

Comparative analysis of managerial practices in small medium enterprises in Malaysia

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Abstract

The purpose of this paper is to examine the existing practice in managerial strategic and tools being used and problems faced by local small medium enterprises (SMEs) in the manufacturing sector. With today's arduous competition, it requires the SMEs to tune its current business practice to cope with the rapid changes in the business environment. Due to the rapid changes, SMEs' managers need to equip themselves with new knowledge and ideas to promote effective managerial practices. In other word, SMEs must have better trained managers, knowledgeable in managerial activities. Focus should be on the knowledge on financial management, human resource management and marketing management techniques. The research method was adopted from the combination of quantitative and qualitative approaches. Since there is no detailed and up-to-date databases about SMEs in the Malaysian industry, the sampling plan was designed by using judgment and snowball sampling. A total of 102 responses were obtained from the owner-managers drawn from Johor Bahru city area. The most important findings of the study on managerial practices are that the SMEs appear to have a very limited knowledge of the overall spectrum of managerial practices.

Introduction

The increasing magnitude and significance of the SMEs is a recognized feature of most nations. Malaysia is no exception. In her vision to be a fully developed and industrialised nation by the year 2020, future progress toward that end was seen to depend greatly upon the development of SMEs (Abdul Hamid *et al.*, 1993). The "Vision 2020" of the country recognized the importance to industrialize rapidly by capitalizing on the country's strengths and forcefully tackling the weaknesses.

In Malaysia, the majority of the manufacturing companies fall into the category of SME, before the new definition announcement made effective in January 1998. According to research conducted in 1988, there were 28,335 manufacturing companies in Malaysia, of which 92.6% were SMEs, which created 40.2% of job opportunities for the whole industry (Mohd Asri, 1993). Fundamental weaknesses in the manufacturing sector are recognized as impediments to growth by Malaysian government. Amongst the prominent problems facing the SMEs development are the shortage of skilled personnel, poor linkage development, lack of market access, inadequate finance, unintended impact of policy instruments, competitions from foreign SMEs and technological constraints (Salleh, 1990; Chee, 1986). Academics and practitioners also

have advocated that SMEs are plagued with limited funds, lack of research and development (R&D) to upgrade quality, unattractive packaging and labeling, plus poor quality and distorted information on the demands of the international markets (Salleh, 1991; Sarkar et al, 1992; Chee, 1986; Aziz, 1981).

The role, importance and contribution of SMEs differ from one industry to industry and from country to country. Similar to other businesses, SMEs also face miscellaneous problems which in some instances may affect their profitability and growth. In order to cope with the constant rapid changes in business environment, having a well-versed business manager is vital to an organization. Given the above scenario, this study has been conducted to provide some evidence regarding the SMEs' managerial practices and problems faced among the SMEs in the vicinity of Johor Bahru city. In promoting and coordinating the development of SMEs, the National Development Council would pursue the following guidelines: (Mohd Khairuddin, 2000:33)

- a. SMEs would assist in the development of a balanced economy, use of advanced technology and help in providing a more equitable distribution of income;
- b. SMEs would complement as well as support the large scale industry, heavy industry and modern industry through a network of industrial linkages;
- c. SMEs would produce quality and high value-added products and services for both the domestic and export markets, as well as contribute significantly to the Gross Domestic Product; and
- d. SMEs would increase productivity through the use of modern technology and management that would increase the SMEs competitiveness in the export market.

Review of the literature

The SMEs sector in Malaysia

In Malaysia, The Ministry of International Trade and Industry (MITI) redefined SMEs as:

- (i) A small scale firm “with less than 50 full-time employees, and with an annual turnover of not more than RM10 million” or
- (ii) A medium scale company “with between 51 and 150 employees, and with an annual turnover of between RM10 million and RM25 million”.

In practice, both quantitative and qualitative criteria (Mohd Khairuddin and Syed Azizi 2003) or economic and statistical definition (The Bolton Committee, 1971) are used to define an SME. However, in Malaysia, only quantitative criteria are chosen to define an SME such as the one defined by MITI. In the authors' opinion, there has been no universally accepted definition of what an SME is and a wide range definition is used. In research works for SME, majority of SME definition were based on operational definitions (see works for example Dart, Ng and Sarkar, 1990; Mohd. Khairuddin, 2000).

According to Mohd Khairuddin (2000), the SMEs in Malaysia may be categorized into three broad sub-sectors; (1) general business, (2) manufacturing and (3) agriculture. The general business sector involves construction, wholesaling and retailing, transport

and storage, business services and activities, and providing services such as hotel and restaurant. Major activities in the manufacturing sector consist of processing and production of raw materials such as food, textile, wood, chemicals, petroleum, rubber, plastic, metallic and non-metallic, transport equipment, electrical and electronics appliances and components. The agriculture sector involves rubber, paddy, oil palm, coconuts, cocoa, pepper, tobacco, livestock, timber, fish, fruits, and vegetables. From the three sub-sectors, manufacturing sector has emerged as the most important for SMEs in Malaysia, in terms of the number of establishments, growth, and contributions to the gross domestic product and national income.

Managerial activities in SMEs

Over the past decades, environment change such as globalization, and technological developments occurred surrounding the firm. The environment change may well pose a particular challenge to the SMEs, which limits their abilities to maintain their position against larger competitors. Gupta and Cawthon (1996) suggest it is often small business managers who require the most training. In other word, SMEs need to have better trained managers, knowledgeable in managerial activities involved in SMEs, familiar with the environment, and have entrepreneurship characteristics (Dollinger, 1999; Zimmerer and Scarborough, 1998).

According to Dart *et al.*, (1990), managers must have knowledge in financial management, human resource management and marketing management techniques. While SMEs have been a popular area for research, few studies appear to have specifically examined the role of managerial training within SMEs (Winch and McDonald, 1999).

Financial activities

Most SMEs need a financial resource to fund production. These resources are either in the form of debt, the cost of which is the interest paid, own savings, family savings, or in the form of equity which has a cost represented by the providers required fixed or unfixed return. Study by Bates (1971) found that small firms tended to be more self-financing, had lower liquidity, rarely issued stock, had lower leverage, relied on bank financing and used more trade credit and owner's loans. Another study by Renfrew (1982) also indicated that small firms relied heavily on proprietors' equity, retained profit and trading bank finance. Recent study by Gibson (2001) suggests other five categories of small firms with regard to their dominant source of finance, namely trade credit debt, bank loan debt, related persons debt, working owner equity and other debt or equity such as venture capital, credit card or government loans. However, the empirical investigations provided evidence that adequate forecast information may not be available in most SMEs (Edwards and Turnbull, 1994).

Human resource activities

The human resource advantages within SMEs are linked in many cases to the dynamic and entrepreneurial practice of many SME managers. There was little evidence of the adoption of human resource management (HRM) by small companies (Worsfold, 1999). The development of HRM has its origins in large manufacturing sector and much of the literature review reflects this orientation. The HRM practices in small firms were very informal and normally they see very little need for formal arrangement

in their practices. Furthermore, in SMEs, shorter internal lines of communication and faster response times which allow speedy problem solving and reorganization. Snell and Lau (1994) found that there are differences in the management competencies required for growth in small firms when compared with larger firms. Further, most research suggested that there is little attempt to integrate HRM practices with business strategy or performance.

Marketing activities

Interest at the marketing/entrepreneurship interface of SME research began at late 1980s. In recent years, the subject of market orientation has received much attention from marketing scholars who have developed, tested and refined market orientation scales. In literature, many studies have found relationship between market orientation and the performance of the business, but what is not clear is whether this concept is used by the small business owners (Blankson and Stokes, 2002). However, Cannon (1991) and David and Klassen (1991) note that there is currently insufficient knowledge about marketing in small businesses. In this study, the marketing knowledge involves decisions and issues relating to product, price, promotions and distribution (Kotler, 2003).

Methodology

Given the lack of empirical research in this area especially in Malaysia, an exploratory investigation was considered the most justifiable approach (Churchill, 1991). With exploratory research, the research is conducted to explore a topic or when the subject of study is relatively new, in this case, the managerial practice among SMEs in Malaysia. The research method was adopted from the combination of quantitative and qualitative approaches as suggested by Miles and Huberman (1994). This approach begins with an initial qualitative survey and was then followed by detailed interviews using structured questionnaire. The general managers were selected since they are usually involve in the making final decision on management practice in the organization. Over half of the items used in this questionnaire were therefore specifically developed for this study based on literature in research journals, newspapers and articles in magazine. And some of the specific terms were specifically adjust to facilitate the respondent answering the questionnaire.

Unfortunately in Malaysia, there is no detailed and up-to-date databases about SMEs in industry, so the sampling plan was designed by using judgment and snowball sampling technique. A snowball sample is built from the subjects suggested by previous subjects. The major advantage of this sampling design is that it substantially increases the likelihood of locating the desired characteristic in the population (Malhotra, 1999). To ascertain the managerial aspects of the SMEs, a questionnaire was designed to gather information on the financial, human resource, marketing practices and problems faced by the SMEs in the three areas of management mentioned above. A mix of close and open ended questions was used in the questionnaire. A total of 102 responses were obtained.

Findings and analysis

The initial findings from the comparative study of managerial practices amongst SMEs have yielded some highly interesting results. The results were summarized in a series of tables, supported by complementary evidence, quotes and examples. Table 1 shows the demographic characteristics of the respondents.

Table 1: Respondents' profile

Details	Frequency
Registration status:	
Sole proprietorship	19
Private Limited	67
Partnership	16
Type of ownership:	
State-owned	1
Own ownership	76
Subsidiaries	9
Joint-venture	13
Others	1
Number of employees:	
Below 50	73
Between 51-100	12
More than 100	18
Type of business:	
Construction	10
Property	2
Trade and service	20
Industrial goods	33
Plantation	2
Technology	18
Others	7

Financial management

Most SME are aware and have utilized the income statement technique especially for personal use, cash flow and generally record their income statement (see Table 2).

Table 2: Financial management techniques

Techniques	Used	Not aware
Income statement for personal use	87	16
Income statement for public use	34	69
Report on sources and uses of funds	27	76
Product costing	29	74
Cash flow	68	35
Expenditure statement	46	57
Recorded income statement	72	31

Report on sources and uses of funds and product costing is among the least understood financial techniques. These findings suggest that SMEs have realized the importance of income statement and cash flow in their areas of operation and help them to plan for the future. In general, among the common financial problems facing the SMEs is high product cost, followed closely by high overhead costs and overdue account receivables (see Table 3). The above findings suggest that the SMEs are now facing a dramatic increase in high product cost, overhead cost and overdue account receivables that SMEs are facing now.

Table 3: Financial problems

Problems	Percentage
Lack of capital	22.3
Poor financial records	16.5
High product costs	36.9
High overhead costs	26.2
Overdue account receivables	24.3
Difficulties in obtaining loans	17.5
Difficulties in credit	16.5
High tax rates	15.5
High interest rates	14.6

Human resource management

As expected, the SMEs studied are generally less aware and less likely to use the human resource techniques. Recruitment of workers (59%) is the most common HRM practice among the SMEs. Job analysis becomes the second most common practice among the SME (43%) as to ensure the right employee gets the right job. In most cases, the SMEs would prefer to employ their own family members rather than employing foreign workers. Employers also are less concerned with employee performance appraisal, which accounted for only 34%.

Table 4: HRM techniques

Technique	Used	Not aware
Job need analysis	43	60
Worker recruitment process	61	42
Employee performance appraisal	34	69
Job rotation/enrichment	26	77
Management by objective	32	71
Profit sharing	14	89
Flexitime	24	79
Family worker recruitment	30	73
Foreign worker recruitment	27	76

Table 5 presents the human resource management problems as perceived by the SMEs. Among the most common problems faced by the SMEs include difficult to find good and dedicated worker dedication, followed by poor employee motivation. Interestingly, the problems mentioned above are not significant, since only 49.5%, 36.9% and 34%

are recoded respectively. In other word, Malaysian SMEs are facing fewer problems with their workers. Thus, it is possible to argue that Malaysia has employer-employee relationship, at least in the eyes of the employer.

Table 5: HRM problems

Problems	Percentage
Not many dedicated worker	49.5
Difficult to find good worker	36.9
Poor employee motivation	34.0
High turnover	26.2
High absenteeism	24.3
Dissatisfaction with pay	17.5
Lack of concern	16.5
Conflict	15.5
Family problems	14.6

Marketing management

Table 6 presents the awareness and usage levels of various marketing techniques among the SMEs. The results reveal a similar pattern to the earlier two types of managerial techniques, are not aware and are unlikely to utilize the marketing techniques, where approximately more than 64% of the SMEs are unaware of the various marketing techniques practices. Among the least used technique identified has been joint-venture and sales training.

There may be several possible explanations for this finding. First, most of the SMEs are family owned enterprises or own ownership as indicated in Table 1. Second, lesser utilization of sales training may be due to reason that SMEs are quite satisfied with their existing sales. In addition, they may be quite confident that they can maintain their present market share without much effort. As such, these SMEs do not see any need in pursuing sales training.

Table 6: Marketing techniques

Techniques	Used	Not aware
Sales training	28	75
Marketing plan	35	68
Market research	37	66
Comparing Pricing	39	64
Planning Marketing technique	30	73
Joint-venture	19	84
Product development	31	72

With regards to marketing problems as presented in Table 7, price competition (62.1%) was the most common problem faced by the SMEs, followed by low profits and brand competition 39.8% and 38.8% respectively. SMEs faced less difficulty of exporting

their product as their main focus is on local markets. Under these circumstances it is not surprising to find less export problems being reported. The study also suggests that the SMEs do not have problems with the quality of their products. That is, the SMEs believe that their customers are satisfied with their products. This perception may have been formed because there are perhaps few returns and complaints from the customers.

Table 7: Marketing problems

Problems	Percentage
Price competition	62.1
Low profits	39.8
Brand competition	38.8
Low sales	30.1
Poor product quality	14.6
Unable to export	9.7

Strategic techniques application

Table 8 presents the awareness and usage level of various strategic techniques application among the SMEs. The results reveal that a pattern similar to with other types of managerial techniques. The SMEs are less aware of, and more likely not to utilize the strategic techniques stipulated. Most unaware strategic technique was backward integration, followed by forward integration, horizontal integration and diversification and joint-venture/consortium.

Table 8: Management strategy

Techniques	Used	Not aware
Market Penetration	53	50
Market development	63	40
Product development	36	67
Forward integration	13	90
Backward integration	7	96
Horizontal integration	21	82
Concentric	45	58
Horizontal diversification	18	85
Joint-venture/consortium	20	83

Interestingly, the most common strategic applied by the SMEs has been market development and followed by market penetration that is SMEs prefer market expansion of their product to grow gradually as their business prosperous.

It is interesting to note here that these SMEs do not faced major problems in strategic implementation even though they do not apply most of the techniques described in Table 8. The respondents have revealed that received the highest government support followed by no disturbance in company operation due to less conflict between workers and employers are willing to accept new idea from their employees. As iterated in the human resource management section, it seems those SMEs are enjoying a favorable employee-employer relationship.

Table 9: Strategy implementation problems

Details	Agree	Don't agree
Not enough resources	38	65
Not optimistic on strategy chosen	30	73
Workers can't accept new idea	23	80
Conflict between workers	21	82
Disturb company operation	19	84
Government policies	17	86
No support from management	13	90

Conclusion

The purpose of this paper has been to provide some evidence regarding the SMEs' managerial practices and problems. With respect to the practices, the findings suggest that SMEs are generally not aware and most likely will not utilize the various managerial practices. Perhaps the most important findings of the study on managerial practices are that the SMEs appear to have limited knowledge of the overall spectrum of managerial practices.

Among the managerial problems, it seems that the problems tend to revolve around high product cost, high overhead cost, undedicated employees, difficulty of finding good workers, and SMEs faces stiff price competition. While the first three is within the SMEs' control, the fourth and fifth problems may be a reflection of the economic competitiveness of the country.

With regard to the strategic technique application, it is confirmed that SMEs would only focus on surviving in the market place by concentrating in market penetration and market development. SMEs' do not face significant problems in the application of the above technique indicating positive environmental atmosphere that include government support and good employee-employers relationship.

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