

The Growth Of Small And Medium Enterprises In Malaysia: A Study On Private Limited Companies In Perak Malaysia

Yamuna Rani Palanimally

Faculty of Business and Finance, Universiti Tunku Abdul Rahman (UTAR) Kampar

Abstract: *Small and medium enterprises (SMEs) are playing significant contribution in the economic development, social uplifting and political stability of every country. SMEs is diverse in nature. SMEs can be established for any kind of business activities in urban or rural area. SMEs' is the backbone of every economy; they are small in size but large in numbers. In Malaysia, SMEs' contribute 32% of GDP and employ 59% of the workforce. This paper studies on the growth of private limited companies in Perak, Malaysia in terms of sales, total assets, profit, cashflow and number of employees.*

Keyword: *SME, Private Limited Companies, Growth, Sales, Total Assets and Profit*

I. Introduction

Throughout the world the role of small and medium sized enterprises (SMEs) is becoming increasingly prominent (Veskaisri et al., 2007). SMEs can be established in any locality for any kind of business activity in urban or rural area (Khalique et al., 2011). According to Reider (2008, 17), the two main primary reasons for the existence of small firms are: (1) to provide goods and services to satisfy customers' needs in a manner that they will continue to use and recommend the firms' goods and services, i.e. "customer service business" and (2) to create desired goods and services so that the investment in the firm is converted to cash as quickly as possible, i.e. "cash conversion business" (Armstrong & Drnevich, 2009). Small businesses are very important to the world economies (Wiklund & Shepherd, 2005). The most important and the large part of the world economy is the small firms. That is why, more and more researchers are seeking and trying to understand about these firms. Even the governments of all the economies of the globe and particularly those agencies which are Responsible for the development of these firms, take a deep interest in understanding about these firms (Hill & McGowan, 1999). Small business firms play an important role in the economy of any country (Wong & Aspinwall, 2004). In many jurisdictions, the small and medium sized enterprises (SMEs) sector has attracted increasing and significant attention from policy makers. This attention has focused on SMEs development, business birth rates and entrepreneurship in the developed economies. These economies look to the SMEs sector for the provision of increased employment, economic development and innovation (Dalrymple, 2004). According to Asia-Pacific Co-operation (APEC), 2010, in every country in the Asia-Pacific Co-operation, SMEs account for over 90% of all enterprises (Mohammad, 2012). For economies of most nations of the world, the demand of the SMEs is increasing and has become their recognized feature (Omar et al., 2009). For example, in the United States, SMEs represent an overwhelming majority of all businesses and account for almost one-half of the gross national product. SMEs in Thailand represent over 90 percent of the total number of entrepreneurs in nearly all business sectors, and employ over 60 percent of the labor force (Veskaisri et al., 2007). The abbreviation SME is commonly used in international organizations and in European Union countries, such as the United Nations (UN), the World Bank and the World Trade Organization (WTO). The term small and medium business (SMB) is also prevailing in a few other countries of the world (Syed et al., 2012). The classification and definition of businesses are generally based on quantifiable characteristics such as number of employees, sales volume or worth of assets (Rahman, 2001). The specific definition for SMEs, used by each country in the world, is usually based on several different criteria which include sales or assets, number of employees and levels of capital, (Mohammad, 2012). No uniform definition of SMEs is available in literature. In USA, businesses having employees less than Five hundred (500) are considered as SMEs. In case of the European Union, businesses having less than 250 employees are considered as small and medium sized businesses (Khalique et al., 2011b).

II. Small And Medium Enterprise In Malaysia

According to SME International Malaysia (2013), some advanced economies have succeeded because small and medium enterprises form a fundamental part of the economy, comprising over 98% of total establishments and contributing to over 65% of employment as well as over 50% of the gross domestic product. Although, the numbers might be lower in Malaysia, SMEs have the potential to contribute substantially to the economy and can provide a strong foundation for the growth of new industries as well as strengthening the existing ones, for Malaysia's future development. Developing stronger SMEs require major changes in the manufacturing sector, as SMEs make up over 90% of the Malaysia's manufacturing sector. In 2011, Malaysian

SMEs continued to expand at a relatively stronger pace of 6.8 % and remained resilient to external environmental challenges. In 2012, in line with the official GDP projection of 4.5 - 5.0% in 2012, the Malaysian SMEs were expected to record a steady growth pace of 6.5 - 7.0%. The latest profile of SMEs is released in September 2012 which is based on the Economic Census 2011. According to the Census, Malaysian SMEs now represent 97.3% (645,136 establishments) of the total establishments of 662,939 in the country (SME Corp. Malaysia, 2014). According to Dun and Bradstreet, the main focus for developing nations should be the SMEs. For the unemployment issue and the development of Malaysia's economy, small and medium enterprises (SMEs) are very important (Rose et al., 2006). In Malaysian economy, SMEs are very important and play an important role in its development (Omar et al., 2009). Small and medium enterprises (SMEs) play a vital role in the Malaysian economy and are considered to be the backbone of industrial development in the country (Saleh & Ndubisi, 2006). The future progress of Malaysia seems to depend greatly upon the development of SMEs and they are vital for accomplishing vision 2020, to be fully developed and become an industrialized nation by the year 2020. In the year 2020, Malaysia will develop to become an industrialize nation by capitalizing on the country's strengths and by overcoming weaknesses through the SMEs (Omar et al., 2009). The Malaysian economy has so far significantly depended on the exports of electrical and electronics products. Since the mid-1990s, more than 50 per cent of Malaysia's exports have been electrical and electronic products. Most of these products are matured products with relatively low value-added. Now the economy is shifting from industry-based to a knowledge-based economy to achieve the vision 2020 and to become a developed economy (Khalique et al., 2013a). In the Malaysian economy, the role of SMEs is considered as the backbone of the economy (Radam et al., 2008). According to Census Report on SMEs 2011, there was a total of 645,136 SMEs operating their businesses in Malaysia, representing 97.3% of total business establishments.

New SME Definition Based on Size			
Category	Micro	Small	Medium
Manufacturing	Sales turnover of less than RM300,000 OR employees of less than 5	Sales turnover from RM300,000 to less than RM15 mil OR employees from 5 to less than 75	Sales turnover from RM15 mil to not exceeding RM50 mil OR employees from 75 to not exceeding 200
Services and other sectors	Sales turnover of less than RM300,000 OR employees of less than 5	Sales turnover from RM300,000 to less than RM3 mil OR employees from 5 to less than 30	Sales turnover from RM3 mil to not exceeding RM20 mil OR employees from 30 to not exceeding 75

III. Firm Growth

Firm growth demands the ability to master technologies, engender labor skill, organize the production process as well as efficiently serve a market. A firm will exploit a growth opportunity as long as the benefits outweigh the costs, given the level of ability with which the firm was endowed at start-up (Bonaccorsi and Giannangeli, 2008). According to Skrt, and Antoncic (2004), in order for the firm to grow, the entrepreneur needs to formulate an exact, clear mission and vision for his or her firm. Strategic planning can be considered important in driving firm growth. Precisely formulating visions and strategy, incorporating the elements of internationalization and networking in the firm vision, focusing on growth, profit, and market, performing analyses of market and competition, accurately formulating generic business strategies and achieving company wide support for strategies can all be beneficial for the growth of smaller firms. Weinzimmer (2000) has concluded that many researchers have examined the influence of strategy factors on organizational growth; the relationship between characteristics of top management and organizational growth; strategy and industry characteristics of organizational growth; and industry and top management characteristics of organizational growth. In his conclusion, three sets of determinants had been identified; namely, industry attributes, organization strategies and top management characteristics. Moreover, according to Schneider et al. (2007), it has been suggested in the literature that employee development is especially important for startup companies to achieve organizational performance and in particular high growth. Bonaccorsi and Giannangeli (2008) have concluded that the relationship between initial size and growth is more complex. By specifically, considering very small firms in the sample, there is evidence of a positive relationship, suggesting that there is a minimum size below which no growth whatsoever occurs. Firm growth is a multidimensional construct that can include increases (1) in asset and employment size, (2) in sales volume and profitability, as well as (3) in the variety of business functions, products and services.

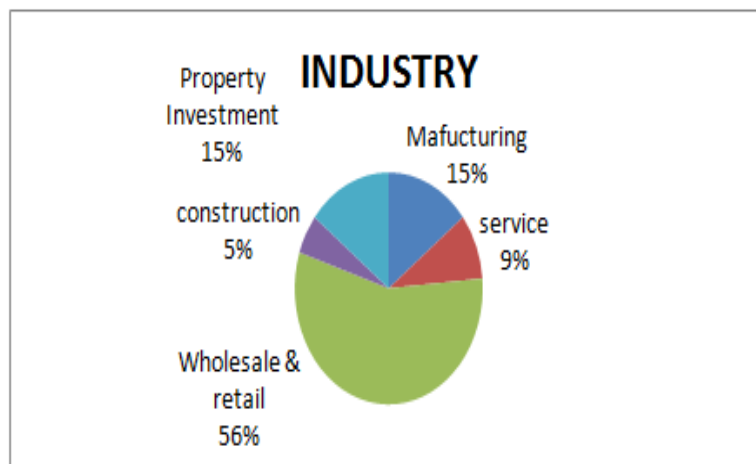
IV. Measures Of Growth

The field of measurement is required and needs to be recognized in order to ensure the quality of almost any industry; to identify factors affecting quality; and to measure growth (Rossi et al., 2002). Growth can be seen as a very important measurement of firm performance. According to Baum et al. (2001), firm growth is frequently equated with success. Rossi et al. (2002) added that measurement of growth is somehow at a turning point nowadays. The total quality paradigm is a good reference as it essentially means active participation of all involved subjects within an organization. Firm's size is measured in terms of total number of workers, including employees, founders, and contract workers (Bonaccorsi and Giannangeli, 2008). A firm's growth can be measured in terms of inputs (investment funds, employees), in terms of the value of the firm (assets, market capitalization, economic value added elements) or outputs (sales, revenues, profit). Each of the measures, illustrates some feature of growth and each is subject to limitations as a growth indicator. Input, output and value growth in a firm may not be aligned, and so diverse growth measures should not be expected to correlate. The relationship between growth, size and age of firms are very sensitive with respect to the definition of growth and size (Stam et al., 2006).

V. Analysis

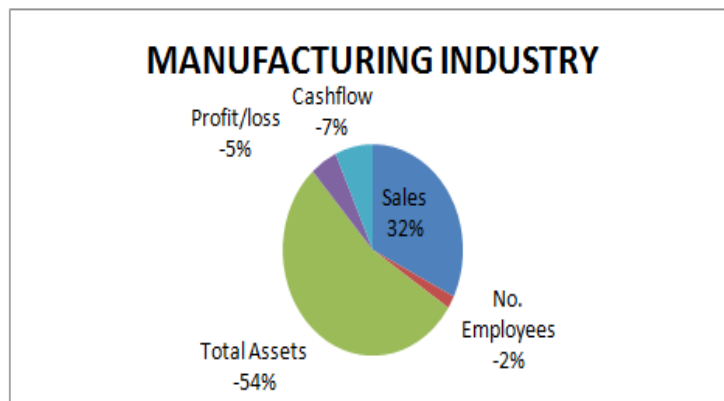
Fifty five private limited companies in Perak, Malaysia have been chosen. Based on the financial information obtained from the Commission of Companies of Malaysia (CCM) the percentage of growth for the year 2009 to 2014 was calculated based on sales, number of employees, total assets, profit and loss and the cash flow. From the chart below 56% private limited companies in Perak are from wholesale & retail industry, 15% each from manufacturing and property investment industry, 9% of service industry and 5% of the construction industry.

Chart 1



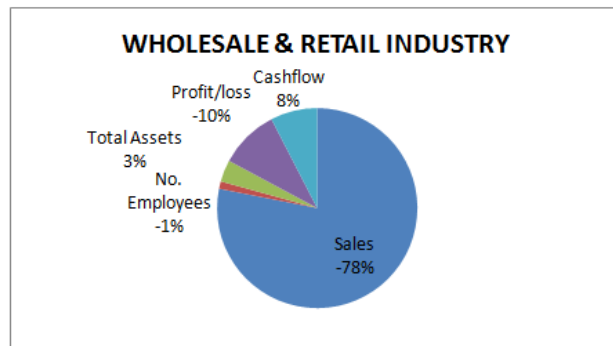
Based on chart 2, the percentage of growth of private limited companies from the manufacturing industry for the year 2009 to 2014 based on sales, number of employees, total assets, profit and loss and the cash flow. The growth of sales increased 32%, number of employees decreased by 2%, total assets decreased by 54%, loss increased by 5% and cash flow decreased by 7%.

Chart 2



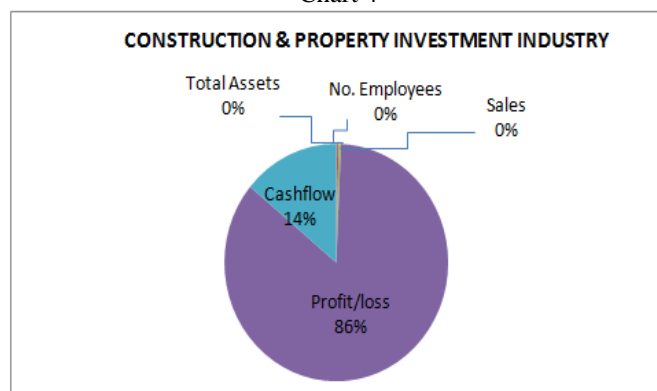
Based on chart 3, the percentage of growth of private limited companies from the wholesale and retail industry for the year 2009 to 2014 based on sales, number of employees, total assets, profit and loss and the cash flow. The percentage of growth of sales decreased by 78%, number of employees decreased by 1%, total assets increased by 3%, loss increased by 10% and cash flow increased by 8%.

Chart 3



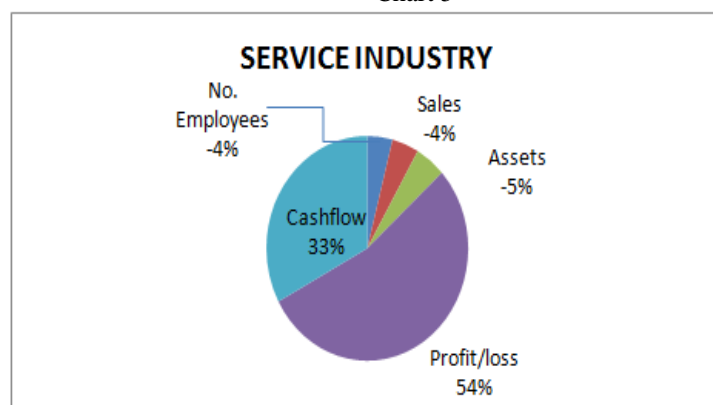
Based on chart 4, the percentage of growth of private limited companies from the construction and property investment industry for the year 2009 to 2014 based on sales, number of employees, total assets, profit and loss and the cash flow. The percentage of growth in terms of profit increased by 86% and the cash flow has increased by 14%. Meanwhile, there have been no changes of growth on sales, number of employees and total assets over the 5 year period.

Chart 4



Based on chart 5, the percentage of growth of private limited companies from the service industry for the year 2009 to 2014 based on sales, number of employees, total assets, profit and loss and the cash flow. The growth of sales decreased by 4%, number of employees decreased by 4%, total assets decreased by 5%, profit increased by 54% and cash flow increased by 33%.

Chart 5



VI. Conclusion

Based on the analysis above, the wholesale and retail and the manufacturing industry in Perak, Malaysia still sustain decrease in sales, decrease in number of employees, decrease in total assets and decrease in profit after the global recession that occurred in the year 2008. Thus, overall, the impact of either an industry downturn or global recession has a high possibility of impacting on the SMEs, even if they primarily concentrate on the local economy. Therefore, this suggests that determining the strategies of SMEs in phases during a downturn, or phases right before or after, could provide valuable information. More studies should be done in order to determine the impact of the choice of business strategy on performance of SMEs and the choice of business strategy of focus, differentiation and niche to have favorable impact on financial performance.

Reference

- [1]. Ahire S, Golhar L, and Damodar Y (1996) Quality management in large versus small firms. *Journal of Small Business Management* vol. 34: 1-15.
- [2]. Akyuz G.A, Erkan T.E (2009) Supply chain performance measurement: a literature review. *International Journal of Production Research* vol. 35: 1-19.
- [3]. Andersen B, Jordan P, (1998) Setting up a performance benchmarking network *Production Planning and Control* vol. 9: 13-19.
- [4]. Atkinson A, Waterhouse J.H (1997) A Stakeholder Approach to Strategic Performance Measurement. *Sloan Management Review* vol. 38: 25-37.
- [5]. Baully J.A (1994) Measures of performance. *World Class Design to Manufacture*, vol. 1: 37-40.
- [6]. Bonvik A.M, Couch C.E, and Gershwin S.B. (1997) A comparison of production-line control mechanisms. *International Journal of Production Research* vol. 35: 789-804.
- [7]. Bourne M, Mills J, Wilcox M, et al. (2000) Designing, implementing and updating performance measurement systems. *International Journal of Operation & Production Management* vol. 20: 754-771.
- [8]. Braadbaer O (2007) Collaborative benchmarking, transparency and performance. Evidence from The Netherlands water supply industry. *Benchmarking: An International Journal* vol. 14: 677-692.
- [9]. Bukchin J, (1998) A comparative study of performance measures for throughput of a mixed model assembly line in a JIT environment. *International Journal of Production Research* vol. 36: 2669-2685.
- [10]. Camp R.C (1989) *Benchmarking: the search for industry best practices that lead to superior performance* Wisconsin: ASQC/Quality Press
- [11]. Chenhall R.H (2003) Management control systems design within its organizational context: findings from contingency-based research and directions for the future. *Accounting, Organizations and Society* vol. 28, 127-168.
- [12]. Collins J. (2001) *From Good to Great*. London: Random House Business Books.
- [13]. Comrey A.L, Lee H.B (1992) *A First Course in Factor Analysis*. Hillsdale, NJ: Lawrence Erlbaum Associates Publishers.
- [14]. Cook R.A, Wolvertson J.B (1995) A scorecard for small business performance *Journal of Small Business Strategy* vol. 6: 1-18.
- [15]. Coulter J, Baschung N.S, and Bititci U.S (2000) Benchmarking for small to medium sized enterprises. *Production Planning and Control* vol. 11: 400-408.
- [16]. Cudeck R. (2000) Exploratory Factor Analysis. In Tinsley H.E.A, Brown S.D (ed) *Applied Multivariate Statistics and Mathematical Modeling*. USA: Academic Press.
- [17]. Dattakumar R, Jagadeesh R (2003) A review of literature on benchmarking. *Benchmarking: An International Journal* vol. 1: 176-209.
- [18]. Dawkins P, Feeny S, and Harris M.N (2007) Benchmarking firm performance. *Benchmarking: An International Journal* vol. 14: 693-710.
- [19]. Digalwar A.K, Metri B.A, (2005) Performance measurement framework for world class manufacturing. *International Journal Applied Management and Technology* vol. 2: 83-102.
- [20]. Digalwar A.K, Sangwant K.S (2007) Development and validation of performance measures for World Class Manufacturing Practices in India. *Journal of Advanced Manufacturing Systems* vol. 6: 21-38.
- [21]. Duhachek A, Caughlan A.T, and Lacobucci D (2005) Results on the Standard Error of the Coefficient alpha Index of Reliability. *Marketing Science* vol. 24: 294-301.
- [22]. Ellis J, Williams D (1993) *Comparative financial analysis. Corporate Strategy and Financial Analysis: Managerial, Accounting and Stock Market Perspectives* London: Financial Times/Pitman Publishing.
- [23]. Fitzgerald L, Johnson R, and Brignall S, et al. (1991) *Performance Measurement in Service Businesses*, London: CIMA.
- [24]. Flynn B.B, Schroeder R.G, and Sakakibara S (1994) A framework for quality management research and an associated measurement instrument. *Journal of Operations Management* vol. 11: 339-366.
- [25]. Fowler A, Campbell D (2001) Benchmarking and performance management in clinical pharmacy. *International Journal of Operations & Production Management* vol. 21, 327-350.
- [26]. Fullerton R.R, Wempe W.F (2009) Lean manufacturing, non-financial performance measures, and financial performance. *International Journal of Operations & Production Management* vol. 29: 214-240.
- [27]. Fynes B, Voss C, and De Burca S (2005) The impact of supply chain relationship quality on quality performance. *International Journal of Production Economics* vol. 96: 339-354.
- [28]. Garengo P, Biazzo S, Bititci U (2005) Performance Measurement Systems in SMEs: a review for a research agenda. *International Journal of Management Reviews* vol. 7: 25-47
- [29]. Grando A., Belvedere V (2006) District's manufacturing performances: A comparison among large, small-to-medium-sized and district enterprises. *International Journal of Production Economics* vol. 104: 85-99.
- [30]. Gregory M.J (1993) Integrated performance measurement: A review of current practice and emerging trends. *International Journal of Production Economics* vol. 30, 281-296.
- [31]. Gunasekaran A, Patel C. and Tirtiroglu E (2001) Performance measures and metrics in a supply chain environment. *International Journal of Operations and Production Management* vol. 21: 71-87.
- [32]. Hair JR, Anderson R.E, Tatham R.L, et al. (1998) *Multivariate Data Analysis*. New York: Prentice-Hall International, Inc.
- [33]. Hudson M, Smart P.A, and Bourne M (2001) Theory and practice in SME performance measurement systems. *International Journal of Operations and Production Management* vol. 21. 1096-1116

- [34]. Hwang Y.D, Lin Y.C, and Lyu J (2008) The performance evaluation of SCOR sourcing process - The case study of Taiwan's TFT-LCD industry. *International Journal of Production Economics* vol. 115: 411-423.
- [35]. Ittner C.D, Larcker D.F, (1998) Innovations in Performance Measurement: Trends and Research Implications. *Journal of Management Accounting Research* vol. 10: 205-237.
- [36]. Jennings P, Beaver G, (1997) The performance and competitive advantage of small firms: A management perspective. *International Small Business Journal* vol. 15: 63-75
- [37]. Johnson H.T, Kaplan R.S, (1987) *Relevance lost – The rise and fall of management accounting*. Boston, MA: Harvard Business School Press.
- [38]. Kojima M, Nakashima K, and Ohno K (2008) Performance evaluation of SCM in JIT environment. *International Journal of Production Economics* vol. 115: 439-443.
- [39]. Kratchman S.H, Malcom R.E. and Tward R.D (1974) An intra-industry comparison of alternative income concepts and relative performance evaluations. *Accounting Review* vol. 49: 682-689.
- [40]. Laitinen E.K (2002) A dynamic performance measurement system: evidence from small Finnish technology companies. *Scandinavian Journal of Management* vol. 18: 65–99.
- [41]. Lewis J.C, Naim M.M (1995) Benchmarking of aftermarket supply chains. *Production Planning & Control* vol. 6: 258-269.
- [42]. Lynn B.B, Schroeder R.G, Flynn E.J, et al . (1997) World-class manufacturing project: Overview and selected results. *International Journal of Operations & Production Management* vol. 17: 671-685.
- [43]. Manoochehri G (1999) Overcoming obstacles to developing effective performance measures.
- [44]. Misterek S.D.A, Dooley K.J, and Anderson J.C (1992) Productivity as a Performance Measure. *International Journal of Operations & Production Management* vol. 12: 29-45.
- [45]. Nanni A.J, Dixon R, and Vollmann T.E, (1992) Integrated performance measurement: management accounting to support the new manufacturing realities. *Journal of Management Accounting Research* vol. 4: 1-19.
- [46]. Neely A (1998) *Measuring business performance*. London: The Economist Books.
- [47]. Neely A (1999) The performance measurement revolution: why now and what next?. *International Journal of Operations and Production Management* vol. 19: 205-228.
- [48]. Oktay-Firat S. Ü, Demirhan A (2001) Analysis of the Performance of the Commercial Banks, *International Conference In Economics V*. September 10-13, METU-Ankara, Turkey.
- [49]. Oktay-Firat S.Ü., Demirhan A (2002) The financial performance of the commercial banks transferred to the Saving Deposit Insurance Fund (SDIF): Analysis and Comparison. *İktisat İşletme ve Finans Dergisi* vol. 17: 87-100.
- [50]. Olve N.G, Roy J, and Wetter M (1999) *A Practical Guide to Using the Balanced Scorecard*, England: Wiley.
- [51]. Parker C (2000) Performance measurement. *Work Study* vol. 49: 63-66.
- [52]. Perry S.C (2001) The relationship between written business plans and the failure of small businesses in the US. *Journal of Small Business Management* vol. 39: 201-208.
- [53]. Ribeiro L.M, Cabral J.A.S (2006) A benchmarking methodology for metalcasting industry, *Benchmarking: An International Journal* Vol.13: 23-35.
- [54]. Rodrigues L.R, Chincholkar A.M (2006) Benchmarking the HR practices of an engineering institute with public sector industry for performance enhancement. *International Journal of Training and Development* vol. 9: 6-20.
- [55]. Sánchez A.M, Pérez M.P (2005) Supply chain flexibility and firm performance: A conceptual model and empirical study in the automotive industry. *International Journal of Operations & Production Management* vol. 25: 681-700.
- [56]. Shirley D.J, Reitsperger W.D (1991) Linking quality strategy with management control systems: empirical evidence from Japanese industry. *Accounting Organizations and Society* vol. 16, 601-618.
- [57]. Tuzovic S, Bruhn M (2005) Integrating customer orientation, employee compensation and performance management: a conceptual framework. *International Journal of Business Performance Management* vol. 7: 255-274.
- [58]. Voss C, Blackmon K.L, Cagliano R, et al. (1998) Made in Europe: Small Companies. *Business Strategy Review* vol. 9: 1-19.
- [59]. Watkins C, Woodhall M (2001) *The measurement of employee satisfaction in Handbook of Performance Measurement*. London: GEE Publishing.
- [60]. Watson G.H (2007) *Strategic Benchmarking Reloaded With Six Sigma: Improve Your Company's Performance Using Global Best Practice*. Hoboken New Jersey: JohnWiley & Sons.
- [61]. Yamin S, Mavondo F, Gunasekaran A, et al. (1997) A study of competitive strategy, organisational innovation and organisational performance among. *International Journal of Production Economics* vol. 52: 161-172.
- [62]. Yasin M.M (2002) The theory and practice of benchmarking: then and now. *Benchmarking: An International Journal* vol. 9: 217-243.
- [63]. Yeb-Yun L.C (1999) Success factors of small and medium-sized enterprises in Taiwan: an analysis of cases. *Journal of Small Business Management* vol. 36: 43–56
- [64]. Yurdakul M (2005) Development of a performance measurement model for manufacturing companies using the AHP and TOPSIS approaches. *International Journal of Production Research* vol. 43: 4609-4641.