Introduction to SMEs in Malaysia: Growth Potential and Branding Strategy

Tock Jing Mi* and Rohaizat Baharun**

There was very little study about the growing SMEs industry in Malaysia previously, neither a standard definition nor the growth potential that small medium enterprises have. Many of the previous studies have focused on the degree of issues and challenges faced by SMEs and to a lesser extent on the maximum growth potential that SMEs in this country has. Different nations have utilized diversified strategic tools and resources that they have to fit into a particular concept or situation. Taking into account the growth potential in the area that one country has, strategies implemented would be different. Japan is famous for its technological advances in motors; America has borne out successful inventors to create machines to ease people's lives and China is now the biggest manufacturing market that most of the products are made there. Malaysia has dissimilar potential as well. Too much was engrossed on standardization than branding adaption or mainly strategies being implemented among the businesses. Hence, this paper will reveal the general idea about SME, the growth potential that this country has and to use and take it to higher levels of efficiency by instigating the right branding strategy. Getting started in Malaysia is just half the battle of an entrepreneurship, the latter of becoming bigger and better will come eventually.

Field Of Research: Management

1. Introduction

Small medium businesses are growing tremendously in the international context yet have so far received only scant attention especially in Malaysia. Main considerations are given unto the larger organizations predominantly known as multinational companies (MNC). They are acknowledged and recognized for superiority in terms of better branding as compared to SMEs branding. According to a case study done by Fauziah and Baharun (2010) the recent 9th Malaysian Plan shows that even though there are commercial establishments in SME category, the brands are still struggling in the global arena. Branding was rarely being studied among small businesses (Ahonen M., 2008). Today, brand represents reputation, status and the experience promised to give to be it upper level, middle income or lower income customers in the society. Looking at the possible great future that Malaysia has towards SMEs, branding should be the central notion of attention. Hence, progressing plans towards the elevation of entrepreneurship is vital to boost economic growth and development of a nation.

Hence, this study aims to fill this gap by examining the importance of branding in the development of SMEs in Malaysia and its brand dimension that affects the performance of a company. To address this objective, the rest of this paper is therefore organized as follows. This review paper begins by analyzing the literature of how far branding has grown in Malaysia. The considerations on the establishment of

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SMEs have leads to focus on the potential growth in Malaysia. The literature on branding strategy among SMEs in stated in the next section and followed by branding dimension model discussion. Based on the reviews, a conceptual model of branding dimension in affecting performance of marketing strategy among SMEs is proposed. Subsequently, the data collection, the method used and the results are described. Finally, the study has been summarised and limitations and directions for future research on branding for SMEs is highlighted.

2. Literature Review

2.1 Establishment of Small Medium Sized Enterprises in Malaysia

The existence definition of small medium businesses in Malaysia ten years ago can be near zero. Previously, there was neither a standard classification as to what small and medium enterprises (SMEs) were nor an accepted universal concept of SMEs. There is almost an absence of unanimity on the definition itself (Gibb, 1993; Curran & Blackburn, 2001) as every nation describes SME in a different way. Malaysia in fact has adopted a common definition to expedite the various sectors even though there is no conjunction meaning of SME. In industrialized countries such as European Union, SMEs are the companies that employ less than 500 employees (Eyre & Smallman, 1998). According to the National Development Council, NSDC (2005) in Malaysia, as long as a company meets the principles of the annual sales turnover and number of employees it should be categorized as microenterprise, small or medium sized enterprises shown in Table 1. These standards apply to all sectors such as agriculture, manufacturing and services.

Table 1: Categorization of SMEs 2012

<table>
<thead>
<tr>
<th>Category</th>
<th>Microenterprises</th>
<th>Small</th>
<th>Medium</th>
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<tbody>
<tr>
<td>Manufacturing, Manufacturing related service and Agro-based industries</td>
<td>Sales turnover of less than RM250, 000 or full time employees less than 5.</td>
<td>Sales turnover between RM250, 000 and RM10 million or full time employees between 5 and 50.</td>
<td>Sales turnover between RM10 million an RM25 million or full time employees between 51 and 150.</td>
</tr>
<tr>
<td>Services, Primary Agriculture and Information and Communication Technology (ICT)</td>
<td>Sales turnover of less than RM200, 000 or full time employees less than 5.</td>
<td>Sales turnover between RM200, 000 and RM1 million or full time employees between 5 and 19.</td>
<td>Sales turnover between RM1 million an RM5 million or full time employees between 20 and 50.</td>
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The entire market of SMEs comprises mainly on services sector up to 90% of the total establishments shown in Table 2. The concentration in the services sector in fact has increased each year.. Services sector includes distributive trade sub-sector (wholesale & retail trade services), including repair of motor vehicles and motorcycles, food and beverages services, transportation and storages services, private services such as beauty and spa center, lodging, health and also education. In 2011, the two additional
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sectors included were construction and mining and quarrying. This sector registered the highest average annual income associated with stone quarrying business.

There are many supporting organizations in Malaysia which have specific roles in safeguarding the execution of programs targeted at developing SMEs and connecting Malaysian SMEs with large, local or foreign owned corporations (Hashim & Wafa, 2002; Mori, 2005; Zizah et al., 2010). The biggest supporting organization players of SMEs in Malaysia are Ministry of International Trade and Industry (MITI) to help and protect Malaysian interest in the international trade arena and spurring the development of industrial activities. Malaysian Industrial Development Association (MIDA) incorporated under Malaysian Investment Development Authority Act is the government's principal agency for the promotion of the manufacturing and services sectors in Malaysia ensuring economic transformed to better. Other supporting government agency is the Small and Medium Industries Development Corporation (SMIDEC) which responsible to expand skilled and resilient Malaysian SMEs to be able to compete globally. MATTRADE (Malaysia External Trade Development Corporation) has mission to promote Malaysia’s and helps many local companies to carve new edges in global markets.

<table>
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<tr>
<th>Sector</th>
<th>Total SME</th>
<th>Total SME (%)</th>
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<tbody>
<tr>
<td>Manufacturing</td>
<td>37,861</td>
<td>5.9</td>
</tr>
<tr>
<td>Services</td>
<td>580,985</td>
<td>90.1</td>
</tr>
<tr>
<td>Agriculture</td>
<td>6,708</td>
<td>1.0</td>
</tr>
<tr>
<td>Construction</td>
<td>19,283</td>
<td>3.0</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>299</td>
<td>0.05</td>
</tr>
<tr>
<td>Total</td>
<td>645,136</td>
<td>100</td>
</tr>
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</table>

Source: Economic / SMEs Census 2011 by Department of Statistics, Malaysia

2.2 The Growth Potential of Small Medium Businesses

Small Medium Enterprises contribute large growth potential in many countries. SMEs provide employment (de Kok et al., 2011), labour force and contribute mainly on the export of manufacturing goods and GDP. All are based on the consequence of business efforts of SMEs (Saeed, 2005). According to SMIDEC (2012), 94% of companies in the manufacturing sector are SMEs contributing 32% to GDP and employ 56% of the workforce (excluding the Government) which makes up nearly 20% of Malaysia’s total export (Rosli, 2012). SMEs in Malaysia remained steady and strong despite the challenging year.

As a multi-ethnic and polyglot country, Malaysia has major advantages of being political stable with first-class physical infrastructure (The NST, 2006). It is competitive in attracting direct foreign investments and is among the world’s top 20 trading nations (FMM Directory, 2005). In the recent few years, the very rapid change has happened in the states of Johor Bahru especially under Iskandar Developments. Penang, a small island in Malaysia has grown tremendously in such a short term after recent initiatives by the state government to encourage the growth of local entrepreneurship and SMEs are beginning to show results (Penang Monthly, 2012).

SMEs are considered to be a key driver of economic growth especially for many developing countries and comprise over 90% of all businesses globally (Ariyo 2000;
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Krake, 2005; Tang et al., 2007; Maurel, 2009). Growth has been used as a modest measure of success and performance in business and as Delmar et al. (2003) also insinuate that it is an appropriate indicator for surviving small medium businesses. Many evidences portray that, through encouragement and promotion of entrepreneurship, countries such as China and Singapore have achieved economic transformation to a giant productivity market. SMEs contribute to economic growth (van Stel, Carree & Thurik, 2005), innovation (Baumol, 2005; Wong, Ho, & Autio, 2005; Acs & Armington, 2006; Schramm, 2006; Audretsch, 2007), enhanced productivity due to increased competition (Nickell, Nicolitisas & Dryden, 1997), and leveraging of knowledge spill over effects (Audretsch & Keilbach, 2005) especially to emerging markets such as Brazil and Mexico (Rangamohan V. Eunni, 2010). SME’s great potential as the engine of the economic growth could be seen as well both in the East and in the West like Germany and Japan (Samad, 2007). Bradley and O’Reagain (2001) stated that small businesses could internationalize to seek rapid growth. The fact that Malaysia Government has paid so much attention to the SME demonstrates its importance as well. This can be justified in which government has reserved financial assistance stated in Budget 2012 to help boost the progression of SMEs activities. SMEs generate employment, help diversify economic activities and make significant contributions to exports and trade (Ahmad, 2011).

2.3 Branding Strategy among Small Medium Enterprises

In the last decades, the term “branding” is widely used among companies and customers. Branding has become a manipulating factor of every tangible and intangible thing on earth. Even people need to be branded in order to climb the ladder in a corporate world by building networks, connections and getting noticed by the society. Same goes to a tangible product, brand is a way of differentiating products or services from others and making the products attractive to customers and because of its ethereal characteristics, different people find different ways to make sense of it (de Chernatony, 1999). Companies may achieve competitive advantage through acts of innovation and innovation can be in the form of new product design, new production process or new marketing approach (Foon, 2006; Zulkifli Muhammad et al., 2010).

According to Krake (2005) and Muyimba (2009), branding is a comparatively fresh topic among small medium businesses. Even though brand management is properly debated in research and publications of journals among multinational companies, SMEs are discarded as an isolated unit. Big and small organizations have crystal clear differences in marketing methods (Abimbola & Vallaster, 2007). Moreover, former researchers has disclosed that the utmost frequently stated difficulties by management of SMEs are marketing complications typically involving inadequate funds, aptitude, and expertise. In publicizing SMEs intensely emphasis on goods and price, use of flyers and are mainly focused on sales neglecting the importance of branding and of not a significance matter (Krake, 2005; Bunnett & Smith, 2002; Hill & Wright, 2001). The proprietor of the small business plays a vital part in structuring and handling a brand management (Boyle, 2003), explicitly the eccentric of the entrepreneur or in particular in modern day’s term called leadership branding. They should first consider themselves as the major source of branding. In other words, they are part of their brands (Fauziah et al., 2012).

Realizing the importance of branding, SMEs need to strengthen branding to better position themselves and actively distribute its products if a recognized brand is
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established (Zulkifli Muhammad et al., 2010). The brand personifies the perceived value of the propositions contrasted with the rivals of the same industries. It is the image that a company wants to depict to the customers, stakeholders, employees and to the public across the world, the personality and soul of a company by which employees are hired to how customers perceive the organization, company’s viewpoint to reason, view, interrelate and serve consumer. It considered customers’ experience with the company as the primary predecessor to the conception of brand meaning (Berry, 2000).

A very collective word used in the corporate society today is strategy. Nevertheless, it is one of the most badly used or misused expression in terms of its definition. It often creates confusion and misperceptions as a consequence of failure by businesses to appropriately use and understand the meaning. Strategy refers to means, approaches, and plans and not ends. Strategy is a never ending story to a company. Different companies can apply different strategies in order to climb the highest profit. Every company walks towards one objective which is to be successful. Basically, it debates about in what way businesses can attain its indicated goals. Strategic gears are the many components that lead the path or direction in order to achieve its objectives. Any operational strategic tool allows a company to concentrate its uncommon or inadequate resource on the utmost prospect so that sales increase and reach a sustainable competitive advantage. Multinational companies are good at objective settings and implementing various strategies to achieve its objective of becoming more well-known by advertising and forms of persuasive marketing than non-international (Stopford & Wells, 1972; P.P Ekerete, 2001).

Branding is often an essentially new concept for people in small and medium sized enterprises (Inskip, 2004). The notion of a brand can be traced back to product marketing where the role of branding and brand management has been mainly to construct differentiation and preference for a product or service in the mind of the consumer (Knox & Bickerton, 2003). Branding is more than just giving a name to the product, it encompasses the entire idea of putting emotional appeals, embodies a whole set of physical and social psychological attributes and beliefs as well.

2.4 Branding Dimensions Model

Despite the government encouragements, SMEs in Malaysia are still seen reluctant in their branding efforts, partly due to lack of appropriate guidance and knowledge (Fauziah et al., 2012). It is not surprising as marketing strategy for SME been regarded as a difficult issue for more than two decades, yet theoretical development in this field is rather limited (Simpson et al., 2005). Often, smaller businesses rely on classical models meant for bigger players (Chaston & Mangles, 2002). Branding and marketing of SMEs in Malaysia is facing the same predicament of an inappropriate guideline to brand. Moreover, existing models are limited and are mostly based on advanced nations neglecting entrepreneurs from developing country. Previous study has indicated that Malaysia faces many domestic and external challenges which hinder their competitiveness in which strategies are needed to assist the businesses in venturing new markets, increasing profits and expanding customer bases. Rohaizat et al. (2004) raised the issue of management difficulties among Malaysia SMEs where pricing and brand competition becomes major problem. The insufficiency of empirical research in SME marketing especially in branding area must be addressed accordingly to assist entrepreneurs as well as policy makers in assessing the branding dynamics of
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SME businesses. The findings are critical in formulating appropriate branding strategies to strengthen SMEs’ performance in the economy.

2.4.1 Culture

The entrepreneur plays a crucial role in the SME and exerts considerable influence on the structure and culture of a company (Krake 2005). For instance, entrepreneurship is defined as a company’s culture of growing wealth through innovation (Nasution et al., 2011). An organizational culture reinforces the building of strong brands as a fundamental strategic objective, all organization members must collaborate to achieve this goal and internalize the importance of the brand (Punjasiri et al., 2009). To develop a strong brand, culture, management systems and working processes are greatly needed (Vijande et al., 2012). Brand’s meaning to customers derives mainly from their experiences with the organization and the employees that deliver the service (Brodie, Whittome, & Brush, 2009; Dall’Olmo Riley & de Chernatony, 2000). According to Ekerete (2001), culture affects brand comprehension.

Several studies found that culture (Lau, 1996; Chu & Katsioloudes, 2001; Chong, 2012), may play a role in entrepreneurial behaviors. For instance, different cultures may be dissimilar when making decisions. Berthon et al. (2008) indicated that some aspects of organizational culture impact the way in which brands are managed. It is also supported by Ojasalo et al. (2008) in which a coherent culture in an organization will support the branding strategy. In addition, organizational culture theorists also support a positive relationship between brand management and performance of a company. Organizations that are able to successfully transform and adapt their goods and branding to local tastes depend profoundly on their census. It is the only alternative to avoid inflated errors that could destruct the opportunities for success in the future.

2.4.2 Income

Income is another important factor for a company before implementing or adapting to any strategy. The last thing a firm wishes to be at is where it faces lack of money resources. Both incomes have to be considered whether in terms of cost of the company or the targeted people’s income level. In a study conducted by Pasanen (2003), in smaller business proprietors’ model, the owner-managers’ main concern is whether the company is providing them with benefit associated with income. The cause of a business failure is due to lack of strategic planning where cost of the business is increasing but no income (Pasanen, 2003). The demand potential for certain product is based on the customer’s monetary circumstances and a company’s cost structure is also depending on the income conditions (Theodosiou & Katsikeas, 2001).

2.4.3 Conceptual Framework

Applying large firm models in the context of small companies have been criticized (Gilmore, Carson and Grant 2001). Therefore, it is important to build models especially for smaller organizations. Berthon, Ewing and Napoli (2008) found that there were some differences between the branding executions of large organizations as compared to SMEs. Therefore, based on the literature study on culture and income, branding strategy execution hence is affected by the two variables as shown in Figure 2.
Over the years, marketing researchers and consultants have continued to develop the field of brand management and designate the relevant applications, values and ideas that companies should practice. Keller (2003) developed Brand Report Card (BRC) to measure branding practice. BRC consolidates varying areas of branding management practice (BMP). Napoli et al. (2005) represented Keller's elements of BMP which includes benefits delivery, relevancy, pricing, positioning, consistency, logical, integrated, commitment, support and monitoring. As BRC is a general assessment of brand management practice, few researchers felt that SME branding requires certain guidelines to match its small setting and its specific nature (Napoli et al, 2005; Krake, 2005; Keller, 2003; Abimbola, 2005). Hence, based on the study on branding, Napoli et al. (2005) highlighted the importance of brand benefits, brand relevancy, brand consistency, brand portfolio and hierarchy, brand equity, brand meaning and brand support and sustainability as shown in Figure 3.
However, the study indicated a major gap where key antecedents to and consequences of SMEs branding practice should be explored. Previous studies did not address a single holistic framework and lack of model fit assessment. Thus, this study has ascertained the antecedents of SME branding and its implications through discussion and reviews of existing literature and the explanation for theoretical foundation related to the proposed SME branding dimensions. The framework addresses the gaps in order to contribute to the body of knowledge in SME branding field.

In order to mature the competences within a company to create effective strategic marketing strategies, an organization requires the capacity to realize the altering dimensions of the branding in the market it drives and the influence this has on its competitive advantage. The dimensions of branding must be able to challenge customary thinking and cultivate an advanced culture through learning and information management for sustainable advantage in the market. Yet again, small medium business or any organizations should have the capability to review strategic marketing verdicts and measure strategic decisions. Marketing and brand managers control to improve marketing strategies to position the brand and to upsurge brand equity.
Figure 4 shows the entire model of branding dimension model in affecting marketing performance of SME. The conceptual framework has been modified and improved based on the gaps found in the previous studies where key antecedents to and consequences of branding is explored as a single holistic framework. It is useful to identify how branding management practices of SME differ across culture and whether this leads to desirable performance outcomes (Napoli et al, 2005). Hence, it is important for researchers and practitioners to recognize how small and medium enterprises (SMEs) successfully perform and what factors positively lead to better performance than competitors (Ndubisi and Iftikhar, 2012). Marketing performance determines the success of a company whereas income and culture are determinants of branding strategy Small medium businesses which focused on brand are competent to attain a distinct performance gain over competitors by for all intents and purposes getting back to the ‘branding basics’: which is, understanding consumers’ wants, efficiently connecting the brand’s distinctiveness to inside and outside of a company and building a clear brand architecture. According to Keller (1999) and Park et al (1986) such actions are well illustrated in the literature as essential for building and managing brand equity in the long run.
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3. Methodology

Data is collected using two instruments combining qualitative and quantitative technique, also known as mixed model method. According to Johnson, Onwuegbuzie and Turner (2007), mixed methods research is for the broad purpose of breadth and depth of understanding and justification. Mixed method allows researchers to be more “more flexible, integrative, and holistic in their investigative techniques, as they strive to address a range of complex research questions that arise” (Powell et al., 2008). The qualitative approach is applied to gain more insights about the topic area. In this case, experts in SME industry are greatly needed. In depth interview is done among the experts to further understand the topic area regarding branding dimensions in SMEs. The strength in qualitative research for this study indicates only a surface level of understanding for the topic area. The development and more specific questions to be asked will be in the quantitative phase and that the methods often offset each other in complimentary ways (Bahl & Milne, 2006).

Quantitative research is then used to test specific variables based on precise measurements using structured and validated data collection. This method is able to narrow the study and tests a specific hypothesis, cause and effect and make predictions and is measured and finalized through statistical report with correlations, comparisons of means, and statistical significance of findings. To summarize, sequential exploratory is used in this study and it is most often conducted when qualitative data are used as initial exploration tests for new insights and instrumental developing. Quantitative method is used as a major technique to address the research questionnaires in more detail (Botti et al., 2009) in the second phase where questionnaires are sent to 384 SMEs owners in Johor Bahru. Structural equation modeling also known as (SEM) is used to assess the relationship between the construct. SEM has been used for a long time (Wright, 1921; Joreskog & Sorbom, 1976). Recently, it is a widely used statistical tool in social science research (Babin & Svensson, 2012). The usage of SEM has increased even more since the 1990s (Hershberger, 2003) due to scholarly literature providing easy to follow guides for usage (Hair et al., 2006).

4. Findings

Based on the reviews of the literature, income and culture have positive relationship with branding dimension. The financial status or income affects the branding implementation (Pasanen, 2003) because costs are needed to succeed a branding strategy that moves the performance of the company. Organizational culture is believed to be the central factor of brand management related activities and is likely to have a positive support to the performance of marketing strategy (Lee et al., 2008).

This study generates the results of a single holistic framework which was not done before in any other studies previously. The outcomes of adopting effective branding dimension model shown in Figure 4 will lead to measurable enhancements in companies’ performance especially among under-researched small and medium sized enterprises area (Napoli et al., 2005; Berthon et al., 2008) The present study executing mixed method (qualitative and quantitative) research provides insights to understand the key antecedents (income and culture of a company) to branding dimensions and consequences (performance of marketing strategy) of SMEs branding dimension.


5. Summary and Conclusions

As mentioned, previous studies of SME branding are still at its infancy and mostly are qualitative or quantitative in nature. Empirical evidence for better generalization is absent in this term. The research on application of advanced analysis technique of SEM to assess model fit generally is at lack. This proposed model is modified in this study where it is tested using mixed method technique which is comprehensive in explaining the key antecedents and consequences of branding practice dimension especially for smaller companies in developing countries. However, it has certain limitations where the data is collected in one city and the findings should not be generalized beyond Johor Bahru city. Secondly, the target respondents are entrepreneurs from service industry which may not be indicative of other industries such as manufacturing and food and beverage.

Moreover, traditional branding theories are mostly meant for large organizations and disregard the entrepreneurship elements in SMEs (Krake 2005; Wong & Merrillees, 2005; Napoli et al., 2005; Boyle, 2003; Abimbola, 2001). Branding is profoundly an imperative determinant to affect marketing strategy of a company. It is not only a consideration that large companies should take but also small medium businesses because SME could profit from these advantages. Branding deals with marketing philosophies and practices which are highly relevant and integral to the performance of large, medium and small companies including SMEs (Roll, 2006; Keller, 2003; Randal, 1997; Aaker, 1991). SME have also yet to adapt precise branding strategy and is an essentially new concept for entrepreneurs in Malaysia. Hence there is a lot to learn for SMEs in branding matters. Marketing of SMEs may differ from marketing of multinational companies similarly branding issues of SMEs may also vary from branding issues of large companies. However, there is so much to learn for SMEs in branding terms, dimensions of strategies and how to make precise decisions to improve the business performance which requires more studies.

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