



CHALLENGES FACED BY THE SMALL AND MEDIUM ENTERPRISES (SMEs) IN MALAYSIA: AN INTELLECTUAL CAPITAL PERSPECTIVE

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ARTICLE INFO

Article History:

Received 14th March, 2011
Received in revised form
19th April, 2011
Accepted 21st May, 2011
Published online 26th June 2011

Key words:

Knowledge-based economy,
Intellectual capital,
SMEs.

ABSTRACT

In a knowledge based economy the role of small and medium enterprises is very critical for the economic development. The main thrust of this study was on the competitiveness of the SMEs in a knowledge-based economy. In addition, this study also explores the challenges which are facing the small and medium enterprises (SMEs) in Malaysia. The significance of the study will add the knowledge about the current issues relating with SMEs in Malaysia in intellectual capital perspective.

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INTRODUCTION

Small and medium enterprises (SMEs) are playing significant contribution in the economic development, social uplifting and political stability of every country. SMEs are diverse in nature. SMEs can be established for any kind of business activities in urban or rural area. It can be considered as a back bone of national economy (Peters and Waterman, 1982; Amini, 2004; Radam *et al.*, 2008). Due to significant contribution of SMEs towards the development of the economy, various agencies, particularly that of government, have given a lot of importance on the development of SMEs. In order to strengthen the SMEs a number of programs and facilities are provided to enhance their performance and competitiveness (Abdullah *et al.*, 2006). In this connection, the Malaysian government has persistently allocated resource for the development of SMEs. Malaysian government allocation for the development of SMEs has been increased from RM 1,561.6 million in the Eight Malaysia Plan to RM 2,160.2 million in the Ninth Malaysia Plan (Economic Planning Unit, 2006). Despite the huge financial support the government also has established other support programs, institutions and agencies such as SME Bank, SMECORP etc., to provide guidance, promotion, production efficiency, R& D activities, and product development (Central Bank of Malaysia, 2006; Ahmad and Seet, 2009).

Definition of SMEs in Malaysia

Generally there is no accepted worldwide definition of SMEs (Hooi, 2006; Omer and Ismail, 2009). However, in Malaysia, the definition of SMEs is mainly based on annual sales

turnover and total number of full time (Hashim and Abdullah, 2000, SEMCORP, 2008). According to Hashim (2000), SMEs in Malaysia can be segregated into three main sectors such as general business, manufacturing and agriculture. In Malaysia, according to Small and Medium Enterprises Corporation Malaysia (SMECORP, 2008), enterprises that employ between 50-150 full time employees are considered as medium while those that employ between 5-50 are called small and less than 5 are considered as micro enterprises. These SMEs are further categorized into medium-sized companies, small enterprises and micro-enterprises and this is as indicated in Table 1.

Role of SMEs in Economy

Malaysian economy has undoubtedly passed through a considerable transformation over the last few decades from agricultural based to industry-based. Now the economy is shifting from industry-based to a knowledge-based economy to achieve the vision 2020 and to become a developed economy (Ong *et al.*, 2010). In the Malaysian economy, the role of SMEs is considered as the backbone of the economy (Radam *et al.*, 2008). Malaysian SMEs, particularly the manufacturing sectors, are playing a very important role in the development of economy. In 2006, SMEs comprises of 99.2% of the business establishment in Malaysia and their contribution was 47.3% of the GDP (Thurasamy *et al.*, 2009). Moreover, the role of SMEs in job creation is also very important and vital. In 2006, SMEs employed 65.3% of the national workforce in Malaysia (Thurasamy *et al.*, 2009). According to Chelliah *et al.* (2010) the total number of SMEs in Malaysia could be in the range of 10,000 to 30,000 that were registered with the various ministries over the past decade. Small and medium enterprises are the most wide-

Table 1: Definition of Small and Medium Enterprises in Malaysia

Annual Sales Turnover:	
Size	Manufacturing (Including agro-based) & Manufacturing related services
Micro	Less than RM250,000
Small	Between RM250,000 and less than RM10 million
Medium	Between RM10million and RM25million
Number of Full-Time Employees:	
Micro	Less than 5 employees
Small	Between 5 and 50 employees
Medium	Between 51 and 150 employees

Source: SMECORP Annual Report 2008

ranging form of business establishment in Malaysia, and they mainly operate in general business, raw material, agriculture and manufacturing sector. However, the role of SMEs operating in the manufacturing sector is relatively more important in the Malaysian economy (Kassim and Sulaiman, 2011). According to the Malaysian Ministry of International Trade and Industry (MITI) and Kassim and Sulaiman (2011) the figures indicated that the SMEs contribution to manufacturing amounted to 20 % of the GDP, in 1991. The contribution to total employment in the manufacturing sector is 31.2 %, and it is expected to rise significantly in future (Kassim and Sulaiman, 2011).

The role of SMEs operating in manufacturing sector is significantly acknowledged. In Malaysia SMEs operating in the manufacturing sector are mainly involved in activities such as processing and production of raw materials, for instance, textiles, food, beverages, wood, rubber, petroleum and the assembling and manufacturing of electrical and electronics appliance, etc (Mustapha *et al.*, 2011). In terms of geographical location, most of the manufacturing units are operating in West Coast of Malaysia, in Selangor, Johor, Perak and Pulau Pinang. Two states namely Selangor and Pulau Pinang are the epicenter of SMEs which focus on electrical and electronics manufacturing sector in Malaysia (Mustapha *et al.*, 2011). In these two states 154 SMEs are operating in electrical and electronics manufacturing sector (FMM, 2009; TEAM, 2009). In Malaysia the role of electrical and electronics manufacturing SMEs is a significantly positive in economy. This sector is considered as valued added and high knowledge intensive. According to Ministry of Industrial Development Authority (MIDA), in 2008, the total gross output of electrical and electronics industries in economy was US\$ 53.9 billion and export amounted to US\$75.4 billion (www.mida.gov.my).

Challenges of SMEs in Malaysia

However, irrespective of country, SMEs face common problems in respect of their survival or to take competitive advantage. According to the available resources more than 50% of SMEs are collapse within first five years of operation (Reiss, 2006; Ahmad and Seet, 2009). In case of Malaysia there is no reliable figure published, so for the estimated failure rate of SMEs is approximately of 60% (Portal Komuniti, 2006; Ahmad and Seet, 2009). It reflects that SMEs in Malaysia are facing serious issues and plenty of obstacles to stay as competitive enterprises in market. Malaysia is now entering into a knowledge-based economy. The challenge of globalization has made it vital for Malaysia to move towards a knowledge-based economy (Bhatiasevi, 2010). In the preface

of the Eight Malaysian Plan 2001-2005, Mahathir the former Malaysian Primer, said "during the Eight Malaysia Plan period, we will be faced with even greater challenges from globalization and liberalization as well as the rapid development of information and technology. We will have to shift the growth strategy from being input-driven towards one that is knowledge-driven" to achieve the vision 2020 of become a developed nation (Abdulai, 2004; Bhatiasevi, 2010). In order to achieve vision 2020 and to be a fully developed and industrialized nation, the future progress seems to be mainly concentrated on the development of SMEs (Omar and Ismail, 2009).

According to Muhammad *et al.*, (2010) many previous studies for example Saleh and Ndubisi (2006); Samad (2007); Abu Bakar *et al.* (2006); Aris (2006); Harvie (2004); Wang (2003); Stuti (2005); Wafa *et al.* (2005); Ritchie & Brindley (2000); Decker *et al.* (2006); Foon (2006) and SMIDEC (2007), identified various challenges facing SMEs in a globalized environment. The SMEs should mainly focus in overcoming the challenges, which include, among others, recession, barrier from global sourcing, low productivity, lack of managerial capabilities, and lack of financing, difficulty in accessing management, technology and heavy regulatory burden. In the same way, Teoh and Chong (2008) argued that the major obstacles to entrepreneurship development are lack of access to credit, lack of access to formal business and social networks. Hashim and Wafa, (2002) and Muhammad *et al.* (2010) identified that the main problems faced by SMEs in Malaysia are the lack of knowledge regarding marketing techniques, branding, customer loyalty and also lack of good contacts with others local and international enterprises. Alam *et al.*, (2011) observed that SMEs in Malaysia have social barriers which are main obstacles to achieve the competitive advantage and consequently many SMEs in Malaysia lose out in terms of opportunities.

In a knowledge-based economy intellectual capital is appear as the most important and critical resources for organization to thrive in a competitive environment. According to Ding and Li (2010), in a knowledge-based economy the intellectual capital is gradually replacing the physical assets in modern enterprises. It is indispensable for modern and high tech enterprises to pay full concentration not only is products innovation, marketing channels, market and services, but also they need to improve the research and development ability on market and product, and pay attention to the gardening and management of the enterprise intellectual capital. Shaari *et al.*, (2010), Leitner (2011) and Bataineh and Zoabi (2011) argued that intellectual capital is a very important factor for the success of organizations to take competitive advantage. Therefore, based on the above-mentioned literature review, it is observed that intellectual capital is also a very important resource in a knowledge based economy.

Conclusion and Future Recommendations

Based on the literature review, it can be more or less concluded that intellectual capital is appeared as lubricant of organizations to become competitive in a knowledge-based economy. There is no doubt that the importance of SMEs for economic development is highly acknowledged in the world. The nutshell of this study was to provide the overview of

challenges of SMEs in Malaysia. Although this study does not provide empirical evidences of SMES but at least this study will contribute in addition of literature review and knowledge regarding SMEs in Malaysia. However, it is suggested that in a knowledge-based economy, the intellectual capital appear as most critical factor for the success of the organizations. Therefore, future empirical studies in this area should be focused.

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