

INTI INTERNATIONAL UNIVERSITY

MASTER OF BUSINESS ADMINISTRATION

FACTORS THAT AFFECTS THE IMPLEMENTATION OF TRAINING AND DEVELOPMENT IN SMALL BUSINESS: CASE OF MANUFACTURING INDUSTRY IN JOHOR, MALAYSIA

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Abstract

The Malaysian government has realized that it is necessary to increase the competitiveness of small and medium enterprises (SME) in domestic and global market. Basically, Training and development programs playing important role in supporting small business to be achieve success. There are some important variables which are the critical factors in decision making of whether to implement training in the organizations. Thus, to identify this issues the researcher done a research to find out those are the factors influencing in implementation of training in an organization. This study was carried out in manufacturing industry in Johor state by use of questionnaire. Then the data analysis was carried out by using descriptive and factor analysis method. The results shows ownership and management role has a strong relationship in determine the implementation of training in SME organization. Apart from that, the influence levels of other three factors toward implementation of training are neutral. Based on the finding there some recommendation and conclusion provided.

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CHAPTER 1

INTRODUCTION

1.0 Chapter Summary

Chapter one consist of both the background as well as the purpose of the research where principally, this chapter elaborates issues pertaining to the background of the Small and Medium Enterprises (SMEs) in Malaysia and globally. Other than that, the chapter also incorporates problem definition, research question and research objectives. There will also be some detailing on the significant of the study, the limitations and assumptions made and the scope of the research.

1.1 Background

Generally, small and medium size enterprises generalized as an essential unit due to its function and responsibility in developing countries like Malaysia in order to develop a recognition from all four corners of the world. Even though many critics have established in small and medium enterprises being the medium to many countries' economic recovery, but in Malaysia the importance that is given towards them is still mediocre or low to a certain extent. There are many large organizations cease their operation because of tough competition among organizations in same industry and the instability of the world economy. According to Ladzani and Van Vuuren (2002), they argued that the consequences of retrenchment and jobless people setup their own small enterprises do not focus for survival but to create capital same as others in the community. Even in Malaysia, SMEs have been accepted as one of the essential way to achieve growth (Abdulla, 1999; Danis, 2006; Johan, 2006 and Aris, 2006)

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Saleh and Ndubisi (2006) categorize SMEs in Malaysia into two different groups. The first group is manufacturing, services associated manufacturing with agro based sector. The second category of the SMEs comprising services, primary agriculture, and information and communication technology. These SMEs aid the Malaysian government in terms of economic growth which includes bringing in new job opportunities, fair income distribution and increase of Gross Domestic Products and balanced payment. Based on small and medium enterprise corporation of Malaysia, it was reported that 99.2% of the total establishment of SMEs has created 56% employment opportunity of the total workforce in the country (SME Corp, 2008). Since the SMEs benefits the economy, Malaysian government has placed more emphasize for development of this industry by aiming toward the involvement of SMEs especially in increasing the gross domestic product from 32% in the year 2005 to 37% in the year 2010. In other hand, it has also increased the export rate from 19% to 22% together with 57% employment rate in year 2010.

According to author Zalealem and Jaloni (2005), they argued the growing intensity of globalization and global competitions are the two major factors that affecting the development of small and medium enterprise in developing countries. Although, the amount of SMEs in Malaysia reached from 70% to 90% from total established companies but in practically it does not indicate the effectiveness of the industry. Over 80% of SMEs failure rate in Botswana caused by the company's internal surplus factor itself (Zealelem and Jaloni, 2005). According to Feindt (2002) research, he found out that there are 16 million registered companies in European Union and almost 99% of the companies only utilizes less than 250 people, while micro enterprises respectively at 93%, employed less than 10 workers. Many researchers identified that during the first few years of operation, the failure of small and medium enterprise is extremely high. In United States, approximately 50% of the start-up SMEs do not succeed in the opening year and almost 75% to 80% of the companies are unsuccessful within three to five year of operation, while in Durban Region of South Africa; the failure rate for new started business is at 80%

(Ladzani and Van Vuuren 2002). Lack of competitiveness, particularly in the economic crisis is the main reason for most of the SMEs not being able to sustain in the industry. Apart from that reason, the market condition also affects SMEs' sustainability in industry since the SMEs are more likely to engage in perfect market condition. Moreover, looking at the Malaysian context, the government has provided numerous initiatives and facilities in order to improve SMEs' business performances. Thus, the government created an agency which is known as Small and Medium Industries Development Corporation (SMIDEC) and led the agency to be responsible for coordinating the SMEs development in our country. Through this agency, the government provides full support in term of training programs, good infrastructure, financing conveniences and other facilities. Yet, the failure rates among Malaysian SMEs are still significantly high and the organizations are incapable to compete in international market (Amir Hamzah and Ho, 2004). According to Tan (2006), he argued in his study about the inability to compete in international market occurs mostly due to uneducated entrepreneurs and their staffs itself. Again Tan (2006) with other two researchers Westhead and Story, (2006) pointed out this situation is twice, emphasizing on the insufficient of training and development programs to SMEs owners and their staffs. Apparently, some researchers set up in their study that the reason for failures of SMEs in Malaysia is because of the low learning achievement (Amir Hamzah and Ho, 2004) and nearly all the SMEs establish their businesses in rural areas (Ladzani and Van Vuuren, 2002) while Tan (2006) stated that 17% of the Malaysians working adults are uneducated. Consequentially, there are some weakness points in Malaysian SMEs that we should find out and analyze in order to increase their sustainability and competitiveness in global market.

1.2 Problem Definition

Although the research conducted by Jonathan Lean (2008) have indicated that training and development has played an important role in supporting small business, it also include some important variables which are the critical factors in decision making of whether or not to implement training in the organizations. Yong (2003) argues that local firms and businesses has less or no interest in skill enhancement, approach training on a needs basis and limit learning to job specific training. Management in local organizations does not expect employees to commit to lifelong learning especially in adapting new technologies and employees do not regard competence enhancement as a passport for career advancement.

Generally, training and development focuses on technical knowledge and skills with little emphasis on social and intercultural skills and competence development (Rowley and Abdul-Rahman, 2007). In fact, their study reveals that there were no formal induction programs for new staff to fit into the new environment in relation to blend together with their new colleagues. Only basic trainings are provided with little regard for career development planning. However, with the mandatory contribution of 1% of the payroll to the human resource development for training purposes (Hooi, 2008), more trainings (Rowley and Abdul-Rahman, 2007) and skills upgrading programs are available now and the skill level of employees is expected to further improve. However, among the small businesses in Malaysia, training and development that is implemented in is still lacking (Tan 2006), mainly due to financial and management role's constraint. But lately, increasing numbers of small, medium and large firms are acknowledging the need for their firms to adopt implementation and development.

The author wishes to relate the reasoning as to why small businesses do not implement training and development in their organizations which halt its' growth. Extant research on training in SMEs often criticizes the lack of formal training

provision as a reason for their low productivity and competitiveness (Matlay, 2004). The first factor that has been identified would be the ownership and management's role itself where often they do not prioritize training and developments. The other factors being, the product and market condition as well as the budgets and organization characteristic constraint. Basically, these are the factors that affect the decision making on implementing training and development in a particular organizations.

1.3 Research Questions

- What are the factors that influence on implementation of training programs in SME?
- Which factor influence more on implementation of training programs in SME?
- Why small scale business neglect training and development in their organization?

1.4 Research Objectives

- To identify what are the factors influencing on implementing training programs in SME
- To identify which of the factors that influence more on implementation of training programs in SME
- To obtain the reason why small business management not give important for training and development in their organization

1.5 Significance of the Study

The purpose of the study is to enlighten the employees on the importance of training and development, not only in huge businesses but also important for small scale business firms. The entry level of small firms is very few only as compared to the large scale business firms in training and development programs. This is

because the small firms cannot afford to implement the training and development programs for their employees. Contrary to large scale firms, the importance given by small firms on training and development program in their organization is very low. This situation causes the small firms to face a lot of difficulties when they intend to grow up their current business. Through this research, SMEs will be able to understand the factors that play the important role in determining implementation of training and development in small businesses in Malaysia better.

1.6 Limitations of the Study

There are some limitations in this research which can affect the researcher to proceed with identifying the factors that influence the implementation of training and development in small business. Time constraint – the research design that can be done is cross sectional which also known as one shot studies. The budget allocated is also limited for the research to be done. With ample of effort placed in this research, it was done successfully.

1.7 Assumptions

In this research, the author assumes that training and development has implemented in small and medium enterprise businesses therefore, productivity of the business will increase effectively as well as efficiently. On top of that, the results are collected from participants is assumed really on behalf of their company and considerate the influence why training and development is essential for SMEs.

1.8 Scope of the Study

The author chooses Johor state to conduct the research; there are 3.17 million population rates in Johor (Census, 2010). The author will choose small businesses that run in that state especially the manufacturing industry. The reason for choosing Johor is because in this state, there are a lot of small businesses, especially in