a value of 0.968 above the recommended minimum threshold 0.7 (Tabachnick & Fidel, 2007; George & Mallery, 2010; Pallant, 2011).

This result indicated that the result obtained is adequate; the data is normally distributed and reliable. Hence, the instrument is considered valid for the major survey of the research except for ADS8 and ATC18 which require further amendment.

Financial and Strategic Planning

Table 3. *Pilot Result for financial and strategic planning*

Code	Mean	Normality		Factor Loading	Variance Explained	Cronbach Alpha
		Skewness	Kurtosis			
FSP1	4.27	-.209	-.631	.830	56.159	.806
FSP2	4.29	.135	-.618	.747		
FSP3	4.78	-.429	.984	.761		
FSP4	4.44	-.857	.800	.793		
FSP5	4.38	-.327	.247	.618		
FSP6	4.55	-.517	.328	.810		

Table 3 shows the pilot result for the financial and strategic planning construct, which produces mean values ranging from 4.27 to 4.78. The values of skewness and kurtosis were all the threshold of $-/+2$ (George & Mallery, 2017). All the variables under the construct have strong factor loading which cumulatively explained 56.159% of the variance respectively. This is considered satisfactory. The reliability of the construct was assessed using Cronbach alpha coefficient which produced an overall value of .806 respectively above the recommended minimum threshold 0.7 (Tabachnick & Fidel, 2007; George & Mallery, 2010; Pallant, 2011).

This result indicated that the result obtained is adequate; the data is normally distributed and reliable. Hence, the instrument is considered valid for the major survey of the research.

Revenue Diversification

Table 4. *Pilot Result for Revenue Diversification*

Code	Mean	Normality		Factor Loading	Variance Explained	Cronbach Alpha
		Skewness	Kurtosis			
RD1	4.65	-.645	.210	.816	71.371	.918
RD2	4.55	-.419	.314	.745		
RD3	4.78	-.651	.544	.701		
RD4	4.80	-.609	.957	.762		
RD5	4.91	-.897	.120	.642		
RD6	4.76	-.183	.015	.617		

Table 4 shows the pilot result for the revenue diversification construct, which produces mean values ranging from 4.55 to 4.91. The values of skewness and kurtosis were all the threshold of $-/+2$ (George & Mallery, 2017). All the variables under the construct have strong factor loading which cumulatively explained 71.371% of the variance respectively. This is considered satisfactory. The reliability of the construct was assessed using Cronbach alpha coefficient which produced an

overall value of .918 respectively above the recommended minimum threshold 0.7 (Tabachnick & Fidel, 2007; George & Mallery, 2010; Pallant, 2011).

This result indicated that the result obtained is adequate; the data is normally distributed and reliable. Hence, the instrument is considered valid for the major survey of the research.

Sound Administration and Finance

Table 5: *Pilot Result for Sound Administration and Finance*

Code	Mean	Normality		Factor Loading	Variance Explained	Cronbach Alpha
		Skewness	Kurtosis			
SAF1	4.53	-.186	-.820	.694	71.625	.932
SAF2	4.49	-.206	-.568	.796		
SAF3	4.48	-.239	.034	.779		
SAF4	4.69	-.586	.373	.701		
SAF5	4.35	-.133	-.568	.703		
SAF6	4.64	-.234	.364	.763		
SAF7	4.56	-.435	.070	.577		

Table 5 shows the pilot result for the sound administration and finance construct, which produces mean values ranging from 4.35 to 4.69. The values of skewness and kurtosis were all the threshold of ± 2 (George & Mallery, 2017). All the variables under the construct have strong factor loading which cumulatively explained 71.625% of the variance respectively. This is considered satisfactory. The reliability of the construct was assessed using Cronbach alpha coefficient which produced an overall value of .932 respectively above the recommended minimum threshold 0.7 (Tabachnick & Fidel, 2007; George & Mallery, 2010; Pallant, 2011).

This result indicated that the result obtained is adequate; the data is normally distributed and reliable. Hence, the instrument is considered valid for the major survey of the research.

Income Own Generation

Table 6: *Pilot Result for Income Own Generation*

Code	Mean	Normality		Factor Loading	Variance Explained	Cronbach Alpha
		Skewness	Kurtosis			
I0G1	4.64	-.132	.447	.601	66.175	.827
I0G2	4.29	-.341	-.077	.793		
I0G3	4.58	-.110	-.076	.657		
I0G4	4.24	-.353	.032	.597		

Table 6 shows the pilot result for the own income generation construct, which produces mean values ranging from 4.24 to 4.64. The values of skewness and kurtosis were all the threshold of ± 2 (George & Mallery, 2017). All the variables under the construct have strong factor loading which cumulatively explained 66.175% of the variance respectively. This is considered satisfactory. The reliability of the construct was assessed using Cronbach alpha coefficient which produced an overall value of .827 respectively above the recommended minimum threshold 0.7 (Tabachnick & Fidel, 2007; George & Mallery, 2010; Pallant, 2011).

This result indicated that the result obtained is adequate; the data is normally distributed and reliable. Hence, the instrument is considered valid for the major survey of the research.

Financial Literacy

Table 6. *Pilot Result for Financial Literacy*

Code	Mean	Normality		Factor Loading	Variance Explained	Cronbach Alpha
		Skewness	Kurtosis			
FL1	4.25	-.791	.798	.764	80.66	.965
FL2	4.51	-.451	.087	.863		
FL3	4.68	-.302	.170	.806		
FL4	4.64	-.627	.162	.836		
FL5	4.65	-.772	.206	.795		
FL6	4.60	-.749	.205	.869		
FL7	4.65	-.647	.829	.828		
FL8	4.85	-.668	.460	.693		

Table 7 shows the pilot result for the sound administration and finance construct, which produces mean values ranging from 4.25 to 4.85. The values of skewness and kurtosis were all the threshold of $-/+2$ (George & Mallery, 2017). All the variables under the construct have strong factor loading which cumulatively explained 80.66% of the variance respectively. This is considered satisfactory. The reliability of the construct was assessed using Cronbach alpha coefficient which produced an overall value of .965 respectively above the recommended minimum threshold 0.7 (Tabachnick & Fidel, 2007; George & Mallery, 2010; Pallant, 2011).

This result indicated that the result obtained is adequate; the data is normally distributed and reliable. Hence, the instrument is considered valid for the major survey of the research.

Conclusion

This paper discusses pilot testing of a questionnaire administrated among company's owner-manager from service sector of Malaysian SMEs. A total of 60 questionnaires were administered, and 53 were found useful from 55 returned. Five constructs were assessed for normality, reliability, factorability. All the results give a favourable indication to proceed with the core survey slight adjustments.

Acknowledgements

The author would like to express sincere appreciation to my supervisor Dr Umi Kartini Binti Rashid, for supporting me financially and assist during the completion of this manuscript. Also thanks to my department Faculty of Technology Management and Business, Universiti Tun Hussain Onn Malaysia.

References

- Andrieș, A., Marcu, N., Oprea, F., & Tofan, M. (2018). Financial Infrastructure and Access to Finance for European SMEs. *Sustainability*, 10(10), 3400.

- Abdullahi, M. S., Jakada, B. A., & Kabir, S. (2016). CHALLENGES AFFECTING THE PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES (SMES) IN NIGERIA. *Journal of Human Capital Development (JHCD)*, 9(2), 21-46.
- Abe, M., Troilo, M., & Batsaikhan, O. (2015). Financing small and medium enterprises in Asia and the Pacific. *Journal of Entrepreneurship and Public Policy*, 4(1), 2-32.
- Aziz, N. N. A., & Samad, S. (2016). Innovation and competitive advantage: Moderating effects of firm age in foods manufacturing SMEs in Malaysia. *Procedia Economics and Finance*, 35, 256-266.
- Bouazza, A. B., Ardjouman, D., & Abada, O. (2015). Establishing the factors affecting the growth of small and medium-sized enterprises in Algeria. *American International Journal of Social science*, 4(2), 101-115.
- Borin, E., Donato, F., & Sinapi, C. (2017). Financial Sustainability of Small- and Medium-Sized Enterprises in the Cultural and Creative Sector: The Role of Funding. *FGF Studies in Small Business and Entrepreneurship*, 45-62. Doi: 10.1007/978-3-319-65506-2_4
- Collins, J., and Hussey, R. (2003) *Business research*. Basingstoke NH: Palgrave, Macmillan.
- Creswell, J.W. (2013). *Research design: Qualitative, quantitative and mixed method approaches*. Sage.
- Fink, A. (2006) *How to conduct a survey: A step by step Guide: 3rd Edition*, Sage Publications.
- Mallery, P., & George, D. (2003). *SPSS for Windows step by step: a simple guide and reference*. Allyn, Bacon, Boston,.
- Gitman, L. J., Juchau, R., & Flanagan, J. (2015). *Principles of managerial finance*. Pearson Higher Education AU.
- Haniff, B. A., Akma, L., Lee, S., & Finance, D. (2017). Access to Financing for SMEs : Perception and Reality, (September).
- Lodico, M.G. and Spaulding, D.T. and Voegtler, K.H. (2006) *Methods in Educational Research: From Theory to Practice*. JOSSEY-BASS A Wiley Imprint. The United States of America. First Edition.
- Mathers, N., Fox, N., Hunn, A. (2007). *Surveys and Questionnaires, the NIHR RDS for the East Midlands/ Yorkshire & the Humber*
- Muijs, D. (2004). *Doing Quantitative Research in Education with SPSS*. SAGE Publications.
- Meher, K. C., & Ajibie, D. (2018). Financial Sustainability of SMEs by Injecting Debt Finance. *The Management Accountant*, 80-87.
- OMEJE, J. E. (2016). EFFECTS OF CAPITAL STRUCTURE OF SMALL AND MEDIUM SCALE AGRO-ENTERPRISES ON ACCESS TO MICROFINANCE BANKS CREDIT IN ENUGU STATE, NIGERIA.
- Pallant, J. (2011). *SPSS Survival Manual 4th Edition: A step by step guide to data analysis using SPSS*: Allen and Unwin, Crow's Nest, Australia.
- Quartey, P., Turkson, E., Abor, J. Y., & Iddrisu, A. M. (2017). Financing the growth of SMEs in Africa: What are the constraints to SME financing within ECOWAS?. *Review of Development Finance*, 7(1), 18-28.
- Schwab, L., Gold, S., & Reiner, G. (2019). Exploring the financial sustainability of SMEs during periods of production growth: A simulation study. *International Journal of Production Economics*, 212, 8-18
- Tabachnick, B.G., & Fidell, L.S. (2007). *Using multivariate statistics*. Allyn & Bacon/Pearson Education.