

# Cross Border SMEs: Malaysia & Indonesia

Edited By: MOHA ASRI ABDULLAH, RIZAL YAYA, DZULJASTRI ABDUL RAZAK

CROSS BORDER SMES: MALAYSIA & INDONESIA

Elsewhere in these two nations, SMEs are much regarded as “unsung heroes” as they play significant economic and social roles by offering new job opportunities, lowering unemployment rate, increasing competition and productivity, and providing substantial benefits to the economy of the two countries, Malaysia and Indonesia alike. The SMEs in both the neighboring nations are considered to be the backbone of the modern-day economy. Thus, it is far from being a surely not a “fish bone” anymore. The importance of this segment is undisputed. For instance, a total of 98.5 percent of the Malaysian business establishments are SMEs. In 2017, these businesses were responsible for 37.1 percent of the country’s GDP, 66 percent the total employment of the country, and 17.3 percent of the total Malaysian export. The annual growth of these SMEs’ contributions towards the GDP, employment and export are 7.2 percent, 3.4 percent and 7.9 percent respectively.

A more or less similar example can be illustrated for the Indonesian counterpart. The importance of MSMEs in the Indonesian national economy has been well noted. There are more than 56.8 million MSMEs establishments and they consist of approximately 99.9 percent of the total number of enterprises. It can be further emphasized that within MSMEs, microenterprises seem to be more dominant compared to small and medium enterprises. It covers about 98.7 percent, while small and medium enterprises represent only about 1.13 percent and 0.09 percent respectively.



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MOHA ASRI ABDULLAH \ RIZAL YAYA  
DZULJASTRI ABDUL RAZAK



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Cross Border SMEs: Malaysia Indonesia  
Editor MOHA ASRI ABDULLAH, RIZAL YAYA, DZULJASTRI ABDUL  
RAZAK  
Design JOKO SUPRIYANTO

UMY PRESS, May 2020  
First Print  
UMY Press, Universitas Muhammadiyah Yogyakarta  
Jalan Brawijaya, Tamantirto, Kasihan, Bantul, Yogyakarta 55183  
Telpon : +62.274-387656 pesawat 159

Cross Border SMEs: Malaysia Indonesia  
Editor Moha Asri Abdullah, Rizal Yaya, Dzuljastri Abdul Razak,  
16,5 x 24 cm, XII + 284 hlm  
Yogyakarta, UMY PRESS 2019

ISBN 978-623-91682-8-5



# Preface

**M**uch have been written in various forms with respect to Micro, Small and Medium Enterprises (MSMEs). In spite of this, a compilation of works on “cross border SMEs”, especially between Malaysia and Indonesia, has still not been made available to the public. Prior to addressing the issue at hand, let us look at what we mean by MSMEs for Malaysia and Indonesia? Micro, Small and Medium Enterprises (MSMEs) have been defined differently in both countries. So far, there has not been a unified definition that is accepted by all. In Malaysia, SME Corp, a coordinating body on SMEs, refers to micro size SMEs as companies with sales turnover of less than RM300,000 and employees less than five. However, for small size SMEs in the manufacturing sector, it refers to companies that have sales turnover between RM300,000 and RM15 million and employees between 5 and 75 people, while in the services sector it is described as companies that have sales turnover between RM300,000 and RM3 million, and employees between 5 and 30 people. As for medium size SMEs, in the manufacturing sector, it includes companies with sales turnover between RM15 million and 50 million, and

employees between 75 and 200 people. However, in the services sector, companies that have sales turnover between 15 million and RM 20 million and employees between 30 and 75 people are already considered as medium size SMEs. In Indonesia, MSMEs are defined as those enterprises which have full time employment of less than 100 employees with a substantial proportion of them consisting of micro enterprises with not more than five full-time employees.

Elsewhere in these two nations, SMEs are much regarded as “unsung heroes” as they play significant economic and social roles by offering new job opportunities, lowering unemployment rate, increasing competition and productivity, and providing substantial benefits to the economy of the two countries, Malaysia and Indonesia alike. The SMEs in both the neighboring nations are considered to be the backbone of the modern-day economy. Thus, it is far from being a surely not a “fish bone” anymore. The importance of this segment is undisputed. For instance, a total of 98.5 percent of the Malaysian business establishments are SMEs. In 2017, these businesses were responsible for 37.1 percent of the country’s GDP, 66 percent the total employment of the country, and 17.3 percent of the total Malaysian export. The annual growth of these SMEs’ contributions towards the GDP, employment and export are 7.2 percent, 3.4 percent and 7.9 percent respectively. A more or less similar example can be illustrated for the Indonesian counterpart. The importance of MSMEs in the Indonesian national economy has been well noted. There are more than 56.8 million MSMEs establishments and they consist of approximately 99.9 percent of the total number of enterprises. It can be further emphasized that within MSMEs, microenterprises seem to be more dominant compared to small and medium enterprises. It covers about 98.7 percent, while small and medium enterprises represent only about 1.13 percent and 0.09 percent respectively.

Having those figures are insufficient as there is a yawning gap between the needs, demands and policy responses in SMEs that often dampen their prospects. The recent economic turbulence has only added to SMEs' problems. In this regard, SMEs in both nations have also been struggling for the improvement in the cost reducing industries by providing relatively lower prices which bring transformation to the industrial structure and development of new markets along with large and multinational corporations (MNCs). SMEs directly and indirectly assist and facilitate growth, multiply and replicate into sufficient mass across industries and sectors. Starting in the late 70s and early 80s, SMEs have started to become more innovative and flexible in terms of reducing cost, technology adoption and diversification of products. Hence, it becomes imperative for us to ensure that SMEs, which are facing one of the toughest times in the industrial history, are strongly supported by the relevant stakeholders; governments, financial agencies, institutions and associations.

Realizing the need to leverage further on the development of small and medium enterprises (SMEs) in these two brotherly countries, Malaysia and Indonesia, a small group of scholars/researchers from IIUM, UMY, UNIDA Gontor and UNISSULA have collaboratively embarked on a little-known project known as the Research Matching Grant Schemes (RMGS), International Islamic University Malaysia (IIUM), Project ID: RMGS 17-001-0027. After a successful Malaysia-Indonesia Workshop on SMEs in 2019, that was conducted to present all the RMGS findings, a subsequent effort is to compile the selected-relevant papers in the form of a book to enable the knowledge and the latest findings to be shared with the public at large. Thus, the book, "Cross Border SMEs: Malaysia and Indonesia", is put forward as an extension of a compilation of works designed to foster the status, growth, progress and development of SMEs, espe-

cially in Malaysia and Indonesia. Such an effort has not been made elsewhere.

In view of this, we would like to extend our appreciation to the Research Management Center (RMC) of the International Islamic University Malaysia (IIUM), the research centers of *Universitas Muhammadiyah Yogyakarta (UMY)*, Universitas Darussalam (UNIDA) Gontor, and Universitas Islam Sultan Agung (*UNISSULA*) for undoubtedly giving us the opportunity by providing research grants under RMGS. The grants from our respective institutions enabled us to generate and integrate these research papers into an edited book. Therefore, special thanks and the flagship's appreciation to those who have contributed their papers and their efforts and unquestionable support which have eventually led to this edited book.

Edited By:

Moha Asri Abdullah

Rizal Yaya

Dzuljastri Abdul Razak



## Author's Biodata

International Islamic University Malaysia (IIUM)  
**Assoc. Prof. Dr. Dzuljastri bin Abdul Razak** obtained his PhD in Islamic Banking and Finance from University Sains Malaysia (USM) in 2011. He has undertaken several research and consultancy project with the industry. He has completed leading a research grant on the study of Abandoned Housing Project amounting to RM 78,000 under FRGS. To date, he has published more than 10 articles on refereed and indexed journals. He has also won several awards for his submissions in the University research and exhibitions projects. In addition, he has examined several PhD theses and has supervised numerous post graduate students.

**Asst. Prof. Dr. Khairunisah Ibrahim** obtained her Bachelor's degree in Business Administration from the International Islamic University Malaysia (IIUM) in 2000 and MSc in Operational Research from The Strathclyde University, UK in 2002. Dr. Khairunisah obtained her Doctorate in Business Administration (DBA - Finance) from University Kebangsaan Malaysia (UKM) in

2015. Her areas of expertise include corporate finance, capital structure, market risk and social finance. She has published her research works in local and international refereed journals such as the *Global Business Review*, *Jurnal Pengurusan*, *Intellectual Discourse*, *Journal of Islamic Finance*, *Planning Malaysia Journal* and *International Journal of Bank Marketing*. She also actively provides courses and data analysis workshops, among others, on both time series and cross-sectional analysis using SPSS and SEM. Her recent research works and postgraduate supervisions are essentially on Social Finance, focusing on Microfinance and Small and Medium Enterprises (SMEs).

**Dr Maliah Sulaiman** is a Fellow of the Association of Chartered Certified Accountants (UK), and was the former Dean of the Kulliyah of Economics and Management Sciences (KENMS), International Islamic University Malaysia (IIUM). She is currently a Professor of Accounting at the Department of Accounting, KENMS. She holds a PhD in Accounting from the University of Otago, New Zealand. Her research interests are in Islamic Accounting, Managerial Accounting as well as Environmental Accounting. On Islamic Accounting, she has written three books; *Islamic Corporate Reporting: Between the Desirable and the Desired*, *Accounting for Islamic Banks* and *Principles of Islamic Accounting*. She sits on various editorial committees both locally and abroad. At the international level, she sits on the ISO TC 207 working group on Material Flow Cost Accounting (MFCA). She is an executive council member of the Malaysian Institute of Accountants (MIA). At MIA, she chaired the Islamic Finance Committee in 2018 as well as the MIA Qualifying Exams Committee from 2016 to 2018.

**Fodol Mohamed Zakaria**, holds an MSc in Finance (Malaysia)

and is a research assistant in SMEs and their Accessibility to Islamic Financing project, Kulliyah of Economics and Management Sciences (KENMS), International Islamic University Malaysia (IIUM). Zakaria has contributed to some publications and conferences at national and international levels. Zakaria obtained his Bachelor's degree from Imam Muhammad Ibn Saud Islamic University (IMAMU), Saudi Arabia in Finance and Investment. He is interested in social finance, entrepreneurship, and Islamic finance. Zakaria has the vision to contribute to knowledge transfer, social activities, and research development for the virtue of Muslim societies and humanity.

**Md. Siddique E Azam**, is currently pursuing his Ph.D. at the International Institute for Halal Research and Training (INHART), IIUM after completing his MBA in January 2018 from IIUM as well. He obtained his M.Sc. in Agriculture Education from Sher-e-Bangla Agricultural University, Dhaka, Bangladesh. He obtained his Bachelor's degree in agriculture science from Hajee Mohammad Danesh Science and Technology University, Bangladesh. Alongside serving in the banking industry in Bangladesh, he has contributed a few publications in different journals. He foresees Muslim entrepreneurs receiving action civics education which will provide them with the knowledge and skills to develop the economy as practicing Muslims.

**Moha Asri Abdullah**, Professor (Ph.D.) at KENMS, IIUM; Deputy dean of INHART, IIUM; Director of IEC Sdn. Bhd., and National Panel of Evaluation Committee for Research Grants, MOHE. He is a former Director of Innovation and Commercialisation Office at the university, a former Deputy Dean at the Research Management Centre (IIUM) and Head of the Department of Economics. He was a Visiting Research Scholars

of Economic Research Centre, Japan and University of Auckland, AUT and Massey University, New Zealand. He has presented more than 60 papers in renowned journals and presented a number of papers at international conferences/forums. He has conducted more than 35 research projects from different funding agencies, local and international alike. He also has been a consultant to a number of agencies and involved in a wide range of consultancy works. He has been an editor and author of more than 15 books. His expertise is in Small Business/SMEs, Entrepreneurship and Venture Capital, Economic Development, and Halal Industry. His research interest areas include Halal entrepreneurship and capital venture, Small Business/SMEs, and Halal Micro-credit.

**Mohamed Asmy Bin Mohd Thas Thaker** obtained his Bachelor of Economics (Hons), Master of Economics and PhD in Economics from the International Islamic University Malaysia (IIUM). Upon completion of his PhD, he joined IIUM in October 2014 as an Assistant Professor at the Department of Economics. His research interests include economic development, SMEs, Islamic economics, Waqf, Zakat and Islamic banking, and finance. Currently, he is a member and a research fellow at the Centre of Islamic Economics, IIUM and Malaysian Economic Association. He has published a number of publications in cited refereed journals, and chapters in books and presented papers at national and international conferences. Some of his papers have won Distinguished and Best Paper awards. Recently, his thesis also won Bronze award at the international exhibition. His works have been made possible by his receipt of support in the form of grants from various agencies and organizations nationally and internationally.

**Norhayati Mohd Alwi** has been an Assistant Professor at the Department of Accounting, International Islamic University Malay-

sia since 2000. Prior to that, she had worked with a manufacturing firm as a financial controller. To date, she has published articles in reputable journals, presented at many international conferences and has been actively involved in sponsored research and consultancy work. Her research interests include performance management system, management accounting practices, environmental management accounting, organizational change, zakat, and waqf. Her research works landed her several awards including an MIA-Articles of Merit Award in 2012, IIUM Research, Invention and Innovation Exhibition (IRIIE 2012 and 2013) and the 2nd Best Paper Award JAKI Accounting Paper Awards 2018. Professionally, she is an associate member of the Malaysia Institute of Accountants.

**Suharni Maulan** is an Assistant Professor in the Department of Business Administration, Kuliyyah of Economics and Management Sciences, International Islamic University Malaysia. She obtained her PhD in Business Administration from the Graduate School of Business, UKM where she specialised in *halal* branding and service marketing. She has more than 20 years experience in teaching and the subjects she lectured in include marketing, management and economics. Her research interests are in areas related to Islamic marketing, branding and entrepreneurship. She has authored numerous academic and professional articles in reputable journals and presented at various international conferences. She is also actively involved in supervisory and consultancy works as well as community services.

**Yusof Ismail** obtained his Diploma in Accountancy from ITM, Shah Alam, and worked with auditing organizations before continuing his studies in the fields of Finance, Marketing and Management in the United States. He has authored a number of books

on Management and translated a few titles on Islam from English into Malay. His research and journal publications include Islamic Management, Human Resource Management, and Knowledge Management. He served on the technical and working groups on *Shari'ah* standards with the Malaysian standards body, SIRIM. He has been associated with the International Islamic University Malaysia since 1986.

### Universitas Islam Sultan Agung, Semarang, Indonesia (UNISSULA)

**Ardian Adhiatma** is a senior lecturer and researcher at the Department of Management, Faculty of Economics and Business, Universitas Islam Sultan Agung, Semarang, Indonesia. He received his Doctoral degree from Airlangga University, Indonesia and Masters in Management from Gadjah Mada University, Indonesia. He has published several articles in international journal and proceedings. His teaching and research interests include Islamic Economics, Human Resource Management and Knowledge Management.

**Bedjo Santoso** obtained his Ph.D in Islamic Banking and Finance from the International Islamic University Malaysia (IIUM) in 2015. He is currently the Deputy/Vice Rector for Academic and Collaboration Affairs at the Islamic University Sultan Agung Semarang- Indonesia. He is active in the fields of Islamic Banking and Finance. Besides that, he is the heads quarter ICIFE (International Council For Islamic Finance Educators) Central Java – Indonesia. He is also the secretary of Islamic Studies on Economic and Finance for Indonesian Development (ISEFID) for Central Java and he is also in the ICMI committee (Muslim Scholars Indonesian Association). He is active in writing articles on Islamic Bank-

ing and Finance. He has published some articles on Islamic economic stability, Islamic Banking and Finance strategy and products, Sukuk, Digital Finance, and Gold Dinar as Future Lancap on Global finance. Lastly, he was also invited as a speaker for the Plenary Session during the 6th AICIF (ASEAN University International Conference on Islamic Finance) in Manila in November 2018.

**Hendar** is a senior lecturer and researcher at the Department of Management, Faculty of Economics and Business, Universitas Islam Sultan Agung, Semarang, Indonesia. He received his Doctoral degree from Diponegoro University, Indonesia and Magister Saint from Padjadjaran University, Indonesia. He has published several articles in international journal and proceedings. His teaching and research interests include Marketing Management, Entrepreneurial Marketing and Cooperative Management

**Olivia Fachrunnisa** is a senior lecturer and researcher at the Department of Management, Faculty of Economics and Business, Universitas Islam Sultan Agung, Semarang, Indonesia. She received her Ph.D from Curtin University, Australia and Masters in Human Resource Management from Gadjah Mada University, Indonesia. She has published several articles and books in high reputation publication outlets. Her teaching and research interests include Human Resource Management, Organizational Behavior, Knowledge Management and Digital Business.

**Winarsih** is a senior lecturer and researcher at the Department of Accounting, Faculty of Economics and Business, Universitas Islam Sultan Agung, Semarang, Indonesia. He received his Doctoral degree from Diponegoro University, Indonesia and Masters in Accounting from Padjadjaran University, Indonesia. She has published several articles in international journal and proceedings.

Her teaching and research interests include Behaviour Accounting, Islamic Finance and Accounting and Knowledge Accounting.

## University of Darussalam Gontor UNIDA

**Atika Rukminastiti Masifah, M.E.Sy.** is a graduate of Tazkia University. She holds a Bachelor's degree in Islamic Economics (2013) and obtained Masters degree in Sharia Economics in 2017. She was recruited to join Bank Indonesia and served the bank from 2014 to 2017 as an Assistant Researcher in Islamic Economics and Finance Department, Bank Indonesia. She joined University of Darussalam Gontor in 2018 as a lecturer in the Department of Islamic Economics, in the Faculty of Economics and Management. She has published a number of academic papers in domestic and international journals, including papers on micro, macro and financial sector issues. In addition, she has received the Best Paper Awards in the 6th Sharia Banking Research Paper Forum in the category of Young Researchers di Banjarmasin.

**Dhika Amalia Kurniawan** is a senior lecturer in the Management Department at the University of Darussalam Gontor (UNIDA) Indonesia. She holds a Magister Management in the Faculty of Economics and Business from the University of Sebelas Maret Surakarta, Indonesia. Dhika Amalia has published various research papers in refereed journals such as Journal of Business, Journal of Economics and Management, and International proceedings. Her research interests include Marketing and Islamic Marketing. Dhika Amalia is the corresponding author and can be contacted at: [dhika.amalia@unida.gontor.ac.id](mailto:dhika.amalia@unida.gontor.ac.id)

**Eko Nur Cahyo** is currently working as Director of International Affairs and Relations, University of Darussalam Gontor. He is also an associate researcher at the Centre for Islamic and Occidental



Studies (CIOS), University of Darussalam Gontor. He has presented various research papers in some international conferences such as the International Conference on Integration of Contemporary and Islamic Knowledge in Islamic Universities in Malaysia, International Thematic Workshop “Revival of Waqf for Socio Economic Development”, IRTI-IDB in Surabaya. In addition, he has received an International Research grant from the Ministry of Religious Affairs of Republic of Indonesia (MORA) on Curriculum Design of Islamic Economics which was conducted at some universities in Turkey, Pakistan, Malaysia, and Indonesia. His research interests include Islamic economics, Islamic economics law, and waqf. Eko Nur Cahyo can be contacted at [eko.nurchahyo@unida.gontor.ac.id](mailto:eko.nurchahyo@unida.gontor.ac.id)

**Ely Windarti Hastuti** is a Lecturer in the Management Department at the Universitas Darussalam Gontor (UNIDA Gontor), Indonesia. She holds a MSc in Public Sector Accounting from Universitas Gadjah Mada, Indonesia. Her research interests include Islamic finance, sharia governance, Islamic accounting, and Public sector accounting.

**Fajar Surya Ari Anggara** is a Senior Lecturer in the Management Department at the Universitas Darussalam Gontor (UNIDA Gontor), Indonesia. He holds a master’s degree in management from the State University of Malang. Fajar has published various research papers such as Potential Analysis of Bromo Tengger as an International Tourist Attraction Through the Canvas Business Model Approach in refereed journals and in the community service in the East Java area.. His research and community service interests include Management, Entrepreneurship and International Business. Fajar Surya Ari Anggara is the corresponding author and can be contacted at: [fajarsurya@unida.gontor.ac.id](mailto:fajarsurya@unida.gontor.ac.id)

**Hartomi Maulana** is a Senior Lecturer in the Management Department at the Universitas Darussalam Gontor (UNIDA Gontor), Indonesia. He holds a PhD in Business Administration from the International Islamic University Malaysia. Hartomi has published various research papers in refereed journal such as the Gadjah Mada International Journal of Business, International Journal of Business, Economics and Law, International Journal of Islamic and Middle Eastern Finance and Management. His research interests include Islamic finance, financial inclusion and Islamic microfinance. Hartomi Maulana is the corresponding author and can be contacted at: [mhartomi@unida.gontor.ac.id](mailto:mhartomi@unida.gontor.ac.id)

**Khoirul Umam** is the Dean of the UNIDA Gontor Faculty of Economics and Management, where he started teaching Islamic economics, Islamic monetary economics and other courses. He received his B.A. in Islamic Finance from ISID Gontor in 2003, and his M.A. in Economics from the International Islamic University, Malaysia in 2007 and takes doctoral program in Islamic Economics at Islamic University of Indonesia, Yogyakarta. He has published a number of articles in the areas of Islamic financial and monetary economics. He co-authored his latest book with Dr. Hamid and this book has been published by LAP, Germany. Umam's email is [khoirulumam@unida.gontor.ac.id](mailto:khoirulumam@unida.gontor.ac.id).

**Rahma Yudi Astuti** is a Senior Lecturer in the Management Department at the Universitas Darussalam Gontor (UNIDA Gontor), Indonesia. She holds a M.E.Sy Institut Agama Islam Negeri Ponorogo. Rahma Yudi Astuti has published various research papers in referred journals such as Altijarah Unida Gontor, Islamic Economics Journal and Khodimul Ummah. Her research interests include Islamic finance and financial inclusion. Rahma Yudi Astuti is the corresponding author and can be contacted at:

rahmayudi67@unida.gontor.ac.id

**Roghiebah Jadwa Faradisi** is a Junior Lecturer in the Management Department at the Universitas Darussalam Gontor (UNIDA Gontor), Indonesia. She earned her Masters of Accountant degree from Universitas Indonesia in 2018. Roghiebah also holds a Chartered Accountancy qualification from the Indonesian Accountant Association at the prior year. She has published various research papers in refereed journal, especially in financial accounting areas such as corporate performance and corporate governance relations in Indonesia. Her research interests include Auditing, Financial and Sharia Accounting. Roghiebah Jadwa Faradisi is the corresponding author and can be contacted at: rossyrjfaradisi@yahoo.com.

**Royyan Ramdhani Djayusman** is currently a lecturer and head of the Department of Islamic Economics at the University of Darussalam Gontor. He has contributed to many publications and conferences on Islamic economics, finance, and public economics and, in particular, Islamic philanthropy. He has the vision to enhance the model of Islamic economics education system in order to increase the implementation of Islamic economics both among the academicians and the community. In this regard, he and his colleagues established the Institute of Mudharabah Funds (IMF) promoting and educating the mudharabah contract whose practice is nowadays less popular than the murabahah contract in the mainstream Islamic financial institutions.

Universitas Muhammadiyah Yogyakarta UMY

**Rizal Yaya** is an Associate Professor in the Department of Accounting, Universitas Muhammadiyah Yogyakarta. He is currently Dean of the Faculty of Economics and Business, Universitas

Muhammadiyah Yogyakarta. Rizal obtained his Bachelor's degree from Universitas Gadjah Mada, his Master of Science degree in Accounting from the International Islamic University Malaysia and his Doctor of Philosophy in Accountancy from University of Aberdeen. He is the author of textbook on Accounting for Islamic Banks published by Salemba Empat, Jakarta. He received an award from UMY as the best lecturer in 2017 and also received an award for the best paper at the International Conference on Islamic Perspective of Accounting, Finance, Economics and Management in Istanbul Turkey in 2017.

**Susilo Nur Aji Cokro Darsono**, is Lecturer in the Department of Economics, Universitas Muhammadiyah Yogyakarta, Indonesia. Susilo received his master's degree in Rural Development Management from Khon Kaen University, Thailand and bachelor's degree in Economics from Universitas Muhammadiyah, Yogyakarta. Currently, Susilo is a Ph.D student at the College of Management, Department of Business Administration, Asia University Taiwan. Susilo has contributed to many publications and conferences at both national and international levels. He conducts research in the broad area of development economics and Islamic investment. He is also serving in the editorial board of Jurnal Ekonomi & Studi Pembangunan.

**Taufik Akhbar, SE.**, holds an MBA in financial management (Indonesia) and is a lecturer in the management department, Universitas Muhammadiyah Yogyakarta. Taufik obtained his Bachelor's degree from the management department, Universitas Gadjah Mada in 2011 and graduated with Masters of Business Administration in Magister Management, Universitas Gadjah Mada in 2014. His research interest is on corporate finance.

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# Glossary

## Chapter 1

**Respondents' profile:** Demographic characteristics of SMEs, reasons of involvement in business, and training attended

**Business Profile:** Includes year of establishment, type of ownership, business sector, source of initial financing capital, type of financing, total asset turnover, total sales turnover per year, and number of employees.

**Kaiser-Meyer-Olkin (KMO):** a measure of how suited your data is for **Factor Analysis**. The test measures sampling adequacy for each variable in the model **and** for the complete model.

**Bartlett's test:** A test for homogeneity of variances is used to test that variances are equal for all samples.

**Business Performance:** Increase or decrease in certain business aspects

## Chapter 2

**MSMEs:** Micro, small, and medium enterprises

**Profile:** Personal characteristics and business status

**Methodology:** Approach used to conduct the chapter.

**Expertise:** expert skill or knowledge in business

**Education level:** Last education completed by the respondents

**Years of business establishment:** Length of business establishment period.

**Form of Business:** Legal structure of the business

## Chapter 3

**Conceptual Framework:** general framework of research by identifying study variables that can provide results to answer the above research questions.

**Hypothesis:** A hypothesis is a tentative statement about the relationship between two or more variables which is testable.

**Success Factors:** variables that may affect the success of SMEs business

**Knowledge skill:** training in different areas, such as accounting, team management, marketing, communication, and technology use.

**Reliability test:** a test to see the internal consistency of the data for the variables used in a study.

**Correlation matrix:** Output of regression analysis shows the correlation among the variables in a tabular form.

## Chapter 4

**MEs:** Micro Enterprises

**ISFI:** index of Sharia financial inclusion

**Financial inclusion:** delivery of financial services, at affordable costs, to sections of disadvantaged and low-income segments of the society

**Micro-finance:** making minor loans prepared to poor people through programmes designed in particular to fulfill their particular needs and circumstances.

**Access to Shariah finance:** outreach of sharia financial services

**Usage of Shariah finance:** frequency with which customers use sharia financial services.

## Chapter 5

**Familiarity:** Knowledge level on Islamic financing products available in the market.

## Chapter 6

**CTR:** Current training requirement reported by the respondent during the survey.

**FTR:** Future Training Requirement. Training reported to be required in next one- or two-years' time

**Reliability Statistics:** Shows the level of internal consistency for the scale used in this study

**TR:** Training Received. Type, and fields of training received by the respondents

**Training Gap:** Difference between training receive and training need

## Chapter 9

**DFTZ:** Digital Free Trade Zone

**External barriers:** comprise of industry barriers (industry structure and competition), market barriers (customer and procedural) and macro environmental barriers (direct and indirect export)

**Internal barriers:** include company barriers (marketing knowledge, financial and human resource) and product barriers (quality and technical adaptation)

## Chapter 11

**Business area:** fields of business

**Financial literacy:** financial knowledge to attain the welfare. This financial literacy is related to the ability of individuals or business firms in financial planning and management.

**Legal form:** Legal structure of the business includes co-operative, private limited, partnership, sole-proprietorship.

**Record-keeping:** accounting of all financial transactions in the business.

**Risk:** uncertainty or the possibility of financial loss.

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