

Strategic Competencies of Bumiputra Small and Medium Enterprise (SME) Owners in Central Malacca District

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Abstract. This paper focuses on the strategic competencies of Bumiputra Small and Medium Enterprise (SME) owners. The aim is to identify the competencies' level among the Bumiputra SME owners and to investigate the extent of strategic management applications in the Bumiputra SME owners in Central Malacca District in achieving their business success and sustainability. The empirical data consisted of 46 Bumiputra SME owners in that area. The data were analysed based on the stage of strategic competencies namely strategy formulation, strategy implementation and strategy evaluation. The results reveal that, the Bumiputra SME owners are seem to be less competent in the strategy evaluation stage. It is suggested that the Bumiputra SME owners should appreciate the various tools applicable in the strategic management in measuring their organisational performance.

Keywords: Strategic Competencies, Strategic Management, Small Medium Enterprise, Bumiputra

1. Introduction

Over the past few decades, the government of Malaysia has realised the significant contribution of small medium enterprises (SMEs) to the national economy. A number of Government programmes and incentives were offered to the SMEs but it had limited impact to the economy (Sin, 2010). The role of small and medium enterprises (SMEs) is vital in the Malaysian economy and they are considered to be the backbone of industrial development in the country (Saleh & Ndubisi, 2006). According to Kotelnikov (2007), SMEs are the drivers of economic growth and innovation. SME is the most popular business entities registered by entrepreneur because of simple ownership structure, less procedural registration process and flexible in decision making process. It is reported that the number of SMEs have reached to almost 99.2 percent of the total business establishment in Malaysia. More than 548,267 SMEs were registered in 2010 (SME Annual Report 2010/2011). The continuous effort to increase the growth of SME in Malaysia includes encouraging the participation of Bumiputra entrepreneurs in SME. This can be seen from the average Bumiputra entrepreneurs registered as suppliers with Ministry of Finance, of which 77 percent have an average paid up-capital less than RM 50,000. In relation to this, it is observed that the level of technology specialised in management, education, experience, and exposure to competition among Bumiputra entrepreneurs are still low and need to be improved (Abdullah Badawi, 2002).

The growth of SME however does not give a huge impact to the economy as mentioned by the Finance Minister II Datuk Seri Ahmad Husni Mohamad Hanadzlah (*Business Times*, 24 July, 2009). He said despite a rapid growth of these SME, it has only contributed to the employment sector for about 56.4 percent. Its contribution of SME to the gross domestic product (GDP) was only 32 percent, and 19 percent to the Malaysian export (*Business Times*, 24 July, 2009). Thus, based on the performance, it is considered that SME in Malaysia has been lagging behind. Malaysia is relying heavily on the SME as the engine of economic growth because export oriented strategy led by the Multinational Corporation (MNC) did not guarantee a stable and continuous economic growth (*The Star*, 2 August, 2010). This can be seen in the declining of FDI into Malaysia in 2009, which according to Tun Dr Mahathir Mohamad was a about 81% from RM24 billion to RM 4.4 billion (*The Star*, 2 August, 2010). In this situation some scholars view the failure of SME to stimulate the economic growth was due to the incapacibilities and incompetencies of SME to

be competitive (Davies, Hides and Powell 2002). They emphasise that the lack of formal planning will hamper the success of SME. In this regards the engagement of strategic management will ensure the success and sustainability of SME to increase profitability (David, 2011) and eventually will contribute to the economic growth. In line with Davies's et al. view that strategic management can be a tool to improve SME performance, this paper attempts to investigate the extent of strategic management applications in the Bumiputra SMEs in achieving their business success and sustainability.

2. The Strategic Competencies of SME

The importance of SMEs to the economy is undeniable as they employ great number of manpower and contribute to the GDP of a particular country. The SMEs growth directly benefits the country because most SMEs are domestic firms. It is supported by Davis et al. (2002) and Wu, Song & Zeng (2008) who claimed that SME is important to economic development. Position of SME in new economic model that encourages domestic production and consumption is critical and they cannot close down easily as the negative impact is disastrous to the national economy. Simpson et al. (2004) claimed that little research had been conducted on this business due to vast differences of these business and industries. Moreover, there are many objectives that determine the success of SME and most of the literature failed to agree on the better one. Nevertheless engagement of strategic management will ensure success and sustainability of SME as measured through profitability (Simpson et al. 2004 and David, 2011).

The importance of strategic management engagement is reported by David (2011) and Schwenk & Schrader (1993), Miller and Cardinal (1994) Peel and Bridge (1998) and Smith (1998) who claimed that most of business organisations that engaged strategic planning reported better business growth and profitability. This is because strategy explains how the business organisations deploy organisational resources among units, thus engagement of this knowledge will contribute largely to survival of SME. Adoption of strategic management is a fundamental practice in achieving a competitive advantage. Changing business environment and position of competitors are impacting the survival of SME. Ability of SME in managing these variables will ensure their sustainability and furthermore providing positive impact to the state economy. Thus, the strategic competencies of SME is related to the ability in formulating, implementing and evaluating the strategies of the firm (Man, Thomas, Theresa, & Chan, (2002); Bartlett & Ghoshal (1997); Lau, Chan & Man, (2000) and McClelland (1987). Another assertion was mentioned by Bradford (2007) that a strategic competency of SME is a combination of skills, processes and knowledge that creates significant value of SME's customers and differentiates it from other competitors.

3. Method & Material

This is a cross-sectional study with only a single instrument measuring all the variables. The research design for this study has utilised a survey method employing a questionnaire to be delivered to the identified Bumiputra SME owners in Central Malacca District in manufacturing, services and primary agriculture sectors. The population were Bumiputra SME owners in Malacca Central District. The probability sampling through systematic sampling was deployed throughout this study. The sample for this study comprised of 46 respondents from a list of total population of 156 businesses registered under Council Economic Action and Social Malacca Bumiputra which operate in Central Malacca District (MTESB, 2010). In order to analyse the data, the statistical techniques used are Descriptive Statistic and Pearson's Correlation.

4. Finding

4.1. Profile of Respondents

All the respondents had been grouped into five categories to determine the precision of the respondents' age. 5 (10.9%) of the respondents were 20-29 years old. 7(15.2%) of the respondents were 40-49 years old. 15 (32.6%) of the respondents were 50-59 years old. 3 (6.5%) of the respondents were 60 years old and above. The highest age of respondent started this business was 28 (60.9%) at 18-29 years old. It was followed by 7 (15.2%) at 30-39 years old and 6 (13.0%) at 40-49 years old. The remaining respondents were 3 (6.5%) at the age of 50 years old and above. There were 32 (71.7%) male Bumiputra SME owners population in different sector at Melaka Tengah District. The respondents were involved in diverse fields of

business where 37 (80.4%) were from the manufacturing, 1 (2.2%) was from agro-based industry, 6(13.2%) were from services and 2(4.3%) were from primary agricultures.

In term of years of business experience, ten respondents (21.7%) claimed that they had between 1 to 4 years experience. Those who had between 5 to 7 years experience were five respondents (10.95%), 8 to 10 years experience were six respondents (13%), 11 to 14 years experience were two respondents (4.3%) and those who achieved more than 15 years experience were twenty three respondents (50%). It can be concluded that, most of Bumiputra SME owners (78.3%) were able to survive more than 5 years in their business, and only 21.7% have achieved less than 5 years experience in their business.

Reflecting to the previous study conducted in the UK by Davies et al.(2002) the survival rate of SME in UK was not good as nearly half of SMEs failed within 5 years since establishment. This however shows that different environment may have different impacts on the survival of SMEs. Therefore, it can be said that the intensity of competition that was largely addressed in the developed countries as mentioned by Porter (1985) and O’Shaughnessy (1996) do not reflect the situation happens in the developing countries like Malaysia. The fact is that, in the developing countries which according to Deputy International Trade and Industry Minister, Datuk Mukhriz Mahathir like Malaysia, the government is very serious and committed to promote and support the development of SME entrepreneurs with the introduction of various aids, masterplan, policies and initiatives in stimulating their business growth as well as sustainability (*News Strait Times*, 10 March, 2010).

4.2. Results of Finding

Table 1. The strategy formulation, strategy implementation and strategy evaluation competencies of Bumiputra SME owner in Central Malacca District

Construct Variables	Mean	Std. Deviation	Rank
Strategy Formulation	3.70	5.64	2
Strategy Implementation	3.75	7.57	1
Strategy Evaluation	3.55	4.02	3

Table 1 illustrates the rank in order to identify the strategic competencies of Bumiputera SME owners. Based on the response, firstly the strategy formulation (M=3.70, SD=5.64) explains that most of the respondents were able to commit to long term business. It clearly shows that, the Bumiputra SME owners agreed that they possessed competency to formulate the strategy. Then, the strategy implementation (M=3.75, SD=7.57) explains that most of the respondents were competent to have high need for achievement. It clearly shows that, the Bumiputra SME owner agreed that they were competent to implement the formulated strategies. Lastly, the strategy evaluation (M=3.55, SD=4.02) explains that most of the respondents lacked competency to utilise and practice the Balance Score Card (BSC) as one of the performance management tools in comparing their actual and expected results. It clearly shows that, the Bumiputra SME owners lack competency in evaluating their organisational performance.

H1: There is a significant relationship between the strategy formulation and strategy implementation among Bumiputra SME owner in Central Malacca District

H2: There is a significant relationship between the strategy implementation and strategy evaluation among Bumiputra SME owner in Central Malacca District

Table 2. The relationship between the strategy formulation with the strategy implementation and the strategy implementation with the strategy evaluation

No	Construct Variables	1	2	3
1	Strategy Formulation	-		
2	Strategy Implementation	.759**	-	
3	Strategy Evaluation		.560**	-

** . Correlation is significant at the 0.01 level (2-tailed).

Table 2 shows that there was a significant relationship between the strategy formulation with the strategy implementation where ($r= 0.759$, $p< 0.01$). So the researchers do accept the H1.

The findings revealed that most of the Bumiputra SME owners who formulated strategies would normally implement them. Besides that, most of the Bumiputra SME owners had the competency in implementing the formulated strategies.

Table 2 shows that there was a significant relationship between the strategy implementation with the strategy evaluation where ($r= 0.560$, $p< 0.01$). So the researchers do accept the H2.

This means, the finding also revealed that, there was a moderate relationship between strategy implementation and strategy evaluation. It represents that the Bumiputra SME owners were discovered to have lesser competence to evaluate their and ensure their implemented strategies achieve their organisational objectives as well as their expected performance.

5. Conclusion

In conclusion, the strategic competencies of Bumiputra in Central Malacca District were measured by the ability to formulate, implement and evaluate the strategies of the firm. Based on the findings, it was discovered that the Bumiputra SME owners had the ability to formulate and implement the strategies. Nonetheless, the findings found that they seem to lack the competence to measure their organisational performance and match it with their desired outcome. Besides that, the significant relationship between strategy formulation with the strategy implementation has given an indication that they can implement the formulated strategies, motivate and lead the employees as well as performing structural adjustment for their business growths. On top of that, the moderate relationship between the strategy implementation and strategy evaluation have shown a sign that they were less competent to measure their implemented strategies and match them with their expected results.

6. Recommendation

Various parties such as the government, the relevant authorities and academics have to play their effective role to equip and facilitate the Bumiputra SME owners with the knowledge of strategic management. Firstly, all this could be gained by registering and participating on strategic management courses to enhance knowledge and expertise of Bumiputra SME to survive in this turbulent business environment. By having this, it will create more opportunities for Bumiputra SME owners to come together to network, to support one another, to collectively address issues that affect their business survival and to lobby their concerns with the relevant authorities. Secondly, the Bumiputra SME owners also should be exposed with the extensive knowledge of strategic management by partnering with the academics to facilitate them in effectively increasing their business performance. The findings revealed that most of the Bumiputra SME owners seem to have lesser ability in strategy evaluation. Therefore, they have to appreciate the functionality and fully exercise the Balance Score Card (BSC), Benchmarking Analysis and Cost Benefit Analysis (CBA) to necessitate them in developing corrective measures as well as to benchmark their performance with other competitors. Finally, it is important to highlight that, these Bumiputra SME owners should take into account the importance of having emergent and deliberate strategy. It is proven in the findings that most of them did not have contingency plan if their business failed to materialise should something beyond their expectation happen.

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