



INFLUENCE OF CORPORATE GOVERNANCE ON SMES IN MALAYSIA

By

DIANA ROSE BINTI FAIZAL

**Thesis Submitted to the School of Graduate Studies, Universiti Putra
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Doctor of Philosophy**

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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in
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May 2023

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Small and Medium Enterprises (SMEs) are essential to Malaysia's economic growth and employment. Malaysian SMEs exhibit diverse specialties and adaptable structures to satisfy market demands. Assisting SMEs ensures their continued contribution to the economy. The establishment of governance is important in aiding SMEs to operate. Good governance serves to prevent the misuse of authority and establishes rules for effective business management. There is a significant study on how corporate governance impacts SMEs performance. Extensive research on corporate governance has been conducted in larger or publicly listed companies. However, studies focusing on corporate governance related to SMEs are noticeably scarce. Furthermore, Malaysia is among the countries that do not enforce corporate governance for SMEs. Thus, this study aims to examine the importance and implications of corporate governance on SMEs in Malaysia.

There are three objectives in this study. The first objective is to investigate the factors influencing the implementation of corporate governance SMEs in Malaysia. A theory such as the Theory of Planned Behavior is employed as the main framework for the acceptance factors of corporate governance in SMEs. This objective used the quantitative method by collecting 380 questionnaires from SMEs in Malaysia. Data analysis is conducted via the Partial Least Square Structural Equation Modeling (PLS-SEM). The study found that attitude and perceived behavioral control influence the intention to implement corporate governance.

The second objective is to assess the corporate governance code implemented for SMEs in other countries. There are 27 countries that implement SMEs corporate governance practices, providing a flexible and dynamic framework. The content analysis of 27 corporate governance practices discovered that the Malaysian Code of Corporate Governance does not incorporate three codes:

Rights/Role of Shareholders, Shareholder Agreements, and Family Governance. These codes are suggested for enhancing corporate governance, specifically for SMEs in Malaysia.

The third objective of the study is to simulate the corporate governance code on SMEs' performance in Malaysia. Regression analysis aids in identifying the code that correlates with an increase in SMEs' performance. The findings indicate that Board Size, Board Composition, Family Governance, Firm Age, and Firm Size impact SMEs' performance. The implementation of these codes provides SMEs with access to an extensive array of benefits, advantages, and experiences. It results in improved efficiency and a greater ability to seize opportunities, ultimately contributing to the growth and sustainability of SMEs.

Overall, the impetus of this study is to examine the implication of corporate governance on SMEs in Malaysia. Considering that corporate governance is not obligatory for SMEs, it is anticipated that the findings of this study will facilitate SMEs in adopting corporate governance standards. The study also proposes the introduction of a corporate governance code specifically designed for SMEs. Hence, implementing corporate governance in SMEs is expected to enhance their industry performance and contribute to Malaysia's economy.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

PENGARUH TADBIR URUS KORPORAT TERHADAP PKS DI MALAYSIA

Oleh

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Perusahaan Kecil dan Sederhana (PKS) adalah penting untuk pertumbuhan ekonomi dan pekerjaan di Malaysia. PKS Malaysia mempunyai kepakaran yang pelbagai dan struktur yang boleh disesuaikan untuk memenuhi permintaan pasaran. Membantu PKS dapat memastikan sumbangan berterusan kepada ekonomi. Penubuhan tadbir urus adalah penting dalam membantu operasi PKS. Tadbir urus yang baik boleh mengelakkan penyalahgunaan kuasa dan mewujudkan peraturan untuk pengurusan perniagaan yang berkesan. Terdapat kajian penting tentang bagaimana tadbir urus korporat memberi kesan kepada prestasi PKS. Penyelidikan yang meluas mengenai tadbir urus korporat telah dijalankan terhadap syarikat yang besar atau tersenarai awam. Walau bagaimanapun, kajian yang memfokuskan kepada tadbir urus korporat yang berkaitan dengan PKS amat terhad. Tambahan pula, Malaysia adalah antara negara yang tidak menguatkuasakan tadbir urus korporat terhadap PKS. Justeru, kajian ini bertujuan untuk mengkaji kepentingan dan implikasi tadbir urus korporat terhadap PKS di Malaysia.

Kajian ini dibahagikan kepada tiga objektif. Objektif pertama kajian adalah untuk menyiasat faktor-faktor yang mempengaruhi pelaksanaan tadbir urus korporat di kalangan PKS di Malaysia. Teori seperti Theory Planned Behavior digunakan sebagai kerangka utama untuk faktor-faktor penerimaan tadbir urus korporat dalam PKS. Objektif ini menggunakan kaedah kuantitatif dengan mengumpulkan 380 soal selidik daripada PKS di Malaysia. Analisis data dilakukan melalui Partial Least Square Structural Equation Modelling (PLS-SEM). Keputusan kajian ini menunjukkan bahawa faktor yang diperolehi daripada teori seperti sikap (attitude) dan persepsi kawalan tingkah laku (perceived behavior control) mempunyai hubungan dengan tujuan (intention) untuk melaksanakan kod tabir urus korporat.

Objektif kedua adalah untuk menilai kod tadbir urus korporat yang dilaksanakan terhadap PKS di negara lain. Terdapat 27 negara yang melaksanakan amalan

tadbir urus korporat PKS yang menyediakan rangka kerja fleksibel dan dinamik. Analisis kandungan ke atas amalan tadbir urus korporat 27 negara mendapati Kod Tadbir Urus Korporat Malaysia tidak mengandungi tiga kod: Hak/Peranan Pemegang Saham, Perjanjian Pemegang Saham dan Tadbir Urus Keluarga. Kod-kod ini boleh dicadangkan untuk pembangunan tadbir urus korporat terhadap PKS di Malaysia.

Objektif ketiga kajian adalah untuk mensimulasikan kod tadbir urus korporat terhadap prestasi PKS di Malaysia. Analisis regresi membantu dalam mengenalpasti kod yang berkorelasi dengan peningkatan prestasi PKS. Dapatan menunjukkan bahawa Saiz Lembaga Pengarah, Komposisi Lembaga Pengarah, Tadbir Urus Keluarga, Umur Firma dan Saiz Firma memberi kesan kepada prestasi PKS. Penggunaan kod menyediakan PKS akses kepada pelbagai manfaat, kelebihan dan pengalaman. Ia menghasilkan kecekapan yang lebih baik dan keupayaan yang lebih besar untuk merebut peluang, akhirnya menyumbang kepada pertumbuhan dan kelestarian PKS.

Secara keseluruhannya, tujuan kajian ini adalah untuk mengkaji implikasi tadbir urus korporat terhadap PKS di Malaysia. Walaupun tadbir urus korporat tidak diwajibkan terhadap PKS, dijangkakan penemuan kajian ini akan memudahkan penggunaan amalan tadbir urus korporat oleh PKS. Kajian itu juga mencadangkan pengenalan kod tadbir urus korporat yang direka khusus untuk PKS. Oleh itu, dengan melaksanakan tadbir urus korporat terhadap PKS akan meningkatkan prestasi industri mereka dan menyumbang kepada ekonomi Malaysia.

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LIST OF ABBREVIATIONS

AIM	Alternative Investment Market
AVE	Average Variance Extracted
BNM	Bank Negara Malaysia
BC	Board Composition
BS	Board Size
CEO	Chief Executive Officer
CG	Corporate Governance
CGC	Credit Guarantee Corporation Malaysia Bhd
COVID-19	Coronavirus Disease
DFI	Development Financial Institutions
DOSM	Department of Statistics Malaysia
FG	Family Governance
GDP	Gross Domestic Product
GFC	Global Financial Crisis
KLSE	Kuala Lumpur Stock Exchange
OECD	Organisation for Economic Co-operation and Development
PBC	Perceived Behavioral Control
PLS-SEM	Partial Least Square Structural Equation Modelling
RD	Role Duality
ROA	Return on Asset
SBA	Small Business Act
SMES	Small and Medium Enterprises
SSM	Suruhanjaya Syarikat Malaysia
TPB	Theory of Planned Behavior

UK	United Kingdom
VIF	Variance Inflation Factor
WGI	Worldwide Governance Index



CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter discussed the development of corporate governance affecting Small and Medium Enterprises (SMEs) in Malaysia. It begins with the importance of corporate governance to all businesses. The importance includes the functions of corporate governance that contribute to SMEs' performance, followed by highlighting SMEs in Malaysia. This chapter is structured starting from a problem statement, research objectives, research questions, significance of the study, organization for whole chapters, and summary of the introduction.

1.2 Background of Study

Corporate governance can be viewed as the framework through which businesses are managed and overseen (Cadbury Report, 1992). It represents the interplay among a company's leadership, board, investors, and other involved parties. The Organisation for Economic Co-operation and Development's (OECD's) interplay establishes the goals of the company and the means to achieve them while also supervising its progress (OECD, 2004). Hence, corporate governance is developed to support the company in achieving a high performance. In a competitive business environment, companies require a set of principles or rules that can guide their direction and control to easily meet the company's direction. Good corporate governance practices contribute to the development of the company and the growth of capital markets in emerging economies. This access to capital facilitates business expansion, innovation, and job creation, which are vital elements in emerging economic markets (Ben & Zeghal, 2008).

Over the past decade, corporate governance has garnered significant attention among researchers and policymakers worldwide. Recent corporate failures and crises have thrust corporate governance into the spotlight, making it a widely debated subject in the growth of emerging economies (Singh & Pillai, 2022). The concept of corporate governance dates to earlier years, as also investigated by Bhagat & Bolton (2019), who delved into historical events such as the well-known scandals involving US corporations and several financial crises. Although such crises and scandals linked to capital from various countries caused a substantial decline in currencies and asset prices, these authors argue that these crises may have been directly attributable to widespread poor corporate governance (Cole, Johan, & Schweizer, 2021; Htay, Salman & Meera, 2013). Consequently, corporate governance issues have persistently surfaced in response to various challenges over the years.

While corporate governance helps reduce vulnerability to financial crises, corporate governance also prevents unwanted conflicts (Hakimah, Pratama, Fitri, Ganatri & Sulbahrie, 2019). Corporate governance is the policies and processes that curb agency conflicts and limit agency problems. Agency conflicts are triggered by the conflict of interests between those who own the company and those who control the company. Managers and shareholders may decide together to run a company to benefit themselves at the expense of other stakeholders who do not have a voice together. This, in return, will affect the business and could lead to its failure. Thus, corporate governance was developed to mitigate this conflict of interest.

Corporate governance practices determine the success or failure of a company, regardless of whether it is a listed company or an SME (Iskandar, Hassan, Sanusi & Mohamed, 2017). Empirical evidence shows that good corporate governance positively impact on the performance of listed companies such as the United Kingdom (Kyere & Ausloos, 2020). However, poor corporate governance may weaken the company's performance, leading to macroeconomic crises and negatively affecting the country's economic growth (Tarighi, Hosseiny, Akbari, & Mohammadhosseini, 2023).

In Malaysia, corporate governance is applied to publicly listed companies, and its adoption significantly impacts their performance. Public listed companies in Malaysia continuously improve their governance practices over time (MCCG, 2000). However, corporate governance is not mandatory for SMEs in Malaysia (Iskandar et al., 2017). Consequently, there is a lack of evidence supporting the positive effects of governance monitoring the SMEs' performance. In their study, Umrani, John & Ibrahim (2015) highlighted that 60% of SMEs are family-controlled and do not practice corporate governance. Meanwhile, these families have control over the management of their companies. Over the years, there has been a significant increase in SME family businesses. Yew (2021) highlighted that nearly 80% of Malaysian businesses are family companies. Persistently, the issues reflect the concentrated ownership and misappropriation within the structure of SMEs.

The family business is growing as the philosophy says, the purpose of business is to uphold family traditions and build for future generations. As a result, there has been a growing trend in the numbers management found to be family members, often leading to smaller management teams, mainly when family members also serve as directors. Besides, the choice was often the closest relative to businesses such as friends and investors. Thus, the SME director is often either employed as a manager or family member to the CEO (Gabrielsson & Huse, 2005). According to Htay, Salman & Meera (2013), it has become the norm, and the separation of ownership and control creates a conflict of interest. This implies that the owner of SMEs is simultaneously part of the management team responsible for making operational decisions, leading to a potential lack of effectiveness (Rodrigues, Franco, Silva & Oliveira, 2021). There is a compelling reason for companies to establish a separation between ownership and boards

of directors in business management. This separation is crucial because disagreements can emerge due to human nature, self-interest, and the inclination to maximize personal benefits. Umrani et al. (2015) indicated that such imbalances might lead numerous SMEs to engage in dishonest actions like submitting deceptive details, unauthorized collections, and unlawful investment plans. These highlighted concerns adversely affect the corporate governance standards among Malaysian SMEs

1.3 Corporate Governance in SME Countries

The definition of SMEs varies from country to country. Still, their common objective is to contribute to the growth of their respective nations. While they are referred to as enterprises, SMEs play a significant role in their own countries' economies, with some in poorer nations playing a crucial part in poverty alleviation (Emad, Al-Timimi & Radhi, 2014). Moreover, these SMEs have similar principles emphasizing corporate governance in different countries' corporate governance codes. Table 1.1 has been classified from different categories and from country to country. The table shows the list of countries that comply with corporate governance regarding SMEs. Of the 195 countries today, 139 have SMEs as of 2019, and 27 countries have corporate governance.

Table 1.1 : List of countries with SME corporate governance

No	Countries	Year CG	No	Countries	Year CG
1	Albania	2008	16	Japan	2009
2	Argentina	2006	17	Jordan	2012
3	Bangladesh	2004	18	Malawi	2010
4	Belgium	2005	19	Morocco	2008
5	Brazil	2016	20	Nigeria	2003
6	Brunei	2016	21	Norway	2004
7	China	2014	22	Pakistan	2012
8	Colombia	2009	23	Slovenia	2004
9	Dubai	2011	24	South Africa	2003
10	Finland	2006	25	Spain	2005
11	Germany	2000	26	Switzerland	2006
12	Hong Kong	2014	27	United Kingdom	2010
13	Indonesia	2006			
14	Italy	2005			
15	Jamaica	2016			

(Source: World Bank Enterprise Survey, 2018)

1.4 Overview of Malaysia SMEs

Small and Medium Enterprises (SMEs) are known as key players in national economies worldwide, contributing to employment, productivity, and economic growth. SMEs' major roles are generating and contributing to Gross Domestic Product (GDP) in almost all countries. Due to their flexible structures, SMEs have a variety of specializations. They can meet a diversity of market demands and engage in economic activities. In all countries, especially developed countries, SMEs pass laws fitting the economic environment, development, growth, and protection (Gunay & Apak, 2014). The authors also highlighted that SMEs in Turkey significantly influence economic and social development, from rural regions to metropolitan areas. Hence, SMEs possess diverse strengths and can meet the market's demands and create innovative economic activities.

Table 1.2 : Definitions of SMEs in Malaysia

Size 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 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 RM3 mil OR Employees from 5 to less than 30	Sales turnover from RM3mil to not exceeding RM20mil OR Employees from 30 to not exceeding 75

(Source: SME Annual Report 2019/2020)

Table 1.2 lists Malaysian SMEs based on two criteria: i) annual sales turnover and ii) number of employees (SME Annual Report, 2019/2020). Malaysian small and medium-sized enterprises are made up of five sectors: i) manufacturing, ii) services, iii) construction, iv) mining and quarrying, and v) agriculture. The table below shows the categories and sizes of SMEs based on their annual sales turnover and number of employees.

Table 1.3 shows about 907,065 SMEs operating their businesses in Malaysia, representing 98.5% of total establishments. The population of SMEs is greater than that of large companies at 13,559 establishments. The highest SME establishment (809,126) is in the service sector. They are then followed by the manufacturing sector (47,698), construction sector (39,158), agriculture sector (10,218), and mining and quarrying (865), with the least involvement of SMEs. Furthermore, Table 1.3 shows the numbers in company size. Most of the SMEs were microenterprises, comprising 76.5% of total SMEs being micro, followed by small size at 21.2% and the balance at 2.3% medium sized. SMEs in Malaysia are a very heterogeneous group. They are involved in activities ranging from selling the products and services to local markets or selling their services to overseas markets. These SMEs are the catalyst for industrial development, fostering growth, increasing employment and income, and boosting the transformation process within the Malaysian economy (Tahir, Razak & Rentah, 2018).

Table 1.3 : Numbers of Establishments by Sector, Companies Size, and Percentage Share of Total SMEs and Establishments

Sector	Total Establishments	Total SMEs	Total Large Companies	% of SMEs to total	% of SMEs to total SMEs
Overall Total	920,624	907,065	13,559	98.5	100
Services	818,311	809,126	9,185	87.9	89.2
Manufacturing	49,101	47,698	1,403	5.2	5.3
Agriculture	11,628	10,218	1,410	1.1	1.1
Construction	40,558	39,158	1,400	4.3	4.3
Mining & Quarrying	1,026	865	161	0.1	0.1

Economic Census (2016)				
	Micro	Small	Medium	Total
No. of establishment	693,670	192,783	20,612	907,065
% share to total SMEs	76.5	21.2	2.3	100
% share to total establishment	75.3	20.9	2.2	98.5

(Source: Census Report SMEs 2016)

SMEs have become a source of economic growth in developed nations. They are viewed as the backbone of employment, growth, and productivity. As per the Department of Statistics Malaysia's Table 1.4, SMEs' contribution to the national GDP dropped to 38.2% (or RM512.8 billion) in 2020, a decrease from 38.9% and RM553.5 billion the year before. Historically, the growth rate of SMEs' GDP has often surpassed that of Malaysia's overall GDP. However, due to the worldwide onset of the COVID-19 pandemic, the growth of SMEs' GDP plummeted to a

negative 7.3% in 2020. This was the first instance in the last 17 years, dating back to 2003, where SMEs' GDP growth was lower than the national rate. Amid the COVID-19 crisis, many businesses faced the threat of closing, with SMEs being particularly vulnerable. The pandemic has profoundly and negatively impacted economies, societies, and environments globally, with significant consequences for individuals and businesses (Le & Nguyen, 2022).

Table 1.4 : SMEs Contribution to GDP, Employment and Productivity

Year	2016	2017	2018	2019	2020
SMEs GDP (%)	37.3	37.8	38.3	38.9	38.2
SMEs Value Added (RM Billion)	458.7	491.6	522.4	553.5	512.8
SMEs GDP Growth	5.4	7.2	6.2	5.9	-7.3
Share of SME Employment to Total Employment	47.0	47.6	48.0	48.4	48.0
SMEs Employment Growth	2.1	3.4	3.2	3.0	-0.9
SMEs Productivity Growth	3.3	3.7	3.0	2.9	-6.5
SMEs Labour Productivity (RM'000)	69	71	74	76	71

(Source: Department of Statistics Malaysia (DOSM) 2020)

Table 1.5 shows SMEs' value added for the Manufacturing sector had a negative growth of 2.9%, which is a drop from 4.5% in 2019. In the Services sector, the value added of small and medium-sized enterprises declined by 9.2% in 2020, compared to 7.5% in 2019. In addition, the number of SMEs in the construction industry declined by 15.4% compared to 0.3% in the preceding year due to a decline in all subsectors. Additionally, the value contributed by SMEs in the mining and quarrying sector decreased to 7.1% in 2019 from 19.5% in 2018. Similarly, the value-added in the agriculture sector falls to 0.3%. Consequently, this loss resulted from the decline in all subsectors due to the impact of COVID-19.

Table 1.5 : Annual Percentage Change of SMEs GDP by Economic Sectors

	2018 (%)	2019 (%)	2020 (%)
Total	6.3	5.9	-7.3
Services	8.1	7.5	-9.2
Manufacturing	5.5	4.5	-2.9
Construction	4.0	0.3	-15.4
Mining & Quarrying	5.2	19.5	-7.1
Agriculture	0.4	2.3	-0.3

(Source: DOSM 2020)

1.5 Problem Statement

Corporate governance is being applied to private and publicly listed companies. Effective corporate governance benefits companies by improving their access to financing, lowering the cost of capital, enabling better performance, and promoting fair treatment of all stakeholders (Nasrallah & Khoury, 2022; Claessens and Yurtoglu, 2013). Empirical evidence for large companies has proven that corporate governance can be helpful to maximize company value. Some countries have approached corporate governance to enhance the performance of SMEs. There are 139 SMEs across the countries, as highlighted in Table 1.1 above. However, about 20% have implemented corporate governance in their SMEs.

In Malaysia, corporate governance has not been applied to Malaysian SMEs. They approach corporate governance compliance as a threat, as it is often related to large companies that incur high costs and interfere with ownership (Aluchna & Kuszewski, 2020). Generally, SMEs are categorized as small size when referring to their capital. Thus, SMEs have limited access to finance the SME's growth (Rao, Kumar, Chavan, & Lim, 2023). SMEs may expand their business with more capital, which they can get from external financing. The SMEs depend on financial institutions to fulfill the needs of their businesses. Approximately 96% of SME funding is sourced from local banks, association bodies, ministries, and agencies, with less than 4% originating from the capital market (Zulkafli, Hooy & Ooi, 2017).

Besides that, SMEs face difficulty obtaining capital through financial institutions. The Central Bank of Malaysia (BNM) allocated RM14.2 billion in 2020, channeled through financial institutions to provide loans, and still has a balance of 50% from the fund. There is still difficulty for SMEs in obtaining capital through bank financing. Jabbouri & Farooq (2021) highlighted that SMEs face issues when disclosing financial statements. This is often because SMEs struggle to meet loan requirements, especially regarding documents related to business proposals and financial records, due to a lack of governance (Choudhury & Goswami, 2019).

When SMEs operate within an inefficient legal system or possess a weak governance structure, it can result in poor business management, ultimately impacting the company's profitability. When SMEs' profits are affected, it leads to a lack of cash flow to repay the loans. Conversely, many banks are uninterested in financing SMEs due to various factors, including limitations in information disclosure (Zada, Yukun & Zada, 2021). Banks prefer to serve large companies in which they can fulfill the requirements or loan policies. However, SMEs are limited to providing a good financial report and business statement of the companies as required by the financial institutions. Hence, SMEs with a complete business plan and a structured financial record would make the loan application affairs easier. However, awareness regarding good financing reporting is limited in SMEs. Thus, SMEs have a problem providing formal documents due to the long processing time and the high cost. In contrast, the

higher the cost to inspect accounts and reporting, the higher the interested shareholder invested (Roychowdhury, Shroff & Verdi, 2019).

Corporate governance has often been viewed as separate from SMEs, primarily because these businesses do not typically face agency conflicts. This is because the owners of such enterprises often also serve as directors, managers, and take on various roles within the company. Nonetheless, there is a growing need for SMEs to recognize and prioritize the value of robust corporate governance. In cases where SMEs understand corporate governance, their perception tends to lean towards the belief that the drawbacks outweigh the previously perceived advantages. Panda & Leepsa (2017) discussed that owners may experience conflicts with external appointed to run the businesses. Owners might be concerned that these external could misuse the companies' assets. For instance, they believe that hiring external auditors is costly and appointing independent board members could lead to conflict for personal gains.

Indeed, SMEs often believe they do not require corporate governance because the owner and manager are the same individuals. This perspective, as highlighted earlier (Iskandar et al., 2017; Umrani et al., 2015), is common when a family member operates a business, resulting in the absence of independent directors. However, SMEs need corporate governance to run their business effectively, not only for internal management but also for the assurance of stakeholders and to ensure the sustainability and growth of the business (Vargas-Hernández & Cruz, 2018).

Relatively, SMEs in Malaysia are owned and managed by a family member (Yew, 2021; Iskandar et al., 2017). Thus, the feature of family-owned enterprises is a need for separation of ownership control. This implies that directors and managers cannot be distinguished. However, SMEs concentrate on ownership, all are controlled by a small number of industries, families, and management. They believe in an insider system where power and incentive to monitor management are closely related by their own to support long-term performance. It shows that SMEs lack awareness regarding accepting corporate governance that gives a good relationship with company performance. This is because the SMEs are owned businesses that have limited skills and expertise among the family members (Mokhber, Gi Gi, Abdul Rasid, Vaklbashi, Mohd Zamil & Woon Seng, 2017).

Furthermore, SMEs' acceptance of corporate governance is determined by how much it costs the business and behavioral factors. Referring to the theory of planned behavior, the probability that a behavior will occur depends on an individual's intention to engage in that behavior Ajzen & Kruglanski (2019). Therefore, the acceptance of corporate governance hinges on the intentions of SMEs towards their businesses (Wu, Coleman, Abdul Rahman & Edziah, 2020). Moreover, implementing corporate governance within SMEs depends on their attitudes, encompassing their perception of its desirability and potential impact

on their companies. This will enhance the performance of the business in the long run.

SMEs ought to recognize the long-term benefits of robust governance. Corporate governance is pivotal in business growth (Naciti, 2019). It is essential for SME proprietors to embed governance values in their company's mission and core beliefs, ensuring every employee remembers these values while carrying out their roles. SMEs can significantly boost their performance by adopting and executing relevant corporate governance principles. Currently, in Malaysia, such governance is not obligatory for SMEs, making them one of the countries where SMEs less frequently integrate these standards. There is a prevailing sentiment that sound corporate governance can uplift the performance of SMEs and further stimulate economic growth. Thus, assessing the influence of corporate governance on Malaysian SMEs is paramount.

1.6 Research Objectives

The general objective of this study was to examine the implication of corporate governance on SMEs in Malaysia, while the specific objectives are as follows:
Specific Objective:

1. To identify factors influencing the implementation of corporate governance SMEs in Malaysia.
2. To assess the corporate governance code implemented on SMEs in other countries.
3. To simulate the corporate governance code on SME performance in Malaysia.

1.7 Research Questions

The research questions of this study are as follows:

1. What factors influence Corporate Governance Code implementation among SMEs in Malaysia?
2. What are the corporate governance codes in SME countries that can approach Malaysian SMEs?
3. What is Malaysia's SME performance by each corporate governance code?

1.8 Significance of the Study

The study examines the implications of corporate governance on SMEs in Malaysia. The significance is encompassing both theoretical and practical contributions. These contributions extend to the benefits and advantages received by all stakeholders, SME authorities, and the government.

1.8.1 Theoretical Contribution

This research explores the importance of augmenting the existing discourse on corporate governance, covering both private companies and SMEs. The insights derived from this study provide a distinct viewpoint on Malaysian SMEs, enriching the comprehensive literature on corporate governance. The limited studies on the application of corporate governance within SMEs stem from its non-mandatory status in Malaysia. Hence, this research aims to investigate the interplay between the corporate governance code and the performance metrics of Malaysian SMEs. It is anticipated that this work will pave the way for subsequent research promoting the formulation of corporate governance guidelines tailored for SMEs.

Besides, the conceptual model developed and provided by this study offers guidelines for the future of corporate governance and the expansion of more research, studies, and observations in this section. This study fills the gap in the context of literature by investigating the factors supported by the theory of planned behavior (TPB). In this study, the TPB theory is expanded upon to comprehend the factors influencing the implementation of corporate governance. The TPB model has been successfully applied to various areas with robust estimates. Although extensive research has been carried out on the TPB model, more studies need to be conducted regarding a mechanism that explains the relationship between SMEs' intention on corporate governance and SMEs' performance in Malaysia. Thus, TPB is expected to contribute to corporate governance in SMEs in Malaysia.

Moreover, this study gives a researcher additional insight into testing the corporate governance code in SMEs. The study assesses the codes of different countries to be customized on SME corporate framework to be more effective and flexible within SMEs in Malaysia. The countries' corporate governance codes are precise and suitable for SMEs' corporate governance in Malaysia. This study can give future research as a guideline for what codes can be used for their studies. Hence, it enables the other study to be more comparative and contribute towards the corporate governance code in SMEs.

1.8.2 Practical Contribution

As for practical contribution, this research is anticipated to contribute to SMEs and stakeholders. Investigating this issue could provide additional insights to SMEs in Malaysia regarding the code of corporate governance that should be developed for them at different stages in their business cycle, capabilities, and the needs of their investors. In addition, knowing the importance of corporate governance will raise awareness of the implementation of corporate governance.

Hence, the results of this study would make it easier for SMEs to implement corporate governance. Indirectly, it will reduce the interest gap between SMEs and stakeholders. Despite the financial institutions' problem, this study's finding would help SMEs quickly get assistance from the banks. Once SMEs have the corporate governance code, they will gain the agencies' trust to give SMEs a loan and investments. Hence, SMEs can improve and sustain their business performance.

As SMEs play a vital role in the Malaysian economy, this study aims to improve SMEs' performance and continuously contribute to the national economy. The findings of this study can be used as a guideline by SME authorities or the government to recommend a suitable governance code tailored for implementation in SMEs. Hence, implementing corporate governance practices by SMEs will enhance their performance. Therefore, there is higher growth and development for our SMEs throughout the nations. A higher GDP helps lift people out of poverty and increase development outcomes. Hence, growth in jobs contributes to low unemployment rates.

1.9 Organisation of the Study

This thesis is structured into six chapters: introduction, literature review, research framework, methodology, data analysis, discussion, and conclusion. A brief overview of each chapter is provided below:

Chapter 1: Introduction

This chapter offers a succinct introduction to the research, serving as a foundation for the subsequent chapters. It presents the study's backdrop, touches on the concepts of corporate governance and SMEs, underscores the central issues, delineates the research goals and queries, and elucidates the rationale behind undertaking this study.

Chapter 2: Literature Review

This chapter focuses on the relevant literature of previous researchers. It begins with a literature review on corporate governance as a whole point to the companies and SMEs. A discussion of the related theories and empirical studies on corporate governance implementation follows. The chapter also presents a discussion on the development of the framework.

Chapter 3: Methodology

This chapter discusses the method adopted in this study to examine developing a corporate governance code for SMEs in Malaysia. It first discusses the research design, divided into three objectives. Each objective explains the method process and techniques for data analysis mainly.

Chapters 4 & 5: Results and Discussion

Chapter Four presents the first objective results and discussion. This chapter also contains the respondent profile, descriptive statistics, assessments, and a summary of the hypothesis. Chapter Five presents the results for the second and third objectives relationship. This includes the discussion of data analysis, which comprises two assessment methods.

Chapter 6: Conclusion and Recommendation

This chapter discusses and concludes with a summary of the findings, contributions, limitations, and recommendations for future research.

1.10 Chapter Summary

This chapter presents a comprehensive summary of the research focusing on corporate governance within SMEs. It covered the introduction, background, study's scope, central issues, research goals, queries, and the study's relevance. Additionally, the chapter underscored the significance of adopting corporate governance in Malaysian SMEs, an area where it's not yet prevalent. Consequently, this research seeks to discern the factors driving the application of corporate governance in Malaysian SMEs. It then evaluates the corporate governance protocols from select countries, aiming to adapt those frameworks for use within Malaysian SMEs

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