



## KEY SUCCESS FACTORS FOR MALAYSIAN SMES COMPANIES' ENTREPRENEURIAL LEADER

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### Abstract:

*The SMEs Industry in Malaysia has expanded to almost every sector including manufacturing, services, agriculture, tourism, mining and quarry. Understanding the importance of retaining and expanding more entrepreneurs, this study had investigated success factors of entrepreneurial leaders at SME companies in Malaysia. The objective of this study is to analyze the success factors of entrepreneurs in the Malaysian SMEs. Data has been collected from top 50 SME award winning companies. The study has used the qualitative approach, where interviews are dispersed on these selected companies. We administered some questions based on key characteristics of an entrepreneur, as well some structured questions to determine a successful of a company. The result shows that, entrepreneurs are confident, determine, diligent, flexible, responsive to challenges, responsible, foresight, courageous, aggressive, and committed. Consistent to this, several elements that makes the company successful includes (1) strong financial control, (2) continuous improvement, (3) product quality and product safety as top priority, (4) hard work and team work, and (5) eagerness in taking challenges. These results has deemed that entrepreneurs in many aspects are also leaders that are risk averse and determine, and are eager to work on continuous improvement in a financially strong company.*

### Keywords:

Characteristics of Entrepreneurs, Success of a company, Key success factors, Malaysian SMEs.

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## 1. INTRODUCTION

Being a country rich with resources has led Malaysia into an advanced of business and entrepreneurial progress. The SMEs in Malaysia is the heart of the country's social and economic growth. About 89.3 percent of the SMEs in Malaysia are the manufacturing sectors that started to grow in year 2000. In the SMEs manufacturing sector, production is expected to be worth RM120 billion for a total production in year 2020 (SMIDEC, 2004).

Manufacturing sectors such as textiles, apparel, foods, beverages, metals, and woods produces the largest economic movements towards the development of GDP in Malaysia. The central parts of Malaysia were the most locations that consist of the manufacturing sectors.

In the year 1970s the government of Malaysia has introduced the New Economic Policy in order to ensure a success development of the SMEs. The New economic policy is aimed at improving the life and welfare of the society as well as to restructure the society's economic imbalances. To fulfill the overall development of the SMEs, the government had also captured the second Industrial Master Plan (IMP2) in year 2005, the third Industrial Master Plan (IMP3) from year 2006 until the achievement of the country's vision of 2020 (MITI, 2010). To enhance the growth of the manufacturing sector in the Malaysian SMEs, policies and strategies has been introduced to the Master Plans.

The upbringing of SMEs in Malaysia has been well accepted in contributing to the economic development. In the world of SMEs, entrepreneurs are known to be of important as they are the business masterminds whom are innovative, creative and skilled at selling their business. However, the weaknesses of the SMEs to identify its high potential human assets may lead to turnover and skills stagnant. For these instances, several scholars and sources such as Saleh, A. S., and Ndubisi, N. O. (2006) has highlighted barriers facing the SMEs some of which include financing lacking, low productivity, low managerial capabilities, low access to management and technology, and a heavy regulatory burden. While in the current SMEs streamline, some other major challenges involved loans difficulties; limited adoption of technology; lack of human resources; and competition from MNCs and globalization.

The advancement of technology and the increasing demand from the consumer markets has led to government master plan of leveraging the SMEs skills into introducing them to a wider market that allowed them to participate fairly with other MNCs and private firms in Malaysia. This opportunity created a yearly SMEs competition to list down the top 50 performing SMEs. The top 50s are considered the best performing SMEs in all sectors. Awards are given to these top 50 winners on a yearly competition base. Therefore, with such instances, the uses of the top 50 SMEs are often used by researchers in the study of entrepreneurs. Hence, analyzing and examining of the manufacturing and service sectors in SMEs are amongst the frequent studies adjourned.

In this regards, the primary objectives of this study is to analyses the key success factors for the Malaysian SMEs while discussing the characteristics of an entrepreneurial leader. The chapter starts by reviewing extant literature to identify the success factors of a SMEs in Malaysia, followed by identifying the right characteristics of an entrepreneur in order to discover an entrepreneurial leader.

The chapter ends by determining the relationship between success factors of SMEs with the characteristics of an entrepreneurial leader in the Malaysian SMEs.

### ***A. OBJECTIVES OF THE STUDY***

The primary objective of this study is to analyze the success factors of entrepreneurs in the Malaysian SMEs in the urge to discover their entrepreneurial and leadership traits and skills.

### ***B. SIGNIFICANCE OF THE STUDY***

The study is deemed important and relevant to the field of entrepreneur and human resource development as it is one of the research work that focuses on deliberating the importance of and investigating success factors of an entrepreneurial leaders at SME companies in and across Malaysia.

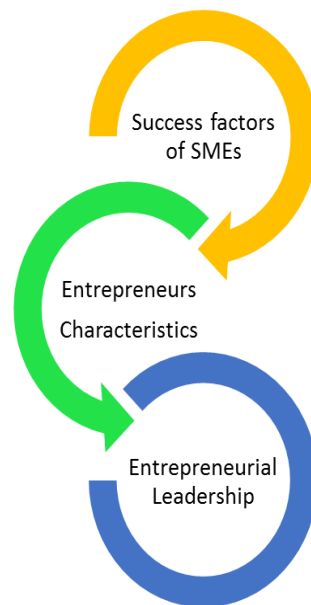
### ***C. HYPOTHESIS OF THE STUDY***

H1: What are the successes factors contributing an SME?

H2: Can entrepreneurs be leaders with its skills of leading?

H3: Does key success SME contribute to entrepreneurial leadership?

### ***Framework***



***Fig. 1:*** Process framework in correlations

## **2. REVIEW OF LITERATURE**

### ***2.1. KEY SUCCESS FACTORS OF SMEs***

The vast developments of the Malaysian economy in almost every sectors since year 2005 has led to the redefinition of SMEs. The developments and growth in factors such as price inflation, structural changes and change in business trends, in July 2013 at the 14th NSDC meeting, the new SME definition was endorsed. The government has clarified that a business will be classified as an SME if it meets either one of the two important criteria, which includes sales

turnover of less than RM300,000 or less than 5 full-time employees whichever is lower (SME Corp, 2013).

Previously, sector such as manufacturing for both agro based and services related constitute sales turnover of less than RM25 million or a full-time employees of less than 150 per SME. Now, the sales turnover for a manufacturing sector must not exceed RM50 million with a full-time employees not exceeding 200 workers. While for Agriculture Services and other sectors including ICT, the sales turnover of less than RM5 million or full-time employees of less than 50 were the previous practice. Currently, the practice is that services and other sectors sales turnover must not exceed RM20 million with a full-time employees not exceeding 75 workers (SME Corp, 2013).

In other parts of the world, a small enterprises or business is sometimes define as having less than 100 employees, is independently owned and operated and is normally one of many competitors in its industry. Some of the common businesses or enterprises includes restaurant, building, manufacturing, retailing, and services. These enterprises often starts at small medium pace to run the organization. The future of small medium enterprises (SMEs) is important as and challenging. The changing of government policies and increasing customer demands has impacted new technology, increasing competition, new taxation regimes such as the goods and services tax (GST), as well as the accessibility of new markets.

Being in a country that practices business of various sectors, The SMEs in Malaysia has accounted a huge proportion of the total number of businesses in many sectors. It had contributed much of its economic share in the shape of the country's GDP. SMEs in Malaysia are also engaged in many other industries. Categorization and classification is very important in order to determine its economic contribution to the country.

Some of the past empirical studies on key success factors of SMEs has been outlined. Storey (1994) focused on the birth, growth and death of small firms in the measurements of key success factors. He also presented the "dos and don'ts" lessons for small and medium firms. Nurul Indarti and Marja Langenberg (2005) has identified components such as characteristics of the entrepreneurs; the characteristics of the SMEs; and the contextual elements of SME development for the business success of SMEs. Below are some of the several works of scholars on factors influencing a firm's success.

**Table 1:** Works on SMEs Success Factors

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- Westhead (1995) studied factors influencing the survival of 227 high-technology small firms.
  - Ghosh and Kwan (1996) made a cross national intersectoral study of the key success factors of 152 SMEs in Singapore and 164 SMEs in Australia.
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  - Kauranen (1996) carried out a follow-up study of 37 new manufacturing firms in Finland and studied the determinants of the future success of the firm in the short
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term and in the long term.

- Yusuf (1995) explored critical success factors for small firms in several industry sectors based on the perceptions of 220 South Pacific entrepreneurs.
  - Wijewardena and Cooray (1996) explored the importance of a set of success factors by studying a sample of 300 small manufacturing firms in Japan.
  - Gadenne (1998) investigated the effect of various management practices on small firm performance by studying 369 small businesses in the retail, service, and manufacturing industry in Australia.
  - Pelham (2000) explored the relationship between market orientation and the performance of manufacturing SMEs in eight industry sectors.
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Understanding that most scholars focus on studying the success factors of a firm just by the firm itself, this study has made the effort to study the relationship of key success factors of Malaysian SMEs together with the characteristics of an entrepreneurs.

## ***2.2.CHARACTERISTICS OF ENTREPRENEURS***

Success in the highly competitive business environments in particular depends on entrepreneurship. Entrepreneurship is a dynamic, risk-taking, creative and growth-oriented behaviour. Entrepreneurship can often be seen in small, medium, large, private, public and or government organisations. Thus, the most important part of an entrepreneurship is the human asset running the organisation whom are called entrepreneur. An entrepreneur is an individual who is risk averse taking action to venture into every open opportunities that other may fail to recognize. An entrepreneur usually starts a new venture or business that bring to life novel products or services.

A successful entrepreneurs are those who took any possible opportunities to start a business even before no business like existed, established for at least five years with at least eight employees (Pelham, 2000). Taking into consideration of the 42 characteristics of an entrepreneurs introduced by Hornaday, J. A. (1982), entrepreneurs are diverse in characteristics and are not only limited to being a businessman. Previous research stated that entrepreneurial success is considered a failure because of the rigid laborious procedures, require technical training to interpret, and focus on the individual's need for achievement. This indicated that success of an organisation plays important role in determining the right characters of its employees namely entrepreneurs.

The study of Entrepreneurs has been described in many approaches in the arena of entrepreneurship (Cunningham and Lischeron, 1991). Several aspects of entrepreneur such as personalities, backgrounds, early experiences (Carland, Hoy, Boulton and Carland, 1984), and traits has also been widely discussed. The behavioral aspects of entrepreneurs has become the central attention of research and has increasingly became the main focus (Ucbasaran, D., Westhead, P., & Wright, M., 2001).

### 3. METHODOLOGY

#### 3.1. DATA COLLECTION

The study has been conducted at selected Malaysian SMEs. While the data were collected from top 50 SME award winning companies. The study has used the qualitative approach to data collection, where interviews are the tools of dispersion to these selected companies. From these top 50 SMEs, a number of 25 companies accepted to be interviewed in a half a day session followed by a tour of their premises. From these 25 selected SMEs only one potential entrepreneur from each SME were to answer the questions. To successfully run this study we administered some questions based on Hornaday, J. A. (1982) 42 characteristics of an entrepreneurs, as well some structured questions to determine a successful of a company.

#### 3.2. QUESTIONS ADMINISTERED

There are two parts of the interview questions that had been administered which includes part 1 introduced by Hornaday, J. A. (1982): *Out of these 42 characteristics please tick (/) any 10 in the box on its right.* And part 2 taken from random scholars: *Please briefly explain what makes your company successful?* These two parts has contributed to the findings of the study.

**Table 2:** Characteristics of Entrepreneurs

1. Confidence	22. Responsibility
2. Perseverance, determination	23. Foresight
3. Energy, diligence	24. Accuracy, thoroughness
4. Resourcefulness	25. Cooperativeness
5. Ability to take calculated risks	26. Profit orientation
6. Dynamism, leadership	27. Ability to learn from mistakes
7. Optimism	28. Sense of power
8. Need to achieve	29. Pleasant personality
9. Versatility; knowledge of product, market, machinery, technology	30. Egotism
10. Creativity	31. Courage
11. Ability to influence others	32. Imagination
12. Ability to get along well with people	33. Perceptiveness
13. Initiative	34. Toleration of ambiguity
14. Flexibility	35. Aggressiveness
15. Intelligence	36. Capacity for enjoyment
16. Orientation to clear goals	37. Efficacy
17. Positive response to challenges	38. Commitment
18. Independence	39. Ability to trust workers
19. Responsiveness to suggestions and criticism	40. Sensitivity to others
20. Time competence, efficiency	41. Honesty, integrity
21. Ability to make decisions quickly	42. Maturity, balance



**Table 3:** Success Factors of an SME

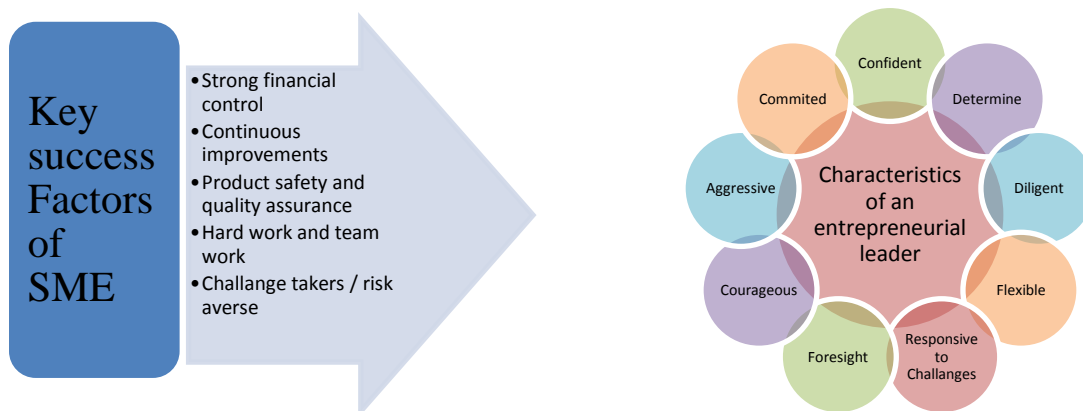
1. We have strong financial control with monthly on-line stock count
2. We focus on continual improvement and set target for each department
3. We make product quality and product safety as our priority
4. Put top priority on quality
5. hard work & team work
6. Willing to take challenge

#### 4. FINDINGS AND ANALYSIS

The result shows that, entrepreneurs are confident, determine, diligent, flexible, responsive to challenges, responsible, foresight, courageous, aggressive, and committed. Consistent to this, several elements that makes the company successful includes (1) strong financial control, (2) continuous improvement, (3) product quality and product safety as top priority, (4) hard work and team work, and (5) eagerness in taking challenges. With this, the study analyzed that entrepreneurs in many aspects are also leaders that are risk averse and determine, and are eager to work on continuous improvement in a financially strong company. From 50 SMEs chosen, only 25 accepted the interview.

Amongst the 25 SMEs, about 20 SMEs were in a strong financial control where much of its liability are able to be liquidated. The stabilization of human assets and other assets also contributed to the establishment of financial control. This has led to constant improvements in all facet of the company's operations. The remaining five (5) companies were focused more on the quality of its product, services and safety. These companies are neither strong nor weak in its financial position. They are rather moving forward to grow with a spirit of team work that are risk averse and are open to challenges.

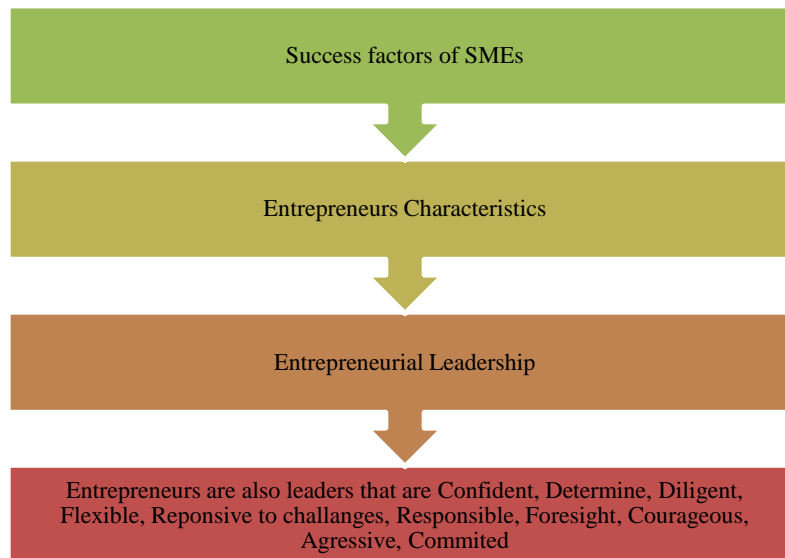
These success factors proved that Entrepreneurs are not just a business person, but are also leaders who met several of the criterions mentioned by Hornaday, J. A. (1982) 42 characteristics of an entrepreneurs. Some of the characteristics of an entrepreneurial leaders that were identified out of the 42 includes confident, determine, diligent, flexible, responsive to challenges, responsible, foresight, courageous, aggressive, and committed.



**Fig. 2:** Success Factors of SME contributed to the identifying an entrepreneurial leaders

The overall results showed that the factors that made company successful also contributed to the intriguing discovery of leadership elements in many entrepreneurs in the Malaysian SMEs. These entrepreneurs in many aspects are also leaders that are risk averse and determine, and are eager to work on continuous improvement in a financially strong company.

The diagram below shows that flow from analysing the key success factors into the discovery of entrepreneurial leaders in the selected top 25 SMEs in Malaysia. The fractions between entrepreneurs that are business person and entrepreneurs that are leaders is showing in greater light in the SMEs industry. In this sense, entrepreneurs are not just a business people, but are also leaders in a much bigger perspectives.



**Fig. 3:** Process flow that link success factors to the creation of Entrepreneurial Leader

## 5. CONCLUSIONS

The study on the 25 SMEs is a small step towards a larger research endeavor of the Malaysian SMEs. The initiative of conducting such research has led to an outcome of understanding the key success factors and the characteristics possessed by business entrepreneurs. With such instances, the study has resulted in a positive link of relationship between success factors of SME with the characteristics of entrepreneurial leaders. This indicates that entrepreneurs are not just a laymen who do business but also are leaders whom possess the criteria to lead and instruct their workers.

On the managerial aspect, this study is hoped to contribute to the management, human resources, entrepreneurs, and operational field. Since there are still limited numbers of studies on the Malaysian SMEs in relation to entrepreneurial leadership, the author believed that the future research will be of great contribution to the country as well as for continuous research.

While managerial aspects revolves around human and organizations, the theoretical aspects of this research revolves around creating relationship between variables. With this, the study has hypothesized that the success factors contributing an SME led to developing an entrepreneurial leaders.



## 6. ACKNOWLEDGMENT

In the urge to discover the key success factors and entrepreneurial leadership among the entrepreneurs in the Malaysian SMEs, the study has been done with utter discrepancy and enthusiasm. The authors therefore would like to thank all parties that are directly and indirectly involved in this research. Thank you to the participating employees for the trust and cooperation during the collection of data and interviews. A million thanks to the Graduate School of Management (GSM) of Multimedia University (MMU) for encouraging participation in journal publications. Finally, a big thanks to the participated SMEs that have opened such opportunity for us to run a research at their organization.

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