
SMALL AND MEDIUM ENTERPRISES (SME): CONTRIBUTION AND CHALLENGES

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ABSTRACT

This study is about analysis of the contribution and challenges facing SMEs in the Malaysia. Generally, the SMEs contribution is to create employment opportunities and provide stimulus to economic growth, and expanding entrepreneurial bases and developing human capital. The study also outlines the challenges faced by Malaysian SMEs in an increasingly globalized world.

KEYWORDS: Small and Medium Entrepreneur (SME), contribution, challenges

INTRODUCTION

Small and Medium Enterprises play an important role in the country's economic development. There are various definitions about SMEs and that definition differs according to the various organizations. Small and Medium Enterprises (SMEs) are generally defined based on certain quantitative criteria such as number of employees, total capital, total assets and sales volume (Abdul Aziz AB. Latif, Mohd Abdullah Jusoh, Mohd Azyan Yahya, Osman Jusoh, and Syahira Hamidun, 2011).

A business is considered an SME if it meets one of two qualifying criteria such annual sales or the number of full-time employee, whichever is lower. Definition based on Size for Micro operating companies in all sectors is annual sales of less than RM 300,000 or full-time employees of less than 5 people. Table 1 below lists definitions for small and medium categories for those sectors. If a business meets one of the criteria in all different operating sizes, the smaller size will be applied. For example, if an annual sales turnover falls under the Micro Company but full-time employees fall under Small Enterprises, hence the business is considered a Micro Company

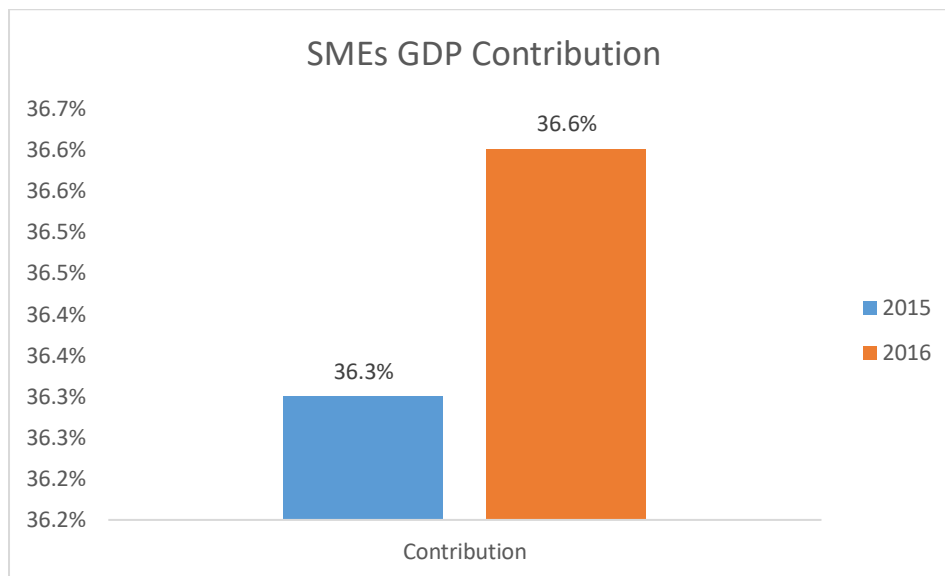
Table 1: Definition based on Size of operation

Category	Small	Medium
Manufacturing	Annual sales from RM300,000 to less than RM15 million or full-time employees from 5 to less than 75 persons.	Annual sales from RM15 million to not more than RM50 million or full-time employees from 75 to not more than 200 persons
Services and Other Sectors	Annual sales from RM300,000 to less than RM3 million or full-time employees from 5 to less than 30 persons	Annual sales from RM3 million to not more than RM20 million or full-time employees from 30 to not more than 75 person

CONTRIBUTION SME IN THE MALAYSIA

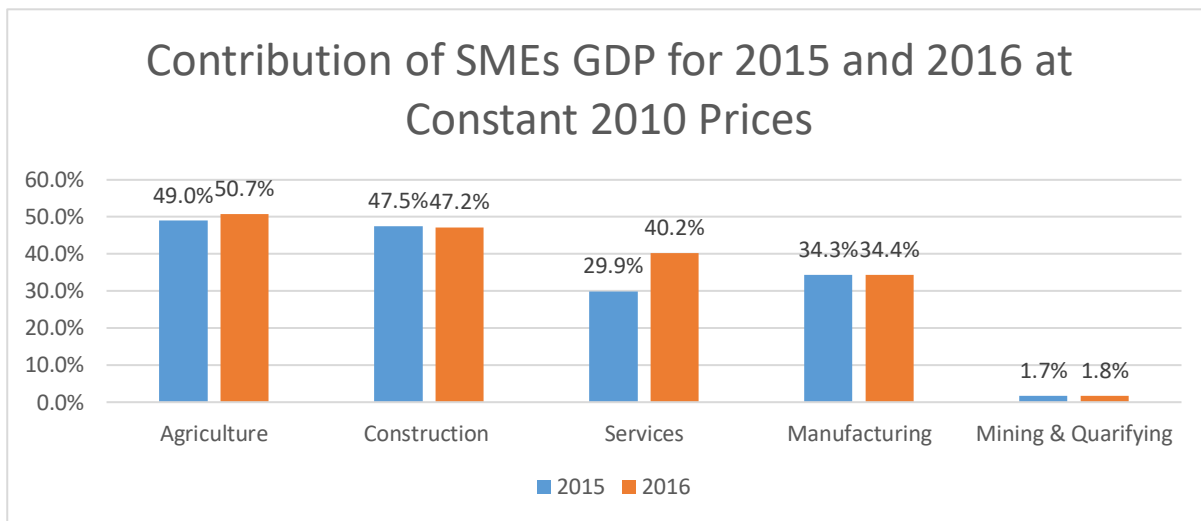
Small and Medium Enterprises (SMEs) are subunits in a larger industry. Although it contributes to the amount of output on a small scale but SME plays a big role in the country's economic development. Besides, the role of SMEs is the source of competition, offering a diverse range of products to customers, as a preparation before venturing into the industrial market, as a source of innovation and creativity, and ultimately offer career opportunities to those most productive (Abdul Aziz Ab. Latif et.al, 2011). The role of the SMEs is in line with the speeches in the annual SME annual report 2015/2016 which is the SME plan actively encouraging new companies and small businesses as a way of creating job opportunities, reducing poverty and overall social unity.

Chart 1: SMEs Gross Domestic Product (GDP) in 2015 and 2016



Based on the statistics from Department of statistic Malaysia 2016 in cart 1, the contribution of SMEs GDP to the Malaysia GDP has increased steadily to 36.6 per cent from 36.3 per cent recorded in preceding year. The performance of SMEs Gross Domestic Product (GDP) outpaced the Malaysia GDP in 2016 with a growth of 5.2 per cent compared to Malaysia GDP which stood at 4.2 per cent.

Chart 2: Contribution of SMEs GDP for 2015 and 2016 at Constant 2010 Prices



According to the survey by Department of statistic Malaysia 2016 in the chart 2, in year 2016, all sectors registered a higher contribution of SMEs value added with the exception of construction sector. Furthermore, wholesale & retail trade, food & beverages and accommodation sub-sector also supported this sector particularly in retail and motor vehicles segments.

CHALLENGES OF SMALL AND MEDIUM ENTERPRISES (SME)

In Malaysia, the Small and Medium Enterprises (SME) industry faces many challenges and obstacles to move forward. Although various forms of loans and assistance have been provided by governments and financial institutions, however, financial factors or difficulties in obtaining financing are still a major problem faced by SMEs. The difficulty of SMEs for funding is because they do not have complete and detailed information on SME development programs provided by government agencies or financial institutions. In addition, there is confusion among SME entrepreneurs in the selection of necessary assistance programs. This is due to the overlapping of aid programs provided by relevant agencies to SMEs. Hence, SMEs are more likely to get loans from unlicensed parties such as 'Ah Long' where business loans are easier and faster.

Small and Medium Enterprises (SMEs) are engines for entrepreneurial development that generate

various jobs, Gross Domestic Product growth (GDP) in Malaysia and also contributes significantly to the country's export trade sector. In the face of a challenging economic situation cannot be denied that there are some key challenges faced by SMEs.

FINANCING CONSTRAINT

Although various forms of loans and assistance have been provided by governments and financial institutions, however, financial constraint or difficulties in obtaining financing are still a major problem faced by SMEs (Z. Zairani, 2013). This problem is related to the difficulty of SMEs to get loans from financial institutions especially to obtain loans from financial institutions in the business development stage. Although loan facilities are provided by financial institutions such as commercial banks but the poor financial position of SMEs has resulted in them failing to convince financial institutions to approve loans. Moreover, financial institutions are more likely to lend to the industry.

One of the current issues raised by traders is the difficulty of SMEs and new start-up companies to get financing (Muhammad Ibrahim, 2017). Based on the speech from ACCCIM's senior secretary Datuk Low Kian Chuan in Berita Harian Online news, he said "generally 43 percent of the 808 respondents claimed that their company was facing financial problems in the last three years". Among the factors raised is the absence of collateral or inadequate track record, especially for businesses engaged in new growth areas. This situation is proven to be happen based on the census of establishment and enterprise 2011 by the department of statistics Malaysia, 55.2 percent of SME respondents facing difficulties in obtaining financing due to lack of collateral. Therefore, Dealers must ensure that their business documents and records are correct and complete to facilitate credit evaluation. Dealer skills in important and current aspects, such as marketing, inventory management and finance and e-commerce should also be constantly enhanced to helps convince banks and other investors about long-term growth prospects and business competitiveness for financing purposes.

This is also closely linked to insufficient information which contributes slightly to the failure of SMEs in obtaining financing from financial institutions. In this case, the issue of lack of performance records as a new business can affect the growth of micro and small companies. As most financial institutions set a certain period of operating a business to finance a business, it makes it difficult for newly established SMEs (start-up SMEs) to obtain funding needed.

In addition, inadequate loan documentation and high interest rates are also contributing factors to the constraints faced by SMEs. According to sources from Bank Negara Malaysia (BNM), almost 10 percent of SME respondents state the long processing time as a major problem in obtaining financing.

The evaluation process undertaken by a financial institution on applications received from the SMEs is

a standard operating procedure adopted. Information received from prospective borrowers will be reviewed to determine the borrower has a good credit record. In addition, the information provided to financial institutions must be complete to enable them to make judgments and decisions.

All these challenges and constraints are as small as the SMEs growth in Malaysia in obtaining financing. With the financing facilities offered by financial institutions and financial development institutions in Malaysia, constraints faced by SMEs in obtaining financing can be overcome.

LACK OF SKILLED LABOR

In general, although Malaysia has achieved full employment, Malaysia is still facing a lack of skilled labor in technical fields (Abdul Rahim Anuar, Wan Nurmahfuzah Jannah Wan Mansor and Badariah Din, 2016). Recruiting process of skilled labor has been difficult because most applicants do not have the skills related to the job applied. Besides, the lack of skilled labor and expertise in management due to the inability of an employer to provide a reasonable reward to attract individuals with expertise to join their company. Contrary to larger industries that are more willing to offer more attractive rewards such as lucrative wages, bonuses, incentives and other benefits.

Difficulty Getting Raw Materials

The next challenge, the difficulty of SMEs getting raw materials. Raw material resources are prone to decrease in the future and this may lead bumiputera SMEs to fail to expand their businesses (Che Mohd Zulkifli Che Omar and Nurdiana Mohd Nor Azmi, 2015). If this problem occurs, SMEs will have to deal with the problem of getting raw materials as they have to compete with the big industry. Suppliers usually prefer big companies because they buy raw materials in large quantities and with more secure payment terms.

UNSTRATEGY SITE AND BUILDING

SME entrepreneurs face problems for acquiring operational sites and factory buildings in strategic locations (Abdul Aziz Ab. Latif et.al, 2011). Normally, SMEs operate in buildings where the location is considered less strategic in the eyes of customers, suppliers and creditors. In addition, the operating site also does not allow operators to enlarge the operations and business activities carried out. Some of them also operate in residential areas like such as at home. This situation not only causes the problem of lack of space to complement factory requirements such as machines, discomfort among employees but can cause difficulties to residents around residential areas due to pollution, noise and other disorders.

PRODUCT MARKETING

According to Nurulhasanah Abdul Rahman, Zulnaidi Yaacob and Rafisah Mat Radzi (2016), "the main problems faced by SMEs in Malaysia are the lack of knowledge regarding marketing techniques,

branding, customer marketing is a very important aspect to SME entrepreneurs. Through marketing activities, companies can market their products to customers consisting of wholesalers, retailers or end users. However, SME entrepreneurs face problems in carrying out their marketing activities to customers. This is due to the lack of finance to enable them to carry out their own promotional, advertising and packaging activities.

COMPETITION, MANAGEMENT AND TECHNOLOGY

There are also other problems that challenge SMEs such as competition, management and technology. SME entrepreneurs also face competition amongst SME entrepreneurs as well as compete with large industries with skills and capabilities in producing production activities. In the management of companies most SME entrepreneurs have low level of education and lack of training. As a result, the company's management activities cannot be done efficiently. Meanwhile in terms of technology, the technology level used by SME companies is also usually left behind and not competitive. Although SME entrepreneurs are aware of this situation, they are unable to get modern technology and advanced equipment due to lack of capital and skills.

CONCLUSION

Most of the literatures have discussed similar problems facing SMEs, namely financial constraints, lack of skilled labor, difficulty getting raw Materials, in strategy site and building, product marketing, and others such as competition, management and technology being detailed as SMEs challenges. The discussion of common SME challenges demands a serious attention from the government, as well as non-government bodies, to correct the challenges and transform it into an opportunity to grow potential. Emphasizing that these challenges need to be learned as a group as they are the most discussed challenges that occur around the world. Therefore, small business owners know what to expect and take action before it's too late. However, the boundary of this paper contains a lack of data as it is a theoretical paper, so, no data has been collected. Additionally, more variables are needed to support current SME challenges in Malaysia. Based on the reports issued by SME Corporation Malaysia, the secretariat to the national SME development council provides an assessment of SME performance by 2015, the 2016 outlook and recent developments affecting SMEs. The year's report, themed "overcoming obstacles" focuses on the adjustments that SMEs need to take to overcome barriers and challenges following the emergence of a new business era. Industry revolution 4.0, digitalization and technology integration, regional integration and other major trends.

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