

Factors that Prevent SMEs from Growing

Wan Norhayati Wan Ahmad^{*a}, Azharudin Ali^b
^{ab}*Tunku Putri Intan Safinaz School of Accountancy, Universiti Utara Malaysia, Malaysia*

Abstract

Small and Medium Enterprise contributes a lot to developing country such as Malaysia. Therefore SMEs should be allowed to grow as it also help alleviate community economy and reduce poverty. However, the global and domestic records show that many of these small and medium enterprises failed to progress, no business expansion and growth, experienced operational difficulties, governance problems, recorded business losses and financial crisis to the point of having to close a business, go bankrupt or totally collapsed. Considering their importance to the country's economy, any factors that limit or hinder SMEs' growth need to be identified and dealt with. The finding of this study shows that besides the common financial factor; product and equipment innovation, digital knowledge and capacity (that influenced by the human resource, product improvement, equipment and space) are among the top obstacles that limit SMEs from growing. Knowing this, government and its agencies could take some action to resolve some of these obstacles and helps creating more successful SMEs.

Keywords: SME, grow, failure, Malaysia

1. INTRODUCTION

Newly established business entity aims to grow and advance business to the highest level. Just as a small enterprise wants to grow to be a big, sustainable and success business empire. Of course, anyone that forming and running a business, whether it is a micro, small, medium or big enterprise, they intend their endeavours to be successful, profitable and sustainable. However, the global and domestic records show that many of these small and medium enterprises failed to sustain. They have failed to progress, no business expansion and growth, experienced operational difficulties, governance problems, recorded business losses and financial crisis to the point of having to close a business, go bankrupt or totally collapsed.

In Malaysia small and medium-sized enterprises (SMEs) are defined as a private entity (basically must be registered with The Companies Commission of Malaysia [CCM]) that has a specific amount of sales turnover (from less than RM300,000 to not exceeding RM50 million) and number of employees (from less than 5 to not exceeding 200 employees). Virtually 100 percent (around 98.5) of business creations in Malaysia are SME's. They have contributed significantly to Malaysia's economy, development and growth. In 2019, SMEs contributed RM586.9 billion (38.9 per cent) of the nation's gross domestic product (GDP) and provided 7.3 million jobs, comprised of 48.4 per cent from Malaysia's employment (the Department of Statistics Malaysia, 2019). Even though there is no doubt that SMEs have become the bright star and contributed enormously to poverty reduction, job creation, bridging inequality, generating household income, creating economic growth and facilitating in the prosperity of the country, many SMEs endeavours fail to sustain. The SMEs either fail shortly after the business is established or after a few years in business, especially when the business enters the growth and expansion phases. In Malaysia, the failure rate is about 60 percent (Chong, 2012; Nordin, Hamid & Woon, 2011). According to Ahmad & Seet (2009), the failure rate is remarkably high for the first five years of SME's operation.

By considering many of SMEs in Malaysia have been offered and provided with trainings programs, business grants, equipment and technical assistance, financial aids, business supports and many others assistance by varies

* Corresponding author.
E-mail: wnwa@uum.edu.my

government ministries, departments and agencies. The higher rate of failure is really worrying. Particularly, the increasing rate of failure involving the new start-up (or establish) SMEs, regardless of greater attention and supports given to them (Chong, 2012). What goes wrong? Why these various programs, assistance and initiatives ineffective and not achieving its objectives? It is timely for government's programs to give less emphasis on the input factors such as generating more entrepreneurs, instead to stress more on creating sustainable entrepreneurs. Therefore, in order to ensure success and maximize the contribution of SMEs to country's development, economic prosperity and social well-being, it is crucial for government to focus on outcome-based approach in developing its policies and strategies. The success and failure of SMEs are much depend on how successful, proactive, agile and effective the owners of these SMEs in managing uncertainty, risks, business challenges and ability to seize opportunities for their business. SMEs' entrepreneurs or owners must really understand the industry and its business environment. They should possess and increase their financial literacy, governance and management skills, strategic direction and oversight competences as well as becoming digital and information technology savvy. In effort to explore and have in-depth understanding about the factors contributed to the stagnant progress and prevent business grow among SMEs in Malaysia has motivated this study. In addition, the research aims to identify, record, gather and assess empirical data relating to obstacle and challenges faced by the SMEs that stopped and prevented their growth. This may result of having clearer, richer and accurate evident of SMEs' obstacle and challenges. Eventually, the research finding will be crucial in formulating more appropriate and practical solutions in helping various government agencies and other relevant parties to incubate and accelerate the expansion, growth and development of SMEs as well as to create more sustainable and successful SMEs.

2. LITERATURE REVIEW

One of the important prerequisites for SME to progress, develop and grow up is through proactively and effectively practising creativity, innovation, digitalization, technology advancement and continuous improvement. To achieve this, studies related to ineffectiveness, weaknesses, risks, threat, challenges, failure, success, strength and opportunity of the SME operations and processes need to be carried out. So that we can examine factors, causes and effects that contribute to the business success or failure. Consequently, we can analyse and learn from the perspective of successful and unsuccessful SMEs and entrepreneurs.

Effective SMEs is the one that able to contribute to economic growth and increase national income by creating new jobs, improving social well-being, nurturing economic flexibility and supporting competition and economic efficiency (Liao et al., 2008). Several researchers have addressed factors that affect business performance, this include the capability and quality of entrepreneurship (Khan, 2000); entrepreneurial culture, innovation and strategic planning (Georgellis et al., 2000); business goals and target (Laitinen, 2002); and entrepreneur personality (Bouchikhi, 1993). Researcher such as Khan (2000) and Ahmed (1994) have acknowledged: (i) prior work experience, (ii) lessons learned from failure, (iii) professional networks (iv) lack of ability to take risks, (v) ease of management, (vi) difficulty in raising capital, (vii) business management skills, (viii) knowledge about to start a business, (ix) industry and market knowledge, (x) availability of financing, and (xi) government policy as key factors to measure a successful entrepreneurship. In addition, know-how and skilful management team are crucial for effective governance and management, which leans to contribute for SMEs success and sustainability (Appiah et al., 2018).

SMEs' Obstacle to Grow

According to Timmons and Spinelli (1994) found that over 20% of new ventures fail within one year, and 66% fail within the first six years. Other literatures findings are also in line with them, where they suggest that more than 50% of small businesses will fail within 5 years of operation (Reiss, 2006). Study by Wang (2016) found that SMEs are more likely to perceive finance, tax, competition, electricity and political factors as a significant constraint that impedes their growth. Financial issues will impact other things like insufficient human resource, equipments, and product improvement.

Generally, all business entities exist to provide products and services to society. Product and service quality have being highlighted as an imperative characteristic for a business success and customer satisfaction (Scott, Peng, and Prybutok, 2015). Business entity can be profitable and successful only when the products and services are well accepted and practical to meet customers' needs as well as to fulfil society expectation on ethical and environmental values. There is no doubt customers will satisfied with SME who render services or produce (sell) products of high quality, which meet with their needs and expectations (Xu, Blankson, & Prybutok, 2017). Besides customer satisfaction, product or service quality able to persuading customers' loyalty and repurchase decision (Xu, Blankson, & Prybutok, 2017). In other word, the higher the quality, the greater the customer satisfaction. In addition to quality, the business must have capacity to fulfil the customers' demand.

Usually, improvements in product specification and quality required additional costs or linked with high production costs. This provide real challenge (or create opportunity) for SME to offer high quality products or services at effective, efficient, economical and reasonable cost. Technology, material used, cost (i.e. material, labour maintenance and improvement), appearance, design, suitability, reliability, durability, usability, specifications, marketing, label, service, shape, life, safety, maintenance, dissension composition, productivity, strength, workmanship, adjustment, finishing, colour, and affordability are example of quality characteristics. There is no point if product with outstanding (high) quality but not accepted in the market, do not have market demand and customers not willing to pay the price.

Normally, individuals who are entrepreneurial that have a positive entrepreneurial characteristics can be linked with business success and managing business activities effectively. Entrepreneurial characteristics that have impact on business performance can be categorised into five factors, which are: (i) demographic characteristics, (ii) individual characteristics, (iii) personal characteristics, (iv) entrepreneurship orientation, and (v) entrepreneurial readiness (Appiah et al., (2018). Prior research have highlighted that SMEs performance, success and failure can be influenced by entrepreneurship characteristics, which comprises of individuals' variety entrepreneurial characteristics capability (Ushakov, 2017; Sarwoko, et al., 2013; Eriksson and Li, 2012; Shafeek, 2009). This can be supported by several studies that have found factors such as (i) risk taking, (ii) innovativeness, (iii) well-coordinates, (iv) self-awareness, (v) self-confidence, (vi) personal initiative, (vii) knowledge information, (viii) dynamism, (ix) long-term involvement, (x) perseverance and determination, and (xi) opportunity seeking have been identified and recognized as entrepreneurs key success factors to increase SMEs success rate (Kao, 1989; Hornaday, 1982; Ahmed, 1981; Rahman, 1979; Cantillon, 1975). In addition, Arham, Boucher, and Muenjohn (2013) testify that individuals who have a good and correct leadership behaviours are able to increase the probability of entrepreneurial success and boost their business performance. Moreover, educational level, gender, industry expertise and past experiences are among factors that potentially can shape SMEs growth (Shafeek, 2009). Other factors that potentially can influence entrepreneurship success or failure involve market, capital, infrastructure and political environment (Chowdhury et al., 2013).

3. RESEARCH METHOD

This study applies qualitative research method where semi-structured interview is used in gathering data from respondents. The data then analysed based on theme or using thematic analysis. The interview was used because it allows in-depth exploration of a subject matter to be studied. The open ended questions asked were related to entrepreneurs' or business owners'' opinion and experience of what hinder them from growing and what kind of help that are needed by them so that this barrier can be removed.

The respondents of this study consist of SMEs from northern states of Malaysia. Two states were chosen, which is Kedah and Perak as these two states are the two biggest states in northern area. Forty respondents were interviewed randomly and the SMEs demographic in term of industry and state is as follow:

Table 1: Respondents states and industry

Negeri	Number of respondent
Kedah	22
Perak	18
Total	40
Industry	Number of respondent
Food and beverages	23
Herbs and beauty	4
Cloth	4
Agro product	7
Machines and constructions	2
Total	40

4. FINDINGS AND DISCUSSIONS

Based on the analysis of the findings, the factors that may affect the slow growth or hinder small business from growing are financial, creativity and innovation, capacity, and digital knowledge as illustrated in the following

diagram. The capacity factor is affected by other factors such as equipment, product innovation, human resource, as well as space.

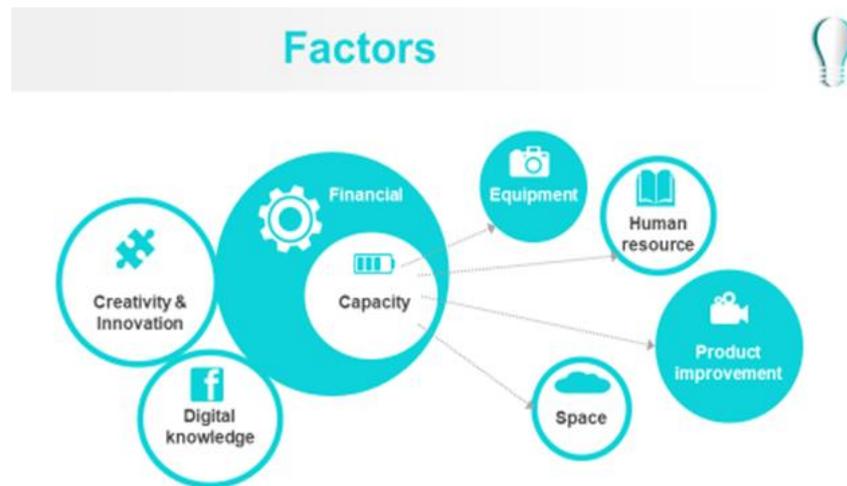


Figure. 1: Factors that limiting the business growth for SMEs

4.1 Creativity and Innovation

The success of creating or developing a certain product that is marketable does not stop when the sales is made. Competition is very crucial for certain industries, or more accurately in most of the industries. Therefore, to grow, being competitive or even sustain in the business and stay relevant, continuous innovation is needed. Business has always to think of a new product, or at least innovate their existing product from time to time. The problem here is that, innovation need creativity and of course knowledge of what the current trend is. It would be better if the business can create new trend or predict the future trend. As an example, a respondent mentioned that:

“ Our machine has given a lot of advantages to the farmers, such as cost reduction and less impact to the soil. However, continuous improvements are still needed because it still does not fully fulfil the real concept of this machine ”.

Beside innovation and creativity in product development, creativity is also needed in product and inventory management. A proper system is needed so that it would ease the owner’s work and reduce their time for things unnecessary such as trying to find their inventory. One of the respondent that supply constructions materials mentioned that:

“ Sometimes it is hard for us to get the products that we want for our customer because it is not properly arranged and managed. It would cause a delay of delivery of product to the customer ”.

This situation may look likes nothing and rather small problem. However, if not dealt with, it would impact their customer satisfaction, and the things will be worsening when they grow.

4.2 Digital Knowledge

In this contemporary situation where technology is not just used in developing a complicated machine but also used tremendously for communication, business need to take advantage on this and cannot afford to be left out. When Covid-19 attack the world, it changes the way people live as well as the way how business is run. We call it a new norm. Those businesses which can adapt with the new norm will sustain and grow, otherwise will just die. Digital knowledge is not an option nowadays but necessity. By saying thing, it does not mean that the business has to be online, but at lease be able to reach or give information to the clients is faster and easy way through digital communication. Digital marketing for example, will reach more potential customers than a traditional way of marketing. For instance, one of the respondent who are selling traditional cookies stated that:

“ Every time I do live video on my Facebook showing the process of making my cookies, my sale will boost up ”.

On the other hand, if we cannot utilise this technology, it is afraid that it will be hard for SMEs to be competitive and visible to their potential customers. It was sad to see that certain product produced by our SMEs are unique and rare but is not known to the public. As an example, a Halal producer of marshmallow (which is hard to find) should easily find market because nowadays is used in many food productions such as ice cream and coco jar. However, since she has no knowledge in utilising social media, she become invisible and only depend the order from relatives and friends.

“I don't know how to advertise through social media. I want to ask my daughter, but she is too busy with her study. So, my market depends on the order from existing customers”.

It does not matter how good your product is but if we cannot make it visible, reachable and accessible, then it cannot go anywhere at the end.

4.3 Capacity

This is the most common problems that faced by the respondents that limit their business growth. When we discuss about capacity, it relates to the supply that cannot meet the demand. Surprisingly, the study found that most of the respondents has no issue or problem regarding the demand for the product. Unfortunately, most of them are having problem of fulfilling the high demand form their customers.

“Our current production capacity is 3000 units per month, but our demand is up to 15,000 per month”.

“So far we can only bake 100 breads per week. The weekly demand is 1000”.

There are few factors that contributes to the lack of capacity by SMEs. Among other things, they do not have enough staff, suitable equipments, enough space, as well as less product durability.

Improving capacity is a crucial element for SMEs to grow. Some of respondents were having the opportunity to expand their business and penetrate big supermarkets. However, they cannot grab this opportunity because they do not have capacity to constantly fulfil the demand.

4.3.1 Human Resource

Hiring workers would be costly to SMEs. Many SMEs do not hire outside workers other than their own family members in order to reduce costs. But cost is not the only issue. Sometimes, business found it is hard to find a skilled workers that can perform as expected by the employer. Training cost would be another issue. That is why if possible they want skilled workers that do not need training. Trust is another issue that prevent a business to hire a number of staffs needed. The owner may not trust outsiders; therefore, they choose to operate with who that are having right now. As a consequence, productivity is less and the demand cannot be fulfilled, especially when the products are processed or produced manually.

4.3.2 Equipments

This is the most important factor that affect capacity of the company. Almost all of them, especially those with food production are using manual or semi-manual approach of production. The reason for the manual approach is either they cannot effort to buy the existing equipment available in the market or they cannot find the most suitable machine or equipment that fulfil their needs and requirements.

“We have to transfer from one machine to another for packaging. The transfer may cause some waste and sometime the weight for each package is not so accurate. We need to reweight it to make sure the amount is correct. This will take a lot of time and energy. There is a better machine outside but the cost is too high”

On the other hand, sometimes the solution or the equipment is available, but does not really suite the business needs. For example, a traditional biscuits maker of ‘kuih kapit’ wanted a machine that can help them making few pieces at one time. This machine is available on the shelf. However, with the new trend of putting filling inside this biscuit, this machine become not fully automated as the filling need to be done manually. Besides, another business that produce similar product commented that the end result is not satisfactory. The biscuits are not cooked in uniform and the fold is not tidy as wanted. The responded stated that:

"I have invested a lot in this machine but at the end it was lying idle because it does not produce the result that I wanted. The products do not cooked evenly and were not fold nicely".

In another situation, a similar function equipment is available, however it is not suitable specifically for the business product. For instant, the business need a peeler machine for the ginger in making ginger-based herb product. However, the only available peeler machine is for potato, which is not suitable for smaller items like ginger.

In addition to the above situation, quite a number of them are in need for a custom-made equipment, that is tailored for their products. The solutions for this is quite hard because it would need for invention and technology. Besides, of course it might also be costly. Some comments from respondents includes:

"We make dough that need to be cut equally to become biscuit. We need a machine where we can set the thickness and the size of the dough cut".

"We produce stickers. We need a machine that can print stickers for us and count the number of stickers produced to make sure that we only produce the amount that we need in order to prevent waste".

"So far there is no equipment to make knot for our "popia simpul" snack. Making it one by one manually really takes time. It has high demand but we are not able to fulfil this demand. Its good if this type of machine can be invented to help us".

Equipment innovation needed by business is not limited to the machine or the physical equipment itself. Some need software application that link to their equipment so that certain process can be automated that their works take less time. The lesser time they use, the higher will be their productivity. As an example, one of our respondents stated that:

"If our sewing machine can scan the design from apps and automatically paste the beads to the cloth or veil, it will help our job a lot".

Another respondent from the same industry commented that for the custom order shirt, they have to take measurement and then draw the polar. For them, it would be better if there is software that can help them draw the polar when the necessary measurement is keyed in.

4.3.3 Product Improvement

Another factor that limit the SMEs' growth is the product itself. The business may have come out with a good product but the product may need some refinement or improvement, especially in term of prolong the product durability. For those with the access of demand, less durability of the product make things worse. On the other hand, if the product want to go for international market, the product durability issues must be resolved. Below are some example of issues faced by the respondents related to the product.

"Our fish floss only last for 5 days. After that I need to be reheated. We need to find way to make it last longer".

"Normal mozzarella cheese should last for 2 weeks. Our mozzarella cheese only last for 7 days".

"We need to find way to prevent our ice cream from being crystalised".

Beside the durability of product, respondent also highlight the need for them to improve certain aspect of their product before their product can go far.

"Our product is a good product for spa but the smell need to be improved. Have tried different formulation but not succeed. The cost of trial formulation is rather costly".

Improvement made to increase the useful life of a product as well as the quality of the product would open up opportunity for the SMEs' product to go further. Failure to do so would limit the grow of SMEs.

4.3.4 Space

Another constraint to grow faced by SMEs that would impact their capacity is space. Most of the time, increasing capacity means, more machines and equipments will be used, more staffs are needed and more products will be produced. All of these would need bigger operation space for the business; which would be a problem for small businesses. This is because some of the businesses do not even have a proper business space, but using their home as their operation centre.

4.4 Financial Constraint

Financial issue, even though being discussed at the end; does not mean it has less importance. In fact, this is the common and well-known issues for SMEs found by previous literatures. Finance has impact on other factors. In other words, if SMEs has issue with finance, it will create other issues too. On the other hand, nearly all of the above mentioned factors above can be resolved if business has strong financial position. For example, the need for equipment (on the shelf or custom made) can be resolved if business has money to buy it or hire someone to create it for them. Similarly, the lack of staffs issue can be resolved if business has money and can hire as many staffs as they want.

5. CONCLUSION

There are many factors that hinder or limit small business from growing further. In order to grow, business should be able to continuously improve their product and services through innovation and technology, enhance their knowledge and adapt the current trend, expand their capacity as well as find ways to strengthen their financial position. Strong financial position would be able to help small business to resolve most of the limitations found above.

The finding of this study also suggest that technology and innovation play quite and important role that would enable small businesses to grow. Continuous product innovation and improvement will ensure that the business is still relevant and competitive in order to sustain in the long term. To increase business capacity and cope with demand, innovation on the equipment is important. Government and its agencies can encourage more research and development to be done in order to help the need of the businesses. Since each business has its own uniqueness, some of the equipment required is also unique and thus need for a custom made solution.

REFERENCES

- Ahmed, S.U. (1981), 'Entrepreneurship and Management Practices Among Immigrants from Bangladesh in the UK', Unpublished Doctoral Thesis, Brunel University.
- Ahmed, M. (1994). 'Economic and Cultural Environments for Industrial Entrepreneurship Development in Bangladesh: An Explorative Study.
- Ahmad, N.H. & Seet, P. (2009). 'Dissecting Behaviours Associated with Business Failure: A Qualitative Study of SME Owners in Malaysia and Australia', *Journal of Asian Social Science*, vol. 5 (9), pp. 98-104.
- Appiah, M. K., Possumah, B. T., Ahmat, N., & Sanusi, N. A. (2018). External Environment and SMEs Investment in The Ghanaian Oil and Gas Sector. *Economics & Sociology*, 11(1), 124-138.
- Arham, A. F., Boucher, C., & Muenjohn, N. (2013). Leadership and entrepreneurial success: A study of SMEs in Malaysia. *World*, 3(5), 117-130.
- Bouchikhi, H. (1993). A constructivist framework for understanding entrepreneurship performance. *Organization Studies*, 14(4), 549-570.
- Cantillon, R. (1955), *Essai Sur La Nature Du Commerce in General*, Londn.
- Chong, W.Y. (2012), "Critical success factors for small and medium enterprises: Perceptions of entrepreneurs in urban Malaysia", *Journal of Business and Policy Research*, Vol. 7 No. 4, pp. 204-215
- Chowdhury, M. S., Alam, Z., & Arif, M. I. (2013). Success factors of entrepreneurs of small and medium sized enterprises: Evidence from Bangladesh. *Business and Economic Research*, 3(2), 38-52.
- Companies Commission of Malaysia. Retrieved at <https://www.ssm.com.my/Pages/Home.aspx>
- Department of Statistics Malaysia (2019). Small and Medium Enterprises (SMEs) Performance 2019. https://www.dosm.gov.my/v1/index.php?r=column/cthemeByCat&cat=159&bul_id=VjM1enZ2RmlVRDVTNFwRWZiZiUs3QT09&menu_id=TE5CRUZCbH4ZTZMODZlbnk2aWRRT09

- Doody, O., & Noonan, M. (2013). Preparing and conducting interviews to collect data. *Nurse researcher*, 20(5).
- Georgellis Y, Joyce P, Woods A (2000). Entrepreneurial action, innovation and business performance: the small independent business. *Journal of Small Business and Enterprise Development*, 7(1):7–17.
- Hornaday, J.A. (1982), *Research About Living Entrepreneurs*, Encyclopedia of Entrepreneur, Edited by Kent et.al. Eagle Cliffs, New Jersey: Prentice Hall, pp.20-24.
- Kao, J.J. (1989), *Entrepreneurship , Creative and Organization: Text Cases and Readings*, New Jersey: Prentice Hall.
- Khan, A.K. (2000), *Entrepreneurship Small Business and Lives of Successful Entrepreneurs*, Dhaka: Rubi Publications, Bangladesh.
- Liao, J., Welsch, H., Moutray, C. (2008). Start-up resources and entrepreneurial discontinuance: The case of nascent entrepreneurs. *Journal of Small Business Strategy*, 19(2):1.
- Liao, J. (2004) *Entrepreneurship failures: Key challenges and future directions*. In *Entrepreneurship: the Way Ahead*. Routledge, New York; 2004:133–150.
- Laitinen, E.K. (2002). A dynamic performance measurement system: Evidence from Small Finnish Technology Companies. *Scandinavian Journal of Management*, 18(1). 65-99
- Nordin, N.A.M., Hamid, A.H.A. & Woon, C.C. (2011). 'Factors affecting profitability of women entrepreneurs business in Malaysia', *Annual Summit on Business and Entrepreneurial Studies (ASBES 2011)*, pp. 972-985.
- Rahman, A.H. M.H. (1979), *Entrepreneurship and Small Enterprise Development in Bangladesh*, Bureau Of Business Research, Dhaka
- Sarwoko, E., Surachman, A., & Hadiwidjojo, D. (2013). Entrepreneurial characteristics and competency as determinants of business performance in SMEs. *IOSR Journal of Business and Management (IOSR-JBM)*, 7(3), 31-38.
- Scott, R. A., Peng, X., & Prybutok, V. R. (2015). Contribution of product and provider quality to cell phone industry quality. *Quality Management Journal*, 22(2), 33-47.
- Shafeek, S. (2009). *Enhancing the Strategy for Developing Small Growth Potential Firms in the Eastern Cape*
- Ushakov, A. (2017). *Learning Content Management Systems in Flt: Canadian Experience*. *International Journal of English Language and Literature Studies*, 6(1), 25-32.
- Wang, Y. (2016). What are the biggest obstacles to growth of SMEs in developing countries?—An empirical evidence from an enterprise survey. *Borsa Istanbul Review*, 16(3), 167-176.
- Xu, L., Blankson, C., & Prybutok, V. (2017). Relative contributions of product quality and service quality in the automobile industry. *Quality Management Journal*, 24(1), 21-36.