

Business Performance of Small Medium Enterprise: Strategic Planning and Customer Focus

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Abstract

Business performance of small medium enterprises has been a vital issue to the management. Moreover in today's economic climate, small medium enterprises competitions are greater than ever may in local or global. This study will focus on the small medium enterprises adoption of strategic planning and customer focus as the total quality management practices toward the small medium enterprises business performance. The results indicate that total quality management implementation has high correlation with business results.

1. Introduction

In order for small medium enterprises (SMEs) to be competitive in the global economy, the importance of quality of their products and services cannot be under estimated. Moreover in today's economic climate, SMEs competitions are greater than ever may in local or global. For SMEs to continue to grow and survive, the quality of goods and services are of paramount importance. Many SMEs in Malaysia lack the resources and knowledge to practice quality management in their operations.

Further with the establishment of various ministries and government agencies, high hopes from SMEs are that they being assisted in the training on quality management practices and encouraged to practice quality management in order to achieve good quality goods and services, and use them as competitive advantages in their business. Thus, the focus of this study is on adoption of strategic planning and customer focus among SMEs and their relationship to business performance in the Malaysian context.

2. Reviews

One of the most widely cited researches on quality management was the International Quality Study conducted jointly by the American Quality Foundation and the public accounting firm, Ernst & Young (Anderson & Sohal, 1999). They studied quality practices of companies covering automotive, computer, banking, and health care firms in the US, Canada, Germany, and Japan. The study concluded that only three quality management practices have a significant impact on performance of business results,

regardless of industry type or country; those are process improvement methods, strategic plan deployment, and supplier certification programs.

Different researchers have defined total quality management (TQM) differently. Stevenson (2002) defined TQM as a quest for quality in an organization and according to him there were three key philosophies in this approach – continuous improvement, involvement of everyone in the organization, and customer satisfaction. Meanwhile, Chase, Aquilano, and Jacobs (2001) defined TQM as managing the entire organization so that it excels on all dimensions of products and services that are important to the customer. Zairi, Letza, and Oakland (1994) defined TQM as a positive attempt by the organizations concerned to improve structural, infrastructural, attitudinal, behavioral, and methodological ways of delivering to the end customer, with emphasis on consistency, improvement in quality, competitive enhancements, all with the aim of satisfying or delighting the end customer. Moreover, Dotchin and Oakland (1992) indicated TQM is a holistic approach, which requires activities such as customer orientation, empowered people, attention to the process, a good quality system, and continuous improvement.

Quality practices had been referred as the use of quality engineering and quality management techniques for promoting quality in an organization (Abdul-Aziz, Chan & Metacalfe, 2000). Further, Rao and Ragu-Nathan (1997) cited factors that underline quality practices and results such as leadership, information and analysis, strategic quality planning, human resource development, quality assurance, supplier relationships, customer orientation, and quality results. Heaphy and Gruska (1995) used the Malcolm Baldrige National Quality Award criteria that provide a framework for improving the quality of products and services of an organization, from the perspective of leadership, information and analysis, strategic planning, human resource development and management, process management, business results, and customer focus and satisfaction. Anderson and Sohal (1999) and Rahman (2001) adopted in their study the framework of the Australian Quality Award

that was very similar to the Malcolm Baldrige Award in the US.

In strategic planning, Butz (1995) stated that fully integrating TQM with strategic planning provides the direction and justification for a successful TQM implementation. When fully integrated, strategic planning process provides direction for the improvement in the business activities of the organization. Thus total integration of the tools of strategic planning within the framework of TQM provides a vision of the future and aligns the organization so that it can provide value to its customers. Meanwhile, Purser and Cabana (1997) mentioned that strategic planning should not be considered the duty of the top management alone. For companies seeking to improve customer loyalty and satisfaction, all employees must contribute to the strategic planning process. Further, strategies that yield success in the future were those that are created by the employees for the customer and strategic planning must be viewed as a continuous, interactive, and democratic process that empowers managers and employees together to create the future of their organization.

Customer focus and satisfaction variables examined the company's systems of building and maintaining customer relationships, satisfaction, and retention (Heaphy & Gruska, 1995). Further, Kanji (1996) suggested that to achieve customer satisfaction the organization had to improve continuously all aspects of its operation. This can be achieved through leadership by making decisions on objective evidence of what was actually happening and involving all employees in quality improvement activities leading ultimately to business excellence; as loyal customers were those that are highly satisfied with an organization's products and services. On the other hand, SMEs were more responsive to market needs, more adaptable to change, and more innovative in their ability to meet customers needs (Youssef, Zairi, Sawyer, & Wale, 2002; Morenzo-Luzon, 1993).

Rahman (2001) studied organizational performance as revenue, profitability, and number of customers. Further, Anderson and Sohal (1999) indicated business performance as competitiveness, sales, market share, employment level, cash flow, and exports. Rao Ragu-Nathan (1997) described quality results as scrap and rework, throughput time, warranty costs, customer complaints, productivity, profitability, market share, operating costs, and competitive position.

3. Framework

Based on the reviews, the theoretical framework was built on the resource-based theory whereby the performance of the organization was dependent on the resources available internally in the organization. Independent variables considered were strategic planning and customer focus. Meanwhile the dependent variables were business performance; and the measurement indicators were product and service quality, operational effectiveness, and financial performance indicators (Heaphy & Gruska, 1995). The framework is depicted in Figure 1.

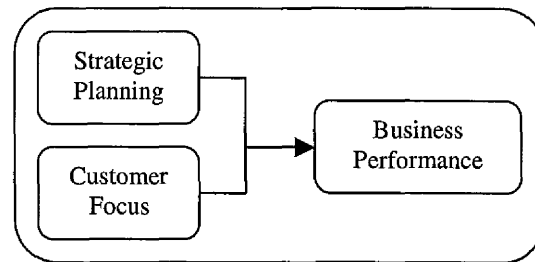


Fig. 1: Theoretical Framework

4. Hypotheses

From the reviews most of the research suggested that strategic planning and customer focus were positively affect business performance. Based on the preceeding reviews, the following hypotheses were examined:

- H1 : There is a positive relationship between level of strategic planning towards business performance.
- H2 : There is a positive relationship between level of customer focus towards business performance.

5. Methodology

The population of this study was all the SME that are listed in the Small and Medium Industries Directory of Malaysia (2002) located in the states of Perlis, Kedah, Penang, and Perak (also known as Northern Region). Two hundred eleven companies were selected through systematic sampling. Structured questionnaires were administered by mail and to be completed by someone in charge of quality in the organization, or the production manager, or the general manager, or the owner.

6. Interim Results

Only 42 completed questionnaires were gathered that give a response rate of 19.9 percent. Penang had the most number of responses making up a total of 62%, followed by Perak (19%), Kedah (17%), and Perlis (2%). Based on employees employed, 71% had

between 50 to 150, and 29% had less than 50. Business turnover, 74% had sales turnover between RM10 million to RM25 million per year.

Asked on quality program, 86% had implemented or started a quality program; 14% had no quality program at all, or considering, or plan to start one. On the other hand for companies with quality program, 38% had implemented for more than 5 years, and 62% less than 5 years.

7. Discussion and Conclusion

The purpose of this study was to investigate the relationship between strategic planning and customer focus towards business performance. Moreover the study discovered that strategic planning and customer focus a positive and significant impact on the business performance of organization and all the hypotheses formulated. A high mean and standard deviation of strategic planning and customer focus were showed as depicted in Table 1.

Table 1: Mean Rating

Variables	Mean	SD
Strategic planning	3.97	0.78
Customer focus	4.36	0.63
Business performance	3.66	0.72

Further, analysis of Pearson’s Correlation Coefficient indicated that strategic planning had $r=0.70$, and customer focus with $r=0.81$. Thus it can be concluded as a significant relationship with business performance ($p<0.001$). This study confirmed the findings of Brah, Tee, and Rao (2002), Anderson and Sohal (1999), and Rahman (2001). Further it also provided evidence that organizations that implemented TQM in totality will derive more benefits than those who only implemented partial practices.

Based on the R-squared (in Table 2), strategic planning, and customer focus shown at least 50% explanatory power on the variance in business performance; and they were significant at the 0.001 level. Thus it was concluded that the hypotheses H1 and H2 could be accepted.

Table 2: Result of Simple Regression Analysis

Variables	R-squared	Sig.
Strategic planning	0.49	0.000
Customer focus	0.65	0.000

Further multiple regression analysis (in Table 3) showed that only customer focus had significant impact on business performance. The result of

multiple regression analysis showed that customer focus and satisfaction have a significant impact on the business performance at the 5% significance level. Therefore SMEs should devote to improve their customer focus and satisfaction by providing goods of good quality at competitive prices and focus on customer requirements and expectations. SMEs should get frequent feedbacks from customers as to their product quality and whether customers were satisfied with the quality of the products or else how the products could be improved to meet customers’ expectations.

Table 3: Multiple Regression Analysis

Variables	Beta	T	Sig.
Strategic planning	-0.125	-0.550	0.586
Customer focus	0.367	2.030	0.050

The findings shown that the important implication for managers and in order for Malaysian SMEs to improve on their business performance, the SMEs needed to focus on customers so that they were satisfied with the products and services offered by the organization. Moreover it is recommended that SME should implement TQM practices in order to enhance their competitiveness in the local as well as the global market, and to provide products and services that meet or exceed customers’ expectations.

8. Future Research

To better understand the TQM practices and their impact on business results in Malaysia, future research should be carried out with much larger samples covering a wider geographical area. Future studies can also be longitudinal, in the sense that the business result is compared before and after implementing TQM practices.

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