

**CRITICAL SUCCESS FACTORS OF ERP IMPLEMENTATION WITHIN
MALAYSIA SMEs**

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NURUL IZZAH BINTI CHE ALIAS



This thesis is submitted in partial fulfilment of the requirements for the award of
Bachelor of Technology Management (Technology Innovation) with Honours

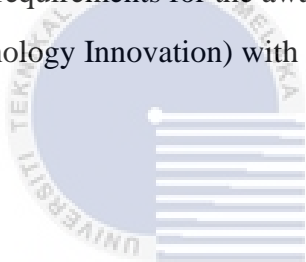
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6 February 2022

APPROVAL

I/ We hereby declare that I/ we have read this dissertation/report and in my opinion, this dissertation/report is sufficient in terms of scope and quality as a partial fulfilment of the requirements for the award of Bachelor of Technology Management (Technology Innovation) with Honours.



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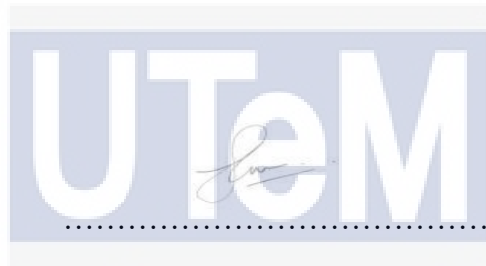
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DECLARATION

I declared that this thesis entitled

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is the result of my research except for certain explanations.



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DEDICATION

First and foremost, I would like to express my appreciation and gratitude to my beloved parents, relatives, and friends who have always helped and encouraged me, and I would also take this opportunity to express my gratitude to my beloved supervisor Madam Nor Ratna Binti Masrom for her guidance and encouragement during this final year project. Without their support, this investigation would not have been necessary.



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Praise be to Allah (SWT) the Almighty for the fruitful completion of this thesis as this daunting journey in the pursuit of my degree study has finally reached its destination through His Grace and the prayers of my loved ones. Without the love of caring individuals around me, I would never have done this alone.

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Next, I would like to thank the researcher who had done a similar study and published it online. Even, though the topics of this study are different, the theory and knowledge provided are useful for references in this final year project.

A token of appreciation was given to the respondent who took the time to respond to my questionnaire. Lastly, it is given to those directly or indirectly involved in this final year project. I hope this report will be a useful source in the future.

ABSTRACT

The technology development leave very significant footprint on how commercial organisations operate in terms of accounting and management which is the expansion of information. Global market economics have improved as a result of communications technologies (ICT) which led to the creation of ERP. ERP is described as configurable application software that consists of integrated business modules and is intended to support the primary business activities and functions. SMEs in Malaysia, however, are still using low-tech technology to manage the company. Technological acceptance in Malaysian SMEs proceeds at a very low pace due to high costs for implementation and maintenance. Most importantly, the lack of expertise also lacks of internal and external capacity become the hindrance of ERP implementation. The UTAUT theory are being used as part of this research for enhanced the reliability of this research. These systems are constantly active in the "background" of projects. The study aims to investigating the critical success factor of ERP acceptance of ERP implementation within SMEs in Malaysia. This study includes five independent variables which are performance expectancy, effort expectancy, social influence, hedonic motivation and facilitating condition to measure toward the use behaviour on ERP. Primary data was collected 150 questionnaire surveys using a probability sampling technique through a questionnaire by providing questionnaire to the public while secondary data was used for the literature review. The proposed research framework was the result after analysing information from the literature review by referring past research. The result shown that there are 3 significant factor that influenced the ERP implementation and the CSF is the performance expectancy.

Key word: acceptance of ERP, critical success factor, use behaviour

ABSTRAK

Perkembangan teknologi meninggalkan jejak yang sangat signifikan mengenai bagaimana organisasi komersial beroperasi dari segi perakaunan dan pengurusan yang merupakan pengembangan maklumat. Ekonomi pasaran global telah meningkat sebagai hasil teknologi komunikasi (ICT) yang membawa kepada penciptaan ERP. ERP digambarkan sebagai perisian aplikasi yang dapat dikonfigurasi yang terdiri daripada modul perniagaan bersepadu dan bertujuan untuk menyokong aktiviti dan fungsi perniagaan utama. PKS di Malaysia, bagaimanapun, masih menggunakan teknologi berteknologi rendah untuk menguruskan syarikat. Penerimaan teknologi di UKM Malaysia berjalan pada kadar yang sangat rendah kerana kos pelaksanaan dan penyelenggaraan yang tinggi. Yang paling penting, kekurangan kepakaran juga kekurangan kapasiti dalaman dan luaran menjadi penghalang pelaksanaan ERP. Teori UTAUT digunakan sebagai sebahagian daripada penyelidikan ini untuk meningkatkan kebolehpercayaan penyelidikan ini. Sistem ini sentiasa aktif dalam "latar belakang" projek. Kajian ini bertujuan untuk menyiasat faktor kejayaan kritikal penerimaan ERP pelaksanaan ERP di PKS di Malaysia. Kajian ini merangkumi lima pemboleh ubah bebas yang merupakan jangkaan prestasi, jangkaan usaha, pengaruh sosial, motivasi hedonik dan keadaan pemudah cara untuk mengukur tingkah laku penggunaan pada ERP. Data primer dikumpulkan 150 tinjauan soal selidik menggunakan teknik persampelan kebarangkalian melalui soal selidik dengan memberikan soal selidik kepada orang ramai sementara data sekunder digunakan untuk tinjauan literatur. Kerangka penyelidikan yang dicadangkan adalah hasil setelah menganalisis maklumat dari tinjauan literatur dengan merujuk penyelidikan masa lalu Hasilnya menunjukkan bahawa terdapat 3 faktor penting yang mempengaruhi pelaksanaan ERP dan CSF adalah jangka prestasi.

Kata kunci: penerimaan ERP, faktor kejayaan kritikal, tingkah laku penggunaan

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LIST OF ABBREVIATION

ABBREVIATION	MEANING
SMEs	Small and medium Enterprise
CSF	Critical Success Factor
UTAUT	Unified Theory of Acceptance and Use of Technology
ERP	Enterprise Resources Planning
PE	Performance Expectancy
EE	Effort Expectancy
SI	Social Influence Expectancy
HM	Hedonic Motivation Expectancy
FC	Facilitating Condition Expectancy
FP	Firm Purpose
TE	Training and education purpose
PP	Production output purpose
IV	Independent variable
DV	Dependent variable

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CHAPTER 1

INTRODUCTION

1.0 Introduction

Chapter 1, are focusing on examining the critical success factor (CSF) of ERP acceptance within Small and Medium-sized Enterprises (SMEs) using UTAUT model this chapter will also include a discussion of the research background, problem statement, research scope, research questions, research objectives, significance of study, limitations of study, and operational definition.

1.1 Background of research

SMEs are stands for Small and Medium-sized Enterprises (SMEs) which are in total there than 200 employees in the company. The SME sector is crucial to the market world and modern economy by proving to be the most tremendously innovative system that are appealing to involves with. The amount of employees within SMEs varies by industry (Al-Herwi, 2019). Small and Medium-sized Enterprises (SMEs), recently have dominated the international business establishment with strong existence, particularly in developing countries. SMEs realize several significant contributions to national economies especially in terms of GDP, job creation, and economic growth (Games, 2019). Due to the huge contribution of SME, Malaysia economic development and growth right now is heavily dependent on the development of regional economies for instance from the west coast states such as Selangor with

the highest number of SMEs with 19.8% in 2019 (HRDF, 2019). SME are the largest employers, particularly in less urbanised areas. SMEs are also responsible for a significant proportion of the region's output hence entrepreneurship development is typically carried out by operating private firms that operate primarily within their own regions (Kozak, 2019).

According to the Organization for Economic Co-Operation and Development (OECD), SME has account for a whopping number growth of employment with 60% to 70% in most OECD countries (OECD, 2017). Malaysia is also a member of this forums; hence it can be stated that the existence of SMEs has a significant impact and importance for Malaysia. Malaysia places a strong emphasis on SMEs in their policies due to the outstanding potential advantages and prospective great opportunities generated by SMEs, as SMEs continue to be the backbone of their economies (Chin & Lim, 2018). The primary drivers for Malaysian SMEs were services and manufacturing of SMEs GDP activities which both sectors contributed 80% GDP growth in 2020. However, the contribution of the SME sector to GDP fell to 38.2 percent in 2020, with a value-added of RM512.8 billion. This degradation of GDP fell from 38.9 percent (value added: RM553.5 billion) from the previous year (Department of Statistic Malaysia, 2020). The growth and development of SME sector is widely regarded as a critical component of a country's thriving economy and a significant economic mover.

Nowadays, competition is going global rather than local, with companies increasingly and aggressively trying to force in reducing total costs, cut production and management costs, maximize investment return, and improve customer demand response (Liñán et al., 2020). Changes in economic conditions in global level and the increasing competition in sector or market, present additional challenges for SMEs to thrive. Thus, an effective and efficient enterprise information systems are needed to enhance the competitive advantage where is really important for company sustainability. Present SMEs recognise the importance of making and properly use the information and data that they have into take more informed and well precise decisions. In this case by implementing ERP (enterprise resource planning) in their businesses (Alaskari et al., 2019). According to Chaveesuk & Hongsuwan (2017) with advancements in knowledge and information technology (IT, ICT) over the last decade, the implementation of enterprise-wide technology is being considered hence

the system of Enterprise Resource Planning (ERP) are viewed as a catalyst for business operation success and sustainability.

Enterprise Resource Planning (ERP) relates to an integration of cross-functional system that aids in the management of a company and business operations (Ali & Miller, 2017). Ali & Miller (2017) also stated that ERP have been discovered to be highly complex to use and risky for enterprise to implement it within their company. However, the benefit it brings cannot be ERP ignored. ERP system products cover various departments within an organisation, such as Human Resources (HR), finance, accounting, logistics, inventory, and so on. Instead of using separate applications for each department, an ERP implementation that drives all features and functionality in an integrated fashion is a better idea (Kharuddin et al., 2015). Based on to the finding in this study, it is appeared that the critical success of implementation ERP in SMEs is affected by several factor that can be internal and external factor. According to Kiran & Reddy (2019) ERP implementation in SMEs has been found to be appropriate when the SMEs' IT facilities and information systems are compatible. Furthermore, it is critical to adhere to industry best practices. ERP solutions are obtained to be more beneficial when the full range of their services are utilised throughout the organisation. ERP is being used more frequently in SMEs (Khadrouf et al., 2020).

1.2 Problem Statement

According to Khadrouf, Omar, Chouki, Marieme, Talea, Mohamed, Bakali, Assia (2020) ERP implementation in SMEs has rapidly increased due to the globalization. When SMEs adopt an ERP system, knowledge and system than being used by SMEs to manage their business daily tasks usually simple version. However, an expertise still needed in other to teach other on how to use it. This system will become hard to use if the knowledge that needed to conduct the system not at the passable level. Misconduct the system will result in business failure. When considering an ERP system, most SMEs consider costs of implementation. This makes them hesitant to invest after initial start-up. However, some SMEs particularly those

whom seeking future growth and development tend to consider the changes in organization.

Thus, they believe ERP system could indeed bring out business to be more efficient and successful. ERP systems are also expected to improve and standardise internal processes, maintain continuous monitoring, reduce operating costs, improve customer and supplier relations, and improve organisations' decision-making capacities. As a result, Malaysian SMEs may benefit from implementing an ERP system. Nonetheless, adopting an ERP is a difficult decision, and implementation is a complex, costly and risky process (Yildirim & Kuşakçı, 2018). Implementing an ERP system can be costly and time consuming where it involve maintenance, updates, materials, training, and consultation are all included in the overall cost (Smes et al., 2016).

Following and addressing the critical success factors increases the likelihood of a successful ERP implementation. When conducted the research by reading various publications on CSFs for ERP implementation, the researcher discovered that there were more than 15 CSFs. Each CSF has a cost, schedule, and level of achievement (Smes et al., 2016). If SMEs focus on all CSFs, they will eventually run out of resources. As a result, the research methodology focuses on identifying CSFs that are relevant to only a subset of ERP modules using a UTAUT model (Eneizan et al., 2019). The method of ERP implementation will be considered in this research in order to discover the relation between method of implementation and the critical success factor (CFS). From here the researcher will try to identify how the adoption of ERP implementation in SMEs by using UTAUT model in order to identify the critical finding in this research which are what are the critical success factor of ERP acceptance in SMEs Malaysia.

1.3 Research Question

This study addresses the following research question:

- i. What are the factors influence ERP usage for Malaysia SMEs?
- ii. How the relationship between factor of ERP usage and the use behaviour within Malaysia SMEs?

- iii. Which is the most significant factor influencing ERP usage in Malaysia SMEs?

1.4 Research Objective

The research's objective was to identify the critical success factor of ERP implementation in small and medium-sized enterprises (SMEs) using UTAUT model.

- i. To identify the factor, influence ERP usage for Malaysia SMEs
- ii. To measure the relationship between factor of ERP usage and the use behaviour within Malaysia SMEs
- iii. To find out the most significant factor influencing ERP usage in Malaysia SMEs

1.5 Scope of Research

The research's scope is the distribution of questionnaires to discover the critical success factor of ERP implementation in SMEs. The respondents will be wide range of employees in Malaysian small and medium sized businesses from the bottom level which are entry level until senior and executive management. This study focuses on respondents in wide ranges level since ERP is a system and resources that are creates for business management efficiency. Hence, the involvement of every position within business is a must for this research. This study will make utilisation of the Unified Theory of Acceptance and Use of Technology (UTAUT) theory. This study discover UTAUT hypothesises that behavioural intention or use behaviour is determined by performance expectancy, effort expectancy, social influence, hedonic motivation and facilitating conditions. Including. how the ERP are being use within SMEs. Hence, it will provide how it will affect the process and operation in SMEs.