A Business Destiny Forecast Model

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Abstract

In every region, Small and Medium Enterprises (SME) make a huge contribution to the gross domestic-product (GDP) and employment. Basically Small Medium-sized Enterprises (SMEs) are non-subsidiary and also independent firm which employ fewer total of an employees. Usually this number are varies across countries. However not all of the involvement of SMEs are successful. So the purpose of this research is to identify the criteria of Performance Measurement System (PMS) that can predict the failure and success in small medium-sized enterprises (SMEs) in Malaysia and develop a model to predict success and failure of SMEs in Malaysia using theory of constraints approach. Basically theory of constraint is a method to identify, analyze and also eliminate the constraints that been identified stop the firm from getting any new additional values process. Therefore, using logit regression was used to analyze the data collection for this research. So that, it will help this research to develop new model in order to predict new SMEs destiny.

Keywords: performance, performance measurement system, theory of constraints, small medium-sized enterprises (SMEs).

1. Introduction

Nowadays, the era of globalization in the world are encouraging people to do a business. Therefore from my observation, many people are likely to do a business for their additional income. Thus, they choose SME as a platform for them to generate more income because SME is one of the alternatives that can gain more experience instead of to develop other skills. Unfortunately, they are many challenges and risks that will be facing by them while operating and managing the SME's. As for example, according to Shafique, Izwan and Jahangir, (2008) after studying the literature broadly, some of the researcher found that there is general role of SMEs practices that are responsible to success and failure of the firm.

Husain Naqvi (2011) stated that the most crucial one in the factor of failure SME's are regarding to the financial capital, inappropriate government structure and also corruption. From my deeply understanding in literature, most of researcher from various country found that all new SMEs face failure rate quite high within their first five years in business field. Moreover, Umrani, Johl and Ibrahim (2015) stated failure rate in Australia is 23% while in Malaysia alarmly high at 60%. Besides, based on my studying in the literature, failure of SME's are usually comes from different factors for different enterprises. This is because there are many constraints that will affect the production and system. Basically, each system have at least one constraints that hold them from achieving success and high levels of performance.

According to Kee-luen, Thiam-yong and Seng-fook, (2013), many small medium-sized companies are operating in Malaysia. However, according to Sahfique, Rizwan and Jahangir (2008) within five years, many of these enterprises are successful and some of them are probably face a problem or failure. For example, based on my observation, some of the company are seeking and borrowing money from government, private company and bank in order to operate their business. However, if they failed, all the debts and loan will be lost. Therefore, performance measurement systems have many types of method that can help to measure and predict the successful and failure of the enterprises.

Thus, purpose of this research, is to use Theory of Constrains in order to identify the constraints and also to make some improvement for the enterprises to be the success enterprises. There are many factors that affect enterprises to become the successful and the failure business. Hence, theory of constraints could help for improvement on the business company and also can be used to identify the companies that will success in their business.

2. Performance Measurement System

Generally, in order to improve their organizational performance, most of them are using Performance Management System (PMS) (Shahryar et al. 2014). A performance measurement system basically provides an efficient way for organization dedicated to the social impact to collect and make use of data about their programs and operations (Wolk, Dholakia & Kreitz, 2009). Generally, PMS create a crucial connection between organization due to measurement in the organization system which are directly related to the companies planning and strategy.

Nely et al. (1995) stated that PMS can be defined as the process of quantifying the efficiency and effectiveness of action. While, Michaela and Marketa (2012) stated that the process for the effectiveness, efficiency and also productivity of past action are the way to measure the performance management system. Globally, in this era of technology, a good company should have strategic planning for their company in order to achieve their goals and also to improvise any of their weaknesses. However, Yusra et. al (2015) added that currently, a big and serious problem can lead to the failure of their businesses because those are the challenges that will be face due to fast environmental changes.

Ever company needs to take a look and identify the constraints in order to improve their business performance.