

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

# Cross Border SMEs: Malaysia & Indonesia

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# Preface

**M**uch have been written in various forms with respect to Micro, Small and Medium Enterprises (MSMEs). In spite of this, a compilation of works on “cross border SMEs”, especially between Malaysia and Indonesia, has still not been made available to the public. Prior to addressing the issue at hand, let us look at what we mean by MSMEs for Malaysia and Indonesia? Micro, Small and Medium Enterprises (MSMEs) have been defined differently in both countries. So far, there has not been a unified definition that is accepted by all. In Malaysia, SME Corp, a coordinating body on SMEs, refers to micro size SMEs as companies with sales turnover of less than RM300,000 and employees less than five. However, for small size SMEs in the manufacturing sector, it refers to companies that have sales turnover between RM300,000 and RM15 million and employees between 5 and 75 people, while in the services sector it is described as companies that have sales turnover between RM300,000 and RM3 million, and employees between 5 and 30 people. As for medium size SMEs, in the manufacturing sector, it includes companies with sales turnover between RM15 million and 50 million, and

employees between 75 and 200 people. However, in the services sector, companies that have sales turnover between 15 million and RM 20 million and employees between 30 and 75 people are already considered as medium size SMEs. In Indonesia, MSMEs are defined as those enterprises which have full time employment of less than 100 employees with a substantial proportion of them consisting of micro enterprises with not more than five full-time employees.

Elsewhere in these two nations, SMEs are much regarded as “unsung heroes” as they play significant economic and social roles by offering new job opportunities, lowering unemployment rate, increasing competition and productivity, and providing substantial benefits to the economy of the two countries, Malaysia and Indonesia alike. The SMEs in both the neighboring nations are considered to be the backbone of the modern-day economy. Thus, it is far from being a surely not a “fish bone” anymore. The importance of this segment is undisputed. For instance, a total of 98.5 percent of the Malaysian business establishments are SMEs. In 2017, these businesses were responsible for 37.1 percent of the country’s GDP, 66 percent the total employment of the country, and 17.3 percent of the total Malaysian export. The annual growth of these SMEs’ contributions towards the GDP, employment and export are 7.2 percent, 3.4 percent and 7.9 percent respectively. A more or less similar example can be illustrated for the Indonesian counterpart. The importance of MSMEs in the Indonesian national economy has been well noted. There are more than 56.8 million MSMEs establishments and they consist of approximately 99.9 percent of the total number of enterprises. It can be further emphasized that within MSMEs, microenterprises seem to be more dominant compared to small and medium enterprises. It covers about 98.7 percent, while small and medium enterprises represent only about 1.13 percent and 0.09 percent respectively.

Having those figures are insufficient as there is a yawning gap between the needs, demands and policy responses in SMEs that often dampen their prospects. The recent economic turbulence has only added to SMEs' problems. In this regard, SMEs in both nations have also been struggling for the improvement in the cost reducing industries by providing relatively lower prices which bring transformation to the industrial structure and development of new markets along with large and multinational corporations (MNCs). SMEs directly and indirectly assist and facilitate growth, multiply and replicate into sufficient mass across industries and sectors. Starting in the late 70s and early 80s, SMEs have started to become more innovative and flexible in terms of reducing cost, technology adoption and diversification of products. Hence, it becomes imperative for us to ensure that SMEs, which are facing one of the toughest times in the industrial history, are strongly supported by the relevant stakeholders; governments, financial agencies, institutions and associations.

Realizing the need to leverage further on the development of small and medium enterprises (SMEs) in these two brotherly countries, Malaysia and Indonesia, a small group of scholars/researchers from IIUM, UMY, UNIDA Gontor and UNISSULA have collaboratively embarked on a little-known project known as the Research Matching Grant Schemes (RMGS), International Islamic University Malaysia (IIUM), Project ID: RMGS 17-001-0027. After a successful Malaysia-Indonesia Workshop on SMEs in 2019, that was conducted to present all the RMGS findings, a subsequent effort is to compile the selected-relevant papers in the form of a book to enable the knowledge and the latest findings to be shared with the public at large. Thus, the book, "Cross Border SMEs: Malaysia and Indonesia", is put forward as an extension of a compilation of works designed to foster the status, growth, progress and development of SMEs, espe-

cially in Malaysia and Indonesia. Such an effort has not been made elsewhere.

In view of this, we would like to extend our appreciation to the Research Management Center (RMC) of the International Islamic University Malaysia (IIUM), the research centers of *Universitas Muhammadiyah Yogyakarta (UMY)*, Universitas Darussalam (UNIDA) Gontor, and Universitas Islam Sultan Agung (*UNISSULA*) for undoubtedly giving us the opportunity by providing research grants under RMGS. The grants from our respective institutions enabled us to generate and integrate these research papers into an edited book. Therefore, special thanks and the flagship's appreciation to those who have contributed their papers and their efforts and unquestionable support which have eventually led to this edited book.

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## **CAPACITY BUILDING FOR SMEs: Realizing the Training Gap Amongst SMEs in Malaysia**

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### ABSTRACT

Small and medium enterprises (SMEs) contribute a significant portion to the economic pie both in the developed and developing countries. The development and growth of SMEs in Malaysia has significant impact on social development, boosting productivity and increasing employment. Training is one of the issues and challenges faced by SMEs studied by previous researchers. Studies also find training as one of the potential tools for capacity building of SMEs. Hence, to ensure the sustainability of the SMEs, an understanding of their training status is worth studying. This chapter identifies the background of SMEs in Malaysia, provides an indicator on the training requirements and the type of training received by SMEs in different fields. The survey was conducted using structured questionnaire that involved questions regarding the type of training received and needed by SMEs in different fields of business. A total of 344 respondents were surveyed and then analyzed using descriptive statistics as well as SPSS software. More than half of the respondents did not have any prior business experience. Training gap was measured by looking into the differences between the training received and the training requirements of SMEs. From the analysis and observation, a significant training gap was revealed among the SMEs in terms of what they have received and what they require currently as well as in the future. This

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difference was further confirmed by 't-test'. A significant correlation was found between the training received and the training requirements of SMEs. Higher training requirements were associated with higher training received. The majority of the respondents required training in all the mentioned fields in both current and future times. It was also found that there was an increase in the training requirements compared to what they received. This finding supports the training gap and correlation realized in this chapter.

KEYWORDS: *Capacity, Training, Gap, SMEs*

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### 1.0. INTRODUCTION:

Small and medium enterprises (SMEs) contribute a significant portion to the economic pie both in the developed and developing countries in terms of employment and GDP, and as well as economic growth. The development and growth of SMEs in Malaysia has significant impact on social development, boosting productivity and increasing employment in national, regional and global markets. According to a report by Bank Negara Malaysia, Feb 2016, SMEs and Micro SMEs contributed to 43.5 percent of total employment and are responsible for 57.8 percent of total new jobs created. In Asia, 98 percent of the business establishments are SMEs with a total of 62 percent employment and 42 percent GDP contribution. The sector is an important economic agent for most of the economies, based on its GDP contribution, share of total employment and share of total exports. The government of Malaysia has implemented several assistance programmes for SMEs to establish themselves and has provided them a conducive environment. This layout of assistance by the government includes many training programmes for SMEs building their capacity to contribute more to the economy of the country. The study by Bowen et. al. 2009 conducted in Nairobi, Kenya shows that about 60 percent of the SMEs experience failure within a few

years of their operation because of not having training in different fields of business. This finding was also found in an earlier study by Longenecker (2006). Training requirement is one of the factors responsible for SMEs' success. The SME Masterplan 2012-2020 emphasized on training programme to develop human skills in entrepreneurship to better adapt to changes in the economy and technology. The report stated three shortcomings in the Malaysian SMEs in terms of their human capital development. These include a mismatch between supply and demand of human resources and lack of industry perspective in the curriculum, low utilization of existing training, and non-competitive rewards and benefits.

There are great financial benefits for firms if their employees are competent in their jobs. To achieve this goal, training is an important activity. From the literature review many studies have been found that emphasize the importance of training for the employees as well as managers for any business organization including SMEs. A number of studies were also found focusing on the factors that affect or influence SMEs which have received training and their business performance. However, no study has investigated the training gap amongst the SMEs in terms of what they require and what they receive. It is important to realize the level of gap to know if the training demand has been met by the existing training programmes provided by different institutions in Malaysia. Measuring this gap will also determine the efficiency and quality of the training programmes. The objectives of the chapter are to identify the type of training received by SMEs, investigate the training requirements in different fields of SMEs, realize the training gap among the SMEs, and to recommend policies that would address the training gap strengthening the capacity building of SMEs.

The following research questions were formulated for this particu-

lar study. If the respondents (SMEs) had received training from any private sector, 1) What type of training they did receive? 2) What are the different fields of business they received training for? 3) What are their current and future training requirements in the different fields?, 4) What are the training gaps in terms of receiving training and training requirements? and 5) Is there any relationship between the variables?

The following sections of this paper include the literature review on challenges in training and training as capacity building for SMEs followed by the development of a research framework. Then it states the methodology used in this chapter followed by the presentation and explanation of the findings. After that there is a brief discussion on the findings. Finally, the paper concludes the results providing recommendations and scope for future research and for policy makers.

## 2.0. CHALLENGES IN TRAINING CONFRONTED BY SMES

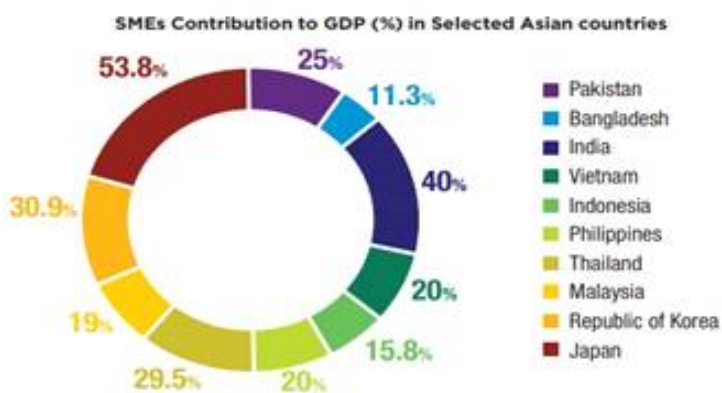
Issues and challenges faced by SMEs have been studied by many researchers and more studies being conducted across the world. It is crucial to identify the challenges faced by SMEs as they have a significant contribution to the economy of many countries. According to a report by the Asian Development Bank Institute 2015, 19 percent of the GDP in Malaysia and about 54 percent in Japan was contributed by SMEs. This contribution was significant in other Asian countries as well. (Figure-1).

To solve the challenges faced by SMEs, it is important to understand the real contributing factors to local SMEs' excellent performance. According to Daisy K. M. H. (2011), SMEs face challenges in developing potentially powerful strategies for them to set a successful future direction. Developing training programmes by looking into the

business through the lens of entrepreneurs can help them to face such challenges. The chapter also found that despite the existence of numerous government assistance programmes, SMEs still encounter a variety of problems in their operations. The Generalized System of Preferences (GSP) is insufficient and is not delivering enough towards developing and strengthening local SMEs in Malaysia.

Innovation is a big challenge for entrepreneurs and also essential to be competitive in the to improve competitive advantage and create more opportunities. Several factors including 'learning by training' was found to have the highest impact on the degree of novelty of innovation by established SMEs (Amara, Landry, Becheikh, & Ouimet, 2008).

FIGURE 6. 1 SMEs CONTRIBUTION TO GDP (%) IN SELECTED ASIAN COUNTRIES



Source: SMEs Internationalization and Finance in Asia, Asian Development Bank Institute, 2015

**Source:** *SMEs Internationalization and Finance in Asia, Asian Development Bank Institute, 2015*

The challenge is also faced by policy makers and training institutes while provisioning training for SMEs. One of the many barriers towards the provision of training is the negative attitude of the owners found by Panagiotakopoulos (2011). Similar finding was reported by earlier studies (Kotey and Slade 2005, Matlay 1999) where training was found to be perceived by the SME managers as an unaffordable

luxury, subsidiary business activity, and non-profitable investment in short-term.

In general, problems encountered by SMEs are caused by the internal and external environments, such as lack of capabilities and resources, poor management, low technology, competition, economics, technology, socio-cultural, and international factors (Hashim, 2000). This finding was supported by an earlier study where, in addition to the internal and external factors, the economic crisis was mentioned as a big challenge to business operation (Ghosh and Kwan, 1996). The chapter also found poor skills and economic crisis adding to the difficulties in assessing financial assistance or funding to overcome the shortage of capital in expanding businesses of SMEs. Proper training in respective fields can be an effective method for capacity building of SMEs to overcome such issues.

While reviewing issues of training in different fields of business faced by SMEs, the field of e-commerce (ICT) has attracted the attention of many researchers. To cope up with the world of technology and remain competitive, being technology savvy is a must for SMEs. However, SMEs also face many challenges in ICT. For example, Internet security has been regarded as the key to e-commerce diffusion (Alam *et al.* 2004; Mukti 2000; Udo 2001). A number of studies (Limthongchai and Speece 2003; Kendall *et. al.* 2001) have also found security issue as one of the major barriers in developing E-commerce. To adopt E-commerce information safety, it is essential for the company to have integrity of the entire system (Alam *et al.* 2004). A similar study conducted by Beale (1999) revealed that the reluctance among many consumers to embrace e-commerce is basically centered on the concerns over security issues and lack of confidence in the current set-up of e-commerce.

Education provides knowledge and plays a significant role as it

helps the SMEs know the many aspects of management such as finance, marketing, accounting and other disciplines and their importance in business. Chee (1986) and Moha Asri (1996), in their study found that most of the SMEs do not have higher levels of education in Malaysia.

### 3.0. A REVIEW OF TRAINING AS CAPACITY BUILDING FOR SMES

Training and development are important aspects for any organization to accelerate skills, knowledge and efficiency of human resources through certain initiatives and policies (Marchington and Wilkinson, 2012). There are great financial benefits for firms if their employees are competent in their jobs. To achieve this goal, training is an important activity. Therefore, it is important to know how to implement and monitor the right training which is vital to any SME business. The study, "Benchmarking Training Best Practices of Malaysia SMEs (2012)" explains the significance of training for capacity building of SMEs that includes business benefits of improving the staff 's skills, staying competitive, improving employees' core employability skills, and new business opportunities. The study also explains 33 best practices that could be applied to improve core skills and how it can fit into the business strategy, and training programmes provided by the government. Training is also required because skill shortage is a mismatch between the supply of people with particular skills and the demand for people with those skills (Malaysia Masterplan 2012-2020).

Training employees in business has also been found to be effective in capacity building in many studies. For example, Baron (2003) in his study found many SMEs have experienced downfall because of having a workforce that has poor skills, and limited training that are not



managed effectively. Similar findings show that SMEs also lack training in human resource management (HRM) because they have poor understanding on the importance of HRM practices (Hornsby and Kuratko, 2003; Saleh and Ndubisi, 2006; Ahmed et al, 2011).

Training is one of the ways in which firms, in particular the SMEs, can build the competency and skills needed to overcome their weaknesses and disadvantages. According to a study, "Benchmarking Training Best Practices of Malaysia SMEs", published by the Ministry of Human Resources Malaysia (2012), it is more difficult for the SMEs to recruit and retain good quality employees as the larger firms attract the talents away with higher salary, incentive performance pay and perks. Smaller firms and enterprises are thus at a disadvantage when dealing with these challenges. The study highlighted the need to manage training in a systematic manner for capacity building of SMEs.

The study also recommends that training must be tailored to real needs and working environments. Delivery must be flexible in terms of content, timing and form of delivery. The standard framework should be able to be broken into units with short periods of instruction (SME Corporation Malaysia).

Boseli *et.al.* (2001) has reviewed a number of findings pertaining to training and capacity building of human resources. He notes that training has a positive impact on the relationship between management and the other employees. More importantly, investment in training resulted in higher profits (Kalleberg and Moody, 1994). Meanwhile Delaney and Huselid (1996) found that training practices affect perceived organizational performance positively. Similar result was found by Harel and Tzafrir, 1999. Training was also found to be positively related to perceived profits, market share and investments in the near future (Verburg, 1998).

For an organization to be successful, Ayadurai and Ahmad (2006) believe that the entrepreneur must possess characteristics which are: innovative, creative, farsighted, right attitude in business dealing, never give up attitude, having knowledge in business, business-minded, able to work long hours, having good networking and a host of contacts, independent, as well as resilient.

Improving such characteristics can increase the capacity of SMEs which can be possible by providing proper training. Rose, Kumar, and Yen (2006) in their study suggested some similar success factors such as personal initiative, promotion of products and services, understanding market needs, and examining customer feedback. Besides that, innovation was also indicated as one of the key elements of success (Sinha, 2003) and there is significant relationship between distinctive capabilities and innovativeness on the performances of SMEs (Man & Wafa, 2007).

SMEs need training for flexible solutions in terms of local delivery, duration and timeliness to encourage both business and their employees to undertake training activities (Johnson and Gubbins, 1992; Beaver and Lashley, 1998).

Training requirements by SMEs in different fields of business was also addressed by Khalique et. al., (2011). They found that SMEs in Malaysia lack skills in marketing techniques, exporting, branding, customer loyalty, and they also lack good contacts with other local and international enterprises.

In line with the concern for training needs of SMEs, Moha Asri (1996), in his study, states that the reason for management problems among SMEs is mainly because of not having good knowledge and professional training. Most SMEs do not engage in R & D activities. Even though there are several tax incentives to support R & D activities, only a small fraction operates using the technological frontier.

### 3.1. Existing Training Programmes for SMEs in Malaysia

Training programmes for SMEs have been made available in many agencies by different ministries in Malaysia. Some of the policy agencies provide training for SMEs in Malaysia and this includes SME Corporation Malaysia (*SME Corp. Malaysia*) which was established to meet the need for a specialized agency that provides technical and advisory support to promote further development of SMEs. The National Productivity Center (NPC) is another agency that provides training on supervising skills, management, and development of entrepreneurs.

Bumiputras (the indigenous people of Malaysia) received special attention of the government of Malaysia. A center named the Malaysian Entrepreneurial Development Center (MEDEC) was established in 1975 so that they can start their own business ventures. Bumiputras can also receive training on entrepreneurship, counselling and advisory services from Majlis Amanah Rakyat (MARA) established in 1960.

Training for the SMEs in the agricultural business and the farmers are provided by the Small Business Development Center (SMDC) at University Putra Malaysia (UPM) which is also the Agriculture University of Malaysia.

The Entrepreneur and Skills Development Center (ESDC) was established by the Federation of Malaysian Manufacturers (FMM) in 1991 to provide training on knowledge and technical skills for member companies. Other agencies that provide technical skill programmes are- The Center for Instructor and Advanced Skills Training (CIAST), Forest Research Institute Malaysia (FRIM), Palm Oil Research Institute Malaysia (PORIM), Food Technology Division (FTD), Youth Training Centers (YTCs), and Institute of Training Institutions (ITIs).

### 3.2. Research Framework:

From the literature review it was observed that many studies had addressed the issues and challenges faced by SMEs regarding training. The essence of training was also realized from previous studies, and the existing training programs in Malaysia was identified as well. To achieve the objectives of the chapter the following research framework was conceptualized.

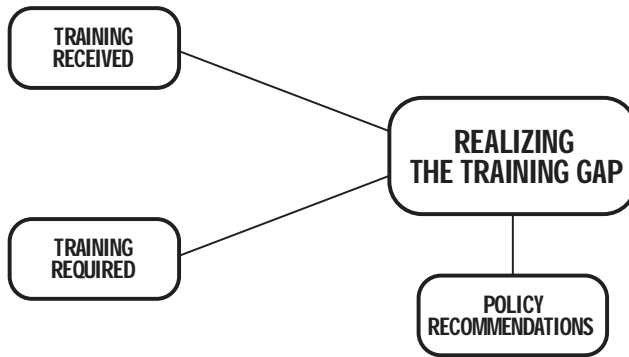


FIGURE 6. 2: CONCEPTUAL FRAMEWORK OF THE STUDY

#### 4.0. METHODOLOGY:

This research employs quantitative research with limited quantitative techniques. Before this is realized, secondary information from relevant literature review was used. In addition, primary data of the research was made available from a face to face questionnaire survey. The respondents were basically SME owners/managers in the area of Klang Valley, Malaysia. In this relation, a random sampling technique was used to obtain this part of the data. The questionnaire was designed in such a way to comply with the objectives of the chapter. It has a number of components relating to the profiles of owners/managers and SMEs in addition to specific capacity building questions. A total of 344 respondents' data was collected. Six enumerators were appointed to conduct the survey and the whole survey was

monitored periodically to maintain the accuracy and validity of data collection. In order to practically realize this, a set of questionnaires was designed which were then administered to respondents in Malaysia. Data collected were then analyzed using descriptive statistics as well as the SPSS software. Some abbreviations used in presenting the findings are TR (Training Received), CTR (Current Training Requirement), and FTR (Future Training Requirement). A reliability test was done to see the internal consistency of the data.

TABLE 6. 1: BACKGROUND OF THE RESPONDENTS

		FREQUENCY	PERCENT (%)
1.	Gender:		
	Male	229	66.6
	Female	115	33.4
	Total=	344	100.0
2.	Marital Status		
	Single	78	22.5
	Married	258	75.0
	Others	8	1.5
	Total=	344	100.0
3.	Age	Frequency	Percent (%)
	20-29 Years	71	22.6
	30-39 Years	115	33.4
	40-49 Years	111	32.3
	50 Years and above	47	13.7
	Total=	344	100
4.	Education:	Frequency	Percent (%)
	Non-formal education	3	.9
	Primary school	8	2.3
	Secondary School	144	41.9
	Diploma	72	20.9
	First Degree/Equivalent	93	27.0
	Postgraduate degree	21	6.1
	Total=	343	99.7

#### 5.0. FINDINGS AND DISCUSSION:

To achieve the objectives of the chapter, the findings are divided into four categories. Firstly, the background of SMEs was understood by looking into their personal characteristics and business backgrounds. Secondly, the training status of SMEs was realized by observing a few aspects, which are, - whether they had received training from any

private sector, type of training they received, the different fields of business they received training for, and their current and future training requirements in the different fields. The third category of findings was to reflect the third objective of the chapter which is to realize the training gap. This was presented by comparing the finding found in terms of training received and the training requirements. And finally, the findings of reliability test were presented followed by the results of 't-test' and 'linear correlation statistics'.

### 5.1. BACKGROUND OF SMES

To find out the personal characteristics of the respondents, the following background information was elicited from the respondents: gender, marital status, age and education. From Table 1 it can be observed that about 67 percent of the respondents were male, and 75 percent of the respondents were married. The age categories of 30-39 and 40-49 years old constituted 32 and 33 percent respectively and the respondents who were 50 years and above comprised 13.7 percent only. The results also showed that only 27 percent of the respondents had a first degree/equivalent certificate. However, 6.1 percent of the respondents also had a postgraduate degree.

Information on the business background is important and this information was elicited by asking the respondents about their business expertise, years of establishment, and if there was any family member in the business working on a full-time basis. Table 2 shows that about 55.0 percent of the respondents did not have any prior business expertise. The number of years of business expertise possessed by those who had this expertise ranged from 1 to 5 years. Number of years in business by SMEs was found from 0 to 55 years and about 75 percent of them have been in business from 1 to 15 years. On average, respondents had 2 of their family members working as full-time staff in their business with a maximum number being '7'.

TABLE 6. 2: BUSINESS BACKGROUND OF THE SMES

Prior to Business Expertise						
	Frequen- cy	Percent (%)	Mean	Maxi- mum	Mini- mum	Std. Dev.
Had experience	153	44.5	1.57	5 Years	1 year	0.676
Did not have experience	190	55.2				
Total=	343	99.7				
Number of Years in Business						
Less than 1 year	2	.6	9.93	55	0	9.27
1 to 15 years	258	75.0				
16 o 30 years	74	21.5				
31 to 40 years	7	2.0				
More than 40 years	3	.9				
Total=	344	100.0				
Number of family members working full time in your business						
Minimum			Maximum		Mean	Std. Dev.
0			7		2	1.31

## 5.2. TRAINING STATUS OF SMES

Training status of SMEs was observed to understand the capacity level of the SMEs in the market by investigating if they have received training from any private sector. The type of training received (vocational, on the job, training college, and others) was also investigated for the SMEs which said that they received training from the private sector. Training status was further investigated to measure the capacity of SMEs by looking into the different fields of business (accounting, finance, business plan, technology etc.) in which they received training. Finally, to improve this capacity of SMEs, an investigation was done to see if there is any training gap. To measure this gap, it was needed to look into the current and future training needs of the respondents.

### 5.2.1. Training Received by SMEs:

When SMEs were asked if they had received training from any private sector, about 60 percent of them responded positively. The SMEs which received training from any private sector was further investigated by asking them about the type of training they received.

It was found that about 63 percent of them received on the job training. The rest had vocational, training in college, and other types of training. See Table 6.3.

TABLE 6. 3: TRAINING BY THE PRIVATE SECTOR \* TYPE OF TRAINING RECEIVED CROSSTABULATION

Training Received by private sectors	Type of training received					Total
		Vocational	On the Job Training	Training College	Others	
	Frequency	43	130	16	18	207
Percentage	20.8%	62.8%	7.7%	8.7%	60.1% of total 344 respondents	

TABLE 6. 4: FIELDS OF TRAINING RECEIVED BY THE RESPONDENTS

TYPE OF TRAINING	FREQUENCY	PERCENTAGE	MEAN	STD DEVIATION
1. Accounting	101	31.3%	1.55	0.306
2. Motivation	147	45.5%		
3. Business plan	214	66.3%		
4. Feasibility Study	111	34.4%		
5. Finance	173	53.6%		
6. HRM	119	36.8%		
7. ICT	147	45.5%		
8. Leadership	136	42.1%		
9. Marketing & Promotion	202	62.5%		
10. Operation/ Manufacturing	201	62.2%		
11. R&D	81	25.1%		

### 5.2.2. Fields of training received by the respondents:

The SMEs were asked about the 11 different fields of business pertaining to the training received. More than 60 percent of the respondents reported that they had training on business plan, marketing and promotion, and operations/manufacturing. Table 4 also shows that the percentage of the respondents who received training on motivation, leadership, ICT, was around 45 percent. The lowest percentage of training the SMEs received was below 30 for accounting and R&D. However, about 54 percent of the SMEs stated that they received training in finance.



### 5.2.3. Training requirements by SMEs:

Requirements for training in different fields by SMEs was observed in two different phases. Firstly, the requirement during the survey i.e. current requirements. Secondly, training requirements in the same fields, but in the future, i.e. future training requirements.

#### Current Requirements:

Table 5 shows that around 60 percent of the respondents had a current requirement in all categories except training on sustainability and green technology. The other respondents were either not sure about their requirements or did not have any current training requirements.

TABLE 6. 5: CURRENT TRAINING REQUIREMENT

Current Training Requirements	Frequency	Percent	Mean	Std. Deviation
1. Finance	186	59.6%	3.279	1.1894
2. Human Resource	192	61.5%	3.326	1.0927
3. Information Technology	172	55.1%	3.358	1.1543
4. Marketing& International Business	183	58.7%	3.451	1.0402
5. New Product Developments	194	62.2%	3.461	.9989
6. Operational Management	197	63.1%	3.483	1.112
7. Quality Development	205	65.7%	3.576	.9353
8. Research, Development& Innovation	192	61.5%	3.535	.8996
9. Sustainability and Green Technology	149	47.8%	3.387	.8037
10. Accounting	195	62.5%	3.549	.8692

#### Future Requirements:

An increase in the percentage of the respondents was observed in terms of their training requirements from current to future. More than 70 percent of the respondents had future training requirements on all categories except Sustainability and Green technology. However, the percentage of respondents increased from 47 percent to about 62 percent for training on sustainability. The other respondents did not have any future training requirements, or they were not sure (see Table 6).

TABLE 6. 6: FUTURE TRAINING REQUIREMENT

Future Training Requirements	Frequency	Percent	Mean	Std. Deviation
1. Finance	207	75.8%	3.245	1.4941
2. Human Resource	205	75.1%	3.254	1.4110
3. Information Technology	211	77.3%	3.303	1.4754
4. Marketing & International Business	215	78.8%	3.422	1.2569
5. New Product Developments	197	72.2%	3.378	1.2132
6. Operational Management	214	78.4%	3.390	1.3312
7. Quality Development	192	70.3%	3.462	1.0574
8. Research, Development & Innovation	197	72.2%	3.483	1.0186
9. Sustainability and Green Technology	169	61.9%	3.443	.8730

### 5.3. REALIZING THE TRAINING GAP:

Training gap was measured by comparing the two sets of data. Firstly, future requirements of the SMEs which received or did not receive training from any private sector. The cross-tabulation analysis presented in Table 7 shows that about 73 percent of the respondents who received training from different private sectors, required training in the future. On the other hand, more than 58 percent of the respondents who did not receive training, also required training in the future. Almost all the respondents were reasonably sure if they require or do not require training in the future.

The second way of realizing the training gap was by comparing both the current and future training requirements of SMEs in the five fields of training where they had already received training in. It was found that more than 50 percent of the respondents who received or did not receive training in the above-mentioned fields, required training in the same field both currently and in the future. The maximum requirement was in HRM, OM, and R & D in which around 70 percent of the respondents received training and around 50 percent of those who did not receive training in the respective fields. See Tables 8 & 9.

From Tables 7, 8 & 9 it can be seen that there is a difference between training received and training requirements of SMEs as the percentage of training requirement is much higher than the percentage of training received by them.

A reliability test analysis was run against all scaled items of the questionnaire. The minimum acceptable value for Cronbach's alpha is 0.70. However, the findings show that the minimum values were 0.850 and 0.949 for training received and training requirement respectively. The findings presented in Table 10 indicates a high level of internal consistency for the scale used in this chapter.

TABLE 6. 10: RELIABILITY STATISTICS

Research questions	Particulars	Cronbach's Alpha	Items
What are the training requirements and type of training received by SMEs?	Training received by the respondents	.850	11
	Current and future training requirements by the respondents	.949	21

Before looking into the relationship between the variables used in the study, a paired sample t-test (Table 11) was run to confirm that the differences found from Table 7, 8 and Table 9 were significant. From the analysis it was found that there is a significant average difference between training received (TR) and current training requirement (CTR), and also between TR and future training requirement (FTR). In both cases the p value found was less than 0.05 and the calculated t-value was much higher than the tabulated t-value. However, there was no significant average difference between CTR and FTR. This finding implies that SMEs needed the same amount of training currently as well as in the future which was significantly different from the training they received.

TABLE 6. 7: TRAINING RECEIVED AND FUTURE TRAINING REQUIREMENT

Training by Private sector	Future training requirement		Total
	Did not require	Required	
Training received	40	106	146
	27.4%	72.6%	100.0%
Did not receive training	79	116	198
	39.9%	58.6%	100.0%
Total	119	222	344
	34.6%	64.5%	100.0%

TABLE 6. 8: CROSSTABULATION BETWEEN RECEIVED TRAINING AND CURRENT TRAINING REQUIREMENTS IN DIFFERENT FIELDS

Fields of training		Current Training Requirement	
		Frequency	Percent
Finance	Received	99	57.7
	Did not receive	87	50.9
Human Resource Management (HRM)	Received	81	68.1
	Did not receive	111	49.3
ICT Application	Received	79	53.7
	Did not receive	93	47.2
Operation Management (OM)	Received	129	64.2
	Did not receive	68	47.6
Research and Development (R&D)	Received	57	70.4
	Did not receive	135	51.3

TABLE 6. 9: CROSSTABULATION BETWEEN TRAINING RECEIVED AND FUTURE TRAINING REQUIREMENTS IN DIFFERENT FIELDS

Fields of training		Future Training Requirement	
		Frequency	Percent
Finance	Received	109	63.4
	Did not receive	98	57.3
Human Resource Management (HRM)	Received	87	73.7
	Did not receive	118	52.4
ICT Application	Received	88	60.3
	Did not receive	123	62.4
Operation Management (OM)	Received	133	66.2
	Did not receive	81	56.6
Research and Development (R&D)	Received	58	71.6
	Did not receive	139	52.9

TABLE 6. 11: PAIRED SAMPLES TEST

		Paired Differences		t	df	Sig. (2-tailed)
		Mean	Std. Deviation			
1	Training Received (TR) and Future Training Requirement (FTR)	1.80	1.126	29.6	343	.000
2	Current Training Requirement (CTR) and Future Training Requirement (FTR)	.056	.829	1.2	343	.208
3	Training Received (TR) and Current Training Requirement (CTR)	1.85	.852	40.4	343	.000

Finally, to see if there is any correlation between company background and their capacity building, Pearson correlation statistics were used. A significant but moderate or below moderate correlation was found between education and training received, current training requirements, and future training requirements. It was also realized that there is a significant correlation between future training requirements and training received, and current training requirements at 1 percent level of significance. Education and the number of years in business showed a negative significant correlation with training received which means they tend to decrease together.

TABLE 6. 12: CORRELATION

		Education	Years in business	TR	FTR
TR	Pearson Value	-.454**	-.228**	1	-.190**
	Sig.	.000	.000		.000
CTR	Pearson Value	.349**		-.297**	.597**
	Sig.	.000		.000	.000
FTR	Pearson Value	.260**			1
	Sig.	.000			
**. Correlation is significant at the 0.01 level (2-tailed).					

#### 5.4. DISCUSSION

The majority of the respondents, almost 70 percent, were male which indicates a low level of women involvement in entrepreneurship. Most of the employees in SMEs did not have higher level of education (degree and postgraduate) which showed a significant rela-

tionship between their received training and requirements of training. Education can play a significant role to influence SMEs receiving training and deciding their training requirements. This finding is in-line with the study by Chee (1986), and Moha Asri (1993). All SMEs, regardless of their background and company size, required and received training in their business as company background and size did not show any significant relationship with training received and training requirements. The essence of training, which was significant, can be observed by looking into the future training requirement of both the respondents who received and did not receive training. SMEs needed training in all the fields to strengthen their capacity as entrepreneurs. This increased training requirement in different fields found in this chapter justifies the literatures reviewed on training as capacity building for SMEs. The most demanded trainings were marketing and international business, operation management, ICT, and R&D. This finding also supports the studies by Khalique et. al. (2011), Moha Asri (1996) and Alam et al. 2004. As the SMEs lack skills in effective HRM (Saleh and Ndubisi, 2006; Ahmed et al, 2011) and many of them have experienced downfall for this (Baron, 2003), an increasing demand in HRM training has been observed in this chapter as well. The necessity of building capacity of SMEs was realized by observing the gap between training received and training requirements where requirements increased significantly.

#### 6.0. CONCLUSION:

The study was conducted in the greater Klang valley in the state of Selangor in Malaysia involving 344 respondents. From the profiles of the SMEs a low level of women involvement was found where more than half of the respondents did not have any prior business expertise. Education was found to be an important factor to deter-

mine both training received and training requirements of SMEs. Most of the employees in the SMEs did not have higher level of education which showed a negative correlation with training received. To achieve second objective of the study, it was realized that more than 60 percent of the respondents received training from the private sector and the majority of them received the type of 'on the job training'. The reasons for not having much training from other sources should be investigated. There should be more training on Accounting and R&D and they should be made available for the SMEs, since the SMEs reported these two areas as the lowest type of training received. A higher training demand by SMEs implies their need for training in all categories as future requirements. It was also found that the type of training received by the SMEs was significantly associated with training requirements. This finding from this study implies that there is a need to develop and provide more training programs for SMEs to identify their appropriate training requirements. Further study can be conducted in other states of Malaysia on broader aspects. The main objective of the study was achieved by identifying a significant gap between training receives and training requirements. It was observed that SMEs still need training in the fields they have already received training. In fact, the requirement increased for both the current and future needs. Thus, the increased demand in training can be realized by observing the gap between training received and the training requirements. There could be two reasons. Firstly, SMEs found training very effective for their business and required more training or most of the respondents had new employees who required training in different fields. Secondly, the training received by the SMEs was not effective or good enough which made them to demand more training in the same fields. Training is one of the most effective tools and widely used method for capacity building of an organization.

The government of Malaysia and other private agencies have implemented several training programs for SMEs in Malaysia. The training gap found in this chapter implies that the existing training programs could not meet the requirements of SMEs. Or, the programs are not effectively implemented. Another reason for increased requirement could be inaccessibility to existing training programs. Further study should be conducted to investigate all these reasons to define the training gap found in this chapter appropriately. More training programs should be developed by the policy makers and implemented. Policy makers should focus on the most required training areas of SMEs and develop training programs and policies accordingly.

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## **Training Needs: How SMEs Increase Their Competitiveness Study from Small Medium Enterprises in the Yogyakarta Special Region”**

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### ABSTRACT

This chapter aims to describe the readiness of SMEs in Yogyakarta Special Region Province facing global challenge in business in the future. Training is one method to ensure that business players of SMEs are ready to increase competitiveness. This chapter used qualitative research design and utilized questionnaire. Data for Small Medium Enterprises in Yogyakarta were collected from Small Medium and Enterprise Bureau. The findings of this chapter showed that in today’s prevailing conditions, SMEs mostly need training in management aspects because of the lack of knowledge in management. Most of the business players realize the need for training to increase their competitiveness in the future, not only in the management aspects for business processes, but also for the improvement of quality and the application of green technology in facing the Industrial Revolution.

KEYWORDS: training, competitiveness, small medium enterprises

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### 1. INTRODUCTION

The growth of Small Medium Enterprises (SMEs) in Indonesia has increased dramatically. This fabulous trend has been predicted to