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EFFECTS OF ADVISORY SERVICES ON GROWTH OF SMALL SCALE FOOD MANUFACTURERS IN SELANGOR, MALAYSIA

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EFFECTS OF ADVISORY SERVICES ON GROWTH OF SMALL SCALE FOOD MANUFACTURERS IN SELANGOR, MALAYSIA

By

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Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, in Fulfilment of the Requirements for the Degree of Master of Science

September 2013

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DEDICATION

Especially dedicated to my dearly beloved:

Wife,

Wan Haishah Norain Wan Hassan

Children,

Muhammad Hanif Asyraf

Nur Ainaa Sarah

Nur Aina Sofea

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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirement for the degree of Master of Science

EFFECTS OF ADVISORY SERVICES ON GROWTH OF SMALL SCALE FOOD MANUFACTURERS IN SELANGOR, MALAYSIA

By

SUWARDI AFANDI AHMAD

September 2013

Chairman: **Ismail Abd Latif, PhD**

Faculty: **Agriculture**

Small and medium-sized enterprises (SMEs) have been instrumental to the growth of Malaysia's economic development. Among the significant contribution was in terms of providing employment, increased export and national income. Realizing this fact, various initiatives have been introduced by the government in order to strengthen the SMEs development. Advisory service program is one of the initiatives established with the aim to assist and guide the SMEs particularly in the manufacturing sector. There are currently more than 60 agencies involved in providing advisory services to the SMEs. The types of advisory services given depend on the core business of the institutions but usually consist of technical and business advices. Based on statistical record, about 34,000 SMEs in various sectors had received advisory services from various government agencies. Through the provision of the advisory services, it is hoped that the capability of the SMEs will be increased. However, such expectation needs to be confirmed and supported with empirical research. Thus, the main objective of this study was to evaluate the impact of the advisory services upon the business performance of the firm. Performance will be measured by two indicators namely firm sales' growth and the inherent ability to manage the business.

The sample size of this study was 103 food manufacturers in Selangor which received advisory services from government agencies. The primary data was gathered through face to face interview using standard questionnaires. The data was analyzed using descriptive statistics, factor analysis and logistic regression analysis. Results showed that advisory services received by the respondent had positive and

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significant relationship with sales while for ability to manage the business indicated positive and significant relationship only for business and management advices. This study suggests that the advisory services program is beneficial and should be continued. The findings also highlight the perception of the respondent against thirteen aspects pertaining to the service delivery system that need to be improved due to their lowest ratings. Four factors consisting of prompt action, good communication skills, current technology and better equipped facilities were identified to influence the reception of the services given. Thus, this study recommends that the advisory agencies should prioritize and integrate these four factors for the effectiveness of their advisory service programs.

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Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Master Sains

KESAN KHIDMAT NASIHAT KEATAS PERTUMBUHAN FIRMA PERKILANGAN MAKANAN BERSKALA KECIL DI SELANGOR, MALAYSIA

Oleh

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Perusahaan kecil dan sederhana (PKS) telah memainkan peranan penting kepada pertumbuhan pembangunan ekonomi Malaysia. Di antara sumbangan yang signifikan adalah dari segi menyediakan pekerjaan, eksport dan pendapatan negara. Menyedari hakikat ini, pelbagai inisiatif telah diperkenalkan oleh kerajaan bagi mengukuhkan pembangunan PKS. Program khidmat nasihat adalah salah satu inisiatif yang diwujudkan dengan tujuan untuk membantu dan membimbing PKS terutamanya dalam sektor perkilangan. Terdapat lebih dari 60 agensi yang terlibat dalam menyediakan khidmat nasihat kepada PKS. Jenis-jenis khidmat nasihat yang diberikan bergantung kepada perniagaan teras institusi tetapi biasanya terdiri daripada nasihat teknikal dan perniagaan. Berdasarkan rekod statistik, kira-kira 34,000 PKS dalam pelbagai sektor telah menerima khidmat nasihat daripada pelbagai agensi kerajaan. Melalui pemberian khidmat nasihat, adalah diharapkan keupayaan PKS akan meningkat. Walau bagaimanapun, jangkaan ini perlu disahkan dan disokong dengan penyelidikan empirikal. Oleh itu, objektif utama kajian ini adalah untuk menilai kesan khidmat nasihat yang diterima ke atas prestasi firma. Prestasi akan diukur oleh dua penunjuk iaitu pertumbuhan jualan firma dan keupayaan yang wujud untuk menguruskan perniagaan.

Saiz sampel kajian ini adalah 103 pengilang makanan di Selangor yang menerima khidmat nasihat daripada agensi kerajaan. Data primer dikumpulkan melalui temubual bersemuka dengan menggunakan soalselidik standard. Data telah dianalisis

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dengan menggunakan analisis deskriptif, analisis faktor and analisis regresi logistik. Keputusan menunjukkan bahawa khidmat nasihat yang diterima oleh responden mempunyai hubungan yang positif dan signifikan dengan jualan manakala untuk keupayaan menguruskan perniagaan, hubungan yang positif dan signifikan hanya untuk khidmat nasihat perniagaan dan pengurusan. Kajian ini mencadangkan bahawa program khidmat nasihat bermanfaat dan perlu diteruskan. Dapatan kajian juga menyerlahkan persepsi responden terhadap 13 aspek yang berkaitan dengan sistem penyampaian perkhidmatan yang perlu ditambahbaik kerana penilaian yang rendah oleh responden. Empat faktor yang terdiri daripada tindakan segera, kemahiran komunikasi yang baik, teknologi semasa dan kemudahan kelengkapan yang baik telah dikenalpasti dapat mempengaruhi penerimaan perkhidmatan yang diberikan. Oleh itu, kajian ini mencadangkan bahawa agensi – agensi yang menyediakan khidmat nasihat perlu memberikan keutamaan dan mengintegrasikan empat faktor ini untuk keberkesanan program khidmat nasihat mereka.

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LIST OF ABBREVIATIONS

CGC	Credit Guarantee Corporation Malaysia Berhad
CIPE	Capital investment per employee
DOA	Department of Agriculture
DOF	Department of Fisheries
DVS	Department of Veterinary Services
FAMA	Federal Agriculture Marketing Authority
FMM	Federation of Malaysian Manufacturer
GDP	Gross Domestic Product
GNI	Gross National Income
GMP	Good Manufacturing Practices
HACCP	Hazard Analysis Critical Control Point
IMP1	First Industrial Master Plan
IMP3	Third Industrial Master Plan
ICT	Information communication technology
ITA	Investment Tax Allowance
JAKIM	Department of Islamic Development Malaysia
KMO	Kaiser Meyer Olkin
MARDI	Malaysia Agriculture Research Development Institute
MARA	Council of Trust for Indigenous People
MATRADE	Malaysia External Trade Development Corporation
MCB	Malaysian Cocoa Board
MES	Minimum efficient scale
MFDB	Malaysian Fisheries Development Board
MNCs	Multi National Company

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MITI	Ministry of International Trade and Industry
MPOB	Malaysian Palm Oil Board
MPC	Malaysian Productivity Council
NEP	New Economic Policy
NEM	New Economic Model
NSDC	National SMEs Development Council
OECD	Organization for Economic Co-operation and Development
PERNAS	National Corporations
PNB	National Corporation Limited
RA	Reinvestment Allowance
R & D	Research and Development
SEDC	State Economic Development Corporation
SEAP	SMEs Expert Advisory Panel
SIRIM	Standards and Industrial Research Institute of Malaysia
SMEs	Small and Medium-sized enterprise
SME Corp	Small and Medium Enterprise Corporation

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CHAPTER 1

INTRODUCTION

1.1 Overview of the Malaysian Economy

Malaysia had gone through tremendous changes in development and economic structure since independence in 1957. At the early development stages starting from 1957 until 1970, the main economic activity of the nation mostly depended on the primary sectors which were agriculture and mining. Rubber and tin were the major contributors to the economic development which accounted for 70% of total export earning, 28% of government income and provided almost 36% of total employment for the nation. Focus was given to develop and to modernize agriculture sector in order to strengthen economic structure as well as to reduce the dependency on rubber

The government has also emphasized on rural development and encouraged development of resource-based industries by introducing import substitution strategy. The main objective of the government was to create a strong economic foundation. The objective was achieved in the late 1960 when total contribution from these two commodities had declined while palm oil, timber and crude petroleum emerged as the new sources of national income. Within this period, the economy expanded at an average growth rate of 6% per annum which was much faster than expected (Economic Planning Unit, 2011).

The implementation of the New Economic Policy (NEP) which covered a 20 year time frame starting from 1970 until 1990 has reflected the government's serious attention to improve the people's welfare and reduce an imbalance in economic structure among the races. The main objective of the NEP was to eradicate poverty and restructure society toward achieving national unity. The government provided various programs and facilities including the establishment of Council of Trust for Indigenous People (MARA), State Economic Development Corporations (SEDC), National Corporations (PERNAS) and National Corporation Limited (PNB) to encourage people especially *Bumiputras* to get involved in business activity.

This effort had succeeded where the proportion of household living below the poverty line was reduced to 16.5% in 1990 compared to 49.3% in 1970. Furthermore, about 20.4% of total corporate equity shares were owned by *Bumiputras* and the holdings of other Malaysians reached 46.8% while 25.1% belong to foreign investors at the end of the period. Although the achievement is less than 30% equity ownership for *Bumiputras* targeted by the government, but the progress made by them has been substantial compared to the economic scenario back in 1970 (Economic Planning Unit, 2011).

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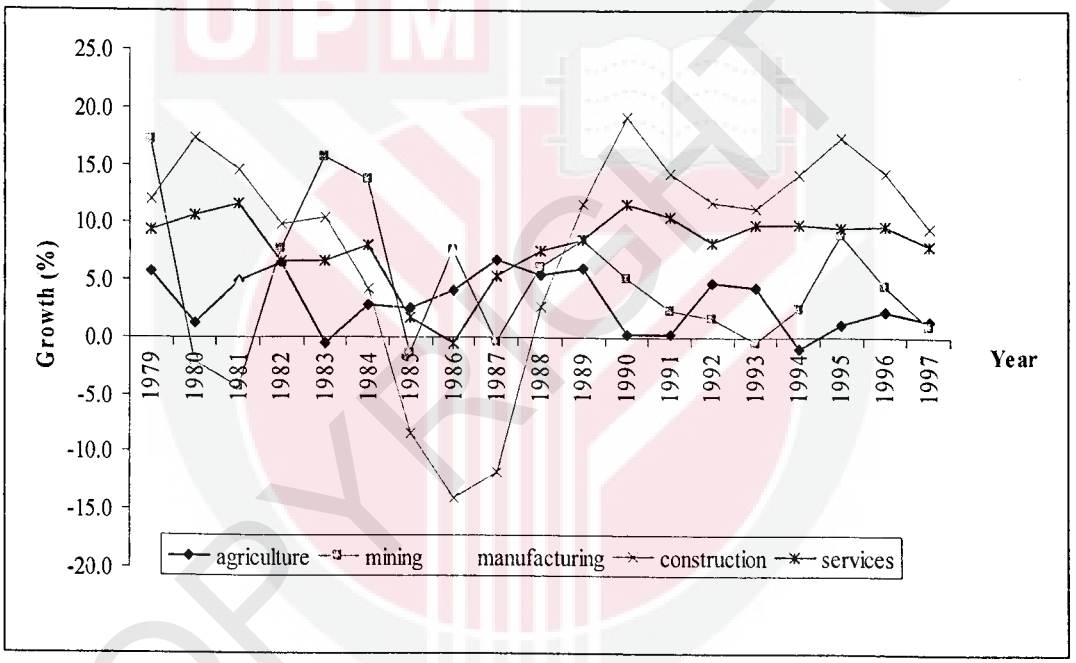
During the same period, the government moved forward by transforming an existing resource into an industrialized based economic structure where the manufacturing sector started to flourish tremendously. Import substitution strategy was changed to export oriented strategy and manufacturing activities were used to drive the economic growth. To further enhance the development of this sector, the government introduced The First Industrial Master Plan (IMP1) in 1986 with the primary objective of promoting the manufacturing sector as a catalyst for industrial growth. Manufacturing of resource-based product; electric and electronic; transportation equipment; metal and metal product; and textile and apparels were identified as potential industries to help the government to achieve the set objectives. As a result, starting from 1986 until 1997 the growth rate of the manufacturing sector has outperformed the other sectors, except for construction (Figure 1.1).



Source: Department of Statistics (2010)

Figure 1.1 GDP by Sector at Constant 1978 Prices (1979 – 1997)

The private sector's role in economic development was also emphasized through the introduction of the Incorporated Policy and Privatization Policy in 1983. As targeted, participation of the private sector in economic development has increased while government interventions was reduced but remained as a facilitator to the private sector. In addition, a comprehensive Malaysia Plan was also being formulated to outline an appropriate strategies and missions to be implemented to sustain the strong economic growth within the five years period. The implementation of various plans and policies in energizing economic performance eventually succeeded when Malaysia experienced an average growth rate of 6.5% per annum during 1990 until 2005 (Figure 1.2).

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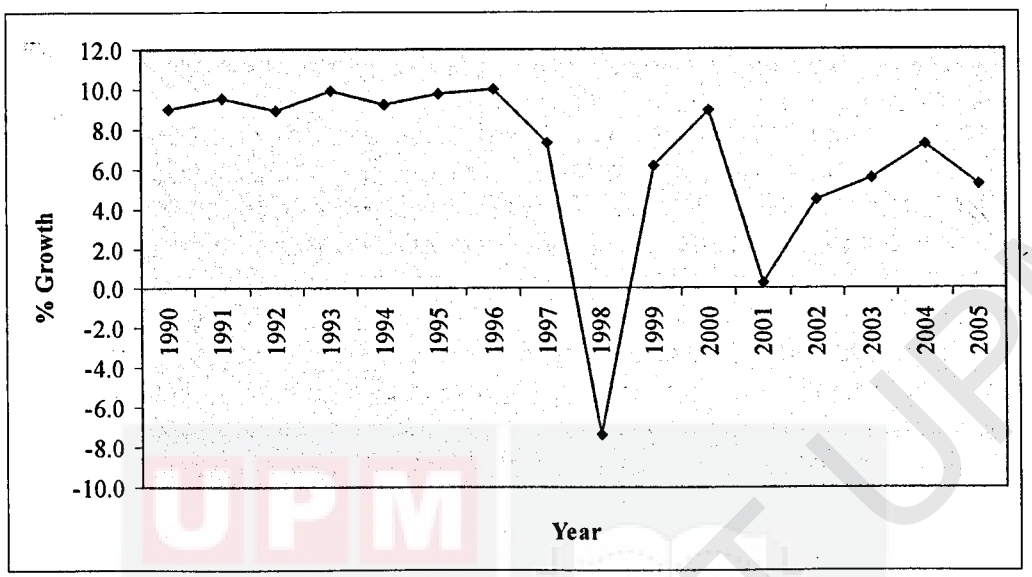
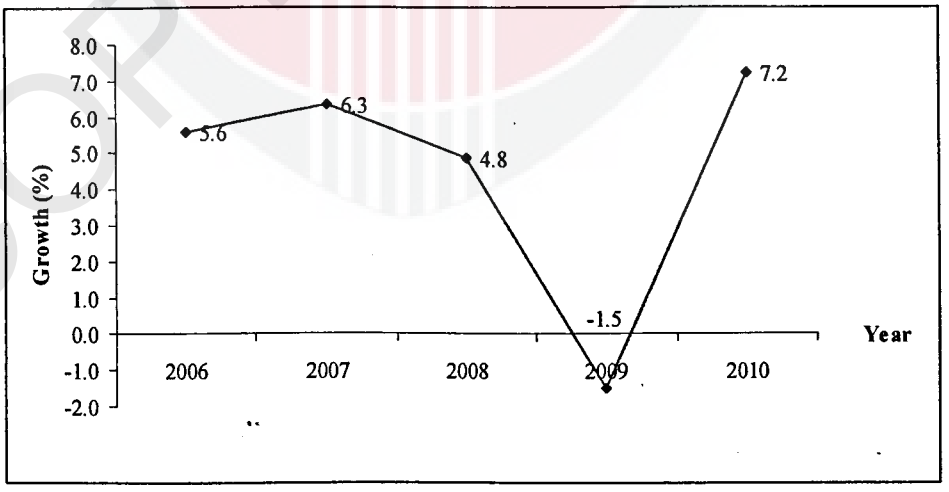


Source: Department of Statistics (2010)

Figure 1.2 Real GDP Growths at Constant 1987 Prices (1990 – 2005)

The growth momentum remained strong during the Ninth Malaysia Plan where the economy expanded at an average growth rate of 4.5% per annum. The highest gross domestic product (GDP) was 7.2% which was recorded in 2010 as shown in Figure 1.3 (Department of Statistics, 2012). This achievement was achieved through strong domestic demand, especially by the private sector activity as well as public sector spending on infrastructure and enhancement of the delivery system.



Source: Department of Statistics (2011)

Figure 1.3 Real GDP Growths at Constants 2005 Prices (2006 – 2010)

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The service sector was the largest contributor to the economy with 57.7% share of GDP and recorded 3.9% rate of growth. The stronger growth was underpinned by services sub-sector namely distributive trade and communications. The manufacturing sector remained substantial with 27.6% contribution to GDP. Total value added for this sector expanded by 3.0% driven mainly by electrical and electronic sub-sector and domestic oriented industries. The agriculture, construction, mining and quarrying sectors continued to support the economic growth by contributing 7.3%, 3.3% and 7.0% to GDP respectively (Ministry of Finance, 2012 and SME Annual Report, 2010).

1.2 Small and Medium Enterprises (SMEs) in Malaysia

In Malaysia, SMEs can be identified either through annual sales turnover or number of fulltime employee. The definition has been standardized by the government on 9 June 2005. This standard definition helps government to formulate effective policies for SMEs including implementation of SMEs development program, enables better provision of technical and financial assistance, allows the government to better monitor the performance of SMEs and evaluate SMEs performance and contribution to the economy (Ndubisi, 2008). By adopting this standard definition, SMEs involved in the manufacturing activity will be referred as enterprises with annual sale of less than RM50 million or number of fulltime employees of less than 200 workers. For the firm involved in services and other sector, SMEs are those with annual sale of less than RM20 million or number of fulltime employees of less than 75 workers. However, different threshold of the criteria were applied to define micro, small and medium enterprises (Table 1.1).

Table 1.1: Definition of SMEs

Category	Manufacturing	Services and other sector
Micro	Annual sales turnover of less than RM300,000 or fulltime employee less than 5	Annual sales turnover of less than RM300,000 or fulltime employee less than 5
Small	Annual sales turnover between RM300,000 and less than RM15 million or fulltime employees between 5 to 75	Annual sales turnover between RM300,000 and less than RM3 million or fulltime employees between 5 to 30
Medium	Annual sales turnover between RM15 million and RM50 million or fulltime employees between 75 to 200	Annual sales turnover between RM3 million and RM20 million or fulltime employees between 30 to 75

Source: SME Corp 2013

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SMEs form a very heterogeneous group. They are involved in various activities and operate in different typed of market. Due to different category, they also have different level of skills and expertise depending on their activities (SME Master Plan 2012 – 2020). Based on the latest data, the number of SMEs accounted for 645,136 or 97.3% of total business establishments in Malaysia. Majority of them or 496,458 were operate as micro scale, representing 77% of the total SMEs, followed by small scale which totaled for 128,787 or 20% establishments and medium scale which totaled for 19,891 or 3% of establishments. In terms of the distribution by sector, most of the SMEs were involved in service sector (580,985 establishments), followed by manufacturing sector (37,861 establishments), construction sector (19,283 establishments), agriculture sector (6,708 establishments) and mining and quarrying sector (299 establishments). A detail distribution of each category according to sector is shown in Table 1.2.

Table 1.2: The Distribution of SMEs According to Economic Sector

Sector	Number of Establishment (%)		
	Micro	Small	Medium
Services	79.6	18.3	2.1
Manufacturing	57.1	36.8	6.1
Construction	44.5	34.9	20.6
Agriculture	56.3	28.9	14.8
Mining and quarrying	19.1	42.1	38.8

Source: Economic Census, 2011

1.3 The Important of SMEs to the Malaysian Economy

SMEs are the backbone of the Malaysian economy. Their contribution to the growth and progress of the nation is substantial. They are being recognized as the important traders and service providers to the primary industries. Most of the SMEs were producers of finished goods and services (Siti Sarah, Lawrence and Maimunah, 2009). The vital role of SMEs include providing job opportunities, improving skill among the workforce and help to increase the national saving as well as saving the foreign exchange (Mohd Akbal and Rafiudin, 2011). In the recent economic report, SMEs contribute about 32% of gross domestic product, 59% of employment and 19% of national export. The gross output generated by SMEs was RM507.1 billion. The highest contribution came from medium sized enterprises which amounting RM214.7 billion (42.3%). As for value added, the value generated by SMEs was RM213.9 billion. The contribution of small sized enterprises was the highest which accounted for RM94.1 billion (44.0%) (Table 1.3).

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Table 1.3: SMEs Gross Output and Value Added by Sector

Sector	Gross output (RM million)				Value added (RM million)			
	SMEs	Micro	Small	Medium	SMEs	Micro	Small	Medium
Agriculture	5,194	769	1,871	2,554	2,665	343	937	1,385
Mining and quarrying	1,105	39	302	764	378	13	95	271
Manufacturing	194,032	3,853	59,540	130,639	38,058	1,344	14,348	22,366
Construction	20,118	1,219	6,001	12,898	7,537	545	2,227	4,764
Services	286,640	87,700	131,145	67,795	165,284	52,286	76,460	36,538
Total	**507,089**	**93,581**	**198,859**	**214,650**	**213,921**	**54,530**	**94,067**	**65,323**

SMEs were actively involved in various economic sectors. Such involvement actually helps to create job opportunities for the public. Thus, it is not surprising that currently SMEs employed a huge number of workers. From a total of 7.0 million workers, about 3.7 million workers were employed by SMEs. This indicated that about 52.7% employments were being generated by SMEs. Most of the employment comes from services sector and small sized enterprises. In term of salaries and wages paid, SMEs spent about RM54.7 billion. The highest paid out recorded for SMEs in the services sectors while the highest average annual salary per employee was in the mining and quarrying sector.

1.4 Constraints and Challenges Facing Malaysian SMEs

Despite their significant contribution to the national economy, there is a greater challenges and barriers facing Malaysian SMEs which prevented them from growing further and putting them in a critical position to compete in challenging business environment. Among the major constraints that had been documented was SMEs were still involved in labour-intensive production processes. This was indicated by the decrease in the Capital Investment Per Employee (CIPE) ratio from RM55,256 in 1996 to RM36,806 in 2005. Consequently, the productivity level of SMEs is much lower than their larger counterpart. It should be noted that currently the average productivity of SMEs is around RM47,000 which is about one third (RM148,000) of large company (SME Master Plan 2012 – 2020). The main reason was most probably the SMEs operating their business under limited resources.

Generally, SMEs are not professionally managed entity due to the lack of management expertise. They were unable to recognize the importance of adopting best business practices and quality management system such as good financial management and customer focused activities. Eventually, they cannot compete effectively in the market nor grasp the opportunities created by technological changes and process improvement. SMEs also need to possess high entrepreneurial skills and appropriate business acumen

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to help them sustain their operation. Failure in equipping themselves with entrepreneurial capabilities and business knowledge would be detrimental and cause them to exit from the industry. Apart from that, they are also faced with the shortage of technical and professional expertise due to their inability to offer attractive salary to retain suitable talents. These constraints have led the SMEs to utilize low level of technology and less productive methods of operations (Third Industrial Master Plan 2006 – 2020).

SMEs have limited access to finance which prevented them from providing adequate capital to grow or expand their business. The difficulties in acquiring loan and other forms of financial assistance were largely associated with lack of collateral, insufficient loan documentation and lack of financial track record and business viability. Consequently, only 16% of the SMEs were being financed by financial institution while a majority (34%) relied on their own finances (SME Annual Report 2005).

According to Muhammad et. al, (2011), the Malaysian SMEs are facing with many new challenges. The main challenges were increase in labour cost and lack of innovation. In the recent SME Master Plan 2012 – 2020, the key challenges that hinders the SMEs performance was identified. The key challenges were put under six themes namely innovation and technology adoption, human capital development, access to financing, market access, legal and regulatory environment and infrastructure.

1.5 Challenges Facing Small Scale Food Manufacturing Firms in Malaysia

Based on the Economic Census 2011, the total small scale SMEs involved in manufacturing sector were 13,934 firms and about 2,233 firms or 16% were food producers. The small scale food manufacturing firms have certain characteristic which differentiated them from their counterpart. They were organized as a family business, perhaps run by single proprietor. The location of the firm tends to be scattered. Usually found in both rural and urban areas, although some have been relocated in industrial areas (Ghani, 1995).

Despite the great potential for expansion in the food industry, there still exists some difficulties which restricted the food manufacturers from tapping this opportunity. The manufacturers especially the small scale will face with micro and macro challenges as this industry deals with various stakeholders along the food chain starting with farmers to the suppliers, policy makers, production, manufacturers, transportation services, retailers, wholesalers and consumers (Talib and Ali, 2009). Among the common challenges cited was similar with industry related problems such as insufficient supply of good quality raw material, low level of technology, lack of skill labour, management problem and difficulty in securing finance.

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Malaysian food processing industry comprises various processing activity ranges from cocoa and cocoa preparation to prepared cereal and flour preparations, fisheries, livestock and dairy product, vegetable and fruit and other segment. Although some of the material can be found locally but a large portion still rely on imported material like soybean and dried chilli peppers. Those materials produced locally are insufficient due to seasonal harvesting or small production scale (Ghani, 1995). Regarding to low level of technology, Elsadig (2011) stated that most of the small scale enterprises still rely on unskilled labour. Without internal expertise, they were unable to adopt high technology which eventually reflects in low productivity.

For marketing purposes, product should be packaged with attractive packaging design as well as proper packaging material. In this regard, Elsadig (2011) suggest that there is a need in further improvement on packaging aspect in order to help them to compete in the marketplace. Usually, the small scale food manufacturers were managed by the owners itself, who have insufficient knowledge in modern technique of management including book keeping and maintaining proper records. They tend to be satisfied with what they have achieved (Ghani, 1995). The small scale food manufacturers also were identified having difficulty in acquiring loans due to lack of collateral (Syed et al., 2011)

1.6 Government Policy on SMEs

During the Ninth Malaysia Plan 2006 - 2010, the development of the SMEs has been prioritized by the government. It can be seen through the implementation of various government initiatives. The main focus of the government was to transform the SMEs into a dynamic sector. The SMEs were expected to be more competitive and resilient in the challenging globalized economy. The SME Development Framework has been developed with the objective to synchronize the policies and programs on SMEs by more than 15 ministries and 60 agencies (Figure 1.5). In order to be competitive, the government has outlined that the SMEs need to move up the value chain through the participation in high value added activities outsourced by Multi-national companies (MNCs) and large corporations. The SMEs were encouraged to adopt customer-driven approaches in their business process.

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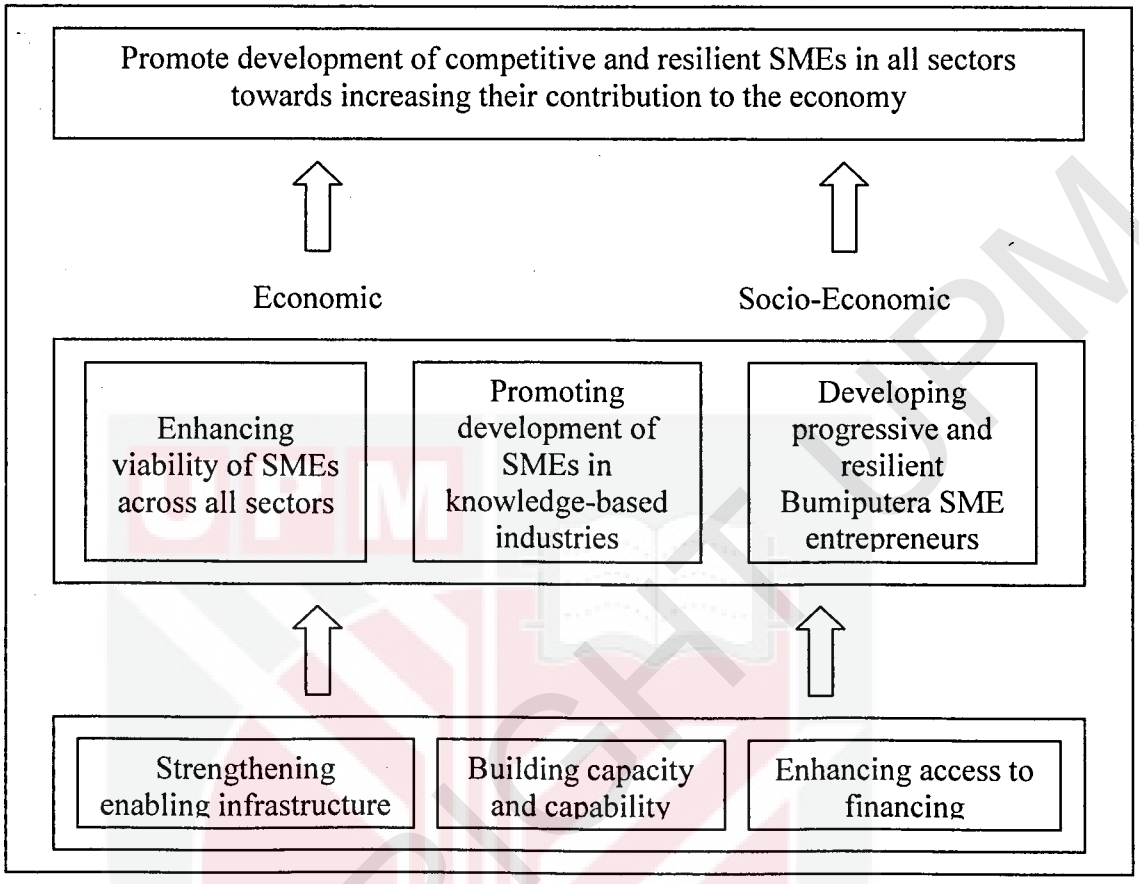

Source: SME Corp (2010)

Figure 1.4: SME Development Framework

Inter-firm linkages were strengthened and the scope was expanded covering the entire value chain in both manufacturing and services sectors. This will enabled the SMEs to position themselves as reliable and competitive suppliers. Moreover, adopting best business and management practices as well as transformation of business models to be cost effective and responsive to rapid changes of business environment were also promoted (Ninth Malaysia Plan, 2006 - 2010).

In an effort to nurture the export market, the SMEs were encouraged to explore outward investment opportunities. In this regard, the SMEs need to understand the characteristic and the existence requirement in different targeted market, having sufficient international marketing knowledge and skills, and adopting greater application of ICT as well as e-commerce in business operations. In line with global trends and technology advancement, the SMEs need to adopt and apply the advanced technology in doing the business. Strategic collaboration in research and development (R & D) activities between the SMEs and research institutes as well as universities have been encouraged. Moreover, the ability of human resources in driving the growth through technology and innovation is required. In relation to this, the existing programs on skill upgrading,

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acquisition of core competencies and specialized knowledge will be continued and enhanced (Ninth Malaysia Plan, 2006 - 2010).

More cohesive policy, supportive regulatory and institutional framework includes the adoption of systematic approach were initiated to achieve a higher rate of business success among the SMEs. Under this approach, the implementation of various support programs either financial or non-financial will be more coordinated. At the same time, measures to institute a more supportive institutional framework were introduced. This include the promotion of greater inter-agency coordination, strengthening the role of the National SME Development Council (NSDC), reinforcing collaboration between the government, entrepreneurs, industry associations, researchers and other parties as well as adopting performance appraisal and monitoring mechanism. In order to enhance the contribution of SMEs in the services sector, appropriate measures were also introduced in some potential sub-sectors such as (i) distributive trade; (ii) business and professional services; (iii) logistics services; (iv) construction and related services; and (v) information and communication technology (Ninth Malaysia Plan, 2006 - 2010).

The government's effort in establishing SMEs will be continued under the Tenth Malaysia Plan. This is inline with the aspiration of New Economic Model (NEM) where the government hopes to achieve high income growth and high productivity economy. Gross National Income (GNI) per capita was targeted to achieve RM38, 859 by 2015 and deficit ratio of GDP will be reduced from 5.3% in 2010 to less than 3% at the end of the Tenth Malaysia Plan. The government had decided that the national growth will be led by the private sector (SME Corp, 2010)

Under the New Economic Model (NEM), the government will focus on developing a number of strong homegrown companies and upgrading micro enterprises. Through the NEM, the government hopes that the SMEs will have the ability to compete in the international market and becoming regional and global champions. It is necessary for the SMEs to embrace greater knowledge, innovation, technology, and creativity which have been recognized as important elements in fostering them toward greater productivity, efficiency, competitiveness and profitability. The strategies and measures which related to the SMEs have been outlined in order to help achieve this aspiration (SME Corp, 2010).

1.7 Government Initiatives

In order to strengthen the SMEs capability and capacity, the government initiated various incentives and programs. These incentives and programs were applicable for the SMEs across all sectors. Some of the incentives and programs were discussed below.

1.7.1 Incentives

In general, there are two types of government incentives namely direct tax incentives or indirect tax incentives. According to the SMEs Handbook on Policies, Incentives, Programs and Financial Assistance for SMEs, direct tax incentives is a total relief from income tax payment for specified period while indirect tax incentive are in the form of exemptions from import duty, sales tax and excise duty. Those SMEs involved in food processing industry are eligible to apply for the following incentives;

i) Pioneer Status

Those company granted with Pioneer Status will enjoy a five year partial exemption from the payment of income tax. It will have to pay tax only on 30% of its statutory income. The exemption period starting from its production day which is the day its production level reaches 30% of its capacity.

ii) Investment Tax Allowance (ITA)

Those company granted with ITA will enjoy 60% allowance based on its capital expenditure incurred within five years starting from the date on which the first qualifying capital expenditure is incurred.

iii) Reinvestment Allowance (RA)

Reinvestment Allowance (RA) is granted to the manufacturing company that has been involved in operation for at least 12 months and incurs qualifying capital expenditure for expansion, modernization or automation of existing business or diversifying the existing business into any related products within the same industry. The company will enjoy with 60% RA based on the qualifying capital expenditure incurred and it can be further offset by 70% of its statutory income for the year of assessment. The RA will be given for a period of 15 consecutive years starting from the first reinvestment. Claim for RA should be made after the completion of the qualifying project.

iv) Tax Incentives for Halal Food Production

Those companies that made an investment in halal food production and already certified halal by JAKIM are qualified for Investment Tax Allowance of 100% of qualifying

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capital expenditure incurred within the five years period. The allowance can be offset against 100% of the statutory income in the year of assessment.

v) Incentive for Reinvestment in Food Processing Activities

This incentive is eligible for locally-owned manufacturing company with Malaysian equity of at least 60% that reinvests in promoted food processing activities. Under this incentive, the companies are eligible to apply for another round of the Pioneer Status or ITA.

1.7.2 Programs

Government provided various programs to promote SMEs growth. These programs were implemented through it relevant ministries and agencies. Some of the programs pertaining to the SMEs in the manufacturing sector are discussed below.

i) Enterprise Development Program

The objective of this program is to upgrade the SMEs toward business excellence by improving the performance through proper financial and productivity analysis and enable the SMEs to be more competitive in facing globalization challenges. This program will be focused on financial and productivity analysis, managing effective sale team, strategies for improving sale, effective marketing strategies and cash flow control.

ii) SIRIM Technology Incubation Center

This program will be focused on initiating and nurturing new technology ventures in advanced industrial technologies. The core activities will include with fund raising, market access, technology transfer, technology search and licensing. These activities will be held in eight incubation centers nationwide.

iii) SME Convention

This convention provides a platform for SMEs to share experiences, information and establish the networking among each other. Business matching sessions are also arranged to provide an avenue for the companies to strengthen business linkages and finding outsourcing opportunities.

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iv) Enterprise 50 Award Program

This is an annual award program organized by SME Corp and Deloitte Kassim Chan. Those Malaysia companies with excellent achievement and are well positioned for the future will be given with this award. This award program will be held annually where fifty winners will be selected from the nominations received. The evaluation criteria were based on management and financial performance. This award is endorsed by the FMM, National Chamber of Commerce and Industry of Malaysia together with other judges appointed by SME Corp and Deloitte.

v) Advisory Services

Specifically, there are two types of advisory services namely; (i) business and management advisory; and (ii) technical advisory. Business and management advisory services usually related to the provision of supervised credit and training including the preparation of business plan, establishment of an accounting system, cash budget and financial viability for loan application (Moha Asri, 1999). Meanwhile, R & D on production technology, technical information on intellectual property, product innovation, design improvement, processing techniques, plant layout, equipment selection and quality control are more related to technical advisory services (Ndubisi, 2008 and Moha Asri, 1999). A detail description of advisory service is shown in Appendix A.

Currently, there are more than 60 agencies that are responsible in providing advisory services. For instance, the Central Bank of Malaysia provides financial advisory services to SMEs and overseeing the set up of the SMEs advisory panel and counselors by financial institution. Business and consultancy support services which cover financial advices and preparation of business plan are provided by SME Bank. Furthermore, Credit Guarantee Corporation Malaysia Berhad (CGC) was given mandate to provide advisory services on financial and business development, credit information services and business credit rating.

Among other prominent advisory service providers are Small and Medium Enterprise Corporation (SME Corp which formerly known as SMIDEC) which acting as a referral center for SMEs. The SMEs expert advisory panel (SEAP) was launched by this institution in 2003 with an aim to provide technical assistance. Federal Agriculture Marketing Authority (FAMA) and Malaysia External Trade Development Corporation (MATRADE) are the two agencies that focus on marketing advices. Advices on domestic market are being given by FAMA while MATRADE provides assistance for export market. In terms of the advices that are related to the technical aspect, the advisory services were provided by research institutions like Malaysian Agriculture Research and Development Institute (MARDI), Standards and Industrial Research

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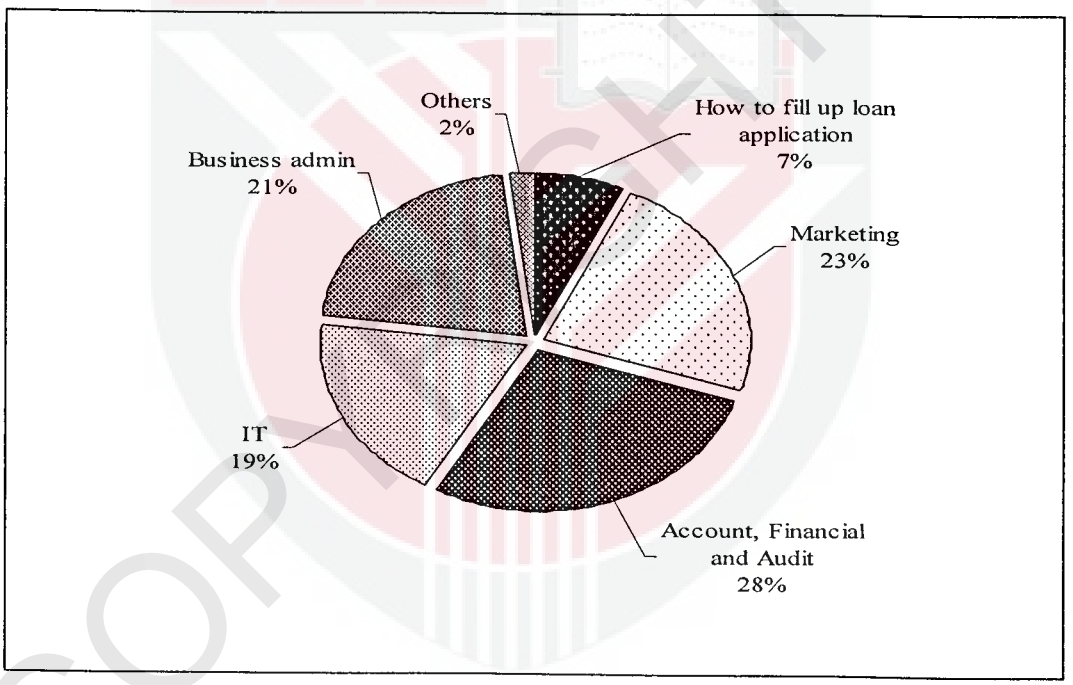
Institute of Malaysia (SIRIM), Department of Veterinary Service (DVS), Malaysian Palm Oil Board (MPOB) and other agencies like Department of Agriculture (DOA), MARA, Malaysian Productivity Corporation (MPC) and many more.

Despite various sources of advisory services available, only 14% of the SMEs had received advisory services from government agencies. About 52% of them do not have access and those who have access relied solely on the private sector (SME Annual Report, 2005). This low take up rate is associated with unawareness about the services provided (Hakimin, Rafi and Dahlan, 2010; Khairuddin, 2007; Foziah et al., 2006). In order to enhance the SMEs level of awareness pertaining to the government supports available, SME Corp has published and disseminated the SME handbook on policies, incentives, programs and financial assistance for SMEs. Furthermore, types of advisory services needed by the SMEs were also identified (Figure 1.5).



Sources: SME Annual Report (2005)

Figure 1.5: Types of Advisory Services Required by SMEs

1.8 Problem Statement

The experience from the economic crisis over the past few years made the government realized that it is necessary for this country to create endogenous sources of growth rather than depend heavily on the large company where most of these companies are normally owned by the foreign investors. The argument is that during the economic

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downturn, some of the investors may choose to minimize their lost by reducing the amount of investment. When this happened, the distortions to the industrial development will occur. The way to deal with this situation is through the development of strong local based company. Therefore, SMEs development was the main national agenda during the Ninth Malaysian Plan (2006 – 2010).

Previously, various initiatives have been taken by the government in order to build strong and competitive SMEs especially the small scale, making them resilient to challenges from trade liberalization. The initiatives provided were in the form of financial and nonfinancial aid. With greater attention focused on them, SMEs will be able to play a vital role as an engine of growth. Despite the huge contribution of SMEs to the national economy, the Malaysian SMEs are still faced with various constraints and challenges.

In order to address this shortcoming, a larger financial allocation has been channeled to implement the various initiatives that can benefit the SMEs. For instance, during the Ninth Malaysian Plan (2006 – 2010), the government spent about RM 26 billion in SMEs development programs, representing 11.6% of the whole development expenditure during that period (SME Master Plan 2012 – 2020). The programs were aimed to minimize constraints faced by the SMEs. One of the programs is advisory services which is provided to enhance capacity and capability in term of knowledge and skills as entrepreneurs among the SMEs.

Currently there are more than 60 agencies involved in providing advisory service to the SMEs (SME Corp, 2010). The type of advisory service offered is varied. It is necessary to note that small scale SMEs especially the new start-up is vulnerable by economic fluctuation (Mohd Nor and Mohd Rafi, 2010). They always need guidance along the business cycles especially in the preparation of business plan. In term of the technical aspect, they need guidance on how to improve the production method and the product quality which finally could lead them toward business expansion (SME Annual Report 2005). Having insufficient knowledge has been recognized as one of the reasons that cause managerial incompetence among the small scale SMEs (Abdul Aziz and Shanmugam, 1998). Thus, engaging them with assistance and guidance in term of consultation from the relevant agencies is needed for that matter.

Based on the current record, about 34,000 SMEs in various sectors had received advisory services from various government agencies (SME Annual Report, 2006). With advisory service received, the capability of these SMEs was expected to increase. However such expectation would be misleading. As a government program, the implementation of advisory services needs to be evaluated. In order to justify the importance of this study, the research questions were developed. For instance, what was the performance of those recipients of advisory services? Does advisory service received influenced their growth? What is their perception against the factors that influence the

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effectiveness of the services provided? Hopefully the finding of this study could provide the answer for these questions.

1.9 Objectives of the Study

The general objective of this study is to analyze the influence of advisory services on firm growth of small scale food manufacturers in Selangor.

The specific objectives are;

1) To describe the profile of small scale food manufacturer in Selangor.

2) To identify respondent perceptions on the factors that influences the effectiveness of the service provided by government's institution.

3) To evaluate the effect of advisory services received on firm growth

1.10 Significance of the Study

The performance of the government institutions in helping SMEs has long been discussed either by individuals, target groups, stakeholders as well as politicians. Some of the discussions tend to judge these institutions as less effective in implementing various government programs. This occurs because of the lack of empirical study conducted to evaluate the effect of the program implemented. Most of the previous and current findings focused on other perspective like awareness and the usage of government program rather than the effect itself. Some studies conducted in other countries proved that firm growth and government assistance have a positive relationship. However, it is not sufficient to rely on that finding due to the differences in demographic factor, environment, policies, law and regulation practiced in Malaysia

Thus, the implementation of advisory service program needs to be evaluated. This would help the government to know the effect of this program and recognized the shortcoming and weaknesses during the implementation. Therefore, the findings of this study are worthwhile for policy maker, government institutions and SMEs itself. The information will be able to help the government to formulate appropriate strategies pertaining to the extension works. Similarly for the institutions that provide the services where they can use this finding as guideline to improve the quality of service provided. They can provide better access through eliminating or reducing the unnecessary process and procedures. At the same time, this information also could help the institutions to design and formulate strategies to promote their services to the SMEs. Finally, the SMEs

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can evaluate the effect of the advisory services received. Hopefully this study would be able to fill the gap in existing literature pertaining to the effect of advisory services program on SMEs growth. This study also could enrich the existing literature by identifying the possible factors that would influence the effectiveness of advisory services.

1.11 Organization of the Thesis

The thesis consist of five chapters namely (i) introduction; (ii) literature review; (iii) methodology; (iv) result and discussion; and (v) summary and conclusion. Chapter 1 discusses the introduction of the study which also contains the general picture on Malaysian food processing industry, the problem statement, research objectives and significant of the study. Chapter 2 presents the review of recent and relevant literature in this area. This chapter provides better understanding about what constitutes in advisory service, how to measure the effect of advisory service received and what are the indicators used to indicate the effect of advisory service on firm growth. Chapter 3 proceeds with the explanation of conceptual framework as well as methodology and statistical techniques used to analyze the data. This chapter will further explain on sampling and data collection. Chapter 4 discusses the result of this study which consists of descriptive data, factor analysis as well as logistic regression analysis. Finally, chapter 5 summarizes the finding of this study and draws the conclusion of the research along with some notes about the implication and recommendation for future studies.

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