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The Effect of Business Development Services on Small Medium Enterprises (SMEs) Performance

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Abstract

This research aims to investigate the effect of Business Development Services (BDS), namely the non-financial services and financial services on the performance of manufacturing Small Medium Enterprises (SMEs) in Sabah, Malaysia. Business development services are recognised as the support services to SMEs, aimed to assist SMEs in overcoming internal and external constraints in its development, thus, improving its performance. A self-administered questionnaire was used to collect data from 161 SMEs within the manufacturing sector in Sabah. Partial Least Square (PLS) was employed to analyse data collected. The results reveal that only financial support has an effect on SMEs performance, whilst contrary to expectation, non-financial support was found to have no effect on SMEs performance in Sabah, Malaysia. The outcome of this study provided significant information, especially to the government agencies responsible for the development of SMEs such as SME Corporation Malaysia. They should evaluate further the existing programmes and guidelines and enforce more effective policies to improve the performance of SMEs in Malaysia, particularly in Sabah.

Keywords: Business Development Services, SMEs performance, Non-Financial Services and Financial Services.

Introduction

The importance of Small and Medium Enterprises (SMEs) in the development of Malaysian national economy is undeniable. In fact, the SMEs' role is very important in order to achieve the nation vision 2020 in becoming an industrial country. Therefore, in July 2012, SME Corporation Malaysia (SME Corp. Malaysia) launched the SME master plan (2012-2020) as a catalyst to drive SMEs to the next level by raising its GDP contribution to 41% by the year 2020. The SME master plan outlined 32 initiatives of business development services across six focus areas, namely innovation and technology, human capital development, market access, legal and regulatory environment, infrastructure, and access to financing. In 2015, a total of 150 business development services programmes were implemented, amounted to about MYR 5 billion that had benefited more than 580,100 SMEs. In addition, another 20 programmes were implemented

in collaboration with the private sector, valued at approximately MYR 3.1 billion, which had benefited some 12,900 SMEs (SME Annual Report, 2015/ 2016).

Generally, SME in Malaysia, especially in the manufacturing sector is reported to be underperformed (SME Annual Report, 2015/16). In 2015, the total share contribution of manufacturing sector against SME GDP was approximately 21.7%. The amount was smaller compared with the overall share of the manufacturing sector in the total GDP, which was 23% (SME Annual Report, 2015/16). Therefore, it is important to discern how effective is business development services in boosting the performance of SMEs.

The SMEs effectiveness can be further enhanced through resources related to market access, infrastructure facilities, procurement services, and financial services, also known as business development services (Musara & Fatoki, 2010). According to the resource-based view theory (RBV), which is rooted in the work of Penrose (1959), access to the resource is an organisational strength that supports the SMEs in planning and implementing their strategies (Learned, Christensen, Andrew, & Guth, 1969; Porter 1991). The resources, which the RBV referred to the organisational assets, capabilities, organisational processes, firm attributes, information, knowledge, and whatever was in the firm's control that allows the company to implement its strategy, efficiently and effectively (Daft, 1983). In general, the resources can reduce costs that need to be issued by the company and may also increase the company income earned from the implemented strategy (Barney & Arian, 2001).

Problem Statement

The performance of small and medium enterprises, especially the manufacturing sector was highlighted in the SME Annual Report 2015/2016. Despite numerous promotion and the implementation of business development services for small and medium enterprises, the report reveals that the manufacturing sector in Malaysia, generally, is still under performed compared to the other sectors, such as services, agriculture, and construction. In the same vein, Sabah Development Corridor Blueprint (2008-2025) listed a number of key challenges that if left unresolved will continue to impact negatively on the overall competitiveness of small and medium enterprises, especially the manufacturing sector. These challenges—infrastructure, shipping costs, and skilled manpower—need to be resolved in order to bring forth the manufacturing sector to its full potential.

As mentioned earlier, the government and private agencies intervention include providing business development services to assist small and medium enterprises compete resourcefully in the open market. Meanwhile, the effectiveness of business development services as a tool to improve the performance of SME is still debatable as with most issues in business development services. Meanwhile, there has been very limited research conducted on the effect of business development services on the small and medium enterprises performance in Sabah. However, the literature review reveal that this particular business cluster encountered multifaceted challenges; financially and non-financially (Chan, 2008).

Accordingly, it is essential to identify the effect of business development services on the performance of small and medium enterprises. Over the last decade, business development services have been closely linked with the government and private agencies to improve and develop small and medium enterprises in Malaysia. More researches are call for to examine the specific and detailed effect of the government's policy programmes, especially business

development services, which comprise the financial and non-financial support (Park & Kim, 2010). Furthermore, there is a need for a further research and analysis that focuses on the specific area related to growth, specifically the performance of small and medium enterprises (Alam et al., 2011). This has been part of the motivation for this current research undertaking. Therefore, this study aims to investigate the effect of business development services (financial and non-financial support) on the performance of SME. The current study will contribute to the extant literature of business development services since there is lack of literature pertaining to business development services, especially in Malaysia. The results and recommendations stemming from this research would potentially provide some viable ideas for the competitive SMEs. They could contemplate on the best or most appropriate solution to enhance their company's performance, thus maximising the application of business development services provided by the government.

Literature Review and Hypotheses

Business Development Services

There is yet a clear and internationally recognised definition of business development services, however, several authors and researchers have attempted to define the terms. A definition by definition by Committee of Donor Agencies for Small Enterprise Development (2001) defines business development services as a service that improve the performance of the enterprise, its access to markets, and its ability to compete. The business services consist of training, consultancy, marketing, information, technology development and transfer, business linkage promotion in both strategic and operational efforts. Business development services are designed to serve individual businesses, as opposed to larger business community.

Business development services can also be defined as non-financial services and products offered to entrepreneurs at various stages of their business needs (IFC, 2006). The objective is to assist small and medium enterprises to overcome internal and external constraints in their business development and thus improve their performance. According to Brijlal (2008), traditionally, business development services comprised non-financial services assistance towards business owners. However, since these services are offered in conjunction with credit and other financial services, the financial services can be aptly included in the business development services provision.

Meanwhile, business development services in the Malaysian context are based on the SME development programmes provided by SME Corporation Malaysia (SME Corp. Malaysia). Currently, SME Corp. Malaysia has implemented a total of 150 programmes in six key areas, namely market access, infrastructure, legal and regulatory environment, innovation and technology adoption, human capital development, and access to financing. The goals of these focus areas are to increase the business formation and expand the number of high growth and innovative firms as well as to raise productivity and intensify the formalisation of SME.

Non Financial Services

As discussed earlier, the non-financial services function includes providing training, consulting, marketing support, business information, access to technology, advocacy, business linkages,

infrastructure development, and other non-financial services (Committee of Donor Agencies for Small Enterprise Development, 2014). These functions are intended to enable business skills transfer as well as acted as supporting services to small firms (SMEs) who, in most circumstances, do not have the capacity to incorporate these services into their organisational functions. Non-financial services in Malaysia refers to innovation and technology adoption, human capital development, market access, infrastructure, and legal and regulatory environment. However, the current study will only focus on four dimensions of non-financial services, namely market access, infrastructure, human capital development, and innovation and technology adoption since these dimensions were mention as crucial to SMEs in Sabah (SME Master Plan, 2012-2020).

The previous research on non-financial support shows that market access plays an important role in business organisations (Pollard & Jemicz, 2006; O'Dweyer, Gilmore, & Carson, 2009; Price, Stoica, & Boncella, 2013). Market access can be achieved through market management, which is postulated to have the ability to enhance an enterprise's competitive advantage through increased market outreach. According to Price, Stoica and Boncella (2013), the management of market through continuous innovation, products or processes in anticipation of and response to, dynamic customer requirements, competitors and supply analysis is the essence of SME survival and growth.

The second dimension of non-financial services, which is covered by the current study is infrastructure. According to Easterly (2002), infrastructure facilities were viewed as the basic structures—physical and organisational—that provides support for the development of an organisation or economy. It is regarded as the essential linkage between a firm and its markets, which can, potentially, impact on the firm's revenues and its overall effectiveness (Price, Stoica, & Boncella, 2013). Functionally, infrastructures facilitate the production of products and services, and also facilitate the distribution of finished goods to the markets, for example, roads enable the transport of raw materials to a factory (American Heritage Dictionary, 2009).

The third dimension of non-financial services is training and technical assistance. According to Magableh and Al-Mahrouq (2006), SMEs should be equipped with management skills and entrepreneurship skills because their study shows that these two factors affected the performance and success of SMEs. Owing to its nature of small and medium sizes, SMEs in the past tend not to acknowledge training as something that adds value to their firms. Furthermore, training assists SMEs in coping with the latest accounting systems, information technology, management concepts, and production techniques (Jones, 2004).

The fourth dimension of non-financial services is technology and product development. The findings by Pollard (2006) suggested that SMEs would need high quality of information technology and must constantly provide products of superior value and better than their competitor, particularly, when it comes to quality, price, and services. Generally, the results of this deeds significantly improved the products and processes, which later translated into increased customers' loyalty and stimulated a greater demand for other products by the organisation. Meanwhile, Karadal and Saygin (2011) concluded in their study that the adoption and implementation of information and communication technology have significant positive effects on the development of new products. Innovation allows companies to make better use of information whilst communication technology assists in the generation of new ideas. The implementation of those ideas in the production process led to the production of products

demanded by consumers and customers of the organisation. Therefore, based on the aforementioned findings of non-financial services, it can be hypothesised that:

H1: There is a positive relationship between non-financial services provided in business development services and SME performance.

Financial Services

Financial services refers to property loan, working capital, and grant (Yusoff et al., 2010). Access to financial services is critical for small and medium enterprise development and growth, and the availability of financial services is positively related to productivity and growth. According to Hallward-Driemeier and Aterido (2007), of all the areas in the business environment, companies that improved its access to financial services gain better benefits. One of the principal conclusions of modern economics is that financial services are important to improve performance (Cecchetti & Kharroubi, 2012) of small and medium enterprises (Beck & Demirguc-Kunt, 2006; Shariff et al. 2010; Shariff & Peou, 2008).

Meanwhile, according to Boateng (2004), finance is a resource (capital) that is used to innovate and expand a business to achieve success. Capital is vital to the success of the enterprise as it forms the foundation of the enterprise. Winton and Yerramilli (2008) noted that once the market opportunity and strategy to seize the opportunity are well defined, a firm may begin to examine the financial requirements in terms of asset needs and operating needs. Finance for business is vital as it forms the foundation of SMEs (Boatang, 2004).

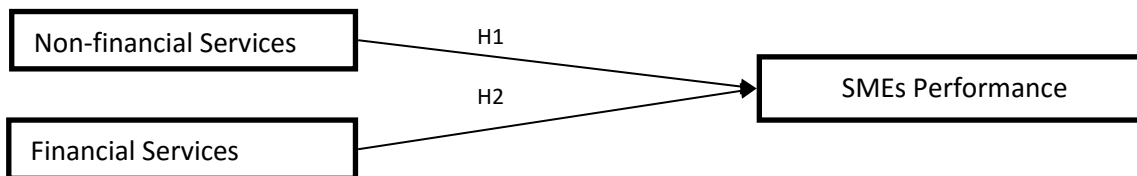
The main problem for SMEs to remain in business is because SMEs cannot cope without enough capital. Accordingly, banks in Malaysia have tailored several solutions for the problem. For instance, SME Bank as its name implies aims mainly at small and medium enterprises. As a government-linked bank, the assistance offered fulfils the needs of SMEs and their business growth. With the support of the government, small and medium enterprises are able to maximise the financial services and perform better. Thus, it can be hypothesised that:

H2: There is a positive relationship between financial services provided in business development services and SME performance

Research Methodology

Theoretical Framework and Measures

The theoretical framework in this study is depicted in Figure 1. Non-financial services and financial services serve as the independent variable, whilst SME performance is the dependent variable of this study. The primary data for independent and dependent variables were collected through a face-to-face survey by using a structured questionnaire. The details of the survey instrumentation are illustrated in Table 1. Only 161 questionnaires fulfilled the requirements set by the researcher, giving a response rate of 80.5%. The independent variables instruments, namely innovation and technology adoption, human capital development, market access, infrastructure, legal and regulatory environment, and access to financial were adapted from Okeyo, Gathungu and K'Obonyo (2014) and Jauriyah (2014). Meanwhile, the dependent variables instrumentation, which consists of financial performance and non-financial performance of SMEs were adopted from Mohd Rosli, Kuswantoro and Che Omar (2012). The measurement used is based on a five-point Likert type scale, ranging from "1 = strongly disagree" to "5 = strongly agree".



**Figure 1 : Theoretical Framework
Data Collection and Sample**

The participants of this study were the manufacturing SMEs in Sabah. The criteria for the participants are (1) SMEs operating in Sabah, Malaysia, (2) manufacturing and manufacturing-related sectors, (3) SMEs with employees that do not exceed 200 full-time staff, and (4) SMEs that received BDS from agencies in the form of either financial or non-financial support. For this study, the SME firm was taken as the unit of analysis. Therefore, the researcher received responses from owner-manager, operation manager, or managers only since they are perceived to have vast knowledge about the firms' operations. The number of employees was used to verify the size of an organisation, which is to determine if it is an SME. The results showed that 43.5% firms have less than 5 employees, 44.7% firms have around 5 to less than 75 employees, and 11.8% firms have approximately 75 to not exceeding 200 employees. This confirms that an overwhelming majority of the respondents were in the SME category, as expected.

Data Analysis and Results

The data were analysed using Partial Least Squares (PLS) approach to Structural Equation Modelling (SEM). A two-stage process is used to analyse and interpret the data. The first stage is the assessment of the reliability and validity of the measurement model and the second stage is the assessment of the structural model to test the hypotheses under study. These assessments are presented in the next subsections.

Reliability and Validity

As shown in Table 2, the composite reliability of the constructs is between 0.875 and 0.959, which exceeded the cut value of 0.7 (Straub et al., 2004). Thus, the results indicated a good internal consistency and satisfactory level of reliability. The convergent validity was confirmed by examining the average variance extracted (AVE), standardised factor loadings and discriminant validity. All AVE values were more than 0.5, indicating a good convergent validity (Hair et al., 2006). All the loadings exceeded the recommended value of 0.708 (Hair et al., 2014). Table 3 and Table 4 illustrate the discriminant validity by using cross loading and the criteria by Fornell and Larcker (1981). As shown in Table 3, the loadings of the indicators are higher on their respective construct compared to other constructs. Thus, the measurement model is considered to have fulfilled the discriminant validity. In Table 4, the values of the square root of AVE (diagonals) were higher than the other correlations values. Therefore, the ideal discriminant validity was confirmed.

Table 2: Internal Consistency, Indicator Reliability, and Convergent Validity

Construct / Items	Loading	Composite reliability (CR)	Average variance extracted (AVE)
Market Access		.908	.712
MA1	.900		
MA2	.787		
MA3	.912		
MA4	.766		
Infrastructure		.952	.832
INFR1	.926		
INFR2	.929		
INFR3	.925		
INFR4	.865		
Training and Technical Assistance		.933	.700
TT1	.747		
TT2	.906		
TT3	.806		
TT4	.849		
TT5	.837		
TT6	.868		
Technology and Product Development		.901	.695
TECH1	.781		
TECH2	.863		
TECH3	.874		
TECH4	.812		
Financial Support		.959	.921
FIN1	.963		
FIN2	.955		
Financial Performance		.912	.675
PF1	.858		
PF2	.848		
PF3	.815		
PF4	.823		
PF5	.763		
Non-Financial Performance		.875	.584
PNF1	.747		
PNF2	.775		
PNF3	.720		
PNF4	.763		
PNF5	.814		

Table 3: Discriminant Validity: Cross Loadings

Construct / Items	1	2	3	4	5	6	7
MA1	.900	.436	.435	.518	.152	.174	.322
MA2	.787	.467	.508	.502	.203	.027	.150
MA3	.912	.431	.474	.496	.187	.227	.325
MA4	.766	.441	.465	.477	.320	.136	.186
INFR1	.544	.926	.527	.593	.256	.179	.165
INFR2	.499	.929	.505	.594	.209	.197	.193
INFR3	.470	.925	.461	.555	.180	.209	.205
INFR4	.362	.865	.456	.483	.096	.156	.157
TT1	.470	.422	.747	.535	.187	.375	.330
TT2	.449	.467	.906	.557	.300	.272	.176
TT3	.455	.492	.806	.567	.314	.199	.103
TT4	.475	.443	.849	.523	.202	.158	.224
TT5	.449	.434	.837	.513	.321	.205	.204
TT6	.391	.418	.868	.580	.266	.207	.106
TECH1	.604	.543	.525	.782	.203	.297	.218
TECH2	.489	.539	.617	.863	.233	.257	.194
TECH3	.432	.517	.533	.874	.186	.203	.076
TECH4	.407	.428	.498	.812	.088	.184	.202
FIN1	.219	.227	.306	.185	.963	.329	.187
FIN2	.240	.157	.289	.231	.955	.269	.213
PF1	.147	.237	.221	.272	.298	.858	.481
PF2	.221	.110	.189	.171	.276	.848	.587
PF3	.054	.131	.246	.197	.167	.815	.485
PF4	.054	.050	.176	.146	.193	.823	.524
PF5	.247	.256	.397	.345	.311	.763	.479
PNF1	.345	.274	.252	.272	.275	.484	.747
PNF2	.146	.007	.053	.040	.128	.388	.775
PNF3	.218	.034	.161	.062	.083	.519	.720
PNF4	.180	.134	.130	.070	.113	.488	.763
PNF5	.310	.329	.351	.344	.183	.522	.814

Note: Bold values are loadings for items which are above the recommended value of 0.5

(1)= Market Access; (2) = Infrastructure; (3) = Training and Technical Assistance; (4) = Technology and Product Development; (5) = Financial Support; (6) = Financial Performance; (7) = Non-Financial Performance

Table 4: Discriminant Validity: Fornell-Larcker criterion

Construct / Items	1	2	3	4	5	6	7
Market Access	.844						
Infrastructure	.512	.912					
Training and Technical Assistance	.542	.534	.837				
Technology and Product Development	.581	.610	.656	.834			
Financial Support	.239	.201	.310	.216	.960		
Financial Performance	.187	.204	.302	.284	.313	.822	
Non-Financial Performance	.313	.198	.247	.211	.208	.620	.764

Note: Diagonals (in bold) represent the square root of AVE while the other entries represent the correlations

(1)= Market Access; (2) = Infrastructure; (3) = Training and Technical Assistance; (4) = Technology and Product Development; (5) = Financial Support; (6) = Financial Performance; (7) = Non-Financial Performance.

Hypotheses Testing

Table 5 presents the results of the hypotheses of this study. The R² value is 0.346, suggesting that 34.6% of the variance in SMEs performance can be explained by non-financial and financial support. The hypotheses testing results revealed that only Hypothesis 2 is significant and supported. The relationship between financial support and SME performance is found to have *t*-value ≥ 1.645 , thus, significant at 0.05 level of significance. In other words, financial support is positively related to SME performance ($\beta = 0.203$, $p < 0.001$). However, Hypothesis 1 shows that non-financial support has no relationship with SME performance since the *t*-value ≤ 1.645 at 0.05 level of significance.

Table 5: Hypotheses and Results

Hypothesis	Relationship	Path Coefficient	<i>t</i> Value	P Values	Supported
H1	Non-Financial Support → SME Performance	0.090	1.196	0.233	No
H2	Financial Support → SME Performance	0.203	5.261	.001**	Yes
R²		0.346			

Note: $p < .10$; ** $p < .05$; *** $p < .01$

Discussion and Conclusion

The aim of this study is to investigate the effect of business development services that consists of financial and non-financial support on the performance of SMEs in Sabah, Malaysia. The results of this study reveal that only financial services have an effect on SME performance. Similar findings were found by Jauriyah (2014), Yusoff and Yaacob (2010), Denan (2008), and Wren and Storey (2002). The access to financial services is an important to support small and medium enterprises performs better. Contrary to the expectation, the results of this study revealed that non-financial services have no effect on SME performance.

The key contribution of this research is the empirical evidence of the effect of business development services on SMEs performance, especially in Sabah, Malaysia. The policymakers may use the research findings in the formulation of policies related to SMEs. Financial access is critical to the small and medium enterprises growth and development. Improved access to finance has clear benefits to companies of all sizes (Hallward-Driemeier & Aterido, 2007) and good for improving performance (Cecchetti & Kharroubi, 2012). Therefore, the government should consider the possibility of offering more financial assistance to small and medium enterprises. A sufficient working capital will help them to perform better and overcome the internal and external constraints of a business development. On the other hand, SMEs should fully utilize the numerous financial support provided by the government and its agencies in order to grow and improve their business performance.

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