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Rohaizat BAHARUN

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ASSOC. PROF. DR. ROHAIZAT DIN BAHARUN

Faculty of Management and Human Resource Development
Universiti Teknologi Malaysia

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COMPARATIVE ANALYSIS OF MANAGERIAL PRACTICES IN SMALL
MEDIUM ENTERPRISES IN MALAYSIA

ROHAIZAT BAHARUN
ABU BAKAR ABDUL HAMID
NOOR HAZARINA HASHIM

RESEARCH VOTE NO:

71948

Management Department
Faculty of Management and Human Resource
Universiti Teknologi Malaysia

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By:

ROHAIZAT BAHARUN

ABU BAKAR ABDUL HAMID

NOOR HAZARINA HASHIM

Comparative Analysis of Managerial Practices in
Small Medium Enterprises in Malaysia

By

Rohaizat Baharun
Abu Bakar Abdul Hamid
Noor Hazarina Hashim
Management Department,
Faculty of Management and Human Resource Development
University of Technology Malaysia

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.

Chapter 1

Introduction

The agenda in Budget 2004 is clear – to maximize national wealth. But one key ingredient seems to be missing – incentives for foreign direct investment (FDI) in the manufacturing sector. Instead, the country will streamline domestic investment to new levels via the development of small-and-medium-scale industries (SMIs).

In fact in making the private sector to play as a proactive role, the government has made its stand clear by stating that the Malaysia External Trade Development Corporation (Matrade) will be corporatised and injected with a seed capital of RM100 million, which will be used to help SMIs (Malaysia Business, October 2003).

Malaysia's impressive record of economic development through the 1980s and 1990s is well documented (Bank Negara Report, 1998 i.e. The Central Bank of Malaysia). An average growth rate above 8% for seven consecutive years, a considerably low inflation rate and sustained export growth is an achievement surpassing any other, either developing country or the developed countries (further details are discussed in chapter 2).

However, economic commentators have criticised government policy for being incoherent in the past two decades (70's and 80's) (Jomo 1993; Anuwar and Wong 1993; Lim 1992) with the impact on the country's industrial process to sustain long-term economic growth and also commented on the significance of the role of Small Medium Entrepreneurs¹ (SMEs). Later in 1996 (in the Sixth Malaysian Plan) the government, however, positioned SMEs as the keystone in the economic and industrial policy. This has been supplemented with the set up of well-organised government agencies such as the Malaysian Industrial Development Authority (MIDA), the Ministry of Entrepreneurship Development (MED), and the Ministry of Finance (MOF) etc., which illustrates the significance of SMEs to the overall government economic policy. In practical terms, this continued interest from a policy perspective is a prolonged from the 1st and 2nd Malaysian Industrial Master Plans. The hierarchy of the plan will be explained in chapter two. The Malaysian Plan is a five yearly long-term economic development plan for the country. The country started its five-year long-term planning with the First Malaysia Plan in 1965 until 1970 and now is into the Eighth Malaysia Plan from year 2000 until 2005. It is important to note that the Malaysian Industrial Master Plan (IMP) focuses only on the development of the industrial sector of the country.

¹ Effective from January 1998, the new definition for SMEs: Small scale industry consists of local companies with 50 or less full time employees with annual sales turnover of not more than RM10 million. Medium scale industry comprises local companies employing between 51 and 150 full time employees with annual sales turnover of RM10 million to RM25 million.

The increasing magnitude and significance of the SMEs is a recognised 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 recognised the importance to industrialise rapidly by capitalising on the country's strengths and forcefully tackling the weaknesses. In pursuit of this policy, the government needs to deal with the problem of a narrow manufacturing base and further needs to diversify business products since most of the Malaysian manufactured exports come from the electrical and electronic sector (50 per cent of the total manufacturing) and the textile industries. Furthermore there is a need to generate local intermediate products and strengthen weak industrial linkages. In addition, there has been an inadequate development of indigenous technology, too little value-added, too much simple assembly and production. There is also a need to counter the rising production costs, by improving efficiency and productivity, and to overcome the serious shortage of skilled manpower (Hamid et al 1993).

In Malaysia, the majority of the manufacturing companies fall into the category of SME². The majority of SMEs are owned by Malaysian, while foreign-owned SMEs accounted for 23 per cent of medium-scale establishments and 3 per cent of small-scale establishments (Lim 1992, Fong, 1990). Local SMEs are generally labour intensive and most do not use the state-of-the art technology and equipment in their business activities.

² 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).

Statement of Problem

Jomo (1994); Anuwar and Wong (1993); and Lim (1992) and (1994) have noted that several Malaysian government policy initiatives were successful while others needed further modification to support the programme. The requirement for sustained industrialisation has led to several Newly Industrialised Countries (NICs) examining the role of SMEs (UNIDO, 1995). Many programmes have been initiated to enhance the linkages between SMEs and the large enterprises, including tax incentives, umbrella and vendor systems, local content requirement, information exchange and cluster creation to encourage SMEs to be effective (UNIDO, 1995). The implementation of these programmes has not always been successful in developing countries due to lack of communications between agencies and the level of private sector involvement. Inconsistencies in implementation, unfair regulations placed on SMEs and lack of managerial accountability were also seen to undermine the effectiveness of these policies (UNIDO, 1995). Fundamental weaknesses in the manufacturing sector are recognised as impediments to growth by Malaysian government. Rafidah (1996) indicated a lack of the industrial structure that was manifested in the relatively weak linkages among SMEs, including the lack of support linkages with large companies and the domination of the

foreign sector without strong two-way relationships with domestic firms³. 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).

In Malaysia, inter-industry linkages are not widespread and the local SMEs produce few intermediate products for large enterprises (Anuwar 1993). In most industrial countries, the large and better-integrated industries tend to lose from their small counterparts. The larger industries tend to supply components and intermediate goods for large firms. However, it could be seen that these are the stages of development of greater inter-industry linkages. Japan demonstrated strong linkages between large and small firms (Sako, 1992; Hines, 1994; Leenders and Blenkhorn, 1988) that the Malaysian government intended to emulate.

³ For further details please refer to the 'Sixth and Seventh Malaysian Plan' by the Economic Planning Unit, Prime Minister Department, Malaysia.

The business environment facing small firms is often very difficult to assess and it is also difficult to predict their achievement with any level of accuracy (Chee, 1986). There are many reasons for the lack of market access for the SMEs. Most SMEs are 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). Academics and practitioners have advocated that the main reasons were lack of funds, no research and development (R&D) to upgrade quality, unattractive packaging and labelling, plus poor quality and distorted information on the demands of the international markets (Salleh, 1991; Sarkar et al, 1992; Chee, 1986; Aziz, 1981).

A major finding from academics and practitioners is the lack of ability of SMEs to access organised capital markets. Most of their capital funding derived mainly from small personal savings, loans, from friends, or even relatives and sometime pawnshops (Chee, 1986; Aziz, 1981). The discouraging factor is that bankers are always asking for collateral, while loans from moneylenders, middlemen and pawnshops can be even more difficult. On the other hand, SMEs difficulty in accessing institutional credit at reasonable interest rates was seen to be due to poor management by the SMEs themselves, thus resulting in poor credit ratings, uncertainty about their business and the risks involved and low financial returns (Chee, 1986).

Unfortunately (Anuwar, 1993), although government policy, regulation and practices are not to discriminate against SMEs, however they suffer some impacts and heavy penalties. For example, some major fiscal incentives are biased in favour of large and capital

intensive enterprises. Another example of discrimination faced by SMEs is related to government procurement policies, whereby most government bulk purchasing and tenders favour large enterprises because of better quality and lower prices.

Most western government used small and medium enterprises (SMEs) as significant components of economic strategies (Hill 2001a). In Malaysia, SMEs has an important role in supporting national economic growth and the industrialization efforts across the manufacturing sector. Of an estimated 20,200 manufacturing establishments operating in Malaysia in 1996, more than 90 per cent were SMEs establishments. However, in the year 2000, the SMEs had accounted for more than 80 per cent of the total manufacturing establishments in Malaysia (M.Sadiq and Teo 2003). Despite their number, SMEs contributed only 27 per cent to total manufacturing output and 26.2 per cent to total value added in the sector and SMEs employed 868,000 workers or 38.9 per cent of the total number of workers in the manufacturing sector (Malaysia, 2000). Traditionally, the foundation of Malaysia SMEs was laid down on agriculture-related and cottage industry activities. However, after a careful planning by the government, today, SMEs exist in almost all sectors of the Malaysian economy. Most of the SMEs were concentrated in the food and food products, furniture and fixtures, chemical and chemical products and metal products sub sectors.

In an effort to further strengthen the SMEs, several programs were implemented during the Malaysia Plan period, covering a wide spectrum of SMEs needs. These programs included the Skills Development and Upgrading, Market Development, Infrastructure

Development and Financial Support. With the trend towards globalization and trade liberalization, SMEs in Malaysia have continued to undergo several strategies in their operation such as intensive product specification, design and engineering activities, improve technology and improving marketing, distribution, quality system and quality for human resource. However, similar in many other developed countries, these SMEs face tremendous challenges just to survive if not grow. The recent economic crisis and uncertain factors such as SARS outbreak and War on Iraq provide the great blow, for some, it had meant the end.

In promoting and coordinating the development of SMEs, the National Development Council would pursue the following guidelines (Mohd Khairuddin 2000, page 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 which will assist to increase the SMEs competitiveness in the export market.

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. Previous studies had identified various internal and external problems that may impinge the growth of SMEs such as lack of proper financial practice, poor marketing activities and also unable to cope with the new technology. Given the importance of technology in business activities today, the term technology should be more broadly defined to encompass equipment and production process, manufacturing management technique and managerial technique (Dart et al 1990). 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.

Objective of the Study

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

Scope of the Study and Methodology

The scope of this study is focus on the bumiputera SMEs, according to their size (number of employees from 5 to 75) and sales turnover not more than RM25 million. The reasons for focusing on the bumiputera SMEs is to identify whether they are sensitive with the development of current managerial practices if they were to be competitive locally or internationally especially with current tense competition among businesses.

Furthermore the city of Johore Bahru was selected due to the fact that is the third largest city in the country, the state capital of Johor state and geographically it is a strategic location as the trade hub at the southern part of the peninsula.

The Study Organization

The study can be divided into two important aspects namely for academic purpose and for generic use.

Results and conclusions from the study can be a guideline and references for academicians, conferences presentation local and international and as references for future research.

Amongst other benefit to the bumiputera SMEs includes:

1. Result from the study will enhance the importance the managerial practices amongst bumiputera entrepreneur in their business operation.
2. The study will provide information for the current and future SMEs in enhancing their managerial skills in running their business operation in this competitive environment.
3. Result from the study will also hope that the governments (especially MARA) to take further initiatives in conducting courses that are currently and urgently required for an entrepreneur to commence their business undertaking.

Limitation to the study

Result from the study will not accommodate within the framework of the period studied. During the tenure of the research, several problems incurred that need to be emphasized for future investigation. Amongst the limitation includes:

1. all information and opinion from the respondents will not represent the overall of the SMEs communities.
2. there were entrepreneurs who did not give full cooperation during the fieldwork survey.
3. the group researchers faced monetary and time limitation for thorough investigation.

Chapter 2

Literature Review

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. The most widely accepted definition was based on the definition made by the Bolton Committee (1971), and they formulated the definition as an “economic” definition and a “statistical” definition. The European Union’s Directeur General (DG XXIII) for instance defines businesses as follows:

- Micro 0-9 employees
- Small 10-99 employees
- Medium 100-499 employees
- Large 500+ employees (Blankson and Stokes, 2002).

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 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 mentioned above by MITI. In author’s 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

Since 1990s, Malaysia has been transforming from a commodity-based producing nation to being a manufacturer of industry products for export orientation. From that moment, SMEs continue to play a critical role in the country economic development (see Norzima and Md Yusoof, 2000; M.Sadiq and Teo, 2003). This approach is a basic approaches or methods applied by many nations around the world. In the UK, the SMEs have been accepted as an important contributor to the nation’s overall wealth and a major source of jobs (Blankson and Omar, 2002).

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. In recent years, the research direction is aimed at the SMEs' problems and as we known that there is not a single solution to these problems. Hill (2001b) suggested that decision making in SMEs was continuum ranging from routine

decisions to unpredictable, non-programmed or intuitive decisions. 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).

Most businesses included SMEs operated in their limited resources and SMEs must be tune with its environment. 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.

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).

Carter (2002) found that owner's educational and experience-based characteristics as determinants of capitalization. She also suggested that entrepreneur's choice regarding debt financing may provide greater explanation for differences in the capital structures of male- and female-owned businesses than discrimination in the capital markets.

Human Resource activities

The human resource advantages within SMEs are linked in many cases to the dynamic and entrepreneurial practice of many SME owner/managers. Rothwell and Zegveld (1982) proposed that small business had advantages in human resource areas while larger firms had resource advantages related to economies of scale. However 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 recognising 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.

Many researches suggested that there is little attempt to integrate HRM practices with business strategy or performance. A study done by Syeda-Masooda, Oakey and Kippling (1999) found that majority of university students had never considered applying to SMEs for work. The reasons for lack of interest in SMEs employment were salaries to be lower than larger firms and career development to be poorer or no further developed. This findings supported by Winch and McDonald (1999), they said that the opportunities for secondments, mentoring schemes and job rotations are much less likely to emerge in SMEs. Dalgish (2001) done a case study and suggested a number of areas that appear ripe for further research such as human dynamics and it improvement toward the success of the SMEs, tension between the entrepreneur and the need for professional management,

and how incentives, motivational, communication, retention factors or skills can be effectively incorporate into the training or education program.

Marketing activities

Interesting at the marketing/entrepreneurship interface of SME research began at late 1980s. This effort define 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).

Carson (1993) said that small firms embark upon marketing in such a general and inappropriate way that it does not appear to have any significant impact on performance and as a consequence is not perceived to be useful. Blankson and Stokes (2002) also said in their observations, the owners’ claim to marketing, their deliberation regarding customer care rather than an organised and planned way of marketing. Shameem, Breen and Sims (2001) found that most of the managers of the growth-oriented businesses paid particular attention to various external factors and took interest in general market conditions. Further more, they found that many operators acknowledged that while good

reputation takes a long time to establish and it can very easily destroyed by failing to meet customer expectations. The marketing function is an important and integral part of organizational business strategy (Appiah-Adu, 1998).

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).

Chapter 3

Research 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.

As mentioned discussed previously, there have been very few studies conducted in the area of managerial practice particularly among the SMEs. Therefore, the researcher finds it is difficult to find direct instrument in previous studies to be replicate in this study. 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 magazin. 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. The questionnaire was divided into three main sections designed to obtain information on; the demographic background, managerial techniques applied in the business organization and the knowledge on the role of government in providing funds for SMEs.

In the first part of the questionnaire, the respondents were asked to provide information on its background such as registration status, ownership status, number of employees, sales performance and length of operation. The second part on the questionnaire, respondents were designed to gauge on the types of financial, human resource, managerial and marketing techniques used and problems faced while applying these technique. Lastly, the respondents were asked to report on support received from the government in business practice.

In order to fine-tune the interview questions and to be familiar with the research setting, firstly, a pilot study involving face to face was undertaken amongst a convenient sample of SME owners in the one industrial area near by Johor Bahru town. Overall, the questionnaire is clear for to all the respondents as the respondents manage to answer all questions. The pilot test focused on issues of instrument clarity, question wording and construct validity

The interviews were conducted at the respondent's premises between August to November 2003. During the interviews, discussions were allowed to develop naturally with the interviewer ensuring that the areas under discussion were covered. A total of 102 responses were obtained in the following three months. A total of 21 of the responses were not useable due to insufficiency and incomplete data. Analysis of the responses is presented in the next session. It is important to note that, in view of the small number of sample population and the fact that all the owner-managers were drawn from Johor Bahru city area, the results presented here do not claim to represent the entire Malaysia's SME sector. As such, the reader should be careful in generalizing the findings of this study. The results of the survey must be interpreted with this caveat in mind.

Chapter 4

Survey Findings

The initial findings into the comparative study of managerial practices amongst SMEs have yielded some highly interesting results. The most important results of the research have been summarized in a series of tables, supported by complementary evidence, quotes and examples.

Overall as shown in Table 3, the respondent consists of more than half who are less than 40 years old that could be categorized as the younger generation who are adaptable to changes especially to changes that could contribute to their company's profitability.

Financial Management

In this study respondents are asked to indicate their awareness and usage of various financial management techniques, ranging from income statements to recorded income statement. The responses from SMEs are tabulated in Table 2 and revealed the some form of financial practices. First, SMEs firms are aware and have utilized the income statement

Table 1
Respondent's profile

Detail	Frequency	Percent
Registration status:	N=102	
Sole proprietorship	19	18.6
Private Limited	67	65.7
Partnership	16	15.7
Type of ownership:	N= 100	
State-owned	1	1.0
Own ownership	76	76.0
Subsidiaries	9	9.0
Joint-venture	13	13.0
Others	1	1.0
Number of employees:	N = 103	
Below 50	73	70.9
Between 51-100	12	11.7
More than 100	18	17.5
Type of business:	N= 103	
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

especially for personal use, cash flow and generally record their income statement. Second, 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 and also as indicated in Table 3 that SMEs financial record were only 16.5 per cent.

The respondents were also questioned to identify various financial problems as experienced by their firms. The aggregated responses are presented in Table 3. In general, it appears that the financial problem perceived is high product cost, followed closely by high overhead costs and overdue account receivables.

It seems to emerge that the seriousness of 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. This however, does not indicate that the financial problems of the SMEs are all beyond their control. The SMEs can still attempt to minimize the adverse impact of these financial problems, and this would require an increase in the awareness and usage of the various financial techniques designed to help the SMEs anticipate future problems.

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

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

The respondents in the study were asked to indicate their awareness and usage of managerial tools. The responses issues 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 of figures in Table 1 and 4 suggests that the level of awareness and usage of human resource management (HRM) techniques is less than that of the

financial management techniques. Researcher would suggest several reasons for the said matter. 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.

Perhaps 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 not 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 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 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
Flextime	24	79
Family worker recruitment	30	73
Foreign worker recruitment	27	76

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.

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 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

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. The data collected unfortunately does not allow researchers to explain why such problem exists.

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. The finding also suggests that the lower utilization of backward and forward integration was mainly due to the nature of operation SMEs was to produced finished goods for the final consumers. These SMEs are not integrated or linkages with any other large firms to supply parts or components as intermediary goods. Since most of the SMEs are family owned, they are limited to family type business transaction, thus are not involved in corporate business transaction, horizontal diversification and joint-venture/consortium which aggressively involved in conglomerate, merger, or take-over of major business transactions.

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 and

government policies as promoted in chapter 1 and 2, 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 that SMEs firm are enjoying a favorable employee-employer relationships. This is an encouraging factor, because people are an important assets in any particular organization as such good relationship would guarantee the stability of the company growth and the country economy as a whole.

Table 8
Type of techniques applied in SMEs

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

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

Respondents were asked, later at the last stage to identify their awareness of the government special assistance towards the growth of SMEs in the country's economic development. Surprisingly, 72% were not aware of the government assistance scheme. From the opinion of the researchers, refer Table 1, among the reasons that could be identified was most of the respondents, about three quarters were own ownership (76%) and 13% are joint-ventures, shows that they are self managed. Furthermore, these respondents are non-bumiputera entrepreneurs, who able culturally self-financed and very well acquainted in the business world, while the government has special programs emphasis on the bumiputera SMEs who are lagging in business operations.

Amongst the most prominent scheme that the government has facilitate were the Human Resources Development Fund (HRDF), Industrial Technical Assistance Fund (ITAF), Tabung Bantuan IKS (TBI), special financial institutions schemes for SMEs and several states level financial assistance. Only 5% have received funds from the schemes above for the past two years in operations.

Further, respondents were asked to express their opinions on the process of obtaining funds from the government. Table 10 exhibited that 60% shows that the government funds is difficult to obtained, while 40% considered it as moderate. In addition, the respondents were asked to provide their opinion on the assistance provided that they have received from the government funds. More than 41% responded as encouraging (helpful), and slightly less that 50% were of the opinion as moderate as demonstrated in Table 11.

Table 10

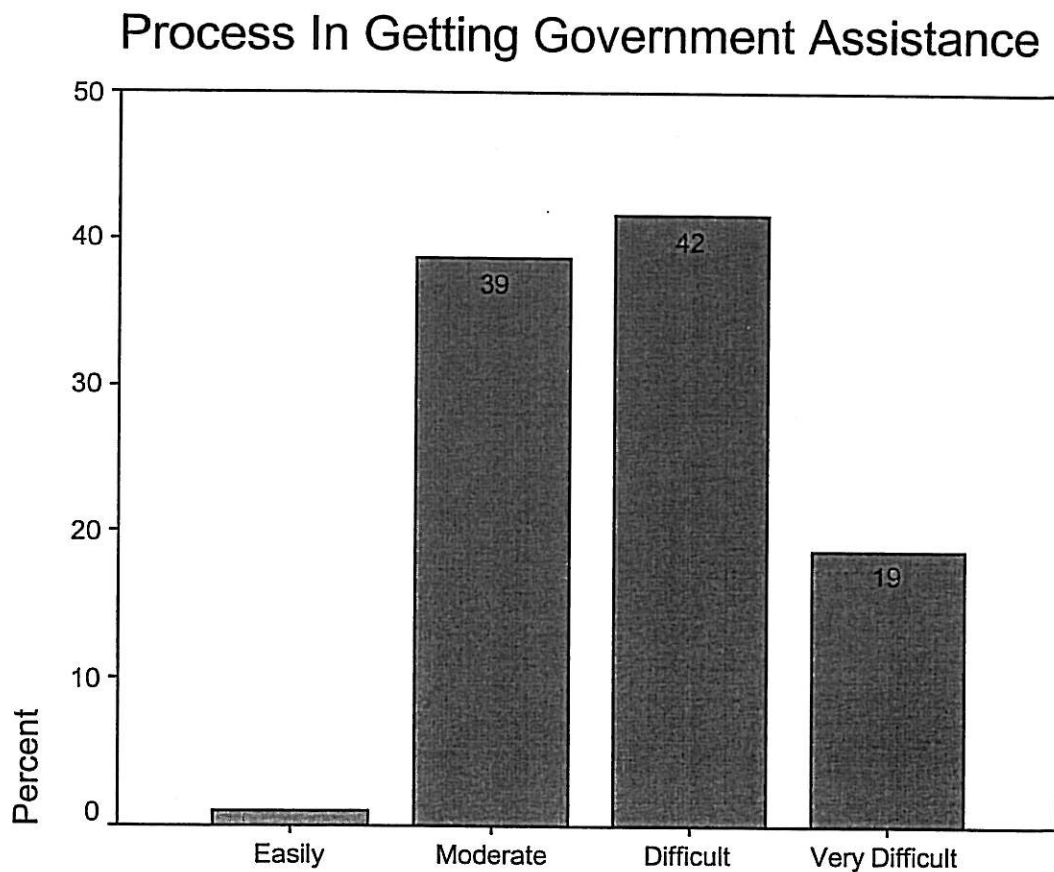
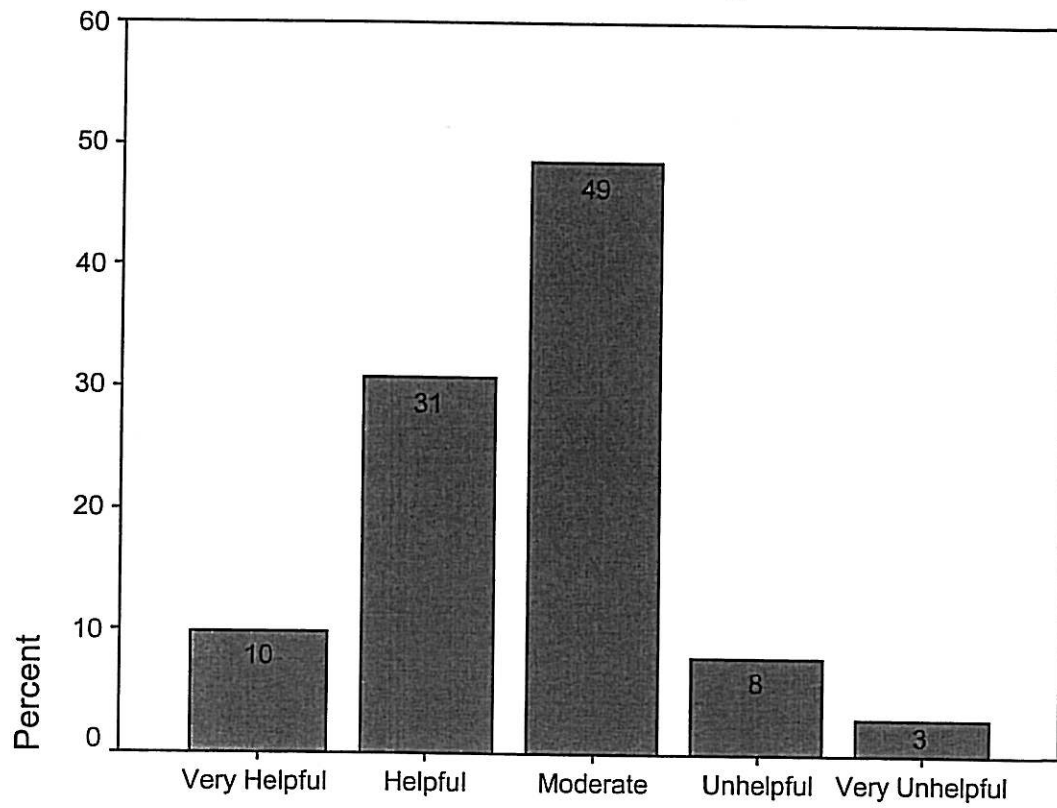


Table 11

Government Assistance Programme



Chapter 5

Discussions and Conclusions

The purpose of this paper has been to provide some evidence regarding the SMEs' managerial practices and problems in Johore Bahru. 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. For example, even among the financial techniques, the SMEs' view of these techniques is limited to income statement. This narrow perception gets progressively worse in the other three managerial areas. While it does not imply that SMEs should be using all available managerial tools, however, it is argue that the benefits of some of these tools are not yet fully appreciated by the SMEs. The latter should be made aware of the potential benefits of the lesser known techniques, and be encouraged to use them as they become relevant. In other words, there is a need for management training aimed at all managers of SMEs.

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.

As regards to the strategic technique application, it is confirmed that SMEs would only focus of surviving in the market place by concentrating in market penetration and market development as such SMEs' does not face a significant problem in the application of the above technique that indicate positive environmental atmosphere that include government support and good employee-employers relationship.

As far as the government initiatives to assist the SMEs, it seems that those SMEs that own ownership and joint-ventures SMEs are not particular of the government assistance schemes. They are self managed in terms of financial funding. And to those who have received some form funds from the government has showed some positive reaction of the assistance provided. Finally, researchers were of the opinions that Bumiputera SMEs are the one that are critical for the government assistance funds schemes.

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