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Government Business Support Service (GBSS) and SMEs Performance: Observations from Malaysian Manufacturing

Jauriyah Shamsuddin¹, Nur Abidah Ismail², Mohammad Nizam Sarkawi¹, Abdul Rahman Jaafar¹ and Noor Fareen Abdul Rahim³

¹ School of Business Management, College of Business, Universiti Utara Malaysia. Sintok, Kedah. Malaysia. E-mails: jauriyah@uum.edu.my; drnizam@uum.edu.my; ajaaffar@uum.edu.my

Universiti Utara Malaysia. Sintok, Kedah. Malaysia, E-mail: nurabidahismail@yahoo.com

Abstract: Purpose: The purpose of this paper is to examine the relationship between Government Business Support Service (GBSS) and manufacturing SMEs performance particularly in Northern States of Peninsular Malaysia. It aims to describe the effectiveness of government policies and strategy development for SMEs advancement.

Design/methodology/approach: A questionnaire-based survey was conducted, which produced 150 valid responses from manufacturing SMEs. Statistical analysis of data acquired from the survey used a correlation analysis. A relevant literature review pinpoints salient issues in the development of the SMEs.

Findings: For the past 20 years, the government of Malaysia has launched various schemes and pays more attention to the development of Malaysian SMEs. However, it was not fully utilized by SMEs. The study showed that there are positive effects in utilizing government supports programs to SMEs Performance.

Originality/value: This paper will help SMEs in determining their competitive strategies and policy formulation by the government.

Keywords: GBSS, Manufacturing SMEs, SME Performance

INTRODUCTION

Small and Medium Enterprises (SMEs) refer to independent firms which often associated with entrepreneurship. SMEs point out strong influence on the economies globally and have been the basis of employment creation worldwide (Ladzani & van Vuuren, 2002). Malaysian SMEs have been the backbone

² School of International Studies, College of Law, Government and International Studies,

³ Graduate School of Business, Universiti Sains Malaysia, Penang. Malaysia, E-mail: noorfareen@usm.my

of economic growth of an economy in driving industrial development. In fact, SMEs are nowadays becoming increasingly significant in the process of exporting and industrialization in the emerging economies (F. Hashim, 2012). Extant empirical studies have suggested that SMEs contribute in providing job opportunities, act as a supplier of goods and services to large organizations (Singh, Garg, & Deshmukh, 2008). Thus, SMEs should identify the strategic positioning based on their internal (firms' input) and external (customer, stakeholders, and competitor) as SMEs only focused on internal factors (María García-Pérez, Yanes-Estévez, Ramón Oreja-Rodríguez, & González-Dávila, 2014). This paper fills in a gap in the discussion by reporting on an empirical study of business support services that provided in Malaysian SME's development.

PROMOTIONAL GOVERNMENT BUSINESS SUPPORT SERVICE BY THE GOVERNMENT

A strong and dynamic SME sector would stimulate the economy. Considering the significant roles of SMEs in the economic development, the Malaysian Government has provided a number of business support programs for ensuring SMEs' competitiveness (Yusoff & Yaacob, 2010). Initiatives facilitated and promoted were aimed to create institutional and systematic conditions to support upgrading of firm-level capabilities, diversification, and creation of new firm. The concern for SME development is not new. The government continuously put an effort to support SMEs started a few years back before the independence (August 1957) and the clear evidence was written since the early 1970s.

The promotional starts with the introduction policy named New Economic Policy (NEP is also known as *Dasar Ekonomi Baru*) adopted in 1971 for a period of 20 years. It was expected to improve people's well-being and reorganized ethnic economic imbalances. NEP distributed opportunities to participate in an economic activity through access to land, physical capital, training and public facilities. Next, the government succeeded by the National Development Policy (NDP) in 1991 to enhance the welfare of Malaysia comparing to the world.

The commitment then continued with the development through Second Industrial Master Plan (IMP2; 1996-2005). This is to transform the manufacturing sector for the international competitive sector through industrial linkages, enhancing value-added activities and productivity. At the same time, the Third Outline Perspective Plan (OPP3; 2001-2010) promotes knowledge-based society by strengthening strategic sectors (namely manufacturing, agriculture, services sector, Information and Communication Technology-ICT and rural SMEs) through the adoption of knowledge and technology. In addition, Eighth Malaysia Plan (2001-2005) introduce a wide range of assistance programs through: (1) Small and Medium Industries Development Corporation (SMIDEC latter known as SME Corporation) for entering export market, (2) Bank Negara for improving access to financing through various schemes; and (3) ICT for start-up companies.

Third Industrial Master Plan (IMP3; 2006-2020) then focus on long-term global competitiveness through transformation and innovation of manufacturing and services sectors. This is to enhance Malaysia as a trading nation and promotes global networks. Meanwhile, Ninth Malaysia Plan (2006-2010) promotes on SME growth by implementing outsourcing, inter-link linkages, and entrepreneurship programs. SMEs works as Research and Development (R&D) partners among Multinational Corporations (MNCs), Government-linked Companies (GLCs) that facilitate technology transfer, skill development, and marketing.

The introduction of new policies by the Government, namely the New Economic Model (NEM) and Tenth Malaysia Plan (2011-2015) that promotes knowledgeability and innovation 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.

The journey of the government conducting various programs took a while and now carefully organized by SME Masterplan 2012–2020. It now served as a solid basis for the development of Malaysian SME through the comprehensive framework. An overall blueprint for SME development was developed under three strategic thrusts and summarized in Table I. Furthermore, all programs also specify on six focus areas that highlighted in Table II.

Table I
Malaysian SME Development Strategies

| Strategy | Scope |
|--|--|
| Building the capacity and capability of SMEs | Specifically in the areas of entrepreneur development, human capital development, advisory services, awareness and outreach, technology enhancement and product development. |
| Strengthening an enabling infrastructure | Developing and enhancing physical infrastructure and information management as well as ensuring conducive regulations and operating requirements relating to SMEs. |
| Enhancing access to financing | Developing and strengthening institutional arrangements to support SME financing requirements. |

Source: SME Corporation Malaysia (2016)

Table II
Malaysian Government Focus Area Affecting SMEs Performance

| Areas | Performance Levers |
|----------------------------------|--|
| Innovation and technology | Encourage greater innovation and technology adoption |
| Human capital development | Enhance human capital and entrepreneurship development among SMEs |
| Access to financing | Ensure that creditworthy SMEs have access to financing for working capital and investment |
| Market access | Expand the market access for goods and services produced by SMEs |
| Legal and regulatory environment | Ensure that the legal and regulatory environment is conducive to the formation and growth of SMEs while protecting the broader interest of the society |
| Infrastructure | Improve the infrastructure required for SMEs to operate effectively |

Source: SME Corporation Malaysia (2016)

Status of SMEs in Malaysia

SME Corporation Malaysia (SME Corp.) formerly known as Small and Medium Industries Development Corporation (SMIDEC) is the central point of reference for information, reference, and advisory services for all SMEs in Malaysia. SME Corp. supervises 16 ministries and 60 agencies involved with Malaysian SMEs for comprehensive and effective implementation. Currently, there are almost 167 programs on various SME Grant Schemes and disseminator of information for SMEs.

Rahman (2001) found that SMEs can be defined by a number of factors and criteria (such as location, size, age, structure, organization, number of employees, sales volume, worth of assets, ownership through innovation and technology). Earlier, there is no common definition of small and medium enterprises (SMEs) in Malaysia, as different agencies defined SMEs based on their own criteria, usually benchmarking against annual sales turnover and a number of full-time employees or shareholders' funds. However, starting from 9 June 2005, the National SME Development Council (NSDC) has approved the common definition of SMEs across economic sectors, for adoption by all government ministries and agencies involved in SME development, as well as financial institutions (SME Corporation Malaysia, 2015). Starting 1 January 2014, SME definition was revised as summarised in Table III:

Table III Definition of SMEs in Malaysia

| | | Manufacturing | Services and Other Sectors |
|---|--------|--|--|
| 1 | Micro | Sales turnover less than RM 300,000 or less than 5 employees | Sales turnover less than RM300,000 or less than 5 employees |
| 2 | Small | Sales turnover from RM300, 000 to less than RM15 million or full-time employees from five to less than 75 | Sales turnover from RM300, 000 to less than RM3 million or full-time employees from five to less than 30 |
| 3 | Medium | Sales turnover from RM15 million to not exceeding RM50 million or full-time employees from 75 to not exceeding 200 | Sales turnover from RM3 million to not exceeding RM20 million or full-time employees from 30 to not exceeding 75 |

Source: SME Corporation Malaysia (2014)

In Malaysia, 97.3 percent of the total business community were SMEs with a total of 645,136 establishments. In 2016, SMEs contribute to 36.6 percent of total GDP, 18.6% of total exports and 65.3% of total employment (SME Corporation Malaysia, 2016). Therefore, the Malaysian government has accorded high priority to the development of SMEs accordingly to company potential.

BARRIERS TO HIGHER PERFORMANCE IN SMEs

Performance is the lifeblood of organizations where it elevates and improve its efficiency and relates that analysis on the theory of the firm (Penrose, 1959). Without performance evaluation, no decisions can be made. Performance evaluation can be categories into two, (1) on classical accountancy which referred to an external factor of the company; and (2) financial reporting on internal factors into consideration (Hansen & Wernerfelt, 1989). Such thinking stems from strategic management theory in relation to competitiveness (Porter, 1991) in combination with organization theory.

Besides, performance can be assessed in another two dimensions; (1) the non-financial method and (2) profit efficiency using the stochastic efficiency frontier model (John, 2009). 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.

Government involvement in SMEs promotes higher business performance. In particular, Xiao and Fu (2009) reported that qualified professional, networking and referral/word-of-mouth from local government strongly interrelated with business service. Similarly, Eberhard and Craig (2013) found that government business support could play a big role in networking aspects as rapid changing happened in global trading environments. Jayawarna, Macpherson, and Wilson (2007), believed that business failure relates to lack of planning or training by SMEs. However, SMEs seem reluctant to invest either formal or informal in training. The findings of the study revealed that initiatives from the government through training can encourage small firms to grow in the United Kingdom.

Chittithaworn, Islam, Keawchana and Muhd Yusuf (2011) point out significant determinants of business success among Thailand's SMEs. It is SMEs characteristic, customer, and market, the way of doing business and cooperation, resources and finance, and external environment. In another study, Mendes and Lourenço (2014) extended research on factors that hinder quality improvement programs' implementation in SMEs among 95 Portuguese SMEs. The study highlighted seven different factors affecting quality programs: (1) top management's education/training level and priorities, (2) costs and actual performance, (3) lack of support from external agents, (4) human resources' overload, (5) aversion to change, (6) lack of resources, and (7) culture and training. As predicted, the result of the study revealed that implementation of quality programs and external resources were significant predictors of manufacturing SMEs performance.

Economic growth depends on how firms and banks enact entrepreneurial policies and how new sources of innovation can be created. Branscomb and Choi (1996) indicate that Koreans SMEs sector is weak both technologically and economically compared to Taiwan during that time. Therefore, Korea's government plays too heavy in hand guiding the economy with numbers of venture capital established. Two elements of changing the international environment that Korea faces include, (1) centrally planned economies, and (2) government activism in support of national technological capabilities.

However, a study by Yusoff (2011) shows that business assistance services provided by the government usage considered poor especially among micro-sized SMEs. Saleh and Ndubisi (2006) also identified a number of key challenges facing Malaysian SMEs into five:

- 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.

Meanwhile, Hashim and Ahmad (2011) discovered that the periodic problems of SMEs included a lack of capital and credit facilities; shortage of skilled workers and raw materials; inadequate infrastructure; lack of managerial, marketing and technical expertise; and limited applications of new technology.

A successful organization may be reflected through their survival for at least 5 years of business operation. Research conducted by Owens (2007) indicated that running and keeping the business alive for

a long-term should be a biggest concerned among SMEs as there is high failure rate among these small businesses (Shafique, Rizwan, & Jahangir, 2008). However, there is a room for productivity improvement. For example, SMEs maximizing the use of the business model in determining the firm's performance. Local governments may be able to lower the high rate of failure (Mbonyane & Ladzani, 2011) through development strategies such as from training programs for entrepreneurs, regulatory relief for small businesses, customized assistance programs, and business networks development.

Khalique, Md. Isa, Shaari, and Ageel (2011) study on challenges facing by Malaysian SMEs show that intellectual capital would appear as a lubricant of organizations. They relate that SMEs could become competitive in this knowledge-based economy through various support services provided by the government. Therefore, although the need of an appropriate GBSS to measure SMEs performance is apparent, different problems cause firms to experience difficulty in implementing such services.

HYPOTHESIS DEVELOPMENT

The literature highlights several problems and difficulties faced by SME in implementing business support provided by the government. Considering several arguments and concerns highlighted throughout literature focusing on SME, the following hypothesis was proposed:

H1. The effectiveness of government business support program according to firms' performance dimension.

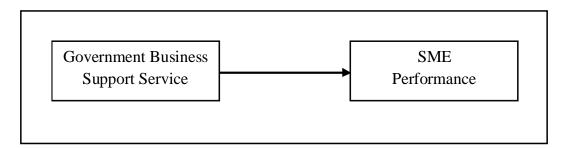


Figure I: Conceptual Model

METHOD

The completed and usable close-ended questionnaire was collected from 150 owner-manager from manufacturing and related services SMEs in Northern Peninsular Malaysia. Owner manager was identified and asked to complete the survey, assuming that he or she would be in a position to comment on the flow of knowledge around the entire organization rather than the flow of knowledge within one or a few departments. In addition, they made all decisions regarding company sustainability due to SMEs have simple systems and procedures, flexible, immediate feedback, short decision-making chain, better understanding, and quicker response to customer needs to be compared to larger organizations.

Initially, a total of 330 questionnaires were administered using a random sampling technique, leading to a response rate of 45%. Items were measured on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Statistical Package for Social Science (SPSS 19) was utilized to empirically test and estimates the proposed hypothesized relationships.

DATA ANALYSIS AND DISCUSSION

Demographic

The sample demographic can be found in Table IV. In terms of a number of employees, which covers both full-time and part-time employees, the majority of respondents indicated having between five to 10 full-time employees. In addition, respondents still in their early stage of development respondents as they operated the business for one to five years. The finding also suggested that the majority of the respondents used their own financial resources during the early stages. However, most SMEs had to use external funds to expand their business. Furthermore, the majority of respondents were actually receiving non-financial support more compared to financial support even though majority ranked financial support as the most important assistance that the government should provide to strengthen their company performance.

Table IV Company Profile

| Variable | Frequency | | Percentage (%) | | |
|---|-----------|-----------|----------------|-----------|--|
| Number of employment | Full-Time | Part-Time | Full-Time | Part-Time | |
| • None | - | - | 100 | 66.7 | |
| • 5-10 | 92 | 61.3 | 36 | 24.0 | |
| • 11-15 | 20 | 13.3 | 7 | 4.7 | |
| • 16-20 | 3 | 2.0 | 3 | 2.0 | |
| • 21-25 | 1 | 0.7 | - | - | |
| • >25 | 34 | 22.7 | 4 | 2.7 | |
| Years of operation | | | | | |
| • 1-5 | 5 | 53 | 35 | 5.3 | |
| • 6-10 | 35 | | 23.3 | | |
| • 11-15 | 30 | | 20.0 | | |
| • 16-20 | 15 | | 10 | 10.0 | |
| • >20 | 17 | | 11 | 1.3 | |
| Own fund to start the business | | | | | |
| Yes | 14 | 40 | 94 | 1.0 | |
| No | 9 | 9 | 6 | .0 | |
| External fund to extend the business | | | | | |
| Yes | 8 | 34 | 56 | 5.4 | |
| No | 6 | 55 | 43 | 3.6 | |
| Assistance received from SME Corp. | | | | | |
| Financial Support | 3 | 59 | | 5.4 | |
| Non-Financial Support | 105 | | 70.9 | | |
| Both | 4 | 4 | 2 | .7 | |
| Assistance might affect company performance | | | | | |
| Rank 1 : Financial Support | | | | | |
| Rank 2 : Training and Mentoring Programme | | | | | |
| Rank 3 : Consultancy Service | | | | | |
| Rank 4 : Business Seminar | | | | | |
| Rank 5 : Start-Up Grant | | | | | |

N=150 (Number of respondents)

Effectiveness of Government Business Support Program towards Firms' Performance Dimension

As can be observed, Table V summarizes frequencies for each variable.

Table V Frequencies for Each Variable

| Dimension | Items | Mean | Std. Deviation |
|-----------------|---|--------|-------------------|
| GBSS | GBSS in Malaysia | | |
| | There is follow-up after received any assistance | 4.7933 | 0.40627 |
| | There are too many terms and conditions to be compiled before the loan being approved | 4.6400 | 0.60512 |
| | The government is doing enough to help entrepreneurial business in Malaysia | 4.4600 | 0.71070 |
| | It is easy to deal with person/officer who handled the application | 4.4533 | 0.40627 |
| | Financial Support | | |
| | The company rely more on short-term loan for company development | 4.2133 | 0.81584 |
| | There is high access to financing due to various guarantee schemes by government | 4.2133 | 0.75606 |
| | It is hard for the company to apply for the following new loan after getting the first loan | 4.1667 | 0.92262 |
| | Non-Financial Support | | |
| | Sharing knowledge among participants in the same industry in seminar/workshop increase my company production | 4.8333 | 0.43990 |
| | The equipment and technology have been provided usually meet our company needs and requirement | 4.6533 | 0.47750 |
| | The company could exchange new ideas, experience, and knowledge if attending seminar/workshop organized by the government | 4.6333 | 0.57249 |
| | The qualities of a mentorship programme provided are helping my company to be more sustainable | 4.6267 | 0.61901 |
| SME Performance | Level of customer loyalty | 4.7400 | 0.52367 |
| | Level of customer satisfaction | 4.7267 | 0.50363 |
| | Growth in Sales Revenue | 4.7267 | 0.55438 |
| | Return on Sales | 4.6933 | 0.53025 |
| | Profitability | 4.6533 | 0.54325 |
| | Market Share | 4.6200 | 0.57545 |
| | Overall financial performance | 4.5933 | 0.59185 |
| | Growth of Machine | 4.5733 | 0.62763 |
| | Return on Asset | 4.5600 | 0.59618 |
| | Labour Productivity | 4.4800 | 0.66272 |

Note: All items used a 5-point Likert scale with (1=Strongly disagree and 5=Strongly agree)

Statistical Analysis

Statistical analysis was carried out on data so that the researcher could identify relationships. The aim was to establish a correlation between variables in the study. Pearson correlation was used to examine the coefficient of all variables, to check multi-collinearity, and test the linear relationship between variables. In general, bivariate correlations provided confidence that the measures were functions properly. The coefficient can take any value ranged between -1 and +1, which represents perfect negative correlation (the indirect relationship between variables) or perfect positive correlation (the direct relationship between variables); additionally, a value of 0 indicates that the two variables being tested are perfectly independent and no relationship exists. The level of significance can be either 0.05 or 0.10 for lower and higher coefficient respectively. There was a positive relationship between the effectiveness of GBSS and SMEs performance of 0.472.

SUMMARY OF THE STUDY

The results confirm the effectiveness of GBSS in Malaysia and influence on SMEs performance (financially and non-financial dimensions). Therefore, there are several arguments supporting our interpretation. First, it may be argued that "good supporting programs" help firm select good practices or obtain advantage through the creation of intangible or invisible assets (Mendes & Lourenço, 2014). Second, the company who established by more than five years needs financial support for expanding their business as found by empirical results of Mohd Shariff (2003). Also, there is awareness among SMEs regarding GBSS provided as they knew procedure needed for any services provided which contrary to the finding of (Yusoff, Yaacob, & Ibrahim, 2010).

Regarding future research, we feel that the results from the present study are very encouraging. If one can gather more data purely on non-financial support, it should be possible to look more effectiveness on numerous services provided. Further, it would be interesting to move on SMEs that established more than five years from all over Malaysia. Both criteria could benefit from work in this area. Thus, our knowledge of SMEs performance and GBSS is greatly enhanced by our study of multiple paradigms on the real situation, especially on Malaysian SMEs.

Our findings have important managerial implications. First, they confirm that selection of GBSS and positioning within the industry are important contributors to SMEs performance. Second, we see that good implementation of business support is even more important. Additionally, if our findings of the relative importance can be generalized, it would suggest that the critical issue in firm success and development is not only primarily in the selection of business programs, but also the building of how effective and organize SMEs to utilize GBSS in their company.

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