



# The Importance of Smes, And Furniture Manufacturing Smes in Malaysia: A Review of Literature

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**Abstract:** *Small businesses are privately owned corporations, partnership, or sole proprietorship that have less personnel and/or a smaller amount of annual income than a regular business and corporation. Small businesses in many nations contain services or retail operations such as convenience stores, small grocery stores, bakeries, restaurants, guest houses, photographers, very small scale manufacturing and internet project and computer program design. Many businesses can start at a little cost and on a part-time base, while an individual lasts a regular profession with a company or arrange for care family members at home. In emerging countries, numerous small businesses are sole-proprietor processes such as vending products at a market kiosk or making hot food to sell on the streets that provide a suitable income.*

**Keywords:** *Bakeries, Grocery store, Income, little cost, Restaurants, SMEs*

## INTRODUCTION

The role SMEs play around the world is becoming increasingly vital (Khan, M. W. J. et al 2014). Most of the countries in the world, particularly developing ones, have recognized the value of small and medium sized enterprises (SMEs) (Taylor, P. 2013). In the business world, micro, small and medium enterprises form an absolute majority worldwide. SMEs are found in an extensive range of business activities, ranging from the single artisan producing agriculture implements for the village market, village grocery store, the coffee shop at the corner, the internet café in a small town and medium-sized automotive parts producer retailing to multinational automakers in the domestic and foreign markets (OECD. 2004a).

### **The Importance of Small and Medium Enterprises (SMEs)**

The SMEs operate in numerous markets such as urban, rural, local, regional, national and international. The small and medium enterprises bring hopes and great essence in the development of all the transitional economies. Nonstop and vigorous growth of this sector is evidently necessary, since it is difficult to visualise growing overall living standards and social peace without such a development (McIntyre, R. 2001).

Micro, small and medium-sized enterprises (SMEs) are the main source of development of the economy of every country. They are crucial source of jobs creation, generating entrepreneurial spirit and innovation in the country and are thus essential for fostering economic growth, employment, poverty alleviation and operate as catalysts in the society (Reijonen, H. et al. 2007, Ayyagari, M. et al. 2007, Wadood, F. et al. 2013). SMEs comprise more than 90% of businesses around the whole sphere. According to (OECD. 2004b), recent empirical research shows that SMEs contribute to over 55% of GDP and over 65% of total employment in high-income countries, SMEs account for over 60% GDP and over 70% of total employment in low-income countries, while they contribute over 95% of total employment and about 70% of GDP in middle-income countries (OECD. 2004b), (Bari, *et al.* 2005) stated that the foundation of industrialization could not be established without an efficient network of SMEs. Due to their contributions, not only the economy but also to the welfare of the society, nationals as well as international agencies have paid an excessive arrangement of attention to support the improvement of SMEs. The term 'small business' and 'small medium enterprise (SME)' are frequently used interchangeably, since medium-sized firms share several of the characteristics of their smaller counterparts (Kusumawardhani, A. 2013):

- They are independently owned and operated.
- The main decision-making functions rest with the owners, who usually also work full-time in the firm (accordingly, they are often mentioned to as 'owner-managers').
- They are thoroughly controlled by owners-managers.
- The owners contribute maximum, if not all of the operational investment. They take the obligation of funding the business ideas, bear the risk (such as potential bankruptcy) if the project fails, and are entitled to most of the profits, if it succeeds.

Bridge & O'Neill (BRIDGE, SIMON, K. O. 2013). (pg. 13-14) writes in their book with title "Understanding Enterprise Entrepreneurship and Small Business" that the recent recognition given to small business might initially have been largely for the employment they create but additional economic assistances of small businesses have also been recognized, which will be discussed shortly as following:

- ***Individual Outlet:*** *The small firm provides a creative passage for the vitalities of those enterprising people who set excessive accumulation by economic independence. Many of them are anti-phatic or not suit to employee in large organization.*

- **Specialist Supplier:** Many small firms act as a specialist supplier to large companies, of parts, sub-assemblies, or components and produce at lower rate than the big company can achieve.
- **Competition:** In an economy in which even larger, multi-product firm are emerging, small firms provide competition, and both actual and potential also provide some check on monopoly profits.
- **Consumer Choice:** The small nosiness sector, in generating competition also widens choice for consumers.
- **Seedbed for new industries:** The small firms are traditional upbringing ground for new industries. That is for innovation. The small firms provide the mean of access into business for entrepreneurial talent.
- **Source of Innovation:** Earlier research has revealed that small firms can keep up with large firms in the field of innovation.
- **Source of Stability:** The sector also perceived as contributing to economic and communal steadiness not only through its employment-creating capacity, but also by offering a means of social and community cohesion. In U.S, small business sector was described as vital 'to security of the nation'.

Developing countries have underway to stretch great consideration to SMEs on its crucial role they play in the improvement of country's economy (Khan, M. W. J, et al.2014, Wadood, F. et al.2013). In many jurisdictions, SMEs have attracted increasing and significant attention from policy makers and government organizations (Akbar, F, et al.2017).

The premium characterization of small and medium enterprises provided by Verhees and Meulenberg (2004), that a small firms is one that is run and controlled under the direct control of the owner. Verhees and Meulenberg (Verhees, F. J. H. M,et al.2004), further state that compared to large firms, small and medium enterprises are non-bureaucratic and more flexible; the owner is the decision-maker (Reijonen, H.2007).

The classification and definition of businesses are generally based on quantifiable characteristics such as, number of employees, sales volume or worth of assets (Khan, M. W. J. et al 2014). The authors further added that the specific definitions for SMEs, used by each country in the world, is usually based on several different criteria which include sales or assets, the number of personnel and level of capital (Khan, M. W. J ,et al 2014). No uniform definition of SMEs is available in literature. In USA, businesses having personnel less than five hundreds (500) are considered as SMEs, in case of European Union, businesses having less than 250 workforces are considered as small and medium enterprises [1].

### **Small and Medium Enterprises (SMEs) in Malaysian Context**

Asia Pacific Economic Cooperation (APEC) has counselled its associate countries to put great precedence on fostering SMEs as they help in economic growth of the individual nation and encourages the flow of trade and investment activities between different economies in the APEC region (Nasir, W. M. N. 2013).

According to Khan and Khalique (2014), some advanced economies have flourished because small and medium enterprises form a fundamental share of the economies, comprising over 98% of the total formations and contributing to over 65% of employment as well as over 50% of the gross domestic product (GDP). For illustration, Singapore tossed a wide-ranging strategy called SME Master Plan in 1989 to encourage entrepreneurship by supporting SMEs in certain areas like tax incentives, financial assistance, technology adoption, business development and marketing (Nasir, W. M. N. 2013). In Australia, various small business agencies have emerged to help indigenous SMEs in emerging and managing their operation. In Malaysia, the government has even established a ministry for SMEs and entrepreneurs. Saleh and Ndubisi (Saleh, A., et al. 2006) stated that in terms of geographical location, the mainstream of manufacturing corporations in Malaysia were found to be located in the west coast of Malaysia, which is industrialized and has seaports conveniences. Johor has the major attentiveness of manufacturing businesses with 17.5 percent, followed by Selangor 16.7 percent, Perak 9.4 percent and Palau Pinang 8.7 percent.

The Malaysian Government's pledge to, and apprehension for, the improvement of SMEs has been evidently apparent since the early 1970s. The 'New Economic Policy' was familiarized in 1971, which aimed to improve people's welfare and restructure ethnic economic inequalities (Saleh, A., et al. 2006). The government commitment can be seen to the development of SMEs by introducing the second Industrial Master Plan (IMP2), which completed in 2005, and that plan is followed by third Industrial Master Plan (IMP3), 2006-2020, to overlap with the country's vision for 2020 (Saleh, A., et al. 2006). The fourth Master Plan from 2012-2020 is expressed to boost the wealth formation and contribution to social well-being side of SMEs. The main goals of the fourth IMP4 was to increase business formation, raise productivity, and expand number of innovative and high growth firms (Hashim, H. 2015). The IMPs were framed to develop the evolution of the manufacturing SMEs across the country. SMEs are one of the most significant contributors to economic development in Malaysia.

According to Economic Census (2011), Malaysian SMEs now represent 98.5% of the total establishment in the country. Hafeez *et al.*, (Hafeez, M. H., et al. 2013) stated that SMEs in Malaysia account for employment 56.4%, contribution to GDP 32.3% and export 19% (Hashim, D. H. 2013). The table no 2.4 shows the contribution of SMEs to the Malaysian economy.

Table 1-1 the Economic Contribution of SMEs in Malaysia to GDP, Employment and Export

	2013	2014	2015
SMEs	662,939	n.a	645,136
Micro	75%	----	77%
Small	19%	-----	20%
Medium	3%	-----	3%
GDP	32.5%	-----	33.1%
Employment	19%	-----	19%

Export	57%	-----	57.5%
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Source: [15]

Small and medium enterprises (SMEs) are vital to the growth of Malaysia’s economy and unemployment issue Rose *et al.*, (2006) In Malaysia, the scenario is not different from developing countries; mostly Malaysian economy depends on SMEs. Malaysian SMEs can be well-defined according to size, turnover and activity. A business is considered to be SME based on the yearly sales income or amount of permanent employees. Therefore, SME Corporation Malaysia redefines the SMEs in October 2013.

Broadly, the definition has been simplified under two categories,

- **Manufacturing: Sales turnover not exceeding RM50 million OR full-time employees not exceeding 200 workers; and**
- **Service and other sectors: Sales turnover not exceeding RM20 million OR full-time employees not exceeding 75 workers.**

The details by size of operation are as follow in Table below:

Table 1-2 SMEs definition by SMEcorp

Category	Micro	Small	Medium
<b>Manufacturing</b>	Sales turnover of <b>less than RM300,000</b> <u>OR</u> Full-time employees <b>less than 5</b>	Sales turnover from <b>RM300,000 to less than RM15 million</b> <u>OR</u> Full-time employees from <b>5 to less than 75</b>	Sales turnover from <b>RM15 million to not exceeding Rm50 million</b> <u>OR</u> Full-time employees from <b>75 to not exceeding 200</b>
<b>Services &amp; Other Sectors</b>		Sales turnover from <b>RM300,00 to less than RM3 million</b> <u>OR</u> Full-time employees from <b>5 to less than 30</b>	Sales turnover from <b>RM3 million to not exceeding RM20 million</b> <u>OR</u> Full-time employees from <b>30 to not exceeding 75</b>

Source: SME corp Malaysia (2013)

- If a business accomplishes either one criterion across the different sizes of operation, then the smaller size will be applicable. For example, if a firm's sales turnover falls under microenterprise but employment falls under small, the business will be deemed as a microenterprise.

### **Micro Enterprises**

A micro-business, also usually recognized as a micro-enterprise, is a business with less than five (5) employees, and contains self-employed individuals. Micro businesses are usually associated with small business, even though small businesses technically employ between five (5) and seventy-five (75) employees in Malaysia. Together, micro-businesses, small businesses and medium sized firms are mentioned as SME's (small and medium-sized enterprises). A lot of micro-enterprises are not necessarily growth-oriented. Rather it is "life-style" maintenance focus, especially if it's a family business operating in a comfortable market niche with a glass ceiling; such MEs are very risky and are debt-allergic. Micro-enterprises are generally unregistered, have no prior work experience, and normally they do not keep any financial records.

Most of the micro-enterprises are either owned by one individual, a family, or a number of close friends; the main characteristic of micro-enterprise is that it is autonomously retained and operated. The owner-manager is usually responsible for the majority of, if not all, features of the business, from executing the day-to-day operations of the business, to being in charge of all decision-making, as well as financing the business. The owner-manager also bears the risk related with the venture. Many micro-enterprises are also often home-based, meaning that they operate from the owner's home, rather than an office or store.

Micro-enterprises (MEs) have been recognized as a main source of employment and revenue in numerous third world countries (Mead, D. C, et al.1998, McPherson, M. 1996). Employment in MEs expands as a result of new venture starting up in business, and through development of current enterprises. Micro-enterprises make up a great percentage of SMEs within Malaysia and are a very important force in the Malaysian economy. They are significant to the economy as they offer employment to a great share of the Malaysian labour force, assist innovation and entrepreneurship, as well as provide an avenue for offering specialized and niche products and services to the market (Hashim, D. H.2013).

According to SME Corp Malaysia, (2013), Microenterprise (MEs) have annual sales of fewer than RM300, 000 and have less than five (5) employees. The micro-enterprises in Malaysia represent more than 75% of the total business establishment in the country (Ministry of Finance. 2014). The majority of MEs are in the services sector with 462,420 establishments (93.1%), followed by the manufacturing segment with 21,619 establishments (4.4%), construction with 8,587 establishments (1.7%), agriculture sector with establishments of 3,775 (0.8%) and the mining and quarrying sector with 57 establishments (0.01%). The MEs are essentially formulated to contribute to GDP and have improved the life-style of the people. If the government assists MEs in producing as the large organizations, productivity will increase.

### **Furniture Industry in Malaysia**

The furniture manufacturing is the most rapidly growing sub-sector within the country’s wood-based sector, which contributes almost 8% to the total gross domestic product (GDP) of Malaysia (Ratnasingam, J.,et al.2013). The socioeconomic importance of the industry is undeniable, bringing almost USD 2.5 billion in foreign exchange while providing employment for work force of big share. The Malaysian furniture industry comprises 85% of SMEs (Norzanah, M. N.,et al.2012).The foremost concerns raised comprised the incapability to increase competitiveness and the deficiency of marketing strategies on furniture businesses. A dramatic change as a whole is critical as Asian companies not only have to be fierce in being trendsetters by being closely linked to society, people, and culture. This includes the Malaysian furniture companies. Trendsetting is essential to be carried out internationally through marketing (Norzanah, M. N.,et al.2012).According to Roll, (Roll, M. 2015), Asian companies that own businesses globally would not succeed without branding (marketing). Branding remains a contradiction in their business view. However, brands like Sony, Apple and Samsung have managed to break the barriers given the upmost importance to constant innovation and creativity.

The furniture business in Malaysia is under a manufacturing sector of small and medium enterprises (SMEs). The Malaysian furniture industry underway from a traditional, cottage-based production in 1980s to a technologically progressive multi-billion-ringgit industry today (Nor, N. M.,et al.2012).The Malaysian furniture industry stretches out a remarkable growth for the past nine years as it contributes from 2.6 billion in 1997 to 6.2 billion in 2009 (Nor, N. M.,et al.2012). The growth is expected to be high for now. Malaysia furniture industry in 2010-2011 ranked as the 8<sup>th</sup> major exporter of furniture in the world and the 3<sup>rd</sup> in Asia, Malaysia furniture industry is largely export-oriented with more than 80% of its production exported (Robiyah, H. 2012). Having more than 2,400 furniture businesses, the furniture industry is one of Malaysia’s major revenue earners, Malaysian furniture exports, valued USD 2.5 billion (RM 7 billion) in 2011, which were exported to more than 160 countries (Robiyah, H. 2012). Despite the reputation of furniture industry towards economic perspective, its contribution to lessen unemployment is vital, the SMEs in Malaysia provide employment to 211,236 persons, while furniture SMEs provide a big share of 65,032 persons in 2011, and the share is estimated to be increased by now (Robiyah, H. H. H. 2013). The following table shows economic input of furniture industry in Malaysia.

Table 1-3 Economic contribution of the Timber and Furniture Industry, 2012

<b>Market Size</b>	<b>Approved Investment</b>	<b>Contribution of timber to total exports</b>	<b>Employment</b>

<b>Total: RM 33.0 billion</b>	Wood & wood products: RM 10.03 billion	2.9% of RM694.6 billion (Wooden and Rattan Furniture 31% of RM 20.0 billion)	211,236 persons
<b>Exports: RM 20.0 billion</b>	Furniture and fixtures: RM 306.1 million		<b>Furniture 65,032 persons</b>
<b>Domestic: RM 13.0billion</b>			

Source: MTIB, Robiyah, [25]

The Malaysian furniture industry faced many complications, such as competition, poor infrastructure, and admittance to finance, human capital, and market access (Hashim, D. H.2013).Robiyah (Robiyah, H. H. H. 2013), stated in a paper that the action plan for Malaysian furniture SMEs to enhance their exports should develop different strategies; one of them is targeted market. Therefore, it is concluded that marketing strategies research are still going on. And no clear studies have yet been conducted in furniture industry in Malaysia.

The significance of marketing strategy to achieve organizational profits has been proven in determining the company performance effectively. Many industries have framed aggressive strategies by employing creative strategies on their products or services in order to upsurge organizational revenues and sustainable competitive improvement (Azaze-Azizi,et al.2013) Global competition has put great pressure on expoert-based companies to set new and effective strategies in order to compete in the world market. However, some of the strategies implemented by SMEs are not successful as expected by Zekiri and Nedelea, (Zekiri, J.,et al.2011) and Azaze-Azizi and Adis, (Azaze-Azizi,et al.2013). Therefore, the need to focus on marketing strategies on firm performance in a single industry would give better understanding while adding new understandings into international marketing literature.

The furniture sector is highly fragmented, and the numerousness of the Small and Medium-sized Enterprises is very significant (Akbar, F.,et al.2015) According to Ng and Kanagasundaram (Ng, B.-K.,et al 2011), one of the striking facts about the furniture manufacturing industry is its relatively low entry barriers compared to medium or high-tech industries such as pharmaceuticals, electronics and electrical, machinary and equipment, etc. The low entry barrier is deemed to be benefacial to the local industry players, as participation in the industry is not limited to a particular exclusive group of players. Ng, Chandran, and Kanagasundram (Ng, B.-K,et al.2012) , stated in their paper that the whole value chain of the furniture industry in Malaysia is made up of local enterprises. It is the only (or among the very few) industries in the country that is able to transform the raw materials into the final products, and consequently to penetrate the global market [31].



The furniture industry is evidently different from other industries in Malaysia. It is largely domestic owned and shares the center stage within the SMEs category. According to Ratnasingam, Yoon, Mohamed, and Kassim (Ratnasingam, et al.2013), there are limited large enterprises and most of the furniture manufacturers are SMEs. Most of the furniture mills are concentrated along the coastline of the central region, northern states and Johor state specifically in Peninsular Malaysia. Majority of the furniture manufacturers are situated in non-industrial lands which are close to the place of residence of the manufacturers.

In Malaysian furniture industry, marketing and promotion are two activities that also need attention (Norini, et al.2009). Further market analysis should be completed to review the opportunity and market openness for furniture industry (Akbar, F., et al.2015). The Norini et al., (Norini, et al.2009), in their report mentioned some important points that deemed necessary for marketing and promotion activities for furniture.

- Encourage the production of certified furniture products.
- Encourage the small and micro-enterprises to engage in more value-added processing activities and to specialized products for the export market.
- Encourage the use of locally produced wooden furniture products.
- Promote Malaysian brand names, designs and quality end-products.
- Promote more Bumiputra wooden furniture companies to export products overseas.
- Encourage the establishment of more own distribution channels or retail outlets.
- Continuously carry out aggressive trade promotional activities, especially in new and emerging markets.

Another marketing aspect that perceived was the target market strategy of the companies. Target market gives an idea of managing the certain market sector at which a marketing campaign is focused. Malaysian furniture industry likely uses the targeted marketing strategy, while there are some other marketing strategies which can be helpful in marketing their products. The focus of the current study is in search of different marketing strategies and their effect on firm performance in Malaysian furniture manufacturing industry (Akbar, F, et al.2017).

### **Limitations of the Study**

The study focused only on furniture manufacturing SMEs in Malaysia. This limits the generalisability of the result to SMEs in other regions as differences of culture, economic development and other factors could influence the outcome.

### **Conclusion**

In this paper, the discussion is about the background of Malaysian SMEs, and about their importance towards economy. In the literature earlier, a detailed discussion of small and medium-sized enterprises in developing countries has been discussed. Approximately 90% of the businesses everywhere in the world are considered as

small and medium enterprises (SMEs). Developing countries have initiated to attach particular importance to the key role that SMEs play in developing their economies. SMEs are an important source of work and produce entrepreneurial spirit and revolution in the country and are therefore vital to the promotion of economic growth, employment, poverty alleviation and functioning as a social catalyst. There is no uniform definition available in the literature for SMEs. Every country has defined SMEs according to their own context and region. Generally, the definitions are based on several different criteria which include sales or assets, number of employees and level of capital. Malaysian furniture SMEs have contributed to the economy very positively. Despite the prominence of furniture industry towards economic perspective, its contribution to decrease unemployment is vital, the SMEs in Malaysia provide employment to 211,236 persons, while furniture SMEs provided a big share of 65,032 persons in 2011, and the ratio is estimated to be increased by now. As this sector goes further, it is projected that Malaysia will be the leading exporter in the furniture industry in the world. Therefore, the economic sector also needs to fully study and make recommendations if the application of these commendations will increase their future success.

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