

The Impact of Training on Small and Medium Enterprises (SMEs) Performance

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Abstract

This study attempts to analyze the factors that impact training in Small and Medium Enterprises (SMEs) based on three perspectives which are manager's, enterprise's and external characteristics. Then, relationship between training and performance is examined.. The methods used are descriptive analysis, Pearson correlation, stepwise regression procedures and t-test. The data for the study were collected through mail questionnaires sent out to selected SMEs. Of the total number 500 questionnaires mailed to SMEs in Malaysia, 27.6 percent responded and completed the questionnaires. The empirical information resulted from analyzing the data obtained from the SMEs, suggests that manager's, enterprise's and external characteristics affect the demand for training, and training has a positive impact on SMEs performance.

Keywords: SMEs, training, success, entrepreneurship

1.0 Background

It has become a fact that is widely accepted that Small and Medium Enterprises (SMEs) play a very important role in contributing to economic development in many countries. This is supported by many researchers such as Holcombe (1995), Khandker (1998), Otero and Rhyne (1994), and Remenyi (1991) where in a way they agreed that SMEs are considered as "driving engine" of economic growth and hence, it act as stimulants towards reducing poverty and unemployment at national level.

As a result, sustainability of SMEs is very important due to its role in enhancing the economic conditions. To ensure sustainability, it requires understanding that it is affected by both internal and external factors. The external factors is defined as those factors where the occurrence wholly cannot be controlled by the respective SMEs or sometimes they have a very little or minimal control over its occurrence. Those factors can be in terms of supporting economic, social, political environment, availability of funds and so forth.

On the other hand, internal factors are factors that are of opposite to the external factors and as for internal factors, normally they are the factors where where the SMEs may have some degree of control, and a good example is like training for its staff. Training is something that SMEs can control. A well trained staff can be expected to result in having better skills, and subsequently lead to efficient operation of SMEs. Partly, efficient operation will contribute to the success of SMEs.

There are many types of training to be offered to SMEs staff. But, Magableh and Al-Mahrouq (2006) suggested for SMEs to train their in terms of management skills and entrepreneurship skills because these two factors based on their study affected SMEs performance and success.

Due to its nature of small and medium sizes, in the past SMEs tend not to acknowledge training as something that adds value. But, studies such as by Noe (1998) suggested that enterprises that used to send their staff for training especially training that is innovative in nature are more likely to produce better financial performance when compared to enterprises that ignored training.

2.0 Literature review

Factors that affect SMEs' success are not the same from one geographical location to another. However, it is agreed that the success factors can be divided into two groups that are external and internal factors. Examples of external factors are things like surrounding economy, social and political environment, legislation and rules, availability of funds and so on.

As for internal factors, the examples are like training, education, experiences, management skills and so forth. However, the focus lately is about training and this include training held in terms of entrepreneurship, enhancing employee skills, as well as general management training (Magableh and AL-Mahrouq, 2006).

Nevertheless, in addition to training, other factors such as relevant education and experiences are recognized as requirement to cope with work and environment changes (Bryan, 2006). In the past, training seemed to be ignored and is not regarded as as an activity that could help SMEs create "value" and help them to successfully deal with competitive and environmental challenges. However, this view has changed over time. For instance, Noe (1998) found that enterprises that use innovative training practices are more likely to report better financial performance than their competitors who lack such training.

Another benefit of training includes that it helps SMEs to cope with the latest accounting systems, information technology, management concepts and production techniques (Jones, 2004).

Due to many benefits of training, the question then, is that how effective is one particular training so that its impact can be felt by SMEs ? Impact of training need to be assessed its effectiveness and many researchers have investigated the impact of training on SMEs performance (i.e., Bryan, 2006; Hashim and Ahmad, 2006; Jones, 2004; Cosh *et. al.*, 2004; Barry and Milner, 2002; Huang, 2001; Smith and Whittaker, 1999; Betcherman *et. al.*, 1997; Marshall *et. al.*, 1995; Jennings and Banfield 1993; and Collier *et. al.*, 2003).

In common, one general conclusion is that those researchers agreed that training facilitates SMEs expansion and enhances profitability, productivity and competitive advantage.

On the other hand, there are also studies conducted to investigate the problems affecting SMEs' involvement in training markets (i.e., Westhead, 1998; Kitching and Blackburn, 1999; Hunt and Hogan, 2005). Among the findings are that lack of time, high cost of training, low employee motivation, underestimation of training outcomes, part-time workers and high turnover rate are among the major problems that affect SMEs' involvement in training markets.

So, it can be seen here that there are many literatures that have analyzed the relationship between training and SMEs performance. But, there is a lack of studies examining factors affecting training decision in SMEs specifically in Malaysia. Therefore, factors affecting training decision need to be examined.

Among the questions that need to be answered, in this context, are for example, what are the factors affecting SMEs' involvement in training markets? What are the factors that make SMEs less likely to train? For SMEs that decided to train, what are the factors that affect their demand for training? How does training expenditures affect SMEs performance?

This is because there have not been studies that answered those questions collectively. In the past, most of the studies done cover only a few of those aspect of SMEs' training and performance (Jin and Tsang, 2001; Reid and Harris, 2002; Jones, 2005; and, Karmel and Cully, 2009) and not widely comprehensive in nature.

For instance, Jin and Tsang (2001) estimated the determinants of on-the-job training and adult education, and their impact on technical proficiency. They found that enterprise decision on providing training to workers and individual decision on attending adult education influenced each other.

After that, Reid and Harris (2002) conducted a study in Northern Ireland regarding the amount of SMEs spending. They found that important determinants of training expenditure are a range of human resource management functions, workforce characteristics, the external environment, size and the impact of changes in ownership status. The impact of changes in ownership status meaning that whether the enterprise is family owned and/or managed will determine training budgets of SMEs. Another interesting findings reported in this study is that workforce characteristics other than shift working, ownership characteristics and external factors, and even to some extent size, were much less important than expected.

Then, Jones (2005) studied factors affecting the demand for training of SMEs in manufacturing sector in Australia. Based on his study, he found that increased in the demand for training are affected by organizational change, and the introduction of business improvement programs.

In addition, in what can be considered as a recent study in Australia, Karmel and Cully (2009) studied the determinants demand of training for individual and employer. They found that the demand for training by individuals are affected by the perception of added values of skills received, and the cost of the training itself. As for the employer, they found that the demand for training are affected by the need to have skilled labour, and by business specific needs. They also found that the demand for training by employers are affected by the size of enterprises where training is more likely to be provided by large enterprises compared to small enterprises.

Therefore, this study try to fill the gap of the past studies by examining the relationship of three independent variables which are characteristics of

managers , enterprises, and external; and, training. Then, the relationship between training and SMEs performance will be assessed.

2.5 Objectives of study

Based on the literature review and the issues, the objectives of this study, therefore, are as follows:

1. To examine the relationship between manager's characteristics and training.
2. To examine the relationship between enterprise's characteristics and training.
3. To examine the relationship between external characteristics and training.
4. To examine the relationship between training and SMEs performance.

2.6 Framework

Based on the literature review, the conceptual framework for this study can be developed as follows:

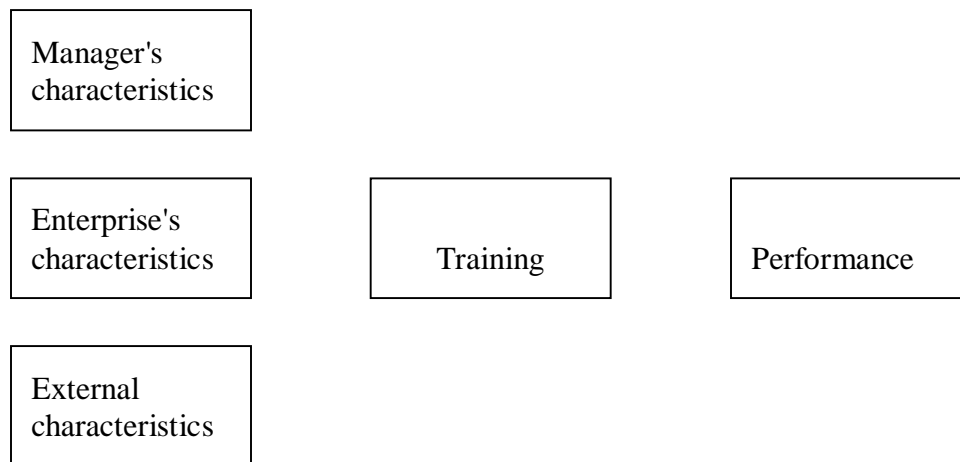


Figure 1: Conceptual framework

2.7 Hypotheses

Based on the conceptual framework in Figure 1, null hypotheses below are going to be tested in this study.

- H_{o1} : There is no significant correlation between manager's characteristics and training.
- H_{o2} : There is no significant correlation between enterprise's characteristics and training.
- H_{o3} : There is no significant correlation between external characteristics and training.
- H_{o4} : There is no significant correlation between training and performance of SMEs.

3.0 Research methodology

The unit of analysis for this study is the SMEs. Study samples were taken from SMEs in the various sectors in Malaysia. The SMEs was chosen because it is one of the most important sector that contributed significantly to the GDP of Malaysia. A random sampling method is adopted and the target are SMEs in various sectors in Malaysia. Data collection method is through a questionnaire sent by mail and followed by interview in certain cases.

In the questionnaire there are six main parts which are Part A: Demographics; Part B: Manager's characteristics, Part C: Enterprise's characteristics, Part D: External characteristics, Part E: Training, and Part F: SMEs performance. Factors of manager's characteristics, enterprise's characteristics, external characteristics and training dimension in the questionnaires have been validated with the value of Cronbach's Alpha of .82, .87, 0.81 and .88 respectively. Methods of data analysis will use descriptive analysis, Pearson correlation, stepwise regression procedures and t-test.

4.0 Results and discussion

4.1 Respondents demographic distribution

Questionnaires were sent to various SMEs in Malaysia. According to Malaysian SME Corporation (SME Corp), the definition used to define SMEs in Malaysia is as follows:

Table 1: Definition of SMEs in Malaysia

	Micro-enterprise	Small-enterprise	Medium-enterprise
Manufacturing, Manufacturing-Related Services and Agro-based industries	Sales turnover of less than RM250,000 OR full time employees less than 5	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 full time employees between 51 and 150
Services, Primary Agriculture and Information & Communication	Sales turnover of less than RM200,000 OR full time employees less than 5	Sales turnover between RM200,000 and less than RM1 million OR full time	Sales turnover between RM1 million and RM5 million OR full time employees
Technology (ICT)		employees between 5 and 19	between 20 and 50

Of the 500 questionnaires sent in Malaysia, a total of 138 were successfully received back. Hence, the response rate was 27.6 percent. Such is an acceptable response rates because the data collection method used is through the mail.

Geographically, the majority of 88.4 percent of respondents were from the major cities or region such as Kuala Lumpur, Penang and Johor Bahru) in Malaysia. The rest are from outskirts of major cities or region.

4.2 Analysis

Pearson correlation was used to analyse if there is any significant correlation statistically between manager's characteristics, enterprise's characteristics, external characteristics and training, and between training and SMEs performance. Table 2 below shows the result of data analysis regarding the relationship between training and characteristics using Pearson correlation.

Table 2: Relationship between training and characteristics

Group	Variables	Correlation Coefficient (r)	Significance Level
Micro-enterprise	Training vs manager's characteristics	0.532	0.000
	Training vs enterprise's characteristics	0.612	0.000
	Training vs external characteristics	0.611	0.000
Small-enterprise	Training vs manager's characteristics	0.623	0.000
	Training vs enterprise's characteristics	0.712	0.000
	Training vs external characteristics	0.701	0.000
Medium-enterprise	Training vs manager's characteristics	0.588	0.000
	Training vs enterprise's characteristics	0.722	0.000
	Training vs external characteristics	0.747	0.000

One of the objectives of this study is to examine whether there is a significant relationship between training and manager's characteristics, enterprise's characteristics and external characteristics of SMEs such as age, experience, education, perceptions, awareness, skills (manager's characteristics); start-up capital, age, sector, location, life stage, size, profits (enterprise's characteristics); and, tax, type of training, source of fund (external characteristics). Using the Pearson correlation method, analysis of 138 respondents revealed that there was a significant and positive relationship between training, and manager's characteristics, enterprise's characteristics and external characteristics with correlation coefficients (r) of 0.532, 0.612 and 0.611 respectively which was significant at the 0.01 level.

When the variable micro-enterprise was controlled, and analysis was carried out only on respondents who are in medium-enterprises ($n = 67$), the relationships became stronger and more significant with correlation coefficients for manager's characteristics, enterprise's characteristics and external characteristics increasing to 0.623, 0.712 and 0.701 respectively. For respondents who are in the medium-enterprises ($n= 38$), the correlation reduced to 0.588 for manager's characteristics and still significant at 0.01, increasing to 0.722 and 0.747 for enterprise's characteristics and external characteristics respectively.

Another objective of this study is to examine whether there is a significant relationship between training and SMEs performance. Using the Pearson correlation method, analysis of 138 respondents revealed that there was a

significant and positive relationship between training, and SMEs performance with correlation coefficients (r) of 0.81 was significant at the 0.01 level.

5.0 Conclusion

This paper aimed at examining the relationship between training and certain characteristics (managers, enterprises and external) of SMEs as well as the relationship between training and SMEs performance.

The study found that manager's characteristics (age, experience, education, perceptions, awareness and skills), enterprises characteristics (life stage, sector, size and profits) and external characteristics (tax, type of training and source of fund) affect the manager's and SMEs involvement in employees training market. It was also found that training has a positive impact on SMEs performance (profits, revenues and size).

In the future, it is suggested that government or other associated agencies must target SMEs managers to be convinced, whenever they want to increase the awareness and benefits of a particular training programme. This is due to the conclusion here that managers' perceptions and beliefs about benefits of training appear to be a major determinant of training.

In addition, assistance from government or authorities concerned to develop SMEs must take into consideration of the limitation that those SMEs faced (in terms of lack of budget, expertise etc), and then, the related training can be planned (to give training for SMEs in certain sectors, regions, life stages etc) and given to those SMEs by first convincing the managers.

Last but not least, negative factors that might deter SMEs from sending their employees for training and their reluctance in spending for training must be taken into account. For instance, if it is identified that the owner managers themselves are less likely to enter employees training markets and hence, they spend less on training, then something need to be done on this. Government and relevant authorities that are entrusted to develop SMEs must put more effort to change the owner managers' perception of training from being a "cost" to being an "investment". Training must be regarded as an investment instead of a cost. Only by having this new perception it is expected the demand for training will increase from SMEs, and in turn they will become more efficient and contribute more effectively to the economy of the country at national level.

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