

**THE IMPACT OF SUPPLY CHAIN PRACTICES ON SME COMPANIES  
PERFORMANCES IN MALAYSIA**



**UNIVERSITI TEKNIKAL MALAYSIA MELAKA**

**JANUARY 2023**

## SUPERVISOR'S APPROVAL

**I/We, hereby declared that I/WE had read through this thesis and in my/our opinion that this thesis is adequate in terms of scope and quality which fulfil the requirements for the award of Bachelor of Technology Management with Honours**



SIGNATURE :

NAME OF SUPERVISOR : DR. SITI NORBAYA BINTI YAHAYA

DATE : 2.2.2023

SIGNATURE :

NAME OF PANEL : ASSOC. PROF. DR. MOHAMMED HARIRI BIN BAKRI

DATE : 2.2.2023

## DECLARATION

I hereby declare that the work has been done by myself and no portion of the work in this research project proposal has been submitted in support of any application for any other degree or qualification of this or any other university or institute of learning.

   
SIGNATURE :   
NAME : NUR ATIKAH BINTI JAMALUDDIN  
DATE : 2.2.2023  
  
UNIVERSITI TEKNIKAL MALAYSIA MELAKA

## DEDICATION

I would like to acknowledge those who assisted and supported me on this very challenging journey. I would like to thank them for their comments, insights and input into my research.

First of all, I would like to express my deep gratitude to my research Supervisor, Dr Siti Norbaya binti Yahaya, for her patience and trust. Her leadership was inspiring and truly a great motivation for me to strive on and finish this dissertation. I am so sorry that I had taken so long to complete this.

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## ABSTRACT

The supply chain is becoming increasingly important. This is because supply chain procedures have an effect on an organization's performance. The goal of this research is to determine the impact of supply chain procedures on the performance of small and medium-sized businesses. The literature has identified a number of issues affecting Malaysian SMEs. The majority of the literature has focused on comparable issues confronting SMEs, such as financing, human resource management, information technology, management inefficiency, regulation, market accessibility, and competitiveness, to name a few. The methodology included quantitative approach, explanatory type, probability sampling, Pearson's correlation analysis, and multiple linear regression analysis. According to prior study, three variables have been used to measure organizational performance: information sharing, strategic supplier partnership, and customer relationship. A total of 384 questionnaires have been sent out to respondents who work in SMEs. The study discovered several of the empirical findings indicating that the practices had a significant positive impact on supply chain performances. However, the study has several limitations, such as its concentration on small and medium businesses (SME) company. The study's outcomes include explaining the value of supply chain management practices in improving supply chain performance to decision-makers and management. Therefore, this study comes out with the independent variables (strategic supplier partnership, customer relationship, level and quality information sharing factors) influencing organizational performances. The study also finds that level and quality information sharing factors has highest association followed by strategic supplier partnership and customer relationship factors.

**Keywords; Supplier partnership, Customer Relationship, information sharing  
Supply Chain Performance**

## ABSTRAK

Rantaian bekalan menjadi semakin penting. Ini kerana prosedur rantaian bekalan mempunyai kesan ke atas prestasi sesebuah organisasi. Matlamat penyelidikan ini adalah untuk menentukan kesan prosedur rantaian bekalan terhadap prestasi perniagaan kecil dan sederhana. Literatur telah mengenal pasti beberapa isu yang mempengaruhi PKS Malaysia. Majoriti literatur telah menumpukan pada isu setanding yang dihadapi oleh PKS, seperti pembiayaan, pengurusan sumber manusia, teknologi maklumat, ketidakcekapan pengurusan, peraturan, kebolehcapaian pasaran, dan daya saing, untuk menamakan beberapa. Metodologi termasuk pendekatan kuantitatif, jenis penerangan, pensampelan kebarangkalian, analisis korelasi Pearson, dan analisis regresi linear berganda. Menurut kajian terdahulu, tiga pembolehubah telah digunakan untuk mengukur prestasi organisasi: perkongsian maklumat, perkongsian pembekal strategik dan hubungan pelanggan. Sebanyak 384 soal selidik telah dihantar kepada responden yang bekerja di PKS. Kajian itu menemui beberapa penemuan empirikal yang menunjukkan bahawa amalan tersebut mempunyai kesan positif yang signifikan terhadap prestasi rantaian bekalan. Walau bagaimanapun, kajian itu mempunyai beberapa batasan, seperti penumpuannya terhadap syarikat perniagaan kecil dan sederhana (PKS). Hasil kajian termasuk menjelaskan nilai amalan pengurusan rantaian bekalan dalam meningkatkan prestasi rantaian bekalan kepada pembuat keputusan dan pengurusan. Oleh itu, kajian ini menghasilkan pembolehubah bebas (perkongsian pembekal strategik, hubungan pelanggan, tahap dan kualiti perkongsian maklumat) faktor yang mempengaruhi prestasi organisasi. Kajian juga mendapati faktor tahap perkongsian maklumat dan kualiti mempunyai perkaitan yang paling tinggi diikuti oleh perkongsian strategik pembekal dan faktor perhubungan pelanggan.

**Kata kunci; Perkongsian pembekal, Perhubungan Pelanggan, perkongsian maklumat Prestasi Rangkaian Bekalan**

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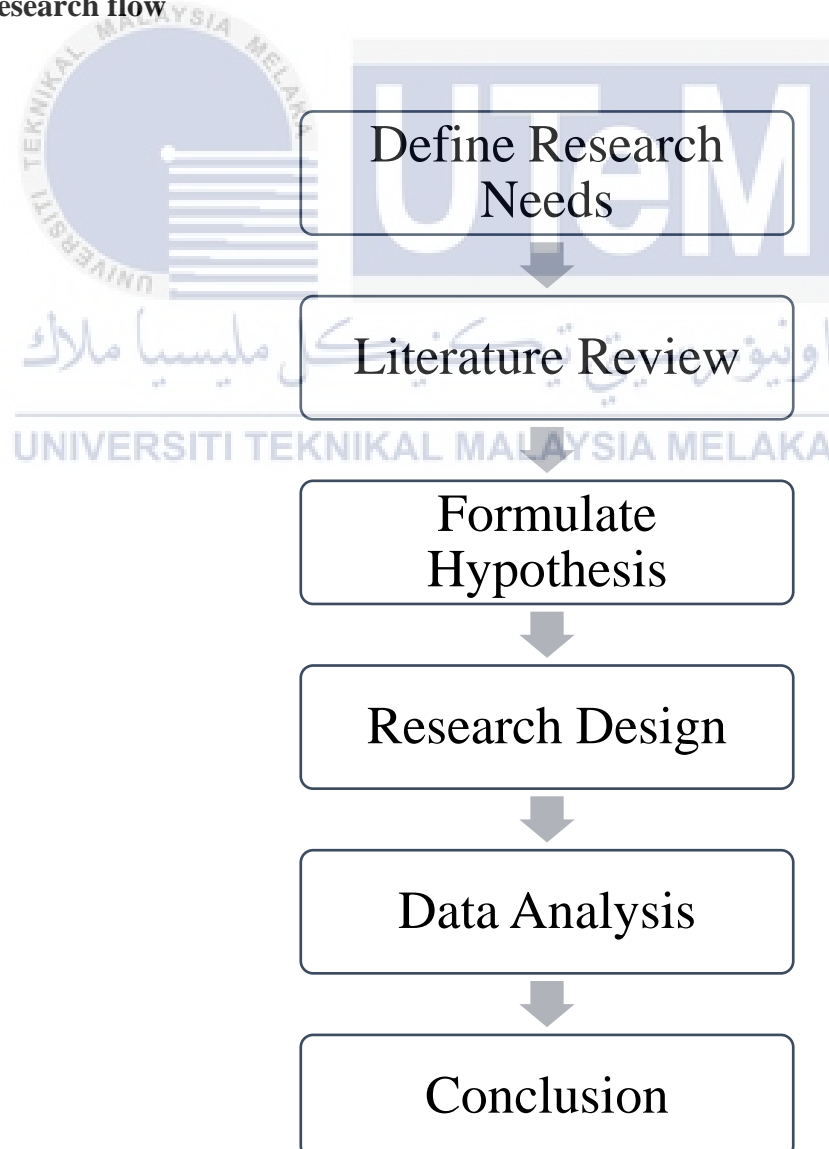
# CHAPTER 1

## INTRODUCTION

### 1.1 Introduction

The above chapter discussed the research's introduction. The research introduction assesses the research flow, the study's background, problem statement, research objectives, research question, scope and limitations of the research, and the significance of the research.

### 1.2 Research flow



### 1.3 Background of Study (Small and Medium Enterprises (SMEs) in Malaysia)

Small and medium-sized businesses (SMEs) in the manufacturing and services sectors are largely recognized as the economy's backbone. Because the major goal of entrepreneurship is to create jobs, stimulate innovation, and expand the economy, this is the case. The number of SMEs in Malaysia has expanded from 1,113,157 in 2016 to 1,226,494 in February 2022, according to rising trends. According to this, independent of sector or size, SMEs in Malaysia produced 38.2 % in 2021 and 97.4 % of overall business growth in 2021. Despite significant gains in the number of SMEs and their contribution to the Malaysian economy, current discussions including the COVID-19 pandemic in 2020 have had an influence on SMEs. Since the introduction of the Movement Control Order (MCO) throughout the country, which contains several limitations to prevent the spread of COVID-19, the performance of all sectors of the economy has decreased. The 7.3 percent drop in SMEs GDP in 2020 is greater than the 5.6 percent and 4.6 percent drops in Malaysian GDP and Non-SMEs GDP, respectively.

Malaysian SMEs are divided into two industries based on the number of employees and total annual sales generated which is manufacturing and services. In this study, SMEs are defined as manufacturing enterprises with annual revenue of less than RM 50 million and fewer than 200 full-time employees, and service firms with annual sales of less than RM 20 million and fewer than 75 full-time employees. Table 1 highlights the definitions for the respective sectors' small and medium categories.

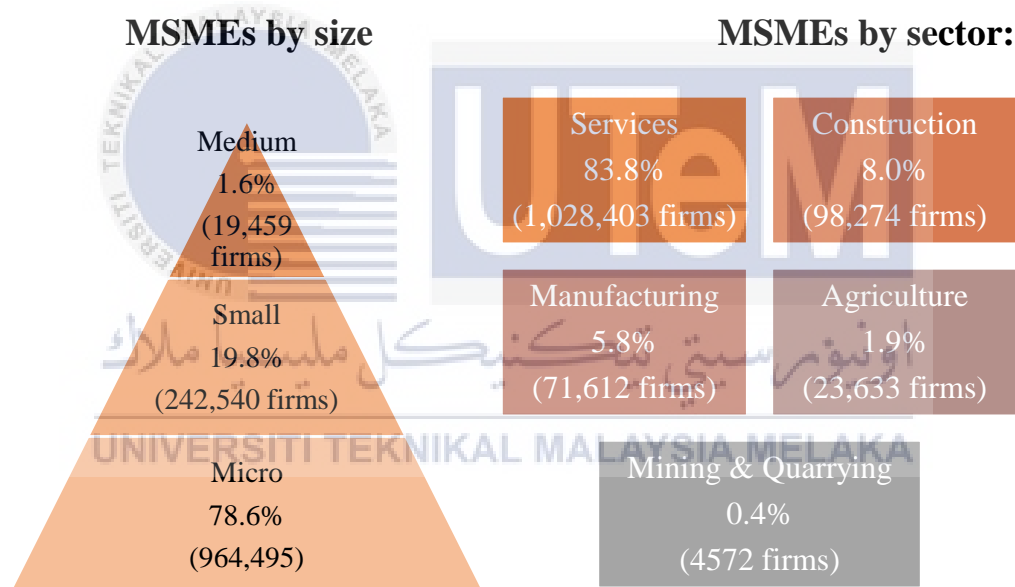
**TABLE 1: SME CATEGORY**

<b>Category</b>	<b>Small</b>	<b>Medium</b>
Manufacturing	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 and another sector	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 Corp. Malaysia

Malaysian SMEs are the largest business entities in the country and a crucial component of its economic development. Small and medium-sized enterprises (SMEs) play an important role in the revitalization and development of national economies because they generate the majority of the creativity and innovation that drives economic progress, stay competitive and cooperation, and produce high-value-added merchandise. Many individuals, whether directly or indirectly, rely on small and medium-sized businesses. They have an important role in absorbing labor, alleviating poverty, and generating revenue. Because of their vested interests, all parties, including government agencies, academics, and multinational corporations, should pay considerably more attention to this problem.

Malaysia SMEs are the backbone of the economy, representing 97.4% of overall businesses establishment in 2021 can be shown at the figure below:



**1,226,494 MSMEs**

**Figure 1.3: MSMEs by size and MSMEs by sector**

*Source: Malaysia Statistical Business Register, Department of Statistics, Malaysia*

*Note: Data as of 28 February 2022*



## 1.4 Problem Statement

Several issues impacting Malaysian SMEs have been identified in the available literature. The majority of the literature has addressed comparable issues confronting SMEs, such as financing, human resource management, information technology, management inefficiency, regulation, market accessibility, and competitiveness, among others.

According to (Dr. Rais Hussin,2020) SME company confront a number of obstacles, including a lack of business contacts, a lack of technological understanding, a lack of access to money, education and training, and a lack of internet presence in a world that is becoming increasingly digital. His findings are consistent with Deric Wong's (2018) general observation that Malaysian SMEs are currently dealing with "long unsolvable problems" including a lack of foreign laborers, problems acquiring a loan from a bank, inability to build or retain talent, unclear taxation policies, and slow introduction of advanced technologies. Some SMEs were also hesitant to leave their comfort zone."

Because of the ongoing changes, organisations must cope with a rising volume and diversity of information. As a result, organisational managers are concerned about the quality of information available to them for decision-making and planning. The majority of firms must also face changing customer preferences and environmental instabilities, but many disruptions, such as changes in demand patterns, equipment malfunctions, financial fluctuations, and so on, can impair production and its operations. As a result, the variable of uncertainty should also be taken into account (Sagawa & Nagano, 2015).

Firms are increasingly relying on strategic supplier relationships to enhance inter-organizational collaboration in their supply chains. There are some significant challenges as well as some significant successes, all of which are tied to how they manage and regulate inventory levels. It is also dependent on how it influences consumer pleasure, as it is unknown how partner and firm collaboration with various marketers and suppliers affects organisational performance as well as the supply chain (Wafula & George, 2015). Organizations are encouraged to share their information; but, due to the unpredictability of demand and supply, as well as the benefits and costs of the firms, information sharing may vary. This is a hurdle to implementing a sustainable business model based on knowledge sharing (Fraccascia & Yazan, 2018).

### **1.5 Research objective:**

The aim of the study is to identify the impact of supply chain practices towards the SME organizational performances. The research objectives developed in this study was based on problem statement above as follow:

1. To identify the impact of supply chain practices towards the organizational performances
2. To analyze the relationship of supply chain practices towards the organizational performances
3. To evaluate the most significance impact of supply chain practices towards the organizational performances

### **1.6 Research Question**

1. What is the impact of supply chain practices towards the organizational performances?
2. What is the relationship of supply chain practices towards the organizational performances?
3. What are the most significance impact of supply chain practices towards the organizational performances?

### **1.7 Scope and limitations of study**

The study looks at the impact of supply chain practices on SME organizational performance. The subject of this study includes the organizational performance of SMEs based on supply chain techniques. This study will be carried out in Malaysia, with respondents drawn from a population of 7.25 million SMEs. According to this study, Malaysian SMEs account for a large share of businesses worldwide and are critical to job creation and global economic development. They represent for roughly 90% of enterprises as well as more than 50% of total employment.

### **1.8 Significant of study**

From the standpoint of research, this study is predicted to be relevant in terms of the influence of supply chain practices on Malaysian SMEs and to motivate other supply chain studies to be undertaken in developing countries to determine the similarity of studies conducted. Furthermore, this research will aid other entrepreneurs by demonstrating how supply chain practices can improve their business expertise. As profits or sales rise, this study can discover the factors driving business performance and raise consumer awareness of marketing or business.

### **1.9 Summary**

This chapter provides an overview of the research study. The researcher has briefly outlined the study's background, defined the problem statement, research aims, and research questions. The study objectives and questions are developed in response to the problem statement. Furthermore, the researcher has highlighted the scope and limitations of the investigation, as well as the coverage and limitations of this study. Finally, the significance of the investigation is addressed by defining the purpose of the study and the benefits of this research.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.1 INTRODUCTION

This chapter examines empirical knowledge on the dependent and independent variables of this research. The relevant literature is described in terms of financing, human resource management, and technology. This section gives background information on the conceptual framework that was built to expound on the relationship between the impact of supply chain practises on Malaysian SMEs performances. This chapter discusses hypothesis testing in order to forecast the predicted outcome of this study.

#### 2.2 Supply Chain Management Practices

Supply chain management has stimulated the interest of both researchers and practitioners (SCM). Because it controls supplier partnerships, shared planning, ongoing strategic alliance, cross-organizational inventory management, information exchange, and logistics, SCM has become a popular methodology across industries. SCM that is successful provides the appropriate level of customer care to a specific sector while reducing total resources and improving client services through greater product availability and lowered order cycle time (Banomyong & Supatn, 2011; Crainic & Laporte, 2016; Stevens & Johnson, 2016; Wang, 2016). Through coordination methods, SCM adopts a system view across organizations and works as an absolute system. Companies can share information and work together structurally. Information sharing can be seen in inventory management, forecasting methodologies, and delivery. SCM practises are used to combine all processes for supplying goods and services in order to add value to consumers and manage SC efficiently (Jermisittiparsert, Siriattakul, & Sangperm, 2019; Somjai, & Jermisittiparsert, 2019). The most recent advancement in SCM practises is the continuous flow of processes, sharing via information technology, and supplier collaboration (Zhao & Lee, 2009).

They are employed in a variety of SC processes, including product quality, customer relationships, and product purchasing. They also prioritise core capabilities in their list of SC practises, such as maintaining inventory levels and controlling surplus inventory by postponing customisation procedures and the system of shared information in their organisation (Zhao & Lee, 2009). Supply chain management is the administration of the transportation of products and services, and it includes all actions that transform raw materials into completed commodities. It entails simplifying a company's supply-side activities aggressively in order to optimise consumer value and obtain a market edge. The five basic components of supply chain management are planning, procuring raw materials, production, delivery, and returns. The planning phase is concerned with developing an overall supply chain plan, whereas the other four components are concerned with the important criteria for executing out that plan.

Companies must be knowledgeable about all five components to maintain an efficient supply chain and avoid costly bottlenecks. There is no universally accepted definition of supply chain management (SCM). Numerous experts have presented distinct definitions of the SCM concept in the literature. SCM is described as a business system that connects businesses to choose and preserve goods and services with in right quality and quantity (Wang,2016) whereas bearing in mind a right product, as well as client needs at a reasonable cost that use the right sources as well as technology and attempting to cover all necessary functions to meet the customer's requests and demands (Scholz,2018). The product will be supplied to the final user from the organization's original source. SCM also includes the planning and administration of processes needed to purchase products, establish essential resources, and carry out logistical and conversion tasks. For successful demand and supply management, SCM also requires coordination among suppliers, partners, customers, intermediary channels, and service providers. When implementing SCM strategies, firms prioritize their core activities and skills to enable the seamless performance of their supply chain activities. In addition, various other studies have examined SCM in the context of resource movement, both within and across companies.

SCM is, in fact, a collection of independent functional entities and practises that aim to enhance individual firms' as well as supply chains' long-term competitive performance through combining internal firm functions and efficiently connecting them with external operations of suppliers, manufacturers, distributors, customers, and other distribution channels (Kim, 2018). SCM includes all activities related to planning and management, sourcing and procurement, conversions, and other integrated logistics activities, as well as collaboration and coordination with channel partners (Soosay, 2015). SCM is defined as a multidimensional notion that encompasses both the downstream and upstream components of a supply chain (Pramatari&Papakiriakopoulos, 2018). Supply chain management strategies encompass various dimensions that have been established, evaluated, and confirmed in the literature by earlier academics and have been investigated from a variety of angles. These are key practices that applicable to both the upstream and downstream sides of a supply chain. This study enables researchers to examine the causes and consequences of SCM practices in the context of a certain emergent sector and country by taking into account both sides of a supply chain (Rasib, Sundram&Noranee, 2021).

During the Industrial Revolution 4.0 period, virtually all commercial organisations realised that increasing efficiency was not enough, and that their entire supply chain needed to be made competitive (Haudi., 2022). Understanding and practising supply chain management (SCM) has become a vital precondition for being competitive in global markets while increasing revenue (Kuo, 2016; Muafi., 2020). The Council of Logistics Management (CLM) defines SCM as a tactically coordinating system of traditional business functions and tactics inside a particular organisation including across businesses inside the supply chain to enhance the long-term performance of each organisation and the supply chain as a whole (Goldsby & Stank, 2000). SCM was created to explicitly highlight the strategic nature of trading partner coordination and to describe SCM's goals: to increase individual organisational performance and organisational performance throughout the supply chain (Hong., 2019; Soares., 2017). The goal of SCM is to obtain a competitive advantage by seamlessly integrating information and material flows throughout the supply chain (Al-Hafidh, 2018; Li et al., 2006). SCM has attracted the curiosity of many academics, consultants, and business executives (Schoenherr., 2014).

Supply Chain Management is critical in the operation of a firm. Prior to supply chain management, businesses faced significant losses as a result of product delivery predictions that did not always match market demand. Companies can now cut losses and make above-average profits by embracing supply chain management. Furthermore, the organisation may connect all parties engaged in the conversion of raw resources into completed goods. As a result, a company's production process and distribution of goods/services can run more successfully and efficiently. Many companies have realised that SCM is critical to maintaining a competitive advantage for the services and/or products in an increasingly crowded industry.

Despite the increased emphasis on SCM, the literature has not given much information into SCM practises in SMEs, nor to SMEs in the Agroindustry. Much of the current theoretical/empirical research on SCM mainly focuses on the upstream or downstream side of the supply chain, or on aspects/perspectives of SCM (Matriadi et al., 2019). Supplier engagement, manufacturing performance, and the consequences of supplier alliances on organisations are a few examples, as are important factors in strategic supplier partnerships, supplier relationship management orientation, and supplier/buyer performance (Jali, 2017).

Paulraj and Chen (2007) discovered empirical basis for their supplier relationship, supplier integration, communication, and cross - organizational teamwork research, all of which have a positive impact on both supplier as well as buyer performance and thus are capable of maintaining a competitiveness for both parties. Furthermore, Kab (2007) discovered in their study of Turkey SMEs that the influence of SCM approaches such as outsourcing, multi-supplier collaboration, including lean practices on operational performance is significantly associated and substantial.



Sambasivan and Jacob (2008) discovered that SCM methods for enhancing customer satisfaction, supplier assessment, operations effectiveness, and quality procedures had a substantial impact on a company's competitive position in their research of Malaysian multi-national companies (MNEs). Mukhtar (2009) and Ramayah and Omar (2010) contend that in SCM, information sharing about inventory, product demand, product planning, and order status improves supply chain performance and, as a result, total firm performance. Rajagopal (2009) conducted a case study of two Peninsular Malaysian semiconductor companies on SCM methods with a focus on partnership connections with suppliers and consumers, and determined that the companies' perspectives on the advantages of such partnerships were divided.

Chong (2011), on the other hand, discovered in their research on Malaysian firms that SCM techniques have a positive and significant impact on both innovation and firm performance. According to Zailani and Rajagopal's (2005) research on supply chain integration and performance comparing United states companies with organisations from Japan, Taiwan, and Korea, collectively known as East Asian companies, both the US and East Asian businesses demonstrated that long-term competitive advantage is achieved once organisations foster long-term strategic partnerships with their suppliers and customers. In other words, developing long-term win-win partnerships with consumers and suppliers along the supply chain may lead to higher levels of satisfaction through more involvement and more efficient information exchange regarding standards and expectations with both sides. Long-term collaboration also enables parties to cooperate in continual improvement in terms of quality of outputs and inputs, resulting in higher cost efficiency leading to a smaller rate of failure to fulfil quality requirements and customer expectations.