

# **INTI INTERNATIONAL UNIVERSITY**

**FACULTY OF BUSINESS AND ACCOUNTANCY**

**MASTER OF BUSINESS ADMINISTRATION**

## **BUSINESS CHALLENGES FACED BY INDIAN OWNED SMALL AND MEDIUM ENTERPRISES IN TODAY'S BUSINESS ENVIRONMENT: MALAYSIA'S PERSPECTIVE**

**Author:** Nataashea Bt Md Eusoff Joseph  
**Student No:** I06004077  
**Supervisor:** Mr. Arasu Raman  
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## Abstract

Based on the research by National Small and Medium Enterprise (SME) Development Council, it is stated that the number of SME development has been increasing from one year to another except during the economic recession period from 2008 to 2010. Apart from that, the failure rate of SMEs in Malaysia has not been formally identified by the department. Although there is hardly any formal study on the failure rate of Indian-owned SMEs in Malaysia, there is only unpublished and informal research has been done by 'small' groups. Therefore this study is focused on the business challenges faced by Indian-owned SMEs in Malaysia. The target sample for this study is mainly focus on the current Indian-owned SMEs in Malaysia (narrowing it down within the Negeri Sembilan state, Selangor state and the Federal Territory of Kuala Lumpur) in year 2011. The challenges that influenced the performance of Indian-owned SMEs are divided into five constructs of independent variables are Labour Issues, Financial Difficulties, Government Incentives, Minimal Revenue and Competitive Pressure. Questionnaires survey was used to identify the quantitative information provided by the SME owners. It was than analysed using the Statistical Package for Social Science (SPSS). The results showed that there were strong positive relationship association between the challenges faced and the performance of the Indian-Owned SMEs in Malaysia. Findings in this study, provided beneficial information and knowledge to the currently established Indian-owned SMEs and also the 'booming' SMEs for better understandings on the market.

**Keywords:** *Small and Medium Enterprises, Owners, Indian-owned, Performance of India-owned SMEs in Malaysia, Labour Issues, Financial Difficulties, Government Incentives, Minimal Revenue and Competitive Pressure.*

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Nataashea M.E.J  
August, 2011

## Declaration

"I hereby declare that this research project is of my own effort  
except for those information of which the source are clearly specified"

17<sup>th</sup> August 2011

Nataashea M.E.J

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## CHAPTER I

### INTRODUCTION

This chapter provides an overview concept on discovering the challenges faced by Indian Owned small and medium enterprises (SMEs) in today's business environment. This study is narrowed down to the business challenges faced by SMEs in Malaysia. Initially, the chapter provides a general background of the current SMEs performances in Malaysia. It is followed by problem statements, research questions, research objectives and discussion on the significance of the stud. Lastly, the limitation and relevant assumptions of this study are outlined for further discussion.

#### 1.1 Background of The Study

According to Feeney and Riding (1997), Small and Medium Enterprises (SMEs) play a vital role in a country's development and economy. They are dominant resource of employment, innovation and entrepreneurial skills (European Commission, 2009). However, the SMEs are always 'tested' with market imperfections. SMEs around the world are always faced with challenges in obtaining start-up cost or credit. Furthermore, their limitation in resources is also one of the challenges that can limits access to new technologies or innovations (Edmiston, 2004). The SME term is mostly used in the European Union and in international organizations such as the World Bank and many more, whilst the expression Small and Medium Business with the abbreviation of SMB is widely used in the Unites States of America (European Commission, 2009).

According to Pang, P (2008), the most important characteristics of a growing and improving economy is a booming Small and Medium Enterprises (SMEs) sector. SMEs supply to countries in many different ways, which include, employment growth for the metropolitan and countryside, providing sustainability to the economy as a whole (Cook and Nixson, 2000). Apart from that, a huge number of populations are relying on these SMEs for their daily sustainment of employment. According to Barakat (2001), "SMEs have their



significant effects on income distribution, tax revenue, and employment, efficient utilization of resources and stability of family income".

According to statistics collected from industrial countries by Bashir A. F (2008), SMEs are huge provider to private sector employment. From an empirical study done by Fida (2008), it is evident that "SMEs contribute more than 55% of Gross Domestic Product (GDP) and over 65% of total employment in high-income countries". Meanwhile, SMEs contributes over 60% of GDP and over 70% of employment in low income countries and contribute about 70% of GDP and 95% of employment in middle income counties. Adebisi (2009) said "SMEs also make important contributions in the transition of agriculture-led economies to industrial ones, furnishing plain opportunities for processing activities which can generate a sustainable source of revenue and enhance the development process". As of 2009, the Malaysian economy experiences a negative 1.7% growth, amidst the global financial downturn. The economy in Malaysia experienced the hardest distress due to the global economic downturn in the first quarter, whereby it declined by 6.2%" (Department of Statistic Malaysia, 2011).

## 1.2 Small and Medium Enterprise in Malaysia

According to the Malaysian Small and Medium Enterprise (SME) Council, SME can be defined base on two criteria; either by the total sales turnover or revenue by a business in a year or by the number of full-time or permanent employees by a business. Generally SMEs in Malaysia are defined by the manufacturing sector and service sector. For the manufacturing sector, the sales turnover or revenue is less than RM25 million or full-time employee of less than 150 people. As for the service sector, the sales turnover or revenue is less than RM5 million or full-time employee of less than 50 people. The table below tabulates a more simplified explanation for the classifications of SMEs in Malaysia in accordance to its annual sales turnover:

Table 1.1A

## SMEs in Malaysia – Annual Sales Turnover

Size	Manufacturing* & Manufacturing-related Services	Primary Agriculture	Service Sector**
Micro	Less than RM250,000	Less than RM200,000	Less than RM200,000
Small	From RM250,000 to less than RM10 million	From RM200,000 to less than RM1 million	From RM200,000 to less than RM1 million
Medium	From RM10 million to less than RM25 million	From RM1 million to less than RM5 million	From RM1 million to less than RM5 million

\* = including agro-based

\*\* = including Information Communication Technology

Source: National SME Development Council – SME Annual Report 2009/10

The table below tabulates a more simplified explanation of the classifications of SMEs in Malaysia in accordance to its full-time employee:

Table 1.1B

## SMEs in Malaysia – Full-time Employee

Size	Manufacturing* & Manufacturing-related Services	Primary Agriculture	Service Sector**
Micro	Less than 5 employees	Less than 5 employees	Less than 5 employees
Small	From 5 to less than 50 employees	From 5 to less than 20 employees	From 5 to less than 20 employees
Medium	From 50 to less than 150 employees	From 20 to less than 50 employees	From 20 to less than 50 employees

\* = including agro-based

\*\* = including Information Communication Technology

Source: National SME Development Council – SME Annual Report 2009/10

The National SME Development Council has come up with another grouping of SMEs, known as the K-Based SMEs. The K-Based SMEs includes consultancy firms, which contain knowledge workers of more than 20% of the total firm's employment. These knowledge workers must acquire at least a tertiary or

*Tables should be adjusted according to the guidelines*

professional education. These firms would have to use the Information Communication Technology (ICT) directly in their business processes or uses ICT for product improvements. Apart from that, the K-Based SMEs would have to adopt innovation and Research & Development in product improvement or business processes or would have to present systematic learning and training of technical skills to their workers.

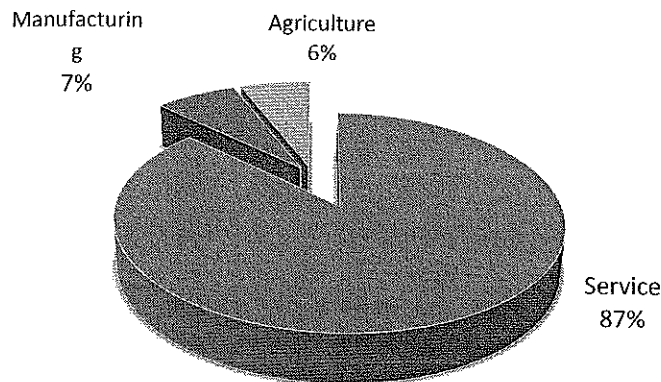
SMEs have the possibility to be a positive growth engine for the Malaysian economy, provided the sectors are properly nurtured and encourage expansion. Despite being hit with the economic recession due to the financial crisis, the Malaysian economy prevailed through the challenging environment. For the year 2010, Malaysia's Gross Domestic Product is at 6% compared to a contraction of 1.7% in 2009. *Source of reference?* This shows an improvement in the economy since the financial crisis. Measures introduced to reduce the impact of the crisis include Government and Economic Transformation Programmes that are expected to increase confidence and support the economy in the near future.

Based on the Census on Establishment and Enterprises 2005 conducted by the Department of Statistic Malaysia (DOSM); SMEs in Malaysia are largely in the service sector (87% or 474,706) of total business institutions. Most of these businesses are involved in the distributive trade which includes wholesale and retail as well as hotels and restaurants. Meanwhile, the manufacturing sector accounts for 7% of the total SMEs or a total of 39,373 businesses, of which more than half are in the three key subsectors, namely textiles and apparels, metal products and food and beverages (F&B). This is followed by the agriculture sector which constitutes another 6% of SMEs or represents 34,188 businesses. Most SMEs in the agriculture sector are involved in crop plantation, horticulture and fishing.

*proper source of references should be used to support arguments.*

Figure 1.1

### SMEs distribution by Sectors



Source: National SME Development Council – SME Annual Report 2009/10

### 1.3 Problem Statement

The recent global financial meltdown has alerted many SMEs to larger scrutiny to categorize survival toolkits for themselves, knowing that SME is vulnerable to the economic conditions. According to Noor Hazlina Ahmad (2009) there is a substitute approach to further understand the process that leads to business success which is by investigating the measures contrary to characteristics related to business failure. This is due to the fact that reasons for failure may appear as factors influencing success (Gaskill, Van Auken, & Manning, 1993). It is clear that small and medium enterprises (SMEs) play a vital role in the development of a country's economic. The present trend of economic and rapid industrial development has prepared Malaysia as one of the most open economies in the world.

Although there are no precise figures published on the failure rate of SMEs in Malaysia, yet it is estimated at 60% (Portal Komuniti KTAK, 2006). It is crucial to measure the roots for these problems due to the high business failure rate which conveys a variety of negative implications on individual entrepreneurs. At a smaller level, business malfunction could relentlessly affect the country's economy, knowing the fact that SMEs contribute to a major part of the

Malaysian GDP. Naples (1997) further argues that: "Business failures are not just blips on the screen of economic activity that are instantaneously counteracted by business formation. They destroy jobs, and this independently contributes to economic downturn. When a drop in autonomous spending leads to business failures, the appropriate expenditure multiplier is substantially larger than standard models suggest. Consequently, national income falls further, and unemployment increases more drastically."

According to 'The Economic Survey 2007' (latest data available from DOSM), there have been approximately 60,742 establishments of SMEs in Malaysia covering manufacturing, services and construction sectors compared to 41,400 establishments in 2006 covering manufacturing and services sectors. This reveals that 47% increase (year-on-year) on the number of establishments of SMEs in Malaysia. The value added growth of SMEs by key economic activity shows the latest annual changes in percentage on a constant 2000 prices. The table below shows the value added growth trend of SMEs:

Table 1.3A

**Value Added Growth Trend of SMEs**

*Is this a proper table format?*

Year	2005	2006	2007	2008	2009
<b>Growth Rate (%)</b>					
Agriculture	3.6	7.4	-1.4	7.3	2.0
Mining & Quarrying	-1.1	0.9	9.5	1.4	6.1
Construction	4.7	3.2	13.2	3.7	4.3
Manufacturing	5.7	8.3	6.3	-0.6	-8.6
Services	8.0	7.8	12.8	8.6	2.2
<b>Total Value Added</b>	<b>6.9</b>	<b>7.4</b>	<b>10.0</b>	<b>6.0</b>	<b>-0.4</b>

(Source: Malaysia Department of Statistic, 2010)

*You should use vertical lines in tables.*

There is a sharp decrease in the total value added of SMEs from year 2008 (6%) to year 2009 (-0.4%). In year 2009, the manufacturing sector experienced a tremendous contraction of 8.6%. This is explained by the recent (2008) global

financial meltdown. From the statistics given above, there is a huge gap between the failure rate and the growth rate of SMEs in Malaysia. Economic recession has been an invariable challenge faced by SMEs. Ever since year 2007, the global economy has experienced numerous adverse measures such as sub-prime credit crunch in the USA and fluctuating oil prices, which has led to a financial 'anguish' to the financial markets. ✓

The growth of SMEs in Malaysia plays a vital role in the expansion of the country's economy. However, 79,310 businesses failed in year 2002 (CCM, 2002), and the statistics are rising ever since. Clearly, it is crucial to study the factors causal to the failure rate and identifying the success factors for SMEs in Malaysia. Many previous researches have studied the success factors and failure factors to overcome by SMEs that contribute to the business accomplishment, such as human capital, entrepreneurs' leadership, management skills, personality traits, functional competencies and so on (Rose *et.al*, 2006). ✓

According to Malaysian Indian Chamber of Commerce (2011), huge opportunities for collaboration among Indian and Malaysian SMEs exist in many sectors, such as tourism, Information and Communication Technology, creative content, education and biotechnology. The Indian communities of entrepreneurs are not paid attention too in Malaysia, even the SMEs corporation in Malaysia does not have the published statistic of Indian-owned SMEs. Many of these SMEs are facing challenges and difficulties that are not voiced out, and due to that reason many of these Indian-owned SMEs establish their business as fast as they 'sink' in it. Thus this study was instigated to examine the relationship between human capital, finance capital and competencies of the successful beginning of Indian-owned SMEs of Malaysia. In addition, the study is also aimed at identifying the most affected challenges to these Indian-owned SMEs and also to identify or recommend an important success factor that is critical in determining a better growth that is beneficial to the SMEs business. ✓

## 1.4 Research Objectives and Research Questions

### General Objective:

The general objective of this research is to identify the business challenges faced by SMEs in Malaysia.

### Specific Objectives & Questions:

Research Objectives	Research Questions
<ul style="list-style-type: none"> <li>To identify the association of business challenges faced by the Indian owned SMEs in Malaysia and its performance</li> </ul>	<ul style="list-style-type: none"> <li>What are the challenges faced by the Indian owned SMEs in Malaysia?</li> </ul>
<ul style="list-style-type: none"> <li>To identify the biggest threats for Indian-owned SMEs in Malaysia</li> </ul>	<ul style="list-style-type: none"> <li>How the challenges do effects the Indian owned SMEs?</li> <li>To what extend do the challenges affects the Indian-owned SMEs?</li> </ul>
<ul style="list-style-type: none"> <li>To recommend ways to reduce the impact of challenges and to improve the performance of the failure rate and the establishment of Indian-owned SMEs</li> </ul>	<ul style="list-style-type: none"> <li>To identify if there is a critical success factors?</li> </ul>

## 1.5 Significance of the Study

Firstly, this study presents a enhanced understanding of the business challenges faced by Indian-owned SMEs in Malaysia. This research will also list down the challenges faced previously by SMEs and will further educate the brand new SMEs on the future potential challenges that they may face. This study is done to further identify the Indian-owned SMEs' struggles in Malaysia and therefore, to create awareness for new entrepreneur in order to prepare them with a safeguard cushion. By listing down the challenges faced by Indian-owned SMEs, this study will also further educate the existing Indian-owned