

Adaptation of a Business Performance Measurement System for Malaysian Smaller Enterprises

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Abstract

This research was conducted to test the validity of the new performance measurement system, Engine For Smaller Enterprise (E4SE) model to recommend its implementation in small project based companies in the Malaysian SME industry. E4SE model evaluates an enterprise internally and externally through different aspects such as management level, level of competitors or rivals to develop future strategic plan in order to sustain the business survival. E4SE is comprised of three main elements: Strategy Formulation Activities (SFA), Strategy Administration Activities (SAA) and Performance. Survey questionnaires were distributed to the management cadre or the company's owner-manager of the company respectively. A total sample of 49 samples was used in this study. Research objective had been achieved through the data analysis finalized by using Microsoft Excel. The results of this study shows that Malaysian small project based SME companies are suitable to implement the modified E4SE. It's proven that the implementations of E4SE model in the SMEs do not only increase the potential of the company, but also raise the awareness of the performance measurement system implementation in an organization.

Keywords: performance, measurement system, small companies.

1. Introduction

Small and medium enterprise (SMEs) considered as the backbone of the Malaysia's economy as they have been the main contributor of developing and employing (Lazim et al, 2015; Sorooshian et al, 2013; Jamil and Mohamed, 2011). Small and Medium Enterprise (SMEs) in Malaysia contributes most in the economic development of the country. 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).

According to the SME Corp. Malaysia (2013) which was approved by the National SME Development Council (NSDC) has been simplified into two categories. First, manufacturing sector and then, 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 (Kannan, 2013; 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. According to Khalique, Md. Isa and Nassir Shaari (2011), 50% of SMEs are facing bankruptcy within first five years of operation. 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

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