

**MALAYSIA SME DEVELOPMENT:
DISCOVERING FACTORS OF DEVELOPMENT IN SABAH**

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ABSTRACT

Small and Medium Enterprises (SME) provide huge blessing effect on the economy of a country, although its importance is undeniable; the factors that impact the SME's development are yet to be taken into consideration in assisting this profitable sector as there is no appropriate and thorough investigation on this subject. In this study, we have chosen Sabah as the research scope due to it's the second largest state in the country and surprisingly, the numbers of SME establishment in this state are statistically low in number compared to the smaller state that generates high establishment's figures in comparison. Due to unavailability of SME database that track the establishments of SME, a survey was conducted with the Multi Stage Sampling method which provides dual-languages likert scale questionnaires was distributed to four districts with high SME activities. This study not only provides us with detailed historical process of SME development but also evaluates the relationship of variables that affects the development of SME in Malaysia. The relationship of SME development also concluded in this study to increase our overall understanding regarding the SME development factor. This study further suggests remedial action or strategies on improving the SME development in Malaysia which can be taken by the government, entrepreneurs or other party to boost the SME development in Malaysia.

Keywords: Malaysia SME, SME development factor, Multi stage sampling, Likert-Scale

INTRODUCTION

SME or known as "Small and Medium Enterprises" contributes broad aspect of economic development in Malaysia. Since 1970s, a set of strategies are implemented under this country leaderships that causes impact in different aspects of the SME developments. Although there are many strategies being implemented, the development of SME (which measured by the total number of establishment) is a slow-moving process. Hence, it is crucial to evaluates factors that influence the SME development that will enable suitable strategies implemented in order to improve the future development of SME in the country and as well as to reduce economic imbalances of this multi-racial country.

Commitment towards entrepreneurship concept and activity by Malaysian Government has emerged since the early 1970s. This commitment was born from the 'New Economic Policy' (NEP) which introduced in the year 1971 as a response to the racial riot in 1969 caused by the socio-economic imbalances among the major ethnic groups in the country. In the new scope of economic policy, the government of Malaysia aim to improve people's welfare and restructuring the ethnic economic imbalances to avoid the bloodshed to occur in the future. It's a 'blessing in

disguise' for Malaysia as entrepreneurship commitment 'born' by the NEP is a big step in the upcoming year that encourage growth of SMEs in the country.

In 2005, the government's commitment towards entrepreneurship and entrepreneur development in the country can be seen clearly by establishment of a special entrepreneur ministry under the name of "Ministry of Entrepreneur and Cooperation Development" (MECD). The commitment then expressed by the second Industrial Master Plan (IMP2) ended in 2005 and followed by the Third Industrial Master Plan (IMP3) planned in the period of 2006 until the year of 2020, as coincide with the vision on of the country's leader, Tun Dr Mahathir bin Mohammed to achieve a developed country status in 2020 (MITI, 2005).

Overall, IMP formulated to achieve global competitiveness through transformation and innovation of the manufacturing and services sectors that includes government-linked company (GLC) and small and medium enterprises (SMEs) (MITI, 2010). Thus, these plans promote the development of related industrial areas and opportunities for the growth of SMEs in Malaysia. (MITI, 2005)

In response to its potential, Malaysian government intensely encouraging entrepreneurial activities through small businesses, petty trading agriculture and services by drafting a lot of efforts and policies to promote the "self-employment" in the country (Ninth Malaysia Plan, 2006 – 2010).

Despite the successful historical evidence regarding the SME's development in Malaysia, Sabah state's SME development is surprisingly not yet inspired by the wave of changes that being introduced by the government and its cronies for the past few decades. Statistically, the number of SME (which represented by the number of establishment) in Sabah are statistically low compared to the smaller state in the country. This can be proved based on the census of Establishments and Enterprise 2005 by Department of Statistics Malaysia as Sabah state ranked as the 10th from 14th list of states with low number of SME establishments.

States	Overall Total		Rankings	
	Numbers	Revenue	Numbers	Revenue
Johor	56,471	76,120,042,279	3	3
Kedah	37,029	19,379,591,381	5	9
Kelantan	35,801	8,243,547,539	6	13
Melaka	19,623	15,256,273,984	12	10
Negeri Sembilan	17,555	13,884,566,464	13	11
Pahang	28,058	22,820,459,659	8	8
Pulau Pinang	26,752	34,663,924,601	9	6
Perak	44,130	35,078,656,059	4	5
Perlis	5,920	1,962,938,021	14	14
Selangor	98,523	134,801,489,097	1	1
Terengganu	23,734	8,274,521,740	11	12
Sabah	24,794	29,849,264,774	10	7
Sarawak	33,059	44,095,574,767	7	4
Kuala Lumpur	96,818	123,785,821,787	2	2

Source : Census of Establishments and Enterprise 2005, Department of Statistics Malaysia

Note: This table provides information regarding the total number of establishments (noted as Numbers) and total revenue (noted as Revenue) which generated by each states in Malaysia. The rankings provide us with the early hypothesis regarding the SME development in the country.

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As explained earlier, the NEP is the first boosting factor that encourages entrepreneurial activities that lead to the growth of the Malaysian economy, however it is unclear what the relationship between entrepreneurship and unemployment in Malaysia as entrepreneurship or defined as "employment creation" are assumed crucial Mohd.A.N, Hazlina N.A, and Lin C.E (2009). Therefore, it is important to investigate the relationship to see if it is a worthy step taken by the government to stimulate the economy growth in achieving the country's vision to be a developed country in the year 2020.

The development of Malaysia Entrepreneurship can be assigned into five stages that each of them respectively consist of a few strategies. First phase are covering the period during the independence up to the introduction of New Economic Policy (NEP) that is from 1957 to 1970; second phase covering the Second Malaysia Plan up until the introduction of the Third Malaysia Plan (1971-1980); third phase covering the Fourth Malaysia Plan up to the Fifth Malaysia Plan (1981-1990); fourth phase on the New Development Policy (NDP) and the implementation of Sixth, Seventh and Eighth Malaysia Plan (1991 - 2005); Fifth phase covering the implementation of Third Industrial Master Plan (IMP3) (2006 -2020) and Ninth Malaysian Plan (2006-2010).

Small and Medium Enterprises (SME) Importance

As mentioned earlier, government of Malaysia are concern about the development of small and medium enterprises (SME) in the country due to its potential and blessings towards the economy of a country. According to Sanja M., Mario P. and Zlatan F.(1998), small and medium enterprises contribute to sustainability of development, competitiveness of the economy, boosting the exports, stimulates foreign investments, improves technology and innovation development, providing employment and a better living standards. Based on these importance, it is crucial for the economy to fully concentrate on the development of this industry as it may help the country to be 'self-sustainable' and generates beneficial values for the country. Unarguably, SMEs also recognised promoting endogenous sources of growth which accelerates the economy expansion through the improvements of infrastructures in the country (Normah M.A., 2006). This will enable beneficial effect in terms of infrastructures and utility which may attract more small and medium enterprises (SMEs) to establish as well as providing a better life quality towards the citizens along with the improvements of better infrastructures which help expands the economy and living satisfaction of a country.

Factors Influencing SMEs Development

Development of small and medium enterprises (SMEs) faces many challenges and it also may depended on a few crucial factors that must critically employed to enable positive SMEs growth in the country. These factors might be the key to the problem of SMEs development that occur in the country and may provide us some inputs to enable further understanding regarding the situation of critical factors which must be taken into consideration to enable positive progress on SMEs establishments.

i. *Financing*

Generally, SMEs facing difficulties in accessing financing based on Normah M.A.(2006). The major problem faced by all sectors of SMEs is due to lack of collateral, which followed by insufficient supportive documents for loan application, unavailability of financial track record, unviable business plan and long loan processing time. Due to these problems, most of entrepreneur used their own capital to finance their business start-up which clearly implies the hassle of bureaucracy and regulations apart of high interest rates which incurred to the loans (Sanja M., Mario P. and Zlatan F.,1998). Apart from that, difficulties in accessing financing help and support especially to a company which have a lower turnover, would force them to borrow from loan sharks and being 'racketeering' a victims. Loan sharks (known as "Ahlong" in Malaysia) nowadays legitimized their role as "legitimate-lender" by providing faster loan approval but with higher interest compared to finance institutions (AidisRuta, 2002). This would likely to diminish entrepreneur confidences in financial support and availability which statistically proves that only 13.7% of SME in Malaysia choose finance institutions and government loans as their first choice in attending financial start-up needs (Normah M.A,2006).

ii. *Business Management and Skills*

Unfamiliarity of entrepreneurial tradition and lack of private sector would lead to problems such related skill development among SME owners (AidisRuta, 2002). This would be another important factor in determining the success of entrepreneurial activities in a country. In addition, this also might contributed by the lag of technological development in developing country and lack of managerial skills among entrepreneurs (Khan, 1998). Therefore, this factor would be an important measure as lack of skills would create barriers to SME development due to "utterly ignorant"¹entrepreneurs (AidisRuta, 2002). This situation however might be different if the entrepreneur is a typical micro 'family-enterprises' which involves their family members in business operation linked with local networking of SMEs. This would create basis for mutual exchange and cooperation in terms of management and skills of entrepreneurs in a certain locality (Loveman, Sengenberger, 1990).

iii. *Government Support*

In this competitive market, government support would make a huge advantage in SME development. Lack of managerial skills, technology, knowledge and expertise will partially overcome by government support (Gayaneh K. and Tatevik Z., 2005). These supports may also come in terms of favorable legal and policy support for the formation of SME which may implies financial help, tax discounts and other policy which attracts entrepreneurs to establish their business. Lack of managerial skills, technology and knowledge in other hands will be supported by government in terms of vocational education and training, business consultancy and information and other related skills that crucially important in providing base for entrepreneurs to manage, utilize and improve their business.

¹For Kirzner, 'utter ignorance' means unawareness or a basic lack of information (Praag 1996:26).

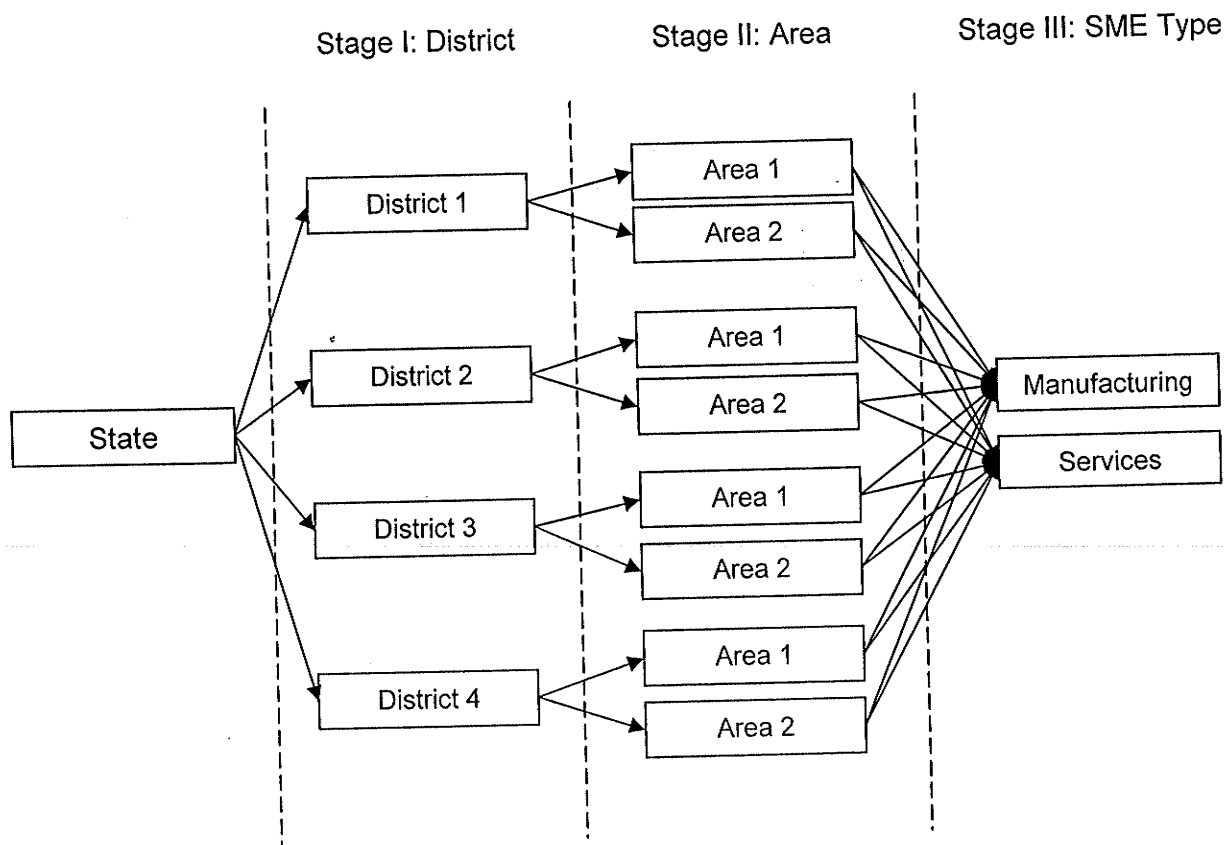


Diagram 1 Multi-Stage Sampling Method

The diagram explains the Multi-Stage Sampling Method implemented in the study. On Stage I, samples are distributed between 4 different districts in the country. Stage II, shows each of the chosen district divided into two different SME populated areas which has being identified during the pilot study. Stage III, the final sample which distributed based on the type of SMEs in the areas selected.

A total of 800 likert-scale questionnaires had being distributed to four districts of Sabah state which are Kota Kinabalu, Penampang, Papar and Putatan. Each of these districts is in direct connection in terms of road lines and in close distance between each other. In addition, these districts are bustling with small and medium enterprises (SME) activities that are majorly operating in services and manufacturing sectors. These samples will represent the total population of SMEs in Sabah.

District	Estimated Distance from Kota Kinabalu (State Capital)	SME's Activity
Kota Kinabalu	0 KM	Manufacturing, Services
Putatan	5KM	Manufacturing, Services
Penampang	9.5KM	Manufacturing, Services
Papar	50KM	Manufacturing, Services

Table 1: The estimation distances between the district and the state capital and the SMEs activity

Respondent Selection Criteria

As the terms of Small and Medium Enterprises in Malaysia are not defined clearly and often stated varies from one and another institutions, we have set the criteria of respondent (SME's owner) that being selected to receive the questionnaires according to SMECORP definition of SME. According to SMECORP, SMEs can be divided into three respective sectors such Micro-Enterprise, Small-Enterprise and Medium-Enterprise. Due, to the variability of the sector, our respondents is chosen based on these criteria.

	Micro-enterprise	Small enterprise	Medium enterprise
Manufacturing, Manufacturing-Related Services and Agro-based industries	Sales turnover of less than RM250,000 OR full time employees less than 5	Sales turnover between RM250,000 and less than RM10 million OR full time employees between 5 and 50	Sales turnover between RM10 million and RM25 million OR full time employees between 51 and 150
Services, Primary Agriculture and Information & Communication Technology (ICT)	Sales turnover of less than RM200,000 OR full time employees less than 5	Sales turnover between RM200,000 and less than RM1 million OR full time employees between 5 and 19	Sales turnover between RM1 million and RM5 million OR full time employees between 20 and 50

Table 3: Respondent Selection Criteria

This table represents the criteria of SMEs which chosen as our respondent of Likert-Scale questionnaires which distributed and collected manually to each one of the eligible SMEs.

Data Testing Methods

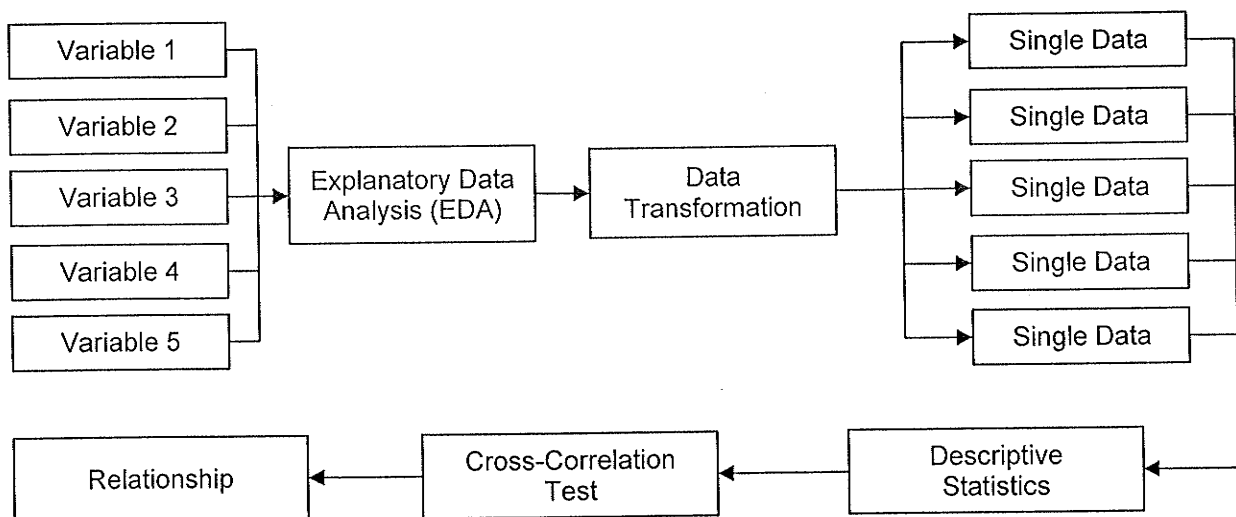


Diagram 2: Data Testing Method

In conducting testing towards our collected data, we have prepared these testing methods as a performed test to collect our data. As for reference, you can view the diagram 2 and the explanation regarding the step of this testing method below.

a) Explanatory Data Analysis (EDA)

In explanatory data analysis, as a first approximation, an EDA will be performed to the entire data set to analyse the normality of the data. It will be performed by comparing groups (subsets of the data) using EDA on all the variables separately. For this study, we will analyse all data which have being collected earlier.

b) Data Transformation

The subsets of the data will be transformed to construct new variables which combine all the subsets variables into their respective classification. In this case, we will combine each of the variables into the a few identified categories which turn the data into a new variable form.

c) Descriptive Statistics

In descriptive statistics, we will be using frequency descriptive statistics to define and analyse the data which have being transformed. Each of the categorical data will be analysed based on the detailed information provided.

d) Cross-Correlation Test

In this step, we will try to perform cross-correlation test of bivariate data which will help us to define the relationship between the two variables by the detailed information by using this output of testing method.

Data Collection and Analysis

Total of 800 likert-scale questionnaires had being distributed among the SMEs in four districts in Sabah which is based on criteria-driven of the multi-stage sampling. This questionnaire had being distributed on 23rd January 2011 and collected on 2nd March 2011 which provides 410 of total valid respondent from 800 copies of distributed questionnaires. This figures shows estimated of total 51% per cent of chosen respondent successfully provides complete feedback towards the questionnaires given.

Explanatory Data Analysis (EDA)

As we explained earlier in the data testing method, as a first approximation, an EDA will be performed to the entire data set to analyse the normality of the data. In the EDA analysis, we are using Shapiro-Wilk Test of Normality as this method more appropriate for small sample sizes (< 50 samples) which can also handle sample sizes as large as 2000. For this reason, we will use the Shapiro-Wilk test as our numerical means of assessing normality.

Data Transforming

To begin analysing the data in the second stage, firstly we need to transform the data by performing a very simple 'compute' procedure where the scores for a set of variables are summed together to produce a new variable containing the total value of the complete sets of sub-variables.

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