A BUSINESS MODEL OF MARKETING CAPABILITIES AND MARKETING PERFORMANCES - THE CASE OF MICRO-ENTERPRISES (MiEs) IN KEDAH

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To the "Allah Almighty"
Who Gave Me This Beautiful Life
And Made Me Understand the Meaning of Education

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Contents

List of Tables

List of Figures

List of Abbreviations

LE	Large Enterprises
MARA	Majlis Amanah Rakyat Mara
MiE	Micro Enterprises
NSDC	The National SME Development Council
RBV	Resource-based View
SME	Small and Medium Enterprises
TEKUN	Tabung Ekonomi Kumpulan Usahawan Nasional

SATU MODEL KERJA KEUPAYAAN PEMASARAN DAN PENCAPAIAN PEMASARAN – KES ENTERPRAIS MIKRO DI KEDAH

ABSTRAK

Keperluan untuk model keupayaan pemasaran yang berkaitan dengan enterprais mikro (MiEs) merupakan sebab utama tujuan penyelidikan ini untuk mengenal pasti apakah keupayaan pemasaran yang diguna pakai oleh MiEs; untuk mengenal pasti apakah pencapaian pemasaran digunakan oleh MiEs; untuk menghasilkan satu model kerja yang mengaitkan hubungan diantara keupayaan pemasaran dan pencapaian pemasaran MiEs; dan juga untuk menguji model kerja yang dicadangkan tersebut. Kajian ini telah dilakukan di negeri Kedah, Malaysia dimana tiada kajian serupa yang pernah dilakukan disini. Pada peringkat awal, kaedah kualitatif telah diguna pakai melibatkan kajian-kajian terdahulu, temuduga dengan tuanpunya/pengurus MiEs dan teknik tinjauan. Kesemua penemuan ketiga-tiga teknik ini telah di satukan melalui "triangulasi" untuk membentuk kerangka model keupayaan pemasaran MiEs. Kerangka model yang dicadangkan tersebut menganbil kira keupayaan pemasaran dan kesannya keatas pencapaian pemasaran. Setelah kerangka model dikenalpasti, ianya telah diuji dengan menggunakan kaedah kuantitatif. Hipotesis kajian telah diuji menggunakan SPSS. Penemuan kajian menyokong hipotesis kajian dan mengesahkan kerangka model ini. Penemuan kajian ini juga adalah menyamai kajian-kajian keupayaan pemasaran yang telah dijalankan dilain-lain tempat. Model keupayaan pemasaran MiEs ini masih baru untuk di nobatkan sebagai satu model generic.

A BUSINESS MODEL OF MARKETING CAPABILITIES AND MARKETING PERFORMANCES - THE CASE OF MICRO-ENTERPRISES (MiEs) IN KEDAH

ABSTRACT

This need for a marketing capabilities model that is applicable to MiEs underlies the principal purpose of this research to identify what are the marketing capabilities applied in MIEs; to identify the marketing performance adopted by MIEs; to come out with a business model depicting the relationship between marketing capabilities and the marketing performance of the MIEs; and to validate the proposed business model of MiEs. This study was done on a developing country market (Kedah, Malaysia) where no marketing capabilities study has yet been carried out. Initially, qualitative methodology was applied with the use of past literatures review, in-depth interview with owner/manager of MiEs and observation techniques. All findings from each category were later triangulated to form a proposed model framework. The conceptual framework considered the marketing capabilities practiced as the independent variables and marketing performance as consequences of marketing capabilities. Later, it was tested with the quantitative survey method. Hypotheses of the study were tested using SPSS tools. The findings of the study supported the hypotheses of the study and confirmed the applicability of the proposed marketing capabilities framework. The findings of this study are mostly consistent with the previous marketing capabilities studies undertaken in other places. This first synthesis model of marketing capabilities for MiEs, is still to be established as a generic model.

CHAPTER 1

INTRODUCTION

1.0 Background of Study

The importance of marketing to firms has been extensively researched and applicable upon all firms irrelative of their sizes. It may sound simple but the actual process is complicated and the complexity of running a business entity increases dynamically moreover in today's dynamic environment. Businesses must be able to generate profit by utilizing its internal capabilities such as marketing capabilities factors that have an impact on its marketing performance.

Much of the research on marketing in small businesses concludes that it is frequently underutilized and misunderstood by small business owner-managers. Carson (1990), has made a strong input to the understanding of marketing practices in small firms and concludes that marketing is often seen as secondary to small firms' requirements and in many instances, small business owners regards marketing as purely selling, advertising or promotion (Patten, 1989). However, Carson (1990) believes small business owners adapt marketing to their own requirements, not according to some theoretical framework. They have a "distinctive marketing style" distinguished by an inherent informality in structure, evaluation and implementation and by being restricted in scope and activity, simplistic and haphazard, product and price oriented, and owner-manager involved.

This research aims at identifying the marketing capabilities of smaller than small firms that is Micro-Enterprises (MiEs) and relates them to the marketing performances of their respective firms.

Marketing capabilities is defined by Day (1994), as the integrative processes designed to apply the collective knowledge, skills, and resources of the firm to the market-related needs of the business, enabling the business to add value to its goods and services and meet competitive demands. Marketing performance is defined as the result of successful marketing activities which generate revenue through increasing sales volume or customer satisfaction (Vorhies & Morgan, 2005). Meanwhile, MIEs refers to an enterprise with number of full time employees of less than 5 and annual turnover not exceeding RM250,000 (based on Bank Negara Malaysia or the Central Bank of Malaysia definition, 2006) normally managed by owner/manager of the respective firms

The chapter begins with the Background of the Study and followed by the Problem Statement and the Research Objectives. This will be continued, with the Research Questions and identification of the Significance of the Study. The later part of this chapter covered the Scope of the Study and Definition of the Key Terms applied in this study and concluded with the summary on the Organization of the Chapters.

1.1 Problem Statement

One cannot ignore the role of MIEs as an integral part of Small and Medium Enterprises (SME's). Of the total business establishments in Malaysia, SMEs accounted for 99.2 percent registrations, out of which 80 percent are MIEs (Bank Negara Malaysia, 2006). SMEs play crucial roles in shaping the nation's industrial future. Some identified the problems faced by SMEs are mainly caused by factors such as lack of capabilities and resources, poor management, low technology, competition, economics, technological, socio-cultural and international factors.

Although, the report highlighted several SME problems, the SME Annual Report 2006 (Bank Negara Malaysia, 2006) also revealed that SME marketing capabilities remains a weak point. The report showed that less than ten-percent of the total registered SMEs undertake some form of marketing and promotion activities. Since the bulk of Malaysian SMEs consisted of MiEs, the marketing problem weighted more on the MiEs rather than other categories of firms. Most businesses may understand the need to properly market and promote their products and services but few have the proper insights into the process of how to go about achieving it and this had driven the proposed study to probe further into the MIEs.

Tan Sri Muhyiddin Mohd Yassin, then, as the Minister of International Trade and Industry in an opening speech launching the Women Entrepreneurs Award 2008 at Seri Pacific Hotel, Kuala Lumpur on 15 September 2008, had iterated among others;

"The Government is aware that businesses are operating in a very challenging environment. The Government has put in place incentives and support programmes to assist the business community. But that alone will not suffice. In the face of these challenges enterprises, specifically SMEs including women-owned enterprises must make optimal use of the facilities provided, and reorientation of their operations, raise productivity and efficiency levels, and strengthen inter-firm linkages and networking. I am sure you will agree with me when I say that to strive in this environment you must create linkages and benchmark yourselves against each other ..." (MITI, 2008,p 2).

In most industrialized economy, MIEs represent by far the largest category of businesses but until now it has not been recognized as an important participant in the market. With over 80 percent of enterprises registered in 2006 in Malaysia are MIEs registered firms and increasing patterns of self-employed workers since early 1990s, the application of marketing principles and management techniques to MIEs should be an important topic for practitioners and academics interested in small business management. While there are many practical publications (manuals) on "how to do marketing in small businesses", there is a lack of academic research in the area, particularly in very small businesses known as MIEs.

There is, however, a general agreement that there is a widespread acceptance of the notion that small firms typically possess certain characteristics, which serve to discriminate them from larger organizations. These characteristics include natural weaknesses with respect to marketing awareness and practice. High failure rates of small firms are largely attributed to weaknesses in financial management and marketing (Carson, 1990). According to a newspaper report, Datuk Ahmad Husni Hanadzlah, then as the Deputy Minister of Malaysia International Trade and Industry has quoted that Malay traders and entrepreneurs need to liberate their way of thinking in order to compete and be successful particularly in the economic sector (Utusan Malaysia, 2007). They should also adopt latest knowledge and technology in order to ward off rising competition and should stop blaming others and quoting discrimination whenever they failed.

Thus, a key task for the firm is to identify those capabilities that will provide a strong competitive advantage. The capability identification process is not a simple operation since the capabilities need to meet a number of challenging criteria; they must be rare, complex and tacit (Johnson & Scholes 1999). Capabilities should be rare because competitors must find them difficult to emulate; they are complex because they are explained by a number of linked factors as in the creation of superior customer value, and they are tacit because they are inextricably embedded in organizational experience and practice (Johnson & Scholes 1999).

Business is set up usually with a particular motive in mind, among which is to make profit. It may sound simple but managing the business is not as easy as pronouncing it with the complexity of running it increases dynamically. Businesses must utilize its internal capabilities and correctly analyze and understand the surrounding external factors that gave impact to their operation. Firms that develop marketing capabilities frequently outperform less marketing oriented rivals (Jaworski & Kohli, 1993; Narver & Slater, 1990).

Several marketing constraints and limitations such as limited resources, lack of specialist expertise applies to most small firms (Carson, 1985). The author continued that these limitations, combined with small business uniqueness, are major factors that influence their marketing practices. Thus, marketing capabilities in small businesses is somehow dissimilar from that in larger firms. Successful small firms grow and progress from a responsive and disjointed organization to a firm with an integrative and proactive approach to marketing, while marketing activities progress from entrepreneurial marketing to professional marketing (David & Wai-sum, 1998).

Despite the recent progress in understanding the marketing capabilities of firms, little is known about the MiEs marketing capabilities and the relationship to marketing performances. Several researchers have identified several marketing capabilities among SMEs and Large Enterprises (LEs). Cadogan, Graham, Matear, & Douglas, (2002); Vorhies & Morgan, (2005); Conant, Mokwa, & Varadarajan, (1990) and Vorhies & Harker, (2000) have progressively identified and promoted marketing capabilities among firms. However, very few researches have been carried out to understand the marketing capabilities of MiEs and the outcome of it. Is it related to the marketing performances? Relatively little attention has, however, been devoted to examining how MiEs has adopted practices marketing capabilities and the relationship towards their marketing performances.

The proposed study intends to explore the marketing capabilities practices of the MiEs. This study focuses on the MiEs marketing capabilities perspective to empirically explore the marketing capabilities practices and their relationship to marketing performance of MiEs in Kedah. This study addresses the important gaps in knowledge regarding to the practices of marketing capabilities; hence aims to explore the variations of marketing capabilities among the MIEs in Kedah, a northern state in Malaysia, and their relationship to marketing performances.

1.2 Research Objectives

The preceding discussion suggests that marketing capabilities or lack of it forms one of the critical factors in the success or failure of small businesses/MIEs. The role and potential of marketing seems, however, to be largely misperceived by the small businesses/MIEs owner-managers who appear to regard marketing from a narrow operative perspective of sales management. Focusing on this controversy, it is argued that there is a need for developing conceptual understanding of marketing capabilities and its main elements within the small businesses management context. The perspective adopted here is called the marketing capabilities of the MIEs.

Kohli & Jaworski, (1990) field study suggested that the economic performance (profitability) and non-economic performance (employees' organizational commitment and esprit de corps, and customer response including customer satisfaction and repeat business) are the possible consequences or outcomes of the marketing. It is notable that, several studies have focused on identifying the marketing capabilities and non-economic performance relationship (Jaworski & Kohli, 1990). In addition, several marketing performance dimensions had been considered and statistically tested as the consequence of marketing capabilities. Thus, this study of marketing capabilities of MiEs in Kedah explored marketing performances from the dimension of non-economic performance measures.

The purpose of the study was to obtain descriptive data on the marketing capabilities and relationship to marketing performance of MiEs proprietors in Kedah, Malaysia. The variables investigated involved practices of the marketing capabilities and the relationship on their marketing performances for enhancing the understandings of Kedah MIEs' environment. The principal aim was to develop a business model of marketing capabilities and marketing performances for MiEs in Kedah. This general goal can be specified with help of the following theoretical objectives:

1. To identify the significant marketing capabilities practiced in MIEs.
2. To identify the marketing performance implications towards MIEs in Kedah that practiced marketing capabilities.
3. To produce a business model depicting the relationship between marketing capabilities and the marketing performance of MIEs.

1.3 Research Questions

In order to provide better insights into the marketing capabilities of MiEs and the relationship to the marketing performances, three research questions were formulated to guide this study:

1. What are the significance set of marketing capabilities practiced among MiEs in Kedah?
2. What are the marketing performance implications for MiEs in Kedah that practiced marketing capabilities?

3. What would be the business model of marketing capabilities and marketing performance of Kedah's MiEs looks like?

This study is carried out in two stages. First, qualitative methodology that encompasses the triangulation of three data collection methods would be utilized to explore the degree of marketing capabilities and marketing performance orientation among MiEs. The findings are validated and examined for evidence in order to present a business model of MiEs marketing capabilities and marketing performances. Second, the business model for the marketing capabilities-driven MiEs firms is tested by examining the relationships through quantitative study.

1.4 Significance of the Study

Though the size of MiEs is considered as micro, but their numbers almost reaches more than 80 percent in terms of business registered in Malaysia. Their contributions in the economic and social sectors are undeniably important to the country. Therefore, studies to understand MiEs would definitely contributed significantly in both practically and theoretically. Findings from this study will extend the growing body of literature in marketing capabilities. The significant contribution of this study can be seen from the emergence of the business model MIEs to probe their marketing capabilities in determining the relationship to their marketing performance. Past researchers have been concentrating on the SMEs and LEs and this is quite normal as MiEs are usually stereotyped as very small, lack of resources as compared to the other types of firms.

This study in marketing capabilities is shaped by two issues, one fundamental and the other practical. The fundamental issue is that the function of marketing is the core organizational function in developing and implementing a strategy that results in sustained advantage. For instance, Treacy & Wiersema, (1993) argues that superior customer value can be delivered through operational excellence, customer intimacy, and product leadership. These strategies are related to marketing capabilities.

In the past studies reviews, the availability of examining a particular marketing capabilities and marketing performances relationship in MiEs studies are limited. Focusing on marketing capabilities of MiEs allows in overcoming the sparse data problem caused by the lack availability of a sufficient number of past studies that examine marketing capabilities in MiEs and its relationship with marketing performance. Existing research produces several studies in the area of marketing where the effects of these marketing capabilities on marketing performance are examined. The study does not claim that this categorization of MiEs marketing capabilities is exhaustive, but it does summarize the impact of the most widely practiced marketing capabilities on marketing performances.

1.4.1 Practical Contributions:

Much can be learnt from the current study especially to gauge the relationship between marketing capabilities and marketing performance of the MIEs in both retailing and services sectors. Understanding the relationship between the marketing capabilities and the firm marketing performances should provide clues on how the MIEs marketing capabilities would affect their marketing performances. It should provide answers on the high marketing performances MIEs is due to its extant of marketing capabilities practiced. It is hoped that the study will contribute to the theory gap in the literature as well as the practice gap for managers and practitioners through its findings. This study might be among the empirical studies using the above business model in the country.

This study will also provide policy makers and practitioners' guidelines in developing more effective marketing capabilities for MIEs. With this study it is able to assist owner/managers in understanding the relationships among these elements, which hold the key to improved performance outcomes.

1.4.2 Theoretical contributions:

This study will give a better understanding of the relationship of marketing capabilities to marketing performances of MIEs. The underpinning theory of Resource-based view (RBV) explains the significance of capabilities as a source of competitive advantage (Barney, 1991, Fahy, 2000, Wernerfelt, 1984). By examining the MIEs, several important contributions to the body of knowledge are noticed. First, the study empirically supported the resource-based view advantage theory of resources and competitive advantage theoretical implications for the MIEs present economy. Second, the study's findings provided critical insights into the MIEs marketing capabilities that may help the MIEs in determining feasible practices .

Finally, the study confirmed the unique nature of the MIEs industry environment and emphasized that great care should be taken in adapting existing measurement scales developed in other categories of business.

1.5 Scope of the Study

The scope of the study encompasses the following criteria:

i. the unit of analysis is at firm level that is the MIEs in Kedah, a state in the northern Malaysia. The study focuses in retailing and services sectors in view of the nature of the business which is more time-framed specific as compared to the construction sector which cannot be quantified and measured at any fiscal year as it usually involves long term project completion period.

ii. The MIEs comprises of sole-proprietors, partnerships and private limited companies with registered office and business operations in Kedah.

iii. The respondents are the MIEs in Kedah with number of full time employees of less than 5 and annual turnover not exceeding RM250, 000 (based on Bank Negara Malaysia or the Central Bank of Malaysia 2006 definition)

iv. As there are no official databases on MiEs in Kedah, the population frame is made available from the government agencies and a co-operative that in their organizational objectives are to serve the needs of MiEs. The final list of the MIEs are obtained by cross-checking and updating the available listings of the MIEs in their respective organizations. The MIEs list is obtained from businesses listed with Majlis Amanah Rakyat MARA Kedah, Tekun Nasional Kedah and Koperasi Pekan Rabu Berhad as these agencies main clients are mostly from MiEs due to their nature of their organizational purposes.

1.6 Definition of Key Terms

The important terms and variables used in this study are adopted from their respective sources and are defined as follows. These terms may be further examined and explained in-depth throughout this study.

i. MIEs refers to an enterprise with number of full time employees of less than 5 and annual turnover not exceeding RM250,000 (based on Bank Negara Malaysia or the Central Bank of Malaysia definition, 2006) normally managed by owner/manager of the respective firms

ii. Marketing capabilities is defined by Day (1994), as the integrative processes designed to apply the collective knowledge, skills, and resources of the firm to the market-related needs of the business, enabling the business to add value to its goods and services and meet competitive demands. For this study, marketing capabilities is define as the marketing tool practiced by MiEs that helps to move their product to consumer.

iii. Marketing performance is the result of successful marketing activities which generate revenue through increasing sales volume or customer satisfaction (Vorhies & Morgan, 2005). As for this study, based from my observation and interview with the owner/manager of MiEs, it is the result of their marketing practices that have relationship with marketing performance.

iv. Majlis Amanah Rakyat, or MARA, an agency under The Ministry of Entrepreneurship And Cooperative Development, is a Government agency established to promote the participation of Bumiputeras, particularly those in the rural areas, in commercial and industrial activities and provides Bumiputeras with commercial or industrial assistance and training. Their customer based would be mostly those from the small businesses categories.

v. Tekun Nasional (TN), an agency under The Ministry of Entrepreneur And Cooperative Development, is a Government agency, has been positioned as an institution for the strategic development of small entrepreneurs. Presently, it not only helps with the provision of business capital but also offers services in identifying business opportunities and ways of generating income, advisory services as well as support and networking help for entrepreneurs. The entrepreneurs are wholly falls into the category of MiEs.

vi. Koperasi Pekan Rabu (KPR) refers to Syarikat Bekerjasama-sama Kebajikan Am Pekan Rabu Alor Setar Berhad, having its business at Tunku Ibrahim Road, Alor Setar, Kedah. The cooperative's membership would be categorically falls under the small business and MiEs.

1.7 Organization of the Thesis

This study is organized into six chapters. Chapter one will be a presentation of the background of the study, the objectives and the research question posed. Chapter two will be a review of relevant research drawn from various studies. It also presents the current situation pertaining to marketing capabilities and marketing performances. The research design and methods used in conducting the study will be introduced and elaborated in chapter three. The qualitative methods which is used to structure the research process is included in this chapter.

Chapter four will report data analysis for the qualitative research explored and also featured a conceptual framework of marketing capabilities based on the literature review, the observation and the in-depth interviews. This chapter also provided the different marketing capabilities perspectives explored and a business model of MiEs marketing capabilities and marketing performances developed.

Chapter five describes the quantitative research methodology and findings in order to validate the proposed business model. It also explains the various tools used for analysis purposes and detailed the findings of the qualitative research. The final chapter of this study, chapter six, presents brief conclusions from the study; highlight significant findings, research implications for both theory and practice, limitations within the study and areas for further research.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter summarizes the past and most current literatures pertaining to the underlying theory that underpins the research and relevancy of variables in this research that is the Resource-based View (RBV) of firms, marketing capabilities and marketing performances. It covers several sections. Section one presents the background of this study location, Malaysia and Kedah, Section two provides the preview of MIEs, while section three discusses the theoretical background. Section four explains the marketing capabilities, and section five on the marketing performances. The final section provides the summary of the whole chapter.

2.1 Background of Study Location

With a population size of 26.13 million people, covering an area of about 329,876 square kilometers, Malaysia is made up of 14 states (including Federal Territory) of which 12 states are in Peninsular Malaysia and two states in East Malaysia of Borneo Island (Department of Statistics Malaysia, 2006). Having achieved its independence 50 years ago, it has transformed from agricultural based economy to a more diversified-based emphasizing on agriculture and bio-resources, manufacturing, industrial activities and services.

The Malaysian economy is expected to expand faster in 2008, with real gross domestic product (GDP) growth projected at between 6 percent and 6.5 percent. Furthermore, global inflation is also seen cushioned by a weaker US dollar, higher productivity growth and proactive measures taken by major economies to curb inflationary pressures. This year, GDP growth is projected at 6 percent with inflation at 2 percent. The brighter outlook for the economy is premised on favorable global growth prospects and positive contribution from all sectors of the economy (Bank Negara Malaysia, 2008).

Kedah, a state in Malaysia with population of 1,778,188, is located in the northwestern part of Peninsular Malaysia. The state's population by ethnic group in 2003 comprises of Malay 75 percent, Chinese 14 percent, Indian 7 percent, non citizens 2 percent, others 2 perc ent (Dep artment of Statistics Malaysia, 2004).The state, plus the island of Langkawi, covers a total area of 9,425 km² and consists mostly of flat areas suitable for rice growing. The state shares its borders to the north with Perlis and internationally with Songkhla and Yala Provinces of Thailand, while to the south and southwest are Perak and Penang respectively. The state's capital and royal seat is Alor Setar. Other major towns include Sungai Petani and Kulim on the mainland, and Kuah on Langkawi Island. Kedah is divided into 12 districts:- Baling, Bandar Baharu, Kota Setar, Pokok Sena, Kuala Muda, Kubang Pasu, Kulim, Pulau Langkawi, Padang Terap, Pendang, Sik, and Yan.

The number of small businesses in the manufacturing and retailing sector in 2006 identified by Kedah State Statistic Department (2008) is 905, ranking 8th spot of all states in Malaysia. The firms has produced a sales turnover of more than RM 1.5 Billion in 2005 as per table 2.1. With the execption of Federal Territory Kuala Lumpur, Selangor and Johor, other states lose out to Kedah in terms of sales turnover per number of enterprises ratio. What is the different approach undertaken by business units in Kedah that makes them excell over others?

Table 2.1

Small Business Unit of Manufacturing and Services

PENYIASATAN SSE 2007 (TAHUN RUJUKAN 2006)
LAPORAN KEMAJUAN SBU (OPERASI LUAR DAN PROSESAN)
MENGIKUT BANCI / PENYIASATAN BERDASARKAN SEKTOR
SEPERTI PADA 20 FEBRUARI 2008

SBU	PEMBUATAN + PERKHIDMATAN												
			JUMLAH								PROSESAN SIAP		
			OPERASI LUAR										
				SIAP				STATUS					
NEGERI	RANGKA SBU	HASIL 2005 RM ('000)	SASAR 100%	A1	HASIL RM ('000)	BA1	JUM	%	Status % A1	% Hasil A1	BIL.	%	HASIL RM('000)
JOHOR	2,415	5,964,514	2,415	1,700	8,580,543	716	2,416	100%	70%	144%	1,249	73%	5,686,103
KEDAH	905	1,504,064	905	571	2,023,409	327	898	99%	63%	135%	499	87%	1,112,457
KELANTAN	383	109,041	383	240	131,533	143	383	100%	63%	121%	240	100%	128,741
MELAKA	711	751,758	711	433	1,129,499	278	711	100%	61%	150%	433	100%	1,081,042
NEGERI SEMBILAN	601	838,748	601	399	1,559,700	202	601	100%	66%	186%	294	74%	605,225
PAHANG	827	446,260	827	463	1,063,136	364	827	100%	56%	238%	375	81%	933,789
PULAU PINANG	1,686	6,864,991	1,686	844	6,411,295	841	1,685	100%	50%	93%	543	64%	1,693,164
PERAK	1,517	1,874,649	1,517	1,059	2,263,010	458	1,517	100%	70%	121%	1,027	97%	2,073,897
PERLIS	55	7,779	55	23	3,691	32	55	100%	42%	47%	23	100%	3,691
SELANGOR	7,177	20,137,350	7,177	1,812	20,686,533	2,555	4,367	61%	25%	103%	1,246	69%	10,478,506
TERENGGANU	614	730,992	614	364	927,385	250	614	100%	59%	127%	364	100%	926,855
SABAH	1,642	2,011,746	1,642	1,072	1,933,471	570	1,642	100%	65%	96%	966	90%	1,901,324
SARAWAK	2,111	2,083,967	2,111	1,167	1,991,850	789	1,956	93%	55%	96%	595	51%	551,563
WP KUALA LUMPUR	3,996	9,891,265	3,996	1,920	9,175,337	2,076	3,996	100%	48%	93%	1,912	100%	8,727,392
JUMLAH	24,640	53,217,125	24,640	12,067	57,880,394	9,601	21,668	88%	49%	109%	9,766	81%	35,903,750

Source: Kedah State Statistics Department, 2008.

2.2 Firm Sizes

So far there have been no universally accepted definitions of firms' sizes as different countries and organizations used different set of criteria to measure the size of the firms. In the absence of a global benchmark for defining firms', a variety of measures, have been developed to define firms in every economy. However, in practice both quantitative and qualitative criteria are used for the definitions. In quantitative, criteria such as firm's total assets, paid-up capital, sales and number of full time employees are commonly utilized. The most commonly used measure; however, is the number of employees. The qualitative criteria includes that the firm is actively manage by its owner (i.e. owner/manager relationship), highly personalized (i.e. depending on owners management style), localized business operations, and rely largely on internally generated capital to finance growth.

Eyre and Smallman (1998) reproduce the Commission of the European Communities (1992) and the European Network for SME Research (1994) groupings as follows: (a) Micro: Zero to nine employees; (b) Small: Ten to ninety nine employees; (c) Medium: One hundred to four hundred and ninety nine employees; (d) Large; Five hundred or more employees.

Understanding of what actually qualifies as a "MIEs" is a fundamental problem that must be addressed if more is to be understood about MIEs and the ways in which they operate. To define MIEs, which is smaller than small enterprise, is of greater difficulty as to defining the small firm. Defining small business is already difficult, and non-exhaustive, what more to define MIEs which is regarded as the smallest size of firm in the 'small businesses' category.

Small businesses and MIEs provide more than two third of all private sector employment in most countries. In today's environment where large urban areas are more attractive to young people and multinational employers, MIEs support has become a very important element of both industrial and regional policy. Small businesses later are usually grouped together with their other counterparts, medium enterprises, to form a category of firm sizes popularly known as Small and Medium Enterprises (SMEs).

Table 2.2
Definitions of SMEs by Countries

Indices	**Japan**	**USA**	**CHINA**	**KOREA**	**TAIWAN**
No. of Employees	***< 300***	***< 500***	***< 500***	***< 300***	***< 200***
Capital/Assets/ Sales/Turnover	***< Yen 100 Million***	***< USD5 Million***	***RMB 50 Billion***	***20 – 80 Won Billion***	***< NT$60 Million***

Source: Economic Report 2004/2005

In Malaysia, however, the definition is only based on quantitative criteria such as the number of employees, amount of capital, amount of assets and sales turnover. Nevertheless, there exist more than one definition of firm and to date there is still no one common definition in the country. The SME's terms is commonly used by various government and semi-government bodies involved in defining and redefining the scope of SME's in Malaysia. Such bodies include the Small and Medium Industries Development Corporation (SMIDEC), Ministry of International Trade and Industry (MITI) and Bank Negara Malaysia (BNM).

The National SME Development Council (NSDC) was established in 2004 to set strategic direction for Government policies on SME development and to ensure coordination and effectiveness of Government programs. The NSDC is the highest policy- making body related to SME development. Bank Negara Malaysia or the Central Bank, serves as the Secretariat (NSDC, 2005) which has grouped businesses into categories of Micro, Small, or

Medium as based on either; the numbers of people a business employs, or the total sales or revenue generated by a business in a year. NSDC has come out with their definitions as per Table 2.3 which depicts the summary of the SME's definition by size.

Table 2.3
Definition of SMEs in Malaysia

Size	***Manufacturing (including Agro-Based) and Manufacturing-Related Services***		***Services Sector including ICT and Primary Agriculture***	
Category	*Annual Turnover*	*Number of Employees*	*Annual Turnover*	*Number of Employees*
Micro	*Less than RM 250,000*	*Less than 5 employees*	*Less than RM 200,000*	*Less than 5 employees*
Small	*Between RM 250,000 and less than RM 10 million*	*Between 5 and 50 employees*	*Between RM 200,000 and less than RM 1 million*	*Between 5 and 19 employees*
Medium	*Between RM 10 million and RM 25 million*	*Between 51 and 150 employees*	*Between RM 1 million and RM 5 million*	*Between 20 and 50 employees*

Source: SME Performance Report 2005

2.3 The MIEs

This study adopts the definition of the MIEs as an independent owner/manager business organization of limited significance within the industry, with their sales turnover of less than RM250, 000, employing less than five employees, where the owner/manager creates a highly personalized management style. This style impacts upon the type and nature of marketing capabilities that can be deemed to be that of MIEs marketing which is different in a variety of characteristics to large company marketing that will be discussed in the later chapter.

Majority of literature focuses on the Small and Medium Enterprises (SME's) and very few studies on MIEs. The task of SME's in industrial growth is more prominent in Asia than in the West. In some Asian countries such as Japan, Taiwan, Korea and China, they are the backbone of the industrial and manufacturing sector.

In Malaysia, SME's represents an important segment of the economy and provides more than one-third of total employment in the country constituting more than 90 percent of total companies registered with the Companies Commission. They form an integral part of the value chain in the overall production network, producing high value-added parts and components and developing themselves as downstream suppliers or service providers for the larger industries. In fact, they are excellent seedbeds for energetic and dynamic individuals to test and develop their skills in business. SME's in Malaysia today existed in almost all sectors of the economy, whether it is manufacturing, construction, wholesale, retail trade, general trading and supply, restaurants and catering, hotels, transport, communication, electrical and electronic, real estates and also rendering professional services.

NSDC has commissioned The 2005 Census of Establishment and Enterprise (Census) (Bank Negara Malaysia, 2006) in order to provide further insights on the state of the SMEs in the country. These insights are certainly useful to policymakers in formulating strategies and programs to strengthen the capacity of the SMEs to contribute to the economy. The Census results show that there are 518,996 SMEs, representing 99.2 percent of total business establishments in Malaysia, while large enterprises (LEs), numbering 4,136 business establishments, made up the remaining. Over 411,849 MIEs made up 79.4 percent of the total SMEs and 78.7 percent of total business establishments in the country. Small enterprises accounted for 18.4 percent or 95,490 establishments, followed by medium enterprises, representing only 2.2 percent or 11,657 establishments.

SMEs in the services sector formed the largest category, with over 449,004 SMEs (or 86.5 percent of total SMEs) engaged in the following services sub-sectors: retail, restaurant, wholesale, transportation and communication and professional services. The bulk of the SMEs of this sector are MiEs (80.4 percent), followed by small (17.6 percent) and medium (2.1 percent) enterprises respectively. The business registration status of MIEs is mostly in the forms of sole proprietorship, while most of the small and medium enterprises are in the form of private limited.

MiEs are smaller than small firms and thus inherit the traits of its counterparts if not worse. Small firms are not just miniature versions of large ones. Burns (2001) claimed that there is a number of distinctiveness typical for small firms, where one characteristic is that they are normally short of cash. Small companies cannot raise capital in the same way large firms can, and thus acts as a constraint on the strategies of the firm. There are several other elementary differences between large and small firms as to how they perform their business. Small businesses are more like social entities and are mainly organized around personal relationships.

Bjerke & Hultman (2002) argue that the small size of a company makes it easier to take advantage of smaller market niches and target a market that is too small for a large company to venture in. The small base of customers is another feature and makes the firm more vulnerable to losing a customer, and the effect of such a loss is therefore tremendously large. Since the scope of a small firm is limited, the firm tends to be over-reliant on a smaller number of customers. Other traits of small firms are that they generally have fewer organizational levels which make the information flow and decision making faster. It also affects the speed of reaction to changes in customer preferences, and small firms tend to react faster than their larger competitors (Bjerke & Hultman, 2002). The last trait discusses by

Burns (2001) has to do with the effects of economies of scale on small businesses. Burns (2001) added that most business textbooks are written to suit large companies, and as a result cannot be applied in the same way on small firms even though the principles are valid.

2.4 Theoretical Background

The theoretical background of this research will comprise the Resource-base View of the Firm (RBV) and the various theories of marketing. RBV will be the anchor theory in this research and has gained prominent attention in the field of strategic management theory. Using RBV of the firm as a theoretical backdrop; I aim to find out the marketing capabilities of MiEs relationships to marketing performances. In following RBV rationale, I model the marketing capabilities of MiEs in the form of input–output transformation. This enables me to understand how a firm is able to optimally use its specific resources to achieve on specific objectives. Such identification of resource usage would provide insights to better resource allocation decisions.

2.4.1 Resource-based View of the Firm

The Resource-based View (RBV) was originally developed by Wernerfelt, (1984) who views a firm as a bundle of resources and capabilities as an attempt to build a consistent foundation for the theory of business policy. '…resources' remain an amorphous heap" (Wernerfelt, 1995, p. 172). A number of articles put forward frameworks for evaluating the RBV and assessing the characteristics that resources need to possess in order to confer a sustainable competitive advantage (SCA).

The potential importance of firm-specific resources was recognized long before the 1980s with economic theory highlighting the impact of firm heterogeneity on competition and attainment of above-normal profit (Chamberlin, 1933). Barney (1991) proposes a framework using four primary attributes – value, rareness, inimitability, and non-substitutability. This theory has been explored in the academic literature as a means of explaining competitive advantage and, in turn, superior performance amongst firms.

The strategic management literature also focuses on competitive advantage (Porter, 1980) and the role of firm strengths/weaknesses. Fahy's, (2000, p. 99) stressed the relationship between "... the firm's key resources and the role of management in converting these resources into positions of sustainable competitive advantage, leading to superior performance in the marketplace". He highlights the firm as a unique collection of resources and capabilities, some of which possess the particular characteristics of value, barriers to duplication and appropriability. In the RBV the contention is that the possession of key resources and their effective development and deployment provide a unique synthesis of elements that allows the firm to achieve and sustain competitive advantage (Amit & Shoemaker, 1993)

The RBV has emerged to be one of the most important areas in strategic management in the last decade. RBV posits that a firm's success is largely driven from resources that possess certain special characteristics. A firm's growth (Penrose, 1959) and competitive advantage (Wernerfelt, 1984) are functions of the unique bundle of resources that it possess and deploys (Barney, 1991).

Resources are typically defined as either assets or capabilities possessed by competing firms which may differ and these differences may be long lasting or sustained (Wernerfelt, 1984; Peteraf, 1993; Barney, 1991). Assets may be tangible or intangible (Collis, 1994)