

Entrepreneurial Orientation as a Universal Remedy for the Receding Productivity in Malaysian Small and Medium Enterprises: A Theoretical Perspective.

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Abstract

SMEs in Malaysia continue to play a vital role and contribute significantly in the country's economic development agenda. However, the valuable and proficient contributions of the enterprises unachievable lead by some challenges faced by the enterprises and the dynamic nature of a highly global economy. The aim of this paper is that entrepreneurial orientation is the universal remedy to this receding productivity. Therefore, the paper provides deeper understanding of the cross-functional activities in the behavior-embedded nature of entrepreneurial orientation construct with the dimensions namely; innovation, pro-activeness, competitiveness, risk taking, competitive aggressiveness and autonomy.

Keywords: Entrepreneurial Orientation (EO), Productivity, Small and Medium Enterprises, Synergistic Management

1. Introduction

Small and Medium Enterprises (SMEs') have been the backbone of economic growth of an economy in driving industrial development (Hoq, Ha, & Said, 2009; Mohd Aris N, 2006; Mohd Asri & Mohd Isa, 2000). In fact, there are many statements of which deal with the role, importance and contribution of SME existence towards the nation growth (Surienty, Hong, & Hung, 2010; Omar, Arokiasamy, & Ismail, 2009; Smolarski & Kut, 2009; Saleh & Ndubisi, 2006a, 2006b; Budget 2009/2010). In Malaysia, SMEs account for about 99% of total business establishments and contribute 31% to the nation's Gross Domestic Product (GDP). Furthermore, SMEs' employs 56% off the total workforce and generates 19% of the total export (Budget 2009/2010). In order for vision 2020 to be fully developed and Malaysia to achieve a developed nation and high income status by the year 2020, the future progress seems to depend greatly upon development of SMEs (Omar, Arokiasamy, & Ismail, 2009).

According to Fan (2003), SMEs become the largest provider of employment in most countries, especially of new jobs and a major source of technological innovation and new products, essential for a competitive and efficient market, critical for poverty reduction. As such, it is essentially explains the reason why policy makers and governments have given high policy agenda on the development of SMEs (Mohd Asri A. & Mohd Isa B., 2000; Fan, 2003).

In Malaysia, the governments, therefore, put greater effort into strengthening the performance of SMEs by initiating many programs and incentives which based on three main strategic thrusts which aim at: (1) strengthening the enabling infrastructure, (2) building the capacity and capability of domestic SMEs and (3) enhancing access to financing by SMEs (<http://www.smecorp.gov.my/node/34>). This is the materialization of the importance and inadequacy of the SMEs. In parallel to this, the role of entrepreneurs in SMEs has been recognized and undeniable. Subsequently, the existing entrepreneurs have to be entrepreneurial orientated and improve the level of entrepreneurship in order to strengthen the resilience of the economy in a competitive and challenging environment. Besides that, one of the criteria for firms who want to be successful that being argued by researchers is requiring them to have Entrepreneurial Orientation (EO) (Lumpkin & Dess, 1996; 2001).

EO is defined as the willingness of firms to display proactive and innovative actions and to take calculated risk in an effort to create and exploit environment opportunities (Kreiser et.al, 2002; Covin & Slevin, 1989; Miller, 1983; Miller & Friesen, 1982). The several of dimensions of EO such as innovation, pro-activeness and risk taking qualities will be imitated and significant for the growth and business performance of SMEs in the area (Fairoz et. al, 2010). In addition, EO (Madsen, 2007b) may be used as a medium by management to discover and exploit opportunities and implicitly affects firm performance.

Further, firms in stable environments but with limited access to capital, can be superior performers if they have high EO (Wiklund & Shepherd, 2005). For these reasons, EO is really critical to the firm to act in a strategic orientated either in its processes, methods or decision styles that firms used in entrepreneurship. In view of the facts, EO is the chief element in acting strategic entrepreneurial activities. Numerous studies point out a positive association of entrepreneurial orientation with financial performance (Miller, 1983; Covin & Slevin, 1988 & 1989; Naman & Slevin, 1993; Zahra, 1993; Zahra & Covin, 1995). Besides that, theoretical evidences that relate the effects of entrepreneurship on the economy are also plenty in present literature (Lumpkin & Dess, 1996; Ogunsiji & Kayoed, 2010; Sciascia et al., 2006; Tang et al., 2009; Dickson & Weaver, 2008; Kreiser et al., 2010; Kreiser & Justin, 2010; Runyan et.al, 2006; Lee et.al., 2009). Majority of empirical models are lacking on the subject of entrepreneurship when describing about economic growth (Wong, Ho, & Autio, 2005). As a result, EO has been discussed wrongly in respect of firm productivity.

This paper is intended to contribute to our understanding of the state of the small and medium enterprises in Malaysia and highlight the importance of EO as the solution to the productivity of these SMEs. Information obtained from this paper will provide a further understanding in the context of strategic orientation in the form of EO influences the productivity relationship and hence the SMEs' firm performance. Furthermore, it will examine the underlying dimensions of EO that verify the productivity. In addition, it is also considering on the attitudes of entrepreneur influences the EO and lead to the productivity, how EO is being driven and executed across the many functional activities of SMEs.

2. A Profile of SMEs in the Malaysian Economy

SMEs in Malaysia play an important role and be a vital component of the growing Malaysian economy (Saleh & Ndubisi, 2006; Surienty, Hong, & Hung, 2011). In order to facilitate identification of SMEs, a definition is significant as Ogunsiji & Ladanu posited that “ a major step to understanding SMEs is to have a definition” (Ogunsiji & Ladanu, 2010, p. 193). Malaysia adopted a common definition of SMEs to fulfill the criteria in the various sectors and subsectors. There are three based factors that being used in defining SMEs in Malaysia, namely; size, turnover and activity. Those relevant to this paper find SMEs in Malaysia falling into two broad categories:

- a. Manufacturing, manufacturing-related services and agro-based industries, which have either:
 - Less than 150 full-time employees; or
 - Annual sales turnover of less than RM25 million.
- b. Services, primary agriculture and information and communication technology (ICT), which have either:
 - Less than 50 full-time employees; or
 - Annual sales turnover of less than RM5 million.

An enterprise is considered to be an SME based on the annual sales turnover or number of full-time employees, as indicated in **Table 1(see appendix)**.As reported in the SME Annual Report 2009/2010, the census 2005 showed that there were 552,849 total establishments in Malaysia covering the main sectors namely; manufacturing, services, and agriculture which SMEs accounted the most for the total of 99.17% (548,267). While only 0.83% remaining were occupied by large companies. The largest number out of the SMEs formation represented by the micro establishments which over than three quarter (79.33%) (**Table 2- see appendix**)

SMEs in Malaysia may be categorized into three sectors, namely; general business, manufacturing and agriculture (Khairuddin, 2000). They were mainly in the general business or service sector, accounting 86.6% (474,706) of total business establishments. Majority of these businesses involved in the distributive trade which includes wholesale and retail, transport and communication, as well as hotels and restaurants. The manufacturing sector, meanwhile accounts for 7.2% (39,373) of total SMEs, of which more than half were in the three main subsectors, namely textiles and apparels, metal products and food and beverages (F & B). This was followed by the agriculture sectors which constitutes another 6.2% (34,188) of SMEs. Most SMEs in the agriculture sector are involved in crop plantation, horticulture and fishing (SMEs Annual Report 2009/2010). The diagram of percentage of SME establishments by sector is as indicated in **Chart 1 (see appendix)**.

In regards to geographical location, Selangor be the highest number of establishment constitutes 18.0% (98,523), followed by Wilayah Persekutuan Kuala Lumpur and Johor represent 17.7% (96,818) and 10.3% (56,471) respectively. The detailed of number of establishment by state is indicated in **Table 3 (see appendix)**.

This scenario of which a huge number of SME establishments was located in the West Coast of Malaysia because it is be in the industrialized location and equipped with port services (Saleh & Ndubisi, 2006). In terms of SMEs' share performance to Gross Domestic Product (GDP) in the period 2006-2009 was increased and largely contributed by services sector and followed by construction and agriculture sectors (**Table 4 - see appendix**). Meanwhile, value added growth of SMEs gained momentum to peak at 10% in 2007 before moderating to 6.0% in 2008, and thereafter contracting slightly by 0.4% in 2009 due to the global financial crisis. Overall, the average annual growth rate of SMEs in the period 2006 - 2009 was 5.7%, above the average growth of the overall economy of 3.8%. An important point to note is that despite the economic slowdown, SMEs continued to record a better performance than the overall economy (SMEs Annual Report 2009/2010). The detailed of the value added growth of SMEs 2001-2009 is as indicated in **Table 5 (see appendix)**. Hence, as of today, there are two of interesting changes in SMEs growth in Malaysia. Firstly, for six years from 2004 until 2009, value added growth of SMEs has consistently outperformed that of the overall economy, averaging at an annual rate of 6.3% compared to 4.5% for the overall GDP growth due to the persistent of policy initiatives by the government. Secondly, SMEs are generally more durable than larger corporation during the economic downturn. They are stabilizers of growth since agile and able to adjust to changes in market conditions efficiently.

3. Entrepreneurial Orientation and the Productivity of SMEs in Malaysia

Even, many governmental programs have been executed in reinforcing the performance of SMEs, Malaysian SMEs still face challenges in both domestic and external, which could obstruct their hardiness and aggressiveness (Saleh & Ndubisi, 2006). Ting (2004) identified five key challenges that still facing Malaysian SMEs and those challenges to include:

- a. Lack of access to finance
- b. Human resource constraints
- c. Limited or inability to adopt technology
- d. Lack of information on potential markets and customers
- e. Global competition

More recently, however, Soon (2011) pointed out those challenges faced by Malaysian SMEs posed internal and external respectively are as in **Table 6 (see appendix)**.

In Malaysia, a number of measures that include under the three (3) main strategic thrusts which aim at: (1) strengthening the enabling infrastructure, (2) building the capacity and capability of domestic SMEs and (3) enhancing access to financing by SMEs, through SME Corporation Malaysia (SME Corp) plays an important role in SME development and functions in order to reorganize the challenges. Beyene (2002) as indicated in Ogunsiji & Ladanu (2010) pointed out that the blending among entrepreneurial, technology and managerial competence with real market opportunities and access to resources are vital for a government to deliver a support strategy which genuinely committed to the development of SMEs. Ogunsiji & Ladanu (2010) opines that "an entrepreneur is a significant phenomenon at ensuring improved productivity and hence increased performance of the SME". Productivity, according to Kendrick J. in A.F.Stoner & Wankel (1986, p.215) refers to "the relationship between the output of goods and services (O) and the inputs (I) of resources, human and nonhuman, used in the production process; the relationship is usually expressed in ratio form O/I".

That is, productivity is most times considered as the ratio of output to input. Therefore, the higher the numerical value of the ratio, the greater the productivity. Hence, productivity and the means to increase it have become a major focus of managerial attention today because it indicates the level of efficiency and competitiveness of an operation at that time or in another words, it indicates an improving or deteriorating competitive situation of an operation system when compared over time (A.F.Stoner & Wankel, 1986). Thus, it is a supreme and a challenge to managers. Nevertheless, this condition indirectly leads to the entrepreneurs become creative and innovative. It was observed that the manufacturing sector of Malaysia is still low and fluctuate tremendously at several points through out the period (**Table 7 – see appendix**). This scenerio may be improved if the entrepreneurs apply the adaptive strategic management process in the management task. The entrepreneur undoubtedly vital aspect of production (Ogunsiji & Ladanu, 2010). The one who, according to McClelland (1961; 1971), implements control over production, which is not simply for his consumption. Furthermore, he discovered the psychology aspect in explaining the need for achievement as the motivational factor for the entrepreneurs to execute better.

Some studies point out that skills, motivational factors and incentives, personal traits, and high need for achievement as factors towards achieving entrepreneurial success (Chandler & Redlick, 1961; McClelland, 1987; McClelland & Winter, 1971). In today's global economy, both Schumpeter's Mark I and Mark II theories are applicable where he noted that entrepreneurs are not mere traders as what has been stressed by the classical definition. On the contrary, he views that entrepreneurs are those who create innovation and technological change (Schumpeter, 1928). Since SMEs represent the bulk of the businesses in Malaysia, one of the national SMEs' development agenda is to build up the entrepreneurship capability and skills of SME. SMEs need to equip themselves with the appropriate knowledge competencies and technical expertise through their entrepreneurial orientation in order to perform better.

Entrepreneurial orientation can be defined as inclination of small to medium-sized enterprises (SMEs) towards more innovative, proactive and risky actions (Dickson & Weaver, 2008; Kreiser et.al., 2002; Covin & Slevin, 1989; Miller, 1983; Miller & Friesen, 1982). In addition to that, several researchers (Lumpkin & Dess, 1996; Naldi et.al, 2007) posited that EO as the organizational process, practice and decision making activity that leads to new entry. In another words, it stresses that entrepreneurial orientation is a strategic orientation and the processes or organizational processes, methods and decision styles that firms used to act entrepreneurially. This is paralleled with what has been stressed by Dickson & Weaver (2008) that entrepreneurial orientation is a strategic orientation that squeezes actions that are more risky and innovative in nature. Thus, entrepreneurial orientation acts as the frame of reference, which referring to the firms actions in order to act entrepreneurially with more innovative, risk taking and proactive (Kreiser et.al., 2002; Covin & Slevin, 1989; Miller, 1983; Miller & Friesen, 1982). However, there are another two dimensions, namely; competitive aggressiveness and autonomy be embraced to the entrepreneurial orientation construct (Lumpkin & Dess, 1996). This paper admits the five dimensions that are critical to entrepreneurial orientation: innovation, pro-activeness, risk taking, competitive aggressiveness, and autonomy.

Innovation, according to Schumpeter (1934, 1950) who was among the first that highlights the role of innovation in the entrepreneurial process as the creation, development and introduction of new products, processes, systems and organizational forms. Schumpeter (1943) observed entrepreneurship as a dynamic process of creative destruction. Thus, innovation could alter the fundamental technological and demand parameters of the economy in which the existing market structure will interrupt by the introduction of new goods or services that reallocate resources away from the existing firms and caused new firms to grow and as a consequence, it leads to the creating of wealth. Schumpeter (1934) claimed that the key to this cycle of activity was entrepreneurship by which the competitive entry of innovative new firms to the markets. Hence, "innovation" became an attribute of an entrepreneur while "innovativeness" became one of the factors undertaking in using to characterize entrepreneurship. Innovation refers to the firm's tendency to engage in, and support new ideas generation, novelty, experimentation, and creative process or research and development activities which may result in new products, services, or technological processes (Lumpkin & Dess, 1996:p.142; Covin & Slevin, 1989). Evidence of innovation may take in several forms to include product-market innovation or technological innovation. Zahra, Jennings, & Kuratko (1999) advocate that innovation can materialize both in the creation of new resources and in new ways of combining available resources.

Pro-activeness signifies as processes that aimed at taking initiatives by anticipating and pursuing new opportunities and by participating in emerging markets (Lumpkin & Dess, 1996; Venkatraman, 1989). This view of pro-activeness is consistent with a definition offered by Kreiser et al. (2002) and Lumpkin & Dess (2001) in which pro-activeness is viewed as firm's response to market opportunities and implies an opportunity-seeking perspective introducing new products and services ahead in order to increase the competitive positioning in relation to other firms. When firms are the first to enter new market and establish brand identity, implement administrative techniques or adopt new operating technology in an industry are the characteristics of first mover advantages of entrepreneurship and is often indicated to as pro-activeness. Furthermore, the importance of first mover advantages could be as a tool of best strategy for capitalizing on a market opportunity by capturing the unusually high profits (Liebermen & Montgomery, 1988). Risk has various interpretations and diverse meanings depend on the contexts in which the conception is being used. Likewise, risk taking can be studied through the lenses of preference or aversion, perception, propensity, and behaviour (Fayolle, Basso, & Legrain, 2008). Risk taking, according to Miller & Friesen (1978, p.923) defined as the "degree to which entrepreneurs are willing to make large and risky resources commitments i.e. those which have a reasonable chance of costly failure".

It also means “the capacity of the entrepreneur to perceive risk at its inception and to find avenues to mitigate transfer or share the risk” (Ogunsiji & Kayode, 2010, p.195). Non-entrepreneurs and entrepreneurs vary in taking the risk where the latter take more. Competitive aggressiveness refers to “a firm’s propensity to directly and intensely challenge its competitors to achieve entry or improve position to outperform industry rivals in the market place” (Lumpkin & Dess, 1996, p.138). Ogunsiji & Kayode (2010, p.195) noted that the competitive aggressiveness as “a firm’s capacity to outweigh and be a head of rivals at grasping every opportunity”. A moment or two, in some of the literature, competitive aggressiveness is scrutinized as an attribute of pro-activeness. On the contrary, Lumpkin & Dess (1996) felt that both of the dimensions are vary to each other. The difference is that the competitive aggressiveness refers to how firms relate to their rivals in responding to trends and demands that already exist in the market place. Whereas, pro-activeness refers to how firms relate to the market opportunities.

Autonomy refers to “the independent action of an individual or a team in bringing forth an idea or a vision and carrying it through to completion” (Lumpkin & Dess, 1996, p.136). In another words, it is a freedom to articulate and work on one’s initiative or convictions as a valid entrepreneurial trait (Ogunsiji & Kayode, 2010). If autonomy is to be adopted by firms, the process involves champions who promote entrepreneurial activity by shielding the new venture innovators from organizational norms or resources constraint that might cause the new enterprise to be rejected. Thus, the exercise of organizational autonomy is a two-stage process, namely; project definition and project impetus which the process will be carried out by autonomous organizational members and the champion who sustain the autonomous efforts respectively (Lumpkin & Dess, 1996).

4. Conclusion and Recommendations

The importance of Small and Medium Enterprises (SMEs) to an economy, particularly as Malaysia embarks on the journey towards achieving Vision 2020, where to become a high income and high productivity economy is undeniable. This can be seen from the government role in creating a conducive environment for unleashing economic growth which embedded by developing SMEs as the engine of growth and innovation. For Malaysia, where several issues such as poverty (eradication of poverty incidence of 3.8% in 2009), unemployment (remain at 3.6% in 2010), growth rate (6% in 2010), challenges and uncertainties at the global level (globalization, liberalization and the emergence countries from China, India, Brazil, Russia, the Middle East and countries in the region that have intensified the competition for trade and investment) and internal challenges (providing a conducive investment environment and high quality human capital) are still mingle around the corner (the 10MP). We furthermore reflect on entrepreneurial orientation as an innovation that not only holistic but proactive in action to materialize the conception of new resources and in new ways of combining available resources for increased productivity. The entrepreneurs need to have cognitive perspective as with the way the entrepreneurs think and how they arrive at decisions, thus lead to the entrepreneurial orientation of the SMEs and ultimately lead to increased productivity.

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Table 1: Definition of SMEs in Malaysia

| | Category | Micro-enterprise | Small enterprise | Medium enterprise |
|----|--|---|---|---|
| 1. | Manufacturing, manufacturing-related services and agro-based industries | Sales turnover of less than M250,000 OR fulltime employees less than five | Sales turnover between RM250,000 and less than RM10 million OR full-time employees between 5 and 50 | Sales turnover between RM10 million and RM25 million OR fulltime employees between 51 and 150 |
| 2. | Services, primary agriculture and information and communication technology (ICT) | Sales turnover of less than M200,000 OR fulltime employees less than five | Sales turnover between RM200,000 and less than RM1 million OR full-time employees between 5 and 19 | Sales turnover between RM1 million and RM5 million OR full-time employees between 20 and 50 |

Source: SME Corp Malaysia Official Website.

Table 2: Number of Establishments of SMEs in Malaysia by Sector

| Sector | Micro | Small | Medium | Total SMEs | Total SMEs | Large | Total Establishment |
|-------------------|--------------------------|----------------|---------------|----------------|--------------|--------|---------------------|
| | Number of Establishments | | | | % Share | Number | Number |
| Manufacturing | 21,516 | 15,796 | 2,061 | 39,373 | 7.2 | 1,420 | 40,793 |
| Services | 381,585 | 83,037 | 10,084 | 474,706 | 86.6 | 2,819 | 477,525 |
| Agriculture | 31,838 | 1,775 | 575 | 34,188 | 6.2 | 343 | 34,531 |
| Total SMEs | 434,939 | 100,608 | 12,720 | 548,267 | 100.0 | 4,582 | 552,849 |

Source: Census of Establishment and Enterprises, 2005 by Department of Statistics, Malaysia

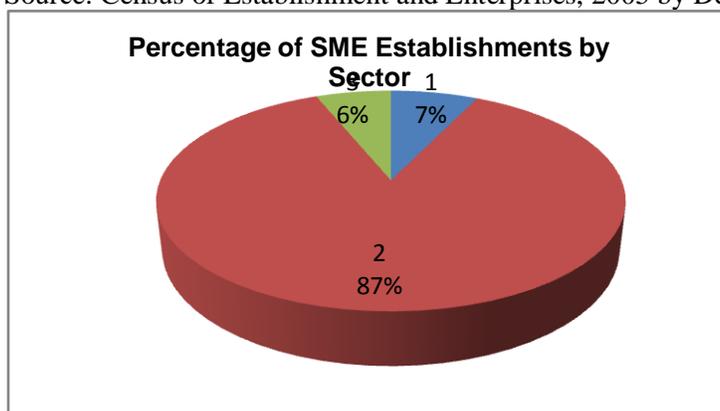


Chart 1: Percentage of SME Establishment by Sector

- 1- Manufacturing (**7.2%**)
 - Textiles and Apparels (23.4)
 - Metal and Non-Metallic Products (18%)
 - Food and Beverages (15%)
- 2- Services (**86.6%**)
 - Wholesale and Retail (55.5%)
 - Restaurant and Hotel (14.7%)
 - Professionals and Other Businesses (8%)
 - Transport and Communication (6.5%)
- 3- Agriculture (**6.2%**)
 - Plantation and horticulture (65.6%)
 - Fishery (20.8%)
 - Poultry Farming (7%)

Source: Census of Establishments and Enterprises 2005

Table 3: Number of SMEs Establishments by State

| Sector | Micro | Small | Medium | Total SMEs | % |
|-------------------|----------------|----------------|---------------|----------------|--------------|
| Johor | 45,630 | 9,485 | 1,356 | 56,471 | 10.3 |
| Kedah | 33,531 | 3,066 | 432 | 37,029 | 6.8 |
| Kelantan | 34,075 | 1,528 | 198 | 35,801 | 6.5 |
| Melaka | 16,520 | 2,696 | 407 | 19,623 | 3.6 |
| Negeri Sembilan | 14,911 | 2,275 | 369 | 17,555 | 3.2 |
| Pahang | 24,917 | 2,742 | 399 | 28,058 | 5.1 |
| Pulau Pinang | 21,422 | 4,527 | 803 | 26,752 | 4.9 |
| Perak | 37,872 | 5,567 | 691 | 44,130 | 8.0 |
| Perlis | 5,549 | 340 | 31 | 5,920 | 1.1 |
| Selangor | 73,273 | 22,396 | 2,854 | 98,523 | 18.0 |
| Terengganu | 22,112 | 1,415 | 207 | 23,734 | 4.3 |
| Sabah | 18,915 | 4,901 | 978 | 24,794 | 4.5 |
| Sarawak | 25,377 | 6,601 | 1,081 | 33,059 | 6.0 |
| WP KL | 60,835 | 33,069 | 2,914 | 96,818 | 17.7 |
| Total SMEs | 434,939 | 100,608 | 12,720 | 548,267 | 100.0 |

Source: Census of Establishment and Enterprises, 2005 by Department of Statistics, Malaysia

Table 4: Contribution of SME to GDP by Key Economic Activity (constant 2000 prices)

| YEAR | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|----------------------------------|----------------|------|------|------|------|------|------|------|------|------|
| | % share to GDP | | | | | | | | | |
| Agriculture | 2.4 | 2.5 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.2 | 2.3 | 2.4 |
| Mining & Quarrying | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.04 | 0.04 | 0.04 | 0.04 | 0.04 |
| Construction | 0.8 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.9 |
| Manufacturing | 9.2 | 8.5 | 8.3 | 8.7 | 9.0 | 9.0 | 9.2 | 9.2 | 8.7 | 8.1 |
| Services | 17.1 | 17.4 | 17.3 | 16.9 | 16.9 | 17.3 | 17.6 | 18.7 | 19.4 | 20.1 |
| Less: Undistributed FISIM | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.7 | 0.8 | 0.7 | 0.7 | 0.6 |
| Plus: Import Duties | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 |
| Total Value Added | 28.8 | 28.5 | 28.3 | 28.2 | 28.6 | 29.0 | 29.4 | 30.4 | 30.8 | 31.2 |

Source: Department of Statistics, Malaysia

Table 5: Value Added Growth of SMEs to GDP by Key Economic Activity, Annual Change in % (constant 2000 prices)

| YEAR | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-------------------------------|-----------------|------|------|------|------|------|------|------|------|
| | Growth rate (%) | | | | | | | | |
| Agriculture | 3.8 | 2.1 | 3.4 | 5.5 | 3.6 | 7.4 | -1.4 | 7.3 | 2.0 |
| Mining & Quarrying | -0.3 | 4.1 | 1.1 | -3.6 | -1.1 | 0.9 | 9.5 | 1.4 | 6.1 |
| Construction | 4.6 | 6.9 | 5.2 | 1.0 | 4.7 | 3.2 | 13.2 | 3.7 | 4.3 |
| Manufacturing | -6.4 | 3.1 | 9.9 | 10.3 | 5.7 | 8.3 | 6.3 | -0.6 | -8.6 |
| Services | 2.2 | 5.1 | 2.9 | 6.8 | 8.0 | 7.8 | 12.8 | 8.6 | 2.2 |
| Total Value Added | -0.4 | 4.6 | 5.2 | 8.3 | 6.9 | 7.4 | 10.0 | 6.0 | -0.4 |

Source: Department of Statistics, Malaysia

Table 6: The Challenges Faced by SMEs in Malaysia

| The Internal Challenges (especially for the start up business) | The External Challenges |
|---|---|
| <ul style="list-style-type: none"> a. Registration of licenses are subject to many regulations, policies and conditions. b. The registration fees for the companies have been relatively high compare to registration of business c. The current tax rate guidelines on bad debt written off are relatively rigid d. The cost in running the business in respect of fees, rate, assessment, tolls, utilities, sewerage charges, are relatively challenging although not the highest in ASEAN. | <ul style="list-style-type: none"> a. The emergence of China as the world's leading manufacturing power house especially with cheap and competitive products due to mass production. b. The emergence of India as the new ICT super power in the region c. The emergence of Vietnam and other ASEAN countries as new international Foreign Direct Investment (FDI) destination d. Malaysian SMEs'innovation when comparing with the other advance Asian countries like South Korea, Taiwan and Singapore. |

Source: Soon (2011)

Table 7: Index of Manufacturing Production in Malaysia 1968-2009 (2005=100)

| Period | Overall Index | Manufacturing | Percentage Change |
|----------------|----------------------|----------------------|--------------------------|
| Weights | 100.0 | 59.6 | - |
| 1968 | 5.1 | 3.1 | - |
| 1969 | 5.6 | 3.5 | 0.4 |
| 1970 | 6.0 | 4.0 | 0.5 |
| 1971 | 6.1 | 4.2 | 0.2 |
| 1972 | 6.8 | 4.8 | 0.6 |
| 1973 | 7.7 | 5.7 | 0.9 |
| 1974 | 8.6 | 6.6 | 0.9 |
| 1975 | 8.6 | 6.6 | 0.0 |
| 1976 | 9.9 | 7.9 | 1.3 |
| 1977 | 10.8 | 8.7 | 0.8 |
| 1978 | 11.6 | 9.4 | 0.7 |
| 1979 | 12.6 | 10.2 | 0.8 |
| 1980 | 13.6 | 11.1 | 1.1 |
| 1981 | 14.0 | 11.5 | 0.4 |
| 1982 | 14.8 | 12.1 | 0.6 |
| 1983 | 16.6 | 12.9 | 0.8 |
| 1984 | 19.3 | 14.4 | 1.5 |
| 1985 | 18.7 | 13.5 | (0.9) |
| 1986 | 20.6 | 14.8 | 1.3 |
| 1987 | 22.2 | 16.7 | 1.9 |
| 1988 | 25.2 | 19.7 | 3.0 |
| 1989 | 28.2 | 22.5 | 2.8 |
| 1990 | 31.6 | 26.0 | 3.5 |
| 1991 | 35.1 | 29.6 | 3.6 |
| 1992 | 38.1 | 32.7 | 3.1 |
| 1993 | 41.8 | 36.9 | 4.2 |
| 1994 | 47.0 | 42.4 | 5.5 |
| 1995 | 53.2 | 48.4 | 6.0 |
| 1996 | 59.0 | 54.3 | 5.9 |
| 1997 | 65.3 | 61.1 | 6.8 |
| 1998 | 60.6 | 54.8 | (6.3) |
| 1999 | 66.1 | 61.9 | 7.1 |
| 2000 | 78.8 | 77.3 | 15.4 |
| 2001 | 76.2 | 72.3 | (5.0) |
| 2002 | 79.7 | 76.1 | 3.8 |
| 2003 | 87.1 | 84.4 | 8.3 |
| 2004 | 96.5 | 95.1 | 10.7 |
| 2005 | 100.0 | 100.0 | 4.9 |
| 2006 | 104.9 | 109.0 | 9.0 |
| 2007 | 107.3 | 111.4 | 2.4 |
| 2008 | 108.1 | 112.2 | 0.8 |
| 2009 | 106.3 | 101.0 | (11.2) |

Source: Department of Statistics, Malaysia.