Factors Influencing SME Performance:Case Study in Northern Corridor Economic Region, Malaysia

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Abstract: This paper provides an empirical study of the relative performance of small scale food industries in Northern Corridor in the state of Kedah, Malaysia. The objective of this study is to identify and measure the performance of small scale food industry under the supervision of Muda Agricultural Development Authority (MADA). This kind of management practised is intended solely to improve the income of the entrepreneurs through increasing the efficiency and thus exposed their products to export market. A total of 45 producers were investigated and as visualised, their performance showed some kinds of variations. Questionnaires were sent to 600 randomly selected respondents via postal service . There are 120 (20% response rate) of the questionnaires were returned, completed and useable. The analysis methods in this research were based on multiple regression study. The finding of this study found a significant relationship between two transformational leadership style namely inspire followers to go beyond their own self-interest and giving employee empowerment with the teamwork performance.

Keywords: SME Performance, efficiency, entrepreneurs, food industries

1. Introduction

The agricultural activities in the Northern Corridor Economic Region, Malaysia include the cultivation of paddy, and the planting of commercial crops such as oil palm, rubber and sugar cane, by which 49% and 42% are utilized for oil palm and paddy respectively. Apart from agriculture, industrial sector is supposed to be in par and plays a pivotal role as an engine of growth. It contributes 36.6% of regional GDP in 2016 employing 28% of the region's workforce in the same year. The strategy of structuring the economy to achieve sectoral economic balance was to be achieved through the modernization of the rural sector by transforming it into a dynamic force for agricultural and economic development through the application of science and technology. The strategy of structuring the economy to achieve sectoral economic balance was to be achieved through the modernization of the rural sector by transforming it into a dynamic force for agricultural and economic development through the application of science and technology. Although the Northern Corridor contributes to over a third of the country's manufacturing exports, but it needs to increase competitiveness in order to attract foreign investments, especially with the new emerging countries such as Vietnam, Thailand, China and India. Setting up the agro-based industries whenever possible to act as new growth centres. The transformation from existing practices will definitely improving the productivity of land,whereby improving rural incomes. Leading agricultural practices and marked improvements in planting materials, will boost efficiency, productivity and quality of products and fetched for a better marked up.

2. Small and Medium Enterprises (SMES) in Malaysia

SMEs can be defined in termed of size which are normally measured by either the number of person employed or the value of paid up capital or a combination of both (SME Corp-Malaysia, 2013). Some researchersuse other parameters to define SMEs such as share holders' fund, value of outputs, sales, turnover, legal status, capital or labour intensity. Apart from that, studies by the World Bank , United Nations, and Asian Development Bank adopted the following definitions:

i. small- scale enterprises- establishments employing less than 50 workers
ii. medium scale enterprises- enterprises having between 50 and 199 workers
iii. large scale enterprises- enterprises having more than 200 employees

In 2016, 98.5 percent of business establishments in Malaysia are small and medium enterprises (SMEs). Majority of the businesses were in services sector, mainly in wholesale & retail trade, followed by manufacturing, construction, agriculture and mining & quarrying (2017). More over, SMEs have been at the core of Malaysia's economic transformation since the 1990s to an upper-middle income nation and are an important driver of employment and growth.

3. Methodology

This paper applies quantitative approach, where questionnaire was used to collect data from entrepreneurs of SMEs in the Northen Corridor Economic Regional that listed under Malaysian Agriculture Development Authority (MADA). There are about 119 samples was collected at ramdom based on the lists of respondents provided by the MADA.

3.1 Analytical Tools

Data collected were analyzed using descriptive statistics. This include frequency distribution, mean percentages, range, standard deviation and coefficient of variation while inferential statstics used is the student t. Multiple regression model were also used to determine the relationship between some of the socio-economic factors and the revenue as well as identifying factors directly bearing on the food industry in the study area. The functional forms selected were based on the values of coefficients of multiple determinations (R^2) and F-value, the signs of the regression coefficients and the significance of the t-values. The estimated parameters α and β_i were used for further analysis.

4. Analysis

Respondent's Background

The age of entrepreneurs, who involve in this study are at the range of 40-59. This indicates that the majority of entrepreneurs are in the productive age and might accept and adopt food production innovations in food processing industry. In term of gender, majority of entrepreneurs were females (76%). The participation of females in food industry may foster a more detail and relevant in food industry practices.

The average number of persons in the household are more than six members. This implies that, there would be enough manpower to meet the labour requirement for food production industries. In term of education, most of the respondent attended formal education and training relating to manufacturing knowledge. It implies that the entrepreneurs were formally educated. Education is not only important activity, but also necessary for successful practice of innovation towards performance.

Moreover, majority of the entrepreneurs in the study were under the supervision of MADA. Consequently, they might able to get free extension services, financial assistance,marketing information as well as inputs supply. These advantages could helped them to improve production capacities for higher output and returns.

Multiple Regression for SME Performance

Table 1: The result of Multiple Regression for SME Performance

Variables	Regression coefficient	Standard error	t-value	Level of significance
Capital	0.4174	1.8148	0.23	Not significant
Lab	-7902	1752	-0.45	Not significant
Age	1276	8118	1.57	* Significant
Edu	-3331	3703	-0.9	Not significant
Exp	3835	1789	2.14	* Significant
Fsaiz	1879	3745	0.5	Not significant
Const	-3665	4555	-0.8	

* significant at 5% levels of significance

Table 1 shows the result of multiple regression for SME Performance. The analysis shows that the entrepreneurs' age and experience are significantly correlated with SME performance. While, the factors of capital, labour, education and family size show a negative relationship with SME performance and were not significant.The positive relationship between entrepreneurs' experience and SME performance indicating that entrepreneur with more experience also gain high working skills and these strength would multiplier their investment and increase their income. Another significant factor towards SME performance is entrepreneur's age. This factor play a vital role as entrepreneurship is about maturity and needs an energetic individual to successful

manage business activity. Furthermore, the results reveal that practicing food production as a main business is positively increases the size of the firm. Moreover, this study also reveals that the factors of labour, education and family size did not have any impact on the food production.

5. Findings

The study shows that most of the age of entrepreneurs ranged between 30-60 years and were not highly educated. Majority of respondents had their household size ranged between 4-7 members. From the estimation of the regression function indicated that age, experience, family size and capital were the major factors in food manufacturing. Generally, it can be concluded that the variable factors, such as labour and education did have much effect on the performance of the food-manufacturing sector during the period under study. This is because entrepreneurs were not economically efficient in the utilisation of inputs. Age may effect labour productivity, because it seems that the food manufacturing sectors require more young and dedicative work force in order to have an impact and contributed positively to the productivity growth of the food manufacturing industries. However, the study also reveal that an entreprenural needs to stay focus in their activities, because as one concentrate more in producing the products, it would enhance their products for a wider market. Further entrepreneurs may be able to build a strong linkage. Surprisingly, education had a poor explanatory variable to be included in the model. The other variable, labour , also had a poor explanatory power.

6. Conclusion

In order to promote investment in SMs industries, the Federal Government might provided several incentives for continued growth. This is important in order to ensure continuity in industrial growth in meeting the domestic demand and preparing for export market. Instantly, the investment incentive, export rebate, New Investment Fund from Bank-Negara, loan at minimal 4 percent interest rate, are some incentives which are beneficial for the SMEs.

As for the future research, it needs to consider of the export market. The potentiality for the food industries to be competitive with other products need to be realised. The enterpreneurs should no longer considers their undertakings as part-time businesses. They must realised their full potentials and try to explore for more export markets especially in the Middle East. The comparative study based on regional basis should also be attempted taking into account the relative efficiency among the regions under studied. The results obtained can be used as a guide for further improvement such the need of further training, better facilities and infrastructures. For the future research, it should also incorporate the product prices in the study because this is usually the crux of the problem. During the unfavourable price period, the enterpreuners usually decrease the production in order to avoid furher loss. Low production could also be due to unfavourable input prices and this is translated in the form of increase in the production cost. As such the price 'Transmission Mechanism' should be given some attention for future research.

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