

SUGGESTIONS FOR RESEARCH ON SMALL AND MEDIUM-SIZED ENTERPRISES IN MALAYSIA

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ABSTRACT

Small and medium-sized enterprises (SMEs) are considered to be one of the important components of the business ecosystem in Malaysia. As part of the business ecosystem, SMEs contribute significantly to the Malaysian economy. Although they play a key role in the national economy, research on SMEs appears to be not only restricted but also overlooked. The review of the literature reveals that as a field of study, SMEs have received limited theoretical as well as empirical contributions. This paper reviews the literature and past studies in an attempt to identify the issues related to this area of study as well as provides some suggestions for further research on SMEs.

INTRODUCTION

In Malaysia, collectively, small and medium-sized enterprises (SMEs) contribute to the country's economic development. Despite their significant role and contributions to the national economy, SMEs do not seem to have attracted much research emphasis as an important field of study. At present, knowledge and information about the nature of these firms as well as to what extent they are being successfully managed remained limited. The literature indicates that from the research perspective, SMEs have received minimal theoretical and empirical contributions (Hashim and Wafa, 2000; Hashim and Abdullah, 2000; Hashim, 2011).

The review of the literature and past studies has indicated gaps in the knowledge as well as understanding of the SMEs sector, particularly in the Malaysian context. The review of past research suggests that previous studies are exposed to several weaknesses and as a result, findings of these studies do not seem to be able to offer insightful information that can help to formulate better theoretical as well as research frameworks for improving our understanding of the sector (Hashim and Abdullah, 2000; Hashim and Ahmad, 2005). In view of the various shortcomings of past studies, the issues and important areas of research pertaining to SMEs, there is a need to develop a research agenda for investigating SMEs in Malaysia. Importantly, by attempting to meet this need, further research can be encouraged and promoted in order to increase our knowledge about SMEs as a field of study.

This paper reviews the small business literature and prior studies to identify the issues and areas of research that need to be taken into consideration when investigating SMEs. Accordingly, the paper is organized in five sections. The following Sections Two summarizes the fundamental research issues concerning SMEs that need to be addressed before proper studies should be conducted. Next, Section Three underlines the gaps of prior research on SMEs in Malaysia. Based on the information presented in the preceding sections, Section Four offers some suggestions for research on SMEs. Lastly, Section Five provides a brief conclusion of the paper.

Conceptual Issues Concerning SMEs

The review of the small business literature reveals issues regarding how the concept of small and medium-sized enterprises (SMEs) is being defined in previous studies. From the review, the authors identified two specific conceptual issues concerning the operational definitions of SMEs adopted in past studies. The first issue involved different definitions being used by different studies when investigating SMEs. The second issue deals with the heterogeneity of SMEs. The following section briefly explained these two conceptual issues.

Operational Definition of SMEs

In Malaysia, prior to the existence of the National SME Development Council (NSMEC) in 2004, different definitions of SMEs were used since the 1970s. With the establishment of the NSMEC, standard definitions of SMEs were introduced in the country and they were primarily determined by the Council. More recently, in realizing the inappropriateness of the earlier definitions introduced in 2005, the NSMEC has reclassified SMEs in Malaysia. The new definitions of SMEs which were presented on January 1, 2014 are shown in Table 1.

Table 1: New Definitions of SMEs in Malaysia

Industry	Micro	Small	Medium
Manufacturing	Sales turnover of less than RM300,000 OR less than 5 full time employees.	Sales turnover from RM300,000 to less than RM15 million OR 5 to less than 75 full time employees	Sales turnover of RM15 to RM50 million OR 75 to 200 full time employees.
Services and other sectors (primary agriculture, construction, mining and quarrying)	Sales turnover of less than RM300,000 OR less than 5 full time employees	Sales turnover from RM300,000 to less than RM 3 million Or 5 to less than 30 full time employees	Sales turnover from RM 3 million to RM20 million OR 30 to 75 full time employees.

Source: SME Corporation Malaysia (2015)

As far as the new definitions of SMEs are concerned, they are not uniform and considered to be too general in nature. These definitions are not able to capture as well as reflect the true nature of SMEs found in the country. Furthermore, these definitions are based on fixed quantitative criteria only, making their operational value and purpose questionable (Hashim and Abdullah, 2000). As presented in Table 1, the NSMEC developed the new standard definitions based on fixed quantitative criteria. It is important to know that the adoption of the standard definitions based on fixed quantitative criteria to classify huge numbers of firms operating in large numbers of different industries is not practical for various reasons. First, different firms in different industries have different quantitative characteristics and requirements. Second, in reality, the quantitative criteria vary very much from business to business as well as from industry to industry in terms of their value as measures of firm size. For instance, as Malaysia develops into an industrialized country, new and different firms are created in new and different industries. These new firms and industries in turn

will require new quantitative criteria. Third, the standard definitions need to be developed based on fixed quantitative criteria that can actually reflect the true nature and needs of the SMEs in each different industry. This can be done by developing a standard definition for each different industry. Fourth, in addition to the fixed quantitative criteria, it is also necessary to include the qualitative criteria that can also capture the entrepreneurial characteristics and orientation that reflect the general ownership profile of the owners of SMEs.

Heterogeneity of SMEs

Apart from the various definitions being used in past studies, previous research also tend to view SMEs as homogeneous. It is very important to understand that SMEs are not homogeneous but actually heterogeneous. Each small business is not only different but has its own unique characteristics. They differ from each other in many different ways. For instance, the owners and founders of SMEs come from various background and they have different entrepreneurial traits and characteristics. They each develop different patterns of behaviors when operating their business operations as well as in facing the changes and challenges found in their business environment.

Furthermore, these firms differ in terms of their organizational structures, management styles and sophistication, stages of development, technological advancement, capabilities, resources, business requirements and also with regard to the general performance of their firms. Accordingly, SMEs should be grouped according to their differences and not viewed as homogeneous.

The review of the literature indicates that several studies in the developed countries have attempted to classify types of SMEs based on their different characteristics. Findings of these studies suggest that different types of SMEs evolved from the imperfections in the economy that may have resulted from different phases of economic growth and development, changes in consumer demand, levels of technology and infrastructure, as well as the personality of owners/entrepreneurs. From their studies, the researchers were able to not only identify, but also grouped SMEs into various categories based on features such as the personal profile of the owners/entrepreneurs, structure of the industry where the small firm operates, the stages of the firms' life cycle, the level of the firms' technology, their types of economic activities, and different patterns of entrepreneurial behaviors (United Nation, 1992; Hosmer, Cooper and Vesper, 1977; Rizzoni, 1990).

Data Sources on SMEs

Presently, in Malaysia, comprehensive and up-to-date data sources on SMEs are still lacking. Although there are several sources of data available, most of these sources are inadequate and inaccurate for the following reasons:

- 1) data not current;
- 2) variation in definitions;
- 3) different units of measurement used;
- 4) uncertain of their actual numbers;
- 5) difficult to access; and
- 6) hard to verify their accuracy.

Obtaining reliable and accurate data has often been considered as a major problem for researchers attempting to study SMEs empirically in the local context. The unavailability of reliable, accurate data and the lack of research on SMEs have resulted in the limited information on the sector. Furthermore, factors such as the use of different definitions, limited experience, lacked of expertise and inadequate knowledge among

those people responsible for the development and growth of the SMEs sector may also have contributed to this problem (Boocock and Wahad, 1997; Hashim and Abdullah, 2000; Hashim and Ahmad, 2005).

Research Gaps

Throughout the years, although the literature appears to indicate increasing research on SMEs in Malaysia, the review of past empirical studies suggests that their scope and research focus are still limited. Accordingly, the following section presents the gaps of past research on SMEs as identified from the review of prior studies.

Business Practices and Performance of SMEs

Different firms adopt different business practices to sustain their performance. In addition, the relationship between business practices and organizational performance has also been documented and emphasized in the literature. The review reveals that past conceptual as well as empirical works have provided the evidence that indicates the association between business practices and organizational performance (Hashim, 2012; Marcus, 2006). Nevertheless, the review of previous studies suggests that there is not much information about the business practices adopted by the SMEs as well as their relationships to the performance of SMEs, especially in the local context.

Business Strategy Adopted by SMEs

Business strategy plays a key role in the success of business organizations. However, the review indicates there is not much research on business strategy adopted by the SMEs, particularly in Malaysia. Despite the relevance and applicability of business strategy to SMEs, there is little information about the business strategy implemented by these organizations. Although there is tremendous increase in the knowledge in the area of strategy, little is known about strategy formulation and implementation in SMEs. The lack of research as well as information on business strategy in SMEs suggests that more studies need to be conducted in this area (Hashim and Zakaria, 2010).

Competition among SMEs

Like large companies, SMEs in different industries need to compete with other organizations for various resources. In addition, it is critical for organizations such as SMEs to know, understand and appreciate that competition is complex and that it can affect their organizational performance. Although the review suggests that competition can influence organizational performance, there are not many studies that have attempted to examine the nature of competition faced by SMEs. The literature indicates very few studies have actually investigated the intensity of competition in industries where SMEs operate their businesses (Hashim, 2011 and Hashim and Zakaria, 2010).

Lack of Theories in the Study of SMEs

Over the years, management areas such as strategic management, finance, marketing, and human resource management have evolved immensely. Despite the tremendous increase in knowledge and theories in these management areas as well as their importance to SMEs, not much of these areas have

been adopted by researchers to investigate SMEs. For example, although there are theories in strategic management (such as resource based theory, contingency theory, transaction cost theory) that are applicable and relevant for studying SMEs, there has been little research conducted to examine these organizations by using the strategic management theories (Davidsson and Wiklund, 1999; Hausman, 2005).

Need for Entrepreneurial Approach

The studies by Jeninngs (1994), Welter and Smallbone (2011) pointed out that the success of firms such as SMEs depends very much on various organizational and environmental factors that need to be learned from different perspectives. Nonetheless, the literature indicates lack of entrepreneurial approach as well as multi-level research design in past studies that investigated SMEs, particularly in the Malaysian context. The review of prior studies seems to indicate that most of previous research on SMEs has been over-emphasizing on a single level approach (either individual level or organizational level). The emphasis on the single level approach may not only result in studies investigating limited number of factors but also overlooking the other more important factors that can also influence the performance of SMEs.

Suggestions for Research on SMEs

After having presented some of the issues as well as gaps in past research on SMEs, this paper proposed several suggestions for research in this field to help better understand not only their true nature but also their role and the way they are managed in the Malaysian economy. The following section begins by explaining the need to develop more appropriate definitions of SMEs and also to classify as well as study them according to their types.

More Precise and Appropriate Definitions of SMEs

As mentioned previously, the new definitions of SMEs used in Malaysia are based on fixed quantitative criteria such as the number of employees and sales turnover. Nevertheless, in view of the uniqueness of each SME (for instance, their resources and management styles), any standard definition based on limited quantitative criteria is believed to be inadequate and inappropriate to describe and measure satisfactorily the size or operation of SMEs in various different industries.

The need to define SMEs appropriately and accurately is particularly important from the research perspective. This is because it has various implications to the direction of research to be conducted as well as the formulation and implementation of the related policies. In other words, a precise and more appropriate definition that reflects the size, nature and needs of SMEs is essential. It is also advantageous to not only each individual small firm but also for policy makers as well as supporting agencies in planning and nurturing the proper development and growth of the SMEs sector as a whole.

In view of the need for a precise and more appropriate definition of SMEs, this paper suggests that more empirical studies should focus on this issue. As mentioned earlier, attempts to define SMEs should not only emphasize on quantitative criteria alone, but also take into considerations the qualitative aspects of the SMEs (Hashim and Abdullah, 2000). Developed countries such as the United States of America and the United Kingdom have adopted this practice to define their SMEs. It is believed that definitions based on both quantitative and qualitative criteria would be more realistic in terms of capturing and reflecting the true nature of the thousands of SMEs in Malaysia.

Developing SMEs Taxonomies in Malaysia

Small and medium-sized enterprises constitute not only different firms but they also operate in a very wide range of industries. In general, it is believed that the presence of a wide variety of SMEs is the manifestation of imperfections in the economies in which these firms exist. Developing taxonomies of SMEs can help to not only explain the different types of SMEs in Malaysia but also show that they differ from each other. In addition, the development of taxonomies can also help to facilitate research on them. As indicated earlier, the Economic and Social Commission for Asia and Pacific (United Nations, 1992), Rizzoni (1990) and Hosmer, Cooper and Vesper (1977) have successfully developed three SMEs taxonomies as shown in Table 2.

Table 2: SMEs Taxonomies

Taxonomy by ESCAP	Taxonomy by Rizzoni	Taxonomy by Hosmer, Cooper and Vesper
1. The modern SMEs 2. The traditional SMEs 3. The agro-based SMEs	1. The static small firms 2. The traditional small firms 3. The dominated small firms 4. The imitative small firms 5. The technology-based small firms 6. The new technology-based small firms	1. The mom and pop company 2. The stable high-payoff company 3. The rapid growth company

Source: Hashim and Wafa, 2002.

Research Purpose

The literature review suggests that of the past studies on SMEs, some lacked clarity of purpose while others have purpose that has little consequence to the field. It is believed that factors such as the inability to clearly specify the purpose of the research, lack of skills in synthesizing previous research findings, failure to ground studies in the context of previous research and vain attempt to define key ideas and variables have to a certain extent hindered the advancement of the field in Malaysia (Gartner, 1989; Hashim and Abdullah, 2000; Hashim and Ahmad, 2005).

It is advocated that for the purpose of study, future research projects should include a clearer statement of purpose. In addition, it is suggested that researchers attempt to link the specific purpose of their study to the fundamental purpose of conducting a research as for instance, to explain environmental factors that can affect their organizational performance and the role of new SMEs in the economic development of the Malaysian economy.

Theoretical Orientation

A meaningful and rigorously empirical research involves the use of theory. As previously emphasized, many of the studies on SMEs to date have ignored to examine SMEs from the perspective of modern management theory. Despite the tremendous increase in knowledge in the areas of management theories, little research has been conducted to investigate the relevant and applicability of these theories to explain and predict the behaviors of SMEs (Hashim and Abdullah, 2000; Hashim and Ahmad, 2005).

Although some researchers may claim that currently there is no one single theory available to explain small business operations and growth, it is high time research attempts being made to adapt theories from the other field of studies (such as theories in management, economics, sociology and psychology) to help explain and predict the strategic behaviors of SMEs. For instance, since SMEs are considered economic units, theories borrowed from the field of business economics can be used to help in explaining why certain SMEs adopt different strategies such as the low cost strategy, the product differentiation strategy, and the niche strategy

In addition, by using induction and deduction reasoning, attempts can also be made to develop theories of SMEs. Similarly, various theories of strategic management (such as contingency theory, resource-based view theory, socio-cultural theory, and the uncertainty-based theory) can be exploited to help describe, explain and predict internal and external factors that can influence the behaviors of SMEs as well as their performance.

Research Design

The review also suggests that there is not much progress in research that addresses issues of causality in SMEs. Most of the earlier studies mainly adopted the exploratory case studies, the descriptive method and cross sectional statistical studies of the sample survey type. Most often, findings of research that adopted these methods are not able to establish cause and effects relationship in SMEs. This limitation suggests the need to pursue causality and longitudinal studies more aggressively when investigating SMEs. As a field of study, research on SMEs must move to higher stage of investigation. Exploratory case analyses or cross sectional sample surveys that are not theory-driven and do not test hypotheses, are no longer suitable since such approaches are not able to provide the necessary information to explain and predict their behavior. Higher level of investigation that involves explaining cause and effect relationship in SMEs require causal study (Hashim and Wafa, 2000; Hashim and Ahmad, 2005).

Level of Analysis

As an area of research, SMEs can be investigated at multi-levels. More specifically, research on SMEs may focus on five levels of analysis that include: the individual, the group, the organization, the industry, and the society. Although there are five levels of analysis to study SMEs, the review reveals that past studies primarily confine their analysis to a single level only (Chanler and Lyon, 2001; Hashim and Ahmad, 2005; Welter and Smallbone, 2011).

Investigating the behaviors of SMEs at different levels or units of analysis is not only useful to academics, but also beneficial for both entrepreneurs (business owners) as well as public policy makers. For instance, from the perspective of the entrepreneur, the success of the individual enterprise will be affected by various factors that need to be observed at different levels of analysis. By not studying the individual enterprise at the different levels of analysis, the probability of key factors being overlooked increases and this will most likely

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result in unanticipated events taking the entrepreneur by surprise. In addition, from the public policy maker's perspective, the insights generated by multi-level studies have the potential to improve the effectiveness of the numerous efforts by the government to increase the number of successful SMEs in the country.

Given the importance of multi-level analysis, it is suggested that future studies need to investigate more than one of the individual, group, organizational, industry, and society levels of analysis. Research that adopts multi-level analysis will be able to provide a much richer understanding of the behaviors of SMEs and as such should be encouraged in future research projects.

Wider Time frame

The literature review appears to indicate that there is not much emphasis on wider time frame for research on SMEs in Malaysia (Hashim and Wafa, 2000; Hashim and Abdullah, 2000; Hashim and Ahmad, 2005). This may be due to the fact that short time frame studies are simpler to design and easier to execute but they clearly lack the richness of insights as compared to results of research that has longer time period. For research that attempts to examine the behaviors of new SMEs, the use of longer time wide is important since these new firms are extremely fragile and they experience many changes as well as challenges during their developmental stage. Investigating the development problems faced by the new SMEs will need a wider time frame studies. Research that adopts wide time frame will be able to examine not only the development problems faced by the new firms but also be able to establish the cause and effect relationship. Having highlighted this issue, it is suggested that future research on SMEs should adopt longer time frames (at least three to five years). This is because different strategic issues and problems become more crucial as these firms and the industries in which they operates evolve.

CONCLUSION

This paper reviews the literature and past studies on small and medium-sized enterprise (SMEs) in an attempt to identify important issues as well as present suggestions for research in this area of study. This review is necessary in order to assess the current state of research on SMEs in Malaysia and to provide suggestions for further research to be conducted so that this field of study will continue to develop theoretically as well empirically.

The paper began by identifying and discussing the fundamental issues concerning the concept of SMEs which needed to be addressed before proper research on SME should be conducted. Following this, the paper highlights the various gaps in previous studies on SMEs. Next, the paper provides some suggestions for further research on SMEs. Among the suggestions include; SMEs need to be appropriately defined, research should view SMEs as heterogeneous, the purpose of research should be clear, meaningful study on SMEs should be based on theories, research on SMEs should move to causality, SMEs should be investigated from different levels of analysis and the use of wider time frame in research on SMEs.

In summary, given that studies on SMEs in Malaysia remained limited in terms of their scope and focus, it is hoped that the issues and suggestions presented in this paper will attract more research as well as help to advance SMEs as an important field of study.

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