

## CHAPTER 1

### INTRODUCTION OF THE DISSERTATION

#### 1.0 Background of the Study

The importance of SMEs to the world and national economies is well documented (Birch 1989). While they dominate in terms of absolute numbers, SMEs are also important because they are key drivers of employment and economic growth. According to a report published by the Organisation for Economic Co-operation and Development (OECD) in 1997, SMEs make a major contribution to all OECD economies contributing between 40 and 80 percent of employment and between 30 and 70 percent of Gross Domestic Product (GDP). For example, over 70 percent of the employment in Belgium, Denmark, Japan, Greece Portugal and Spain is from SMEs. For the GDP, SMEs contribute approximately 66 percent in Portugal and 64.3 percent in Spain (OECD Synthesis Report, 1997). Furthermore, SMEs make up the largest business sector in the economy of every country (Culkin and Smith 2000), and governments around the globe are increasingly promoting and supporting SME growth as part of their overall national development strategy (Abdullah and Bakar 2000).

In contemporary commerce, SMEs dominate many important industry sectors such as retailing, services and construction; and form crucial forward and backward links in the supply chain of large scale capital intensive manufacturing industries such as automotive, mining, marine, and defence (Abdullah and Bakar, 2000). From the OECD report, in Europe, construction, wholesale trade, retail distribution, and

personal services are all dominated by SMEs. Furthermore, SMEs also contribute the major part in manufacturing and contribute significantly in the services industry (OECD Synthesis Report, 1997). Additionally, their presence alongside large firms provides important competitive and structural balance to industries and marketplaces that would otherwise be dominated by a few large players (Peacock, 2004). In Malaysia, SMEs are a vital component of the country's economic development (Salleh and Ndubisi, 2006). According to Salleh and Ndubisi (2006), SMEs in Malaysia are concentrated in the textile and apparel, food and beverages, metals and metals products and wood and wood products sectors.

Considering the enormous effects of SMEs on the economic development of a nation, many governments have provided many instruments to assist the development of SMEs expanding their business internationally. For example, in the US, federal and state governments spend well over \$100 million to promote exports by US firms (Singer and Czinkota, 1994). In Malaysia, the Malaysian government has introduced export assistance programmes to support and encourage more SMEs to export their products (Abdul Jumaat and Jasmani, 2006). Many agencies such as the Small and Medium Industries Development Corporation (SMIDEC), the Malaysian External Trade Development Corporation (MATRADE) and the Malaysian Industrial Development Authority (MIDA) were formed to assist the SMEs in their exporting activities. According to Abdul Jumaat and Jasmani (2006), although SMEs make up more than 90 percent of the total manufacturing firms in Malaysia, the SMEs only managed to export about 20.8 percent of their total output. This figure shows that SMEs only export a small amount of their total production

while focussing on the domestic market instead of exploiting the opportunities available in foreign markets.

Based on the Census on Establishments and Enterprise of Malaysia in 2005, there are 552,849 companies in operation. Out of this, a total of 548,307 or 99.2 per cent are classified as SMEs. The services sector comprises 474,706 (86.6 per cent), followed by 39,376 (7.2 per cent) in the manufacturing sector and 34,225 (6.2%) in the agriculture sector. The majority of SMEs in the services sector are in retail, accounting for 46.4 per cent of total SMEs followed by restaurants (14.2 per cent), wholesale (9.1 per cent), transport and communication (6.5 per cent) and financial intermediaries (4.1 per cent). The statistics provided show that although the majority of companies in Malaysia can be considered as SMEs their total exports are still very much unexplored. For that reason, the Malaysian government established many agencies to assist these SMEs to explore opportunities in foreign markets. The agencies include:

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- Malaysia External Trade Development Corporation (MATRADE)
- Small and Medium Industries Development Corporation (SMIDEC)
- Ministry of Entrepreneur and Co-operative Development (MECD)
- Malaysian Industrial Development Authority (MIDA)
- Malaysian Technology Development Corporation (MTDC)
- Perbadanan Nasional Berhad (PNS)
- Perbadanan Usahawan Nasional Berhad (PUNB)
- Small and Medium Enterprises Bank (SME Bank)

- Export-Import Bank of Malaysia Berhad (EXIM Bank)
- Malaysia Export Credit Insurance Berhad (MECIB)
- Ministry of Science, Technology and Innovation (MOSTI)
- SIRIM Berhad
- Malaysian Exporters Registry (MER)
- Credit Guarantee Corporation Malaysia Berhad (CGC)
- Malaysian Industrial Development Finance Berhad (MIDF)
- AGRO Bank
- Malaysian Biotechnology Corporation Berhad (MBC)
- Malaysia Venture Capital Management Berhad (MAVCAP)
- Malaysia Debt Ventures Berhad (MDV)
- Malaysia International Islamic Finance Centre (MIFC)
- Bank Negara Malaysia (BNM)

The Malaysian Government has expended great effort and commitment in promoting the development of a competitive and resilient SME sector as outlined in the Ninth Malaysia Plan and Third Industrial Master Plan, and evidenced by the creation of the National SME Development Council (NSDC) and its annual National SME Development Blueprint (SME Annual Report, 2007). The Blueprint with its structured approach aims to improve the delivery and effectiveness of Government programmes for maximum benefit to the SMEs. With SMEs representing 99.2% of total business establishments and employing over 5.6 million workers, developing a competitive, productive and resilient SME sector is an important thrust to support the Government's aim of achieving balanced economic development and higher standards of living at all levels of society. The Government has accorded high

priority to the development of SMEs to fully realize their potential. The commitment of the Malaysian Government is reflected in the national development agenda. Therefore, in the Ninth Malaysia Plan (9MP, 2006 ó 2010) and the Third Industrial Master Plan (IMP3, 2006 ó 2020), the Malaysian government has outlined key programmes for SMEs development.

There are a number of programmes in place to enhance SMEsø accessibility to the international market through the provision of loans, grants and other assistance programmes. Based on the SME Annual Report 2007, in addition to the manufacturing sector, which is common in benefiting the government programmes for exports, there are also programmes in place to encourage SME participation in the commodities sector. This is to increase the competitiveness of SMEs within the commodities sector through the adoption of technologies and the provision of training in the rubber, palm oil and wood based sector through training courses and seminars. Market expansion programmes, which help SMEs to develop linkages with large corporations, government linked companies and hypermarkets, will also continue in helping SMEs develop marketing and networking opportunities. This shows how committed the Malaysian government is to assist the SMEs in expanding their businesses and maximise the opportunities in the international market.

There are various reasons why the Malaysian government, through related agencies, provides assorted schemes to assist SMEs in expanding business both domestically as well as internationally. The success of SMEs in the international marketplace will help the Malaysian government maintain economic growth; increase employment opportunities for local people; earn enough to pay for import requirements of food,

machinery and others; diversify the economy and industrialize, as domestic business is a relatively small market; and to keep the balance of payments position in surplus (SME Annual Report, 2007). If successful, it will be a win-win situation, where the SMEs help the government stabilize the economy and the government helps the SMEs to expand their business.

In terms of the literature covered in the export assistance research, it is argued that research into small firm exporting has been largely empirical and descriptive, lacking the kind of theoretical underpinnings that could lead to the development of substantial export study literature (Gemunden 1991). A wide content of studies exists on the export behaviour of SMEs, including the impact of managerial attitudes, marketing mix variables and organizational resources on a wide range of export related activities (see Cadogan, Diamantopoulos and Siguaw, 2002; Gray, 1997; Peng and Ilinitch, 1998; Aaby and Slater, 1989; and Miesenbock, 1988). Also, studies have investigated perceptual differences about the types of assistance required by managers from firms based on their background characteristics, such as size of firm and level of export development, rather than evaluating named assistance programmes (Crick, 1992; and Czinkota, 1982).

Furthermore, studies also examine the role of export barriers by either attempting to understand the structure and nature of export barriers or addressing the influence that barriers have on the export process of firms (Ramaswami and Yang, 1990). From a resource based perspective, American small to medium-sized firms (SMEs) frequently lack the necessary internal resources, know-how and information about foreign markets (Alvarez, 2004). As a result, US based SMEs commonly view

exporting as a high-risk venture (Burpitt and Rondinelli, 2000). These are the main reasons why SMEs avoid the high uncertainties of the foreign market (Acs, Morck, Shaver and Yeung, 1997).

However, many studies have found that management use of government export assistance can contribute to a successful export development strategy (for example, Gencturk and Kotabe, 2001; Lages and Montgomery, 2001; Denis and Depelteau 1985; Seringhaus 1984, and Cavusgil and Noar 1987). Greater knowledge of the conditions under which service use is effective will benefit the SMEs and the management will consider government export assistance programmes available as part of their strategy to move globally. In a study by Gencturk and Kotabe (2001), they found that government export assistance programmes contribute to export success and enhance the competitive positions of firms. The results indicate that government export assistance could be a major factor for the success of SMEs in the international marketplace.

The current study will emphasize the relationship between government export assistance and the performance of SMEs in Malaysia. In relation to the importance of the export market for SMEs and the government assistance programmes available, this study tries to identify and highlight the export assistance programmes designed for SMEs in Malaysia in the context of their success rate, awareness of the programmes and benefit gains from the programmes. It is important to understand how the SMEs in Malaysia utilize the programmes provided for them and whether the programmes enhanced their presence in the international market. With this knowledge, it will make the task easier for government agencies to attract other

SMEs that are not using the programmes provided and indirectly improve the current economic condition. Therefore, this study will explore and investigate further the relationship between the awareness of assistance programmes, the satisfaction with programmes provided and the benefits of the programmes to the SMEs concerning the performance of the firms. Little research has covered these issues, especially in the Malaysian SMEs context. For example, Gencturk and Kotabe (2001) only focused on the usage of export assistance programmes with export performance.

For Wilkinson and Brouthers (2006), they focused on the trade promotion and export performance. In Crick (1997), the study examined the UK SMEs' awareness, use and perception of selected government export assistance with the internationalization process. Thus, the current study aims to fill the gap of how awareness, satisfaction and benefit of export assistance programmes provided by the Malaysian government can influence the performance of the SMEs in Malaysia. By understanding these relationships, entrepreneurs in SMEs will be in a better position to choose the most appropriate export assistance programme for their organization and policy makers will be in a better position to expand programmes that are effective and limit programmes that have little or a negative impact on business.

## **1.1 Problem Statement**

As explained in section 1, approximately, the total exports of SMEs are only 20 percent of their total output. This indicates that SMEs in Malaysia are very much dependent on the scarce local market and reluctant in taking opportunities of

globalization and liberalization of international trade. This issue raises various questions, including, whether the SMEs are aware of the numerous government export assistance programmes provided by the agencies, whether the SMEs utilize the programmes provided for them and whether the programmes provided can improve organizational performance. Generally, SMEs with overseas business have difficulty in expanding their international trade due to the lack of information concerning various schemes available from selected government agencies. Therefore, this research is to investigate the effectiveness of selected government export assistance programmes offered to SMEs in Malaysia by identifying the level of awareness and utilization that have a strong relationship with the SMEs performance. The export assistance programmes vary between government agencies. The common programmes and areas are financial accessibility, advisory services, marketing and business development programmes, ICT capabilities and technology development.

## **1.2 Research Questions**

Based on the discussion in the previous sections, the current study attempts to answer the research question of this dissertation, which is ó to what extent are Malaysian SMEs aware of the various schemes, incentives and other export assistance available from selected government agencies and to what extent do they utilize the schemes to improve the company's performance internationally. Specifically, the current study attempts to answer the following questions:

- i. Are SMEs in Malaysia aware of the government export assistance programmes provided by selected government agencies?

- ii. Are the SMEs satisfied with the programmes provided by the selected government agencies?
- iii. Are the SMEs receiving benefit from the programmes provided?
- iv. Do the programmes used by the SMEs improve their performance?

### **1.3 Research Objectives**

The main research objective of the current study is to investigate the relationships between the awareness, satisfaction and benefit of government export assistance with organization performance. Furthermore, the objective of the study is to identify the export assistance programmes made available by selected government agencies to SMEs in Malaysia and further explore the degree of awareness and utilization by SMEs of the available programmes that would significantly benefit the performance of the SMEs.

More specifically, the objectives of the study are:

- i. To identify the awareness, the satisfaction and the benefit of export assistance programmes provided by government agencies to SMEs in Malaysia.
- ii. To examine the relationship between the awareness of SMEs on the export assistance programmes provided by the government agencies and the organization performance.
- iii. To study the relationship among SMEs between the satisfaction with the export assistance programmes provided and organization performance.

- iv. To investigate the relationship between the benefits of the export assistance programmes with organization performance.

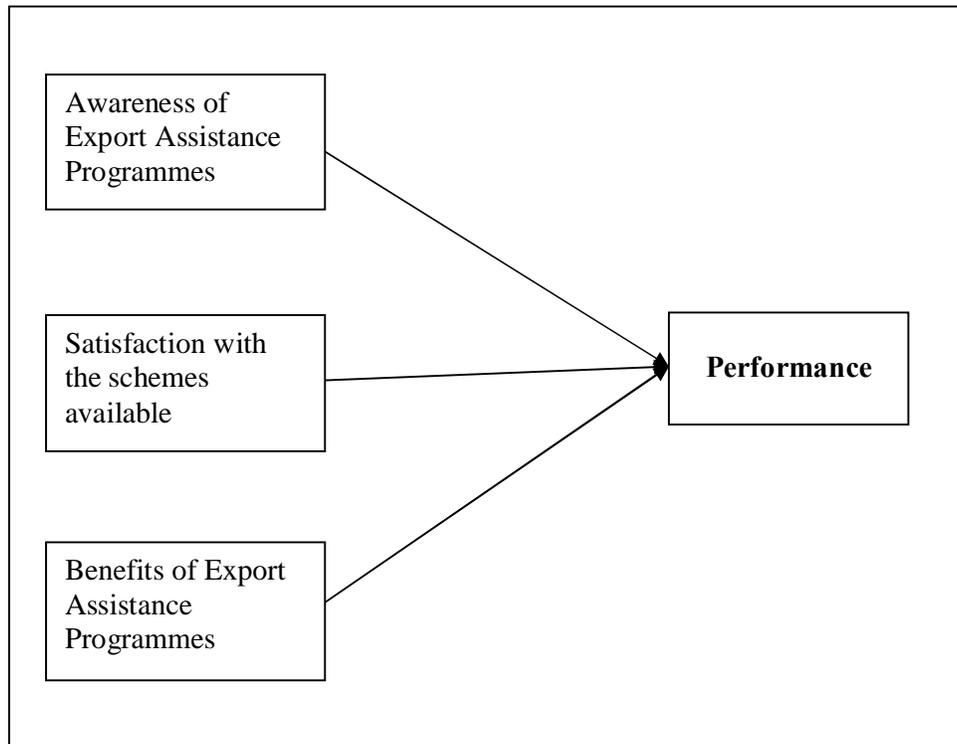
#### **1.4 Importance of the Study**

As explained earlier, the current study attempts to examine how the awareness, satisfaction and benefit of export assistance programmes provided by the Malaysian government can influence the performance of SMEs in Malaysia. Through an understanding of these relationships, entrepreneurs will be in a better position to choose the most appropriate export assistance programmes for their organization and policy makers will be in a better position to expand programmes that are effective and limit programmes that have little or a negative impact on businesses. In other words, this knowledge will help the managers in SMEs to choose the best export assistance programmes available to help them expand their business not only in the Malaysian market but also in their internationalization programmes or plans. Furthermore, for the policy maker, i.e., government agencies that formulate the export assistance programmes, the knowledge will at least assist them in formulating better programmes for the organizations as well as promoting the programmes that successfully help the SMEs in their internationalization plan and reformulate the programmes that are not so effective.

## 1.5 Study Framework

The study framework of the current study is described in Figure 1.1 below.

**Figure 1.1**  
**Framework of the Study**



From the study framework, the current research attempts to examine the relationship between the independent variables and the dependent variable. Specifically, the relationships are examined between awareness, satisfaction and benefits of export assistance programmes provided by the government to the SMEs and the performance of SMEs.

## **1.6 Organization of the Report**

The report is organized into five chapters. Chapter 1 provides an introduction to the study including the introduction of the study, problem statement, research questions research objectives, and the importance of the study. In Chapter 2, the existing literature will be reviewed, specifically, on all the constructs used in this study. It includes the development of the proposed conceptual framework and the relationship between the constructs. Additionally, propositions of this study are also included in the discussion of Chapter 2.

Chapter 3 will discuss the research methodology of the study, which includes several aspects such as the research design, measurement of construct, questionnaire design, sampling technique, data collection technique and data analyses techniques. In addition, the hypotheses of the study will also be presented in Chapter 3. Then, in Chapter 4 the research results will be discussed and the results of the hypotheses testing will be presented.

Finally in Chapter 5, a brief review of the research is presented. Major findings of the study will be discussed based on the hypotheses testing. Then, the implications of the study, the contributions of the study in terms of theoretical, methodological and practical contributions are also presented. The chapter concludes with a discussion on the limitations and directions for future research.