

Financial Education, Political Instability and Firm Performance: Evidence from Malaysian SMEs

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This study assesses the short-term and long-term interactions between firm performance, financial education and political instability in the case of Malaysia Small to Medium Enterprises (SMEs). The simultaneous insertion of financial education and political instability within the study is done intentionally to inspect the effect of these two elements in one equation for the Malaysian economy. Using the bound testing methodology for cointegration and error correction models, advanced within an autoregressive distributed lag (ARDL) framework, we examine whether a long-run equilibrium connection survives between firm performance and the above mentioned independent variables. Using this method, we uncover evidence of a positive long-term link between firm performance and financial education, as well as a negative long-term relationship between firm performance and political instability. It has been suggested that SME owners enhance financial literacy and to be cautious about political indicators of the country.

Key words: *SMEs, Financial Education, Political Instability, Firm Performance, Cointegration, ARDL.*

Introduction

The growth and performance of “Small and Medium Sized Enterprises” (SMEs) through the countries, have attracted great attention by, among others, macroeconomists, entrepreneurs, governors, “venture capital firms” and financial institutions. In the case of Malaysia, SMEs have performed progressively as a principal act since the late 1990s. SMEs provide 99.2% to overall business launches in Malaysia and provide 32 % of GDP and 19 % of exports. The industry has developed and acted in noteworthy roles since the 1970s. SMEs hired about

56% of the country's labours and value-added products in 2020 are anticipated to be worth MYR120 billion in the manufacturing segment (Nor, et al., 2017). In terms of output production, the services segment is of a greater rank than SMEs. During the period between 2010-2014, the SME GDP portion in the service sector was continuously high, mostly due to increased focus of SMEs in the services sector (Chin & Lim, 2018).

The failure or success of small and medium enterprises (SMEs) is reliant on their financial sustainability, and one of the most common issues confronting such firms is their capability to secure adequate working capital and cash flow to stay profitable. This has been noted as one of the top issues fronting SMEs as long ago as the publication of the Bolton Report in the 1970s (Bolton, 1971). It has been a frequent theme in the small business history since that time (Kennedy, Tennent, & Gibson, 2006), which was underlined in the 2014 "Sensis Business Index" report where the most significant concerns of SME owner-managers were an absence of cash flow and sales, unbalanced debts and profitability (Chepngetich, 2016).

Financial knowledge has been revealed to be vital in refining efficiency, transparency, accountability and accuracy leading to achieve objectives (Chepngetich, 2016). Raising the cause of accomplishment among SMEs would have enormous consequences for the development and socio-economic welfare of the country. Therefore, understanding achievement forecasting in SMEs is crucial. The formation of more effective SMEs could potentially generate new careers, upsurge trade, and rising GDP. While it has been problematic to determine why in comparable circumstances some entrepreneurs collapse while others succeed, this research concentrates on "financial and economic knowledge" to provide a realistic means of revealing this phenomenon. Capability building of SMEs in terms of formulating financial statements and commercial plans, together with refining their financial knowledge and management preparation, is revealed to have a positive effect on SME development. Additionally, supporting the horizontal connection with other SMEs and vertical connection with larger companies would advance SMEs market access (Hogarth & Hilgert, 2002). Operative implementation of financial education abilities cause development in business performance as of amended capability to track business proceedings from the documentation system (Siekei, Wagoki, & Kalio, 2013). The greatest number of new business owners are overwhelmed by the mere idea of accounting and bookkeeping

It is commonly believed that SMEs are progressively becoming the majority in terms of occupation, wealth formation and the expansion of innovation. Although many SMEs confront issues throughout their lifetime, as a consequence, numerous firms execute improperly and fail to develop. Furthermore, it is commonly recognised that there is a great degree of mortality of SMEs during the first two years. This becomes crucial to explore as the elements necessitate the facilitation of SMEs to persist and proceed to the life cycle's development stage e (Kamunge, Njeru, & Tirimba, 2014). This request for financial

education interferes with education the SMEs on how to apply accessible means of financial services to advance their organisations while also decreasing business cost. Financial preparation is one of the elements that positively affects the development of SMEs as satisfactory financial literacy of financiers is better positioned to acclimatise enterprises to continually fluctuating business environments (Chepngetich, 2016; King & McGrath, 2002).

High numbers of SMEs do not have internally adequate training and supervision skills to efficiently manage funds. Outwardly, SMEs have shortage of essential collateral and have the capability to attract only minor quantities of funds from financial organisations. This blocks enterprises from accessing satisfactory credit due to high intermediation charges, including the expense of supervising and implementation of loan agreements. Several plans have been developed by the government and non-government segments to widen access to reasonable credit, and commercial management to empower SMEs to handle finances economically. Nevertheless, it is not obvious whether financial education plans have led to better financial management, financial performance, improved access to loan hub, and loan reimbursement of SME borrowers. Also, the shortage of financial education, operating skills, including finance and bookkeeping and business planning exemplifies a difficult challenge for SME debtors (Chepngetich, 2016).

Nevertheless, assessments of the literature on the impact of financial education on SME functioning are yet to be piloted. Most of the research concentrates on firm characteristics and functions. For instance, a posited connection among firm size and function was discovered by Chepngetich (2016). Most of these analyses have only been performed in large companies. Consequently, this research aims to fulfil the gap by recognising the connection between financial education, political instability and the performance of small to medium enterprise within the Malaysian economy.

Thus, this study targets the autoregressive distributed lag (ARDL) method to cointegration and “error correction models” (ECMs) to discover whether there is proof of a link between firm performance and financial education and political instability simultaneously, in the long and short-term regarding Malaysian SMEs data. This research is structured as follows: the following section will outline the theory and hypotheses, which is accompanied by the methodology that contains data collection and quantitative ARDL analysis by Eviews software and finally, the conclusion and suggestions for future study.

Theory and Hypotheses

Financial education theory debates people’s performance with a highly developed understanding of financial literacy which could rely on the occurrence of two rational styles based on dual-process theory: cognition and intuition. Dual-process theory comprises of the

idea that decisions may be propelled by both cognitive and intuitive processes. Dual-process theory has been considered and affected by many different fields, i.e., social cognition and reasoning (Evans, 2008). Financial education remains an interesting subject in both developing and developed economies and has stimulated much attention in contemporary literature with the prompt alteration in the finance area (Chepngetich, 2016).

Atkinson and Messy (2011) describe financial education as the mixture of investors' understanding of financial means and ideas and their capability and assurance to manage financial opportunities and risks, to select informed choices, to clarify where to go for backing and take other effective action to advance their financial situation. Financial education assists in endowing and instructing investors so that they are well-informed about relevant information and empowers them to apply this understanding to assess products and select informed options. We can broadly predict that greater financial awareness would assist in overcoming recent problems in sophisticated credit markets (Lusardi and Oliver, 2006).

Based on this theory, financial knowledge is a system of investment in human capital, and many practical surveys have been created which show that people need to be informed. It shows how financial education forms economic consequences, ending with thoughts on investigation necessities to better inform theoretical and practical models together with public policy. Accordingly, the greater the financial education, the greater the firm performance outcomes. Therefore, the following hypotheses are proposed:

H10: Financial education has no significant effect on the performance of small and medium enterprises

H11: Financial education has a (positive) significant effect on the performance of small and medium enterprises

Political variety and stability should be reflected on too as businesses have to contain their tactics to economic and political elements, which vary from country to country. A portion of total company risk involves political instability arising from the politic aspect of a country. Kobrin (1979) outlines political instability as a casual negative effect arising from political events. More commonly, political instability can be described as any unforeseen change in government strategy and policy that impacts on the business landscape where companies operate (Butler & Joaquin, 1998). This is a very challenging idea but lately some indexes have been offered to measure it such as the Political Constraint Index by Henisz, (2000) and the Political instability index by the International Country Risk Guide (ICRG).

Most of the research so far has been based on the impact of political instability on the level of investment in a country where a negative connection was uncovered (Majocchi, Dalla Valle, and D'Angelo 2015). This negative link is defensible by the statement that when

political instability is high the possibility of negative effects arising from political events is greater. This link applies to most firms are not SMEs exempt. Therefore, the greater the political instability that SMEs have to confront the lesser the performance outcomes. Consequently, we structure the following hypotheses:

H20: Political instability has no significant effect on the performance of small and medium enterprises

H21: Political instability has a (negative) significant effect on the performance of small and medium enterprises

Data and Methodology

The objective of this study is to examine the relationship between financial education, political instability and firm performance in a linear approach and to identify the size of this effect in the long and short-term. Data was gathered from a time series of SMEs in Malaysia between 2004 and 2016. This paper employed a time-series methodology and particularly the autoregressive distributed lag model (ARDL) to deliver the outcome of the hypothesis assessment. Diagnosed analyses such as Pearson-pairwise correlation, VIF Multicollinearity, Autoregressive Conditional Heteroskedasticity (ARCH), unit-root test, auto-correlation tests were applied to check the assumption of regression.

The study sample is the Malaysian industry that has highest share of SMEs and we consider it as SMEs in this study. Regarding variables, dependent variable which is firm value (FV) is calculated as the sum of market capitalisation and booked value of total liability divided by total asset (Driffield, Mahambare, & Pal, 2006). Subsequently, the measure of financial education we adopt in the paper is drawn from the ranking of Malaysia out of 60 countries. Then the complement of this ranking has been calculated. The higher value of this ranking complement shows higher financial literacy. Source: Malaysia Productivity Corporation (MPC) and IMD World Competitiveness Yearbook (WCY). Regarding political instability, this study applied the index of International Country Risk Guide (ICRG). The ICRG index of political instability has twelve different indices viz. Government Stability, Socioeconomic Conditions, Investment Profile, Internal Conflict, External Conflict, Corruption, Military in Politics, Religion in Politics, Law & Order, Ethnic Tensions, Democratic Accountability and Bureaucracy Quality. However, the original indices indicated that the higher the index, the lower the political risk. However, to ease the interpretation of results, the maximum value of each of the indicator was deducted from the existing values to ensure that higher indices reflected higher political risks. This study uses the ICRG index that consists all twelve of the above mentioned indices from the PRS Group, Inc source (Howell, 2011). Lastly, for Control variables, this research considers Leverage (industry level) and inflation (country level), and also tangibility for robust modelling. All industry data series are collected from DataStream

data-base and country level data is collected from the IMF Statistics and Bank Negara Malaysia (BNM) Bulletin. The data is annual and spans the time period between 2004 and 2016. All variables are expressed in natural logarithm.

Regarding methodology, the study adopts the newly advanced ARDL framework by M. H. Pesaran, Y. Shin, and R. Smith (2001a) to determine the causation relationship between variables. There are benefits of applying this method instead of the conventional (Johansen, 1988) and (Johansen & Juselius, 1990) approach. While the common cointegration approach contains long-term evaluation within a framework of a system of equations, the ARDL approach uses only a single reduced form equation (M. H. Pesaran, Y. Shin, & R. J. Smith, 2001b). ARDL does not include pre-testing variables, which implies that the test on the current relationship between variables in levels is pertinent regardless of whether the fundamental regressors are purely I(0), I(1) or a mixture of both. Moreover, the ARDL technique prevents the larger number of requirements to be made in the standard cointegration method. These comprise of decisions concerning the number of exogenous and endogenous variables (if any) to be involved, solving the issue of deterministic basics. The practical outcomes are generally sensitive to the technique and various alternatives obtainable in the estimation process (Pesaran et al., 2001b). By using ARDL, different variables can have distinctive optimal lags, which is impossible in the common cointegration test. Most prominently, the model can be applied with limited observations in which the set of critical values were originally structured by Narayan (2004). Fundamentally, the ARDL method to cointegration (Pesaran et al., 2001b) includes estimating the “conditional error correction” (EC) version of the ARDL model for firm value (as an indicator of firm performance) and effectual variables:

$$\begin{aligned} \Delta \ln FV_t = & \beta_0 + \sum_{i=1}^p \phi_i \Delta \ln FV_{t-i} + \sum_{i=0}^p \theta_i \Delta \ln FE_{t-i} + \sum_{i=0}^p \lambda_i \Delta \ln PI_{t-i} + \sum_{i=0}^p \vartheta_i \Delta \ln INF_{t-i} \\ & + \sum_{i=0}^p \eta_i \Delta \ln LEV_{t-i} + \delta_1 \ln FV_{t-1} + \delta_2 \ln FE_{t-1} + \delta_3 \ln PI_{t-1} + \delta_4 \ln INF_{t-1} \\ & + \delta_5 \ln LEV_{t-1} + v_t \end{aligned}$$

where $\ln FV$, $\ln FE$, $\ln PI$, $\ln INF$, $\ln LEV$ are firm performance, financial education, political instability, inflation and leverage in natural logarithm, respectively, D is first-difference operator and p is the optimal lag length.

The F-test is applied for examining the existence of the long-term relationship. When the long-term relationship endures, the F-test specifies which variable should be normalised. Null

hypothesis of no cointegration among variables is $H_0: \delta_1 = \delta_2 = \delta_3 = \delta_4 = \delta_5 = \mathbf{0}$ against the alternative $H_1: \delta_1 \neq \delta_2 \neq \delta_3 \neq \delta_4 \neq \delta_5 \neq \mathbf{0}$. The F-test has a non-standard distribution which relies on (i) whether variables encompassed in the model are I(0) or I(1), (ii) the number of regressors, and (iii) whether the model comprises an intercept. Two sets of critical values are generated to assess the result of the F test, one set denotes the I(1) series and the other the I(0) series. Critical values for I(1) are denoted to upper bound critical values, and critical values for I(0) are denoted to the lower bound. If the F-test statistic surpasses the respective upper critical level, we can state that there is evidence of a long-term connection between variables irrespective of the order of their integration. If the test statistic is less than the lower critical value, we fail to reject the null hypothesis of no cointegration and if it is between two bounds, a concluding inference cannot be provided without considering the order of integrations. If there is evidence of long-term (cointegration) linkages, the subsequent long-term model is estimated as:

$$\ln FV_t = \beta_1 + \sum_{i=1}^p \phi_{1i} \ln FV_{t-i} + \sum_{i=0}^p \theta_{1i} \ln FE_{t-i} + \sum_{i=0}^p \lambda_{1i} \ln PI_{t-i} + \sum_{i=0}^p \vartheta_{1i} \ln INF_{t-i} + \sum_{i=0}^p \eta_{1i} \ln LEV_{t-i} + \mu_t$$

It should be noted that the optimal orders of lags in the ARDL model are chosen by either the Akaike information criterion (AIC) or the Schwarz Bayesian criterion (SBC). The ARDL requirement for short-run dynamics can originate by creating an ECM of the following system:

$$\Delta \ln FV_t = \beta_2 + \sum_{i=1}^p \phi_{2i} \Delta \ln FV_{t-i} + \sum_{i=0}^p \theta_{2i} \Delta \ln FE_{t-i} + \sum_{i=0}^p \lambda_{2i} \Delta \ln PI_{t-i} + \sum_{i=0}^p \vartheta_{2i} \Delta \ln INF_{t-i} + \sum_{i=0}^p \eta_{2i} \Delta \ln LEV_{t-i} + \psi ECM_{t-1} \mu_t$$

Where ECM_{t-1} is the “error correction term” and defined as:

$$ECM_t = \ln FV_t - \beta_1 - \sum_{i=1}^p \phi_{1i} \ln FV_{t-i} - \sum_{i=0}^p \theta_{1i} \ln FE_{t-i} - \sum_{i=0}^p \lambda_{1i} \ln PI_{t-i} - \sum_{i=0}^p \vartheta_{1i} \ln INF_{t-i} - \sum_{i=0}^p \eta_{1i} \ln LEV_{t-i}$$

In the short-term equation, ψ represents the speed of adjustment. Finally, we run the robust model by replacing Leverage (LEV) with Tangibility (TANG), and the rest of the variables are the same as in the main model, to check the consistency of outcomes.

Findings and Discussion

The analysis section starts with correlation analysis. This study applies the pairwise method to reach the correlation matrix. Table 1 delivers the correlation coefficient among variables.. This table can assist the study to reveal the existence of a relationship and collinearity between variables, particularly among independent variables. It reveals that the correlation of FE and LEV is moderate. The remaining correlation coefficients are lower than the above-mentioned and most are not meaningful, expressing that other variables do not have the problem of collinearity according to the correlation coefficient method.

Table 1. Correlation coefficients between all included variables

	lnFV		lnFE		lnPI	lnINF	lnLEV
lnFV	1.000						
lnFE	0.916	***	1.000				
	0.000						
lnPI	-0.004		0.148		1.000		
	0.988		0.629				
lnINF	0.038		0.120		0.094	1.000	
	0.902		0.697		0.759		
lnLEV	0.968	***	0.918	***	-0.056	0.094	1.000
	0.000		0.000		0.855	0.760	

As a correlation matrix is not sufficient to diagnose the issue of multicollinearity, this research utilises variance inflation factors (VIF) to assess this issue. VIF unveils how much

the estimated coefficient variance fluctuates in the case of no correlation among all explanatory variables (Damodar N Gujarati & Porter, 2009). According to the outcome of VIF in table 2, all computed VIF values are lower than 10, so there is no risk of multicollinearity (Damodar N Gujarati & Porter, 2009).

Table 2: Result of Multicollinearity test VIF

Variable	lnFE	lnPI	lnINF	lnLEV
CentredVIF	8.522805	1.351794	1.020753	8.348598

Following the above section, a unit-root test examines whether any variables are stationary or contain unit-root (non-stationary). The null hypothesis indicates that the series has a unit-root and the alternative states that the series is stationary. The current research applied two common unit root tests (Augmented Dickey–Fuller and Phillips–Perron unit root test): the “t-statistics” of Im, Pesaran, and Shin (2003) and the “z-statistic” of Harris and Tzavalis (1999). Table 3 provides the result of the unit root tests. Since the hypothesis of stationary of level zero is accepted only for INF and for the rest of variables show a stationary situation for first difference, it reveals that INF is stationary at first difference I(1) and rest of variables are stationary at level I(0). Since we have a combination of I(1) and I(0), this study applied the ARDL method to analyse the relationship between variables.

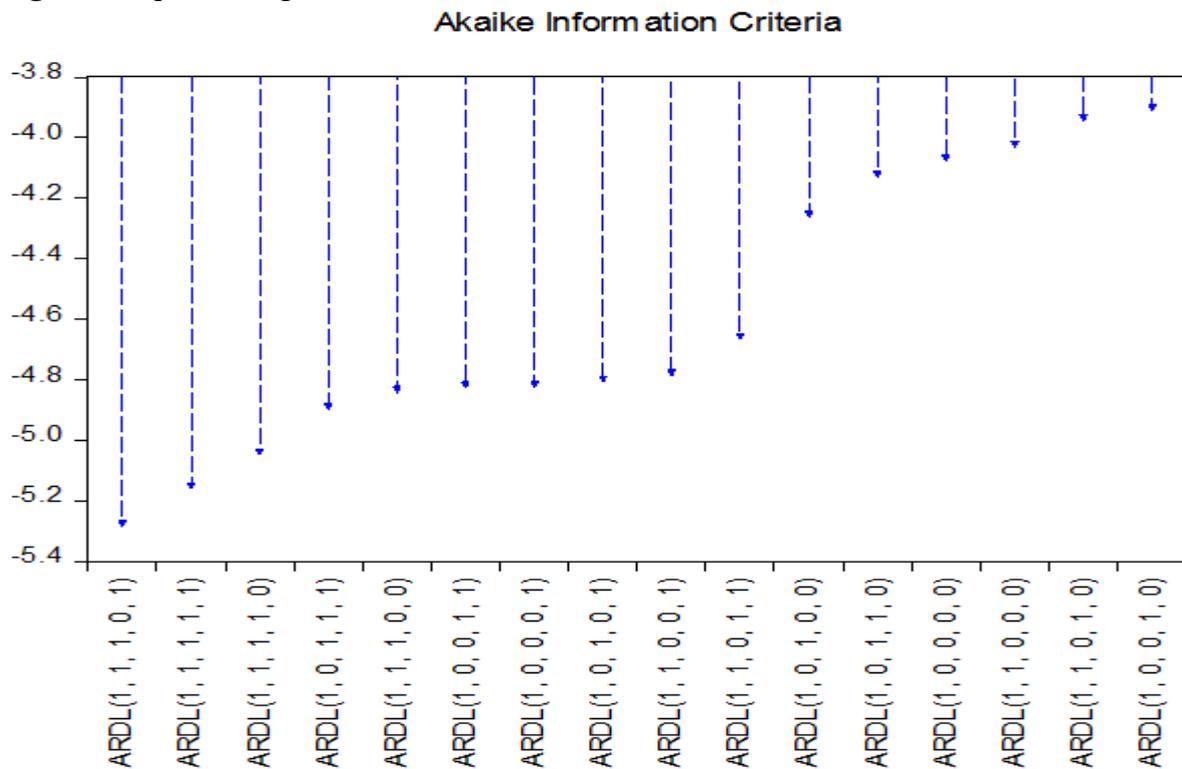
Table 3: Unit root test of each variable

Variable	Augmented Dickey-Fuller Test				Phillips-Perron Test				Unit root Result
	At Level		Frist difference		At Level		Frist difference		Stationary
lnFV	-2.254		-3.728	**	-8.250		-13.733		I(1)
lnFE	-2.503		-4.240	**	-10.530		-14.709		I(1)
lnPI	-3.095		-4.311	**	-13.009		-15.104		I(1)
lnINF	-4.348	**	5.397	***	-15.789	*	-16.960	*	I(0)
lnLEV	-2.872		-5.923	***	-10.277		-13.138		I(1)

Note: (***), (**), and (*) show the significance level at 1%, 5% and 10% respectively.

The next step is to find the optimal lag. Most studies state that the length of optimal lag length detected relies on the lowest values of the AIC test, since it performs relatively well in small sample sizes, and minimising the degree of loss of freedom as well. Remarkably, in ARDL, each variable can have a distinctive lag as optimal . Figure 1 shows the optimal lag length for the model, which is ARDL (1,1,1,0,1).

Figure 1. Optimal Lag selection



The following step is to assess the long-term relationships among the variables. The F-statistics calculated for the cointegration test is displayed in Table 4 as well as the critical values which are based on the critical values suggested by Narayan (2004) using a small sample size. The outcome shows that the F-statistic calculated (F-statistic 33.131) is higher than the upper bound critical value at the 1% level of significance (4.306) which implies the existence of long-run relationship in this analysis.

Table 4. F-Statistic of cointegration relationship

Test Statistic	Value	Lag	Significance level	Bound Critical Values	
				I(0)	I(1)
F-Statistics	33.131	1			
			1%	4.280	5.840
			5%	3.058	4.223
			10%	2.525	3.560

We also tested the model for serial correlation, conditional heteroscedasticity (ARCH), RAMSEY RESET and normality of residual and their outcomes are provided in table 5. Regarding autocorrelation detecting, the study applied Lagrange-multiplier (LM test) method with null hypothesis of no autocorrelation and the alternative of existing autocorrelation.

Based on the result of LM test in table 5, the p-value of LM test is not significant and hence the null hypothesis of no serial correlation cannot be rejected. So, there is no issue of autocorrelation in the model.

One of the most critical diagnostic tests for the ARDL model is the issue of “conditional heteroscedasticity” (ARCH). Table 5 illustrates the result ARCH test, which shows that the probability of Chi-square is insignificant, so the null hypothesis of no ARCH effect is not rejected for this model. Hence, this model does not contradict the ARCH effect or conditional heteroscedasticity. Also, within the ARDL method, the Ramsey RESET test is applied to identify function misspecification due to variable omission bias or incorrect functional form. If result becomes significant, the linear model is misspecified. Table 5 displays the outcomes of the RAMSEY RESET test. The null hypothesis states that the model has the correct functional form and it is unbiased. As the probability of F-statistic is not significant at 5% level confidence, there is no issue of misspecification and the model is accurately specified. Finally, the model is tested for the normality of residuals. This research used the Jarque-Bera test to assess the normal distribution of residuals. If the P-value of Jarque-Bera test is significant, the distribution of residuals is not normal and otherwise it is normally distributed (Damodar N. Gujarati, 2003). Table 5 displays the outcome of normality testing. The insignificant P-value leads to accept null hypothesis of normal distribution of residuals. Therefore, there is no concern regarding non-normality of residual.

Table 5: Diagnostics Tests

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	18.156	Prob. F (2,1)	0.164
Heteroskedasticity Test: ARCH			
Obs*R-squared	0.726	Prob. Chi-Square (1)	0.394
RAMSEY RESET			
	Value	df	Prob
F-statistic	0.557	(1, 2)	0.533
Normality of Residuals			
Jarque-Bera	1.386	Prob	0.500

Ultimately, Table 6 and 7 show the result for Error correction model (ECM) and long-term ARDL analysis. The outcomes from this investigation indicate noteworthy outcomes. In the ECM section, the CointEq(-1) variable has significant probability with negative coefficient which shows the speed of adjustment from short-term to long-term and also confirms that the outcome is stable and valid in the long-term

Table 6: ECM outcomes

Selected Model: ARDL (1, 1, 1, 0, 1)				
ECM Regression				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(lnFE)	0.92852	0.067449	13.76615	0.0008
D(lnPI)	-0.673822	0.049487	-13.6163	0.0009
D(lnLEV)	-0.031838	0.010907	-2.91908	0.0615
CointEq(-1)*	-0.470394	0.020431	-23.0238	0.0002

Subsequently, table 7 indicates long-term results. According to this table, financial education (FE) and Leverage (LEV) have significant and positive impact on firm value (FV). This outcome confirms the first hypothesis which stated meaningful effect of financial education (FE) on firm performance (FV). On the other hand, political instability (PI) and inflation (INF) have meaningful negative impact on firm value (FV) (as an indicator of firm performance) which confirms the second hypothesis of this study regarding the meaningful impact of political instability (PI) on firm performance (FV). Therefore, it can be concluded that higher financial education leads to higher firm performance and higher political instability leads to lower firm performance.

Table 7: Long-term outcomes

Variable	Coefficient	Std. Error	t-Statistic	Prob.
lnFE	2.612	0.637	4.102	0.026
lnPI	-1.998	0.758	-2.636	0.078
lnINF	-0.013	0.029	-0.445	0.687
lnLEV	0.014	0.050	0.273	0.803
C	-4.135	2.133	-1.939	0.148

In order to re-confirm the outcome of this study, the robust model has been investigated. In the robust equation, Leverage (LEV) has been replaced with tangibility (TANG). Similar to the main outcome, the result of robust modelling confirmed the significant positive impact of financial education (FE) and negative impact of political instability (PI) on firm performance (FV).

Table 8: Long-term outcomes for robust model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
lnFE	2.541328	0.302067	8.413141	0.0035
lnPI	-1.986304	0.410316	-4.84092	0.0168
lnINF	0.091669	0.082289	1.113993	0.3465
lnTANG	0.025972	0.28222	0.092027	0.9325
C	-4.098155	0.448118	-9.14526	0.0028

In summary, SME owners are recommended to enhance financial education. At the same time, the financial performance of small firms depends not only on specific firm elements, but also on market features and particularly on a country's political instability. This feature seems even more significant regarding SMEs. Shortage of resources typical of small firms has been emphasised in various studies but our results confirm that SMEs appear particularly impacted by political instability.

Conclusion

The purpose of current study is to examine the linear relationship between financial education, political instability and firm performance for Malaysian SMEs as an emerging market. This research employed the Autoregressive Distributed Lag (ARDL) method to deliver short-term and long-term outcomes and simultaneously examine the effect of financial and political education, which according to the author's understanding has not been completed until now. The outcome revealed strong proof that financial education affects SME firm performance positively, and political instability affects it negatively, which endorse the existence of the long-term and short-term relationship.

Financial knowledge is useful primarily in assessing the achievement of past decisions and in defining the present position. The development of accounts likewise requires to be examined and gauged periodically. Moreover, there is a prerequisite for workforces to have essential investigation skills. Most prominently, SME owners are required to follow the political features of the country in which they are functioning in order to prepare for the probability of future political instability. Future studies should focus on other industry level elements affecting SME performance alongside financial education and political instability, and furthermore include other macroeconomic indicators such as unemployment ratio, recession and boom impacts. This outcome has significant theoretical implications since it suggests that when firm performance is measured, financial education and political instability should be noted. Any practical analysis of this scope which does not consider these two factors, will omit principal variables, leading to a biased approximation of the performance of firms.

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