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### Internationalization in the North of Malaysia: Profile of Exporting SMES

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#### ABSTRACT

Internationalization SMES. The objective of this empirical paper is to investigate the profile of exporting SMES in Northern Malaysia. The findings clearly shows that the industry was dominated by various ethnicity, young and educated entrepreneur with different legal form of business. SMES do generate job opportunities in the region as well as contributed to the Gross Domestic Product of Malaysia.

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#### INTRODUCTION

Small and Medium Enterprises in Asia was exposed to trade liberations and globalizations since 1993 with the execution of ASEAN Free Trade Area (AFTA). SMES in the region have the opportunity to expand their products and services in the region offering the market with affordable goods and services without compromising on the quality. Consumers in the region have better choices despite of their ever changing needs and wants.

The objective of the study is to investigate the profile of exporting SMES in the North Of Malaysia

##### Literature Review:

Malaysia has been following the dual track of negotiating multilateral trade agreements as well as bilateral Free Trade Areas (FTAs) as a way of strengthening commercial diplomacy, achieving quicker and higher levels of liberalization, and fostering global value chains(GVC) participation. Since signing the Association of Southeast Asian Nations Free Trade Area (AFTA) in 1993, Malaysia's network of FTAs has grown to 12 bilateral and regional FTAs in 2014 with 18 trading partners. Malaysia has emerged in the past 25 years as one of the fastest-growing economies in East Asia and as a significant trading partner of Japan, China, and the United States.

Despite the substantial gains from internationalization, SMEs are under-represented in international trade even in middle-income economies in Asia.

In Malaysia, SMEs account for 97% of all enterprises but only 19% of total exports.

An established body of trade, industrial organization, and technology literature points to the overwhelming importance of firm-specific factors on which competitive advantages are built when it comes to the use of FTA preferences and participation in GVC trade.

With the increased availability of micro data, we can better understand the firm-level characteristics associated with successful participation in GVCs and use of FTA preferences as well as barriers to SME internationalization.

Table 1 shows that exports decreased to 63233.50 MYR Million in July from 64258.40 MYR Million in June of 2015.

Malaysia exports averaged 20326.07 MYR Million from 1970 until 2015, reaching an all time high of 67692.40 MYR Million in December of 2014 and a record low of 328.10 MYR Million in February of 1970. (Department Of Statistic 2015).

Malaysian exports was supported by the flow of foreign direct investments that drove Malaysia's GDP growth in recent years. Malaysia main exports are: electrical and electronics products (33 percent), petroleum products (9 percent), liquefied natural gas (8 percent), chemicals (7 percent) and palm oil (6 percent). Malaysia's main trading partners are: Singapore (14 percent), China (13 percent), Japan (11 percent), the United States (8 percent) and Thailand (6 percent) (National Bank Of Malaysia Report 2015).

Chart 1 clearly illustrates the top ten major exports by products.

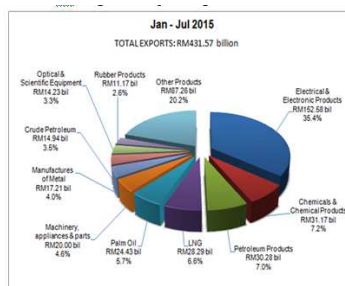
Chart 2 clearly illustrates the top ten Malaysia major imports by products.

**Table 1: Malaysian International Trade.**

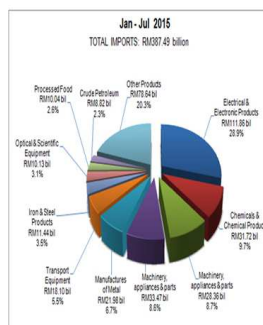
Malaysia Trade	Last	Previous	Highest	Lowest	Unit
Balance of Trade	2383.19	7978.35	15767.47	-2860.61	MNR Million [+]
Exports	63233.60	64238.40	67892.40	328.10	MNR Million [+]
Imports	60850.40	56280.06	63904.05	313.60	MNR Million [+]
Current Account	7600.00	9968.00	47917.00	978.00	MNR Million [+]
Current Account to GDP	7.10	4.20	17.10	-13.20	percent [+]
External Debt	794283.13	768147.32	794283.13	9063.00	MNR Million [+]
Terms of Trade	105.00	104.90	127.00	100.20	Index Points [+]
Tourist Arrivals	2242077.00	1949016.00	2606566.00	458974.00	[+]
Gold Reserves	37.30	37.01	37.30	35.46	Tonnes [+]
Crude Oil Production	675.00	697.00	791.00	489.00	BBLDYIK [+]
Foreign Direct Investment	12488.00	9888.26	37325.00	5121.00	MNR Million [+]
Tourism Revenues	65440.00	60600.00	65440.00	8580.50	MNR Million [+]

**Table 2: Summary of Malaysia's Monthly Trade 2015. Source: Department of Statistics Malaysia.**

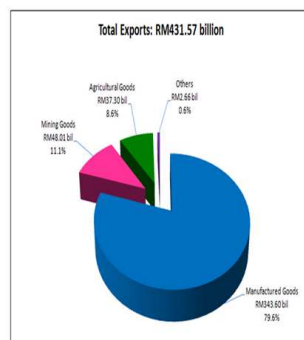
Month	Total Exports (RM Billion)	Total Imports (RM Billion)	Total Trade (RM Billion)	Balance of Trade (RM Billion)
July	63.23	60.85	124.08	2.38
June	64.26	56.23	120.54	7.99
May	60.45	54.94	115.40	5.51
April	60.38	53.52	113.90	6.87
March	66.47	58.64	125.11	7.82
February	53.17	48.61	101.78	4.56
January	63.60	54.65	118.25	8.95



**Chart 1: Top 10 Major Export Products, 2015. Source: Department of Statistics, Malaysia**



**Chart 2: Total Imports Jan-Jul 2015 Source: Department of Statistics, Malaysia.**



**Chart 3:** Major export by products. Source: Department of Statistics, Malaysia

Charts 3 clearly illustrates that Manufacturing Goods is the main contributor for export, followed by mining and agricultural goods.

### Methodology :

#### Procedure and Sample:

This study is confined to selected small and medium-sized enterprises (SMEs) in the Malaysian manufacturing sector in the North of Malaysia. In this study, a small and medium-sized enterprise (SME) is defined as a manufacturing firm with an annual turnover of less than RM50 million and as one which is actively managed by its owner/s. Based on this definition, 5000 SMEs were identified from the 2014 MATRADE listings of exporters.

The data for this study was collected by mail survey. Through the telephone conversations and a follow-up letter the participation of the selected firms are confirmed. Structured questionnaires were then mailed to the top management of the 5000 firms

### Findings:

**Table 3:** Respondents Position in Business.

	Frequencies	Percentage
Owner & CEO	100	40
Owner & Manager	70	28
Manager but not Owner	50	20
Owner but not Manager	15	6
Others	15	6
Total	250	100

**Table 4:** Race.

Race:	Frequencies	Percentage
Malay	50	20
Chinese	150	60
Indian	30	12
Others	20	8
Total	250	100

Table 5 illustrates on the experience of the respondents. It indicates that 96 % of the respondents have more than 4 years experience in the business. While the remaining of 14 percent have either 3 years or even lesser experience.

Table 6 illustrates on the number of business owned. It indicates that 40 % of the respondents owned at least one business. While 60 % never owned a business.

Table 7 illustrates on the level of education of the respondents. It indicates that 72 % of the

respondents owned either a bachelor or a master degree. While the remaining of 16 % are diploma holder and 12 % are school certificates holder.

### Questionnaires:

The structured questionnaire adopted in this study consists of two sections. The first and second sections of the questionnaire which consisted of 15 items were used to obtain the general information concerning the background of the respondents (10 items) and the firms characteristics (5 items).

Table 3: illustrates the position in business. It clearly shows that 28 % of the respondents either manager or owner. While 40 % of the respondents are owner and CEO of the company.

Table 4 illustrates on the respondents composition of races. Majority of the respondents are Chinese which comprises 60 %. Whereas the remaining of 20% are Malays and 12 % are Indian.

Table 8 illustrates the legal form of business of the respondents. It indicates that 70 % of the respondents company is a private limited company. While 20 % are sole proprietor and 10 % of the respondents are partnerships.

Table 9 illustrates on the number of full time employees of the respondents. It indicates that 82 % of the respondents have the minimum of 1 and the

maximum of 100. While the remaining of the respondents that is 18 % have more 100 employees.

Table 10 illustrates on the year of business start up. It clearly shows that majority of the respondents that is 32 % starts their business between 1980-1999. While 20 % starts their business on or after the year 2000.

Table 11 illustrates on the previous ownership of the respondents. It clearly illustrates that 64 % of the respondents are originally private joint ventures. Whereas 6 % are joint ventures, 10% privatization of a state owned subsidiaries, 12 % Private subsidiary of a foreign owned firm, whereas 2% Private subsidiary of formerly state-owned firm and others 6 %.

**Table 5:** Years of experience.

Years of experience:	Frequencies	Percentage
1-3	10	4
4-6	40	16
7-9	80	32
Above 9 years	120	48
Total	250	100

**Table 6:** Numbers of business Owned.

Never	Frequencies	Percentage
1	150	60
2	5	2
3	55	22
4 and above	10	4
Total	30	12
Total	250	100

**Table 7:** Level of education.

Highest education achieved	Frequencies	Percentage
School Certificate	30	12
Diploma	40	16
Bachelor Degree	150	60
Master Degree	30	12
Total	250	100

**Table 8:** Legal Form of business.

	Frequency	Percentage
Private Ltd Co.	175	70
Sole Proprietor	50	20
Partnerships	25	10
Total	250	100

**Table 9:** Number of fulltime employees.

	Frequency	Percentage
1-30	100	40
31-100	105	42
101-200	30	12
201-300	10	4
More than 300	5	2
Total	250	100

**Table 10:** Years of start up.

	Frequency	Percentage
2010 and Above	10	4
2000-2009	40	16
1990-1999	60	24
1980-1989	80	32
Before 1980's	60	24
Total	250	100

**Table 11:** Previous Ownership.

	Frequency	Percentage
Originally private	160	64
Joint venture	15	6
State owned firm	25	10
Foreign owned firm	30	12
Formerly state-owned firm	5	2
Others	15	6
Total	250	100

**Table 12:** Firm's Involvement In Export Activities.

	Observed N	Percentage
yes	250	100
Total	250	100

Table 12 illustrates on the firm's involvement in export activities. It clearly illustrates that 100 % of the respondents are involved in exporting activities.

Table 13 illustrates on the percentage of ownership of the respondents. It clearly illustrates that 78 % of the respondents company are not owned by any government body. While 22 % are owned by government body.

Table 14 illustrates on the percentage of ownership of the respondents. It clearly illustrates that 68 % of the respondents does not owned any business. While the remaining respondents owned between less than 10% to more than 40%.

Table 15 illustrates the percentage of sales for the business in 2010. It clearly indicates that 30 % of

the respondent sales are above 10 millions per year. While the remaining 70 % are RM 10 million and below.

Table 16 illustrates the percentage export sales. It clearly indicates that 28 % of the respondent export more than 40% of their total sales of the products. While 14% export between 21-30% of their products, 6 % exports between 11-20 % and 2 % exports between 1-10 percents from their total sales.

Table 17 illustrates the incremental sale which shows that 92 % experienced sales increment while 8 % did not experience any increment in the past five years.

**Table 13:** Percentage of Ownership by government body.

	Frequency	Percentage
Yes	55	22
No	195	78
Total	250	100

**Table 14:** Percentage of total ownership.

	Frequency	Percentage
0	170	68
Less than 10%	10	4
11-20%	15	6
21-30%	12	5
31-40%	13	5
More than 40%	30	12
Total	250	100

**Table 15:** Total sales for the business in 2010.

Ringgit Malaysia	Frequencies	%
Less than RM 500,000.	5	2
500,001 – 5,000,000.	115	46
5,000,001 – 10,000,000.	55	22
10,000,001 – 15,000,000	25	10
15,000,001 – 20,000,000.	23	9
More than RM 20,000,000	27	11
Total	250	100

**Table 16:** Percentage of Export.

	Frequency	Percentage
1-10%	5	2
11-20%	15	6
21-30%	35	14
31-40%	125	50
More than 40%	70	28
Total	250	100

**Table 17:** Export increment from 5 years of sale.

	Frequency	Percentage
Yes	230	92
No	20	8
Total	250	100

### Conclusions:

The exporting SMES in the North of Malaysia is dominated by various kind of ethnics and educational background. Majority are Chinese followed by the Malays and Indians.

Despite of the country's commitments to encourage internationalization in every aspects of business, the SMES in Malaysia benefited from the WTA and AFTA through bilateral and multi-lateral trading, inter ASEAN. With the execution of trade liberalization the North of Malaysia will become a

new gateway for future international trade activities. Consequently it will be able to generate new growth potential in the Northern Malaysia.

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