

Contributing Factors to the Success of Small and Medium Enterprises (SMEs) in Kelantan

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This study examines the factors that contribute to the success of small and medium enterprises (SMEs) in Kelantan. The main purpose of this study is to provide guidelines for how people should start and manage their business by looking at all of the factors that contribute to business success. The objectives of the study are to examine the factors of market, financial assistance and environment that can influence the business success of SMEs in Kelantan and determine the main contributing factor. This is to ensure that the failure of the business can be reduced, while enhancing the potential for business success. This study identified three (3) factors that contribute to the successful operation of SMEs including Market, Financial Assistance and Environment. A conceptual framework has been developed and questionnaires were prepared based on the aforementioned factors. In addition, there three (3) hypotheses which were designed to reveal the factors that contribute to the successful of SMEs in Kelantan. The three (3) hypotheses were successfully tested with SPSS and all were accepted.

Key words: *Small and Medium Enterprises, Successfulness, Market, Financial Assistance, Environment.*

Introduction

In recent years, the role of Small and Medium Enterprises (SMEs) in the national economy has been highly regarded as they have become more and more conspicuous. In addition, the understanding of the importance of promotion of small and medium enterprises has grown internationally. This can be seen in many countries where governments are making efforts to tailor their SME policies to create new small and medium sized companies as well as nurture them (Organization for Small & Medium Enterprises and Regional Innovation, 2008).

In Malaysia, SMEs are the main contributor bolstering economic growth (Abdul & Ahmad, 2013). The Malaysian government claim that it has started to pay attention to SMEs' development since the early 1970s. Generally, SMEs have contributed to 97.3% of the total establishments in the country and this has also contributed to 31% of the national Gross Domestic Product (GDP). In addition, SMEs also play an important role for both employment and export sectors, of which they account for 56% and 19% respectively. The Department of Statistics research results revealed that the total number of SMEs in Malaysia amounts to 645,136 which represents 97.3% of total business establishments. Meanwhile, with regard to gross output, SMEs have been contributed 28.5 per cent or RM 507,089 million towards economic growth (Economic Census Report, 2011). In 2016, the department revealed that there was an increment in Malaysian SMEs' business, representing 98.5% of business establishments (Economic Census Report, 2016).

Examining the factors that can contribute to business success is useful in order to determine the factors of business failure because the deficiency of success factors will lead to failure of a business (Abdul & Ahmad, 2013; Zafarullah, 2018). Therefore, business success and business failure studies actually contribute to the same aim and objective. This study has been conducted in order to determine the factors that contribute to the success of Kelantan SMEs as perceived by SME owners and managers surveyed through questionnaires. The individuals were required to answer the questions regarding their perception of their business performance and success in terms of the factors that contribute to that success, such as environment, market and financial assistance.

Small and Medium Enterprises (SMEs)

According to Bank Negara Malaysia, the definition of an SME has been simplified under two categories, namely: Manufacturing, whereby the sales turnover does not exceed RM50 million or full-time employees not exceeding 200 workers; and Services as well as other sectors for which the sales turnover does not exceed RM20 million or full-time employees not exceeding 75 workers.

Economic activities are moving towards the direction of globalization, in which the system of production and distribution is evolving worldwide (Zulkifli et. al, 2010). Moreover, globalization has entailed that a business' resources become more mobile and transferable beyond their national borders and has resulted in competition for resources such as materials and in capital increase in many Asian countries, including Malaysia. The traditional virtues of SMEs have started to deteriorate with the advancing process of globalization (Sayed, 2006). According to Sayed (2006), economic integration and free trade have become more enhanced and SMEs in Malaysia are facing global competition not only in exports, but also throughout liberal imports. SMEs have to compete not only with other firms, but also with the global production system at large (Sayed, 2006). In addition, besides all of its benefits, globalization as well as liberalization may harms local SMEs as they have to compete with cheaper and more innovative incoming foreign products or services as well as compete for the resources and capital (Zulkifli et. al, 2010). Further, globalization also promotes rapid business innovation and easy entry with less government protection and convergence across industries due to less trade barriers within the region, constant arrival of new range of products and liberalization that may open up for the new economies (Oloruntoba, Thompson & Felicia, 2001).

Several existing studies emphasize various challenges facing SMEs in a globalized environment, difficulty in facing recession, barriers from global sourcing, low productivity, lack of managerial capabilities lack of financing, difficulty in accessing management and technology and heavy regulatory burden to name a few (Muhammad, 2010). According to the Organization for Economic Co-operation and Development (2009), the main problem is strongly exacerbated by the financial and economic crisis which occurred due to globalization, as SMEs and entrepreneurs have suffered a double shock, where there is a drastic drop in demand for goods and services and a tightening in credit terms, which have direct affect on cash flow.

Business Success of SMEs

Business success can be measure according to the business performance of the organization. Those who pursue their career as an entrepreneur are not only operating a business, they are taking a risk to manage that because doing business creates a career for them and also creates job opportunities for others. A successful entrepreneur is able to increase their business and in fact increase the income and community and national income. Therefore, entrepreneurs are those who create something new for the benefit of the society and country, using all available resources and come out with an innovative and creative idea that aims to increase the wealth. Every scholar has their own perspective and view about the definition of the business success of SMEs. According to Greene (2000), entrepreneurs can be defined as people who run their own business while Nor Aini Idris (2003) and Wim Naude (2010) survey results indicate that entrepreneurs are a group of businessman and traders willing to take risk through innovation.

In Malaysia, SMEs are one of the sectors that contribute to the Gross Domestic Product (GDP) and economic growth. According to the World Bank (2016), SMEs have become a backbone of Malaysia's economy. SMEs have driven the Malaysian economy since the 1990s and increased employment rate and growth. Based on the Economic Census 2016, SMEs currently make up 98.5% or 907,065 of business establishments in Malaysia. In 2016, SMEs contributed 36.6% to the national Gross Domestic Product (GDP) and 18.6% to the country's exports while providing 65.3% of total employment. Anabel Gonzales (2016) found that Malaysia is moving towards a high-income nation and is highly depend on SME contribution as they play a significant role in creating an opportunity, especially for youth. Therefore, the Malaysian government need to take indigenous action to attract people to participate in SMEs sector. This sector helps Bumiputera's entrepreneurs to widen their business globally. The success of SMEs can be seen as reliant on several driving factors.

Many authors state that there is no universal definition of small business but offer various criteria to describe it including size, number of employees and financial turnover per annum (Mahmood and Hanafi, 2013). However, few scholars argue that there is a lack of reliability with financial ratios and accounting data as small businesses do not have a formal reporting requirement (Riquelme & Watson, 2002). Following that, it is possible for a business to have standards and a requirement to obtain reliable information to measure that business' success.

According to previous research conducted by Onkelinx et al. (2015) the business performance of a small firm is affected by its culture and environment which is driven by its entrepreneurial orientation. An organisation can be considered successful when it is able to achieve company goals and objectives (Ngwangwama, Ungerer & Marrison, 2013; Zahid, 2017). Marom & Lussier (2014) stated that business success can be categorized as the ability to create actions and outcomes. Ultimately, there is no universal definition of business success and the majority of the managers revealed that business success is based on the perspective of a firm's performance. Suraiya Ishak et.al, (2012) revealed that a successful entrepreneur is one who is able to progress past the challenge of a situation and that they have their own turning point or transition point from the beginning through to success of the business.

According to most of the previous research sourced through the literature review of this study, challenges to the growth and viability of SMEs arise from globalization, increased customer expectations, technological advances, and increased competition. Globalization and the pace of economic change are forces that are driving a need for better management in order to gain business success (Burke, 2002). Since world economy is moving towards globalization, the effects of this must be considered. Globalization has caused business decisions or actions in one part of the world to have significant impact on other parts of the world. As the planet is becoming more connected, especially with advances in information technology, a new level of

competition among the industry players is emerging. Therefore, SMEs cannot ignore the need to improve their performance in terms of quality, cost and delivery because in order for firms to compete successfully, they will need to reduce their costs and at the same time improve their quality and delivery performance (Bane, 2002; Gulbro et al, 2000).

Market

Market is the first factor that influences business success SMEs in Kelantan. The development of the market is essential for retaining high growth in business (Mead & Liedholm, 1998; Swierczek & Ha, 2003). This is because the market can act as one of the most important analytical tools to speculate and scrutinize the competitive constraints that a firm faces (OECD, 2012). Therefore, the market segment with a high market growth must be chosen by the entrepreneurs because it may influence the success of Small and Medium Enterprises (Kunene, 2009). A major factor that contributes to SME business failure is market vulnerability (Zulkifli & Nurdiana, 2015). They found that the entrepreneurs had failed to distinguish a real target market, whereby they treated everyone as their target customers or consumers. SMEs cannot proactively counter rigid competition in the market (Indarti & Langenberg, 2004) because they are unable to meet the demands of the customers, which later may cause the customers to shift their preferences towards other providers (Zulkifli & Nurdiana, 2015). Basically, a low market selection with high market imperfections and too much market diversity with limited market size, will negatively affect the entrepreneurship operation, whereby it may later lead to the failure of the business (Kunene, 2009).

In addition, as SMEs increasingly becoming globalized, their context is changing from traditional domestic to global markets (OECD, 2000). According to Kunene, (2009), accessibility to the market and marketing brokers as well as the competency to conquer obstacles to enter into a specific business is crucial for strengthened entrepreneurship and SME business success (Kunene, 2009). Basically, when entrepreneurs are more concerned with market condition, there will be greater business success tendency as market strength was found to be a significant driver in SME business success (Indarti & Langenberg, 2004).

To maintain a competitive advantage such as innovation, expansion of productivity and marketing, SMEs are urged to seek various ways of doing business so that they can achieve business success (Aksoy, 2017). According to him, in order to have effective business success, SMEs can implement market innovation, whereby they try to sell innovative products in the local or international market. Further, firms are required to identify customer demands, widen the boundary of information and establish an adaptive quick response to them, in the context of a highly dynamic market (Seo & Chae, 2016). According to them, these actions may help entrepreneurs consider customer's preferences accurately and cope with fluctuating market situations, in order to ensure the business success of SMEs.

Based on the previous research, conducted by Jasra et.al (2011), the independent variable, which is the market, has a correlation with the dependent variables. P-value of market is 0.002, which shows there is a significant impact on the business success of SMEs. Also in previous research, conducted by Mchome (2016), it was found that 96.7% cumulatively agreed that location of market affects performance of SMEs and this result indicates that in Mtwara Mikindani Municipal, SMEs' activities are influenced by place of selling their goods. In addition, Indarti & Langenberg (2004) conducted multiple regression analysis to investigate the relationship between nine independent variables and surprisingly the result revealed that marketing affected business success in significantly positive directions. However, research conducted by Aliyu and Rosli, (2014), found that market orientation had no significant impact in describing the business performance of SMEs.

Financial Assistance

Financial assistance is the second factor that influences SME business success in Kelantan. Financial assistance refers to the funds, either debit or equity based, usually designed to support businesses of different sizes and at different stages of growth or development (Robert, 2013). In addition, financial assistance also includes a grant of money, guarantee of a loan or securing of any debt or liability. Basically, when financial assistance is provided for entrepreneurs or business, there will be a broad opportunity for the entrepreneurs to broaden their business, which may later lead to business success.

The main financial constraints for SMEs in Malaysia are lack of capital and inadequacy of access to capital (Zakaria, Norhayati, Kaushal, Leena, 2017). The non-availability of financial assistance has become the most frequently cited problem faced by SMEs as this may lead to business failure. According to Doh and Kim (2014), SMEs are a peculiar risk group, because of insufficient self-funding, dependence on a limited clientele and lack of collateral. Bankers in the market usually impose high interest rates in the case of SMEs financial assistance. Hence, the government provides financial incentives as well as assistance for SMEs, in order to achieve business success (Doh & Kim, 2014). According to Zulkifli, Kamal, Rushdan, and Zakiah (2010), there are 26 agencies, 2 ministries and 9 banking institutions involved in supporting financial assistance to SMEs, in the form of soft loans, grants, venture capital, tax incentives etc. According to them, the financial assistance given to SMEs is purposeful for entrepreneur development, marketing and promotion and product development, as well as ensuring SME business success.

However, according to research conducted by Kepteyn and Wah (2016), a majority of SMEs in their sample depended on personal funds as startup capital in order to ensure the sustainability of their business. They found that 89% of respondents used personal funds or family funds, while only 5% of them used a bank loan for the startup of their business. This is

because the entrepreneurs have difficulty gaining financial assistance from governments or financial agencies (Zulkifli & Nurdiana, 2015). Further Zulkifli & Nurdiana state that the financial agency refusal to access SMEs' entrepreneurs to funding is due to the perception that they will be unable to expand their business into the future. In simple terms, they are afraid that SMEs cannot maintain business success, even when they have provided the entrepreneurs with financial assistance. However, the entrepreneurs believe that if they have easy access to financial assistance, they will be able to operate their SMEs at a very competitive level and compete with other economic activities in order to maintain business success (Samad et. al., 2012).

SMEs need financial assistance in development of their business (Zakaria et. al., 2017) and therefore, financial assistance is a very crucial platform or determinant for ensuring the business success of SMEs. This can be proven by looking at the Jasra et.al, (2011) research which revealed that financial assistance has a significant relation with the business success of SMEs, as the p-value of financial assistance is 0.000, while it is less than 95% of the confident interval. This result shows that the independent variable, which is financial assistance, can have a huge impact on business success. In addition, there is also research, conducted by Chittithawon, Aminul, Keawchana & Dayang (2010), that uses multiple regression analysis to determine whether the eight independent variables, including finance, have a significant effect on Business Success of SMEs. Surprisingly, independent variables were shown to have a significant relationship with the business success of SMEs with the significant value of finance 0.014. However, there is also research conducted by Khadijah, Nazri, & Suhana (2017), which shows that the business success of SMEs is not dependent on financial resources. In their research, it was found that p-value of financial assistance is 0.12, and as such there is no significant relationship between financial assistance and business success of SMEs.

Environment

Environment is the last factor that contributes to the success of SMEs in Kelantan. Environmental condition directly influences a company's ability to reach their goals (Pearce and Robinson, 2000). External environmental change such as, government policy, public taste, technology and socio-cultural may affect company performance. Freeman (2000) concluded that based on observation in some countries, external condition, especially government policy, is significantly influential on the performance of SMEs. The business environment, in general terms, consists of the myriad forces that are beyond the control of firm-level management in and thus, can create both opportunities and threats for firms (Bourgeois, 1980). The role of the business environment in a firms' operations is supported by most previous studies, although the findings are mixed. Previous studies provided empirical evidence that the specific local business environment in which a firm is embedded can make a significant contribution to its performance (Ng & Kee et.al, 2012). However some studies found that these factors have an

inverse relationship (De Jong, Phan, & van Ees, 2012). These mixed results may implicitly suggest that the effect of the business environment on firms may vary according to national or regional economic context (Ng & Kee, 2012). In particular, firms in developed countries are clearly better off when their business environment is certain. However, the effect of their business environment on firms in transition economies, such as China, Thailand, or Vietnam, may be different (Chittithaworn et al., 2011).

It is obvious that hurdles in business success are far more prevalent today than previously. The environment as well as other complex and dynamic factors have impact. The only more important concern for the entrepreneur is what they should do to survive in a competitive market. The main external environmental triggers for change identified by Dawson (2001) were listed as government laws and regulations, globalization of markets and the internationalization of business, major political and social events, technological advancements, customer expectations, supplier requirements, increasing competition, organizational growth, and fluctuations in business cycles. These can also comfortably fit within the forces for change categories in the model. The changing demographics and the challenges to SMEs in attracting and retaining skilled workers were identified as one of the challenges faced. The recruitment and retention challenge is complex for small business and it is expected to continue in the long term. Early warning signs in the external environment are not always apparent to small business owners, so a challenge such as a major shift in the labor market can hit them with surprising force. As well, the multi-tasking responsibilities of small business owners and managers mean that they do not have the time to undertake research on this challenge or to read the research results of others.

Previous research has consistently shown that most SMEs do not engage in strategic planning (Beaver 2003). According to Gable & Topol (1987), environmental scanning is a necessary process which should underpin strategy formulation to enable a firm to understand its external environment in terms of factors that can influence its resources. This should be done so that SMEs can develop responses to secure or improve future position in a changing economic environment. Scanning the environment is the first stage in the process of understanding and therefore in the process of linking strategy and a firm's external environment according to Haase & Franco (2011), SMEs suffer from resource constraints, they have lack of infrastructure to obtain and analyze external information, unlike larger companies which are able to obtain external information from specialized sources. Previous research also indicates that SMEs are faced with challenges in obtaining specialized external information and in an environment of uncertainty.

The findings of this study provide useful guidance regarding how local government could improve the business environment by contributing to the competitive advantage of SMEs and enhancing their performance. There are few programs that are planned to help and improve the

development of SMEs in terms of environment. The ongoing program for the development of the SME factory and shop lot in Kelantan by Perbadanan Kemajuan Iktisad Negeri Kelantan (PKINK) will provide conducive manufacturing factories and retail trade premises for SMEs to expand their businesses through construction of SME factories in Pengkalan Chepa and shop lots in Jeli projects respectively (Annual Report, 2016).

The programme has been allocated RM4 million to develop 22 units in total for both premises and upgrading of Business Premises in Kelantan which includes two projects: Upgrading of Wet Market in Berek 12 Kota Bharu to provide conducive retail trade premises to micro entrepreneurs and Upgrading of Water Breaker in Medan Ikan Bakar to protect existing premises, which consist of 37 entrepreneurs' houses. With a total budget of RM8.9 million, the former is expected to be 58% completed, while the latter is targeted to be fully completed by the end of 2016. Previous research conducted by Chowdhury et.al (2013) revealed that the result of the independent variable, which is environment, has a correlation with the dependent variables. P-value of environment is 0.71, which shows there is no significant impact on the business success of Small and Medium Enterprises (SMEs).

Methodology

A cross-sectional design is applied in this study to accomplish the research objective by using a quantitative method. As recommended by Sekaran & Bougie (2009), a cross-sectional survey will be used to answer all the research objectives via the data collection. The quantitative method focuses on the information gathered from the questionnaire by analysing the results (Jasmine, 2015). The instrument of quantitative research used in this study is a questionnaire which relies on primary data from a survey conducted in Kelantan. The unit of analysis involved in this research can be referred to an individual and the individuals represented in this research are Kelantan entrepreneurs.

Findings

Correlation Between factors and Business Success in Kelantan

1. Correlation between market and the business success of Small and Medium Enterprise (SMEs) in Kelantan.

Table 1: Correlation Table Between Means of Market and Business Success

		Dependent Variable
MOM	Pearson Correlation	.661 **
	Sig. (2-tailed)	.000
	N	297

** . Correlation is significant at the 0.01 level (2-tailed).

H₀: There is no significant relationship between market and the business success of Small and Medium Enterprise (SMEs) in Kelantan.

H₁: There is a significant relationship between market and the business success of Small and Medium Enterprise (SMEs) in Kelantan.

Based on the result of correlation above, since $p(0.000) < a(0.05)$, null hypothesis (H₀) is rejected and alternate hypothesis (H₁) is accepted.

As a result, there is significant difference between Mean of Market (MOM) and Mean of Business Success (MOBS) ($r=.661, p<.05$). There is a positive and moderate relationship between MOM and MOBS.

2. *Correlation between financial assistance and the business success of Small and Medium Enterprise (SMEs) in Kelantan.*

Table 2: Correlation Table Between Means of Financial Assistance and Business Success

		Dependent Variable
MOFA	Pearson Correlation	.440**
	Sig. (2-tailed)	.000
	N	297

** . Correlation is significant at the 0.01 level (2-tailed).

H₀: There is no significant relationship between financial assistance and the business success of Small and Medium Enterprise (SMEs) in Kelantan.

H₁: There is a significant relationship between financial assistance and the business success of Small and Medium Enterprise (SMEs) in Kelantan.

Based on the result of correlation above, since $p(0.000) < a(0.05)$, null hypothesis (H₀) is rejected and alternate hypothesis (H₁) is accepted.

As a result, there is significant difference between Mean of Financial Assistance (MOFA) and Mean of Business Success (MOBS) ($r=.440, p<.05$). There is a positive and moderate relationship between MOFA and MOBS.

3. *Correlation between environment and the business success of Small and Medium Enterprise (SMEs) in Kelantan.*

Table 3: Correlation table between means of environment and business success

		Dependent Variable

MOE		
	Pearson Correlation	.749**
	Sig. (2-tailed)	.000
	N	297

** . Correlation is significant at the 0.01 level (2-tailed).

H₀: There is no significant relationship between environment and the business success of Small and Medium Enterprise (SMEs) in Kelantan.

H₁: There is a significant relationship between environment and the business success of Small and Medium Enterprise (SMEs) in Kelantan.

Based on the result of correlation above, since $p (0.000) < a (0.05)$, null hypothesis (H₀) is rejected and alternate hypothesis (H₁) is accepted.

As a result, there is significant difference between Mean of Environment (MOE) and Mean of Business Success (MOBS) ($r=.749, p<.05$). There is a positive and high relationship between MOE and MOBS.

Multiple Regression Analysis

The main objective of Multiple Regression is to determine the main factors that can contribute to SME business success.

Table 4: The Main Factors that Contribute to SME Business Success

Independent Variable	Beta	Sign.
Market	0.233	0.000
Financial Assistance	0.124	0.004
Environment	0.513	0.000

*Dependent Variable: Business success

The above table shows the best prediction of all the independent variable with respect to the dependent variable. It is considered that the most influenced factor is the dependent variable if the value of beta is the highest since the significant value must be below ($p<0.05$). Based on the table above, environment factor shows the highest beta value of 0.513 compared with the other factors where the beta value for market is 0.233 and for financial assistance is 0.124. The entire factor is accepted as the significance value for the factor is less than 0.05 ($p<0.05$). However, it can be concluded that environment is the best prediction and the most influential determinant factor among others factor.

Discussion and Recommendation

The research findings prove that market is also important to the growth and development of business success in Kelantan. The result is positive and this can be supported by previous research findings. Mchome's (2016) research shows that there is 96.7% cumulative agreement that location of market affects performance of SMEs and this result indicates that in Mtwara Mikindani Municipal, SME activities are influenced by place of selling of goods. In addition, the study by Indarti & Langenberg (2004) conducted multiple regression analysis to investigate the relationship between nine independent variables and surprisingly found that marketing affected business success significantly in positive directions.

Regarding the financial assistance result obtained, the mean value is 3.40 and the standard deviation is 0.75. This result is consistent with previous research as the financial sector is contributing to the business success but it is different to Kelantan state results which show that this factor does not contribute significantly to SME business success. It was found that SMEs tend to borrow money from MARA or other financial assistance as compared to receiving any financial support and this is supported by other previous research. According to Kepteyn and Wah (2016), a majority of SMEs are dependent on personal funds as startup capital in order to ensure the sustainability of their business. They found that 89% of respondents used personal funds or family funds, while only 5% of them used the bank loan for the startup of the business. In terms of environment, factor is 3.43 and the value for standard deviation is 0.83. From this research, environment factor therefore show the highest value of correlation between business success and the dependent variable. This is due to the environmental factor in that state as most of people in Kelantan are involved in agriculture while almost 40% of the people contribute to the manufacturing sector. This factor shows a positive result whereby environment factor contributes to the business success of Small and Medium Enterprises in Kelantan. Meanwhile, research conducted by Chowdhury et.al (2013) revealed that the result of the independent variable, which is environment, has a correlation with the dependent variables. P-value of environment is 0.71, which shows there is no significant impact on the business success of Small and Medium Enterprises (SMEs).

Of the three factors: market, financial assistance and environment, the results and findings for multiple regression show that environment is the most influential determinant factor. This is dependent on the Pearson correlation whereby the result of the relationship between all the factors and business success reveals that environment factor shows a high relationship between the business successes of SMEs with the value 0.749. Meanwhile the other two factors which are market and financial assistance show a moderate relationship with business success with the value 0.661 and 0.440.

In order to ensure Kelantan SMEs can continue to succeed in the future, they must ensure that the market, financial assistance and environment are highly maintained and continuously

developed. Kelantan SMEs must always invest in market research, R&D and innovation in order to increase their competitiveness with other companies. Further, they must create unique products with high value added and deliver superior value to customers to compete in the market. Kelantan entrepreneurs must care about their environment in order to sustain their business. They must be able to cope with ongoing market uncertainty and in terms of the financial factor, they must consider potential difficulty in access to funds. To ensure continued existence and growth of Kelantan SMEs, the government needs to provide funding and support to Kelantan entrepreneurs. There must be a platform for entrepreneurs to present their product within Malaysia and beyond, in a global marketplace.

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