

Malaysian SMEs Performance and the Government Business Support Service: The Moderating Effects of Absorptive Capacity

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Abstract— The purpose of this study is to test and develop absorptive capacity as a moderator of the relationship between Government Business Support Service (GBSS) and SMEs Performance in Malaysia. A random sampling technique was used on 150 usable questionnaires and data was analysed by SPSS 19. Statistically, the results confirmed that financial and non-financial support by government positively related to SMEs Performance and there is an interaction of absorptive capacity as a moderator on GBSS and SMEs Performance.

Keywords— GBSS, SMEs, Absorptive Capacity

1. Introduction

Globally, the contribution of SMEs to the national economy is acknowledged [2; 36; 37; 39] and the development of SMEs sector is widely seen as a key element of a nation's economy [16]. Nowadays, SMEs is one of the main engines on contemporary economy, which bring along development and growth [12]. Similarly, the development of Small Medium-Sized Enterprises (SMEs) has been recognized in Malaysia as an integral component in achieving sustainable economic growth [13]. 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) and their employment of over half the population's workforce [4].

In fact, currently, there were 645, 136 SMEs operating in Malaysia which represent 97.3% of total business community [9]. According to Department of Statistic, Malaysia (2011), 90% of SMEs are dealing with services (580, 356 SMEs),

5.9% with manufacturing (37, 861 SMEs), 3% with construction (19, 283 SMEs), agriculture (3, 775 SMEs) and lastly 57 SMEs in mining and quarrying. In addition, majority of SMEs are micro-enterprise (77% or 496,458 SMEs) followed by small enterprise (20% or 128, 787 SMEs) and medium enterprise (3% or 19, 891 SMEs). By 2011, SMEs remained resilient to record a relatively strong GDP growth of 6.8%, underpinned by domestic demand and supportive policies by the Government [18; 19; 20].

In 2009, 99.2 per cent of total business establishments SMEs in Malaysia representing the significant in terms of numbers, and at the same time have contributed significantly to the country's economy in terms of employment, GDP and export figures, as referred to the speech by Y.B. Dato' Mustapa Mohamed, Minister of International Trade and Industry at The Official Launching of SME Corporation Malaysia (SME Corp. Malaysia), Hilton Hotel, Kuala Lumpur on 21 August 2009 [19]. SMEs have been identified as next engine of growth [3] as fulfilling to become a developed and industrialized nation by the year 2020 [1]. The "Vision 2020" of the country recognized the importance to industrialize rapidly by capitalizing on the country's strengths and forcefully tackling the weaknesses [3].

Considering the significant roles of SMEs to the economic development, the Government has to provide a number of business support programs to ensure their competitiveness [38]. The Malaysian government has launched several initiatives to facilitate and promote expansion of the SMEs [32] where these initiatives aimed to create the institutional and systematic conditions to support upgrading of firm level capabilities, diversification and creation of new firm [38]. Accordingly, to assist SMEs in Malaysia, the Prime Minister, Datuk Seri Najib Tun Razak was announced allocation of

RM 1 billion in 2013 budget to help Malaysian SMEs [23]. RM 500 million was established specifically for the year 2012 to enable SMEs to commercialize research products which is Commercialization Innovation Fund [33].

Started a few years back before the independence (August 1957), the government continuously put an effort to support their activities considering the significant roles of SMEs to the nations [38]. In the past, SME policies were based on the Third Industrial Master Plan and the Ninth Malaysia Plan. The introduction of new policies by the Government, namely the New Economic Model (NEM) and Tenth Malaysia Plan (10MP) will require some re-alignment and adjustment of SME development policies and initiatives in order to achieve a high income nation with developed status by 2020 [34].

SMEs are expected to play a significant role in building the nation's economy under the NEM, particularly in spurring innovation and new growth areas. Two key issues have become relevant to SME development:

1. Focus on creating a number of strong homegrown companies that can compete in the international market to become regional and global champions.
2. Support and assistance will be provided to micro enterprises that represent a major share of the bottom 40% of income earners.

The NEM strategies embodied in the 10MP focuses a great deal on fostering an enabling environment, development of entrepreneurship, inter-firm linkages with large establishments as well as IT adoption and innovation. The aim is to promote development of SMEs as the engine of growth and innovation [10].

NEM launched by the Prime Minister could bring the country towards high income economy in ten years towards government business support service via main player namely Majlis Amanah Rakyat (MARA), SME Bank, SME Corporation and National SME Development Council [38]. Billions of money was spent under the programs with the aim to support the business growth of SMEs acted as a stepping stone to the Malaysian SMEs' glorious achievement and better performance [31].

However, up to this recent year, the usage of the business assistance services provided by the government is considered poor especially among micro-sized SMEs [31] even micro-sized SMEs is majority player in Malaysia Department of Statistic, Malaysia (2011). In order boost up the economic growth and rapid development towards achieving National Economic Policy and Vision

2020, an attractive business environment should be concern to increase opportunities in the provision of SMEs performance.

Consequently, as for this study, this paper offers several new contributions to the relationship between government business support services and SMEs performance. It will investigate an issue faced by SMEs regarding their performance towards support services received by the government. In order solving this issue, researcher will try to identify the most influential services by the government either on financial or non-financial support. Although government business support services have been explored in previous studies, however, locally, there are limited studies that have examined on how was government business support services influences SMEs performance. Therefore, this unique study attempts to fill a gap by investing the relationship between government business support services and SMEs performance in SMEs in Malaysia.

2. Literature Review

Small businesses are the backbone of many economies across the globe [17]. However, the major challenge is, however, to overcome the high failure rate among these small businesses [14; 15]. By giving a hand to some of those businesses, local governments may be able to lower the high rate of attrition. Development strategies to reduce the failure rates can include traditional tax and financial incentive programs, special research and development programs for small businesses, seed and venture capital financing, training programs for entrepreneurs, regulatory relief for small businesses, customized assistance programs, and business networks development.

SMEs are strongly restricted in accessing the capital that they require to grow and expand, with nearly half of SMEs in developing countries rating access to finance as a major constraint. According to a research [27], Malaysian SMEs face many other challenges that have been highlighted by [2; 31] as well as [34; 35]. In the study done by [27] identified a number of key challenges facing Malaysian SMEs:

1. High levels of bureaucracy in government agencies hindering efficient business development.
2. Difficulty in obtaining funds from financial institutions as well as from the government.
3. Lack, and cost, of professional and skilled workers.
4. High levels of international competition due to globalization; including competition from AFTA member

countries, from MNCs or rapidly developing new competitors (e.g. enterprises from China and India).

5. Limited access to better technology and ICT.

The Malaysian Government's commitment to, and concern for, the development of SMEs has been clearly evident since the early 1970s. The 'New Economic Policy' was introduced in 1971, which aimed to improve people's welfare and restructure ethnic economic imbalances [27]. The government's commitment to the development of SMEs can also be seen in the second Industrial Master Plan (IMP2), which ended in 2005, which is followed by the Third Industrial Master Plan (IMP3) 2006-2020, to coincide with the country's vision for 2020 [27]

The Malaysian Government has implemented various policies and strategies under these plans. The IMPs were formulated to enhance the growth of the manufacturing sector across the entire value chain and cluster-based industrial developments. Hence, this plan provides an integrated approach to the development of industrial areas and opportunities for growth of SMEs [27]

Performance is the life blood of organizations, since without them; no decisions can be made [22]. Performance evaluation theories and models begin with an understanding of how the firm can elevate and improve its efficiency and relate that analysis to the theory of the firm [24] more than classical accountancy and financial reporting. Such thinking stems from strategic management theory in relation to competitiveness [25; 26] in combination with organization theory [28] and networking issues [36; 37].

Firm performance refers to the level of success of the firm [5]. The ability of an organization to survive and succeed is influenced by various factors which some can and some cannot be controlled [16]. Research by [21] indicates that organizational performance can be measured by many criteria.

Performance was assessed in two dimensions; through (1) the non-financial method and (2) profit efficiency using the stochastic efficiency frontier model [14]. With the non-financial method, it was clear that the entrepreneurs achieved most of the objectives that were identified. Financial performance measurement can be one of the biggest challenges faced by businesses in the SME sector, especially with regard to their survival, if management is not trained on how to manage finance and measure performance.

Absorptive capacity has been recently identified as a crucial dynamic capability in knowledge-based competition [11] and gradually become a key driver of a firm's competitive advantage [6]. A firm's absorptive capacity depends on its existing stock of knowledge, much of which is embedded in its products, processes and people. Thus, a firm's knowledge base plays both the role of innovation and absorption [7].

Entrepreneurs create new ventures in order to exploit opportunities and create wealth by offering innovative products, goods and services. To be successful, these ventures need to build and maintain novelty in their products [40]. Absorptive capacity helps the firm to identify more available knowledge flows. In other words, the amount of external knowledge that the firm perceives is an increasing function of its absorptive capacity [10].

Therefore in this study the hypotheses are stated below:

- H1 : There is a relationship between financial support provided by GBSS and SMEs performance.
- H2 : There is a relationship between non-financial support provided by GBSS and SMEs performance.
- H3 : There is a moderating effect of organizational absorptive capacity on the relationship between financial and non-financial support provided by GBSS and SMEs performance.

3. Methodology

The populations in this research were owner manager / manager from manufacturing and related services SMEs in Northern Peninsular Malaysia. A sample of 150 completed set were collected using a random sampling technique. The analysis used was Statistical Package for Social Science (SPSS 19).

4. Analysis and Discussion

The results of construct reliability for financial support by the government = 0.763, non-financial support by the government = 0.768, SMEs Performance = 0.895 and Absorptive Capacity = 0.857. The construct reliability values for all constructs are greater than the table value of 0.70. So it can be concluded that all latent constructs used in this research are really reliable.

Correlation Analysis

The value of r between financial support and SMEs performance is 0.169 with correlation coefficient equal to 1 and significant at 0.020 (lower than 0.05). Therefore, there is a relationship between both variables. The finding shows that financial

support directly affected SMEs performance. To make choices between actions within the company; there is a need on take some consideration that might certainly deliver the predicted benefit. Financial assistance should be maximizing accordingly with usage of the money for certain matter, or else, the company will remain at the same point, before and after received assistant. Therefore, it is possible to argue that financial support provided by the government also reflects SMEs performance. As a result, there is a statistically significant correlation between financial support provided by the government and SMEs performance. That means, increases or decreases in financial support by the government do significantly relate to increases or decreases in SMEs performance. Thus, the hypothesis (H1) is supported where there is a relationship between financial support provided by GBSS and SMEs performance.

In addition, the value of r between non-financial support and SMEs performance is 0.454 with correlation coefficient equal to 1 and significant at 0.000. Therefore, there is a positive relationship between both variables. In general, there is some kind of link between non-financial support by the government and SMEs performance. Among those who have received non-financial assistance, researcher notices that respondent actually benefited once received this kind of assistance. It helps SMEs to go further, perform better with predicted benefit and different approach. Therefore, we can conclude that there is a statistically significant correlation between non-financial support provided by the government and SMEs performance. That means, increases or decreases in non-financial support by the government do significantly relate to increases or decreases in SMEs performance. Thus, the hypothesis (H2) is supported.

Regression Analysis

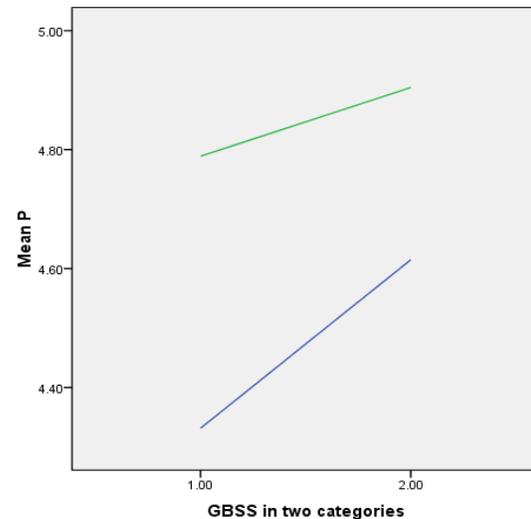
Upon the completion of correlation analysis, the regression analysis using the SPSS Version 19 were performed to find any influence between the independent variables (financial and non-financial support by the government), moderating variable (absorptive capacity), and the dependent variable (SMEs Performance). The steps in analysing the relationships of the variables were based on Hierarchical Regression Analysis and the recommendation by many scholar researcher [8; 25; 26; 29; 30; 35; 41].

Based on Hierarchical Analysis, R^2 change is sufficient where the p value is less than 0.05. Here, the p -value $0.004 < 0.05$. Moreover, there is a moderation effect when t -value = -2.937, p -value <

0.05. As the p -value less than 0.05, we can conclude that there is a moderation effect.

Hence, the graphs are plotted to see the moderating effects. The standard value used to re-categorize into the levels based on 2 level (1 = Lowest, 2 = Highest) and using median of the variables (GBSS = 4.5455, AC = 4.7143).

Figure 1:
Graph: The Moderating Effect of Absorptive Capacity on the Relationship between GBSS and SME Performance



From Figure 1, the rate change is greater for the Highest group whereas for the Lowest group is very low. In conclusion, absorptive capacity changes the relationship between GBSS and SMEs performance. The interaction did specify the appropriate conditions for its operation and there is an impact on the level of SMEs performance.

Hypothesis Testing

	Hypotheses	Result
H1	There is a relationship between financial support provided by GBSS and SMEs performance.	Accepted
H2	There is a relationship between non-financial support provided by GBSS and SMEs performance.	Accepted
H3	There is a moderating effect of organizational absorptive capacity on the relationship between financial and non-financial support provided by GBSS and SMEs performance.	Accepted

5. Conclusion and Recommendations

Based on the results, it showed that financial and non-financial support by government in Malaysia influences positively on SMEs performance. Then, there is an interaction between moderating effect by absorptive capacity towards GBSS and SMEs performance.

For future research, it is expected to add more variables under non-financial support alone. In spite of it, researcher suggests to conduct a narrow scope for SMEs that establish for more than five years from all over Malaysia. Therefore, the study might indicate the real situation for established SMEs in Malaysia.

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