

# **COMPARATIVE ANALYSIS OF MANAGERIAL PRACTICES IN SMALL MEDIUM ENTERPRISES IN MALAYSIA**

**By**

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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). Most SMEs operates with limited resources. 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, it requires the SMEs managers to be equipped with new knowledge and ideas to promote effective managerial practices. In other word, SMEs need to have better trained managers, knowledgeable in managerial activities. Focus should be on the knowledge on financial management, human resource management and marketing management technique. This study empirically investigates the differences in the managerial practices of SMEs in the Malaysian Manufacturing sector. 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, (Hamid et al, 1993) future progress toward that end was seen to depend greatly upon the development of SMEs. 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<sup>1</sup>. According to research conducted in 1988, there were 28,335 manufacturing companies in

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<sup>2</sup> Before the new definition announcement made effective in January 1998.

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 recognised as impediments to growth by Malaysian government. Due to their size, inadequate capital, management, marketing, production capacity and low utilisation of modern technology, SMEs have exhibited a lack on inter-industry linkages, poor quality and delays in delivery to support the large industries (Government of Malaysia, 1995).

Amongst the prominent problems facing the SMEs development nationally 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 among the main problem also involve lack of funds, no 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).

Apart from that, most SMEs are also too dependent on the local markets for sale of their products and only a small number have successfully marketed internationally (Salleh, 1991; Sarkar et al, 1992).

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 the organization. Given the above scenario, the relevant and the interesting issue for writers to consider at this stage would be: the style and strategy of management practices especially in marketing, human resource and finance to ensure the success of the SMEs sector.

The purpose of this study has been to provide some evidence regarding the SMEs' managerial practices and problems faced in the vicinity of Johore Bahru city. Researchers will focus the managerial practices namely in the area of financial, marketing and human resources management and strategic planning.

The two main objectives of this study include:

1. to identify the government support schemes in promoting the SMEs
  2. to compare and contrast the managerial practices and problems faced by SMEs
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# REVIEW OF LITERATURE

## The Definition of Small Medium Enterprises

A wealth of literature exists on managerial issues on SMEs. The term SMEs appears to have been defined variously by different parties such as different countries, books, authors, scholars and so on. In Malaysia, The Ministry of International Trade and Industry (MITI) redefined SMEs as:

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

In 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 based on operational definitions (see works for example Dart, Ng and Sarkar, 1990; Mohd Khairuddin, 2000).

## The SMEs Sector in Malaysia

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 was involved in construction, wholesaling and retailing, transport and storage, business services and activities, and providing services such as hotel and restaurant. A 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 was involved in rubber, paddy, oil palm, coconuts, cocoa, pepper, tobacco, livestock, timber, fish, fruits, and vegetables.

From the three sub-sector, manufacturing sector has emerged as the most important for SMEs in Malaysia, in terms of the number 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, known the environment, and have entrepreneurship characteristics (Dollinger, 1999; Zimmerer and Scarborough, 1998). Snell and Lau (1994) found differences in management competencies required for growth in small firms in comparison to larger sized businesses.

According to Dart et al (1990), they must have knowledge in financial management, human resource management and marketing management technique. 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 saving, family saving, or in 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. Other 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. Mohd Khairuddin and Syed Azizi (2003) found that five tools of financial analysis were used for the important objectives of the firm such as sales target, market share, return on investment, net profit and growth target. However, the empirical investigations provided evidence that adequate forecast information may not be available in the 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 the large manufacturing sector and much of the literature review reflects this orientation. According to Price (1994), the majority of examples of good personnel practice were found amongst relatively large employers and that these employers were clearly "improving their personnel practices as well as recognizing the need for management training". 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 differences in the management competencies required for growth in small firms in comparison to larger firms. Further, many researches 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. This effort defines the role of the entrepreneur as "fundamental" in marketing and organizational activities, so that flexibility in marketing was important to suitably adapt its principles and practices to the activities of SMEs (Hill 2001a). Further more in recent year, the subject of market orientation has received a great deal of 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 this concept is used or appreciated by the small business owner (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, marketing knowledge describe 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 is then followed up by detailed interviews using structured questionnaire. The general managers were selected to answer the questionnaire since they are people who 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, newspaper and article 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 database about SMEs in industry, so the sampling plan was designed by using judgment and snowball sampling. A snowball sample is built from the subjects suggested by previous subjects. The major advantage of these samplings 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 into the comparative study of managerial practices amongst SMEs have yielded some highly interesting results. The result of the research was 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 Financial Management**

Details	Frequency	Percent
<b>Registration status:</b>	<b>N=102</b>	
Sole proprietorship	19	18.6
Private Limited	67	65.7
Partnership	16	15.7
<b>Type of ownership:</b>	<b>N= 100</b>	
State-owned	1	1.0
Own ownership	76	76.0
Subsidiaries	9	9.0
Joint-venture	13	13.0
Others	1	1.0
<b>Number of employees:</b>	<b>N = 103</b>	
Below 50	73	70.9
Between 51-100	12	11.7
More than 100	18	17.5
<b>Type of business:</b>	<b>N= 103</b>	
Construction	10	9.7
Property	2	1.9
Trade and service	20	19.4
Industrial goods	33	32.0
Plantation	2	1.9
Technology	18	17.5
Others	7	6.8

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). Report on sources and uses of funds and product costing is among the least understood financial techniques. These findings suggest that nowadays 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 problem facing the SMEs is high product cost, followed closely by high overhead costs and overdue account receivables (see Table 3). It seems to emerge that the seriousness for obtaining loans was not the main problem as indicated in the table; lack of capital (22.3%) and followed by difficulties in obtaining loans (17.5%). 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. This may be due to the aggressive government initiatives and bank support towards government SMEs scheme assistance.

**Table 2 Financial Management Techniques**

Techniques	Used	Not aware
Income statement for personnel 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

**Table 3 Financial Problems**

<b>Problems</b>	<b>Percentage</b>
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

The respondents in the study were asked to indicate their awareness and usage of managerial tools. The responses are presented in Table 4. As expected, the SMEs studied are generally less aware and less likely to use the human resource techniques. In addition, a comparison on the level of awareness and usage of human resource management (HRM) techniques is less than that of the financial management techniques. This is perhaps due to several reasons.

First, the area of financial management is much more already embedded once they started business because financial issues are usually perceived to be more critical than the human resource management area such issues dealing with the workers. Thus is not surprising that the level of awareness in the latter is lower. Second, it has been a regulation of the country for firms to use some of the financial management techniques (for example, balance sheet and income statement) but not in human resource management techniques.

Worker recruitment processes are common among the SMEs. They are more concerned on recruiting the right employee for the right job as indicated 43% in job need analysis, however, they would prefer at a lower percentage of employing their own family, but are less concerned with employee performance appraisal which accounted only 34%. In a sense, this suggests that the SMEs have a relatively casual attitude towards their employees, in that they are not concerned to objectively identify the better employees.

**Table 4 HRM Techniques**

<b>Technique</b>	<b>Used</b>	<b>Not aware</b>
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. In the sample, less than 50% are facing worker dedication, followed by difficulty in finding good worker and 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. This may be because the Malaysian workers are indeed very good or that the Malaysian employers are easily pleased.

**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.

It does not appear that there is any common pattern on terms of which marketing technique is most favored among the SMEs. Approximately less than 40% SMEs has used some form of price comparisons, an informal form of marketing research and marketing plan. Among the least used technique identify 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 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. Accordingly, in general the SMEs are reluctance to actually adopt a formal program whereby employees are trained in various selling techniques. They also view that the skills of a salespersons can be acquired while on-the-job and learning-by-doing fashion.

**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 (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. As with other managerial problems, SMEs are less faced with the difficulty of exporting their product. This finding does not interpret that they have been successful in exporting; rather they are mainly focused on local markets. Under these circumstances it is not surprising to find less export problem reported. The study also suggests that the SMEs do not have much of a problem 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 present 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 noticeable unaware strategic technique was backward integration, followed by forward integration, horizontal integration and diversification and joint-venture/consortium.

**Table 8 Management Strategies**

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.

Interesting to note here that these SMEs do not faced major problems in strategic implementation even though they do not applied most 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 form their employees. As iterated in the human resource management section, it seems those SMEs firms 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 is that the SMEs appears to have a very limited knowledge of the overall spectrum of managerial practices.

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