Factors that Determine Financial Performance of SMEs in Malaysia

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Abstract*: Small and Medium Enterprises (SMEs) has been recognized as the backbone to a country's economic development and social benefits. Malaysian SMEs contributed 38.8% to overall GDP, 17.3% to total exports and 66.2% to total employment. Huge budget allocations were put every year to enhance and encourage the improvement on SMEs. However, it was found that many of the SMEs failed within the first years of its business operations despite various programs and initiatives by the government agencies. Therefore, this paper aims to determine factors that determine sustainable financial performance of SMEs in Malaysia namely, Financial Knowledge, Financial Attitude, Financial Socialization Agents, Financial Skills and Accounting Skills. The relationship of these factors towards SMEs performance is measured using regression and factor analysis conducted using the Statistical Package for the Social Sciences (SPSS) software. Findings reveal that all factors have a significant relationship with SME financial performance in Malaysia except for financial skills. Hence, the authority especially those that provide programmes involving SME can emphasize on the significant factors in their effort to improve the financial performance and increase the survival of SMEs in the industry.*

Keywords: SMEs, Financial Performance, Financial Knowledge, Financial Attitude, Malaysia

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1.0 Introduction

Globally, Small and Medium Enterprises (SMEs) has been recognized as the backbone to a country's economic development and social benefits. It offers job opportunities which at the same time lowering unemployment rate, increasing competition, productivity and hence providing substantial benefits to the economy of a country. The same fact also applies to Malaysia where SMEs is identified to have taken part in economic activities as an important contributor to stimulate the economic growth and later have become the most significant tools for economic development, Gross Domestic Product (GDP) and workforces (Dzuljastri and Moha Asri, 2018).

SME Annual Report 2018/19 stated that the growth of SME GDP increased by 6.2% in 2018 (2017: 7.1%) and continued to outperform the overall GDP growth of 4.7% in 2018 (2017:5.7%). The higher growth was supported by expansion in all economic sectors. In terms of economic contribution, SMEs contributed 38.8% to overall GDP, 17.3% to total exports and 66.2% to total employment during the year. The Statistic Department of Malaysia recorded that SMEs 2018 GDP stood at RM521.7 billion versus the country's total GDP of RM1.36 trillion during the year (Chong, 2019).

The above statistic proves the contribution of SMEs is significant to Malaysia in terms of GDP, employment and even exports. Another fact to mention, Malaysian SMEs participate in variety of industries and eventually represent the majority of total businesses in various sectors and a significant contribution in terms of GSP. SMEs involve in primary agricultural, manufacturing or production (including

agro-based), manufacturing related services, services, mining and quarrying and construction. Hence, SMEs have played an important role in the economic development in the country.

From the worldwide context, Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. According to the World Bank, formal SMEs in emerging economies contribute up to 40% of national income (GDP) most formal jobs are generated by SMEs which create 7 out of 10 jobs. It was also estimated that 600 million jobs will be needed by 2030 to absorb the growing global workforce (Source: World Bank). This statement put the development of SME as a crucial priority for many governments round the world.

In order to be categories as Small and Medium Enterprises (SMEs), it is normally determined by the number of employees and or revenues they have. Although the criteria for defining the size of a business differ from country to country, in Malaysia a business will be categorized as SME if it meets either one of the two specified qualifying criteria namely full-time employees or sales turnover. The definition is simplified as follows:

CATEGORY	MICRO	SMALL	MEDIUM
Manufacturing	Sales turnover of less than RM300,000 OR employees of less than 5	Sales turnover from RM300,000 to less than RM15mil OR employees from 5 to less than 75	Sales turnover from RM15mil to not exceeding RM50mil OR employees from 75 to not exceeding 200
Services and Other Sectors	Sales turnover of less than RM300,000 OR employees of less than 5	Sales turnover from RM300,000 to less than RM3mil OR employees from 5 to less than 30	Sales turnover from RM3mil to not exceeding RM20mil OR employees from 30 to not exceeding 200

Source: SME Corp Malaysia

Recognizing the importance of SME activity to the growth of the economy, the Government has carried out diverse initiative and programmes to support the development of these enterprises. According to the recent SME annual Report 2018/2019, the Government support were given through strategic policies for financing, infrastructure, innovation and technology uptake, human capital development, market access as well as transformation of the legal and regulatory environment to encourage the formalization of businesses.

For 2018, the Government implemented SME development programmes across all economic sectors in line with the objectives of the SME Masterplan (2012 – 2020). The focus of the SME development in 2018 continued in six areas deemed critical for the SME development, namely access to financing, innovation and technology adoption, access to market, human capital development, infrastructure as well as legal and regulatory environment. In fact, huge budget allocations were put on to enhance and encourage the improvement on SMEs. A total of RM13.7 billion was allocated to implement 153 programmes with 637,808 beneficiaries (SME Annual Report 2018/2019).

Despite various programmes and initiatives by the government agency to help the Small and Medium Enterprises (SMEs), the contribution of SMEs to the nations GDP has not increased very much, leveling at 32% level in 2010 to 36.6% in 2016 (Yusoff et. al, 2018; NSDC 2017). Such performance is contributed by failure of SME within the first years of operation. SME Corp reported that that approximately 60% of the SMEs failed during the first 5 years, blaming the poor financial management as the main cause that bring the failure. Yusoff et. al (2018) in their writing also noted that the issues of

higher failure rate among SME occur in all parts of the world. Almost 50% of SMEs were unable to survive with the first five years of establishment and two-third failing within the first ten years of establishment. Hence, the objective of this study is to explore and understand factors that are required for long term survival and success of SMEs in Malaysia.

Based on previous literature, this study recognizes the factors which were identified to be the important drivers of successful business performance practices among the SMEs namely financial knowledge, financial socialization agents, financial attitude, financial skills as well as accounting practices. The relationship of these factors towards the performance of SMEs will be determined using Regression Analysis methods to prove that these factors are important to drive towards successful financial performance of SMEs and hence contributing to lower failure among SMEs in Malaysia.

Furthermore, this study will be guide to the SMEs to improve its day to day business operation especially in handling their financial management and financial decision as these factors are proven to be the drivers of flourishes profit-making business and enhance their survival in the industry. At the same time, this research will help the authority to identify areas to improve especially when providing financial assistance or training programmes that actually cater to the real issues faced by SMEs in Malaysia.

The next chapter of the paper will cover the literature review focusing on financial performance and the five factors that determine the financial performance of SMEs. Then followed by chapter on research methodology, findings and discussion and finally ended with conclusions and recommendations.

2.0 Literature Review
2.1 Small and Medium Enterprise in Malaysia

The development of small and medium-sized enterprises in Malaysia started when the government introduced the New Economic Policy (NEP) in 1971. The objectives of the policy were to improve the welfare of the people and restructure ethnic economic imbalance. Ever since then strengthening SME development has become important as this sector is expected to be an integral driver for Malaysia's economic growth (Rafidah and Norafidatul, 2014).

Looking at the recent revised time series data from the Department of Statistics, Malaysia (DOSM), results shows that Small and Medium Enterprises (SMEs) is growing and consistently contribute to the national income. SME GDP grew at an average annual growth rate of 6.2% in the period of 2016 to 2018. This is higher than the average growth rate of overall GDP of 5.0%. Similar trend can be seen since 2004, of which the GDP growth of SMEs has consistently outperformed the overall economic growth. Despite small increment in percentage, the contribution of SMEs to the overall GDP has increased from 37.0% in 2015 to 38.3% in 2018 (SME Annual Report 2018/19). The higher growth of SME GDP indicated that the SMEs were not adversely affected and able to withstand external shocks, such as unresolved trade tensions between the United States and PR China and slower global growth, considerably well. This is mainly due to the fact that majority of SMEs are domestic driven and proven to be more resilient than the large firms.

In terms of sectorial contribution, in Malaysia the two largest contributors to the SME GDP in 2018 were the services sector with a share of 62.4% and manufacturing sector (20.1%). The combined share of these two sectors was 82.4% of the SME GDP. Meanwhile the agriculture sector contributed 10.1% to SME GDP followed by the construction and mining & quarrying sectors which contributed 5.9% and 0.5% respectively. These statistic figure given an insight that services and manufacturing sector are currently performing well meanwhile other sector needs further improvement and attention in order to also to be part of major productive and contributing sector to the GDP.

2.2 Financial Performance

Financial Performance is defined as efficiency and effectiveness of the organization (Lusch and Laczniak, 1989) in doing business, creating wealth and acquiring resources (Komppula, 2004) and to transform the resources within the firm to achieve organization goals (Daft, 1997) (as cited from Chamwada, 2015). Fonseka et.al. (2004) measure the financial performance of the organization by measuring sales revenue, profits, sales growth and business growth (Colvin, 1991) and Johannisson (1993) associated the growth with survival. Downey (2007) hen includes non-financial factors as the indicator of financial performance. As it is hard for SMEs owners to disclose the details of their sales and profit performance, a 5 Likert-Scales of sales-growth and profit growth will be used. This technique is used by many other studies by Dowling, Lechner & Welpe (2006), Watson (2002), Sawyerret at.al. (2003), and Thhrikawala (2011). Considering the study by Downey in 2007, growth of employee and market presence is also being included in this study.

2.3 Financial Knowledge

Lusardi and Mitchell, 2006, describe Financial Knowledge (FK) as understanding of the forces that significantly affect the quality of life. Understand the basics of financial services, financial records, awareness of risk and return. Kempson (2009) described Financial Knowledge as the understanding of the knowledge such as understanding of risk and return, inflation and interest rate. Lusardi & Mitchell, 2014, mentioned that, FK focuses on the knowledge of an individual about interest rate, inflation, importance of savings and investment also the consequences of debt. Remund (2010) described FK as knowledge of financial concepts and the ability to communicate about financial concepts. According to Sobhesh (2014), the absence of budgeting is associated with low financial knowledge. Thus FK, is not only about understanding the concept, but also the ability to communicate about the Inflation, Interest Rates, Risk and Return, Financial Services and Products, Financial Records and Budgeting, Awareness on Savings and Concept of Debt which will increase the financial performance. A study by Karadag (2017) proved that SMEs performance in financial management practices has a strong and positive correlation with education level of SMEs owners or managers. Chepngetich (2016) also mentioned a significant effect of borrowing financial literacy and budgeting financial literacy on SME performance.

Therefore, the first hypothesis tested will be:

H1: There is a positive relationship between Financial Knowledge and Financial Performance on SMEs

2.4 Financial Socialization Agent

Isomidinova & Singh (2017), Socialization Agents (SA) are encountered throughout a person's life cycle on which affect the financial knowledge and behavior of an individual. These include family members, peer groups, school friends and social media. Killiyani (2016), found that family, friends and social networks have significantly affected the way of spending and managing money for individuals in India which affect the behavior of the future generation. Shem (2016), mentioned that source of business information, primary source for small and micro enterprise is the family, friends, business colleagues and social networks such as Chamas. These Chamas Networks keep entrepreneurs up-to-date on business developments. Participation in trade association enhanced motivation thus, improve business standard of procedure. Xu & Zia (2012), learned that peers and social networks can greatly affect the uptake of a certain financial products, or financial (business) tips and smart and effective way in spreading positive spillover of financial knowledge. Jamal et.al. (2015), has also proven that family, peers and social networks influence the behavior of the individuals on saving. Ameliawati and Setiyani (2018) found that Financial Socialization Agents-family-to score the highest influence on financial management in Indonesia while Al-

Shami, Damayanti, Rahim and Marwati (2018) recognizes parental-factor presence in the financial socialization agents influences the decision making of the SMEs. Sohn et.al. (2012) however concluded that parents played a lesser role in financial socialization agents than any other agents while Lusardi, Mitchell and Curto (2010) concluded that peers and colleagues such as friends, teacher and mentor played a bigger role in influencing a person's financial decision. Thus, Socialization Agent can be defined as a medium of educating an individual about Finance and financial products and services while influencing their financial decisions. Hamburg (2014) found that mentors-experienced people with skills and qualifications in a wide range of industries and discipline-can help the staff to enhance and improve the situation of SMEs. Crompton (2012) also agrees on the idea of specific business coaching will eventually help SMEs owners in problem solving by finding appropriate solutions and handling situations hence, resulting in firm financial growth. Odoom, Anning Dorson and Acheampong in their 2017 study discover that social media helps SMEs especially those offering physical products to improve their performance due to its cost effective, interactivity and compatibility.

Therefore, the second hypothesis tested will be:

H2: There is a positive relationship between Financial Socialization Agent and Financial Performance on SMEs

2.5 Financial Attitude

According to Isomidinova & Singh (2017) Money Attitude is related to self-direction and values of how an individual values money and behavior on gaining knowledge on how to manage their money and to require skills to be better at managing money. Newcomb & Rabow (2006) found that women value money less than men but seek out advice more in managing their financials. Lusardi & Mitchell (2006) describe Financial Attitude FA as attitude on saving and investment, spending and responsible use of credit. Several authors include retirement planning and saving as a component of FA which include Lusardi & Mitchell (2006), Jamal et.al. (2015), Xu& Zia (2012) and Bashir et.al. (2013). Jorgensen (2007) proved that positive financial attitude will have a significant effect on financial literacy and Ibrahim et. al. (2009), Diniaty (2016), Jamal et.al. (2015), and Xu & Zia (2012) also recognizes the significant effect of Financial Attitude on the Financial Performance. Dahmen and Rodriguez (2014) also concluded that there is a strong association between small business financial strength with their owners` habits of mind with regard to their financial state. Thus, FA can be defined as the perceptions and opinions on how and individual values money, attitude on gaining knowledge to better manage money, attitude on saving, investing, spending and responsible use of credit.

Therefore, the third hypothesis tested will be:

H3: There is a positive relationship between Financial Attitude and Financial Performance on SMEs

2.6 Financial Skills

Kempson (2009) defined Financial Skills (FS) as the skills that are needed to make financial decisions. Remund (2010) mentioned that aptitude in Managing Personal Finances; reflects on one's ability to perform tasks related to money including but not limiting to earning, protecting and spending that money. "Skills in Making Appropriate Financial Decisions; a set of critical thinking skills to weigh and assess the pros and cons of a particular decision relative to one's own needs, values, and goals or as a core competency".

Lusardi & Mitchell (2014) defined Financial Skill as how the individuals will manage and diversify the options of those acts such as, saving for multiple plans such as retirement plans, future consumption, and investing with highest possible future income with low acceptable cost and borrowing in diversify

options with low servicing costs. Green (2008) wrote that, in order to increase wealth and improve citizen`s life`s quality, practical skill through experience learning as well as formal education that incorporates the uses of ICT. Tarute and Gautis (2013) found that ICT can improve overall, financial and operational performance of SMEs if it is used appropriately. Improvement of communication plays an important role in terms of productivity, profitability, market value and market share. Iravongan and Miroga, (2018) mentioned that the use of mobile banking service, reduces the cost of transactions for the SMEs while keeping track of these transactions and easing the users to keep up with technological changes while paying less money in doing traditional banking services. Thus, FS can be defined as skill set in making appropriate financial decision which includes ability to perform tasks related to money, to weigh and assess the pros and cons of a particular decision relative to one's own needs, values, and goals or as a core competency manage and diversify options for financial services and products in terms of saving, planning and debt servicing. Also, FS is related on how to reduce costs of financing and operating the business while making higher return.

   Therefore, the fourth hypothesis tested will be:

H4: There is a positive relationship between Financial Skills and Financial Performance on SMEs

2.8 Accounting Practices

   Through multiple studies such as by Nair and Nian (2017), Zicke and Kiy (2017), Abdel and McLellan (2013) has concluded that accounting practice has significant and positive relationship towards financial performance. Tamimi & Kalli (2009), found that there is a positive relationship between the financial literacy and accounting information on which managers with more accounting knowledge and skills inclined to make better investment decisions. Lusardi & Tufano (2009), stated that individuals with less tracking record of their debt and accounts tend to have difficulties in managing and servicing their financing as compared to the ones whom have better tracking of their accounts, regardless of the level of the financial knowledge of the individuals. Xu & Zia (2012), mentioned the rule of thumb accounting concept which separating the household and business account can be counted as skills to develop higher literacy rate. Haro and Nganga (2018), discovered that many of the entrepreneurs have difficulties in tracking the business performance because of lack of accounting skills and cost of hiring accountants which resulted in challenges in managing their cash. Thus, Accounting Practices can include transaction records, account tracking on asset and liability balances, separating household and business accounts and reading and understanding the accounting reports.

   Therefore, the fifth hypothesis tested will be:

H5: There is a positive relationship between Accounting Practices and Financial Performance on SMEs

   Based on review from previous literature discussed in previous chapter and the development of hypothesis, this research anticipates that financial knowledge, financial socialization agent, financial attitude, financial skills and accounting practices will have a positive relationship on financial performance of SMEs in Malaysia. Therefore, Figure 1 represents the research framework that is developed according to the various hypotheses presented in the earlier discussion.
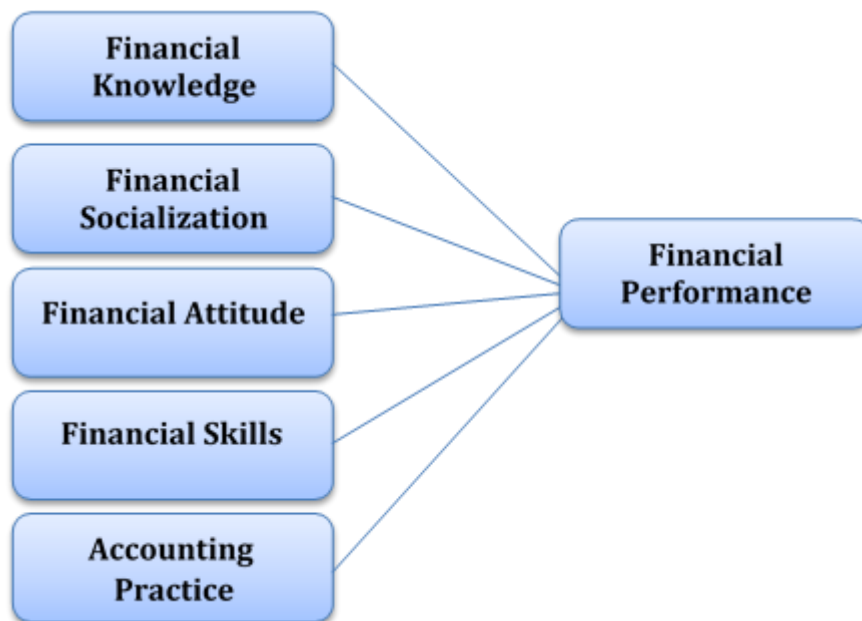
Figure 1: Research Framework

3.0 Methodology

This study employs quantitative research as it aims to explore and gain an understanding of underlying reasons for good Financial Performance of Malaysian Small and Medium Enterprises (SME). The questionnaire has one open ended and the rest of the questions are closed ended questions. The open-ended question for this research is "years of establishment" which means how long the business has been operated. This research uses the convenience sampling technique for it has the advantage of documenting particular quality of a substance in order to detect relationships among different quality of sample. In order to reduce biases, the sample will have to be from more than one state in Malaysia. The sample is also filtered for their qualification that it can only be the owner or manager of the SMEs which are involved directly in the financial decision of the company. Any sleeping partner or managers with no decisive power is not allowed to participate in the study. Besides that, the business must be registered under the *Suruhanjaya Syarikat Malaysia* (SSM). A total of 368 samples were collected using questionnaires done through a face-to-face survey of owners and managers of small and medium enterprises. The population is mainly from Peninsular Malaysia as the researcher is located in the West Coast of Peninsular Malaysia. The study adopted the five Likert scales ranging from strongly disagree to strongly agree in order to investigate the factors that determine financial performance in Malaysia.

To test the hypothesis, multiple regression analysis is employed. Frost 2017, recommend this analysis in determining the relationship between a set of independent variables and dependent variable as it is able to "model multiple independent variables" which includes "continuous and categorical variables", also it is able to "assess interaction terms to determine whether the effect of one independent variable depends on the value of another variable." The beta of more than zero will determine the positive relationship of independent variables to dependent variables and the proportion of its effect on the relationship. In order to know the validation of collected data for analysis, factor analysis and Kaiser-Mayer-Olkin (KMO) and Bartlett's Test of Sphericity were conducted. Additionally, Cronbach Alpha and

Intercorrelation of variables methods were used to estimate the reliability or internal consistency of the studied variables, and regression analysis was also used to test the five hypotheses to identify their statistical significances by using SPSS software.

4.0 FINDINGS

The descriptive analysis of respondents' profile is as shown in Table 1:

Table 1: SMEs Owner Profile

Demographic	Information	Frequency	Percentage
Gender	Male	191	52.0
	Female	176	48.0
Marital Status	Single	102	27.8
	Married	255	69.5
	Divorce	10	2.7
Age	18-29	109	29.7
	30-39	124	33.8
	40-49	76	20.7
	50 years above	58	15.8
Race	Malay	250	68.1
	Chinese	47	12.8
	Indian	58	15.8
	Others	12	3.3
Education	Secondary	70	19.1
	Diploma	110	30.0
	Degree	170	46.3
	Master	14	3.8
	PhD	3	.8

This study employs 367 respondents with 52% male, majorly married and aged around 30s. 68% is Malay with bachelor's degree (46.3%). Meanwhile, 55.6% of the business aged 1-5 years old, 46% employs less than 5 workers and earn less than RM 300K sales turnover, majorly involve in food industries (36.5%) and 41.3% of the business is sole proprietorship establishment.

Table 2: Cronbach Alpha, Mean and Standard Deviation

Variables	Number of Items	Cronbach a	Mean	SD
Financial Performance	6	0.851	3.8901	.72692
Financial Knowledge	3	0.538	3.9510	.69434
Financial Socialization Agent	3	0.634	3.5668	.87518
Financial Attitude	5	0.775	4.3689	.54804
Accounting Practice	5	0.839	4.1569	.71609

Table 2 shows that Cronbach's alpha for all of the factors are relatively high. The Cronbach's alpha coefficient for Financial Attitude and Financial Knowledge are slightly higher compared to those in study by Liu and Akhtar in 2018 and also the study by Eniola and Entebang in 2017. Financial Attitude has the highest number of mean with 4.3689 while Financial Socialization Agent is the lowest with 3.5668.

Table 3: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.893
Bartlett's Test of Sphericity	Approx. Chi-Square	3642.415
	df	231
	Sig.	.000

Based on the result from Table 2, the 0.893 points in Kaiser-Meyer-Olkins Measure of Sampling Adequacy shows that the variance in the variables of the sampling size is enough to run factor analysis. This indicates that the data collected is enough to show the relationships between the variables in this study. The significance value of 0.00 in the Bartlett's Test of Sphericity, indicates that there is no redundancy between variables; thus, factor analysis will be useful for the data which will be explaining 63.587% of the variance

Table 4: Factor Analysis

	Variables				
Items	1	2	3	4	5
FP3. The growth in profit level is higher than my expectation.	.812				
FP2 The growth in performance is better compared to my competitors.	.797				
FP5 The growth of market share is higher than my expectation.	.768				
FP1The growth in sales is higher in relation to my expectation.	.730				
FP4 The number of employees has increased throughout my business.	.607				
FS5 I am very confident when making financing decision	.595				
AP2 Financial statement should be interpreted accurately for business decision.		.831			
AP1 I must be accurate in my accounting practice.		.820			
AP5 My accounting report should be comprehensive for me to track on my business performance.		.739			
AP3 Preparing budget is very important for my business success.		.717			
AP4 I prepare financial statement for submission to the authorities.		.707			
FA2 I will always maintain healthy cash flow to manage my business successfully.			.737		
FA4 I should monitor my business performance to achieve my target.			.728		
FA3 my business should achieve the target profit it has set for.			.713		

FA1 Savings is very important to ensure that my business will survive.			.700		
FA5 Positive financial attitude is important for survival of my business.			.667		
FSA2 I seek advice from my friends before making financial commitment on my business.				.834	
FSA1 I seek advice from my teacher on my business opportunities.				.798	
FSA4 Social media gas influenced my financial and business decisions.				.733	
FK1 Knowledge on the effect of inflation is important to my business.					.693
FK2 I can perform financial analysis on my business financial statement.					.689
FK4 The information on rate of interest will determine y financial commitment.					.673
Eigenvalue	3.704	3.441	2.987	2.040	1.818
Percentage of Variance	16.836	15.639	13.577	9.273	8.262
Cumulative (%)	16.836	32.475	46.052	55.352	63.587

The results from Table 3 shows that all 5 six factors have eigenvalues greater than 1 which suggest that all of the 4 factors will be useful to explain Financial Performance of the SMEs. The sum of 63.587% indicates that all of the 5 factors in this study explain 63.587% of the time of SMEs Financial Performance. The total number of sample participants is 367. Financial Attitude has the highest number of mean with 4.3689 while Financial Socialization Agent is the lowest with 3.5668. Financial Skills variable however has been eliminated from the analysis as it its elements have low factor loading as well as their comulities values are less that then rule of thumbs of .50 which Izquierdo et. al (2014) described as insufficient to accurately explain the factors loading (estimation). This may be due to the moderate financial literacy of the SMEs, limiting their understanding and practices of Financial Skills. Thus, eliminating the Financial Skills will ensure an accurate estimation for factor loadings. All other items however are loaded into its intended factors and are useful to explain the dependent variable.

Table 5: Inter-Correlations of Key Variables

Variables	Accounting Practice	Financial Attitude	Financial Socialization Agent	Financial Knowledge
Accounting Practice	1			
Financial Attitude	.413**	1		
Financial Socialization Agent	.070	.170**	1	
Financial Knowledge	.479**	.359**	.158**	1
. Correlation is significant at the 0.01 level (2-tailed).				

Outcome from Table 5 shows on the Pearson Correlation, it can be seen that all of these factors are positively related with each other. Financial Socialization Agent Factor has the smallest correlation with other factors especially with accounting practice. These prove that the Financial Socialization Agents does not affect the movement of other factors. Financial Knowledge is strongly associated with Accounting Practice which suggests that these management skills will be practiced and gained mainly from education. Thus, the majority of those who learned the accounting and finance from both formal and informal education will be using it in their business management practices. Lastly, those with positive Financial Attitude is associated with high Financial Knowledge which confirms the Isomidinova & Singh, 2017 theory which define Financial Attitude as self-direction and values of how an individual values money and behavior on gaining knowledge on how to manage their money and to require skills to be better at managing money. Neither of them however is perfectly related to one another.

Table 6: Multiple Regression Analysis

Variables	Standardized B	p-value	VIF
Accounting Practice	.220	.000	1.424
Financial Attitude	.359	.000	1.278
Financial Socialization Agent	.101	.003	1.043
Financial Knowledge	.333	.000	1.370
R2	.440		
Adjusted R2	.434		

According to the multiple regression analysis (Table 6), all factors are significant with p-value less than 0.05 which suggest all factors are significant to the Financial Performance of the SMEs. Due to the unfitting to the factors, Financial Skills has been dropped during the rotation Factor Analysis which suggests its insignificance in this study. R^2 of 0.44 suggests that 44% of the variation in financial performance can be explained by these 4 factors. All factors are significant and are hypothesis is accepted. Negative beta of the constant suggests that without all factors, the financial performance of a business will be negative. This is reasonable as a person without Financial Knowledge, Financial Attitude, Financial Socialization Agent, nor will Accounting Practice not be able to sustain their business and perform badly in their financial decisions. All Variance Inflation Factor (VIF) is less than 10 and Tolerance greater than 01 which indicate the absence of multicollinearity. This proven that the variables are independent of each other and reliable for interpretation of the model.

5.0 Discussion

Beta of 0.318 and significance level of 0.000 indicates Financial Knowledge is strongly positive related to Financial Performance in Malaysia. This is similar to the study by Karadag (2017) where SMEs performance in financial management practices has a strong and positive correlation with education level of SMEs owners/managers. Chepngetich (2016) also mentioned a significant effect of borrowing financial literacy and budgeting financial literacy on SME performance. This prove that a higher knowledge on financial variables such as inflation and interest will increase the performance of SMEs as they are aware on the effect of inflation and interest towards their financial performance on which a higher interest rate in borrowings will decrease their income thus, decreasing their profit and savings.

This study also found that Financial Socialization Agent significantly improves the financial performance of the SMEs especially in Malaysia. With beta of 0.122 and significant level of 0.003, the Financial Socialization Agent is proven to positively affect the financial performance of SMEs in Malaysia.

Three components of Financial Socialization Agents which are friends, mentor and social media have played an important role in financial decisions made by the SMEs owners. Sohn et.al. (2012) concluded that rather than family, friends have a higher influence on financial decisions made by an individual. Meanwhile, Hamburg (2014) found that mentors-experienced people with skills and qualifications in a wide range of industries and discipline-can help the staff to enhance and improved the situation of SMEs. Crompton (2012) also agrees on the idea of specific business coaching will eventually help SMEs owners in problem solving by finding appropriate solutions and handling situations hence, resulting in firm financial growth. Odoom, Anning Dorson and Acheampong in their 2017 study discover that social media helps SMEs especially those offering physical products to improve their performance due to its cost effective, interactivity and compatibility. Thus, social networking through mentoring and social media really helps the improvement of SMEs financial performance.

Finding shows that Financial Attitude is statistically significant towards Financial Performance with P-value of 0.00 with beta of 0.359 This is aligned with study by Jorgensen (2007) which proved that a positive financial attitude will have a significant effect on financial literacy and Ibrahim et. al. (2009), Diniaty (2016), Jamal et.al. (2015), and Xu & Zia (2012) also recognizes the significant effect of Financial Attitude on the Financial Performance. Dahmen and Rodriguez (2014) also concluded that there is a strong association between small business financial strength with their owners` habits of mind with regard to their financial state. Maintaining healthy cash flows, achieving target profit and monitoring business performance are recognized to be important in financial management of SMEs. Also, Savings and positive attitude towards business operations and also financial decision are also recognized to be important. Thus, the practice of cash flow management, target profit and business performance monitoring should be prioritized in the management of the business in order to ensure the survival of SMEs.

This study found that Accounting Practice has a positive relationship with Financial Performance of the SMEs and is significant to the model. With significant value of 0.000 and beta of 0.220, this finding is supported by multiple studies such as by Nair and Nian (2017) and Zicke and Kiy (2017), has concluded that accounting practice has significant and positive relationship towards financial performance. Xu & Zia (2012), mentioned the rule of thumb accounting concept which separating the household and business account can be counted as skills to develop higher literacy rate. Financial statement accuracy and comprehensive repot are perceived to be very important for the SMEs in order to have a very accurate and comprehensive budgeting so that they could track their performance and find any loopholes in their operations. Submission of their financial statement or performance report to authority also keep them to be on track with their operations as such, no excessive expenses or personal withdrawing from the business will be practiced by the SMEs owners as they would like to have a clean credibility in managing both business and financial decisions.

In the future in order to increase the financial performance of the SMEs, both formal and informal education and practical training in Financial Managements would be helpful to them. This is because more information and reading is proven to be significant to the performance of the SMEs in terms of financial results. Besides that, the principal of Value Based Learning (VBI) also encourages the financial institution to educate and train those taking debt and loan from them to be well literate in finance to ensure that the loan will be sustainable and hence Maqasid Shariah will be achieved. The study correspondingly found that Financial Socialization Agents are part of the most significant factors in increasing SMEs financial performance. Thus, mentoring program to the SMEs would be a very significant program which will help to promote a better financial decision of the SMEs. Besides that, social media is deemed to be significantly influencing the SMEs in choosing financial product and making financial decisions thus, information by

social media should be practiced by the financial institutions to spread awareness of the entrepreneur in making financial decisions.

Financial Attitude which overall involves how SMEs owners preserve and realize the importance of healthy financial status of their businesses is also a significant factor for positive financial performance of SMEs. Thus, the financial attitude of a business's owner will always affect the financial strength and stability of their corporations. Again, a positive financial attitude reflects the need of Financial Knowledge as it can help to shape a good financial behavior among businesses people. Finally, Accounting Practices also positively play roles to SMEs financial performance. Hence it is proven that in order for SMEs owners to improve their Financial Performance, entrepreneurs need to keep tracking records of their debt and other transaction accounts. Even so, several studies by Klammer (1973), Al-Khajeh and Khalid (2018) and Ikem, Chidi and Titus (2012) found that even though accounting practice has a positive effect towards the Financial Performance, it does not significantly affect the performance of the firms itself as the system used and technique employed in the budgeting and cost controlling are not suitable for certain nature of business while it does for some firms. Using similar accounting techniques is common between SMEs regardless of their nature of business as the knowledge and exposure to different accounting systems are low.

8.0 Limitation

Although the sample size is already adequate for analysis, the sample is only focusing on peninsular Malaysia and does not include the Borne. Thus, a recommendation of getting some information on SMEs in Borneo also interviews should be done to further understand the factors of the financial performance of the SMEs. Furthermore, this study had a face-to-face survey to the owners and managers only which might not get a deeper insight on their financial activities as a whole. Hence, an expert interview also should be conducted in order to obtain a better understanding of the implication on how each factor may affect the SMEs financial performance.

9.0 Conclusion

The objective of this study is to identify the factor of SMEs financial performance. Based on the result, it is proven   that Financial   Knowledge, Financial Attitude, Financial Socialization agent and Accounting Practice are the most significant factors towards the SMEs Financial Performance in Malaysia. Robust and sound financial systems are essential for supporting equal access to financial services in order to achieve inclusive and sustainable economic growth and generate means in achieving Sustainable Development Goals (SDGs). Despite various programs and initiatives by the government agency to help the Small and Medium Enterprises (SMEs), many of them failed within the first year. In their 2017 report, the SME Corp stated that approximately 60% of the SMEs failed during the first 5 years, blaming the poor financial management as the main cause of the failure. Thus, based on previous literature, this study recognizes the factors which were said to be important drivers of successful business performance practices among the SMEs namely, Financial Knowledge, Financial Attitude, Financial Socialization Agents, Financial Skills as well as Accounting Practice.

SMEs in Malaysia should focus on getting more formal as well as informal education in order to increase their financial performance. For this to be achieved initiative by government and financial institutions which focuses on these SMEs, should prioritize their attention on the basic financial knowledge such as the effect of interest rate and inflation rate to their business as well as how these can impact their loans and other liability. In the long run, owners' ability to perform financial analysis on their business financial statement is also crucial to be highlighted.

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