



The Background and Challenges Faced by the Small Medium Enterprises. A Human Resource Development Perspective

Siti Sarah bt. Omar

University Tun Hussein Onn Malaysia, MALAYSIA

E-mail: sarah@uthm.edu.my

Lawrence Arokiasamy

University Tunku Abdul Rahman, MALAYSIA

E-mail: lawrence@utar.edu.my

Maimunah Ismail

University Putra Malaysia, MALAYSIA

E-mail: mismail@educ.upm.my

Abstract

In the recent years, a number of emerging issues are posing serious challenges to the small and medium sized enterprises (SME's) in Malaysia. Hence, these enterprises enter the new era, dramatic challenges begun such as establishing new enterprises, globalization, financial constraints, high turnover, low motivation among employees, lack of human capital building, and more challenges ahead. Thus understanding the problems and challenges are fundamental solutions to expand and strategize SME's to future progress and grows. Therefore this article examines the background and challenges face by SME's which play a vital role in the nation growth. The uniqueness of this paper is the emphasis on the human resource development perspective which is important for SME's to progress and be competitive. Finally, this article maps out how future research can be more sensitive to how SME's actually develop their own human resource development for future development.

Keywords: Training and development, Small medium sized enterprises, Human resource development

1. Introduction

The increasing demand of the SMEs is the recognized feature of most nations. In Malaysia, this norm is no exception. In order for vision 2020 to be fully developed and become an industrialized nation by the year 2020, the future progress seems to depend greatly upon development of SMEs. In the year 2020, the country will develop to become an industrialize nation by capitalizing on the country's strengths and able to overcome weaknesses.

In response to the drastic changes, SMEs play an important role in developing country to a higher level. According to Schlogl (2004), he stated that small and medium-sized firms dominate our economies in terms of employment and number of companies, yet their full potential remains remarkably untapped. Although there is a broad assumption stating that SMEs generally has positive effects on country economic growth, the notion of economic imperatives for SMEs remains largely untested. Hence, this paper attempts to look into the background challenges faced by the SMEs.

This paper begins by defining the Small and Medium Enterprises (SMEs) and the background of SMEs in Malaysia. It then explores the roles of the SMEs in the economic development and challenges faced. The discussion leads to consideration on the importance of Human Resource Development (HRD) taking into account the SMEs. The final section concludes the importance of SMEs in economic development.

2. Research Objective and Significance of the Study

The objective of the study was to show that there are important for the SMEs to implement the HRD. This HRD is main tool to develop the SMEs in Malaysia. The significance of the study is to add value to the body of knowledge on human resource development and practice. Specifically for practice, the findings of this study would enlighten the significance HRD in the SMEs in Malaysia since the country's tremendous progress in economy has made it highly dependent on the manufacturing industry.

From the theoretical this study aims to extend existing knowledge of the HRD with specific reference to the newly expanded component in the manufacturing which is SMEs. Most of the HRD studies were involving universities, multinational companies, private firms, government agencies and larger businesses. Therefore, the present study addressed the above argument in an effort to increase our understanding of HRD in SMEs in Malaysia.

2.1 Definition of Small and Medium Sized Enterprises (SMEs)

There is no accepted worldwide definition of SMEs (Hooi, 2006). In Malaysia, the definitions are solely based on a fixed quantitative measure; for instance the total number of workers, the total number of capital, total assets and lately by determining sales turnover (Hashim and Abdullah, 2000). According to the Third Industrial Master Plan (2006), SMEs in the manufacturing sector are defined as 'enterprises with full time employees not exceeding 150 or annual sales turnover not exceeding RM25 million whereas SMEs in the services and primary agriculture sectors and ICT are enterprises with full time employees not exceeding 50 or annual sales turnover not exceeding RM5 million'. These SMEs are further categorized into medium-sized companies, small enterprises and micro-enterprises, as indicated in Table 1 (see appendix).

2.2 Background of SMEs in Malaysia

It is reported by the Malaysian Department of Statistics as in 2003, there were 523,132 total establishments in Malaysia which SMEs accounted the most for the total of 99.2% (518,996). While only 0.8 percent remaining were occupied by large companies. SMEs comprise of three key economic sectors namely manufacturing, services and agriculture. Micro establishments constitute the largest number with more than three quarters out of the total SMEs formations. They are primarily represented in the services and agriculture sectors with the proportions for 80.4 and 93.3 percent respectively. Small companies make up to 18.4 percent and medium companies 2.2 per cent. The manufacturing sector also displayed the same pattern nevertheless the percentage of micro firms was lower (55.3 percent), while small firms accounted to 39.5 percent (Normah, 2007).

According to Khairuddin (2000), SMEs in Malaysia may be categorized into three components; (1) general business, (2) manufacturing and (3) agricultures. The general business sector includes construction, wholesaling and retailing, transport and storage, business services and activities, and providing services such as hotel and restaurant. The main activities in the manufacturing sector consist of processing and production of raw materials. Meanwhile the agriculture sector includes rubber, oil palm, paddy, coconuts, fruits, and vegetables. From the three components; the manufacturing sector emerged as the most important component for SMEs in Malaysia. Below are descriptions of the three components in detail.

(i) Manufacturing Sector

In the manufacturing sector, the largest number consists of micro-enterprises (53.4 per cent) followed by small sized category (38.1 per cent) and lastly medium sized category (5 per cent). In terms of distribution by industry, SMEs were mainly in the textiles and apparel and resource based industries. The detailed of manufacturing sub sector and number of establishments is indicated in Table 2.

In regards to geographical location, Saleh and Ndubisi (2006) found that a vast number of manufacturing companies in Malaysia was located in the West Coast of Malaysia which is the industrialized location which is equipped with ports services. They found that Johor has the largest concentration of manufacturing companies such as textiles and apparel and wood based industries with 17.5 percent, followed by Selangor (16.7 percent), Perak (9.4 percent) and Pulau Pinang (8.7 percent). Johor led of the country due to the accessibility of cheap labour and logging activities there.

(ii) General business

In the general business or service sector, about 449,004 out of total establishments were SMEs which constituted to 99.4 percent. In the sector, 69.3 percent of SMEs were in the distributive trade (wholesale, retail and restaurants), followed by transportation and communication (6.2 percent), financial intermediaries (4.3 percent) and professional services (2.5 percent). Table 3 shows the detail of establishments by this sub-sector.

Saleh and Ndubisi (2006) mentioned the list of activities for the transportation and communication sub-sector services were logistics and freight forwarding services, storage and warehousing, road haulage, sea and inland transport, highway operations, courier services, public bus transport, car parking services.

Meanwhile, the professional sub-sector service is defined under the Malaysian Standard Industrial Classification as (1) Non-technical related: legal, accounting, business and management consultancy, advertising and (2) Technical related: architectural, engineering, surveying and other technical activities.

(iii) Agriculture Sector

In the agriculture sector, out of 32,397 active companies, 99.2 percent were SMEs. Based on the SMEs total establishments, 65.8 percent were in the planting, market plantation and horticulture, followed by fisheries (20.9 percent), poultry farming (6.9 percent) and agricultural and animal husbandry services (4.8 percent). Table 4 indicates the detailed number of firms and proportions.

Normah (2007) mentioned the concentration of SMEs in the states has a close relationship with the dominant economic activities. In Kedah where agriculture is the main stay of the economy, the number of SMEs were the largest with the total of 8,803 (27.4 percent) followed by the east coast states with 26.6 percent.

2.3 Impact of SMEs on Malaysian Economy

SMEs play a vital role in the development of Malaysian economy. Their contributions resulted big impacts to the economy as a whole. SMEs are also important traders and service providers to primary industries. Furthermore, a large number of SMEs are also producers of finished goods and services. Collectively, these SMEs contributed to the growth of manufacturing, services and agriculture sectors, as well as ICT services, in terms of output, value-added, employment and exports (Industrial Malaysia Plan, 2006). Additionally, Hashim and Wafa (2002) also mentioned that SMEs offer employment opportunities, initiate improvement, accelerate competition and support big companies.

Recent evidence shows that SMEs contribute to 32 percent to gross domestic product, 56.4 percent to employment opportunities and 19 percent to export (SMIDEC, 2008). Specifically, Table 5 below indicates the total output and value added by sector namely manufacturing, services and agriculture.

According to the table above, in terms of share contribution SMEs accounted to 43.5 percent of total output and 47.3 percent of value added. It is noted that SMEs in services sector contributed the largest share, 56.7 percent and 54.7 percent respectively. SMEs in the manufacturing sector saw a 34.9 percent contribution in output and 37.1 percent in value added.

While Table 6 indicates the contributions of SMEs in terms of total manufacturing output, manufacturing value-added and employment in manufacturing from 2002 to 2003. The output of SMEs have grown by 9.7 percent during 2003, value added production increased by 11.8 percent and employment by 3.7 percent.

2.4 Challenges

The Small and Medium Enterprises has special features as to compare with the larger organizations. SMEs must consider the motivations, constraints and uncertainties facing smaller firms and recognize that these factors differ from those facing larger firms. According to Westhead and Storey (1996) noted the characteristics which distinguishes small organizations from larger ones other than size itself is that of uncertainty. For the small organization external uncertainty has affected the most such as lack of power and influence in a market place, larger customer and vulnerability. Therefore, the SMEs seem unpredictable and ruthless market. Therefore, uncertainties have become a major problem in the small organizations.

In the current development, changes in the environment such as globalization, political, social, economic and technological occurred surrounding the organizations. The changes in environment pose a challenge to the SMEs, which limits their abilities to maintain their position against larger organizations. According Snell and Lau (1994) found that more management competencies are required for growth in small organization compared to larger organizations. In this situation, small organization failed to develop skills, knowledge and competencies among workers in the small organization. This is mainly because of financial constraints and insufficient training. According to Gupta and Cawthon (1996) argued that small organization especially managers required the most training. Therefore, training is an essential tool for developing employees and the organizations.

The small organization receives major challenges from larger firms, whose command of resources and global reach can be significant. Some great innovations have come from SMEs, particularly in technological fields, but these often owe much to larger firms. These features are becoming a trend for many entrepreneurs is seizing their opportunities. Small firms receive more information such as global market accessible, tax, regulatory frameworks, trade rules, and other legal and advisory services. Helping them to gain access to finance is also important. By receiving all information, small firms prefer to join with larger organizations. Financing is frequently becoming a major hurdle to overcome the way to setting up and staying in business, with access to risk capital.

According to Hill and Stewart (2000), on a case study research into human resource development within three SMEs firms, investigated employers attitudes towards learning, examined the link between career structures and training in organizations of all sizes. Evidence from this study found that small organization lacked of career structure which did not guarantee promotion and training. Therefore, small firms have difficulties to progress and compete with larger firms whereby the employees have low motivation to perform. This is a major hurdle that small firms faced especially in the developing countries.

In today's firms are very much exposed to market pressure, SMEs are frequently at a disadvantage relative to their larger counterparts regarding their abilities to attract, retain, and motivate the best human resources (Beaver and Hutchings, 2005). Consequences of this practice, the SMEs are unable to attract and retain highly qualified staff in the firms. These have led for poor performance and eventually the small sized firms were unable to be competitive in the market.

According to Schlogl (2004) small sized firms failed to improve the basic infrastructure like expanding broadband and secure servers. These factors have impacts on the small sized firms to turn to e-business approach. One of the main reasons is cost. In addition, the SMEs frequently cannot afford or find qualified e-business staff to operate the business. These major impediments for smaller firms simply lengthen the usual problems relating to trust, traction security and, crucially concerns about violations of intellectual property rights. Therefore, HRD is the solutions for training the staff to be more equipped with knowledge and skills on handling e-business.

3. The Human Resource Development (HRD) perspective

Recent studies of SMEs have witnessed a major contribution to the developing economics. From the HRD point of view, SMEs need to improve in order to be competitive in the market and to continue their survival. According to Harrison (1997) argued that HRD literature is now strategically focused and well integrated with fields of human resource management, business strategy and organizational learning. A number of dimensions of HRD initiations are investment in human resource capabilities, change in both organizational and individual concern on enhancing the core competencies, organizational and individual learning, and enhancement of human resource competencies.

According to Harrison (1997), HRD is essential for organizational strategy, external labour market strategies, changes in internal labour market needs and the value system within an organization. Much of the literature appears to be positing that investment in employees will enhance learning and performance. However, the small firms facing difficulties cater appropriate system in the organization due to financial constraint. If the SMEs can overcome this hurdles therefore small firm also can be outperform. HRD is generally preoccupied with activity and it is proven that there is a causal link between human resource development investment and organizational and business performance.

From the HRD perspective, it encompasses activities that improve the performance of individuals and the organizations. The central notion is that HRD may include training and development, organizational development and career development. Training involves the fostering of learning and education activities designed to improve the overall competence of an employee. Therefore at its most basic, HRD increases workforce competence, skills development and quality, motivation, commitment and development of the organization. According McLagan, (1989) argued that HRD strategic has linked training and development to organizational objectives and able to respond to the changes in the environment and technology. Therefore, HRD strategic is a tool for developing the firms and long term survival. However, the only consent that the SMEs worried are the costs, poor strategic planning and lack of managerial support.

According to Rigg and Trehan (2002) argued that HRD in small organizations took a discourse perspective on organizational, learning and development. A qualitative approach is used to identify the three elements. The finding showed that HRD practices were misconstrued in SMEs. In today's organization learning and development go well beyond the individual who attended the course and formal HRD investment is undermined by organization processes that prevented learning. Therefore, formal HRD activity alone can give a highly distorted perspective. Moreover, the HRD within SMEs indicates a need for research that enables the HRD in action for small firm development.

HRD is equally central for both small and large companies. However, HRD in small organization failed to realize the importance for organizational learning. According to Essi Saru (2007) argued HRD and organizational learning issues form the perspective of small firms. In this study, it argued that learning is about developing the organization or its individual, and therefore it is closely connected to the HRD processes. As understood from this description, HRD issues are very important for the sake of the survival of the small firms. Competencies and learning in organizations are ways to overcome some of the problems and HRD are the solutions provider for the firms.

4. Conclusion

This article has set a context and rationale for research into human resource development within SMEs. Our discussion focused on the background and challenges of SMEs and the importance of human resource development. Based on the study, we have described human resource development is fundamental for small sized firms to develop.

In conclusion, the HRD activities are essential for SMEs for long term survival. HRD activities such as training and development, career planning, self-directed learning, employee motivation have led towards a better performance, higher creativity and innovation, retaining, staff, better service, equality and enrich human capital. It is believed that small firms should put in place, strategies to enhance knowledge, skills, and expertise. In terms of HRD, these have led to better performance and encouraged individual for higher commitment to the organizational performance. In today's HRD, it is important for all sized organization and with no exceptional for small firms as well. (Hill and Stewart, 2000).

This study provides insights into definition, background and roles of SMEs, challenges faced by the SMEs and the view from the HRD perspective. In today's society, organizations have begun to consider HRD as a component towards their survival. It is not because of legal requirement but also for the reason of preparing the organizations in the long run domestically and internationally. HRD will allow small firms to gain a competitive advantage and this will lead to better performance.

References

- Beaver, G., & Hutchings, K. (2005). Training and developing an age diverse workforce in SMEs: The need for a strategic approach. *Education & Training*, Vol. 47, No. 8/9, pp.592.
- Census of Establishments and Enterprises. (2005). Preliminary Report – Profile of Small and Medium Enterprises. Putrajaya.
- Department of Statistics. (2003). Census of Manufacturing Industries. Putrajaya
- Gupta, M., & Cawthon, G. (1996). Managerial implication of flexible manufacturing for small/medium enterprises. *The International Journal of Technological Innovation, Entrepreneurships and Technology Development*, Vol. 16, No. 2, pp. 77-83.
- Harrison, R. (1997). Employee Development, Institute of Personnel and development, London.
- Hashim, M.K. and Abdullah, M.S. (2000c). Developing SMEs taxonomies in Malaysia. *Malaysian Management Journal*, June/Dec, 4(1), pp.43-50.
- Hashim, M.K. and Wafa, S.A. (2002). Small and medium sized enterprises in Malaysia: Development issues (Petaling Jaya: Prentice Hall).
- Hill, R. and Stewart, J. (2000). Human resource development in small organizations. *Journal of European Industrial Training*, Vol. 24, Nos 2/3/4, pp.105-17.
- Hooi, L.W. (2006). Implementing e-HRM: The readiness of SME manufacturing company in Malaysia. *Asia Pacific Business Review*, Vol.12, No.4, 465-485.
- Khairuddin, H. (2000). Redefining SMEs in Malaysia: One Industry One Definition. *Asian Academy of Management Journal*, Jan–June, 2000.
- McLagan, P. (1989). Models for HRD Practice, ASTD Press, St. Paul, MN.Ministry of International Trade and Industry Malaysia, The Third Industrial Master Plan (IMP3), 2006.
- Normah Mohd Aris. (2007). SMEs: Building Blocks for Economic Growth. Paper presented in National Statistics Conference 4-5 September 2006. Department of Statistics.
- Rigg, C., & Trehan, K. (2002). Do they or don't they? A comparison of traditional and discourse perspective of HRD in SMEs. *Education & Training*, Vol. 44, No. 8/9, pp. 388-397.
- Saleh, A.S. and Ndubisi N.O. (2006). An Evaluation of SME Development in Malaysia. *International Review of Business Research Papers*, Vol. 2, 1, pp. 1-14
- Saru, E. (2007). Organizational learning and HRD: how appropriate are they are for small firms? *Journal of European Industrial Training*, Vol. 31, No. 1, pp. 36-51.
- Schlogl, H. (2004). Small and medium enterprises: Seizing the potential. *Organizational for Economic Cooperation and Development*, No. 243, pp. 46-48.
- SMIDEC. (2008). *Promoting Innovation –led and Technology –Driven SMEs*. Paper presented in Asia Pacific Conference of Technology and Technology Entrepreneurship.
- Snell, R., & Lau, A. (1994). Exploring Local Competencies salient for expanding small businesses. *Journal of Management Development*, Vol. 13, No. 4, pp. 4-15.
- Westhead, P. and Storey, D. (1996). Management training and small firm performance: why is the link so weak? *International Small Business Journal*, Vol. 14, No. 4, pp.13-24.

Table 1. Definitions of SMEs

	Category	Micro-enterprise	Small enterprise	Medium Enterprise
1.	Manufacturing	Annual sales turnover not exceeding RM250, 000 or with full time employees not more than five person.	Annual sales turnover of between RM250, 000 and RM10 million or employing between five and 50 full time employees.	Annual sales turnover of between RM10 million and RM25 million or employing between 51 and 150 workers.
2.	Services, primary agriculture and Information and Communication Technology (ICT)	Annual sales turnover not exceeding RM200, 000 or with full time employees not more than five person.	Annual sales turnover of between RM200, 000 and RM1 million or employing between five and 20 full time employees.	Annual sales turnover of between RM1 million and RM5 million or employing between 20 and 50 workers.

(Source: Third Industrial Master Plan 2006-2020, 2006)

Table 2. Distribution of Small and Medium Enterprises in manufacturing by Sub-Sector

Sub-sector	Total Number of Establishments	SMEs	
		Number	Share (%)
Total	39,219	37,866	100.0
Textile and apparel	8,855	8,779	23.2
Food and beverages	5,804	5,664	15.0
Metals and metals products	4,809	4,686	12.4
Paper, printing and publishing	3,549	3,483	9.2
Furniture	2,352	2,286	6.0
Rubber and plastics products	2,343	2,166	5.7
Wood and wood products	2,149	2,052	5.4
Non-metallic mineral products	1,708	1,650	4.4
Machinery and equipment	1,435	1,390	3.7
Electrical and electronics	1,362	1,077	2.8
Chemicals and chemicals products	1,115	1,047	2.8
Transport equipment	769	699	1.8
General manufacturing	2,969	2,887	7.6

(Source: Census of Establishments and Enterprise, 2005)

Table 3. Distribution of Small and Medium Enterprises in services by Sub-Sector

Sub-sector	Total Number of Establishments	SMEs	
		Number	Share (%)
Total	451,516	449,004	100.0
Wholesale and retail	249,178	248,221	55.3
Restaurants	63,067	63,013	14.0
Transportation and communication	28,231	27,980	6.2
Financial intermediaries	19,291	19,108	4.3
Professional services	11,245	11,120	2.5
Real estate activities	8,847	8,779	2.0
Business and management Consultancy services	8,404	8,352	1.9
Health	7,838	7,759	1.7
Education	7,738	7,618	1.7
Hotel	2,494	2,275	0.5
Computer services	1,182	1,095	0.2
Telecommunications	88	58	Negligible
Selected services	43,913	43,626	9.7

(Source: Census of Establishments and Enterprise, 2005)

Table 4. Distribution of Small and Medium Enterprises in agriculture by Sub-Sector

Sub-sector	Total Number of Establishments	SMEs	
		Number	Share (%)
Total	32,397	32,126	100.0
Planting, market plantation and horticulture	21,333	21,146	65.8
Fisheries	6,701	6,699	20.9
Poultry farming	2,249	2,208	6.9
Agricultural and animal husbandry	1,571	1,558	4.8
Forestry, logging and other related services	283	258	0.8
Mixed agriculture – agricultural and animal husbandry	230	227	0.7
Hunting, trapping and game propagation including related services	30	30	0.1

(Source: Census of Establishments and Enterprise, 2005)

Table 5. Output and value added by Sector, 2003

Sector	Output (RM billion)			Value added (RM billion)		
	Total	SMEs	%	Total	SMEs	%
Manufacturing	549.1	191.6	34.9	128.1	47.5	37.1
Services	361.7	204.9	56.7	187.6	102.7	54.7
Agriculture	20.6	8.7	42.1	9.1	3.6	39.7
Total	931.4	405.2	43.5	324.7	153.7	47.3

(Source: Department of Statistics, 2003)

Table 6. Contribution of SMEs in the Manufacturing Sector

Indicators	Value		Share contributed to manufacturing Sector output (percent)		Annual Growth (percent)
	2003	2002	2003	2002	2003
Total output (RM billion)	68.9	62.8	29.1	29.1	9.7
Value added (RM billion)	14.2	12.7	26.1	25.8	11.8
Employment	375,840	362,345	32.5	31.5	3.7

(Source: Saleh and Ndubisi, 2006)