CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

Small and Medium Enterprise (SMEs) in Malaysia contributes most in the economic development of the country. Through the statistic is proven by the Kannan (2013), above 90% of SMEs companies in Malaysia involve in the manufacturing, services and agricultural sector, creating the job employment up to 65%. The process of developing SMEs had been started since the early 70s when the “New Economic Policy” (Dasar Ekonomi Baru) was introduced in 1971 by the Malaysian government. The purpose of this new policy was to upgrade the social welfare of the people and reorganize the imbalances of the economic development among the ethnic in Malaysia at that moment. However, during 1980s the Malaysian government only emphasized more effort in recognizing the importance of the growth of SMEs in the country’s economy. The government started to shorten the gap between SMEs and larger companies by introducing many programs and incentives during the seventh and eighth Malaysia Plans. The aim of this strategy is to increase the performance of the SMEs in Malaysia (Saleh and Ndubisi, 2006).

1.2 BACKGROUND OF STUDY

In Malaysia, Small and medium enterprise (SMEs) play an important role in the Malaysia’s economic development. According to the SME Corp. Malaysia (2013) which was approved by the National SME Development Council (NSDC) has been simplified into two categories, manufacturing sector and services and other sector in general. For the manufacturing sector, annual sales turnover not exceeding RM 50
million and the full-times employees not over than 200 people or in the range between 75 to 200 workers. For services and other sector, the annual sales turnover must not over RM 20 million and the full-time employees must in the range between 5 to 75 workers. In order to determine how important the SMEs in the economic growth of Malaysia, the contribution of more than 90% businesses from the three main sectors of the economy: manufacturing, services and agriculture. This provides the 65% of total employment for the people in Malaysia (Zieman, 2014).

Since Malaysia is a developing country with the vision to be a developed country by 2020. To become a high-income nation by 2020, SMEs will have to continue to be the mainstay for the economic development of Malaysia. According to Minister of International Trade and Industry (MITI) Datuk Seri Mustapa Mohamed, the SMEs in Malaysia is expected to contribute 41% to the Gross Domestic Product (GDP) by 2020 if compared to the 32% GDP in 2012 (The Star Online, 2014). This industry has a big impact on economic growth consequently has the full support from the government by providing the financing support directly or through Bank Negara Malaysia for those entrepreneurs to start their own business. Besides that, one of the plans of the government to help the growth of the SMEs is High Impact Programs (HIPs) under the SMEs Master plan (Zieman, 2014). This could increase the percentage rate of the GDP.

According to Frimpong (2013) stated that development SMEs generates a positive contribution to the local community by boosting the local economy growth through increasing the job opportunities to local people. Besides that, most of the large corporation will be outsourced from the small business from the local community to ease the business functions. So this relationship is win-win situation between the SMEs and large corporation. Consequently, fields of SMEs will continue to promote domestic-led growth in new and existing industries for better performance in more competitive and challenging environment. However, not all the SMEs industries manage to be successful enterprises and survive in the business environment. Meanwhile, due to the lack of strategic planning for the organization’s performances, most of the SMEs will face problems and failures within the first five years (Wong, Kuek and Ong, 2013).
Wherever a firm bankrupt or fail, there will always indirectly gives a negative impact on most of the stakeholders of the business such as government, and public. Statistics proven by Chong (2012) stated that the SMEs failure rate in Malaysia was reported up to 60% compared with the SMEs failure rate in Australia which only 23%. The firms will consider fail when the firms are unable making the profitability which was inadequate to support the operational cost, therefore, unable to compete in the economic market anymore and force to withdrawal from the present market. So, compare with the larger organization, SMEs firm have more centralized decision making structure and depends on more short-term business strategies (Rohde, 2004). Hence, the performance of the firm can be increased due the advantages size of the firms. By developing a systematic and efficient performance management of the firms can reduce the failure rate of the SMEs.

Performance has explained to as the outcome achieved from the work done with a specific objective set that need to be accomplished (Salem, 2003). Performance measurement is a judgment of an employee, procedure, tool or other component to indicate the progress toward the objective set. According to Moran, Epstein, and Beitsch (2013) stated that the Performance Measurement System (here after called PMS) is the most significant technique to find out the level of the organization performance. This is because the system can determine the efficiency and effectiveness of the strategies the organization done and for the future planning. Through the statement from Wiklund and Shepherd (2005) argue that man power, physical assets and organizational assets are the elements in order of an organization to establish long-term competitive advantages successively produce expressive performance for the organization.

Manager or front-line staff is to take on responsibility management roles in the SMEs as a decision maker to the strategic planning for the company. A good management skill from manager will lead the company to greater performance and support the long-term growth of the SMEs. According to Surie and Ashley (2007) stated in the unknown situation and to maintain the innovation, leadership is the best style to manage it. This can prove that the entrepreneurial leadership such as style involves in affecting, controlling and directing the group performed in the direction of the companies’ goals or objectives. (Renko et al., 2015) In short, the owner-manager of SMEs generally has full control of the company's operation, decision making on the