

FACTORS AFFECTING BUSINESS SUCCESS OF SMALL AND
MEDIUM ENTERPRISES (SMEs) IN MELAKA

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MEDIUM ENTERPRISES (SMEs) IN MELAKA

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STUDENT DECLARATION

I declare that this project entitled “Factors Affecting Business Success of Small and Medium Enterprises(SMEs) in Melaka.” is the result of my own research except as cited in the references. The project paper has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

Signature :

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Date :

DEDICATION

I would like to dedicate this research to my beloved parents and my siblings and to my lecturer. Their unconditioned love and encouragement have allowed me to strive and push myself beyond limits that I never thought would be possible. With their support, I was able to complete this research paper smoothly. I will give this thesis as a special gift for my parents especially to my father and mother for their support, this also as feedback for what they have done for me during my whole life.

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Thank You.

ABSTRACT

Small and medium enterprise is one of the main important drivers of a market nation and economist have underlined the crucial task acting in the market development. This research aims to analyze the success factors for SMEs in Melaka. This research will be practicable for SMEs companies. This research also created to help the SMEs companies to determine their success factors to become success. It is because many of them are stuck in half of their ways in their business. Questionnaire method has been choosing in this method because it is more convenience as the data gets directly from respondent. Finally, the researcher hope that the research made can help the SMEs in their business especially for SME to success. Besides, this also may impart to the entrepreneurs themselves to improve the success ratio in their business. The future research may investigate the result of this study throughout a large-scale within and cross cases research method. This may also focus on the different geographical region in Malaysia or within each of the other developing countries.

ABSTRAK

Perusahaan kecil dan sederhana adalah satu daripada pemacu utama yang penting sebuah pasaran negara dan ekonomi telah menggariskan tugas penting yang bertindak di dalam pembangunan pasaran. Kajian ini bertujuan untuk menganalisis faktor-faktor kejayaan bagi PKS di Melaka. Kajian ini akan dapat dilaksanakan untuk syarikat-syarikat PKS. Kajian ini juga dicipta untuk membantu syarikat-syarikat PKS untuk menentukan faktor-faktor kejayaan mereka untuk menjadi kejayaan. Ia adalah kerana ramai daripada mereka berhenti separuh jalan dalam perniagaan mereka. Kaedah soal selidik telah di pilih dalam kaedah ini kerana ia lebih mudah mendapat terus data daripada responden. Akhir sekali, penyelidik berharap kajian yang dibuat boleh membantu PKS dalam perniagaan mereka terutamanya bagi PKS untuk berjaya. Selain itu, ini juga boleh memberikan kepada usahawan sendiri untuk meningkatkan nisbah kejayaan dalam perniagaan mereka. Kajian masa depan boleh menyiasat hasil kajian ini melalui skala besar dan kaedah penyelidikan kes silang. Ini juga boleh memberi tumpuan kepada kawasan geografi yang berbeza di Malaysia atau setiap satu daripada negara-negara membangun yang lain.

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LIST OF SYMBOL

B	=	Beta
0	=	Null
%	=	Percentage
R	=	Point of estimate
R ²	=	Point of estimate Square
P	=	Value

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CHAPTER 1

INTRODUCTION

1.1 Background Study

There is a consensus that a viable SME sector is one of the main driving force in the development of a market economy and essential for a healthy economy (Nafukho and Muya, 2010). The Malaysian economy recorded a stronger growth of 6% in 2014 driven primarily by the continued strength in domestic demand and further supported by improvement in external trade (National SME Development Council 2014). The contribution of SME GDP to the national GDP increased to 36.3 per cent as compared to 35.9 per cent recorded in 2014 (Department of Statistics, 2015). This has confirmed SMEs agenda as substantial economic agents in supporting Malaysia economic growth.

The Malaysia's economic growth cannot be denied contributed by SMEs (Chelliah, Solomon et al 2010). Apart from that many studies have suggested that the development and promotion of SMEs contribute significantly to the creation of new jobs (Iraj and Besnik, 2011). SMEs have a clear interest in creating jobs, which means that they are the backbone of the private sector around the world (Al-Mahrouq 2010). According to annual report of SME 2015/2016 as a result of the higher employment growth of SMEs than large firms, the percentage total employment increased from 57.5% in 2013 to 65.5% in 2015. The SMEs are more responsive to market demands and in particular, are perceived as an important means of job creation (Ahmad, N. H., and Seet, P. S,2009).

The Malaysian government's commitment and concern for the development of SMEs has been evident since the early 1970s. The 'New Economic Policy' was introduced in 1971, aimed to improve people's welfare and the restructuring of economic imbalances between ethnic groups. The government's commitment to the development of SMEs can also be seen in the Second Industrial Master Plan (MP2), which ended in 2005, followed by the Third Industrial Master Plan (IMP3) 2006-2020 coincided with the country's vision for 2020 (MITI, 2005).

There are few studies of SME stating the factors making them hard to success. In Malaysia, the success rate is alarmingly low at 40% (Ahmad and Seet, 2009). The challenge of globalization has made it imperative for Malaysia to move towards a knowledge-based economy (Bhatiasevi,2010). We need to change our strategy of growth from an input-driven to one that is knowledge-driven "to achieve the 2020 vision to become a developed country (Bhatiasevi,2010).

In order to check the increasing number of SMEs success, focusing on entrepreneurs as the subject of investigation will help us understand the success factors. For example, government agencies such as the Malaysia External Trade Development Corporation (MATRADE), Small and Medium Enterprise Corporation Malaysia (SME Corp Malaysia) was established to provide assistance and financial support to SMEs.

The purpose of this paper is to identify the factors which the success SMEs in Melaka. Here, it was tried to find out the factors that SME success.

1.2 Problem Statement

The purpose of this study is to develop and propose the success factors for SMEs in Malaysia. The Malaysian SMEs have been at the forefront of local economic development, even before the country achieved independence in 1957 (Kannan,2013). In case of Malaysia there is no reliable figure published, so for the estimated success rate of SMEs is approximately of 40% (Ahmad and Seet, 2009). It

reflects that SMEs in Malaysia face serious issues and the company must success to stay competitive in the market. Therefore, the Malaysian government has also recognized the importance of SMEs to the economy and has implemented various policies, action plans and programs to help them in a difficult situation (Char et. al, 2010).

Other than that, the increasing business competition, in particular against large and modern competitors, put SMEs in a vulnerable position. Most SMEs that prevent access to the market and also to information, financial and institutional support (Mead and Liedholm, 1998; Swierczek & Ha, 2003). Internal limitation, including lack of capital, old equipment and outdated technology have hindered the development of SMEs (Swierczek & Ha, 2003). In Malaysia, despite the fact that some SMEs have been declined or stagnant, some others have been growing and success. Therefore, the researcher tends to help the success factors for SMEs in the near future.

1.3 Research Objective

1. To identify success factors for SME in Melaka.
2. To explore most important the success factors for SME in Melaka.

1.4 Research Question

1. What are the success factors for SME in Melaka?
2. What are the most important success factors for SME in Melaka?

1.5 Significant of Research

This research is relevant to management in organization practitioner because the finding may reveal the important aspects in success about the factor contribute to the company success. This research is expected to be valuable to the other researcher for future research and also the entrepreneurs in Malaysia to get more knowledge. This study hopefully can contribute to those entrepreneurs who want success in business. Other than that, the result from this study is drove the SMEs to the high income to GDP Malaysia.

1.6 Scope of Study

This research is aimed to determine what kind of success factors for SMEs success and the element of success in this research are demographic, entrepreneur characteristic, human capital and management and market and strategy. The result of the objective make the researcher focused on the scope of the research. The scope focused on the geographical areas in Malacca which have a unique composition of many companies. Besides, analysis is on the factors and SMEs success. The respondents can be range in different ages, occupation, gender, and salary. The information collected from several methods which is questionnaires.

1.7 Summary

Owners of SMEs response is the ultimate test of whether the success factors are succeed. Thus, companies base in Melaka should incorporate knowledge about the factors bring success to company. From the point view, success factors can be useful to SME success.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

By the critical review of the literature was necessary to help the researcher to develop a thorough understanding of insight into previous work that relates to the research questions and objectives. The review will set the research in contact by critically discussing and referencing work that has already been undertaken by drawing out key points. This chapter will discuss about the success factor towards Malaysia SMEs in Melaka. The researcher obtains literature review from several sources such as book, journal and article.

2.2 Overview of Small Medium Enterprises (SMEs)

According to www.wikipedia.org small business is a business that is privately owned and operated with a small number of employees and relatively low volume of sales. The legal definition of "small" often varies by country and industry. There are many ways to determine small business which is to see the number of employees, annual turnover, the value of assets and net profit (balance sheet), or a combination. Small businesses are common in many countries, depending on the economic system operates.

A common definition provided by the Small and Medium Industries Development Corporation (SMIDEC) which defines SMEs according to two main

factors, annual sales turnover and number of full time workers. As shown in table below.

Table 2.1: SMEs definition based on number of full-time employees

Sector Size	Primary Agriculture	Manufacturing (including Agro Based) & MRS	Service Sector (Including ICT)
Micro	Less than 5 employees	Less than 5 employees	Less than 5 employees
Small	Between 5 & 19 employees	Between 5 & 50 employees	Between 5 & 19 employees
Medium	Between 20 & 50 employees	Between 51 & 150 employees	Between 20 & 50 employees

Table 2.2: SMEs definition based on annual sales turnover

Sector Size	Primary Agriculture	Manufacturing (including Agro Based) & MRS	Service Sector (Including ICT)
Micro	Less than RM200,000	Less than RM250,000	Less than RM200,000
Small	Between RM200,000 & less than RM 1million	Between RM250,000 & less than RM 10 million	Between RM200,000 & less than RM 1 million
Medium	Between RM 1 million & RM 5 million	Between RM 10 million & RM 25 million	Between RM 1 million & RM 5 million

At beginning in 2005, the continuation of governments commitment, small and medium enterprises was established by the Malaysian Government, called SME Corporation Malaysia. This purpose was established to consider the economy of all ethnic groups in Malaysia (New Economic Policies, 1971). To aggregate economic activity among ethnic groups British introduced the practice significantly under