



**THE IMPACT OF GOVERNMENT ENHANCEMENT
PROGRAMMES ON SME PERFORMANCE IN MALAYSIA**

NAJATUL HAYA BINTI PAIRAN

**MASTER OF SCIENCE
IN TECHNOLOGY MANAGEMENT**

2018



Faculty of Technology Management and Technopreneurship

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NAJATUL HAYA BINTI PAIRAN

**A thesis submitted
in fulfillment of the requirements for the degree of Master of Science
in Technology Management**

Faculty of Technology Management and Technopreneurship

UNIVERSITI TEKNIKAL MALAYSIA MELAKA

2018

DECLARATION

I declare that this thesis entitled “The Impact of Government Enhancement Programmes on SME Performance in Malaysia” is the result of my own research except as cited in the references. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

Signature :

Name : NAJATUL HAYA PAIRAN

Date :

APPROVAL

I hereby declare that I have read this thesis and in my opinion this thesis is sufficient in terms of scope and quality for the award of Master of Science in Technology Management.

Signature :

Supervisor Name : ASSOC. PROF. DR. JUHAINI JABAR

Date :

DEDICATION

This thesis would have remained a dream had it not been for my parents En Pairan and Puan Rahmah, who believed that I would one day pursue a degree of master. Their unwavering love and support over the course of my research have kept me motivated to accomplish my second project in my life. Thank you for giving me a chance to prove and improve myself through all my walk of life. To all my family thank you for believing me for allowing me to further my studies.

ABSTRACT

SME has gained attention in the design of development policy plans by the government from time to time. Under the Eleventh Malaysian Plan (2016-2020) presented by prime minister of Malaysia, to enable SMEs meet the business challenges in the global competitive environment, the government allocated totaling RM495.2 million to 760 Bumiputera SMEs to help them in all aspects of their operations. The government has been expanding and diversifying its supports and incentives through several assistance programmes such as innovation programme, partnership, market expansion etc. These programmes are vital in order to ensure that SMEs are able to sustain their economic development although lacking in terms of resources. Therefore, this study has reviewed and analysed the impact of government enhancement programmes (GEPs) towards SME performance in Malaysia. Three objectives are used as guidelines in conducting this thesis which are to determine the types of government enhancement programme that can improve SME performance and competitiveness in the global market, to measure the relationship of government enhancement programme on SMEs performance and to analyse the most effective of government enhancement programme in improving the SME performance. This research has examined the effectiveness of GEP based on four main dimensions consist of technology and infrastructure support, marketing support, product development support and strategic alliance support. A research framework for GEP has been developed and in this framework all factors are being tested in order to determine their influence on the performance of SMEs. This thesis has applied quantitative methodology using questionnaire as the research instrument. The questionnaire was distributed to 550 SMEs from manufacturing sector that have participated in the programmes offered by selected agencies in Melaka, Kuala Lumpur and Johor. Data collected were analysed using statistical package for the social sciences SPSS version 20. The results found that all GEPs factors outcomes serve as the key facilitating role in achieving the higher performance of SME. However, product development support programme (PDS) recorded the most effective factor and significantly influence to the performance of SMEs with beta value of unstandardized coefficient at 0.340. This is due to the various reasons such as the unique characteristics of new product in market will fulfill the demand and increase the satisfaction of customers. Finally, this research makes several contributions and provides further insights on the impacts of GEPs. From the industrial viewpoint, this study provides many valuable discoveries that can be used to the benefit of the respective industries such as expand their market and reduce the R&D costs. An important implication of this study to the government, this research will facilitate the government agencies to develop or improve the enhancement programmes to better suit the needs of SMEs towards producing positive outcomes or effect for increased performance in SMEs industry.

ABSTRAK

PKS telah mendapat perhatian dalam reka bentuk rancangan dasar pembangunan oleh kerajaan dari semasa ke semasa. Di bawah Rancangan Malaysia Kesebelas (2016-2020) yang dibentangkan oleh Perdana Menteri Malaysia, bagi membolehkan PKS memenuhi cabaran perniagaan dalam persekitaran global yang kompetitif, kerajaan memperuntukkan sejumlah RM495.2 juta kepada 760 PKS Bumiputera untuk membantu mereka dalam semua aspek operasi. Kerajaan telah mengembangkan dan mempelbagaikan sokongan dan insentif melalui beberapa program bantuan seperti program inovasi, perkongsian, pengembangan pasaran dan lain-lain. Program ini adalah penting untuk memastikan bahawa PKS dapat mengekalkan pembangunan ekonomi mereka walaupun kekurangan dari segi sumber. Oleh itu, kajian ini telah mengkaji dan menganalisis impak program peningkatan kerajaan (PPK) ke arah prestasi PKS di Malaysia. Tiga objektif digunakan sebagai garis panduan dalam menjalankan tesis ini iaitu untuk menentukan jenis program peningkatan kerajaan yang dapat meningkatkan prestasi PKS dan berdaya saing di pasaran global, untuk mengukur hubungan program peningkatan kerajaan ke atas prestasi PKS dan untuk menganalisis program peningkatan kerajaan yang paling berkesan dalam meningkatkan prestasi PKS. Kajian ini telah mengkaji keberkesanan PPK berdasarkan empat dimensi utama yang terdiri daripada sokongan teknologi dan infrastruktur, sokongan pemasaran, sokongan pembangunan produk dan sokongan pakatan strategik. Rangka kerja penyelidikan untuk PPK telah dibangunkan dan dalam rangka ini semua faktor sedang diuji untuk menentukan pengaruh mereka terhadap prestasi PKS. Tesis ini telah menggunakan metodologi kuantitatif menggunakan soal selidik sebagai instrumen kajian. Soal selidik itu diedarkan kepada 550 PKS dari sektor perkilangan yang telah menyertai program yang ditawarkan oleh agensi terpilih di Melaka, Kuala Lumpur dan Johor. Data dianalisis dengan menggunakan pakej statistik untuk sains sosial SPSS versi 20. Hasilnya mendapati bahawa semua hasil faktor GEP berfungsi sebagai peranan penting dalam mencapai prestasi SME yang lebih tinggi. Walau bagaimanapun, program sokongan pembangunan produk mencatatkan faktor yang paling berkesan dan berpengaruh secara signifikan terhadap prestasi PKS dengan nilai beta pekali yang tidak standard pada 0.340. Ini disebabkan pelbagai sebab seperti ciri unik produk baru di pasaran akan memenuhi permintaan dan meningkatkan kepuasan pelanggan. Akhirnya, penyelidikan ini membuat beberapa sumbangan dan memberi gambaran lebih lanjut tentang kesan-kesan PPK. Dari perspektif perindustrian, kajian ini memberikan banyak penemuan berharga yang boleh digunakan untuk kepentingan industri masing-masing seperti mengembangkan pasaran mereka dan mengurangkan kos R & D. Implikasi penting dalam kajian ini kepada kerajaan, penyelidikan ini akan membantu agensi-agensi kerajaan untuk membangun atau meningkatkan program-program peningkatan untuk menyesuaikan dengan keperluan PKS untuk menghasilkan hasil atau kesan positif untuk peningkatan prestasi dalam industri PKS.

ACKNOWLEDGEMENTS

Alhamdulillah, Thanks to Allah, for all His blessings that made this journey possible. Completing this research entitled "The Impact of Government Enhancement Programmes on SME Performance in Malaysia" is one of the major achievements of my life, and there are many who should be acknowledged for the role that they have played.

I would like to express my gratitude and appreciation to all those who gave me the possibility to complete this thesis. A special thanks to my beloved supervisor, Assoc. Prof. Dr. Juhaini Jabar, whose help, stimulating suggestions and encouragement, helped me to coordinate my thesis especially in writing this thesis. I am also indebted for her helpful comments, support and understanding. I also acknowledge my second supervisor Prof. Dr. Salleh Bin Yahya who offered significant advice on conducting quantitative research.

Also sincere appreciation and thanks to Dr Fararishah Abdul Khalid for giving me an opportunity and great experience as a Graduate Research Assistant and very helpful in proofreading my thesis. My special thanks are also for Dwee Chiew Yen who is giving her extra effort to proofread my thesis. Their suggestions and revisions look absolutely brilliant and I am really delighted with the input and really appreciate it.

My sincere thanks also goes to En Azrai from Federal Agriculture Marketing Authority (FAMA) Melaka, En Kamarul Zaman from SIRIM Berhad (SIRIM) Melaka, representative of staff from Majlis Amanah Rakyat (MARA), and Malaysian Agricultural Research and Development Institute (MARDI) for sharing their experience and knowledge in the implementation of SMEs programmes.

I also express my sincere thanks to the Universiti Teknikal Malaysia Melaka (UTeM) for giving me the financial support in the form of MyBrain UTeM scholarship and for the wonderful opportunity to bring my aspiration to reality. I would also like to acknowledge with much appreciation the crucial role of the general manager or staff of Small and Medium Enterprise at Melaka, Johor and Kuala Lumpur, who gave their cooperation in answering all of the survey form that have been distributed. Finally, many thanks to my friends whose guidance me and their friendship have given me tremendous encouragement to keep on fighting and achieving my goal.

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LIST OF ABBREVIATIONS

GEP	-	Government enhancement programme
SME	-	Small and Medium Enterprise
GDP-	-	Gross domestic product
MARA	-	Majlis Amanah Rakyat
MARDI	-	Malaysian Agricultural Research and Development Institute
FAMA	-	Federal Agriculture Marketing Authority
SIRIM	-	SIRIM Berhad
TIS	-	Technology and infrastructure support
MS	-	Marketing support
PDS	-	Product development support
SAS	-	Strategic alliance support
MOSTI	-	Ministry of Science, Technology and Innovation
R&D	-	Research and development
MATRADE	-	Malaysia External Trade Development Corporation
SMIDEC	-	Small and Medium Industries Development Corporation
DOSM	-	Department of Statistics Malaysia
BEEP	-	Bumiputera Enterprise Enhancement Programme
<i>df</i>	-	Degree of freedom
<i>p</i>	-	Significant value
<i>Sig</i>	-	Significant
B	-	Beta value

LIST OF PUBLICATIONS

Haya, P. N. and Juhaini, J., 2018. The Impact of Government Enhancement Programs towards SME Performance in Malaysia, *Journal of Fundamental and Applied Sciences*, 10 (6S), pp. 1680-1695

Abdul Khalid, F., Pairan, N. H. and Jabar, J., 2018. Entrepreneurial Orientation Fosters the Effects of Open Innovation on SME Performance in Malaysia, *Journal of Fundamental and Applied Sciences*, 10 (6S), pp. 2509-2516

CHAPTER 1

INTRODUCTION

This chapter will review the research background, problem statement, research questions, research objective, scope of study, and significance of study. This research provides empirical evidence on the implementation of GEPs in Malaysia that would contribute to the performance of Small and Medium Enterprise (SME). In order to achieve the objective, this research introduces the background of SMEs in Malaysia, the enhancement programmes provided by selected agencies and the effectiveness of the programmes to support the SMEs to face today's challenging business environment. Finally, the end of this chapter presents the thesis outline.

1.1 Research Background

Malaysia is the country with continuous initiative to maintain the standard of living and quality of life (Eleventh Malaysia Plan, 2015). Together with an effort to be part of a truly global economy, Malaysia is faced with a complex world market place. The Malaysian government emphasizes partnerships between businesses in the industries in order to sustainably compete in the global market. Furthermore, the government has to move the economy into high value sectors by producing the good quality of the product and improve the productivity. Small and medium enterprises determine the success of some advanced economies with representing over 98% of total establishments and employing over 65% workers as well as accounted over 50% of the country's gross domestic (SME International Malaysia, 2013).

This sector have the potential to contribute significantly to economic development and provide a strong foundation for new industries or existing ones to stimulate their business growth (SME International Malaysia, 2013). The government gives more attention toward this sector regarding their great role to generate employment and achieve sustainable growth. The government has designed a plan to help SMEs in all aspects of their operations, including research and development to enable them to meet business challenges in the competitive global business environment (Mohd et al., 2010). It is recognised that the government support is paramount to SMEs in acquisition of resources and accessing information to enhance their company performance.

There are a few action plans by the government to help SMEs improve their company's performance, such as access to financing and international markets, enhancing the competitiveness and creating a conducive business environment (Onphanhdala and Suruga, 2010). The government also organised programmes that focus on various aspects which include technology adoption and infrastructure such as machinery operation used to improve quality of product, market access to encourage SMEs engaging in export activities, product and quality enhancement programme and forming partnership or alliances with larger enterprises (BNM, 2005; SME Annual Report 2015/16). These programmes are organised in the form of workshops, training, financing, grant or soft loan.

In order to survive in today's globalised and challenging environment, the government has allocated billions of ringgit for the development expenditure in 2016 towards financing access and the implementation of programmes for SMEs. Table 1.1 illustrates the development programmes initiated by SME Corp. Malaysia to enhance SME performance by 2016. Of which approximately 125 programmes and RM4353.3 million allocated for SMEs including market access (24%), followed by innovation and technology adoption (16%) and infrastructure (10.4%) (SME Annual Report, 2015/16).

Table 1.1: SME Development Programmes in 2016 by Focus Area

Focus Area	No. of Programmes	Financial Allocation (RM mil)	Expected Beneficiaries
Access to Financing	31	3,843.0	417,416
Human Capital Development	31	83.1	21,800
Market Access	30	107.1	7,175
Innovation and Technology Adoption	20	208.1	7,004
Infrastructure	13	112.0	550
Total	125	4353.3	453,945

Source: SME Integrated Plan of Action (SMEIPA) 2016, SME Corp. Malaysia

Due to their small size and particularly lack of resources, SMEs are restricted in terms of their investment on new infrastructure, new machine and equipment and ultimately this becomes a hindering factor for their growth. (Chowdhury et al., 2013). With this regard, the Malaysian government has looked into providing infrastructure support to help SME growth. According to Dixon and Loukus (2013), infrastructure that is proper and well-developed such as business premises and various facilities will determine the effectiveness of company operation in terms of cost and productivity. During the Ninth Malaysia Plan period, the government has allocated a total of RM833 million to development programmes such as building business premises, providing office space at strategic locations and upgrading business management capabilities including marketing and distribution to encourage SMEs achieve higher performance (Ninth Malaysian Plan, 2006-2010). Moreover, a total of RM107.1 million was channelled through 30 programmes to assist SMEs in accessing the market. The government is committed to stimulating the high-tech marketing by encouraging SMEs to bring their success to the market place (SME Annual Report 2015/16). Recognising the importance of these programmes in developing the strong technical and develop of innovative capabilities as well as improve the

managerial and business skills, the government should continuously introduced various programmes or other initiatives to enhance the performance of SMEs.

1.2 Small and Medium Enterprise (SME)

Over the past decade, small medium enterprises (SMEs) have played a significant role in the development of the Malaysian economy (Kannan, 2013). SMEs are an important sector in contributing to the economic development of the country. The economic growth is stimulated by SMEs creating job opportunities to generate income for the community at large (Katrak and Strange, 2002; Weeks, 2002; Fariza, 2012; Ismail and Othman, 2014). Looking at the statistics of SMEs in Malaysia in Chart 1.1, it is reported that SMEs contribute at a more moderate pace of 5.2% in 2016 of gross domestic product (GDP) and the number 65.3% of total employment to the nation. In 2016, employment growth recorded satisfactory performance more than 60, 000 jobs created (SME annual report, 2016/17). The SME sector has gained a lot of attention in designing policy development plans by the government from time to time. SMEs have greater flexibility in changing market circumstance which encourages innovation process on products and services that they are offered to large organizations and the target market (Katrak and Strange, 2002; Weeks, 2002; Fariza, 2012; Ismail & Othman, 2014; Kraja, et al., 2014). SMEs are also known as the backbone of industrial development in creating technology capabilities to ensure the industry meets these new competitive requirements (Lee, et al., 2010).

However, SMEs are also faced with several constraints that prevent them from achieving sustainable economic development, such as lack of technology, lack of capital, lack of access to relevant business information, difficulties in marketing and distribution, policies and regulations that generate market distortions also lack of skilled people in their

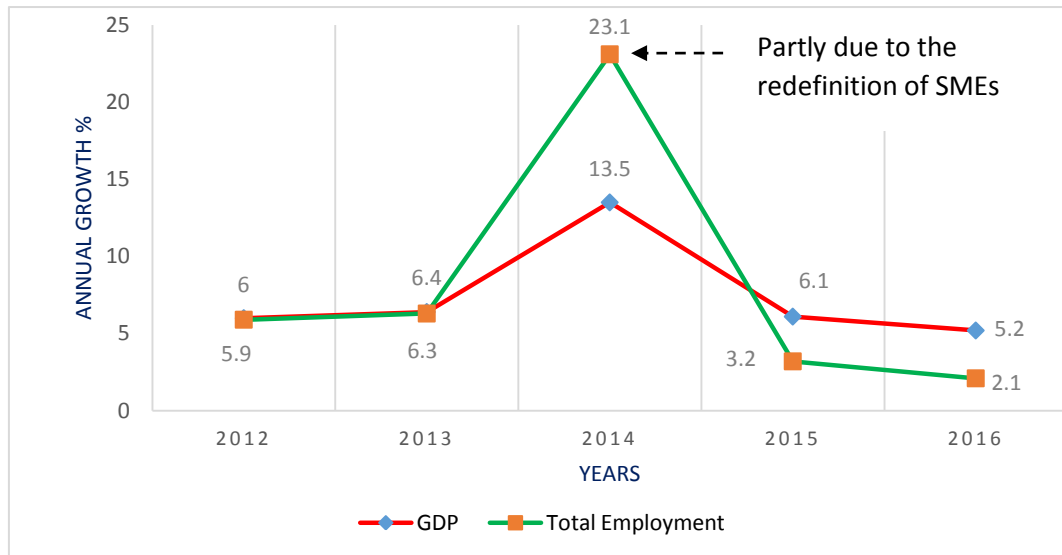
company (Cho et al., 2014 and Afrifa, 2016). As a result, SMEs tend to be stuck with obsolete infrastructure and utilities, limited product offering in the market, inadequate market demand, problem of raw material supply and high competition. All of these contribute to the inability for them to compete in the international market.

To overcome with the challenge of the volatile business environment, while at the same time remain competitive in the market, the government needs to facilitate the SME sector by implementing new schemes or modify existing schemes to help promote business growth amongst SMEs. Government is mounting specialised services and provides an action plan that affects the success and performance of SMEs (Hunjra, 2011). In order to sustain the development of the economy, Small and Medium Enterprise Corporation Malaysia (SME Corp. Malaysia) has responded as a central point of advisory services and reference for information for all SMEs in Malaysia (Kraja, Osmani, Molla, 2014; SME Corp., 2015). The effort was supported in the 2016 budget that represents a manifestation of the 11th Malaysia Plan presented by Prime Minister where SME is expected to contribute 4% of GDP by 2020 (MOF, 2016). Thus, RM 107 million is allocated to the SME Masterplan for the development of SME which are promotion encompasses establishment of enabling environment, enhancing the competitiveness, improvement of access to finance and markets and promotion of entrepreneurship development (Onphanhdala and Suruga, 2010).

In view of the SMEs' role in economic restructuring, the government also implements initiative by providing capital, fiscal reform practices, reducing administrative burden, providing management and skills training, improve the dissemination of information and improve access to help small business development. For example, the financial institution is required to improve the environment of financing for SME development. Likewise enjoined various types of venture capital to increase investments in

SMEs by assist them in research and development (R&D) tax credits or giving tax incentives, loans or grants for innovative activities, technology diffusion schemes and providing direct financing channels (Xiangfeng, 2008).

In Malaysia, the 11th Malaysia Plan (2016-2020) states that the RM235 million is allocated under agency of MATRADE by Malaysian government for several of programmes to SMEs such as Brand Promotion Grant, 1Malaysia Promotion Programme, Services Export Fund, Export Promotion Fund, Overseas Trade Fairs, Trade and Investment Missions, Specialised Marketing Missions, Information Booths, and Exhibition Centre (ERIA and OECD, 2014; Bank Negara Malaysia, 2015). In response to the global demand, government faces more complex problems in delivering programmes especially to the firms that lack of management capabilities. Government provides training or counselling as well as accessing information for SMEs to gain access of specific market (Prefontaine, et al., 1998).



Source: Department of Statistics, Malaysia and SME Corp. Malaysia

Figure 1.1: Growth of SME GDP and SME Employment (%)

1.3 Government Enhancement Programmes (GEPs) for SME

The Malaysian government has introduced numerous assistance programmes to enhance the SMEs performance. Started from First Malaysia Plan (1966-1970), the assistance programmes or incentive for industrial sectors were initially outlined by the government after realising the importance of this sector played in the nation's economic activities. Beside that in Second Malaysia Plan (1971-1975) until Eleventh Malaysia Plan (2016-2020) have also discussed the development of this industry. In First Malaysia Plan to Fifth Malaysia Plan, the terms used for this industry is small-scale commercial and industrial enterprises. In this era, the participation of community in the industrial and commercial sectors is still inadequate and not widespread. The term changes to small and medium industries (SMI) in Sixth Malaysia Plan and starting from Seventh Malaysia Plan (1996-2000) until now, the term used is small and medium Enterprise (SME). In this era, the government has formulated more policies and strategies for SMEs by implementing various development programmes across all related ministries and agencies. Table 1.1 below shows the summary of GEPs for SME drafted in Malaysia Plan (1966-2020).