FACTORS THAT AFFECTING THE SUCCESSFUL OF SMES TOWARDS
MICRO ENTERPRISES IN FOOD INDUSTRY

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SUPERVISOR'S APPROVAL

'I hereby declared that I have read this thesis and this research is sufficient in terms of scope and quality. This project is submitted to Universiti Teknikal Malaysia Melaka as a requirement for completion and reward Bachelor Degree in Technopreneurship with Honours (BTEC).'

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DECLARATION

"I hereby declare that this project paper is the result of my own and independent work except the summary and experts that have been specifically acknowledgement"

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Date   :

DEDICATION

This paper is dedicated to both my father and mother who always motivate me in completing this research. A special thanks to my supervisor that always give me support and advice to me in order to fulfill the requirement of the research. Without their support and motivation, it will be impossible for me to complete the research.

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Last but not least, I would also like to express my appreciation to my family and friends who have given their hand along the way. Their loves and spiritual supports have always given me the strength to finish this final year project. Once again, thousand words could not fully express my thanks to them, but their kindness have graved in my heart all the time.

ABSTRACT

As is well known small and medium entrepreneurs is growing along with the development of Malaysia. SMEs can be categorized into three sizes which is micro enterprises, small enterprises and medium enterprises. This research is focus on micro enterprises since it influenced almost all the sectors in Malaysia. Even though micro enterprises have largest shares in almost all the sectors, it seems to be fall behind compared to the other two enterprises which is small and medium enterprise. The purpose of this research is to determine and to identify factors that affecting the successful of SMEs towards micro enterprises in food industry. Besides that, the purpose of this research also to analyse the relationship between factors and the success of SMEs towards micro enterprises in food industry. There are four factors that being use in this research such as business plan, entrepreneur characteristic, access to finance and marketing. This research will be using quantitative method as the questionnaire survey will be distributed among micro enterprises in food industry. The result shows that marketing factors is higher effected the successful of SMEs towards micro enterprises in food industry. Meanwhile, access to finance factor is less effected through business successful rather than others factor in this research. Besides, this study shows the relations between business plan, entrepreneur characteristic, access to finance and marketing with business successful. Based on the results, all factors have significant influence on business successful among micro enterprises in food industry. Lastly, micro enterprises in food industry should emphasis on important of all factors in this study because it will influence business successful to increase the business performance in firms.

ABSTRAK

Seperti yang diketahui umum usahawan kecil dan sederhana berkembang bersama-sama dengan pembangunan Malaysia. PKS boleh dikategorikan kepada tiga saiz iaitu perusahaan mikro, perusahaan kecil dan sederhana. Kajian ini tertumpu kepada perusahaan mikro, kerana ia mempengaruhi hampir semua sektor di Malaysia. Walaupun perusahaan mikro mempunyai saham terbesar dalam hampir semua sector, ia seolah-olah jatuh ketinggalan berbanding dua syarikat lain yang merupakan syarikat kecil dan sederhana. Tujuan kajian ini adalah untuk menentukan dan untuk mengenal pasti faktor-faktor yang mempengaruhi kejayaan PKS ke arah perusahaan mikro dalam industri makanan. Selain itu, tujuan kajian ini juga untuk menganalisis hubungan antara faktor-faktor dan kejayaan PKS ke arah perusahaan mikro dalam industri makanan. Terdapat empat faktor yang telah digunakan dalam kajian ini seperti rancangan perniagaan, ciri usahawan, akses kepada kewangan dan pemasaran. Kajian ini akan menggunakan kaedah kuantitatif seperti soal selidik yang akan diedarkan di kalangan perusahaan mikro dalam industri makanan. Hasilnya menunjukkan bahawa faktor pemasaran adalah lebih tinggi memberi kesan yang lebih tinggi kepada kejayaan PKS ke arah perusahaan mikro dalam industri makanan. Sementara itu, faktor akses kepada kewangan kurang memberi kesan kepada kejayaan PKS daripada faktor-faktor lain dalam kajian ini. Selain itu, kajian ini menunjukkan hubungan antara rancangan perniagaan, ciri usahawan, akses kepada kewangan dan pemasaran dengan perniagaan yang berjaya. Berdasarkan keputusan, semua faktor mempunyai pengaruh yang besar ke atas perniagaan yang berjaya di kalangan perusahaan mikro dalam industri makanan. Akhir sekali, perusahaan mikro dalam industri makanan perlu memberi penekanan kepada penting sekali factor dalam kajian ini kerana ia akan mempengaruhi perniagaan yang berjaya untuk meningkatkan prestasi perniagaan dalam firma.

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LIST OF ABBREVIATIONS

SMEs   = Small and Medium Enterprises

NSDC   = National SME Development Council

GDP   = Gross Domestic Product

NEP   = New Economic Policy

MIDA   = Malaysian Investment Development Authority

OSMEP   = Office of Small and Medium Enterprises Promotion

SPSS   = Statistical Package for Social Sciences

UTeM   = Universiti Teknikal Malaysia Melaka

IMP   = Industrial Master Plan

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CHAPTER 1

INTRODUCTION

1.1   Background of the Study

In Malaysia, we can see that SMEs play a significant role in the economy of the country. SMEs in Malaysia mostly have been run by Bumiputera. It gives an opportunity to them to make a business. They can develop their business from small to medium business and if their business is successful they can plan to open a company. In primary industries, SMEs are important traders and service providers. Besides that, most of SMEs are also producers of finished goods and services.

There are varieties of definitions of SMEs that can be found from past research. The new definition of Small and Medium Enterprise (SME) was endorsed at the 14th National SME Development Council (NSDC) Meeting in July 2013 because there have been many developments in the economy since 2005. SMEs can be categorized into three sizes which is micro enterprise, small enterprises and medium enterprises. The sizes are based on sales turnover and number of employees. The table 1.1 below shows the new definition of Small and Medium Enterprises (SMEs) in Malaysia.

Table 1.1: The new definitions of SMEs in Malaysia

Category	Micro	Small	Medium
Manufacturing	Sales turnover of less than RM300,000 OR full-time employees less than 5	Sales turnover from RM300,000 to less than RM15 million OR full-time employees from 5 to less than 75	Sales turnover from RM15 million to not exceeding RM50 million OR full-time employees from 75 to not exceeding 200
Services & Other Sectors		Sales turnover from RM300,000 to less than RM3 million OR full-time employees from 5 to less than 30	Sales turnover from RM3 million to not exceeding RM20 million OR full-time employees from 30 to not exceeding 75

Source: SME Corporation Malaysia (2016)

The definition has been simplified into two categories which are manufacturing and services and other sectors. For manufacturing sector, SME are defined as firms with annual sales turnover not exceeding RM50 million or the number of employees not exceeding 200 workers. Meanwhile for services and other sectors SME are defined as firms with annual sales turnover not exceeding RM20 million or the number of employees not exceeding 75 workers (SME Corp. 2016).

According to SME Annual Report (2015/2016), in 2015 SME's contributed 36.3 per cent to gross domestic product (GDP) compared to 35.9 per cent in 2014. Meanwhile for large enterprises, their contributed to GDP slightly decrease from 64.1 per cent to 63.7 per cent in 2015 as at Table 1.2. This has shown that SMEs play a significant role in supporting Malaysia's economic growth. In 2015, the value added to GDP rose from RM363.4 billion to RM385.6 billion at constant 2010 prices.

Table 1.2: Value Added and Percentage Share to GDP for year 2014 and 2015
(Constant 2010 Prices)

CATEGORY	VALUE ADDED (RM BILLION)		SHARE TO GDP (%)	
	2014	2015	2014	2015
SMEs	363.4	385.6	35.9	36.3
Large Enterprises	649.1	677.2	64.1	63.7
GDP	1,012.5	1,062.8	100.0	100.0

Source: Department of Statistic Malaysia (2016)

According to Economic Census 2011, SMEs can be divided into 5 sectors which are services, manufacturing, agriculture, construction and mining & quarrying. The 3 sectors that were the forefront sectors in Malaysia's economy for the year of 2015 are services, manufacturing and mining & quarrying. They contributed 85.5 per cent to the GDP as at Figure 1.1. Services sector contributed 58.9 per cent and manufacturing sector contributed 21.7 per cent the anchor of SMEs economic structure. Meanwhile, for agriculture is the third largest contributor to GDP with a share of 12.0 per cent.
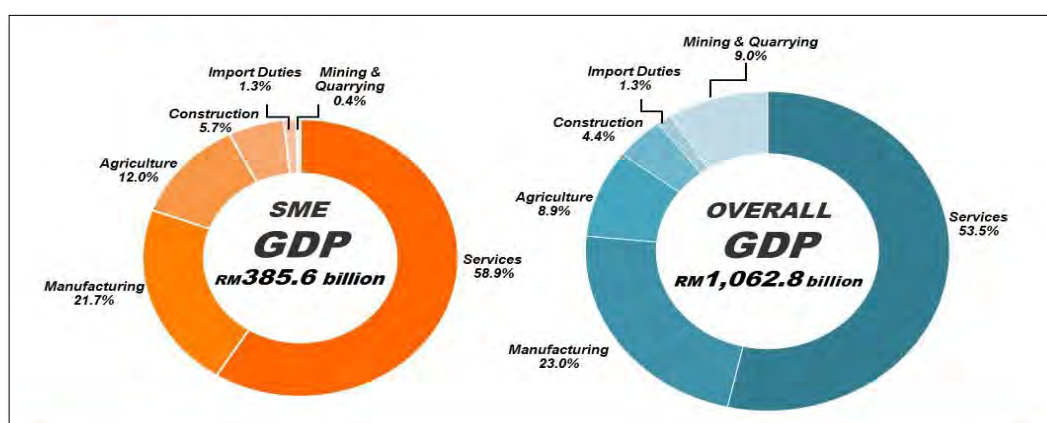
Source: Department of Statistic Malaysia (2016)

Figure 1.1: Percentage share of SME GDP and overall GDP for year 2015

Even though the development and promotion of SMEs contribute great to new job creation and nation's GDP growth and additional tax receipts (Hashi & Krasniqi, 2011; Aris, 2007). There are some irrespective of countries, SMEs face

extreme failure rate in their first five years (Chong, 2012). Some of the countries that face failure are Malaysia and Australia which is the SMEs failure rate in Malaysia reportedly to be 60 per cent while the SMEs failure rate in Australia is 23 per cent (Ahmad & Seet, 2009).

1.1.1   Micro Enterprises in Malaysia

Micro enterprises are seen to be a risky business. According to Abu et al., (2011), the importance of micro SMEs in Malaysia can be traced back to the early 1970s with the implementation of the New Economic Policy (NEP) in 1971 with the aim of reducing socioeconomic disparity among races in the country and eradicating poverty amongst the Bumiputera, primarily through encouraging ownership of business or enterprises. Other than that, at least during the first few years of operation, micro enterprise comprises more than one-half of all small enterprise and those enterprises which many of them are home-based.

According to Fillion (2011), the owner or founder of an enterprise or business is labelled as entrepreneur and he or she is describe as an imaginative actor who recognize entrepreneurial opportunities, makes moderate risk decisions with a view to innovate and takes action by using resources to implement a differentiated vision that contributes an added value. Compare to small and medium, micro enterprises make up the largest component of SMEs in Malaysia. Small and medium make up 20 per cent and 3 per cent of the total SMEs in Malaysia compared to the micro enterprise which make up 77 per cent, respectively.

Besides that, micro enterprises have also influenced almost all the sectors in Malaysia. Micro enterprise representing over 79.6 per cent of the total SMEs in the services sector while the manufacturing and agriculture sectors show 57.1 per cent and 56.3per cent, respectively. Followed by construction sector where the micro enterprises form about 44.5%. The Figure 1.1 shows the distribution by percentage of SME.
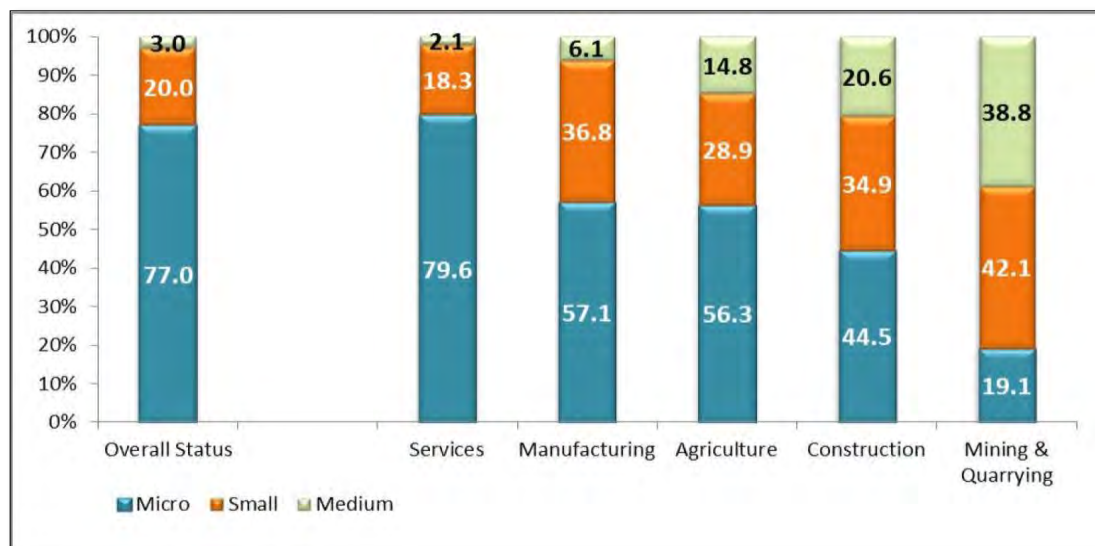
Source: Economic Cencus 2011: Profile of SMEs

Figure 1.2: Distribution by percentage of SME (Size and Sector)

Even though micro enterprises have largest shares in almost all the sectors and consists of more than three quarter of the total SMEs, it seems to be fall behind compared to the other two enterprises which is small and medium enterprise in terms of support particularly the support related to financial and human capital development. For financial, it shows that for small and medium enterprise, could easily utilised financing from external sources. For example, in 2010, only 17.4 per cent of micro enterprises had used external financing as a source of financing access to funds from financial institutions compared to 33 per cent of small and 51.7 per cent of medium enterprise (Economic Census: Profile of SMEs 2011). It obviously shows that micro enterprises face the problem of accessing financing facilities, which small and medium enterprise mostly benefited.

Other than that, due to the lack of management skills among owners or managers, SMEs are poorly managed. In order to enhance the firms' productivity and profitability, they lack awareness of the importance of adopting business best practices and management systems, such as financial management and customer focused activities. Unnecessary cost and wastage resulting in low returns on invested capital will occur to inefficient SMEs.

1.1.2 Food Industry

Malaysian food industry is assorted with a wide variety of processed foods with Asian tastes. This industry dominated by small and medium scale companies (SMEs) which are mainly Malaysian-owned. Food industry in Malaysia is led by small and medium scale companies. There are 142,721 establishments of SMEs in food industry and it dominated by micro enterprise with total establishment 117,020 (Economic Census: Profile of SMEs 2011). Fishery products, processed fruits and vegetables, cocoa and chocolate products, cereals and cereals product, food ingredients, herbs and spices, beverages, animal feed and others are the main sub-sectors. Export processed food contributed about RM 18 billion in economy and were exported to more than 200 countries, while import contributed RM 17.8 billion in 2015 (Malaysian Investment Development Authority (MIDA), 2016).

The country that are major export destinations were Indonesia, USA, Thailand, Singapore and Republic of China. The major processed food exports are edible products and preparation, dairy products, margarine and shortening, cocoa and coca preparations and prepared cereals and flour preparations. Cereals and dairy products continued to be imported for further processing. Malaysia currently is the largest cocoa processor in Asia. Even though Malaysia is the largest cocoa producer, the local cocoa bean production could not support the huge demand from local grinding and processing industry and because of that most of the cocoa beans are imported.

Besides that, the demand for functional food, healthy minimally processed fresh food, organic food and natural food flavours from plants and seafood has created due to consumer awareness in nutrition value and food protection for healthcare. Food ingredients such as customised formulations needed by food manufacturers, flavours and natural food additives have the potential for further growth.

Other than that, Malaysia offers great opportunities for Malaysian manufacturers in the halal industry. With a global Muslim population, it was estimated that the potential value of the halal food market contributes more than

US$500 billion a year. The concept of halal is related to food products which are high quality in terms of cleanliness, sanitations and compliance with religious requirement.

1.2   Problem Statement

There are some SMEs that face failure whereas some have been successful. Most of micro enterprises have to rely on the internal funding from family members, friends and their savings. Other than that, because of lack of funding and proper attention, they suffer from human capital deficiency with low level education and insufficient human capacity for development (Thaker & Mohammed, 2013). Besides that, due to lack of management skills among owners or managers, SMEs are poorly managed. The owners or managers lack of awareness of the importance of adopting business best practices and quality management system (Rahman et al., 2014).

Next, micro enterprises have the largest shares in almost all the sectors, obviously that they are supposed to get the biggest share of the schemes and programs offered by the government compared to small and medium enterprise. Compared to the other two enterprises, micro enterprises seem to be lagging behind in terms of support particularly the support related to financing and human capital development. Micro enterprise should receive more financial support because they constitute the largest share of SMEs. When they receive financial support, this is to enable them to be competitive in contributing more towards the growth of the economy (Thaker & Mohammed, 2013).

Furthermore, Aris (2007) said that due to lack of collateral, insufficient documents to support loan application, absence of financial track record, the nature of their business and long loan processing time, micro enterprises have difficulty in accessing external financing. On the other hand, due to the risk involved in their business, the financial institutions are reluctant to extend financing for them (Hassan et al., 2011).