

THE ACCESS TO GOVERNMENT FINANCIAL SUPPORT THROUGH LEGAL CHANNELS OF SMALL AND MEDIUM ENTERPRISES IN FOUR ASIA PACIFIC COUNTRIES

Muhamad Marwan

*Universiti Utara Malaysia
mmarwan.uumalaysia@gmail.com*

Abstract

The aim of this study is to determine the impact of networking on SME's ability to access government financial support through legal channels in Asia Pacific. This study is quantitative in nature in which the data has been gathered from 281 employees and managers working in SMEs through survey questionnaire. The SEM technique was utilised for the purpose of analysing and testing the mediation effect. The study found that there is a partial mediation of government financial support through legal channels among the relationship between networking with officers and access to finance. This study is restricted to the SMEs operating in the region of Asia Pacific.

Tujuan dari studi ini adalah untuk mengetahui dampak jejaring terhadap kemampuan UKM untuk mengakses dukungan keuangan pemerintah melalui jalur hukum di Asia Pasifik. Penelitian ini bersifat kuantitatif dimana data dikumpulkan dari 281 karyawan dan manajer yang bekerja di UKM melalui kuesioner survei. Teknik SEM digunakan untuk tujuan menganalisis dan menguji efek mediasi. Studi ini menemukan bahwa terdapat mediasi parsial dukungan keuangan pemerintah melalui jalur hukum antara hubungan antara jaringan dengan petugas dan akses keuangan. Studi ini dibatasi untuk UKM yang beroperasi di wilayah Asia Pasifik.

Keywords: Networking with Officers, Government Financial Support through Legal Channels, Access to Finance, SMEs, Asia Pacific

Introduction

Over the last few decades, small and medium enterprises have gained the attention of researchers and scholars in both developing and developed countries. It is due to the reason that the SME's are considered as the engine which contributes towards the economic growth. It has been argued in the study of Kumar and Subrahmanya that in the economy of the country, there is a crucial role of SME's with the help of their abilities in terms of innovation that results in the enhancement of company's competitive position.¹ On the other hand, the SME's also contributes towards the decreased unemployment of the country.² The SME's are more consistent in terms of economic stability as they are well able to work in niche markets.³ While contributing of the mobilisation of resources, poverty alleviation and employment, the SME's represent major part of the business. In this manner, these firms are considered as the contributing forces for industrialisation and economic development.

Most of the countries in Asia Pacific have prioritised SME's and have developed the policy and legal framework which caters their need for development.⁴ The Asia-Pacific Economic Cooperation recognised the significant contribution of SMEs towards the dynamism and growth of Asia-Pacific region and for this purpose, they provided legal framework to increase the participation of SMEs in international trade.⁵

¹ R. Sudhir Kumar and MH Bala Subrahmanya, "Influence of subcontracting on innovation and economic performance of SMEs in Indian automobile industry", *Technovation*, vol. 30, no. 11-12 (2010), p. 558.

² Robert Dimitrovski, Venelin Terziev, Laste Spasovski, and Liljana Pushova, "Development of SME's for reducing unemployment in the Republic of Macedonia", *Knowledge International Journal*, vol. 15, no. 1 (2016), p. 33.

³ Desislava Dikova, Andreja Jaklič, Anže Burger, and Aljaž Kunčič, "What is beneficial for first-time SME-exporters from a transition economy: A diversified or a focused export-strategy?", *Journal of World Business*, vol. 51, no. 2 (2016), p. 185.

⁴ Nitin Madan, "A review of access to finance by micro, small and medium enterprises and digital financial services in selected Asia-Pacific least developed countries," *MPFD Working Papers Series, WP/20/03*, April 2020. Available on https://www.unescap.org/sites/default/files/publications/WP_20_03%20MSMEs%20in%20LDCs.pdf, accessed 23 Jul 2020.

⁵ APEC. "2019 APEC SME ministerial statement: SME Financing and Digital Transformation in a Globalized Economy," *2019 APEC Small and Medium Enterprises Ministerial Meeting*, Concepción, Chile, 06 September 2019. Available on

In addition to this, the APEC also recognised the need to promote the digitalisation and foster innovation for the purpose of accelerating the growth of SMEs and enhancing the competitiveness of SMEs. In this manner, cooperation took the initiative for the purpose of promoting the digitalisation of SMEs which include Internet of Things, sharing economy, mobile commerce and online-to-offline channels. However, there is excess need of diverse funding sources and credit in order for the SMEs to thrive.⁶ Lack of financing restricts SMEs in order to enter the international markets while take advantage from the new technologies. Therefore, APEC with the help of innovative digital tools has supported the development of financial services which can make the financial inclusion better throughout the process of internationalisation. However, most of the SMEs are not able to have access to government financial support which results in financing through illegal channels and funds.⁷ Therefore, by replicating the empirical model of Gunto and Alias,⁸ this paper has determined the impact of networking on ability of SMEs to access government financial support through legal channels in Asia Pacific.

Literature Review

Access to finance has been a major concern for SMEs as they are not the prioritised companies for investors and other financial institutes. It is due to the reason that the investors and other financial institutes consider the number of resources and its ability to pay the debt while investing. It has also been argued in the study of Fenwick, McCahery, and Vermeulen that SMEs are not provided with the opportunity to raise finance through loans as most of the financial institutes doubt their

https://www.apec.org/Meeting-Papers/Sectoral-Ministerial-Meetings/Small-and-Medium-Enterprise/2019_sme, accessed 7 Aug 2020.

⁶ Razali Haron and Khairunisah Ibrahim, "Islamic financing in mitigating access to financing problems of SMEs in Malaysia: a survey analysis", *Intellectual Discourse*, vol. 24, no. 4 (2016), p. 387.

⁷ Nirosha Hewa Wellalage, Stuart Locke, and Helen Samujh, "Firm bribery and credit access: evidence from Indian SMEs", *Small Business Economics*, vol. 55 (2020), p. 283.

⁸ Mustafa Gunto and M. H. Alias, "The impact of networking on the SMEs' ability to access financial government support in Malaysia", *South East Asia Journal of Contemporary Business, Economics and Law*, vol. 5, no. 3 (2014), pp. 9-17

ability to repay the amount.⁹ This results in financing through illegal channels or inappropriate financing which affects the legal system of the countries in Asia Pacific. However, there is a huge contribution of SMEs towards the economic development of the country.¹⁰ Therefore, it is essential for the regulatory authorities in order to ensure the assistance to SMEs, which can also help them in terms of creating employment opportunities while reducing the unemployment rate of the country.¹¹ On the other hand, most of the SMEs are involved in financing the capital through illegal channels and networking in terms of friendly relations with the government officials. This creates the negative impact on the economy of the country as the illegal financing is increasing.

The access to finance has been a growing concern for SMEs all over the world especially in the Asia Pacific region.¹² It leads to the negative performance of the SMEs in the industry due to the lack of capital for financing their business operations. In this manner, the SMEs take the advantage of networking with officers and other government employees for the purpose of gaining access to finance either by legal or illegal channels. It has been argued in the study of Gunto and Alias that the networking is considered as the association among government officers and entrepreneurs in terms of business assistance despite establishing the network with the business associations and financial institutions.¹³ In this manner, the SMEs are able to gain access to capital for the

⁹ Mark Fenwick, Joseph A. McCahery, and Erik PM Vermeulen, “Fintech and the financing of SMEs and entrepreneurs: From crowdfunding to marketplace lending”, In *The Economics of Crowdfunding*, ed. by Douglas Cumming and Lars Hornufpp (Cham: Palgrave Macmillan, 2018), p. 103.

¹⁰ Samuel Muiruri Muriithi, “African small and medium enterprises (SMEs) contributions, challenges and solutions”, *European Journal of Research and Reflection in Management Sciences*, vol 5, no. 1 (2017), p. 36.

¹¹ Dzuljastri Abdul Razak, Moha Asri Abdullah, and Arif Ersoy, “Small medium enterprises (SMEs) in Turkey and Malaysia a comparative discussion on issues and challenges”, *International Journal of Business, Economics and Law*, vol. 10, no. 49 (2018), p. 1.

¹² Naoyuki Yoshino, and Farhad Taghizadeh-Hesary. The role of SMEs in Asia and their difficulties in accessing finance. *ADBI Working Paper 911*. Tokyo: Asian Development Bank Institute, 2018. Available: <https://www.adb.org/publications/role-smes-asia-and-theirdifficulties-accessing-finance>, accessed 31 Jul 2020.

¹³ Mustafa Gunto and M. H. Alias, “The impact of networking...”, p. 9.

purpose of financing their business activities and operations. This depicts that there is an influence of networking with officers on the access to finance for SEMs. Therefore, the first hypothesis has been developed which is provided below:

H1: There is impact of networking with officers on access to finance.

On the other hand, the government support in finance which is through the legal channels has also been a major factors in terms of access to finance for SMEs. It has been argued in the study of Boschmans and Pissareva that it must be realised by the policy makers that what must be prepared for the purpose of incentivise SMEs in order to for them to be more transparent in terms of financial dealings.¹⁴ This might help them in terms of gaining better access to the financial sources those are external for the company and could be in several ways. Therefore, the regulation and laws of accounting must be strengthened further for the purpose of ensuring accurate financial reporting by the SMEs. In this manner, the financial support from the government through legal channel can assist the SMEs in order to have access to finance for the purpose of investing their activities and business operations.¹⁵ The hypothesis which has been developed in this regard is provided below:

H2: There is an impact of government financial support through legal channels on the access to finance for SMEs

Moreover, the networking of entrepreneurs with the government officers may also lead them to financial assistance from the government through legal channels for the purpose of gaining access to finance. It is due to the relationship of these entrepreneurs with the government officials which priorities them in governments programmes related to financing the SMEs. It has also been argued in the study of Gunto and Alias that financial support from government can provide access to

¹⁴ Kris Boschmans and Lora Pissareva, "Fostering Markets for SME Finance: Matching Business and Investor Needs", *OECD SME and Entrepreneurship Papers*, no. 6, Paris: OECD Publishing, 2018.

¹⁵ Mustafa Gunto and M. H. Alias, "The impact of networking...", p. 9.

finance for SMEs through networking with the officers.¹⁶ This benefits the SMEs in terms of getting the access to finance which is essential for them to ensure the growth in industry while expanding in the international markets. It depicts that the government financial support through legal channels mediates the relationship among networking with officers and access to finance of SMEs. Therefore, the hypothesis in this regard is provided below:

H3: There is a mediation of government financial support through legal channels on the relationship among networking with officers and access to finance of SMEs

Theoretical Framework

Since this study is related with the access to finance for the SMEs, therefore, the pecking order theory has been considered in this study. The pecking order theory in the corporate finance postulates that due to the asymmetric information, the cost of financing is increased. It has also been argued in the study of Martinez, Scherger, and Guercio that according to pecking order theory, the financial cost is increased through the asymmetric information.¹⁷ In this manner, the theory also suggests that the financing of the company comes from three sources which include equity, debt and internal funds. Therefore, the managers of the companies reflect following preferences of sources to fund the opportunities of investment; debt, through the retained earnings of the company and equity as the last option. This relates to the access to finance for SMEs as they have asymmetric information regarding the financing through support of government and legal channels. In this manner, they try to develop networking with the government officials for the purpose of having access to finance. The accurate information about the government financial support through legal channels can avoid them to finance their operations through illegal channels or by inappropriate and unethical means.

¹⁶ Mustafa Gunto and M. H. Alias, "The impact of networking...", p. 12.

¹⁷ Lisana B. Martinez, Valeria Scherger, and M. Belén Guercio, "SMEs capital structure: trade-off or pecking order theory: a systematic review", *Journal of Small Business and Enterprise Development*, vol. 26, no. 1 (2019), p. 105.

Conceptual Model

The conceptual model of the study is provided in Figure 1. It can be determined with the help of Figure 1 that the independent variable in this study is the networking with officers. On the other hand, the access to finance of SMEs is considered as the dependent variable in this study. Moreover, the government financial support through legal channels is considered as the mediating variable in this study.



Figure 1. Conceptual Framework of the Study

Research Methodology

Data collection and population

The survey process is used by the researcher in this study for the purpose of gathering the responses from target population. In this manner, the population of managers and employees working in SMEs around Jordan, Pakistan, Egypt, and Malaysia have been considered. In this regard, the results of Fugard have been considered for the intent to set adequate sample size of this study.¹⁸ The equation for the sample size estimation is provided below:

$$n = \frac{(1.96)^2 \times 0.5 \times 0.5}{(0.05)^2} = 384$$

The calculation provided that 384 is the adequate sample size for this study. In this manner, the questionnaire was provided to 384 respondents by the researcher and out of which, 281 respondents provided response. Therefore, the response rate of this study has been calculated as 73.17%.

¹⁸ Andrew JB Fugard and Henry WW Potts, "Supporting thinking on sample sizes for thematic analyses: a quantitative tool", *International Journal of Social Research Methodology*, vol. 18, no. 6 (2015), p. 669.

Sampling technique

The researcher has adopted the sampling technique for the purpose of gathering the responses from the target population. In this manner, the non-probability convenience sampling has been adopted to extract the information from the respondents working in SMEs across Jordan, Pakistan, Egypt, and Malaysia. It has been argued in the study of Farrokhi that convenience sampling is followed by the researchers while considering the factors of convenience and accessibility.¹⁹

Research instrument

The researcher instrument which is adopted by the researcher for the purpose of gathering responses is survey questionnaire. In this manner, there were several questions in the questionnaire those were measured on the 5 point Likert scale which hardly took 15 minutes for each respondent to submit the response.

Data analysis

The Structural Equation Modelling (SEM) has been used in this study as the method to analyses the gathered data. According to Martínez-López, Gázquez-Abad, and Sousa,²⁰ SEM is considered as the essential and latest model for the purpose of assessing the responses of survey. It also includes the confirmatory factor analysis (CFA) for the model measurement along with the path analysis for the purpose of testing the mediation.

Results and Analysis

Confirmatory factor analysis

CFA is considered as the essential dimension of SEM model which comprehends the structure of constructs by determining the latent

¹⁹ Farahman Farrokhi, and Asgar Mahmoudi-Hamidabad, "Rethinking Convenience Sampling: Defining Quality Criteria", *Theory and Practice in Language Studies*, vol. 2, no. 4 (2012), p. 784.

²⁰ Francisco J. Martínez-López, Juan C. Gázquez-Abad, and Carlos MP Sousa, "Structural equation modelling in marketing and business research: Critical issues and practical recommendations", *European Journal of Marketing*, vol. 47, no. 1-2 (2013), p. 115.

variable and constructs along with identifying the validity and reliability.²¹ It has been suggested by Wong that the threshold for outer loadings is 0.7. In this manner, it can be determined from Table 1 that the lowest value for outer loading is 0.769 which is well above than 0.7 and based on the factor loadings, none of the variable must be removed. In addition to this, the study of Ahmad argued that the threshold for composite reliability and Cronbach's Alpha is 0.6.²² The Table 1 determines that the lowest value for Cronbach's Alpha is computed to be 0.867 while the lowest value for composite reliability was computed to be 0.904. Therefore, the criteria for both the composite reliability and Cronbach's Alpha is fulfilled by the constructs. Moreover, with respect to the average variance extracted, it has been argued in the study of Afthanorhan that 0.5 is the threshold for AVE.²³ Since, all the variables of this study have values of AVE above 0.5 (see Table 1), therefore, it can be suggested that convergent validity is possessed by the constructs.

Table 2 shows the discriminant validity of the variables which has been measured with the assistance of Heterotrait-Monotrait (HTMT) ratio. The study of Franke and Sarstedt argued that 0.9 is the threshold for HTMT,²⁴ with respect to the Table 2, it can be determined that none of the values is exceeding the threshold of 0.9.

²¹ Timothy A. Brown and Michael T. Moore, *Confirmatory factor analysis*. In *Handbook of structural equation modeling*, ed. by Rick. H. Hoyle, New York: The Guilford Press, 2012, p. 361; G. John Geldhof, Kristopher J. Preacher, and Michael J. Zyphur, "Reliability estimation in a multilevel confirmatory factor analysis framework", *Psychological methods*, vol. 19, no. 1 (2014), pp. 72-91.

²² Kamarul Zaman Ahmad, Sharifah Haslinda Syed Alwee, Zetty Zahureen Mohd Yusoff, Suzana Idayu Wati Osman, and Siti Normah Awang Tuah, "The Association between Ethical Decision-Making, Job Satisfaction, Organisational Commitment and Selected Demographic Variables", *Malaysian Management Journal*, vol. 7, no. 2 (2020), p. 1.

²³ Wan Mohamad Asyraf Bin Wan Afthanorhan, "A comparison of partial least square structural equation modeling (PLS-SEM) and covariance based structural equation modeling (CB-SEM) for confirmatory factor analysis", *International Journal of Engineering Science and Innovative Technology*, vol. 2, no. 5 (2013), p. 198.

²⁴ George Franke and Marko Sarstedt, "Heuristics versus statistics in discriminant validity testing: a comparison of four procedures", *Internet Research*, vol. 29, no. 3 (2019), p. 430.

Table 1. Convergent Validity, Composite Reliability and Cronbach’s Alpha

| Research Construct | Indicators | Factor Loading | Cronbach’s Alpha | Composite Reliability | Average Variance Extracted (AVE) |
|---|------------|----------------|------------------|-----------------------|----------------------------------|
| Access To Finance | ATF1 | 0.872 | 0.913 | 0.939 | 0.793 |
| | ATF2 | 0.910 | | | |
| | ATF3 | 0.883 | | | |
| | ATF4 | 0.897 | | | |
| Government financial support through Legal Channels | FGLC1 | 0.901 | 0.942 | 0.959 | 0.853 |
| | FGLC2 | 0.912 | | | |
| | FGLC3 | 0.929 | | | |
| | FGLC4 | 0.951 | | | |
| Networking with Officers | NWO1 | 0.769 | 0.867 | 0.904 | 0.653 |
| | NWO2 | 0.850 | | | |
| | NWO3 | 0.823 | | | |
| | NWO4 | 0.794 | | | |
| | NWO5 | 0.801 | | | |

Table 2. Discriminant Validity

| | Access to Finance | Government’s Financial Support through Legal Channels |
|---|-------------------|---|
| Access to Finance | | |
| Government’s Financial Support through Legal Channels | 0.751 | |
| Networking with Officers | 0.682 | 0.667 |

Path analysis

As the study has emphasised on the determination of mediation effect in relationship among networking with officers and access to finance of SMEs therefore, the determination of direct and indirect effect is necessary for the mediation effect. Based on Table 3, it can be determined that there is a direct effect of Government’s Financial Support through Legal Channels on access to finance as B= 0.517, $p=0.000<0.05$ which is significant and positive effect. Moreover, the effect of networking with officers on the access to finance is also significant and positive as B= 0.300, $p=0.000<0.05$.

Table 3. Direct Effect

| | Original Sample (O) | T Statistics (O/STDEV) | P Values |
|---|---------------------|--------------------------|----------|
| Government's Financial Support through Legal Channels -> Access to Finance | 0.517 | 9.278 | 0.000 |
| Networking with Officers -> Access to Finance | 0.300 | 5.776 | 0.000 |
| Networking with Officers -> Government's Financial Support through Legal Channels | 0.605 | 13.191 | 0.000 |

The specific indirect effects have been determined in Table 4 which depicts that Government's Financial Support through Legal Channels forms the link among networking with officers and access to finance of SMEs as $B = 0.313$, $p = 0.000 < 0.05$. In other terms, it can be stated that there is a mediation of Government's Financial Support through Legal Channels among the relationship of networking with officers and access to finance of SMEs.

Table 4. Specific Indirect Effect

| | Original Sample (O) | T Statistics (O/STDEV) | P Values |
|--|---------------------|--------------------------|----------|
| Networking with Officers -> Government's Financial Support through Legal Channels -> Access to Finance | 0.313 | 8.147 | 0.000 |

Pertaining to the above tables, it is prominent that networking with officers has direct effect on the access to finance. In addition to this, it has also been highlighted from Table 4 that Government's Financial Support through Legal Channels also mediates the association among networking with officers and access to finance. Considering this, the total indirect effect is depicted of networking with officers on access to finance by Table 5. The statistics $B = 0.313$, $p = 0.00 < 0.05$ determine that networking with officers establish significant and positive association with access to finance. Conversely, it is also realised from the above table that networking with officers establish direct and indirect effect with the access to finance. Therefore, the Government's Financial Support through Legal Channels partially mediates the relationship among networking with others and access to finance.

Table 5. Total Indirect Effect

| | Original Sample (O) | T Statistics (O/STDEV) | P Values |
|---|---------------------|--------------------------|----------|
| Networking with Officers -> Access to Finance | 0.313 | 8.147 | 0.000 |

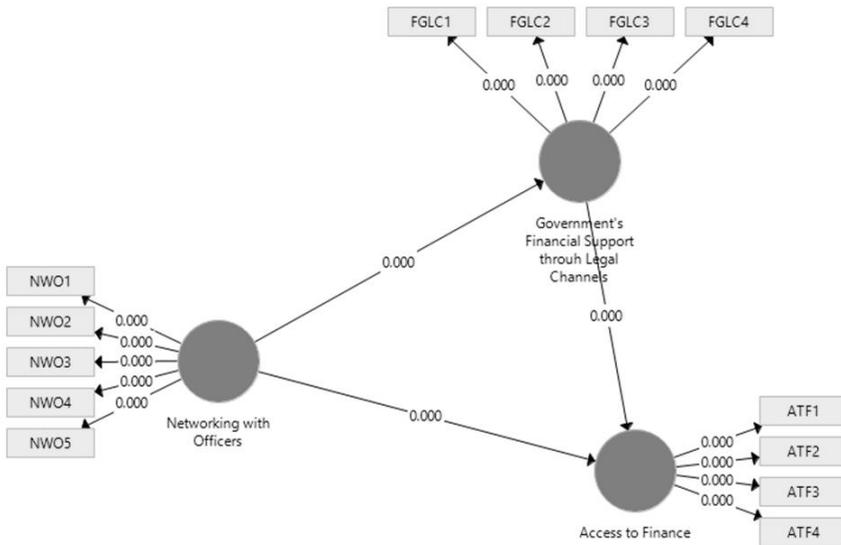


Figure 2. Measurement Model after Bootstrapping

It is depicted from the model that Government’s Financial Support through Legal Channels is explained by networking with officers. Therefore, it can be identified from Table 6 that networking with officers explains 36.6% of the variance in Government’s Financial Support through Legal Channels. This variance has been obtained as 36.4% after the adjustment. With respect to the access to finance, the networking with officers explain 54.4% of the variance in access to finance. However, this variance has been obtained as 54.1% after the adjustments.

Table 6. Quality of Model

| | R Square | R Square Adjusted |
|---|----------|-------------------|
| Access to Finance | 0.544 | 0.541 |
| Government's Financial Support through Legal Channels | 0.366 | 0.364 |

Summary of Hypothesis

| S. No | Hypothesis Status | Status |
|-------|--|----------------------|
| H1 | There is impact of networking with officers on access to finance. | Accepted |
| H2 | There is an impact of government financial support through legal channels on the access to finance for SMEs | Accepted |
| H3 | There is a mediation of government financial support through legal channels on the relationship among networking with officers and access to finance of SMEs | Accepted (partially) |

The above table shows that the first hypothesis that there is impact of networking with officers on access to finance has been accepted which also aligns with the study of Gunto and Alias that there is an impact of networking with officers on access to finance.²⁵ Moreover, the second hypothesis has also been accepted which is associated with the impact of government financial support through legal channels on the access to finance for SMEs. This also aligns with the findings of Gunto and Alias that government financial support can provide access to finance for SMEs.²⁶ With respect to the mediation, the hypothesis is partially accepted.

Conclusion and Limitation

The performance of SMEs is crucial for the development of economy in the Asia Pacific region. However, the lack of access to finance has become an issue for these SMEs in the Asia Pacific region. Therefore, this study has focused on determining the impact of networking on SME's ability to access government financial support through legal channels in Asia Pacific. In this manner, the data has been gathered from employees and managers working in SMEs of Asia Pacific region through survey questionnaires and has been analysed with

²⁵ Mustafa Gunto and M. H. Alias, "The impact of networking...", p. 11.

²⁶ Mustafa Gunto and M. H. Alias, "The impact of networking...", p. 13.

the help of SEM technique. The results identified that there is positive and significant impact of networking with others and government financial support through legal channels on the access to finance of SMEs. However, the mediation of government financial support through legal channels among the association of networking with others and access to finance. With respect to the limitations, this study is restricted to SMEs operating in the region of Asia Pacific. Therefore, it is suggested for the future researchers to include SMEs from other regions as well.

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