

**MALAYSIAN SME PERFORMANCE AND
THE GOVERNMENT BUSINESS SUPPORT SERVICES:
THE MODERATING EFFECTS OF ABSORPTIVE CAPACITY**

By

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ABSTRACT

This study examined the relationship between the Government Business Support Services (GBSS) (relating to financial support and non-financial support) and the performance of Small and Medium Enterprises (SMEs) in Malaysia. Due to the recognition of the importance of SMEs to the economy, numerous government programmes have been and are being implemented over the years, all of which are aimed at the development of SMEs and enhancing their performance. However, the effect of globalisation has attracted big players to operate their businesses in Malaysia. Thus coupled with the government's open-door policy, this has caused a relatively greater competitive and dynamic business environment for all SMEs, which makes it even more challenging for these SMEs to prosper. This research also examined absorptive capacity (AC) as a moderator variable influencing the relationship between GBSS and SME performance. AC influences the knowledge that can be assimilated and how it is used, determining which strategic actions need to be implemented, and in this study, it refers to the acquisition and assimilation of knowledge. A self-administered questionnaire was used to collect data from 150 SME firms in the northern states of West Peninsular Malaysia in April and May 2013, and the gathered data was analysed by using SPSS 19.0. Statistically, the results confirmed that GBSS is positively related to SME performance and there is an interaction of AC as a moderator on GBSS and SME performance. The outcome of this study provides new knowledge and important insights for government agencies, such as SME Corp., to look further at the programmes and guidelines, and enforce new policies toward improving the performance of SMEs in Malaysia. Finally, in order to evaluate SME performance, it is more relevant to explore the types of assistance provided by the government. Further research can provide deeper explanations by considering either financial or non-financial only factors as variables that determine SME performance.

Keywords: Government Business Support Service, Small and Medium Enterprise Performance, Absorptive Capacity

ABSTRAK

Kajian ini memeriksa hubungan antara Perkhidmatan Sokongan Perniagaan Kerajaan (PSPK) (berkaitan dengan bantuan kewangan dan bantuan bukan kewangan) dan prestasi Perusahaan Kecil dan Sederhana (PKS) di Malaysia. Oleh kerana pengiktirafan kepada kepentingan PKS terhadap ekonomi, kerajaan telah dan sedang melaksanakan pelbagai program yang kesemuanya bertujuan untuk pembangunan dan meningkatkan prestasi PKS. Walau bagaimanapun, kesan globalisasi telah menarik ahli perniagaan yang besar untuk menjalankan perniagaan mereka di Malaysia. Tambahan pula dengan dasar buka pintu kerajaan telah menyebabkan persekitaran perniagaan menjadi lebih berdaya saing dan dinamik untuk semua PKS yang menjadikan ia lebih mencabar untuk PKS ini berjaya. Kajian ini juga telah melihat kapasiti penyerapan (KM) sebagai pembolehubah moderator yang mempengaruhi hubungan antara PSPK dan prestasi PKS. KM mempengaruhi pengetahuan yang boleh diasimilasikan dan bagaimana ia digunakan, menentukan tindakan strategik yang perlu dilaksanakan dan dalam kajian ini, ia merujuk kepada perolehan dan penyerapan ilmu. Borang soal selidik yang ditadbir sendiri telah digunakan untuk mengumpul data daripada 150 firma PKS di negeri-negeri Utara Semenanjung Malaysia pada bulan April dan Mei 2013. Kemudian, data ini telah dikumpulkan dan dianalisis dengan menggunakan perisian SPSS 19.0. Mengikut statistik, dapatan kajian mengesahkan bahawa PSPK mempunyai hubungan yang positif dengan prestasi PKS dan terdapat interaksi KM sebagai moderator ke atas hubungan PSPK dan prestasi PKS. Hasil daripada kajian ini memberikan pengetahuan baharu dan penting kepada agensi-agensi kerajaan seperti SME Corp untuk melihat program dan garis panduan dan menguatkuasakan dasar-dasar baharu ke arah meningkatkan prestasi PKS di Malaysia. Akhir sekali, untuk menilai prestasi PKS, ia lebih relevan untuk meneroka jenis bantuan yang disediakan oleh kerajaan. Penyelidikan lebih lanjut dapat memberikan penjelasan yang lebih mendalam dengan mempertimbangkan sama ada hanya faktor-faktor kewangan atau bukan kewangan sahaja sebagai pembolehubah yang menentukan prestasi PKS.

Kata kunci: Program Bantuan dan Perkhidmatan Kerajaan, Prestasi Perusahaan Kecil dan Sederhana, Keupayaan Menyerap

DEDICATION

Father / Abah

All your teachings, advice, and spirit live on in my heart
Segala didikan, pesanan, dan semangatmu sentiasa hidup di dalam jantungku

Mother / Emak

Your love and sacrifice, deeply engraved in my heart
Kasih sayang dan pengorbananmu, ku sematkan di hatiku

My Husband / Suamiku

Your patience and support, key to my success
Kesabaran dan sokonganmu, kunci kejayaanku

Amirrul, Amin, Aiiman

Your success and greatness, become my inspiration
Kejayaan dan kehebatan kalian menjadi inspirasiku

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ABBREVIATIONS

AC	Absorptive Capacity
CED	Committee for Economic Development
CGC	Credit Guarantee Corporation
FDI	Foreign Direct Investment
FS	Financial Support
GBSS	Government Business Support Services
GDP	Gross Domestic Products
GVC	Global Value Chain
HACCP	Hazard Analysis Critical Control Point
IMP2	Second Industrial Master Plan
IMP3	Third Industrial Master Plan
KEDA	Kedah Regional Development Authority
MARA	Majlis Amanah Rakyat
MECD	Ministry of Entrepreneur and Cooperative Development
MIDA	Malaysian Industrial Development Authority
MNCs	Multi-National Corporations
NCER	Northern Corridor Economic Region
NEM	New Economic Model
NFS	Non-Financial Support by the Government
NSDC	National SME Development Council
P	SME performance
PACAP	Potential Absorptive Capacity
PERDA	Penang Development Authority
RACAP	Realised Absorptive Capacity
RBV	Resource-Based View
R&D	Research and Development
SMEs	Small and Medium-Sized Enterprises
SMIDP	Small and Medium Industry Development Plan
UN	United Nation
OEDC	The Organisation of Economic Corporation and Development

OM	Owner Manager
10MP	Tenth Malaysia Plan

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

The contributions of Small and Medium Enterprises (SMEs) to the national economy have been acknowledged (Tahir, Mohamad, & Hasan, 2011) throughout the world. SMEs can be found in every sector of the economy as the main drivers for a contemporary economy (Thassanabanjong, Miller, & Marchant, 2009), which bring along development and growth (Grilo & Thurik, 2006). The development of the SME sector is widely seen as a key element of a nation's successful economy (Man, 2009) and a major economic mover. This sector can also be considered a potent source of national, regional, and local economic growth (Taylor & Murphy, 2004; Ramdani, Lorenzo, & Kawalek, 2009).

Thus, the development of SMEs is correspondingly recognised as an integral component in achieving sustainable economic growth in Malaysia (Hashim, 2007a). SMEs have always retained prime position on the government's financial radar screen by virtue of their sizeable contribution to the nation's gross domestic product (GDP) (SME Annual Report, 2011), whilst providing job opportunities for over half the population's workforce, and acting as suppliers of goods and services to large organisations (Singh, Garg, & Deshmukh, 2008). SMEs have been identified as the engines of growth (Baharun, Abdul Hamid, & Hashim 2003) to help this nation to become a developed and industrialised nation by the year 2020 (Abdul Hamid, 1993). In 2009, the majority of total business establishments in Malaysia were SMEs with 99.2%, which also

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