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## **Social Network and Market Orientation as the Key Factors in Determining the Success of Small and Medium Enterprises (SMEs) in Malaysia**

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### **Abstract:**

*This study aims at investigating the key determinants towards SMEs success in Malaysia. Nowadays, SMEs are considered as the main driver for the industrial development in Malaysia. Economic Census of Malaysia (2011) reported that there were around 97.3% of total SMEs establishments in Malaysia. Although there are a lot of supports given by the government, most SMEs in Malaysia are still struggling in terms of establishing themselves in the market. Only half of the SMEs in Malaysia managed to survive after three years of business operation. This study is very important as it helps to determine the key success factor for SMEs success particularly in Malaysia. The respondents for this study were SMEs from various industries in Sabah, Malaysia. The total number of questionnaires distributed to SMEs was 170. Based on the results and findings of this study, it was found that market orientation has a significant relationship with SMEs success. This study, therefore, through its research and findings has contributed significantly to both theoretical and practical implications. This study can help to provide the information related to the factors that contribute to the SMEs success and can benefit the government in an effort to promote more SMEs success in Malaysia.*

**Keywords:** Social Network, market orientation, Small and Medium Enterprises (SMEs)

### **1. Introduction**

Small and medium enterprises (SMEs) have often been linked with its significant contributions towards nation's economic growth. In fact, the economic growth of most developed countries such as Japan, Korea, and Taiwan have been driven mainly from the activities conducted by SMEs. For instance, in terms of SMEs contributions towards the country's Gross Domestic Product (GDP); it is reported that SMEs have contributed around 60.0 percent to GDP in China, 57.0 percent to GDP in Germany, 55.3 percent to GDP in Japan and 50.0 percent to GDP in Korea (Bank Negara Malaysia, 2003).

Similarly, in Malaysia, SMEs have become the main driver for the industrial development in Malaysia. Economic Census of Malaysia (2011) reported that there were around 97.3% of total SMEs establishments in Malaysia. Accordingly, as new definitions of SMEs were being effectively used beginning the 1st January 2014, the total number of SMEs establishments is predicted to rise from 97.3% to 98.5%.

SMEs in Malaysia have been facing with a lot of challenges in the business and market. Kuratko and Hodgetts (2007), reported that only half of the early business start-ups created can survive the first three years of the business operation. This, somehow, reflected the survival rate of most SMEs in Malaysia. Therefore, this study aims at investigating the main key factors towards the success of small and medium enterprise (SMEs) in Malaysia. The focus of this study is to research on the role of social network and market orientation in determining the success of SMEs in Malaysia.

### **2. Literature Review**

In Malaysia, SMEs are defined based on few criteria, which include annual sales turnover and number of full-time employees or shareholders' funds.

Size sector	Primary Agriculture	Manufacturing (including Agro-based) & MRS	Services Sector (including ICT)
Micro	Less than 5 employees	Less than 5 employees	Less than 5 employees
Small	Between 5 & 19 employees	Between 5 & 50 employees	Between 5 & 19 employees
Medium	Between 20 & 50 employees	Between 51 & 150 employees	Between 20 & 50 employees

*Table 1: SMEs definitions based on number of full-time employees*

Size sector	Primary Agriculture	Manufacturing (including Agro-based) & MRS	Services Sector (including ICT)
Micro	Less than RM200, 000	Less than RM250, 000	Less than RM200, 000
Small	Between RM200, 000 & less than RM1 million	Between RM250, 000 & less than RM10 million	Between RM200, 000 & less than RM1 million
Medium	Between RM1 million & RM5 million	Between RM10million & RM25 million	Between RM1 million & RM5 million

Table 2: SMEs definitions based on annual sales turnover  
Source: National SME Development Council (NSDC)

Table 1 and Table 2 is the definition for SMEs in Malaysia.

In Malaysia, Small and Medium Industries Development Corporation (SMIDEC) has categorized SMEs into manufacturing which consist of manufacturing related services and agriculture industries; and services which include ICT) and primary agriculture. Most SMEs in Malaysia are facing issues such as lack of managerial capabilities, lack of financing and difficulty in accessing management and technology. In view of challenges and issues faced by SMEs, government should play a major role in order to help promote the success of SMEs establishment in Malaysia. Thus, this study focuses on investigating factors that help to promote SMEs success particularly in Malaysia. This study focuses on social network and market orientation in promoting SMEs success.

### 2.1. Social Network

Aldrich & Zimmer (1986) stated that networking is important for entrepreneur since it can help to lower the cost and improve the business idea. Networking can also help the entrepreneur to get more capital and knowledge. According to Anderson, Dodd & Jack (2010), networking is critical during the early stage of a business. During this stage, entrepreneur may need an advice that they can get from their networking activities. The advice can be obtained from their mentors, families or business association (Hisrich, Peter, and shepherd, 2010). According to Klyver et al (2007), networking can provide better access to outside resources and support.

### 2.2. Market Orientation

As described by Narver and Slater (1990), market orientation is the culture that places the high priority on the profitable foundation and maintenance of customer's value. Market orientation can be categorized into three components: customer orientation, competitor orientation and inter-functional coordination. Accordingly, Narver and Slater (1990) further stated that, customer's orientation generates an understanding of target customers in order to create customer value by increasing benefits or decreasing the cost. Competitor orientation, on the other hand, requires a comprehensive knowledge of main existing customers and future customers. The inter-functional coordination requires the distribution of information and coordination of benefits across the organization. Slater & Narver (1995) also argued that market orientation is very crucial since it can assist gathering collecting information about target customers need and competitor capabilities.

### 2.3. SMEs Success

Zinger et al. (2001) define success from the perspective of achievement of either financial or non-financial objective. Often, success is measured based on the financial performance. As summarized by Fatimah-Salwa et al. (2013), financial performance can include return on asset, return on investment, asset owned profit, income. Fatimah-Salwa et al. (2013) also stated that the non-financial performance can be in the form of customer's satisfaction, personality development and awareness of entrepreneurs. Additionally, as cited by Fatimah-Salwa et al. (2013), McClelland et al. (2005) stated that non-financial success can also include satisfaction of entrepreneurs to measure the society requirements and wants.

## 3. Methodology

The study employed a quantitative survey with the distribution of a questionnaire to a total of 170 SMEs that were selected from various industries located in Sabah. The selection of respondents was based on the list available in the SMEs business Directory, Malaysia (www.smeinfo.com.my). The study only focuses on SMEs that have than less 200 full time employees. These respondents were selected from various industries in Sabah, which include services, primary agriculture and manufacturing sectors. Convenience sampling was used in this study.

## 4. Results

The factor analysis is to summarize and confirm the pattern of variables observed on manageable numbers or the correlations. The factor analysis was performed separately for each variable: social network (5 items), market orientation (12 item) and Success (5 items). The factor analysis results of these studies of variables are discussed below.

### 4.1. Factor Analysis for Social Network

There are five item used to measure the social network. The result of factor analysis for social network produced only one factor with only three items left. The KMO value was 0.683 and the Barlett's test of sphericity was significant at 0.000, indicating the three items were suitable for the factor analysis. The anti-image correlation for the three item were greater than 0.50. The communalities were greater than 0.50 ranged from 0.600 to 0.850. The only one factor has an eigenvalue of 2.209, which was greater than 1 and explained

73.646 % of variance. The factors loading of three items ranged from 0.800 to 0.950. A summary of factor analysis for social network is presented as below in the Table 3.

4.2. Factor analysis for Market Orientation

There were 12 items used to measure market orientation. The results are shown in Table 4. The result of factor analysis for market orientation produced only one factor with only six items left. The KMO value was 0.537 and Bartlett test of sphericity was significant at 0.000, which indicates the items were suitable for the factor analysis. The anti-image correlation for the remaining 6 items were greater than 0.50. The communalities of 6 items were contributed to the factor. The eigenvalues were 1.957 with total variance of 32.622%. The factor loadings for the remaining 6 items ranged from 0.700 to 0.903.

No	Items	Factor Loadings
1	I have business association which can support new business venture	0.902
2	I have many helpful friends/colleagues who can support new business venture	0.862
3	I have reliable business network that can help me run new business venture	0.808

Eigen value	2.209
Total % of variance	73.646
KMO Measure of Sampling Adequacy	0.683
Barlett's Test of Sphericity Approx. Chi-Square	146.184
Df	3
Sig	0.000

Table 3: Summary of Factor analysis for Social Network

4.3. Factor analysis for Success

Table 5 shows the factor analysis of 3 items for success. The result of factor analysis for success produced only one factor. The KMO value at 0.678 and Bartlett test of sphericity was significant at 0.000. The anti-image correlation was greater than 0.50. The factors loadings ranged from 0.783 to 0.817 with eigenvalue 1.924 and 64.120 % of total variance.

No	Items	Factor Loadings
1	I will evaluate the effect of environmental change on my customers	0.825
2	I can collect the industry information through informal meetings (e.g.; lunch with industry partners or talk with trade partners)	0.903
3	I have meetings at least once a quarter to discuss the market trends and development	0.854
4	I will make the whole organization known within a short period of time if something important happens to a major customers or group of customers	0.836
5	I will make the top management response with plan if changes take place in business environment	0.851
6	I will immediately respond if a major competitor launches campaign targeted at my customers	0.778

Eigen value	1.957
Total % of variance	32.622%
KMO Measure of Sampling Adequacy	0.537
Barlett's Test of Sphericity Approx. Chi-Square	117.744
Df	15
Sig	0.000

Table 4: Factor analyses for Market Orientation

No	Items	Factor Loadings
1	I am satisfied with the sales growth after three years of business operation.	0.783
2	I have completed the objective and reach the goal to be successful in my new business venture	0.803
3	I am successful in obtaining the financial and non-financial supports to grow my new business venture	0.817

Eigen value	1.924
Total % of variance	64.120
KMO Measure of Sampling Adequacy	0.678
Barlett's Test of Sphericity Approx. Chi-Square	74.880
Df	3
Sig	0.000

Table 5: Factors analysis for Success

#### 4.4 Reliability Analysis

Reliability analysis was used to measure the internal consistency among the variables in the summated scale (Hair et al., 2006). The main reason for conducting reliability test is to ensure the internal consistency of the factors obtained or scales used in this study. In order to ensure the internal consistency, Cronbach alpha was calculated. Cronbach alpha that has a value which is close to 1 shows high internal consistency reliability, while an alpha value that is less than 0.6 is considered poor, value of 0.7 is considered acceptable and value that is more than 0.8 are said to be good (Sekaran, 2003).

The result of the reliability analysis for this study is presented in Table 6. The Cronbach alpha for Social Network was considered good since the alpha value was higher than 0.80. The alpha value for Success was acceptable since it was greater than 0.7. However, the alpha value for Market orientation was lower than 0.60 and was considered poor. According to Nunnally (1967) as cited in Caplan et al. (1984) argued that Cronbach alpha which is higher than 0.50 can be considered as sufficient for research purposes.

Variables	Number of items	Cronbach alpha	Remark's
Social Networking	3	0.820	Independent Variables
Market orientation	6	0.549	Independent Variables
Success	3	0.718	Dependent Variables

Table 6: Reliability analysis for Social Network, Market Orientation and Success

#### 4.5 Regression Analysis

According Tabachnick & Fidell, (2007), Hair et al., (2006) explained that regression analysis is a method to examine the relationship between dependent variable and the independent variable.

Dependent Variables	Independent variables	Std. Coefficient	Beta ( $\beta$ ) Sig.
Success	Social network	-0.053	0.552
R <sup>2</sup>	0.003		
Adjusted R <sup>2</sup>	-0.005		

Table 7: Regression Analysis for Social Network with Success

Note: significant level:  $p < 0.05$

Table 7 shows the regression analysis for the relationship between social network and success. The social network variable explained 0.3 percent of variances in success ( $R^2 = 0.003$ ) with ( $\beta = -0.053$ ,  $p < 0.05$ ). Based on this result, H1 was found to have no significant relationship with success.

The second regression analysis was to test the relationship between market orientation and success. The result was shown in Table 8. There were 6.6 percent of variances in success explained by market orientation ( $R^2 = 0.066$ ) with ( $\beta = 0.257$ ,  $P < 0.05$ ). This showed that market orientations have a significant relationship with success. Therefore, H2 was accepted since p-value is 0.003.

Dependent Variables	Independent variables	Std. Coefficient	Beta ( $\beta$ ) Sig.
Success	Market orientation	0.257	0.003
R <sup>2</sup>	0.066		
Adjusted R <sup>2</sup>	0.059		

Table 8: Regression Analysis of market orientation variables with Success

Note: significant level:  $p < 0.05$

The following Table 9 summarizes the results of hypotheses testing. H1 was rejected and on H2 was accepted. H1 was rejected because no significant relationship with the dependent variable.

Hypothesis	Statement of Hypothesis Number	Results
H1	there are positive relationship between social networking and Small and Medium Enterprises success	Rejected
H2	there are positive relationship between market orientation and Small and Medium Enterprises success	Accepted

Table 9: Results of Hypotheses Testing

## 5. Discussions

Hypothesis 1 stated that there was a significant relationship between the social network and SMEs success. However, the result showed that there was no significant relationship between social network and SMEs success. The result seems to contradict from the previous study. Simon (2012) stated that business owners are required to acquire all skills and knowledge needed to expand their

enterprise, and to find people with the necessary skills, in order to get them to contribute. This is a critical aspect of social network. Through social network, SMEs can get access to other resources.

Hypothesis 2 stated that there was a significant relationship between market orientation and SMEs success. The result of this study found that there was a significant relationship between market orientation and SMEs success with p value of 0.003. The result was shown in Table 8. The result was consistent with the previous study. Market orientation is said to be the culture that help to generate an outstanding performance through its commitment in order to create superior value for customers. The result shows the importance of customers to the organization. Market orientation suggests a culture that helps organizations to create superior value for their customers by focusing more on customer needs and long-term profitability (Narver and Slater, 1990).

## 6. Conclusion

This study focuses on the role of both social network and market orientation in determining the SMEs success. The findings of this study contributed significantly towards understanding on the factors that determine the SMEs success in general and in Malaysia particularly. This study also highlights the importance of market orientation towards the success of SMEs in Malaysia. Therefore, it is very crucial for SME owners to understand the market orientation of their companies in order to be successful in the market.

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