The Strategic Planning of SMEs in Malaysia: Types of Strategies in the aftermath of economic downturn

Cheng Wei Hin
College of Business
Universiti Utara Malaysia
06010 Sintok, Kedah, Malaysia
E-mail: cheng.wh@uum.edu.my

Kadzrina Abdul Kadir
College of Business
Universiti Utara Malaysia
06010 Sintok, Kedah, Malaysia
Correspondence author: kadzrina@gmail.com

Abdul Manaf Bohari
College of Business
Universiti Utara Malaysia
06010 Sintok, Kedah, Malaysia
E-mail: manafdr@uum.edu.my

ABSTRACT

During economic downturns, strategic management might be useful for SMEs as they need strategies to survive. The research here looks at whether formal strategic planning is relevant to SMEs and if the Wheelen and Hunger (2008) strategic planning model is applicable to SMEs in the Asian context. For this paper, the aim is to determine the types of strategies that SMEs used in their planning in the period after the economic downturn in 2008-2009. The sample comprised of SMEs in the northern region of Malaysia which covers Perlis, Kedah and Penang and data was collected between September 2010 and December 2010. The findings show that most of the SMEs have strategic planning which resembles the Wheelen and Hunger strategic planning model suggesting that the model is applicable to SMEs in Malaysia. In addition, SMEs seems to prefer proactive strategies such as corporate growth strategies and differentiation for their business strategies.

Keywords: Small Medium Enterprise; Strategic Planning; Downturn, Strategy Type, Malaysia

1. INTRODUCTION

The notion that strategic management is an important management process that can help firms manage their resources, develop competitive advantage and create their future has resulted in extensive literature in this area. While a number of empirical studies have investigated strategic management practices in large firms, researchers in this area had found conflicting results, with some arguing SMEs has formal strategic planning while others argued that formal strategic planning has little practical relevance to SMEs (Robinson, Pearce, Vozikis & Meskon, 1984). This study initiates an attempt to address this issue. A strategic plan is a written document for a company for planning future growth and profitability and as such key to the management success to get more customers. For small businesses, strategic planning is especially important because small businesses are extremely vulnerable to the smallest changes in the place. Most importantly, strategic planning is a “blueprint” to help develop and maintenance of a superior competitive
advantage at the market place. A Strategic Management Planning Model provides a clear indication of the complexions and the linear approach that serves an ideal planning (Wheelen & Hunger, 2008).

Most Strategic Management text suggests models of strategic planning for organizations all around the world. Are these models applicable to all business organizations big or small? Are these models useful for organizations in the Asian context as most of these models were suggested by western scholars? No doubt many research have been done on whether small and medium enterprises do strategic planning, this research looked into the applicability of western Strategic Planning model suggested by these scholars especially that which is suggested by Wheelen and Hunger (2008). Strategic management becomes more important when SMEs are facing uncertainty, as unlike large organizations, SMEs have less access to resources. SMEs are also more vulnerable, they tend to have less number of buyers compared with large firms, or if they service retail, these buyers tend to purchase in smaller amounts compared with business among firms. The last decade has seen a number of uncertainty facing not only regional areas but also globally. Early 2013, US is facing the prospect of the economic ‘fiscal cliff’, while for countries like Malaysia, the oncoming general election could translate into major changes in government, leading to possible impacts on policies and regulations.

For firms, strategic management is the process whereby top management scans and analyse the external and internal factors, make decisions on distribution of resources and manage the firm’s relationship with other stakeholders as well as ensuring an efficient production system (Wheelen and Hunger, 2008). Strategic management becomes more crucial when firms are facing uncertainty, due to either global recession or natural disasters. Carey, Randewich and Krolicki (2011) noted how disasters such as Hurricane Katrina [which occurred in 2004], the Iceland volcanic ash [2010] and the Japan earthquake [2011] have shown how manufacturers have been too reliant on few sources which have lead to large supply chain disruptions as not many manufacturers understand operational risk. The authors noted how Toyota and Honda had suffered major losses during the Japan earthquake in 2011, due to losses suffered by both the automakers as well as their Japanese suppliers. Toyota and Honda are large global firms who have the resources that would enable them to recover. But what about their suppliers, especially their SME suppliers? Even with its resources, the large automakers still suffered. It was reported in December 2012, that Toyota regained its rank as the largest automaker in the world after falling to no. 3 in 2011, due to the impact of the Japanese earthquake. Thus, uncertainty due to economic growth or natural disasters could have a major impact on any organization. Therefore the aim of this paper is to investigate whether formal strategic planning is relevant to SMEs and whether strategic planning model as suggested by Wheelen and Hunger (2008) is applicable to Asian firms. In addition, the type of strategies implemented by SMEs will also be determined.

2. LITERATURE REVIEW

Strategic management can assist firms to make effective decisions and strategies by staying alert to the threats and opportunities in an uncertain and dynamic environment. In addition to assisting firms to make effective decisions as well effective strategies, strategic management can help improve their performance (David, 1999). The notion that strategic management is important for a firm’s success or failure has produced an extensive stream of literature (Burn and Stalker, 1961; Chandler, 1962; Lawrence and Lorsch, 1967; Wood, Robley and Lafortgue, 1979; Rumelt, 1986; Rue, and Holland, 1989; and Bracker et al. 1988). However, in the aggregate, empirical studies have concentrated on large firms in Western business society. While a number of empirical studies have investigated strategic management practices in large firms, little research has focused on this area of management in small-and medium-size enterprises (SMEs), particularly in the Malaysian context. This study initiates an attempt to address this issue. Earlier work on strategic management in SMEs can be traced to the studies by Gilmore (1966 and 1971). More recently, Tourangeau (1981), Curtis (1983), Wheelen and Hunger (1995), and David (1999) have stressed the need for strategic management in SMEs.
Although knowledge in the area of strategic management has expanded, researchers investigating SMEs have given limited attention to this area of management, particularly in the Malaysian context. In Malaysia, studies that examine SMEs from the strategic management perspective are still very rare (Sim, 1991, Sim and Yap 1997, and Hashim, 2000). SMEs contribute to the economy through providing job opportunities, act as supplier of goods and services to large organizations. SMEs are defined by a number of factors and criteria, such as location, size, age, structure, organization, number of employees, sales volume, worth of assets, ownership through innovation and technology (Hashim, 2000). Majority of SMEs have simple systems and procedures, which allows flexibility, immediate feedback, short decision-making chain, better understanding and quicker response to customer needs than larger organizations. In spite of these supporting characteristics of SMEs, they are on tremendous pressure to sustain their competitiveness in domestic as well as global markets. Prior literature has consistently claimed that SMEs in general do not engage in formal strategic planning (Stoner, 1983; Shrader, 1989; Sexton & Auken, 1985; Robinson et al. 1984; Hidde & Masurel, 2000). Even those SMEs that attempt to plan strategically tend to only do so sporadically and inconsistently (Sexton & Auken, 1985). Often, SMEs operators do not actively engage in strategic planning due to the many constraints such as a lack of time, expertise, resources and the eagerness to centralize decision making (Robinson et al., 1984; Mulford, Shrade & Hansen, 1989; Crusoie, 2000; Shadter et al., 1989; Jones, 1982). According to Hashim (2011) SMEs in Malaysia represent majority of the business enterprises in Malaysia and they make up more than 90% of the total number of businesses and they can be found in various industries.

Other studies emphasized more on studying the impact of the choice of business strategy on performance of SMEs (Davig, 1986; Hashim, 2000). Hashim (2000) produced evidence from Malaysian SMEs that the choice of business strategy of focus, differentiation and niche to have favorable impact on financial performance. Others regarded that strategic planning if supported with quality monitoring processes will have a favorable impact on performance (Wijewardana et al. 2004; Cuza, 2009). What is generally accepted is that the depth of planning is positively related to performance (Mulford, et al., 1988; Jones, 1982; Moyer, 1982; Pleitner, 1989). That is to say firms that do plan are expected to perform better than those which do not plan. This controversy is interesting, and there is much to be gain in conducting further research in determining the approach to business planning that would be useful for small firms. In the case of Malaysia, SMEs represents 99.2% of all total business establishments and accounts for 65.1% of the total workforce in Malaysia (Leong, 2006; The Star Business, August 8, 2006). However, this sector only accounts for 47.3% of the gross domestic product, which is significantly lower than other nations like South Korea (50%), Japan (55.3%), Germany (57%) and China (60%), according to a report from National Economy Action Council of Malaysia (Leong, 2001). Also, each year about 37,000 new businesses started for the past 5 years where failure rate is high at about 60% within the first 5 years (Omar, 2006).

There are many factors relating to business failure but past research indicated that management style, experience of senior management and complexity of environmental factors accounts for most the business failures. According to Bradstreet statistics in SME research, they indicated that 88.7% of all business failures are due to management mistakes, which include lack of managerial experience (30%), managerial incompetence (46%) and limited experience in line of goods and services (cited in Mohamad & Ching, 2008).

The impact of recession on SMEs, for example, suppliers could be complex. Gopal (2012) illustrate through a case study on an Indian automotive part manufacturer. The firm, RML, had suppliers who were SMEs, and the firm realised that if they were to ask their suppliers to reduce the price of parts, in addition to lengthening the payment cycle, these suppliers might not be able to commit to such requirement, though RML themselves were facing the same demands from their own customers (Gopal, 2012). Other potential hardship is noted by authors such as Laamanen (2005), who suggest that SMEs or firms who are dependent on their major customers, to be wary of sharing collaborative R&D during an industry downturn and that these dependent firms would be better off doing their R&D on their own,
to avoid possible negative impact on the firm. In addition, Xia and Tang (2011), from the perspective of US automakers suggest that these automakers to rethink the strategy of outsourcing of automotive parts to emerging countries during the global economic recession. This suggest that there is a possibility due to the impact of the global economic recession, global companies might reduce or stop outsourcing of parts to emerging countries. The impact of this on industries focusing on exports in emerging countries is great, especially suppliers who are SMEs, who provide the support to the major, large firms who directly export goods to global firms. These SMEs could lose demand for their own goods if the large, local firms no longer has export demand.

In Malaysia, the impact of the global recession of 2008 could be seen in the real growth rate, as could be seen in Figure 1. In 2010, due to various factors, including government stimulus programs, the growth rate for Malaysia had increased to 7.2% from -1.6%, in 2009. For SMEs, having strategic planning and using the most effective strategies would benefit them, not only in managing uncertainty but also in taking advantage of the opportunity once growth sets in again, and in the case of Malaysia, that could be within the next 12 months after a downturn.

Thus, overall, the impact of either an industry downturn or global recession has a high possibility of impacting on the SMEs, even if they primarily concentrate on the local economy. Therefore, this suggest that determining the strategies of SMEs in phases during a downturn, or phases right before or after, could provide valuable information.

3. METHODOLOGY

The primary goal of this study was to examine whether SMEs do strategic planning, how the strategic planning process was done. In addition, SMEs were asked what type of strategies were used in their firms. The data was collected over a period of weeks from September 2010 to December 2010, as this was a cross-sectional study. The sample of the research comprised of SMEs in the northern region of Malaysia which covered states of Perlis, Kedah and Penang. The population was obtained from the directory of Small Medium Enterprise which is accessible through a website. A purposive sampling was chosen as the sampling design for the reason that the companies which were chosen have to qualify certain requirements before they can be considered as SMEs. In this study SMEs were defined as companies with an annual turnover of less than RM 25 million and as one which employs not more than 150 staff. The data came from two sources: mail questionnaire and self-administered questionnaires. For the questionnaire, two hundred and fifty questionnaires were mailed to the respective SMEs with the help of a research assistant. The respondents were asked on whether they do strategic planning and whether they the four stages in the strategic planning model suggested by Wheelen and Hunger (2008) which is environment planning, strategy formulation, strategy implementation, strategy evaluation and control applied to them.

The strategic planning questionnaire was operationalized using the Wheelen and Hunger Model (2008). At each stage respondents were asked if they used the strategic planning elements or tools suggested by the model by Wheelen and Hunger (2008). As for individual administrated questionnaire, an estimated of one hundred questionnaires were distributed with the help of students. In terms of data processing, five statistical techniques were used for different purposes. These included descriptive statistics, mean, median and standard deviation. For inferential statistics, crosstab results were obtained and chi square results were conducted. The respondents’ demographic variables were analyzed using descriptive statistics such as frequencies and percentages. While other items were measured based on the six point Likert scale. As interval measurement scale have been used in the research instrument, only non-parametric tests such as chi squares were performed to analyze the results.

4. FINDINGS

For this research, a total of 250 questionnaires were mailed to SMEs in the northern states (Perlis, Kedah and Penang) of Malaysia. Of the 118 returned questionnaires, 10
questionnaires were discarded due to incomplete data. Thus, 108 questionnaires were used in the statistical analysis representing a response rate of 36%. Out of 108 companies which responded, 52 (55%) companies were from Kedah, 33 (35%) companies were from Perlis and 9 (9.5%) from Penang. Companies with one owner was the majority (42%), with two owners at 36.1%, three owners (14.8%), while 6 (7.4%) companies have four and more owners. In terms of industry, 73 (77%) companies were from other industries, 5 (4.8%) in furniture, 7 (6.7%) in cosmetics, 3 (4%) in motor vehicle, (7.7%) in hotel and (1%) in education industries. Companies with 10-50 staff was the majority of the respondents (58%), while companies which had 51-100 staff comprised 31%, 101-150 staff (5.6%) and above 151 staff (4.1%) respectively. In terms of start up capital, 34 companies (32%) have a start up capital of less than RM50,000, 28 companies (26%) have a start-up capital of RM 50,001-RM100,000, while 26 companies (27%) have a start-up capital of RM 101,000 – RM500,000. There were only 17 companies (16%) with a start up capital of more than RM500,000. Most companies which responded were had been established for 4-6 years (24%), 10-12 years (17.5%), 1-3 years (16%), 16-18 years (10%) and more than 21 years (9.3%) respectively.

The respondents held positions that include Managing Directors (26%), CEOs (16.3%), Sole Proprietors (16.3%), Managers (16.3%) as well as Senior Managers (8.7%).

SMEs use of strategic planning
To the question of whether they have objectives and formulate strategy, 76% (77 companies) said “yes” out of a total 100 respondents who answered. Using cross tabs and chi-square, each stage of the Wheelen & Hunger model was verified through focusing on the tools and four stages tests.

Wheelen & Hunger Model resemble SMEs strategic planning
On the question whether the Wheelen & Hunger model resemble SMEs type of strategic planning, out of 108 respondents, 59 respondents (54.6%) said “yes”. A Chi Square test was conducted to see if for those who think that if their strategic planning process resembles the Wheelen & Hunger Model, will there be tendency that it will exactly follow the Strategic Planning Model suggested by Wheelen & Hunger (2008). The Chi-Square Test result provided below is significant at 0.000 (p < 0.001); which suggest that if the SME do strategic planning, it will follow Wheelen & Hunger (2008) model.

Types of Corporate Strategies mostly used by SMEs
Table 2 shows the result of the types of corporate strategies used. Out of 105 respondents who answered, the majority 80 (76.2%) used a combination of corporate strategies. This meant that respondents used various corporate strategies at any one time, including integration strategy, product development, as well as stability and defensive strategy. The second highest usage of corporate strategies at 8.6% (9 respondents) was forward integration strategy followed by market penetration strategy at 5.7% (6 respondents). This suggest that a majority of respondents used combination of corporate strategies, and very few used solely defensive (1.0%) or only stability strategies (1.9%). This might also suggest that it is probable that growth-type of strategies is the focus (corporate growth strategies include integration, development and penetration strategies).

Types of business strategies mostly used by SMEs
Table 3 shows the result of the types of business strategies used by SMEs. Compared with corporate strategies, SMEs show a distinct preference for choosing one type of business strategy. For example, the highest percentage (39.4% or 41 respondents) mostly used differentiation strategy. The next highest was focus strategy at 14.4% (15 respondents) and this was followed by combination of cost leadership and differentiation strategy at 13.4% (14 respondents). The least type of strategy used was combination of cost leadership and focus strategy (3.8%, 4 respondents).

5. DISCUSSION OF FINDINGS
The findings of this study focused on two areas. The first area was whether SMEs use strategic planning and if so, if their strategic planning resemble the Wheelen & Hunger model. The findings in this study conclusively showed that a majority (76%) of SMEs in the
northern states of Malaysia uses strategic planning in their organizations. The chi-square results between having objectives and tendency to formulate strategy was significant. Therefore, the finding was consistent with previous researches (David, 1999) whereby companies which have objectives will usually formulate strategies to achieve these objectives.

SMEs who do strategic planning, their planning resembles that of the Wheelen & Hunger model. The findings indicated that more than half the respondents i.e. 59 out of 108 indicated that their strategic planning do somewhat resembles the Wheelen and Hunger Strategic Planning model.

This findings suggest that this research could add to the body of literature on SMEs in emerging countries who implement strategic planning in their firms. In Malaysia, studies that examine SMEs from the strategic management perspective are still very rare (Sim, 1991, Sim and Yap 1997, and Hashim, 2000). In addition, this study also contribute to the confirmation that the strategic planning that is being done, resembles that of the Wheelen & Hunger model.

The second area looked at the usage of corporate and business strategies by the SMEs. The study also showed that both corporate and business strategies are used by SMEs. For corporate strategies, majority of the SMEs (76.2%) tend to use a combination of strategies, with few using stability or defensive strategies. As the study was conducted right after the global recession of 2008-2009, one might expect that more SMEs would adopt defensive or stability strategies. However, this could be explained by looking at the Malaysian real growth rate (see Figure 1). Unlike other countries that might still be affected by the global recession (for example, Europe and US), Malaysia was able to achieve 7.2% in 2010. Taking advantage of this situation, SMEs could have been more proactive and thus focused on growth strategies rather than solely on defensive or stability strategies as one might expect.

For business strategies, SMEs in this study focused on differentiation strategy (39.4%), followed by focus strategies and combination of cost leadership and differentiation. The adoption of differentiation strategy as the one most chosen by SMEs is consistent with the findings of Hashim & Wafa (2003) who found that differentiation strategy (strategy that focuses on product best quality, greet image, best service, premium price and intensive campaign) is the most common strategy adopted by the SME. These findings were also consistent with the findings of other researchers who discovered that companies during a economic down turn are likely to choose a differentiation strategy compared to companies operating in a stable environment (Marlin et al. 1994). In their analysis, Kim and Lim (1988) also found that high performance companies adopt the cost leadership and differentiation strategy in turbulent and different environments. This study supports other studies which emphasized more on studying the impact of the choice of business strategy on performance of SMEs (Davig, 1986; Hashim, 2000). This study is also consistent with that of Hashim (2000) who produced evidence from Malaysian SMEs that the choice of business strategy of focus, differentiation and niche to have favorable impact on financial performance.

The limitation of this study is that it limits the sample to the northern states of Malaysia, specifically Kedah, Perlis and Penang, with respondents from Penang only represented by 9 firms (9%). A suggestion for future research would be to widen the sample to other states as well as further effort to elicit higher response rates from places such as Penang in order to have a more representative sample. A larger sample size would also increase the validity of the findings.

6. CONCLUSION

The focus of this study is to investigate whether SMEs implement strategic planning and if so, whether the strategic planning model of Wheelen and Hunger is applicable. In addition, the study also looks at the types of corporate and business strategies adopted by SMEs. The study was conducted during the phase after the global recession of 2008-2009. Thus, this study could show how SMEs plan and strategize in the aftermath of an economic downturn.
Overall, this research study indicate that the model of Strategic Planning of Wheelen and Hunger is applicable to the practice of SMEs in the northern region. Hence, the implication to theory for this research is that although some theories and model may be written by Western scholars, they are still applicable in the Asian context. In addition, the study suggest that in the aftermath of an economic downturn, SMEs seem to prefer to adopt proactive strategies such as corporate growth strategies and differentiation strategies, and few elect to adopt defensive or stability strategies. Future research could look at a wider area of SMEs to investigate the strategic planning of SMEs.

REFERENCES


Cuza, A.I. (2009). Strategic Performance Measurement System and SMEs Competitive Advantage. The International Conference on Economics and Administration (pp.402-404). Faculty of Administration and Business, University of Bucharest, Romania


**Source:** International Monetary Fund (IMF), 2012

**Figure 1:** Real Growth Rate for Malaysia
### Table 1: Chi-square test

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>101.084</td>
<td>8</td>
<td>.000</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>137.309</td>
<td>8</td>
<td>.000</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>77.347</td>
<td>1</td>
<td>.000</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>108</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Table 2: Type of Corporate Strategy Mostly Used

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Backward integration strategy</td>
<td>3</td>
<td>2.8</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>Forward integration strategy</td>
<td>9</td>
<td>8.3</td>
<td>8.6</td>
<td>11.4</td>
</tr>
<tr>
<td>Market development strategy</td>
<td>2</td>
<td>1.9</td>
<td>1.9</td>
<td>13.3</td>
</tr>
<tr>
<td>Product development strategy</td>
<td>2</td>
<td>1.9</td>
<td>1.9</td>
<td>15.2</td>
</tr>
<tr>
<td>Market penetration strategy</td>
<td>6</td>
<td>5.6</td>
<td>5.7</td>
<td>21.0</td>
</tr>
<tr>
<td>Defensive strategy</td>
<td>1</td>
<td>.9</td>
<td>1.0</td>
<td>21.9</td>
</tr>
<tr>
<td>Stability strategy- do the same thing</td>
<td>2</td>
<td>1.9</td>
<td>1.9</td>
<td>23.8</td>
</tr>
<tr>
<td>Combination</td>
<td>80</td>
<td>74.1</td>
<td>76.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>105</td>
<td>97.2</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>3</td>
<td>2.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>108</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Table 3: Type of Business Strategy Most Frequently Used

<table>
<thead>
<tr>
<th>Business Strategy</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>cost leadership</td>
<td>12</td>
<td>11.1</td>
<td>11.5</td>
<td>11.5</td>
</tr>
<tr>
<td>differentiation</td>
<td>41</td>
<td>38.0</td>
<td>39.4</td>
<td>51.0</td>
</tr>
<tr>
<td>focus</td>
<td>15</td>
<td>13.9</td>
<td>14.4</td>
<td>65.4</td>
</tr>
<tr>
<td>combination (1 and 2)</td>
<td>14</td>
<td>13.0</td>
<td>13.5</td>
<td>78.8</td>
</tr>
<tr>
<td>combination (1 and 3)</td>
<td>4</td>
<td>3.7</td>
<td>3.8</td>
<td>82.7</td>
</tr>
<tr>
<td>combination (2 and 3)</td>
<td>12</td>
<td>11.1</td>
<td>11.5</td>
<td>94.2</td>
</tr>
<tr>
<td>combination (1,2 and 3)</td>
<td>6</td>
<td>5.6</td>
<td>5.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>104</td>
<td>96.3</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>4</td>
<td>3.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>108</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>