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FACTORS DETERMINING EFFECTIVENESS IN MALAYSIAN SMALL & MEDIUM ENTERPRISES BY IMPLEMENTING GLOBALIZATION STRATEGY

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Abstract

This research paper aims at identifying the current issues of Malaysian Small & Medium Enterprises (SMEs) to globalize to enter into new market, identifying companies' internal and external barriers, identifying gaps of effective global strategy etc. The seriousness of the study will affix the current knowledge of business situation of effective globalization strategy to progress Malaysian SMEs. Earlier there is a study that has been placed that organizes Malaysia SMEs challenges across discipline for a better perspective to unleash SMEs potentials. In particular, benefaction of the SMEs will be creating employment possibility and providing constant economic development in both ways, enlarging entrepreneurial foundation and expanding human capital. With the implementation of the New Economic Policy (NEP) in 1971 which aimed to improve people's welfare and restructure ethnic, economic imbalances, this step has been shown the importance of SMEs in Malaysia which can be traced back to the early 1970s. The commitment of Malaysian Governments to develop SMEs was further strengthened by the implementation of the Malaysia Industrial Master Plan, particularly the Industrial Master Plan 2 or IMP2 from 2000 to 2005 which

was followed by the IMP3 spanning 2006 to 2020. Among other policies, this plan coincides with the country's vision to be a developed nation by 2020 (MITI, 2005). In this research paper there shall be a significant study on identifying the barriers to globalize and extend the borders for Small & Medium Enterprises (SMEs).

Keywords

Globalization, Malaysian SME, Economic Growth, Successful Business Strategy

1. Introduction

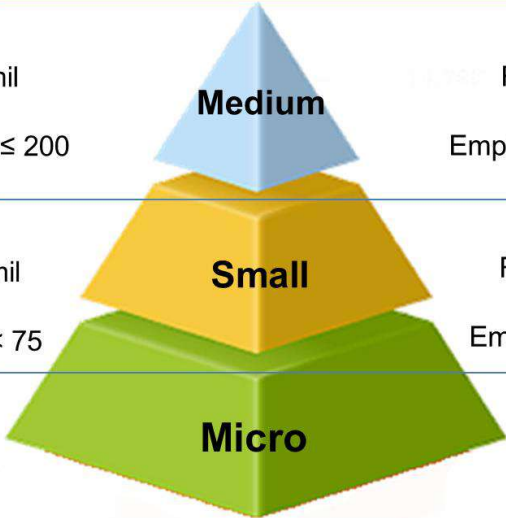
Since the business strategy started being used by companies to have a strong core in the firm and try to not think like a masters chess player who can think two-three moves ahead. It's a game never win, but to continue seeking, for the new opportunity, gaining new skills, and rescuers along the way, continually seeking the next challenge. Business strategy is an opportunity for the company which has decided to enter into a new market with the competitive strategy as good as its competitors'. This paper builds on non-equity mode, which includes export and contractual agreements and equity mode, which includes joint venture and wholly owned subsidiaries the strategic orientation concept originally to evaluate successful business strategy. One of the first known contestants of business strategy was a Greek militarist who lost an election to the position of general to a Antisthenes Greek businessman. The need for the concept of successful business strategy became on demand after World War 2, after the business proceeded from a relatively well balanced environment to a speedily growing and changing and competitive business world. The first modern writers of business strategy [1947] were Von Neumann and Morgenstern with their theory of Games. Having a business strategy for every company is a comparatively important thing. In order to strengthen the SMEs a number of programs and facilities are provided to enhance their performance and competitiveness (Abdullah et al., 2006). In this connection, the Malaysian government has persistently allocated resource for the development of SMEs. In the last 50 years, it has been growing and has become comprehensive and compulsory to have and use for the companies no matter how big it is. It gives the companies the framework for developing abilities for anticipating and adapting to changes (Bakrema, Baum & Mannix, 2002). Enterprises develop the ability to deal with an uncertain future by defining a prosecutor by accomplishing goals. In the last decade the Malaysian market has rapidly grown (Adel Ageel 2011) by involving overseas investors which opened the door to the Malaysian market and gave business to any size of enterprise. This gave many opportunities

for small and medium enterprises to globalize their business and to enter to a new market. The Malaysian government and in particular SME Corporations bear the contribution to encourage SMEs to go globally, which means companies will affix some new study and knowledge of the targeted country. (IMP3 2006-2020). Malaysia is the fastest rising business country in Asia which can provide opportunities in the stabilization of market for any business. (Sik, 1997; NEAC, 2010; Mansor, 2010).

1.1 Definition of SME

According to the Malaysian government a small firm is a company which has from 5 to 75 employees in the Manufacturing Sector and from 5 to 30 in Services the Other Sectors, and a medium firm is a company which counts from 75 to 200 employees in Manufacturing Sectors and from 30 to 75 in Service and the other Sectors. (Table 1) When a company decides to globalize its business it is very important to have a business strategy which helps to lead the company into new market and expand the company to new levels.

Table 1: Definition of SMEs in Malaysia

Manufacturing		Services and Other Sectors
Sales turnover: RM15 mil ≤ RM50 mil OR Employees: From 75 to ≤ 200		Sales turnover: RM3 mil ≤ RM20 mil OR Employees: From 30 to ≤ 75
Sales turnover: RM300,000 < RM15 mil OR Employees: From 5 to < 75		Sales turnover: RM300,000 < RM3 mil OR Employees: From 5 to < 30
Sales turnover: < RM300,000 OR Employees: < 5		Sales turnover : < RM300,000 OR Employees: < 5

(Source: www.smecorp.gov.my)

1.2 Barriers for SMEs

According to previous research small and medium enterprises (SMEs) are having some troubles with entering into new market and with consumers. The most common barriers which firms make can be divided into internal barriers:

- Lack of information on legal questions such as government support and rules and regulations in different countries, trademarks;
- Lack of money and unreasonable spending, which leads to fast bankruptcy;
- Lack of consolidation in the domestic market, which means obtaining the product which is going to be launched into new markets to consumers' needs;
- Lack of vision. Where a company wants to be in 5 years in which position into the market;

External barriers:

- Environmental legislation;
- A financially stable market which is critical to assume the currency;
- Logistics;

Improving the international contributions of the small and medium business sector is widely regarded as an increasingly important policy, priority and the focus of public policy, support in many countries. Factors such as changing consumer preferences, developments in manufacturing, communication and information technologies, and changing competitive conditions provide a favorable environment for small and medium firms' internationalization now and in the future.

Before considering a globalization strategy SMEs may pass the pathways to global expansion, which include domestic market strategies, regional and multi regional marketing strategies, and globalization market strategies. However, nowadays, SMEs often jump off straight from domestic market strategy which is not stable and strong yet, to global market strategy; it may be the common mistake to reach successful global strategy. (Jean- Pierre Jeannet and H. David Hennessy, 2004).

How positioning is moving SMEs abroad?

Essentially, creating an ambitious business strategy and developing a comprehensive technique for competition, developing achievements for the companies and the policies to reach successfully those goals. (M.E.Porter 1980).

Analyzing is the one of the most important factors for companies entering new markets. It is most important to make a decision which will be suitable and leads to success for the companies. There are several strong analyzing systems that enterprises use to expand their business into new countries and enter into the new market.

PESTEL analyzing. Widely used by companies to explore external environments in new countries.

Political analyzing – big picture of political analysis is a critical element in strategizing. Before choosing targets or strategy, we need to closely and critically examine the context enterprises are working on it, which also includes political risk. It is a type of risk faced by investors, corporations, and government that political depictions, events, or conditions will significantly affect the profitability of a business or the expected value of a given economic action.

Economic analyzing – economic analyses is one of the external factors which can seriously affect business. Including interest rates, exchange rates or taxes, those factors may influence SMEs global business strategy either way.

Financial Management should be well informed and make the proper decision about international finance. Charles W. L. Hill (1994) highlights three decisions for Finance Management:

- Investment decisions;
- Financing decisions;
- Money management decisions.

It is critical to make a right decision for Finance Management as a important pathway to enter into a new country, which should be made according to research and based on the results. All decisions complicated by the fact that countries have different currencies, different regulations concerning the flow of capital across its borders, different norms regarding the financing of business activities, different levels of economic and political risk, and so on. (Charles W.L Hill, 1994).

Financial Managers in the international business must consider all these factors when deciding which activities to finance, how best to finance in those activities and how best to manage the companies' financial resources. How it will protect the company from political and economic risks. (R.A. Brealy and S.C. Myers, 1988).

Sufficient financial Management can be inventors of competitive advantages and take a successful part in global business strategy. Creating a financially competitive advantage

requires SMEs to reduce their costs of value creations and get benefit from improving customer service. Good Financial Management can help both, to reduce the costs of value and to improve customer service. (Charles W. L. Hill, 1994).

Socio- cultural analysis- international companies should pay more attention to examining socio- cultural issues, which may be as important as political or economic issues, such as languages and symbols: businesses take into consideration aspects such as the aversion to the number thirteen in the U.S. and the number four in Malaysia, China and Japan.

Holidays and religion observances: companies need to know local religious beliefs if they are to attract customers.

Social and business Etiquette: actions such as gift-giving or receiving can have different undertones in different cultures, etc.

Legal analysis – companies should analyze the legal development in respective environments such as product regulation, employment regulation, competitive regulation, patent infringement, health and safety regulation, etc. legislation in any country can be frequently changed especially, if the country has an unstable political and economical situation. It is critical to examine the environment and try to predict upcoming changes.

Legal analyzing of the targeted country is critically important as it could be related to the political and economic environment etc. A country's laws and regulations can influence business practices, the manner in which business transactions are to be executed, and establishing the rights and obligations of countries which are involved in business transactions. (The Economist, 1990).

Legal and political environments are usually regulated closely as the legal framework within which companies do business, and the laws that regulate business in a country usually are the dominant political ideology. (Charles W. L. Hill, 1994). Moreover, the author highlighted critical issues that SMEs should execute while examining the political and economic, and legal environments in the targeted country; those issues are related to the laws governing patents, copyrights, and trademarks, contract law, and the law covering product safety and product liability.

Technological analyzing – technological factors are one of many factors that can affect business, and are an integral part of PESTLE analysis. Factors which can be related to development and technology, on either a local or global scale.

Environmental analysis- is a strategic decision. Firms must identify all the external and internal components, which can impact the organization's production. Some factors can be dependent on each other.

Jean – Pierre Jeannet & H. David Hennessy (2004) stated that choosing the geographical locations is very important for the companies. Among two hundred countries management will narrow to selecting individual countries in which a company aims to compete. One and the most important components for a marketing strategy at the beginning is the country selection decision. Adding edition also country to a company's portfolio always requires additional investment in management time, efforts and in capital. Therefore companies should be more careful and tactical with selecting the new country. The preparation for global market research is critical for every company which is planning to expand (Jean-Pierre Jeannet & H. David Hennessy, 2004). The research will provide acceptable data and effective analysis for cogent decision- making on a global scale. In opposition marketing research which only covers a domestic region, global research, which covers multinational countries and a large area may face some limitations, such as flexibility, resourcefulness, complexity of research design, lack of secondary data, cost of collecting primary data, coordinating research across the countries and establishing comparability and equivalence (C. Samuel Graig and Susan P. Douglas, 2000).

1.4 Market Entry strategies

Critical for external market is PORTER'S FIVE FORCES' , named after Michele E. Porter, which can be helpful to identify and analyze five competitive strengths that obtains every industry, and may help resolve to an industry's weakness and strengths.

- The threat of New Entry will help companies to state a clear picture of the market place by examining its rivals and the level of competition.
- Examining Competitive Rivalry environment will provide to the companies information of quantity of competitors and its activity.
- Buyer Power force will help the companies to fill the niche in the market based on differences among competitors, price on the goods, cost etc.
- Supplier Power will help the companies to identify number of suppliers or its service, costs, etc.
- Threat of substitution which can be used by companies to win the position on the market.

Using both analyzing opportunities help to provide a detailed picture of the market situation facing the organization. Using one may leave the gaps in knowledge and understanding the problem. (M.E. Porter 1980).

It is the equally important effectiveness in organizations. The theory helps to discover a new direction for future investigation, especially in the coming decade of growing business opportunities. Innovativeness, closeness to customers, management by –walking-around, participative leadership styles are the keys of organizational effectiveness. Small and medium enterprises should pay much of its attention and make a successful part of business strategy. Apparently organizational effectiveness is permanently tied to all theories in organization. The relationship between innovativeness, closeness to customers is important because the result leads to successful business strategy.

2. Research Issues

As all firm's processes, the internationalisation process is accompanied by many risks. If a company decides to participate in the internationalisation process, it is necessary to realise that the entry into a foreign market could mean many specific risks associated with the geographic location of the foreign market, the different economic environment and the differences in legislation in the target market. The individual risks should be seen in context, as they may interact. Once companies decide to commute with an international market, Management is challenged with the duty of setting a geographic or regional location. SMEs may determine to highlight a developed area, such as North America, Japan, or Europe. Some companies may prefer less developed construes in Latin America, Africa, or Asia. Management must strategically decide where to direct a business, so that the company's overall targets are in agreement with the particular geographic mix of its interest. (Jean-Pierre Jeannet & H. David Hennessy, 2004). A comprehensive view of risks associated with the internationalisation process should be integrated in every key decision regarding this process. The risks will also vary with each form of foreign market entry. For example the risk associated with indirect exports is different than with direct investments in foreign markets.

3. Literature Review

The literature which has been studied Define globalization proses of Small and medium enterprises through which companies increase their level of involvement in foreign market over time (Welch and Loustarinen 1988). Companies usually enter into a new market through export and only years later establish manufacturing operations in the target country

(Johansson and Valencia, 1990). Each production element, a component, a device, a subsystem, a module or service bundle, becomes a potential product to compete with in the global market (Ilan Bijaoui 2017). Once the firm has gained globalization experience, it would set its eyes on international markets that are psychically distant. The last stage is the global companies with holistic strategies and overseas partnerships transcending cultural difficulties (Rodriguez, 2007). In the apparel market, supply chains have undergone a profound reconfiguration to meet new market demand for “fast fashion” marked by rapid shipments, higher quality requirements, and low retail inventories. (Fukunishi etc all. 2013). But several authors (Welch, 1997; Crick and Jones, 2000; Casillas and Acedo, 2013) have criticized this hypothesis, arguing that companies do not all necessarily advance by gradually increasing the degree of their globalization. Similarly, critics argue the sequential approach should be considered as being flexible, with no set trajectory along which companies should move during their globalization period (Johansson and Vahlne, 2009; Casillas and Acedo, 2013). This suggestion to the conceptual point of view that the existence of different patterns of international development must be acknowledged.

4. Methodology

The methodology was obtained in this study, including previous offline library research papers, and previous online studies from academic articles and literature reviews on the subject of globalization Malaysian SMEs and challenges regardless of operational, financial, and managerial aspects.



Figure 1: PESTEL

(Sources: www.professionalacademy.com)

According to the study, Malaysian market has rapidly grown and the Malaysian SMEs challenges are not limited and have to be studied constantly. In this article were given theoretical frameworks (PESTLE), which SMEs suggested to use to identify its external barriers, which are faced on the first stage; and (Porters' five Forces), which is suggested to use to identify strengths of the company and position in the targeted market.



Figure 2: M. Porter Five Forces

(Source: https://en.m.wikipedia.org/wiki/Porter%27s_five_forces_analysis).

The articles have been collected from database of management and academic business journals of science. (“International journals of current science “with the keywords: Global strategy of Malaysian SMEs, challenges of SMEs globalization).

5. Findings and Recommendations

Based on studied literature and journals of the SMEs Malaysian business strategy it was found that organizations with difficulties entering into foreign markets are almost the same. Although SMEs are highly acknowledged with a global business strategy in the world, there is no doubt a need of constant study of the factors of a globalization strategy for SMEs.

Provide empirical evidences of SMEs, but will contribute in addition to literature review and knowledge regarding globalization business strategy for SMEs in Malaysia.

However, SMEs should more pay attention and be examining their inner structure. Shush as Knowledge Management, which preferred be with global mindset, or should SMEs hire some employees with international experience, etc. Moreover, SMEs should pay attention to Organizational Culture and probably International workers, will be helpful to deal with International branches and eliminate culture differences or language barriers. Human Research should be studied well as the company going to expand with an international market.

Many researchers identified that culture differences could be not only outside companies, but also inside SMEs. Organizations face not only language, religion and geography barriers while entering into new markets, although differences in national culture affect organizations in many ways, and are widely seen as central to international Human Resource Management (HRM). (Schieder and Barsoux, 2003). Misunderstandings between employees in international companies may lead to serious difficulties during collaboration, and may influence attitudes in international negotiations, which themselves may determine the outcome of investments, trade and ownership within organizations.

The problem of clear definition and measuring national culture of countries is to be one of the main key challenges across cross- cultural research. Hofstede (2001) attempted that a company's culture is formally related to nationality, which can be seen as a central symbolic value to citizens, creating shared ideas, values and meanings transmitted through community.

Differences in national culture are critically important to HRM as in return it impacts on organizational culture. (Tony Edwards & Chris Rees, 2001). Managers and researchers frequently point to the importance of organizational culture as a source of competitive advantage and the one of the strategic key to successful global business strategy.

Charles W. L. Hill (1994) concluded that marketing management face difficulties with culture differences during the pathway to new marketing strategy. Moreover, SMEs related to food and beverages industry (F&B), on the phase of globalization may include some alterations matching consumer needs. Marketers during discussing marketing strategy may point, that countries differ along a whole range of dimensions, including social structure, language, religion and education.

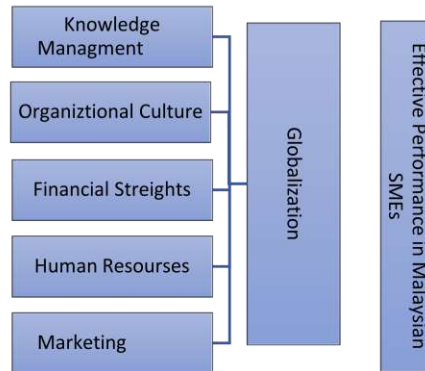


Figure 3: *Conceptual Frame work. (Made by Author. Kateryna Vorobyova).*

Based on Literature and discussions between authors and researchers I would like to suggest the Conceptual Frame Work, where SMEs suggested to examine by stages inner involvement before making decisions of expanding globally. However, it is suggested that with all this information that has been studied, future empirical studies in the area should be focused.

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