

Managerial Skills of the Small Indigenous Entrepreneurs in Malaysia

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Abstract

Managerial skills would determine survival and competitiveness of small and medium enterprises. Unfortunately, evidence on managerial skills of the Malaysian Indigenous entrepreneurs is hardly found. Drawing on the literature flow, this study attempts to identify the level of managerial skills of the small Indigenous entrepreneurs. A sample of 250 respondents was selected for a survey in Kelantan and the Klang Valley. Due to several constraints, only 200 respondents completed and returned the questionnaire for analysis. Using descriptive and bivariate statistics, it was confirmed that managerial skills of the entrepreneurs in management, finance and marketing are satisfactorily high irrespective of geographical areas. Since this study does not relate managerial skills and firm performance, future studies should consider this aspect for better understanding of the entrepreneur group.

Key words: Managerial skills, Indigenous entrepreneurs, Malaysia

Introduction

There have been sufficient theories and evidence to support the important contribution of small and medium enterprises (SMEs) to economic development of developing and developed countries. Following Audretsch and Keilbach (2004) and Audretsch (2007), despite the exclusion of small business in the neoclassical growth model, the important role of entrepreneurship and small firms in economic growth cannot be denied. In fact, small-firm creation is increasingly regarded as the source of economic growth and employment generation (Hasson, 2010). Some other researchers believe that SMEs bring about social benefits as a result of their greater competition and higher productivity (Beck *et al.*, 2005) in the economy. Micro and SMEs in the Organisation for Economic Co-operation Development (OECD) member countries account for more than 95 per cent of firms, 60-70 per cent of employment, and 55 per cent of Gross Domestic Product or GDP (WBCSD, 2004). In Europe, crafts and SMEs represent 99.8 per cent of enterprises and account for two-thirds of employment and nearly 60 per cent of the private sector added value (UEAPME, 2010). In developing countries, SMEs constitute more than 90 per cent of establishments and generating a significant portion of GDP (WBCSD, 2004). The presence of SMEs in Asia is significant, too. This sector forms more than 90 per cent of all establishments, provides above 40 per cent of job opportunities and contributes over 50 per cent of GDP each in Japan and China (Osman *et al.* 2011). In Malaysia, SMEs constitute around 99 per cent of total business establishments and account for 56 per cent of total employment of the country (SME Corp. Malaysia, 2010).

The growing contribution of SMEs to various economic indicators has placed the sector at the centre stage of economic strategies of governments around the world (Nazemi and Shirazi, 2010). Many countries have taken initiatives in various support programmes, such as branding and marketing, advisory services, subsidised loans and human capability building, in order to ensure the survival, sustainability and competitiveness of SMEs (International Monetary Fund, 2009). Similarly, Malaysia has developed a comprehensive policy framework to support the development of the sector. Amongst other policy measures favouring SMEs are rules and regulation, financing, entrepreneurship education and training, market and marketing, technology and innovation, infrastructure development, and inter-firm network programmes; which involve a large number of public agencies at the Federal and state levels (see MITI, 2006; Malaysia, 2010).

Acknowledging heavy financing obstacles facing SMEs, various financial instruments, such as venture capital, loan guarantees, and preferential loans have been introduced in order to enhance loan access for the business sector (Malaysia, 2010). Despite all the heavy public support, SMEs in the Malaysian economy are significant only in the share of establishment and employment. In comparison with many industrial economies, the contribution and performance of Malaysian SMEs are relatively low in some other indicators. This sector contributes only 31 per cent to GDP, 19 per cent to exports (SME Corp. Malaysia, 2010); and 26.0 per cent to total added value (MITI, 2006). In contrast, the average contribution of SMEs to GDP and added value in other Asian countries is more than 50 per cent (Ndubisi, 2008). In the meantime the number of the Indigenous entrepreneurs (*Bumiputera*), who are involved in business increases over the year, but their business achievement, is far below the target. In 2008, the indigenous companies recorded merely 16 percent of the local initial public offerings; whereas the Indigenous people formed 66 peratus of the total population (see Malaysia, 2010). The Indigenous entrepreneurs are found less competitive and less viable (Mohd Nasir, 2006) in business. More startling is that about 13 percent of the Indigenous entrepreneurs failed in their business in the first five years of operation (see Abdullah *et al.* 2009).

Poor performance of the Indigenous entrepreneurs could be associated with many factors as explained by theories of entrepreneurship and management. An extensive literature survey by Al-Madhoun and Analoui (2003) confirms that successful business is dependent on knowledge and managerial skills of its managers. In other words, most problems confronting SMEs are due to the lack of managerial capability of their owner-managers (Argenti, 1976). Since research on managerial skills of Malaysian small enterprises in general and Indigenous entrepreneurs in particular is little, this study attempts to explore the levels of managerial skills among the Indigenous entrepreneurs in the three most critical areas, i.e. management, marketing and finance. The findings in this paper may be useful for entrepreneurs and policy makers to identify the area, which needs particular attention.

Literature Review

Skill as a specific ability or competency in executing a task or responsibility, would come from knowledge, information, practice, and natural inclination in an individual (Abu Mansor *et al.*, 1999). Organisations would function effectively if they have managers with certain skills. Technical and managerial skills are important for an organization to function, but the latter is the most important source of business success or failure. Managerial skills are crucial for business because it could be used to measure the level of competency and effectiveness of a manager (Abu Mansor *et al.*, 1999). Miller (1983) adds that any kind of business depends on three main factors in which one of them is the knowledge of operators in business activities, such as marketing, management, finance and production. William (1975) found that almost 90 per cent of small business owners in Australia failed in the first five years and 91.0 per cent of those failures were contributed by poor management. Baldwin *et al.*, (1997) discovered that the most significant internal factor for business bankruptcy was due to the lack of general and financial management knowledge.

In fact, management, financial and marketing skills are the most frequently discussed managerial skills in the literature (see Sieh, 1990; Timmons 1985; Hens 1987; Ken, 1990; Zaidatol and Habibah 2004). A study by Rahman (2001) and Sharma and Gadene (2000) confirmed that improvement in the quality of management would lead to positive development for small businesses. Management involves all activities and tasks undertaken by one or more persons for the purpose of planning and controlling the activities of others in order to achieve an objective or accomplish an activity that could not be achieved by those who are acting independently (Wehrich and Koont, 1993). To Daft (2008), management is the process of attaining organizational goals in an effective and efficient manner through planning, organizing, leading, and controlling. Management is also the process of combining and coordinating a range of resources - money, people or equipment - to achieve the goals of an organization (Hitt, 2007). This skill is needed both at the initial and development stage of an enterprise. At the early stage, management of an enterprise will be carried out by the sole founder (owner), who performs all actions to keep the business run. As the business expanding, the founder is no longer capable of managing the business alone due to his lack of needed knowledge and managerial skills. At this development stage, another set of managerial skills is crucial for the owner-manager. This stage if not tackled properly will turn out to be a crisis point for small enterprises. At this point of time many problems, such as insufficient use of consultancy services, lack of quality, unwillingness to delegate responsibilities, key personnel leaving the enterprise, personal issues concerning the owner-manager (Baldwin *et al.*, 1997), would occur and may challenge the survival of the enterprise.

With such a complex function of his organization, the owner-manager needs a new range of managerial skills, including planning, organizing, leading, controlling, financing, marketing and market development, and competition. An entrepreneur needs to have financial management skill, such as anticipating financial needs, preparing financial reports and plans, as well as acquiring and allocating funds for his enterprise in order to yield optimum results. Most entrepreneurial failures are due to the inability of the entrepreneurs to effectively manage funds they source for their ventures. The acquisition of knowledge in financial management is therefore a necessary factor for entrepreneurial success. This is supported by Nwachukwu (2005), who believes that the essence of financial management is to ensure adequate cash in hand in order to meet necessary current and capital expenditures as well as to assist in maximizing growth and profits. Financial management skill is important for entrepreneurs and one of the ways for them to remain profitable and solvent (Hemalatha, 2010). A good financial management system enables business owners to accomplish his daily financial objectives (Hemalatha, 2010). McMohan (2001) found that the practice of preparing formal financial reports has significant impact on business prestige. In contrast, poor financial skill was the primary reason for business failures, especially when the enterprise grows older (see Hemalatha, 2010).

Marketing skill, which play an important role in entrepreneurship, is seen from different perspectives. The Market Orientation perspective sees marketing skill as a fundamental tool for firms to become consumer focus (Kohli and Jaworski, 1990). While the Resource-based View (RBV) regards marketing skill as one of organisational resources (Barney, 1991), the Porter's competitive model perceives marketing, especially the differentiation, as firm's competitive strategies (Porter, 1985). Whichever the case, marketing skill allows entrepreneurs to communicate and inform potential customers about their products or services. Thus, effective marketing encompasses one-on-one communication skills and the ability of entrepreneurs to define and target their markets or customers. This skill is a critical factor to any business because marketing is inter-related with almost all other functional areas of business, including accounting, finance, production, engineering and human resources (Ebiu, 2005). It should be noted that skill level in technical or managerial skills is dependent on the experience of and access to education and training among entrepreneurs. More importantly, with entrepreneurship training and education, entrepreneurs are equipped with better knowledge, skills and experience (Dana, 1993). Sometimes, credit scheme is not enough, unless if entrepreneurs are provided with adequate training facilities, to enable them utilise available resources at the optimum level (Rahman et al., 2000). However, providing education and training in entrepreneurship or business is costly and demanding greater commitment from service providers. More developed countries or states with higher surplus would be able to provide better infrastructure and facilities for education and training in entrepreneurship than that of less developed ones. Hence, entrepreneurs in more developed areas have better access to such education and training, which results in higher technical and managerial skills.

Since studies on managerial skills among the Malaysian Indigenous entrepreneurs are hardly found, this paper proposes the following core research questions to be investigated:

- RQ1. What is the skill level of the Indigenous entrepreneurs in management?
- RQ2. What is the skill level of the Indigenous entrepreneurs in finance?
- RQ3. What is the skill level of the Indigenous entrepreneurs in marketing?
- RQ4. Is the level of managerial skills among the Indigenous entrepreneurs different across regions?

Research Methodology

Variables and Measures

Managerial skills of the small Indigenous entrepreneurs in Peninsular Malaysia are being the focus of this paper. As available in the literature above, managerial skills can be seen in many facets. This study, however, confines managerial skills to management, finance and marketing because they are commonly debated in the literature. Management skill (10 items), financial skill (7 items) and marketing skill constructs (10 items) used in this study are adapted from Zaidatol (2004). Using a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree), the respondents were asked to indicate the degree of their agreements over the 27 managerial skills they had in order to run business. Small enterprises are mostly owned by managed by the same person. These entrepreneurs involve in all levels of daily management and operation. Since most of the respondents are well educated and experienced in business, they know exactly what happens in day-to-day running of their enterprises. They also know the level of their managerial skills in doing business. As such, it is believed that they know best to rate their own competencies over the three managerial skills.

Survey Instrument and Sample

Data were collected from the sample respondents using a self-administered questionnaire. Besides questions to soliciting the three managerial skills, questions on entrepreneur and business profiles were asked, too. To ensure validity and reliability of the questionnaire, a pilot study was conducted in January 2010 on 40 respondents in Kelantan (the less developed region) and the Klang Valley (the more developed region comprises Selangor and Kuala Lumpur). Kelantan is a low value-added, agricultural-based economy, whilst the Klang Valley is a higher value-added manufacturing and services-based economy. As a result of such an economic dichotomy, GDP for Kelantan in 2008 was RM9,273 million, compared to RM95,209.5 million for the Klang Valley (Malaysia, 2010). The pilot survey was found a good exercise for the study because some questions were not respondents-friendly, which were then refined for better digestion. Of the 2000 population in the sample frame provided by a government agency responsible for the Indigenous entrepreneurs, 250 respondents were selected for actual study. A survey was conducted in March through June 2010. Collecting data for this study was rather time consuming because the respondents were located in different regions. Distance between Kelantan and the Klang Valley is about 500 kilometers. In each region, the respondents were spread out into many geographical areas, in which the distance from one place to another is quite far. Some respondents could not be located due to business relocation and closure or inaccurate addresses provided. Finally, 200 questionnaires were completed and used in this study. Some characteristics of the sample are shown in Table 1.

TABLE 1: Characteristics of the Indigenous entrepreneurs and small enterprises

Items	Number	Percentage (%)
Region	200	100.0
Kelantan (less developed)	100	50.0
Klang Valley (more developed)	100	50.0
Gender	200	100.0
Male	121	60.5
Female	79	39.5
Education Level	200	100.0
Primary school	6	3.0
Secondary School*	74	37.0
Tertiary education+	109	54.5
Certificate	11	5.5
Age of Business	200	100.0
< 5 years	57	28.5
5-10 years	65	32.5
> 10 years	78	39.0
Business Activities	200	100.0
Manufacturing	78	39.0
Retail and Wholesale	25	12.5
Services	76	38.0
Agro-based Industry	21	10.5
Attending Training Course	200	100.0
1-3 times	63	31.5
4-6 times	29	14.5
> 6 times	42	21.0
Number of Employees	200	100.0
1-4	98	49.0
5-19	73	36.5
20 -50	21	10.5
51 and more	8	4.0

Note: *6.5% attended senior high school (sixth form); + 20.5% had diploma, 28% with degree and 6.0 had masters.

Source: Based on the sample survey.

Statistical Results

Descriptive Statistics

Frequencies, means and standard deviations (SD) for managerial skills of the Indigenous entrepreneurs (the respondents) are displayed in Table 2. For the purpose of frequency analysis, scales 1 and 2 were regarded as low, scale 3 as moderate, and scales 4 and 5 as high level of managerial skills. As shown in Table 2, a large portion of the respondents surpassed the moderate skill level of three (3) in all the three managerial areas. This means that the number of the respondents, who had good skills in management, finance and marketing, is significant.

Table 2 also demonstrates that the total mean values for management, financial and marketing skills of the entrepreneurs are 4.52, 4.41, and 4.50 respectively. Deeper analysis into management shows that the respondents scored high (above 4.5) on judging capability of their personnel (4.62), delegating tasks (4.60), putting value on the business, training employees (4.54), and verbal and writing skills (4.54). For financial area, the respondents had high skills over preparing budget plans (4.55) and preparing cash flow statements (4.50). With respect to marketing skill, the respondents were good at determining market target (4.63), formulating price policy (4.59), gauging market competition (4.57), selecting future suppliers (4.57), and determining the prices of products (4.51). More importantly, all the mean values for the 27 managerial skills are above the mid-mean value of three (3), indicating that the majority of the respondents had sufficient skills in management, finance and marketing.

TABLE 2: Level of managerial skills among the Indigenous entrepreneurs

Area of Competency	Frequency (%)			Mean	SD
	High	Moderate	Low		
Management Skill				4.52	0.46
Judging personnel capability	126 (63.0)	72(36.0)	2(1.0)	4.62	0.51
Training employees	117(58.5)	74(37.0)	9(4.5)	4.54	0.58
Delegating tasks	125(62.5)	74(37.0)	6(3.0)	4.60	0.55
Putting value on the business	120(60.0)	73(36.5)	7(3.5)	4.57	0.56
Using time effectively	105(52.5)	85(42.5)	10(5.0)	4.47	0.61
In verbal and writing	116(58.0)	77(38.5)	7(3.5)	4.54	0.61
Developing good human relations	107(53.5)	85(42.5)	7(3.5)	4.48	0.63
Managing business	95(47.5)	97(48.5)	8(4.0)	4.44	0.57
Seeking opportunities for new profit	104(52.0)	87(43.5)	9(4.5)	4.48	0.58
Motivating employees	106(53.0)	77(38.5)	17(8.5)	4.44	0.66
Financial Skill				4.41	0.49
Preparing financial reports	97(48.5)	91(45.5)	12(6.0)	4.42	0.64
Updating financial reports	97(48.5)	91(45.5)	12(6.0)	4.42	0.62
Interpreting financial situation	95(47.5)	74(37.0)	31(15.5)	4.32	0.74
Preparing income/daily expenses reports	90(45.0)	80(40.0)	30(15.0)	4.29	0.74
Preparing budget plans	116(58.0)	77(38.5)	7(3.5)	4.55	0.57
Preparing cash flow statements	107(53.5)	86(43.0)	7(3.5)	4.50	0.58
Calculate gross and net profits	90(45)	95(47.5)	15(7.5)	4.37	0.64
Marketing Skill				4.50	0.48
Informing clients on products' design/benefits	95(47.5)	95(47.5)	10(5)	4.43	0.59
Preparing marketing plans	104(52.0)	85(42.5)	11(5.5)	4.46	0.64
Identifying clients' needs	94(47.0)	87(43.5)	19(9.5)	4.37	0.69
Conducting market research	94(47.0)	95(47.5)	11(5.5)	4.41	0.63
Formulating price policy	125(62.5)	68(34.0)	7(3.5)	4.59	0.58
Determining the prices of products	113(56.5)	79(39.5)	8(4.0)	4.51	0.63
Determining direction of products	111(55.5)	79(39.5)	10(5.0)	4.49	0.65
Gauging competition's strengths/weaknesses	116(58.0)	82(41.0)	2(1.0)	4.57	0.52
Determining market target	131(65.5)	64(32.0)	5(2.5)	4.63	0.53
Selecting future suppliers	121(60.5)	71(35.5)	8(4.0)	4.57	0.57

Source: Data from the sample survey.

Bivariate Statistics

Although there is no effort to test any hypothesis, this study also made an attempt to compare managerial skills of the respondents across regions. In this context, the Indigenous entrepreneurs were divided into two categories, i.e. those who were located in Kelantan (the less developed region) and the Klang Valley (the more developed region). This was done on the assumption that managerial skills of the Indigenous entrepreneurs in the less developed region are lower than that of their counterparts in the more developed region, which has better access to entrepreneurship education and training. An independent t-test was conducted on the two sub-samples to identify any significant differences in their managerial skills.

Comparing mean values of the two regions indicates little differences in managerial skills of the entrepreneurs. As shown in Table 3, the Indigenous entrepreneurs in the Klang Valley had slightly higher skills in overall management and in 6 out of the 10 management items; in 4 out of the 7 financial items (but lower skill in financial mix); as well as in total marketing and in 4 out of the 10 marketing items. However, these differences are too small to warrant further attention. Based on the statistical *t*-tests in the last column of Table 3, it is confirmed that the Indigenous entrepreneurs from both areas did not experience any differences in all the 10 management items. For financial skill, the significant difference could be seen only in the “interpreting financial situation” item ($t=2.82, p=0.01$), whilst the remaining six financial items did not show any significant differences. Differences in marketing skill among the entrepreneurs are not statistically significant, too. This shows that geographical area is not the factor that differentiates the Indigenous entrepreneurs in all the three managerial skills.

TABLE 3: Level of managerial skills among the Indigenous entrepreneurs by region

Area of Competency	Mean		<i>t</i> -value
	Kelantan	Klang Valley	
Management Skill	4.49	4.54	-0.79
Judging personnel capability	4.63	4.61	0.28
Training employees	4.53	4.55	-0.24
Delegating tasks	4.58	4.61	-0.39
Putting value on the business	4.53	4.60	-0.88
Using time effectively	4.46	4.48	-0.23
In verbal and writing	4.46	4.61	-1.75
Developing good human relations	4.49	4.47	0.22
Managing business	4.39	4.40	-1.11
Seeking opportunities for new profit	4.44	4.51	-0.85
Motivating employees	4.39	4.49	-1.07
Financial Skill	4.43	4.38	0.79
Preparing financial reports	4.39	4.44	-0.56
Updating financial reports	4.49	4.35	1.60
Interpreting financial situation	4.46	4.17	2.82*
Preparing income/daily expenses reports	4.39	4.19	1.92
Preparing budget plans	4.53	4.56	-0.37
Preparing cash flow statements	4.46	4.53	-0.85
Calculating gross and net profits	4.32	4.42	-1.11
Marketing	4.49	4.50	-0.18
Informing clients on products design/benefits	4.43	4.42	0.12
Preparing marketing plans	4.47	4.44	0.33
Identifying clients' needs	4.37	4.36	0.10
Conducting market research	4.38	4.43	-0.56
Formulating price policy	4.62	4.55	0.86
Determining direction of products	4.50	4.52	-0.22
Determining the prices of products	4.49	4.49	0.00
Gauging competition's strengths/weakness	4.51	4.63	-1.65
Determining market target	4.63	4.63	0.00
Selecting future suppliers	4.54	4.59	-0.62

Note: * significant at 5%; and ** significant at 1%.

Source: Data from the sample survey.

Discussion

Zaidatol and Habibah (2004) discovered that the Indigenous entrepreneurs had moderate skill in general management and lower managerial skills in marketing and finance. The present study, in contrast, found that the Indigenous entrepreneurs do not suffer from any shortage in management, financial and marketing skills. The high skill level among the respondents is not surprising if one examines the characteristics of the sample. As shown in Table 1, a large portion of the respondents was in business for more than five years and many of them had attended training courses. This is consistent with Nurulhuda and Ramlee's (2009) findings in the East Coast of Peninsular Malaysia that a majority of their sample respondents attended courses or training in business or entrepreneurship. Besides that more than half (54.5%) of the respondents had tertiary education. This is a good sign of development because unlike in the past where most entrepreneurs were school leavers, the present trend sees the growing involvement of degree holders in business. This phenomenon is probably contributed by the government campaign to create awareness among the general public about the importance of entrepreneurship in socioeconomic development of society. The growing number of graduate unemployment in the last two decades also forces unemployed graduates to establish their own business.

Malaysian entrepreneurs are not as advanced as entrepreneurs in the West, but with greater emphasis of the government on local entrepreneurial activities, especially after the economic recession in the early 1980s and the implementation of the Industrial Master Plan (1986-1995) and the Second Industrial Master Plan (1986-2010), Malaysian in general and local entrepreneurs in particular are more exposed to the world of entrepreneurship. The mushrooming of entrepreneurship training centres and education institutions catered for entrepreneurship education and training makes the access to such facilities much better for entrepreneurs. One special feature about Malaysia is that the entrepreneurship education and training is provided both by the Federal and state agencies; and the programmes provided are heavily subsidized by the governments. On the part of the entrepreneurs themselves, something has to be done to cope with market globalization. This explains why family enterprises have to improve management competitiveness by adapting their strategies and organizational structures in order to adjust to a dynamic environment in open-market economies (Domingo and Antonio, 2007).

Although no attempt was made in this study to relate the managerial skills with performance of the entrepreneurs, until many more studies on the issue are done in the future, failures of the small Indigenous enterprises should not be quickly associated with managerial skills of the owners. This is substantiated further by Abdullah *et al.* (2009) that management factors are not the main contributor to business failure. Of the 479 respondents studied, they found that the most contributing factors to business failures were among others due to their inability to compete (26.93%), lack of capital (16.28%), employee-related problems (8.14%), and customer-related problems (7.72). Only 6.89% of the respondents attributed business failures to poor management competency. MITI (2006) identified a number of impediments to SME development: but top in the list were not managerial skills. In this connection, limited utilisation of technology and limited involvement in R&D activities ranked first; whilst lack of technical, professional and management expertise turned out to be second.

Conclusion and Recommendation

This paper has confirmed that managerial skills of the Indigenous entrepreneurs are sufficiently high and far above the mid-mean. Probing into two distinct geographical areas found no support for any differences of the entrepreneurs in management, financial and marketing skills. Probably, future studies on the same issue should enlarge the sample size and cover more geographical areas, so that more convincing conclusion can be made about the level of managerial skills of the Indigenous entrepreneurs. Until new research is done, suffice to say that the present generation of the Indigenous entrepreneurs has good managerial skills to run their business. This remark actually provides another avenue for future research in order to compare managerial skills between those who are less educated and more educated, less experienced and more experienced, as well as less trained and more trained.

From theoretical perspective, high managerial skills are a good indication for firm performance of the owners. The high skill level should translate into positive growth for the entrepreneurs' business. However, whether this high managerial skill has positive impact on firm performance should be confirmed by other studies in the future. For the entrepreneurs, they should realize that high managerial skills do not automatically translate into high performance of their business. They must also look into their position in relation to other skills, firm resources and capabilities, and competitive strategies as these factors tend to be more crucial for firm competitiveness in the present globalised world.

For policy makers, support programmes for the entrepreneurs group should not be focused too much on management, financial and marketing skill enhancement, but on other weak aspects. Nevertheless, effective support could only be done when more studies on lead success factors for firms are conducted in near future.

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