



THE IMPACTS OF SUPPLY CHAIN LINKAGES ON
MICRO AND SMALL SCALE ENTERPRISES'
PERFORMANCE IN SARAWAK

BY

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A dissertation submitted in fulfilment of the requirement
for the degree of Master of Science (Marketing)

Kulliyyah of Economics and Management Sciences
International Islamic University Malaysia

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ABSTRACT

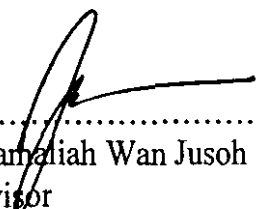
Supply chain linkage is an important aspect in supply chain relationship which involves cost, risks and challenges to enterprises. The improvement on supply chain linkages could be measured based on monetary and non-monetary performance. The objective of this study is to predict the relationship between information sharing, development programme, and outsourcing on performance of micro and small enterprises. Another purpose of this study is to identify the most important factor that affects the business performance. This study invited 350 micro and small enterprises in Kuching city to participate in the survey. In total, only 214 sets of questionnaire are usable for the analysis. Descriptive analysis, normality testing, factor analysis, reliability, t-test, correlation and multiple regression analysis are tested in this study. The findings are consistent with prior literature that information sharing and development programme have positive and significant relationship with business performance. Outsourcing has positive impact on business performance but this study fails to prove the presence of significant relationship between these two factors. Furthermore, the result shows that the development programme factor is the most important factor that affects the business performance. Using multiple regression analysis, it can be concluded that the supply chain linkages cause direct impact on business performance. As the implications, the benefits of supply chain linkage are foreseen i.e. to encourage accurate, complete, sufficient and reliable information sharing between channel members; participate in the channel members' activities; confirm the purposes of outsourcing.

خلاصة البحث

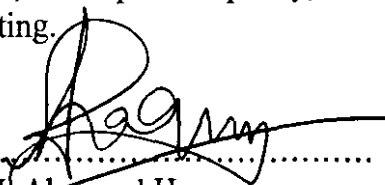
علاقة سلسلة التوريد هي جانب هام في العلاقة التوريد التي تتطوي على تكاليف والمخاطر ولتحديات التي تواجه المؤسسات. وتحسين الروابط يمكن أن يقاس على أساس الأداء النقدي وغير النقدية. الهدف من هذه الدراسة هو التنبؤ العلاقة بين تبادل المعلومات، وبرنامج التنمية، والخدمات الخارجية على المنشآت الصغرى والصغيرة. غرض آخر من هذه الدراسة هو التعرف على أهم العوامل التي تؤثر على أداء الأعمال التجاري. ودعت هذه الدراسة 350 المؤسسات الصغرى والصغيرة في مدينة كوتشينغ للمشاركة في الاستبيان. وعلى الإجمال، 214 فقط من مجموعات الاستبيان صالحة للتحليل. يتم اختبار التحليل الوصفي، واختبار الحياة الطبيعية، التحليل العاملي، والموثوقية، t اختبار، الارتباط و تحليل الانحدار المتعدد في هذه الدراسة. وهذه النتائج تنطبق بنتائج البحث السابقة وهي مشاركة المعلومات وبرنامج التنمية ذي علاقة إيجابية مع أداء الأعمال التجاري. الخدمات الخارجية لها تأثير إيجابي على أداء الأعمال ولكن فشل هذا البحث لإثبات وجود علاقة معنوية بين هذين العاملين. وعلاوة على ذلك، فإن النتيجة تبين أن برنامج التنمية هو أهم العامل الذي يؤثر على أداء الأعمال التجاري. باستخدام تحليل الانحدار المتعدد، فإنه يمكن الاستنتاج بأن سلسلة الروابط التوريد لها تأثير مباشر على أداء الأعمال التجاري. كما. ومن المتوقع أن الآثار من فوائد سلسلة التوريد هي تشجيع تبادل المعلومات دقيقة وكاملة، وتكون كافية وموثوقة بها بين أعضاء الأنشطة، والمشاركة في الأنشطة وتأكيد أغراض الخدمات الخارجية.

APPROVAL PAGE


I certify that I have supervised and read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Marketing.


.....
Wan Jariah Wan Jusoh
Supervisor

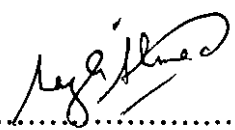
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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Siti Aisyah Ya'kob

Signature 

Date 01/04/2014

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**THE IMPACTS OF SUPPLY CHAIN LINKAGES ON MICRO AND SMALL
ENTERPRISES' PERFORMANCE IN SARAWAK**

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LIST OF ABBREVIATIONS

SME	Small and medium enterprise(s)
SEDC	Sarawak Economy Development Corporation
MARA	Majlis Amanah Rakyat
FAMA	Federal Agricultural and Marketing Authority
MITI	Ministry of International Trade and Industry
SMIDEC	Small and Medium Industries Development Corporation
MKM	Maktab Kerjasama Malaysia
GDP	Gross Domestic Product
W. P.	Wilayah Persekutuan
SCORE	Sarawak Corridor Renewal Energy
MDTCA	Malaysian Domestic Trade and Consumer Affairs
UK	United Kingdom
CCDSI	Coordinating Council for Development of Small-scale Industries
CGC	Credit Guarantee Corporation
ICT	Information and Communication Technology
MDeC	Multimedia Development Corporation
EDI	Electronic Data Interchange
ECR	Efficient Consumer Response
KMO	Kaiser-Meyer-Olkin
ANOVA	Analysis of Variance
i.e.	<i>(id est.)</i> : that is
et al.	<i>(et alia)</i> : and others
e.g.	<i>(exempligratia)</i> : for example

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This chapter provides the background of the study and an overview of small and medium enterprises of the current situation in Sarawak. This chapter also includes the problem statement for detailed discussions of the issues raised in this study. Both research questions and objectives are incorporated in this chapter. Subsequently, the section on the significance of study clarifies its importance while the section on the scope of study further illustrates the area of the investigation that will be conducted. To understand the general terms used in the study, this chapter also states the definition of key terms.

1.2 BACKGROUND OF THE STUDY

A good relationship between channel members with enterprises is important in the attempt to penetrate markets of different culture and demographic backgrounds. The influential channel members are now seen to have the power to override the smaller businesses due to its dependency on the larger firms (Lee, Kwon, & Severance, 2007). Since most manufacturers, producers, suppliers, providers and retailers are considered as small and medium enterprises, these local enterprises need channel members' assistance to support them at backward linkage (Kaliappan, Rokiah, Kalthom, & Arif, 2009). The channel members are expected to provide assistance to enterprises in several aspects. Therefore, it is important for enterprises to build a superior linkage with channel members especially on supply chain aspects.

As reported, the definition of “Small and Medium Enterprises” is evidently defined and the factors used to define this term are based on a number of employees and cycle of sales (Kementerian Kewangan Malaysia¹, 2003). The entry of both local and multinational channel members influence the business performance conspicuously. The enterprises stand better chances to collaborate with channel members in distributing their products. A strong small and medium industry is important as it is the key driver for nation development (“Malaysia needs more competition, resilient SMEs,” 2012). It contributes to Malaysian economy and increases job opportunities for citizens (Kementerian Kewangan Malaysia, 2003). Small and medium industry is providing 59% of the job opportunities available for Malaysian workforce and the number will gradually increase by the year 2020 (“Malaysia needs more competitive, resilient SMEs”, 2012). In contrary to the government’s objective for 30% of corporate ownership of *Bumiputera*², the percentage has yet to reach 20% of the corporate ownership of *Bumiputera* (“Higher bumi equity holdings,” 2008). This might be due to the challenges that hinder the enterprises from improving which are listed in Table 2.4. Government agencies and institutions contributed to the development of this industry by playing the supporting role through the conduct of various programmes and efforts with the involvement of agencies and institutions such as Sarawak Economic Development Corporation (SEDC), Majlis Amanah Rakyat (MARA)³, Federal Agricultural and Marketing Authority (FAMA), *Unit Pembangunan Usahawan Bumiputera*⁴, Ministry of International Trade and Industry (MITI), SME Corp, Small

¹ Ministry of Finance

² Malay and other indigenous people

³ Council of Trust for Indigenous People

⁴ Unit of *Bumiputera* Enterpreneuers Development

and Medium Industries Development Corporation (SMIDEC) and Maktab Kerjasama Malaysia (MKM)⁵.

Recently, the government has introduced “SME Master Plan” to upgrade the small and medium enterprises starting from the year 2012 to 2020 in order to empower the enterprises and change the owner’s thought. Specifically, small and medium industry is one of the important sectors that contribute 32.5% to Gross Domestic Products (GDP) in 2011 (Mahalingam, 2012). This industry represents approximately 97% of business in Malaysia, as reported by Minister of International Trade and Industry (“Malaysia needs more competitive, resilient SMEs,” 2012). In addition to that, small and medium industry embraces a strong position in generating economic growth by supplying products to foreign companies which provide them with greater potential in entering international markets, without abandoning local market.

This study is focusing on a geographical area that is Sarawak, which is in the Borneo island. Sarawak is a state in East Malaysia. Economically, Sarawak is well-known with its superior natural resources such as gas and petroleum, timber as well as mineral. Nevertheless, federal government foresees Sarawak has a great potential to be established as a hub for food-based products and processes in the country (“Sarawak Investment Seminar on ‘Opportunities in Manufacturing, Trade and Manufacturing Related Services’,” 2004). Small and medium enterprises in East Malaysia which include both Sabah and Sarawak account for 13.1% of the overall small and medium enterprises in Malaysia while more than 50% of the enterprises are located in Kuala Lumpur, Selangor, Johor and Perak (Mahalingam, 2012). Table 1.1 illustrates the percentages of enterprises accurately.

⁵ Cooperative College of Malaysia

Table 1.1
Percentages of Small and Medium Enterprises in Malaysia

States	Percentage (%)
Selangor	19.50
W. P. Kuala Lumpur	13.10
Johor	10.70
Perak	9.30
Sarawak	6.80
Sabah	6.30
Pulau Pinang	6.30
Kelantan	5.90
Kedah	5.80
Pahang	4.60
Negeri Sembilan	3.80
Terengganu	3.50
Melaka	3.40
Perlis	0.80
W. P. Labuan	0.30
W. P. Putrajaya	0.10

(Source: Department of Statistics, 2011)

In details, every part of Sarawak has its own well-planned economic activities in generating income for the state which plays an important role as an engine for the economic growth of Sarawak. Retailing sector is part of the developing service sector, which accommodates other services such as transportation, education and healthcare (Hui, 2009). Kuching, being the most attractive area in Sarawak has the highest population which is 2.5 million people in 124,450 sq. km. (Hui, 2009). The state government has set the vision for it to be a developed state by 2030 with the implementation of its long-term development planning namely Sarawak Corridor Renewal Energy (SCORE). Infrastructures are rapidly developed as the basic fulfilment for a reliable achievement of the vision (Hui, 2009).

The decision on permitting the multinational firm's entry into Sarawak is to fulfil the increasing demand of local consumers and also price factor. Product prices in

Sarawak are slightly more expensive compared to Peninsular Malaysia. Transferring products from the Peninsular to East Malaysia incurs high logistic costs because of geographical challenges (Fatimah & Rosita, 2008). In comparison to other states in Malaysia, Sarawak has received better benefits which are five-to-ten years privileges in tax incentives, infrastructure allowance and import duty exemption (“Sarawak Investment Seminar on ‘Opportunities in Manufacturing, Trade and Manufacturing Related Services’,” 2004). Basically, the main focus is on three basic sectors such as food, agro-based, and resource-based industries (Fatimah & Rosita, 2008). It is predicted that the growth of business in Sarawak may overcome the pricing issue and aid with the increase of local business.

1.3 PROBLEM STATEMENT

Supply chain activities involve cost, risks and challenges to enterprises during the initial stage (Vaaland & Heide, 2007). Thus, this study intends to explore the three fundamental problems in supply chain linkages of information sharing, development activities and outsourcing for micro and small enterprises especially in Kuching, Sarawak. Supply chain linkage is one of the important aspects in supply chain relationship. Three classifications of dominant linkage that have been tested in the previous study consist of customer linkage, internal linkage and supplier linkage (Lee et al., 2007). Linkage seems to have given the positive impacts on business performance because it provides opportunities to the firms to gather knowledge in managing their internal operations (Rungtusanatham, Salvador, Forza, & Choi, 2003). Hence, evaluating the business performance is commonly used as an indicator of the success of business. In addition to that, the systematic linkage could improve the supply chain performance (Lee et al., 2007). Linkage exists when the supply chain members are

connected to each other through supply chain activity. Managing supply chain activities is not only applicable to the large firms but also for micro and small enterprises.

As mentioned earlier, information sharing is utilized to facilitate the channel members as well as micro and small enterprises to disseminate or exchange information and data. For instance, both parties could share information on demands and market condition (Jain, Seshadri, & Sohoni, 2011). This effort requires capital investments on information system and technology. Notably, channel members extend the payment system and electronic schedule sharing with their suppliers (Chuah, Wong, Ramayah, & Jantan, 2010). However, the adoption of technology among small and medium enterprises has not reached a satisfactory level. Most owners of small and medium enterprises do not utilize the information technology (Junaidah, 2007), which is a tool for information sharing.

Regardless of linkages through information sharing, small and medium enterprises also participate in the development programmes organized by channel members (Kaliappan et al., 2009). Theoretically, the programmes are conducted to improve skills and give benefits to participants. Skills and capabilities are important for channel members as they have certain standards to achieve. In a few cases, enterprises that participate in the development programmes succeed in the foreign markets and have received awards for product, vendor and supplier excellence (Khoo, 2010). Even so, there are still enterprises that are lack of skilled employees, which reduce the quality, efficiency, productivity and unable to utilize the technical assistance and advisory service (Ali Salman & Ndubisi, 2006). From the channel members' view, providing development programmes is seen as a corporate social responsibility (Arda, 2006). An example of such programme is the collaboration between Tesco and Malaysian Domestic Trade and Consumer Affairs (MDTCA) in organizing the seminar

entitled “Introducing the UK standards and best practice”. This programme is targeted to Tesco’s key suppliers and prospects to expand the business with Tesco (Kaliappan et al., 2009). Based on this collaboration, evidently, some channel members are not hesitant in transferring the knowledge and educating the local enterprises to enhance their capabilities. It is to be made known that such development programmes may require high investments on the channel members’ part. Ironically, another study revealed that the development programmes failed to improve business performance (Abdul Rashid & Normah, 2004).

Furthermore, small and medium enterprises have insufficient capacity to provide entire business functions. Small and medium industry have limited resources hence, outsourcing some activities is probably more efficient rather than implementing internally (Hasliza, Noor Hazlina & Ramayah, 2012). Outsourcing could be also an alternative to maintain competitive advantage in a fast growing market (Bolat & Yilmaz, 2009). Channel members especially the providers that are expert in a niche area could perform efficiently. Although the enterprises in Malaysia have received a lot of assistance and support from government agencies, they still face many challenges. Obviously, the size of business discourages the enterprises to achieve economies of scales (Hasliza et al., 2012).

In conclusion, the practice of linking the channel members and enterprises through supply chain activities is meant to achieve better performance and to create a win-win situation for both sides. A study on information sharing, development programme and outsourcing is significant to observe the impacts of those linkages on enterprise performance.

1.4 OBJECTIVES OF THE STUDY

The general objective of this study is to empirically examine the impacts of supply chain linkages in affecting the enterprises' performance. To achieve this objective, the following specific objectives are stated as the following:

- i. To examine the relationship between information sharing, development programme, outsourcing and enterprises' performance within micro and small enterprises in Sarawak.

- ii. To identify the most influential factor that affects the enterprises' performance within micro and small enterprises in Sarawak.

1.5 RESEARCH QUESTIONS

To fulfil the research objective, this study attempts to answer the research questions as stated follow:

- i. What are the impacts of information sharing, development programme, and outsourcing on enterprises' performance within micro and small enterprises in Sarawak?

- ii. What is the most important factor in supply chain linkages that affects the enterprises' performance within micro and small enterprises in Sarawak?

1.6 SIGNIFICANCE OF THE STUDY

The growth of micro and small enterprises in Sarawak is not thoroughly explored in detail as previous studies are shown to have focused on Peninsular Malaysia in general. The growth of micro and small enterprises in Sarawak should not be neglected as some products and services in Sarawak are unique and most probably differ with other states in Peninsular Malaysia.

In detail, micro and small enterprises in Sarawak offer unique and practical products such as flooring, furnitures, pottery, bead work and other types of product with their own functionality (Sarakraf Pavilion, 2014). Besides products offering, enterprises in Sarawak also offer distinctive services such as Borneo traditional massage, ethnic restaurant and homestay. In term of demand, micro and small enterprises in Sarawak received a strong response from both local and domestic markets (Borneo Post, 2013). With its rapid development in Sarawak, the state government has planned a long-term economic planning via the SCORE project.

This study will collect the data from micro and small enterprises since those percentages represent a high number of total enterprises in Malaysia which are 77% and 20% representing micro enterprise and small enterprise and only 3% for medium enterprise, respectively. Specifically, micro, small and medium enterprises in Sarawak account for 6.8% from a total percentage of small and medium enterprises in Malaysia (Department of Statistics, 2011).

This study aims to obtain a clear understanding of the consequences of the supply chain linkages on micro and small enterprises performance by observing three important factors, namely, information sharing, development programme and outsourcing. Moreover, this study could be an extension of previous studies that have been conducted. However, the results on the impacts of supply chain linkages in this

study may not be able to generalize the overall scenario in Sarawak. The findings might be influenced by various aspects such as experiences and perceptions of respondents as well as the influences of enterprises' background. The result of the study is a contribution to the existing knowledge about the impacts of supply chain linkages in Sarawak that may be dissimilar as compared to scenario in other states in general.

1.7 SCOPE OF THE STUDY

This study focuses on the supply chain linkages between channel members such as manufacturers, producers, suppliers, vendors, dealers, service providers, retailers, business customers, as well as micro and small enterprises. The rapid development in Sarawak has attracted the micro and small enterprises to grow in this state. Kuching is selected as the research location and the survey will be conducted by approaching the micro and small enterprises owners and employees to complete the questionnaire. The participation is restricted to the micro and small enterprises that operate in Kuching.

1.8 DEFINITION OF THE KEY TERMS

In this study, several key terms are regularly used and the definitions are as follows:

Enterprises' Performance:

Enterprises' performance refers to financial (monetary) and supply chain (non-monetary) performance of micro and small enterprises, which is perceived by the owner or personnel from their personal point of view.

Information Sharing:

Information sharing refers to the sharing or exchanging data or information between channel member(s) and micro and small enterprises which is perceived by the owner of personnel from their personal point of view.