

## CHARACTERISTICS OF SMEs OPERATED BY MALAY ENTREPRENEURS

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*Abstract:* Entrepreneurship development among small and medium-sized enterprises (SMEs) operators is an important component in Malaysian government agenda nowadays. Nevertheless, designing appropriate course of actions for their development is difficult given the lack of pertinent information on the entrepreneurs and the businesses that they venture into. To close some of the research gaps, this study examined the characteristics of SMEs that are operated by Malay entrepreneurs in the state of Pahang. Among the characteristics that were examined include their main business activity, and whether they were involved in more than one business, the types of firm's ownership, their age when they started the business, their education level, their sources of initial capital, the location of their business operations and whether the businesses were operated by a single owner or an entrepreneurial team. The data were gathered through analyzing the statistical data collected from 408 members of Malay Chamber of Commerce (DPMM), Pahang and interviews with 32 entrepreneurs from various sectors. The study found that 27 percent of the entrepreneurs were involved in retailing businesses, followed by contractor businesses 21 percent. The type of main business activity operated varied with district. 49 percent of the entrepreneurs are concentrating on one business activity. 74 percent of the SMEs were registered as sole proprietorship and were operated by entrepreneurial team managers. All respondents have formal education, with 44 percent having STPM/Diploma qualification. Findings from this study can serve as a basis for comparison for researchers who may examine business characteristics of SMEs owned by non-Malay groups in the state of Pahang or any other states in the future.

Keywords: Small medium enterprises (SMEs), Characteristics, Main business activity, Pahang, Entrepreneurs

### INTRODUCTION

Pahang, which has a population of approximately 1.3 million, is the largest state in Peninsular Malaysia; it is located on the east coast with a land area of about 35,960 square km. Among the objectives of the Pahang's State Industrial Development Unit are to support the creation of Bumiputra Commercial and Industrial Community, to widen Pahang's industrial base and diversification of the industrial activities and to increase the contribution of the manufacturing sector to the state. From the statistical report obtained from Malay Chamber of Commerce DPMM Pahang, it shows that Malay entrepreneurs who operated small medium enterprises (SMEs) comprise 48 percent of the total SMEs in Pahang.

A number of researchers have examined the characteristics of small business firms. Among the researchers who conducted such studies include [4] who examined the type of firm's ownership and location of the firm. The geographical distribution of sales and customers is one of the analyses done by [5]. [11] Discussed the entrepreneur's background and the entrepreneurs' decision to start a new venture. While [3] highlighted the motivation of the entrepreneurs to start-up business and problems faced by them in managing their business. The report from [8] suggests that entrepreneurs are motivated by the need for independent-based achievement and continuing family business.

Entrepreneurs' problems also received attention from researchers. Among the researchers include [1], who highlighted the problems faced by Slovak entrepreneurs were related to finances, government, market equipment, infrastructure and labor. Among the finance problems faced by them were high costs of materials, difficulty in collecting debts and obtaining loans and high tax structure. [3] categorized entrepreneurs' problem into three categories: operational, financial and managerial.

Nevertheless, our review of literature revealed that there is a lack of empirical research on the characteristics of firms operated by entrepreneurs in the Malaysian business setting. To fulfill this gap,

this study was carried out to identify the characteristics of Malay entrepreneurs who operated SMEs in the state of Pahang. The characteristics that were examined include main business activity, main business activity according to district, number of business activity operated by one company, type of firm's ownership, location of the business operation, customers' geographical location, sources of initial capital and single manager versus entrepreneurial team managers. The study also examined entrepreneurs profiles, such as age when starting up their business, entrepreneur's current age, level of education, experience in related business sector, years of operating business motivation to start-up business and problems they faced.

Variables such as main business of the firm and geographical location of the customers were adapted from [5]. The study also adapted several variables from [4], which include, age, education level, previous job field, years of experience, type of firm's ownership and location of business operation, and from [11] which include, factors that motivate entrepreneurs to venture into opening own business, such as need for achievement, desire to be independent, need for job satisfaction, and need for money

## MATERIALS AND METHODS

The methodology used includes analyzing secondary data obtained from DPMM Pahang and conducting interviews with selected Malay entrepreneurs operating businesses in the state of Pahang. The information that were obtained from DPMM Pahang database include:

- Main business activity operated by Malay entrepreneurs in Pahang
- Main business activity according to district
- Number of business activities
- Type of firm's ownership (proprietorship, private limited company, corporation and partnership), and
- Current age of entrepreneurs.

The second part of the research involved face-to-face and telephone interviews with 32 Malay entrepreneurs. All interviews were conducted using an interview protocol that has two sections:

- Characteristics of entrepreneurs
  - Level of education
  - Years in operation
  - Sources of initial capital
  - Age when starting their business
  - Years of experience in business and experience in related or unrelated business
  - Geographical distribution of sales and customers
  - Company's performance for the last three years (2000-2003)
  - Single owner versus entrepreneurial team managers
  - Location of business operation (general or industrial area)
- Motivation to start up business and problems faced.

## RESULTS AND DISCUSSION

This section attempts to draw a general characteristics and profile of the Malay Entrepreneurs in Pahang. The findings were summarized in the Appendices.

### *Main Business Activity*

The business activities operated by these entrepreneurs were divided into fifteen sectors, as shown in Table 1. Approximately 27 percent of the entrepreneurs were involved in retailing business, 21 percent in contractor business and 15 percent in food and beverages business. The remaining was involved in other thirteen sectors as listed in Table 1. The concentration of business is different from one district to another. Table 2 and Table 3 summarizes the finding of major business activities according to district. Entrepreneurs in Kuantan, Bentong and Temerloh focus more on contractor business, which consist of 33 percent for Kuantan and Bentong and 35 percent for Temerloh. While retailing business is the major business activities for entrepreneurs in other district except entrepreneurs in Jerantut and Raub

who were involved in food and beverages as their main business activities. Most of the entrepreneurs who were operated contractor business are those whose business location was situated at the big district as compared to other district. Kuantan, Temerloh and Bentong are considered as big district due to a number of industrial areas develop at that district. Pahang Industrial Development Unit also considers these three districts as Industrial Development Corridors. As for the entrepreneurs in Jerantut and Raub the concentration were more on food and beverages due to low risk of business and no technical skills needed in operating this business. In addition there are a lot of places considered as tourism areas where at the same time, it helps to promote food and beverages business. According to the speech given by our Prime Minister at Ekspo Keusahawanan Nasional 2003, Perbadanan Usahawan Nasional Berhad had allocated RM 103 million for two hundred and ninety retailing business projects for SMEs entrepreneurs. It shows that government give full support to the entrepreneurs in this sector.

Table 1: Main Business Activity

No	Business Sector	Freq	Percent
1	Contractor	85	20.83
2	Engineering works	16	3.92
3	Services	33	8.09
4	Professional consultancy	7	1.72
5	Cosmetics, saloon and pharmaceutical products	15	3.68
6	Retailing	108	26.47
7	Electrical and electronics	7	1.72
8	Agricultural products	11	2.70
9	Food and beverages	62	15.20
10	Transportation	28	6.86
11	Insurance	6	1.47
12	Gas and petroleum	5	1.23
13	Packaging, labelling and printing	8	1.96
14	Furniture and wood	6	1.47
15	Stationary	11	2.70
	Total	408	100.00

Table 2: Main Business Activity According To District

No	Business Sector	Bentong		Bera		Jengka		Jerantut		Kuantan		Kuala Lipis	
		Freq	Percent	Freq	Percent	Freq	Percent	Freq	Percent	Freq	Percent	Freq	Percent
1	Contractor	1	33.33	0	0.00	0	0.00	3	10.34	53	33.33	1	16.67
2	Engineering works	0	0.00	0	0.00	0	0.00	0	0.00	8	4.60	0	0.00
3	Services	0	0.00	0	0.00	1	12.50	2	6.90	13	10.34	1	16.67
4	Professional consultancy	0	0.00	0	0.00	0	0.00	0	0.00	7	4.02	0	0.00
5	Cosmetics, saloon and pharmaceutical products	0	0.00	0	0.00	2	25.00	1	3.45	6	3.45	0	0.00
6	Retailing	1	33.33	1	100.00	3	37.50	9	31.03	29	16.67	4	66.67
7	Electrical and electronics	0	0.00	0	0.00	0	0.00	0	0.00	1	0.57	0	0.00
8	Agricultural products	0	0.00	0	0.00	0	0.00	1	3.45	3	1.72	0	0.00
9	Food and beverages	0	0.00	0	0.00	1	12.50	10	34.48	14	8.05	0	0.00
10	Transportation	0	0.00	0	0.00	0	0.00	1	3.45	1	6.32	0	0.00
11	Insurance	0	0.00	0	0.00	0	0.00	0	0.00	5	2.87	0	0.00
12	Gas and petroleum	1	33.33	0	0.00	0	0.00	0	0.00	2	1.15	0	0.00
13	Packaging, labelling and printing	0	0.00	0	0.00	1	12.50	0	0.00	7	4.02	0	0.00
14	Furniture and wood	0	0.00	0	0.00	0	0.00	0	0.00	1	0.57	0	0.00
15	Stationary	0	0.00	0	0.00	0	0.00	2	6.90	4	2.30	0	0.00
	Total	3	100	1	100	8	100	29	100	174	100	6	100

Table 3 : Main Business Activity According To District

No	Business Sector	Maran		Muadzam Shah		Pekan		Raub		Rompin		Temerloh	
		Freq	Percent	Freq	Percent	Freq	Percent	Freq	Percent	Freq	Percent	Freq	Percent
1	Contractor	2	33.33	6	6.90	1	8.33	3	10.00	2	6.90	8	34.78
2	Engineering works	0	0.00	2	2.30	1	8.33	2	6.67	3	10.34	0	0.00
3	Services	0	0.00	5	5.75	2	16.67	3	10.00	0	0.00	1	4.35
4	Professional consultancy	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
5	Cosmetics, saloon and pharmaceutical products	0	0.00	5	5.75	0	0.00	0	0.00	0	0.00	1	4.35
6	Retailing	3	50.00	32	36.78	3	25.00	5	16.67	14	48.28	4	17.39
7	Electrical and electronics	0	0.00	2	2.30	0	0.00	1	3.33	1	3.45	2	8.70
8	Agricultural products	0	0.00	3	3.45	0	0.00	3	10.00	0	0.00	1	4.35
9	Food and beverages	1	16.67	17	19.54	2	16.67	8	26.67	6	20.69	3	13.04
10	Transportation	0	0.00	9	10.34	1	8.33	4	13.33	2	6.90	0	0.00
11	Insurance	0	0.00	1	1.15								
12	Gas and petroleum	0	0.00	0	0.00	1	8.33	0	0.00	1	3.45	0	0.00
13	Packaging, labelling and printing	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
14	Furniture and wood	0	0.00	2	2.30	0	0.00	1	3.33	0	0.00	2	8.70
15	Stationary	0	0.00	3	3.45	1	8.33					1	4.35
	Total	6	100	87	100	12	100	30	100	29	100	23	100

#### *Number of Business Activities*

49 percent of the entrepreneurs were involved in one type of business activity. 32 percent were involved in two types of business activities, while 13 percent conducted three business activities. 5 percent were operated four types of business activities and only 1 percent [6] were involved in between five to seven types of business activities.

#### *Type of Firm's Ownership*

74 percent of the entrepreneurs were registered as sole proprietorships. This finding is the same as found by [10] where 80 percent of the enterprises in South Pacific were incorporated as sole proprietorships. However this finding was contradicted with those found by [3] and [4], where [3] highlights that most of the high technology entrepreneurs was registered as private limited companies in Malaysia. [4] found that the predominant form of ownership for United States of America and Korea was a corporation.

#### *Current Age Of Entrepreneurs*

More than one quarter (35 percent) of the entrepreneurs is at the age of 41 to 50 years old whereas 33 percent of them are at the age of 31 to 40 years old. 15 percent is at the age of 21 to 30 and 51 to 60 years old. Only 2 percent [7] is at the age of 61 to 70 years old.

#### *Educational Background*

All of the respondents interviewed have formal education. 44 percent of them have STPM/Diploma qualification. The others had gone through degree, secondary and primary level of education, which are 22 percent [7], 28 percent [9] and 6 percent [2] respectively.

#### *Years In Operation Of The Current Business*

59 percent had been in operation before year 1995. 19 percent [6] starts operation in year 1998 to 2000. While only 13 percent [4] and 9 percent [3] start their present business in year 2001 to 2003 and 1996 to 1997 respectively.

### *Sources Of Initial Capital*

Three quarter of the respondents (75 percent) derived their initial capital from personal savings. Some of them, 16 percent [5] borrowed from family members. The findings were consistent with those found by [6], which summarized that the sources of capital are mainly derived from personal savings and borrowings from family members. This finding was also supported with finding from [10] where 60 percent of the enterprises were started with funds provided solely by their owner.

### *Entrepreneur Age, When Starting Up The Business*

59 percent start venture into business at the age between 21-30 years old. 19 percent [6] of them venture into business at the age between 31 to 40 years old, while 16 percent [5] at the age less than 20 years old and 6 percent [2] at the age more than forty years old.

### *Number Of Years Involved In Business And Experience In Related Or Unrelated Business*

31 percent [10] were involved in business activities for 11 to 15 years, while 28 percent [9] were involved for 6 to 10 years, 19 percent [6] for 3 to 5 years and more than 16 years. 83 percent have an experience in the related business sector that they venture into.

### *Geographical Distribution Of Sales And Customers*

69 percent informed that their customers are from both inside and outside state of Pahang whereas 28 percent [9] focusing in Pahang alone and 3 percent [1] concentrating outside Pahang.

### *Company's Performance For The Last Three Years (year 2000-2003)*

Respondents were interviewed on their company's performance in terms of profit for the last three years. 69 percent revealed that their company's profit is increasing, 28 percent [9] said it is stagnant and 3 percent [1] informed that it is decreasing.

### *Single Manager Versus Entrepreneurial Teams Managers*

81 percent of the business activities were conducted in entrepreneurial team managers, which validate [2] findings that show several studies reported the same issue.

### *Location of Business Operation*

94 percent of the entrepreneurs interviewed operated their business in locations other than industrial areas. This finding is consistent with the finding found by [4], where majority of United States of America and Korea entrepreneurs located their business in a general location.

### *Motivation Factors To Start-up a Business*

The factors were rank in order of importance which are interest in doing business (50 percent), need for achievement (18 percent), continue family business (16 percent), did not get suitable job or lost of previous job due to economic situation (6 percent) and others such as pension, encouragement from government etc (10 percent). Previous researchers [11] found that need for achievement, desire to be independent, need for job satisfaction, economic necessity and need for money are the factors to start up business. In addition [8] found that need for independent based achievement and continuing family business were the factors for entrepreneurs in China.

### *Problems Faced By Entrepreneurs*

More than half (54 percent) of the responses were related to finance, mainly on getting payment from the customers and difficulty in obtaining loans. Other problems are difficulty in getting customers, difficulty in operating business and difficulty in managing business. This finding is the same as finding from [1] who found that the main problem faced by entrepreneurs in Slovak due to financing (high prices of materials and supplies, difficulty in collecting debts, difficulty in obtaining loans etc).

From the above findings, majority of them are operating only one business activity due to their related experience and their skills in that business sector. This is in line with the speech given by our Prime Minister during Ekspo Keusahawanan Nasional 2003. He advised that Malay entrepreneurs should focus on one main business activity in order to be successful entrepreneurs. They have to avoid become 'jack of all trades, master of none'.

83 percent of the entrepreneurs claimed that they have an experience in the related field and 50 percent were operated business for more than eleven years. Due to this reason 69 percent of them said that their business is still increasing for the last three years even though the economics is not encouraging. Furthermore, the researchers found that the customers of these SMEs were not only from the state of Pahang but also from outside Pahang, which help them to increase their sales where they do not have to depend on one market area.

As a conclusion, Malay entrepreneurs in Pahang do have the potential to be successful entrepreneurs. Besides focusing on main business activity, they have to produce quality products in order to satisfy their customers need. They have to be competitive in order to venture into AFTA market where it is the fourth biggest market in the world after United States of America, Europe and Japan. Further they need to upgrade their knowledge in order to compete in globalization business. DPMM can also play an active role as a mediator for entrepreneurs to get the latest information on entrepreneur's development. At the same time they can develop a good team-work among entrepreneurs in order to help them. There are some limitations in the findings due to the sample used in this study is limited to Malay Entrepreneurs registered with DPMM only. Perhaps future research can be carried out to cover all Malay entrepreneurs operated SMEs in Malaysia. Future research should examine the strengths and weaknesses of Malay entrepreneurs who operated SMEs.

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