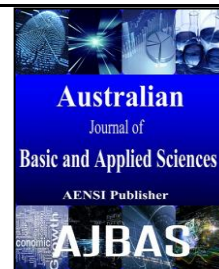




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What is the Role of Governmental Support on Organizational Performance of Small Businesses? (A Case of Malaysia Small Business)

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ABSTRACT

Background: The primary concern of this study covers the small manufacturing businesses in Malaysia which considered the main pillar for the Malaysian economy. This study focuses on the role of governmental support as one of the most important factors that could have influence on the performance of small businesses. **Objective:** The study attempts to find a relationship between the governmental support for a sample of small manufacturing businesses (exogenous variable) and the organizational performance of those businesses (endogenous variable). **Results:** This study infers that there is a significant relationship between governmental support and organizational performance. **Conclusion:** The finding of this study demonstrates the great role of Malaysian governmental support to enhance the performance of small businesses.

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INTRODUCTION

Small businesses occupy a great importance in the economic structure of all countries around the world for their vital role in the formation of added-value, the attraction of small capitals, creating work opportunities, as well as contribution to export and reducing import.

Small businesses in Malaysia have evolved to become a force for national economic growth through their contribution in:

- Expanding output.
- Creating employment opportunities.
- Providing value-added activities.
- Contributing to broadening Malaysia's export base (UNDP, 2007).

The latest statistics indicate that small businesses contribute 99.2% of the total business establishments, and contribute about 32% of GDP and 59% of total employment (National SME report 2010/2011).

A study conducted in 2001 by Central Bank of Malaysia indicated to:

- The low contribution of small businesses to GDP.
- The constraints they face in terms of capacity level of technology and access to markets.
- The domestic orientation.
- Limited access to finance. (Normah, 2006)

Malaysia government with its strong belief in the importance of small businesses as a force for national economic growth, devoted a lot of resources and efforts to back small businesses and to integrate them into economic mainstream to become an important engine of growth in the New Economic Model (Annual report SEM 2010/ 2011). The Eight Malaysia Plan (2001- 2005), and the Ninth Malaysia Plan (2006- 2010), emphasized the development of small businesses especially in the manufacturing sector, to build a competitive, innovative, and technologically strong small business sector.

Despite the fact that there is a broad governmental support for small businesses, but the researches that concern with studying the influence of this support on the organizational performance for small businesses is still rare, if not non-existent. This fact prompted the government to step toward adapting active procedures to assess the feasibility of different plans of governmental support. It is as Prime Minister of Malaysia said: "The government has also gone a step further to evaluate the impact of SMEs development initiatives by implementing a results- based approach....." (Annual Report SME 2010/ 2011). The need is still urgent to examine the feasibility of the various forms of governmental support for small businesses from the point of view of those businesses.

Thus, the objective of this study is to examine

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the relationship between governmental support and the organizational performance for small businesses in Malaysia.

Literature review:

Most literature review concerning small businesses argues that these businesses offer special advantages regards as unique contributions to the economy of all countries around the world. According to (Katou, 2011), small businesses contribute in generating new jobs and therefore perform an active role in employment and poverty reduction. Also small businesses considered as the "Seed Bed" for the industrial growth, in view of being a source of innovative activities and to contribute to the development of entrepreneurial talent (Sethi,-). Last but not least, the growth of small businesses in the economy will increase competition and give more flexibility to the economic structure. To shed light upon the importance of governmental support for small businesses and its vital role in the organizational performance, it is quite useful to define the governmental support as researchers deal with.

Definition of business support services as an approach for the government to assist, to improve, to promote, and to provide training to small business. For this study, business support services can be defined as assistance from the government to small businesses in the form of advice, training and mentoring in order to improve and develop them. In this study, the term governmental support will be used instead of business support services. According to Mole & Bramley (2006) governmental support become a key strategy in most countries to support the development of small businesses. The reasons behind this interest refer to the small businesses as a source of innovation (O'Neil et-al, 1987), a solution to unemployment, a source to gain added-value and securing sustainable advantage.

Wren & Storey (2002) parted between two types of governmental support (financial and nonfinancial). Financial support may come with many types such as subsidies, loans, capital grants,... while nonfinancial support can be in the form of advisory assistance, training and encouragement to adopt best practices, in order to face the main problem for small businesses that means market failure (Mc Quaid, 2002; Thurlow & Wobst, 2004).

The literatures about governmental support suggested that the whole purpose of this support is directed to the economic development and poverty relieving (Mole & Barmley, 2006). Many literatures realized that government support cannot only focus on the supply side of small businesses, but should be (demand-driven) (World Bank, 2002). Other literatures focus on targeted and flexible programmes which get better success rates, due to the deep understanding of the specific requirements of small businesses (Keeble & Wilkinson, 1999). Although,

the fact of existence of governmental support for small businesses, but the literatures relating this subject are scarce, and almost are published by international and governmental institutions as annual reports demonstrate in statistics the amount and kinds of governmental support that offered to small businesses. Most studies about this subject can be shown in developed countries (Berry, *et al*, 2006; Ian & Sure, 1998; Jianzhong & Hong, 2009; Mole, *et al*, 2009; Schaper & Vollery, 2004).

On the contrary, there are scanty literatures concerns with governmental support to small businesses in developing countries including Malaysia. For example Moha Asri (1997) assigns a chapter in this book to discuss briefly the government support. A study conducted in (2001) by Central Bank of Malaysia showed the difficulties that small businesses suffered from. According this study, an enabling environment for small businesses development must be created by government (through many institutions) to ensure that development plans for small businesses are focused.

In this study, Khairudin (2007), focused on small businesses awareness about government support, particularly on credit guarantee scheme. Results of this study showed that only (10%) of the respondents were aware about the services provided by the government. Another study conducted by Mustafa, Khairudin & Shari (2006), demonstrated the financial approach to small businesses, source of financing and financial need. Salleh & Ndubisi (2006) in their study about small businesses development in Malaysia, indicated to the problems faced the local small businesses that are related to business advisory services. The problems among others were:

- Lack of coordination among services providers.
- Low usage rate of government support services.
- Low level of knowledge on government support.
- Bureaucracy in the government agencies.

In another study conducted by Foziah, Aziz and Sudin (2006), indicated to a low usage rate of the government financial support services among small businesses in the northern part of Malaysia. Also their results revealed that most small businesses tend to ask for financial aids from commercial banks rather than the government support agencies. The lack of knowledge about the services and bureaucracy were two common contributing factors to the phenomenon. Many other studies showed similar results of the lack of awareness about government support among small businesses (Hakimin, *et al*, 2009; Hakimin, *et al*, 2010; Norliya, *et al*, 2010).

In short, it is not easy to find some studies devoted to study the relationship between the governmental support and the organizational performance in small businesses, in order to assess the effectiveness of governmental support services. Therefore, this study will try hard to examine this

relationship between governmental support and the organizational performance of small businesses in Malaysia. This led this study to test the following hypotheses:

H1: There is a significant relationship between government support (non-financial) and organization performance.

H2: There is a significant relationship between government support (financial) and organization performance.

Model of study:

The success of any organization (including small business) depends on number of factors. The special characteristics which small businesses have and the difficulties that hinder their progress make them in

dire need of governmental support. In Malaysia, government with its strong belief of the vital role of small businesses adopted many supporting programmes for backing up small business sector. As the review of literature about governmental support revealed that there is a scarcity of empirical researches devoted to trace the influence of governmental support on the organizational performance of small businesses, so as to clarifying the extent that small businesses benefit from the governmental support. This study dedicated to highlight the vital role of governmental support for small businesses, through testing the direct relationship between governmental support and organizational performance as following model:



Fig. 1: Model of Study.

Methodology:

Sample:

Sample of study includes 265 managers that have been chosen from small businesses in manufacturing sector in Malaysia which account approximately 15.796 (SEM report 2010/ 2011). Random sampling method was used to determine the sample. Questionnaire was the main instrument for data collection. Initially, researcher tried to send the questionnaires by email, it had been sent to nearly 500 addresses of small businesses that were taken from National SMEs Development Council, but the response was too weak, due to for fear of virus with attached files. Some efforts had been performed with National SMEs, Development Council to send the questionnaires to small businesses under its name to give credibility to emails, but this institution do not have such these services. Later, team of 129 undergraduate students was formed by researcher to collect data from 265 respondents.

Measures:

The measures in this study are Governmental Support and Organizational Performance. As following details:

Governmental Support:

Governmental Support was measured by two key areas of financial support including 4 items, and nonfinancial support including 6 items, these 10 items were measured on five-level scale ranging from 1= not agree completely to 5= completely agree.

Organizational Performance:

Following the methodologies of Collins *et al* (2005), Organizational Performance has been

classified to financial performance that includes 4 items and operational performance which includes 6 items. These 10 items were measured on five-level scale ranging from 1= not completely agree to 5= completely agree.

Statistical Analysis:

To test the hypotheses of the model of study, Structural Equation Modelling (SEM) or Latent Variable Model (Hair *et al*, 2010) was used by Amos. The most effective method to testing models which including latent constructs which multiple items (Luna-Arocas & Comps, 2008). To a great extent the SEM used to test the validity of models. Through the Confirmatory Factor Analysis, but many applications of SEM are mix both of Exploratory Factor Analysis and Confirmatory Factor Analysis (Kline, 2010). Also, SPSS was used to find out the validity, reliability, normality, and descriptive analysis.

Results:

In this study, the model direct relationship between government support and organizational performance results of the test for goodness of- fit conformed to the criterion suggested by researchers. The fit of the model was assessed by three indices follow Mueller and Hancocks (2008) only three selected fit indices were used. These included the likelihood ratio (CMINDF), Comparative Fit Index (CFI) and the Root Mean Square Error of Approximation (RMSEA). The results show in Table 1, that the model is representing a better fit model since RMSEA is less than .08 (.051), CFI = .967 and CMINDF = 1.684.

Figure 2 present direct relationships between two types of government support namely non-

financial support and financial support, and organizational performance.

Table 1: Summary of Model Fit Indices.

Model	Chi-Square (χ^2)	Df	χ^2/df	RMSEA	GFI	IFI	TLI	CFI	PGFI
Direct	99.364	59	1.684	0.051	0.945	0.968	0.957	0.967	0.612

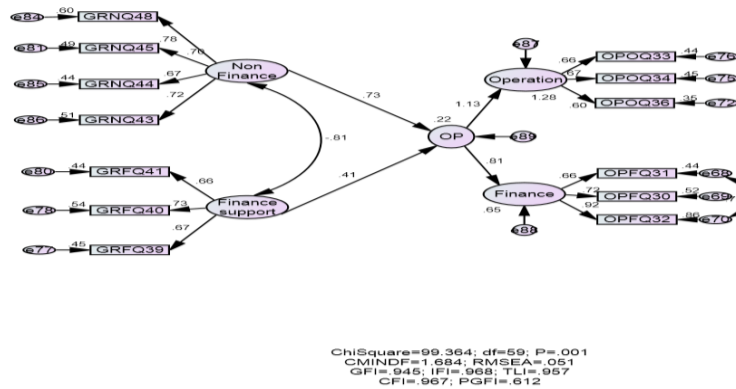


Fig. 2: Direct Model Government Support and Organizational Performance.

Table 2 present direct relationships between two types of government support namely non-financial

support and financial support, and organizational performance

Table 2: Standardized Regression Weights in the Direct Model

Dependent variables		Independent Variables	Direct model
Org. Performance	<---	Non-Financial Support	.732***
Org. Performance	<---	Financial Support	.408***

Hypothesis 1 stated that there is a positive effect non-financial support on organizational performance. The result shows that there is a positive significant effect non-financial support on organizational performance ($\beta = .732, p < 0.001$), suggesting that the effect condition was satisfied, supporting Hypothesis 1. Hence, according to the hypothesis result, non-financial support has a positive influence on organizational performance (see Table 2).

Table 2 also presents direct relationship between financial support and organizational performance. Hypothesis 2 proposes that there is a positive significant effect of financial support on organizational performance. Since, the result shows that there is significantly positive effect of financial support on organizational performance ($\beta = .408, p = 0.001$), thus, supporting Hypothesis 2. Hence, it is likely that as financial support increases, organizational performance also increases.

Conclusion:

In sum, the finding of this study demonstrates the great role of Malaysian governmental support to enhance the performance of small businesses. This supporting from government including the financial support like the granting of loans, instalments repaid, and help small businesses pay off debt. Nonfinancial support is such as the consultation and advising, and training programs. The results of study support the point of view of Khairudin (2007); and Mustafa, Khairudin & Sha'ri (2006) that government has the

fingerprint in the life of small businesses in Malaysia.

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