Growth Strategies among Small and Medium Enterprises –
Case of Malay Entrepreneurs

Ummi Salwa Ahmad Bustamam

(Graduate School of Management, La Trobe University, Melbourne, Australia)

Abstract

Small business operators are the backbone of economic activities in many countries. Interest in entrepreneurs often tends to revolve around high fliers like Warren Buffet and Bill Gates or, in Malaysia’s case such as Syed Mokhtar Al-Bukhary. Many businesses will never reach the heights of Syed Mokhtar Al-Bukhary but their contribution is still significant to their communities and to their country. In any businesses, entrepreneurs may confront particular challenges and barriers which impede business growth. This paper presents one case of a medium-sized Malaysian enterprise. The case attempts to analyze strategies used for preparing this business for growth. The case analysis is set within several contexts: entrepreneurship, the nature of ethnic small businesses, barriers and challenges of business growth and strategies for growth undertaken to overcome barriers and challenges. This paper concludes with a discussion of the lessons and implications as well as the accomplishments of this particular entrepreneurial venture.

Keywords: small and medium enterprise, small business growth, barriers, Malay entrepreneur

Introduction

Small and Medium Enterprises (SMEs) are a vibrant and growing sector in most economies in the world. According to Department of Statistics of Malaysia (DOS) (2005), the census of establishments and enterprises showed that SMEs accounted for 99.2 per cent from a total of 552,804 establishments. Notwithstanding the varied definitions of SMEs, the high percentage of SMEs in Malaysia reflects a similar position compared to some other economies of the world; Japan (99.7%), Republic of Korea (99.8%), Taiwan (97.8%), Thailand (99.6%), Philippines (99.6%) and Indonesia (99.9%) (DOS, 2005). Consequently, growth of SMEs contributes to employment and job creation (Smallbone & Wyer, 2000). Further, growth typically equated with high performance. Thus, growth offers the opportunity for financial gain, return on investment (ROI) and also increased chances for survival (Davidsson & Delmar, 1997; Taylor & Cosenza, 1997).

There is a huge body of knowledge on SMEs which explain the growth of these small and medium enterprises from many perspectives (see, example; Smallbone & Wyer, 2000; Storey, 1994; Gibb & Davies, 1990; Dobbs & Hamilton, 2007). Although much has been written about the business growth, Gibb and Davies (1990) claim that there is no single theory which can adequately explain it. Moreover, many of these prior

---

1 Ummi Salwa Ahmad Bustamam, Ph.D. candidate, Graduate School of Management, La Trobe University, Melbourne, Australia, research fields: entrepreneurship, small business growth and Malay entrepreneur.
studies have addressed the issue concentrated on developed and western countries such as the UK, the US and Australia (Smallbone et al., 1995; Boardman et al., 1981; Chaston & Mangles, 1997; McMahon, 1999). Thus, there are demands for more studies of entrepreneurship in other countries to contribute in the research field.

Although the Malays dominated 60 per cent of the total population of Malaysia (DOS, 2008), the economic activities especially in the entrepreneurial sectors is monopolized by other minority ethnics. According to Ahmed et al., (2005), the development of entrepreneurship in Malaysia is influenced by the policies of colonial power and by the mixture of ethnic backgrounds. Similarly, other authors such as Gomez and Jomo (1997) and Shukor (2006) support this statement. Historically, during British colonialism in 1945, they implemented ‘command friction’ where the Malays were forced to settle in provinces and practise traditional agriculture and fisheries. The Indian community worked in rubber plantations, whereas the Chinese were placed in urban areas, working as traders (Ahmed et al., 2005).

As a consequence, the Chinese have dominated the business sector and becoming rich, whereas, the Malays, who lived mostly in rural areas, were relatively poor. The principle of ‘command fraction’ operated until Malaysia gained its independence in 1957. In 1954, there were 79,653 business units registered and of these only 7,878 (10 per cent) were Malay-owned. The Chinese owned 58,005 (73 per cent) and the Indians owned 12,696 (17 per cent) (Milne & Mauzy, 1986). At present, following the independence, the Chinese still held power in the economic and commercial sectors. In 1970, the government of Malaysia took some steps to improve the economic condition of the Malays by introducing the New Economic Policy (NEP) which included several objectives as follows: to attack poverty; to attain an “ethnic balance” in various economic sectors and occupations; to create more Malay entrepreneurs and managers; to raise the share of capital held by Malays; and to increase the proportion of Malays attending universities and similar institutions (Milne & Mauzy, 1986).

The implementation of the strategies to eradicate poverty and restructure the society resulted in a significant improvement in income distribution by 1990. According to Economic Planning Unit (EPU, 2008) under the Prime Minister Department, the proportion of households living below the poverty line income has declined from 49.3 per cent in 1970 to 16.5 per cent in 1990 and has reduced further to 5.1 per cent in 2002. In terms of corporate equity restructuring, the Malays were targeted to reach 30 per cent of corporate equity ownership by the year 1990. However, at the end, the share of equity was amounted 20.4 per cent, which did not reach the target of 30 per cent (EPU, 2008). This failure has been debated by many authors (see, example; Gomez & Jomo, 1997; Maznah, 2005), but still it need to be revised for better improvement.

Although the Malays have not achieved the 30 per cent equity ownership targeted, the progress made by them has been substantial compared to 2.4 per cent of corporate ownership in 1970 (ISIS, 2008; EPU, 2008). Similarly, after the introduction of the NEP, the number of business owned by Malays increased from 14 per cent of the total in 1970 to 25 per cent in 1980 (Milne & Mauzy, 1986).

The problem of developing Malay entrepreneurs in terms of quantity and quality has been debated by many authors (Kechot & Khalifah, 1999; Ahmed et al., 2005). Plenty
of them highlight sociocultural and attitudinal aspects of Malay entrepreneurs (Chee, 1992; Ragayah & Zulkifli, 1998; Storz, 1999; Shukor, 2006; Firdaus et al., 2009) because they believe that those aspects were barriers to successful business endeavours. Thus, many other authors propose suggestions and recommendations to assist and encourage the Malay entrepreneurship. However, there may be other hidden obstacles and barriers that slow down their business journey.

Recent data from the Department of Statistics shows the increment number of business establishments by the Malays, though with majority of them involved in small and medium enterprises (DOS, 2005). This evident shows that there is a minority group of the Malays which successfully grow their business from a small enterprise to a larger ones. However, there is absence of profiles of “successful” entrepreneurs from Malay backgrounds, although there are studies attempted to consider this from other ethnics’ backgrounds (for example, Chaudry & Crick, 2004). It could be argued that a need exists to profile leading from South East Asian backgrounds, specifically, since role models from the “white” community may not be seen as representative. In terms of the contribution to managerial learning, the relevance of this is quite clear, non-ethnic specific case histories cannot be fully related to by future entrepreneurs from certain community groups, due to perceived cultural impediments.

This paper seeks to develop an understanding of how Malay entrepreneurs, as a minority ethnic in economic activities in Malaysia, overcoming the barriers and challenges in order to grow their business. Specifically, this paper explores the growth strategies undertaken by SMEs. This paper provides one case study drawn from a Ph.D. research that profiled “successful” entrepreneurs from the Malay community in Malaysia. Although five case histories were undertaken in the larger study, this paper discusses only one of these in-depth case studies to serve as a learning vehicle at the entrepreneurship interface for future entrepreneurs from the Malay community.

**Barriers to business growth**

Despite the importance of growth in SMEs, there is a wide recognition in the literature about the obstacles and barriers facing SMEs (Churchill & Lewis, 1983) preventing them from growing further and putting them into a critical position to face new challenges arising. Some of the existing literature, SMIDEC (2006); Saleh and Ndubisi (2006), highlight many challenges facing SMEs, such as lack of financing, low productivity, lack of managerial capabilities, access to management and technology as well as heavy regulatory burden.

In the context of this study, according to Gomez and Jomo (1997), since 1980s, the government policies tended to assist larger business rather than smaller companies. Larger, politically well-connected enterprises have enjoyed better access to tenders as business size and political influence have interacted as part of the new Malay idiom of power in contemporary Malaysia. In addition, commercial banks have also been more inclined to provide credit to large establishments. These and other problems have restricted the capacity of small businesses to accumulate capital, in turn limiting their voice and political influences and hence access to government patronage. Lack of technological capacity and skilled labour, market limitations and competition have also kept their turnover and profits low, thus inhibiting their ability to grow. In
addition, small Malay enterprises have to compete with companies owned or controlled by politicians who are generally assured of favourable government treatment, particularly in the award of licenses and contracts, and in terms of access to finance and information.

Shukor (2006) suggests that values and attitudes, entrepreneurial skills, managerial skills and entrepreneurial characteristics are required for entrepreneurial success. His study was based on Malay businesses and he found that the Malay participation in the economic sector is still lagging compared to non-Malays. According to him, this is due to some cultural aspects and attitudes of the Malay that obstructs their business growth. This confirms to Mahathir’s (1970) blame to the Malays in his book, Malay Dilemma. He argues Malay culture has certain deficits, resulting in a poor rate of Malay business success. This is a major barrier for the Malay business growth.

**Strategies as determinants of high-growth**

The strategy literature suggests that high growth businesses are characterised by ‘success strategies’. This implies that growth is an outcome that reflects choices made by entrepreneurs. Specifically, research suggests that high growth SMEs are characterised by pursuing management strategies. According to Heinonen et al. (2004) and Smallbone et al. (1995), growth objective shows the commitment of the firm’s controller to achieve growth. Rational actor model by Glancey (1998) emphasis on the external constraints (competitive environment) thus neglects the internal constraints which imposed by the entrepreneur’s motivations. Owner’s desire to retain control, personal lifestyle and family factors may play as much as role in determining business goals as commercial considerations. Barringer and Jones (2004) suggest that growth-oriented vision helps crystallize the importance of high growth business.

In the context of employee recruitment and development, ability of firm to attract, develop, retain skilled and capable employees will affect the probability to be able to effectively implement and maintain a growth-oriented strategy (Barringer & Jones, 2004; Ichniowski et al., 1997; Pena, 2002). Firm’s employees are critical resources in the achievement and maintenance of rapid growth, hence management of human resource management has to be accordingly (Lin, 1998; Thakur, 1999). The literature also suggests that high growth business are characterised by pursuing differentiation strategy (North & Smallbone, 2000; Pena, 2002) has been used by many firms in terms of their product market development. Moreover, Perry (1987) claims that growth strategies for established SMEs should usually be niche strategies which emphasized on market development and product development.

Smaller firms rarely have the same economy of scale as larger firms. Holm and Pouffelt (2002) and O’Gorman (2001) suggest that competition must be based on innovation rather than price. Thus, active engagement of small firms in the management of products and markets is therefore important for achieving growth over extended period (Calantone et al., 1995; Smallbone et al., 1995). Further, high growth business has constant awareness of new technology, markets and competition, and also ability to carry out research and development (R&D) (Akgun et al., 2004; Del Monte & Papagni, 2003; Yasuda, 2005). Firms have to gain greater cash flow, enhance external visibility and legitimacy, improve market share as the elements for survival and growth (Barringer & Jones, 2004; Lin, 1998). Businesses which are able
to develop new products and services in existing markets and enter new markets with existing products will broaden their customer base and more likely to experience growth (Kelley & Nakosteen, 2005; Littunen & Tohmo, 2003).

Performance of high growth SMEs has been widely recognized by practising the strategy of internationalization which concentrated on exporting, foreign direct investment (FDI) and alliances (Lu & Beamish, 2001; Casseres, 1997). Exporting may be an important characteristic of those firms which experience high growth (O’Gorman, 2001; Zahra et al., 2000). On the other hand, new geographic markets provides opportunities for firms to broaden their customer base while increase in sales volume provides the possibility of a higher production volume and expansion in production capacities to meet the market demands (Lu & Beamish, 2001).

Participation in joint venture, networks and alliances can assist a firm’s growth by providing access to a broader base of resources, managerial talent and intellectual capabilities. Heinonen et al. (2004) and Robson and Bennett (2000) in their study emphasize that trade associations provide quick access to industry-related information, opportunity to network with industry peers and collective lobbying. Resource limitations of smaller firms make collaborative relationships to be essential of a successful internationalization (Barringer & Jones, 2004). Larger firms have greater resources and durability, enabling them to bear the high entry costs associated with learning about and entering foreign markets (Becchetti & Trovato, 2002). Finally, flexibility is pertinent to smaller business as they engage in a narrower range of activities, use a narrower range of materials, employ fewer skills and serve single markets. It is necessary for these businesses to anticipate changes in the environment that may impinge on their operation and act accordingly in order to maintain their position and thus improve their potential for growth (Smallbone & Wyer, 2000).

**Methodology**

This paper adopted a case study approach as suggested by Yin (2003) to gain a more comprehensive understanding and insights of the growth strategies by SMEs and attempt an idiographic explanation (DeVaus, 2004) to understand the whole case. According to King (1994), in order to explore the underlying (subjective) reasons for entrepreneurs’ particular decisions, which in some cases were undertaken over a number of years, it was decided that semi-structured qualitative approach would be appropriate. This approach enabled the researcher to address process-based issues concerning why events happened and how they unfolded over time (Denzin & Lincoln, 1998). Nevertheless, it was recognized that interviews with entrepreneurs themselves did not, in the true sense of the word, constitute case study research and therefore interview data were compared (where possible) with information from annual reports and other company’s publications, regulatory authorities, magazine and newspaper articles to enrich the case study evidence (Yin, 2009) and to support the validity of the findings.

In the context of this paper, an in-depth case analysis was conducted on one of the SMEs in the palm-oil industry in Malaysia. Ten years of growth was tracked in this company. Based on turnover and total fixed assets levels in the last five years, this company can be classified as a grown small business (Table I). The research progressed in several stages. First, the palm-oil industry was reviewed to identify the
key players. Several leading companies were approached seeking their co-operation in the project. Later, an extensive review of company documentation was undertaken for the 10 year period from the company’s foundation to date. This documentation included company annual reports, financial reports, newspaper interviews, informal records of managers, etc. The current CEO of the company was then interviewed to validate the content of the secondary data and to explore his perceptions of the growth and development of his company. The CEO had played a central role in managing his business throughout the period of growth. Therefore he had a deep understanding of how the business grown and developed. The interviews was tape-recorded and transcribed. Next it was translated (interviews was undertaken in Malay language) and systematically checked by the author for patterns in the data.

Based on the primary (interview) and secondary data collected, the author narrated a case history of the company. The actual name of the company is not being used as an ethical consideration for the study. The narrative case study sought to explain the barriers and challenges to business as well as the strategies undertaken to grow business, specifically for Malay entrepreneurs. This methodology has been successfully used to study the strategy evolution of an entrepreneurial business (Mintzberg & Water, 1982).

**Findings - Case study**

How does one define an entrepreneur? If an entrepreneur’s description is someone who searches for change, responds to it and exploits it as an opportunity (Drucker, 1985), then, Muhammad (not the real name) could be called as an entrepreneur.

His first entrepreneurial venture began when he was 15 years old, when he set up a stall selling burgers after his exam. His first pay made him enough to buy his first motorcycle, a Honda Cub. He had turned 16 by then, sold burgers every chance he got and even became a direct seller of Amway products for two years. Once, he won a tender to set up his burger stall for a week at the Asia Pacific Scouts Jamboree in Pantai Cahaya Bulan, Kota Bharu, Kelantan (east coast of Malaysia) and he made a lot of money there. He claims his entrepreneurial spirit was inherited from his grandparents who were fishmongers.

Muhammad had been working for The New Straits Times Press in the circulation department, selling Her World magazine in Klang Valley for three years, and after that were as District Manager and Retail Store Manager with Bata (M) Berhad for 11 years before joining Malaysia Airports Holdings Bhd as group operations manager for duty-free retail and Food and Beverages (F&B) outlets at all International Malaysian airports. In 1999, at the age of 39, Muhammad founded MM Sendirian Berhad (MM), which formerly known as NP where the first location was just at a small shop house in Subang Jaya, Selangor.

Interestingly, his previous experience, both managerial and business was from a different industrial background compared to his current business. Prior to starting the company, he had done his homework and found that there was a growing global demand for edible palm oil. In the upstream producers, this industry is dominated by major players such as Golden Hope Plantations, IOI Corporation Berhad, Kumpulan Guthrie Berhad and Sime Darby Berhad. Those companies had been operating for
ages and they had strong linkages to the government. Hedging against risks, Muhammad decided to be one of the downstream producers which concentrated on product processing.

In September 2002, with a paid-up capital of Ringgit Malaysia (RM) 100,000.00, Muhammad set up a factory producing palm oil-based margarine, pastry margarine, shortening, vegetable ghee and cooking oil for consumers as well as industries, to capture higher profit margins. The setting up of the factory took him four months, where most of the works had been settled by him alone.

When he began his business, Muhammad had to face problems with the government’s policy which limited the local market penetration for downstream producers. He did not get a small portion to sell his product in the local market. Muhammad had to strategically plan for his business operation. Thus, he decided to enter the international market which is a very good decision he made for his business growth and has been supported by research from O’Gorman (2001), Zahra et al. (2000) and Lu and Beamish (2000). MM’s first export to Africa was in January 2003, the first year in operation, and turnover that year amounted to RM 28 million. MM recorded over RM 100 million in the first three years and in 2007, the audited turnover was RM 87 million. It has also expanded into 76 countries to date. For the record, Malaysia is the largest producer of palm oil, contributing about 11.80 million tonnes or 50.9 per cent of total production. Malaysia also exports about 61.1 per cent or 10.62 million tonnes of the total exports of 17.37 million tonnes in 2001 (MPOB, 2001).

MM currently produces and exports 24 brands of edible oil products to South Korea, China, India, Europe, USA, Uzbekistan, Africa, Middle East and Japan, securing niche markets. The export market constitutes over 99 per cent of MM’s total revenue, with the European market comprising 35 per cent of total sales. MM also is the biggest supplier in Uzbekistan’s palm oil market. MM was the first palm oil downstream company to achieve three international accreditations, namely ISO 9001:2000, Hazard Analysis and Critical Control Point (HACCP) and Good Manufacturing Practice (GMP). Muhammad has also won numerous awards for his company’s products. MM exports globally and has been awarded with many prizes and certification such as ASEAN Business Awards (2008), Master Entrepreneur of the Year 2008 by Ernst & Young, Best Practice Award in National Award for Management Accounting Award (2008), Business Excellence Award-Malaysia Canada Business Council (2008), Superior Taste Award for Blossom-International Taste & Quality Institute Brussel, Belgium (2008) and plenty more awards since the company’s establishment.

To ensure business growth, Muhammad states that there must be an emphasis should be given to human capital development, as it is important for rapid growth and this is supported by Barringer and Jones (2004) and Robson and Bennet (2000). With the support of 75 skilful workforces, MM moves forward. Selected staffs are sent to local and overseas training for example in Italy, Tokyo, Japan and Mongolia. As a result, the company’s Human Resource Development (HRD) Fund is utilised very quickly.

Muhammad set up the Research and Development (R&D) team to formulate various ranges of products according to customer specifications is one of MM’s key to success and is accordance to Akgun et al., (2004), Del Monte and Papagni (2003) and
Yasuda (2005). The research, processes, products and personnel skills are reviewed continuously to ensure MM produces high quality products with competitive cost and accepted by consumers. With a good contact with Malaysian Palm Oil Board (MPOB), MM achieved to produce four products in 2008, including Low Fat Spread, Low Fat Icing, Margarine with Omega 3 and Red Cooking Oil.

Due to market trends and customer demand, Muhammad is also pro-active on packaging innovation. In cooperation between Purchasing and R&D Department, research has been carried out continuously to ensure MM produces quality product with competitive cost with maximum container load quantities and accepted by consumer. Current market trend requires small packaging types among which are flexi bag, jerry can and tubs. Muhammad asserts that, 24 products that are currently produced by MM are value-added because of its branding and its product differentiation. Following from Kelley and Nakosteen’s (2005) work, businesses which are able to develop new products and services in existing markets and enter new markets with existing products will broaden their customer base and more likely to experience high growth.

In terms of the financial growth, in 2002 the company’s turnover was reported for RM 18 million and increased to RM 48.7 million in 2004. However, in 2005 the turnover was decreased to RM 28 million. This was due to the company’s bond failure. Nevertheless, in 2008, the turnover was reported for RM 101.1 million. Hence, the financial growth is keep growing by years.

<table>
<thead>
<tr>
<th>RM Million/ Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>28.1</td>
<td>48.7</td>
<td>28.0</td>
<td>56.9</td>
<td>86.9</td>
<td>101.1</td>
</tr>
<tr>
<td>Profit/(Loss)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before Taxation</td>
<td>1.2</td>
<td>2.1</td>
<td>1.9</td>
<td>2.7</td>
<td>5.6</td>
<td>4.3</td>
</tr>
<tr>
<td>Total Fixed Assets</td>
<td>10.3</td>
<td>17.8</td>
<td>17.9</td>
<td>24.5</td>
<td>25.0</td>
<td>25.5</td>
</tr>
</tbody>
</table>

Table I – Financial performance of MM

Lessons and implications

The focus of this contribution to work at the entrepreneurship interface involved an examination into the key issues relating to the background of successful Malay entrepreneurs. Anonymous case studies of small and medium non-Malay-owned enterprises are sometimes difficult for prospective Malay entrepreneurs to fully relate to. Therefore, profiles of successful entrepreneurs from the respective communities arguably help to bridge the perceived gap between academia and managerial practice (Cunningham, 1999).

From the outset, it might be concluded that a number of issues arise from this study that could equally be drawn from an investigation into successful entrepreneurs within any community, for example hard work, luck, opportunity recognition and risk taking (Merrilees et al., 1998). Furthermore, it could be concluded that in terms of the ethnic business literature, those entrepreneurs exhibited similar characteristics, for example: serving cultural niches, networking and making use of cultural resources (Nowikowski, 1984; Aldrich et al., 1989; Ram et al., 2000).
There are several important points that differentiate Muhammad from previous entrepreneurship research, particularly among Malay entrepreneurs.

- Muhammad established and developed large business networks and maintains strong relationships with his clients. He addressed the needs of the non-cultural niche by exporting his products to 76 countries to date. His independence from the government’s subsidy had forced him to cope with the situation and made him shift into off-shore markets.

- Muhammad professionalised his business by employing professional managers, who could be accountable on a result basis, something that was potentially difficult with family members (Bachkaniwala et al., 2003). His ability to delegate task to his managers has speed up decision making process. These factors; independent and non-reliance are causal in his success.

- Muhammad established a good relationship with R&D agencies and developed his R&D team to produce quality products. R&D is very crucial in the palm oil industry, and was defined as one of the important successful keys for his business growth.

- Ability to fulfil market niche is important in small business growth. Muhammad and his team were able to serve his clients from 76 countries (to date) from every aspects needed.

- Muhammad effectively utilised resources, i.e. financial and managerial resources (experience) to develop and sustain his business growth. His non-related industrial background had made him to learn and act more quickly.

This case history demonstrates that element of luck and not simply management skills and resources can influence success (Merrilees et al., 1998). More important is that successful entrepreneurs like Muhammad have a vision and can operational strategies quickly to react to changing and serendipitous events. He also has faced losses, but these are offset by the gains from more successful activities. Therefore, it appears that experience has enabled him to recognize and exploit market opportunities.

Apparently, the issue of opportunity recognition and exploitation for future entrepreneurs can take a variety of forms and will be subject to different external influences (i.e. entrepreneur’s background culture). Prospective entrepreneurs must be able to proactively identify and address opportunities, and case histories such as Muhammad’s provide a learning vehicle for this to take place. The case history also offers avenues for future research. For instance, research could be undertaken into the training requirements of Malay-owned firms. This is vital for the government in encouraging more Malay entrepreneurs to grow independently and develop their business, moreover to change the negative perception on Malays who typically known as a subsidized-community.

It is also useful as an educational vehicle to further investigate characteristics associated with entrepreneurs from various ethnic communities, e.g. the generation of ownership, previous experience, sector operating, etc. Stories from successful entrepreneurs can be shared at national level that can be disseminated to various
regions. It is also recommended to offer more effective ways and provide solutions of barriers to business growth, which is, based on the particular ethnic composition of communities.

References


