



## **Factors Affecting the Success of Bumiputera Entrepreneurs in Small and Medium Enterprises (SMEs) in Malaysia**

Che Mohd Zulkifli Che Omar, Nurdiana Mohd Nor Azmi

Faculty of Management and Economic Sultan Idris Education University, Tanjong Malim, Perak, Malaysia

Email (corresponding author): mohd.zulkifli@fpe.upsi.edu.my

**Abstract:** Bumiputera entrepreneurs often said to be left behind in achieving success in the economic development. This study was conducted to identify factors that influence success of Bumiputera entrepreneurs in small and medium enterprises (SMEs) in Malaysia and the factors leading Bumiputera entrepreneurs involved in business. In the era of globalization, SMEs represent an important industry in the development of the national economy. SMEs create employment opportunities for the rural and urban communities and increase national income. Among the key factors that influence the success of Bumiputera entrepreneurs in small and medium enterprises in Malaysia include weaknesses in management, failures in marketing, and difficulties in obtaining financial assistance. Some of the challenges faced by Bumiputera entrepreneurs, small and medium enterprises (SME) are their limited participation in the international market, the shortage of skilled workers, a problem to market the product in the supermarket and the lack of raw materials. Therefore, Bumiputera entrepreneurs must deal with these issues in order not to go bankrupt.

**Keywords:** Entrepreneurs, Bumiputera, Small and Medium Enterprises, SMEs, Entrepreneurial challenges

### **1. Introduction**

Entrepreneur is a risk taker that pursues a career in business. Entrepreneurs not only creates a career for him/herself, but also creates jobs for others. Successful entrepreneurs are able to increase per capita income of the local community and increase national income. Therefore, entrepreneurs are individuals who gather resources and create something new and different and add value through constructive ideas with the aim of increasing the wealth of individuals and develop them for the prosperity of society. Some scholars in entrepreneurship also provide their definition of a similar perspective. For example, Greene (2000), defines entrepreneurs as people who run their own businesses while Nor Aini Idris (2003) and Wim Naude (2010) consider the entrepreneurs as a group of businessmen and traders who are willing to take risks, always striving for innovation. They are smart and creative in getting how to increase wealth, power and social status. In Malaysia, Small and Medium Enterprises (SMEs) is among the most important sectors that contribute greatly to the economic growth of the country. The sector makes a big contribution to the national income. Therefore, the government should focus on attracting the indigenous communities to participate in SME sector. There are several agencies that assist Bumiputera entrepreneurs to come into business and become entrepreneurs in Malaysia. These include Majlis Amanah Rakyat (MARA), SME Bank, Perbadanan Nasional Berhad (PNS), Tabung Ekonomi Usaha Niaga (TEKUN), Bank Rakyat, Bank Pembangunan and UDA Holdings Bhd.

Viewed from the perspective of the problems, according to a study by Khairunnisa Mardzuki, Zaimah Darawi, Mohd Radzuan Rahid (2012), the indigenous rural community is often considered marginalized and lags behind in all aspects compared to the other groups. Hence, the Malaysians should take the initiative to make changes and drastic transformation of all aspects, especially, in terms of thinking and mentality to become entrepreneurs to enhance the strength and stability of the economy for a healthy competition with other nations and not to be left behind in the country's journey towards being high income country by 2020.

### **New SME Definition**

There is a new definition to SMEs in Malaysia now. According to the official website of SME Corporation of Malaysia from January 1, 2014, more firms can be titled as SMEs when the new SME definition is effective. SME definition has been simplified as follows:

1. Manufacturing: Firms whose sales turnover doesn't exceed RM50 million or full-time employees 200 workers;
2. Services and other sectors: Firms whose sales turnover doesn't exceed RM20 million or full-time employees 75 workers.

A business will be deemed as an SME if it meets either one of the two specified criteria. Details of the new definition are as follows:

- Microenterprises across all sectors: Sales turnover of less than RM 300, 000 or less than 5 full-time employees;
- The table below shows the definition of small and medium categories based on the respective sectors.

**Table 1: SME classification in Malaysia**

<b>Category</b>	<b>Small</b>	<b>Medium</b>
Manufacturing	Sales turnover from RM300, 000 to less than RM15 million or full-time employees from 5 to less than 75.	Sales turnover from RM15 million to not exceeding RM50 million or full-time employees from 75 to not exceeding 200.
Services and other sectors	Sales turnover from RM300, 000 to less than RM3 million or full-time employees from 5 to less than 30.	Sales turnover from RM3 million to not exceeding RM20 million or full-time employees from 30 to not exceeding 75.

*Source: Official website of SME Corp 2015*

## **2. Literature Review**

According to a study by Suraiya Ishak et.al, (2012), successful entrepreneurs are those who are able to pass the most difficult situations in their business life cycle. These entrepreneurs find a transition point (turning point), which is the beginning of a success phase in their business. Model of Suraiya Isyak et.al, (2012), is a sub-model described by Grenier (1972) which operates in all growth phases. It refers to any phase in which Grenier stated. At the end of each level, there is a growth crisis the firm faces and requires completion before moving to the next phase of growth. The ability to solve problems in each stage enables businesses to reach turning point that leads to the survival and the ability to step into the next phase of growth. The ability to solve problems in each stage enables businesses to reach turning point that leads to the survival and the ability to step into the next phase of growth. Reviews Suraiya Ishak et.al, (2012), concluded that the pursuit of the turning point is a challenging phase because at this point there is a range of problems (challenges) that must be dealt with efficiently and effectively and these all take some time. The study of the growth of small firms by Gill et al. (2010) has shown the importance of the ability of the owners (entrepreneurs) in driving the growth of small firms. Their study found that the lack of skills and skills in managing conflict in family-business as factors that hinder the growth of small firms in Canada. There are many factors that can affect the success of Bumiputera entrepreneurs in SME sector in Malaysia. According to Ibrahim Mamat (2009), the goal is a major determinant of the birth of the positive attitude of successful entrepreneurs. Norashidah Hashim et.al, (2009) also have expressed that many entrepreneurs have family backgrounds who are involved in the same business. Moreover, all successful entrepreneurs have the skills and knowledge of the business, acquired either formally or through work experience before becoming an entrepreneur. Therefore, the knowledge acquired through family inheritance allows

each entrepreneur to have an attitude study hard in promoting themselves with the knowledge and skills needed in business. Moreover, findings by the Buerah Tunggak et.al, (2011) illustrate that knowledge and entrepreneurial management skills are major weaknesses of Bumiputera SME entrepreneurs. Poor financial management is performed. Bumiputera entrepreneurs are split between private ownership of business entities that are willing to spend and entities using cash and merchandise for personal and family purpose without keeping accounting records. Sazelin Arif (2009) also found that one of the weaknesses among small business marketing of halal food in the center of Malacca is the lack of guidance and sharing of ideas because of a lack of cooperation networks among entrepreneurs. A study by Mohd Nor Hidayad Hambali (2011) asserts that all the government aid such as finance and credit, training and development, advisory and consultancy services, marketing and business opportunities as well as support infrastructure are there provided to help improve the success of Bumiputera entrepreneurs. The findings by Siti Nor Wardatulaina Mohd Yusof (2011) showed that support for entrepreneurship and government policies relating to the “angel investors” and the availability of risk capital, financial resources, government support for entrepreneurship all are correlated with entrepreneurial success in Malaysia.

### **Factors that influence the success of Bumiputera entrepreneurs in SMEs – Weaknesses in management**

Most of Bumiputera entrepreneurs failed in doing business due to the weakness in management. With poor management, they are not able to survive and cannot afford to be greater even though they have been long in the business. The main cause of business failure is also due to a less effective performance management functions, particularly with regard to decision-making. Management is a science to be learned over time. However, there are some ethnic Malays who feel that if they had been trained to make something in a sense that people who are able to produce goods can take care of the business. It can work in certain areas, those areas which don't require knowledge to manage the business.

#### **Failed in marketing**

Weakness in marketing has also become a major factor Bumiputera entrepreneurs failure in business. They do not know to distinguish a real target market; they treat everyone as the target customer. In addition, they are also not able to meet the requirements of customers, causing customers to shift direction toward other traders. Most businesses do not perform activities of planning and market research. Decisions to meet the needs of customers are usually made by Bumiputera entrepreneurs themselves without getting return information from the market.

#### **Financial problems**

Bumiputera entrepreneurs often face problems related to finance and accounting. They are weak in dealing with stock control; control and financial records are incomplete. Some of them also do not have the financial records. This causes an organization to go bankrupt. In addition to the issue, Bumiputera also fail to provide funds to entrepreneurs. This led to businesses facing a serious financial crisis. Actually, commercial banks do not trust to lend money to them. In addition, SMEs often face a lack of liquid capital in cash to pay salaries, rent, water and electricity, suppliers or creditors, and other daily business expenses. Inability to cover everyday business expenses and creditors worsen the image of SMEs and complicate business operations.

#### **Difficulties in financial assistance**

Bumiputera entrepreneurs encounter difficulties to get financial support from the institutions or financial agencies. Financial agencies do not provide assistance to small entrepreneurs because they assume that parties cannot afford to expand the business. If aid is given, the agency believes that Malay SME entrepreneurs cannot repay the loan. Financial assistance is not given to them to cause because of the problems they face like low labor quality, non-appealing size and position of a firm, machinery and raw materials of poor quality as well as low production quality.

#### **Limited participation of Bumiputera SME entrepreneurs in international markets**

Market aspects of small and medium enterprises at the international level have to be challenged for the advancement of the industry. Space or scope of the market is limited due to the products features, particularly in perishable food

industry. This problem is also due to the raw materials that cannot be saved because of their short life. The industrial market is being localized and it is hard to penetrate globalized market because of the lack of advertising and promotion. Unlike large companies, SMEs cannot afford to cover the costs of marketing at the international level. Most large companies are able to provide a high budget for advertising. Environmental problems are affecting the international companies to choose their suppliers. According to Fierro et al. (2009), SMEs must take into account the dynamic global market as a significant business opportunity rather than a threat. Thus, local Bumiputera entrepreneurs should ensure that products being marketed are environmentally friendly and are produced based on green technology in order to compete well.

### **Lack of skilled workers**

One of the challenges faced by the SME sector is also lack of skilled labor. Normally, SMEs are handled by workers with inferior education. Most SMEs are facing recruitment problems because they are not able to offer salaries and conditions of service, unable to provide a complete employee training schemes. At this point, large firms offer better employment conditions, thus, leaving SMEs workers who are less educated and low-skilled to handle business operations. Lack of knowledge, skills, training and employee commitment directly affects SME sector.

### **Problems to market the product**

Bumiputera entrepreneurs are also experiencing challenges to market products in local supermarkets. Production of similar products complicated listing the products by the supermarkets because of the limited display space. Therefore, Bumiputera entrepreneurs should not focus on the range of products for the future, but, get specialized in producing one specific product with high quality in order to be the best in the market and beat the competition. There are also moments when some products cannot be sold within a period of time in the supermarkets. In addition, the entrepreneur fails to deliver products that meet the total orders and time set by the supermarkets.

### **Shortage of raw materials**

Small and medium enterprises mostly rely on imported raw materials as a source of production. However, raw material resources are prone to decrease in the future and this may lead Bumiputera SMEs to fail to expand their businesses. In fact, the increase in raw material prices will also bring the same complexities. Increased prices of raw materials make SMEs increase the price of their marketed products which eventually cause a lack of demand in the market. For example, the batik industry affected when the world market price of white cloth soared.

## **4. Discussion and recommendations**

### **Increase knowledge and skills in business**

If Bumiputera SME entrepreneurs in Malaysia want to succeed in business, they need to develop an encouraging attitude of studying business. Bumiputera entrepreneurs have to prepare themselves with knowledge highly relevant to the economics and finance as well as management in order to compete well in the market. According to Suhaila Nadzri et al. (2014), they also need to enrich their relevant marketing knowledge by attending seminars and programs being organized by accountable government agencies. By attending the seminars, Malay traders can get information about the business opportunities around them.

### **Increase the types of help and support from government**

Help and support that is already available through the relevant agencies should be continued and improvements should be made in line with the government's aim to develop the economy of Malay SMEs. Majlis Amanah Rakyat (MARA) is proposed to increase Entrepreneurship Training Programs, Market Development Program and others. Policies and procedures to obtain a loan must also be simplified in order to attract more Bumiputera entrepreneurs in the field of small and medium-sized industrial companies. This can prevent Bumiputera entrepreneurs borrowing from unlicensed parties.

## **The issue of skilled workers**

Malay SME traders in the business who face problems should consult and discuss the problems with parties who are skilled as TEKUN and MARA. Talking to a person who specializes in business can help Bumiputera entrepreneurs to solve their problems and indirectly reduces future risks to be faced. Advice and counseling from the skilled personnel also enables entrepreneurs to create a basic business in the future. Advice and proper guidance make Bumiputera entrepreneurs improve knowledge and skills, thus, make them more competitive in a challenging business environment.

## **5. Conclusion**

In conclusion, all parties must work together to assist Bumiputera entrepreneurs in addressing their problems in the field of small and medium enterprises (SMEs) in order for their businesses to compete in the market. Critical success factors Bumiputera entrepreneurs of SMEs should be identified. Based on the recommendations made, the financial problems faced by them can be overcome. In addition, the government and the private sector should provide training opportunities and skills to improve Bumiputera entrepreneurs' knowledge and skills. Entrepreneurs should intensify efforts to develop the business, be more creative and gain a lot of confidence. They also need to get rid of shyness to ask the people who are skilled so that the Malays grow in business and develop with the help of, particularly, small and medium enterprises.

## **References**

- Azmi Abdul Manaf, Nik Hairi Omar & Lee, Kuan Yee (2012). Critical success factors of entrepreneurs Retrieved from <http://journalarticle.ukm.my/5020/1/azmi012.pdf>. At 2.5.2015
- Buerah Tunggak, Hussin Salamon & Baharin Abu (2011). Training and long life learning for Islamic entrepreneur Jurnal Teknologi, 55 (Sains Sosial). Halaman 121-144
- Fierro, J.C., Carrasco, R.V., & Centeno, E. (2009). The challenges of internationalising national culture-based hand-crafted products. *Marketing Intelligence & Planning*, Vol. 27 No. 7, pp. 900-908
- Greene (2000). The Power of Entrepreneurial Vision Vocational Education, *Educational Journal*. 64 (8), 28-29.
- Hasnah Ali, Norhafizah & Sanep Ahmad (2010). Case Study: Factors influencing entrepreneurs success Retrieved from <http://www.ukm.my/fep/perkem/pdf/perkemV/PERKEM2010-2-15.pdf>. At 2.5.2015
- [http://www.kpdnkk.gov.my/kpdnkkv3/index.php?option=com\\_content&view=article&id=216&Itemid=303&lang=my](http://www.kpdnkk.gov.my/kpdnkkv3/index.php?option=com_content&view=article&id=216&Itemid=303&lang=my)
- <http://www.smecorp.gov.my/vn2/?language=ms>
- Ibrahim Mamat (2009). Entrepreneur and malay competitive in industry in service sector Kuala Lumpur: Dewan Bahasa Dan Pustaka
- Ishak Yussof, Khairunnisa Mardzuki, Zaimah Darawi & Mohd Shukri Hajinoor (2011). Entrepreneurs success factors Retrieved from <http://www.ukm.my/fep/perkem/pdf/perkemVI/PERKEM2011-2-4D1.pdf>. At 1.5.2015
- Mohd Nor Hidayat Hambali (2011). Government aid for Malaysia SMEs Undergraduate thesis Malaysia technology University
- Norashidah Hashim, Norasmah Othman, Noraishah Buang (2009). Case Study: Entrepreneurial awarenesss in Malaysia. *Jurnal Pendidikan Malaysia*, 34(1), 187-203.
- Nor Aini Idris (2003). Women entrepreneur competitiveness globally Proceeding Persidangan Kebangsaan, 7-22
- Sazelin Arif (2009). Marketing strategy for Halal food. MALIM Bil.10.
- Siti Nor Wardatulaina Mohd Yusof (2011). Success factors in Entrepreneurship: The Case Study of Malaysia, Pilot Research Work .Phd Thesis, Department D'Economia De L'Empresa, Universitat Autònoma de Barcelona
- Suhaila Nadzri, Suhaily Md Shamsudin & Muhammad Firdaus Muhammad Sabri (2014). Factors influencing success dan faili for Malaysia SMEs Retrieved from <http://www.kuis.edu.my/comm2014/eceedings/C021%20FAKTOR%20FAKTOR%20PENYUMBANG%2>

0KEPADA%20KEJAYAAN%20DAN%20KEGAGALAN%20PERUSAHAAN%20KECIL%20DAN%20SE  
DERHANA%20BUMIPUTERA%20MALAYSIA.pdf. At 1.5.2015

- Suraiya Ishak, Abdullah Sanusi Othman, Amal Hayati Ishak & Mohd Fauzi Mohd Jani (2012). Case Study:: Business strategy. Retrieved from [http://www.ukm.my/fep/perkem/pdf/perkemVII/PKEM2012\\_3B3.pdf](http://www.ukm.my/fep/perkem/pdf/perkemVII/PKEM2012_3B3.pdf). At 2.5.2015.
- Suraiya Ishak, Ahmad Rafli Che Omar & Amal Hayati Ishak (2009). Economic development Journal Pengurusan Jawhar. Vol. 3(2): 165-183.
- Suraiya Ishak, Ahmad Rafli Che Omar & Azhar Ahmad (2012). Tales of the survivors: the Bumiputera entrepreneur's' experience. Asian Social Science. Vol. 8(3); 25-33.
- Wim Naude (2010). Promoting entrepreneurship in developing countries: policy challenges. World Institute for Development Economics Research of the United Nations University (UNU-WIDER) Policy Brief, 4, 1-8.