

# **SWOT ANALYSIS IN SELECTED SMALL ENTERPRISES IN MALAYSIA**

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**ABSTRACT** *This study examines the practice of strategic planning and relationship of the four facets of strategic planning (strengths, weaknesses, opportunities and threats –SWOT) with the performance of small enterprises in Malaysia. For the purpose of data collection, this study uses self-developed questionnaire and convenient sampling method. A total of 290 selected small enterprise owners in Kuala Lumpur participated as respondents in this study. The results indicate that small enterprises do perform strategic planning activities and there is a relationship between strategic planning in place with the performance of the small enterprises. The implications of the study are discussed.*

**Keywords:** Strategic planning, Small enterprises, Malaysia

### BACKGROUND OF THE STUDY

Many studies show that small and medium enterprises (SMEs) play a central role as the driving engine of growth, job creation and competitiveness in both domestic and global markets. SMEs also play a pivotal role in terms of innovation and productivity growth of a nation (Blackburn & Athayde, 2000; Ndubishi & Jantan 2003; O'Regan & Ghobadian 2002; Siu, 2000; Stonehouse & Pemberton, 2002). However, according to Megginson, et al. (2006), small enterprise owners often fail to recognise potential opportunities available for them to expand their businesses further. It is believed that small enterprise owners are not aware of the need or significance to analyse the internal and external business environment. Moreover, it is customary to find that most of them have no specific policies in conducting their businesses. Poorly planned growth and failure to foresee the stages of growth can pose a real problem for small enterprise owners.

The purpose of this study is to extend the previous findings (Blackburn & Athayde, 2000; Ndubishi & Jantan 2003; O'Regan & Ghobadian 2002; Siu, 2000; Stonehouse & Pemberton, 2002) by examining the nature and practice of strategic planning in a different environmental context; that of the small enterprises in the developing transitional economy of Malaysia. Due to the great contribution of SMEs and the importance of strategic planning for businesses, it

becomes a particular interest of this study to examine the practice of small enterprise on strategic planning and to explore the strengths, weaknesses, opportunities, and threats of small businesses in Malaysia. This study aims to identify the possible opportunities that small enterprise owners can attain when embarking in this form of business. Such opportunities aforementioned can be in the form of development and enhancement, well-planned business strategies not only for personal satisfaction and generating income but also in boosting economic advancement of the country, as well as providing healthy competition in the business sector. Secondly, in any kind of business, threats and obstacles are inevitable and this also applies to small businesses. For this reason, the weaknesses in establishing small businesses will be highlighted in this study so that a clear picture can be obtained in addition to providing small business owners with suitable solutions for the progress and expansion of their businesses. Nevertheless, the threats or drawbacks for engaging in this type of business will be discussed so as to overcome barriers that can hinder small business owners from achieving success and development.

## **1.2 Small Businesses in Malaysia**

Malaysia adopts a common definition of SMEs to facilitate identification of SMEs in the various sectors and sub-sectors of the nation. This has facilitated the government to formulate effective development policies, support programmes as well as provision of technical and financial assistance. In this study, small enterprise refers to enterprise that has sales turnover between RM250000 and less than RM10 million, or full time employees between 5 and 50 (<http://www.smidec.gov.my>). In Malaysia at present, the SMEs account for more than 80 per cent of the total manufacturing establishments in the country. In addition, SMEs provide opportunities to not less than 35 percent from total workforce in the manufacturing sector (Fong, 2002). The majority of SMEs are still concentrated in the traditional sectors of: food and beverages (20 per cent), fabricated metal products (18 per cent), wood and wood products (17 per cent) and basic metal (4 per cent). The SMEs continue to undergo intensive product specifications, design and

engineering activities, improvement in marketing and distribution to enhance further their growth and prosperity especially in preparing them for the global market. Efforts have been exerted to improve technology accumulation and to enhance the quality of their labour force through education, experience and skills development by optimizing the benefits and incentives made available by the Malaysian government. Various programmes have been implemented to nurture the technological capabilities and enhance the productivity of small businesses.

## **2.0 LITERATURE REVIEW**

Stonehouse and Pemberton (2002) defined strategic planning as the devising and formulation of organisational level plans that set the broad and flexible objectives, strategies and policies of a business, driving the organisation towards realising its vision in the future. According to Kraus et al. (2006), smaller enterprises do in fact plan, and most small enterprises even plan in a formal way and use rather larger time spans for planning. However, according to Stonehouse and Pemberton (2002), planning in smaller enterprises is rarely supported by planning instruments, since most of the respondents reported that they plan intuitively, and do not use planning instruments. As asserted by Hodgetts and Kuratko (2001), with thorough planning in organising one's business, opportunities will be effectively utilised by small enterprise owners. In fact, the abilities and personal characteristics of the owner exert a powerful influence on the success of a small enterprise. Likewise, the methods and procedures adopted are also determinants of the success of a particular business. It is essential for small enterprise owners to have appropriate market strategies for them to be able to detect worthy opportunities for their business advancement.

According to Lyles et al. (1993), research has shown a rather consistent positive relationship between the extent of planning activities and the performance of small enterprises. Peel and Bridge (1998) reported a strong positive relationship between the success of SMEs and the degree of long-term planning undertaken. In another study, Dincer et al. (2006) also found

that there is a positive association between planning and performance, particularly in dynamic and complex industries. As asserted by these authors, the standard approach to strategic planning would incorporate an external environmental analysis to identify the opportunities and threats facing the organisation, and an internal analysis to identify the organisation's strengths and weaknesses. In a study by Siu (2000) on small firms in Hong Kong, it is found that the input of marketing to the strategic planning process is significantly associated with the performance of small firms.

Small enterprises in general, are not professionally managed due to the lack of management expertise. Small enterprises commonly have to deal with much threats and problems. Among the major threats facing small enterprises are the constraints of limited financial and managerial resources, and the lack of essential skills in managing consumer dissatisfaction; such as expertise in consumer behaviour and marketing research (Coskun & Altunisk, 2002). Small enterprises are less able to capitalise on market opportunities brought about by regionalization and globalisation, as a result of their limited technical and financial capability. Furthermore, they are also vulnerable to economic pressures such as boycotts, fines, as well as costly implementation of government regulations. Whilst small enterprises face limited scale economies which result in higher costs and prices, small manufacturers have limited control over distribution practices and little contact with final consumer compared to retailers. Despite these disadvantages in their attempts to develop a strategy towards consumer affairs, small firms have their own unique advantages. Unlike larger businesses, smaller enterprises have less communication gaps with consumers. Frequent interaction with customers provide smaller firms with an in-depth understanding of consumer needs and enable them to react quickly on a personal basis to meet and satisfy customer needs and wants. More or less, these strengths could be utilised by small enterprises to present competitive opportunities as long as it is combined with a well-planned business strategy.

There is a good reason to expect that small firm managers do not necessarily seek information in response to global perceptions of uncertainty, but rather they seek information as they interpret specific issues in their environments. According to Lang and Calantone (1997), successful managers of firms of all sizes have long appreciated the value of environmental information. Consequently, proficient strategists scan and gather data to increase the effectiveness of their strategic planning processes. In their study, the successful use of the opportunity and/or threat categorization appears to provide meaningful stimuli to the responding managers.

Based on the literature reviewed, this study aims to test the following hypotheses:

H1: Small enterprises do perform strategic planning.

H2: There is a positive relationship between strategic planning activities with the performance of small enterprises.

### **3.0 METHODOLOGY**

#### **3.1 Sample and Data Collection**

The scope of this study is limited to small enterprises that operate businesses in the city of Kuala Lumpur. In total, 290 small enterprise owners participated as respondents in this study. The sampling method was based on convenient sampling. The performance of the enterprise is measured by two categorical variables: an increase in last year sales, and an increase in the number of employees.

#### **3.2 Instrumentation**

A specially constructed questionnaire was developed and personally distributed to the respondents. The questionnaire consists of three parts. The first part consists of five questions enquiring the background and the performance of the enterprise. Such questions include type of business, number of employees, sales turnover, growth in sales, and an increase in the number of employees. The second part of the questionnaire sought to know of the enterprise owners'

practice towards strategic planning; such include whether the enterprise has a written mission statement and whether the enterprise has any person responsible for the strategic planning of the enterprise. The final part of the questionnaire consists of 40 items asking the enterprise owners about the strengths, weaknesses, opportunities, and threats of their businesses.

### **3.3 Data Analysis**

The data was analyzed using Statistical Package for Social Science (SPSS). Descriptive statistics such as frequencies, percentages, means, and factor analyses were applied to make some meaning of the data collected. First of all, a reliability analysis was done for all of the items in the questionnaire for internal consistency. The details of the analysis are displayed in Table 1. Factor analysis was done on the 40 items measuring the SWOT of the enterprise. This analysis produced four factors. The items were carefully selected from each factor. Items selected were based on factors loading above 0.30, and those not loaded high in another factor. Another reliability analysis was done for the selected items in each factor. All the selected items were found reliable, and the factors were then labelled accordingly. Finally, to test the hypothesis, a discriminant analysis such as Chi-Square test was done to examine the practice of strategic planning and to test the relationship between strategic planning and the performance of the enterprises.

## **4.0 FINDINGS**

### **4.1 Respondent Background**

There were 290 small enterprise owners who participated as respondents in this study. As shown in Table 2, about 57 per cent of the respondents are in retail business, 22 per cent in service, and 20 per cent in manufacturing business. Table 3 shows the previous year sales turnover of the enterprises. Sixty percent of the respondents reported they have less than RM1 million sales turnover last year, 30 per cent have more than RM1 million but less than RM 2

million sale turnover, and another 10 per cent have more than RM 2 million sales turnover sales last year. The enterprises which participated in this study are relatively small in size. As shown in Table 4, about 70 per cent of them have less than 10 employees.

### **Planning Characteristics**

The main objective of this study is to discover the extent to which strategic planning is done among small enterprises and to further examine whether strategic planning as such has any relationship with the performance of the enterprises. The performance of the enterprises was measured by an increase in sale and an increase in number of employees. Table 6 shows that about 55 per cent of the respondents reported that their businesses have an increase in last year sales, and more than 50 per cent of the respondents indicated that they have an increase in the number of employees.

The respondents were also asked whether or not their businesses have a mission statement, have a set of long-term objective, and have any person responsible for strategic planning in their company. As displayed in Table 6, more than 55 per cent of the respondents indicated that their companies have a mission statement; more than 76 per cent indicated that their companies have a set of long-term objective; and more than 76 per cent indicated that their companies have a group of individuals with specific responsibility for business and strategic planning. However, more than 82 per cent stated that their companies do not have a person with specific responsibility for identifying the opportunities and threats in the external environment.

The respondents also were asked to indicate their level of agreement to statements examining the strengths, weaknesses, opportunities, and threats of their businesses. The respondents slightly agree (mean 3.681) that their businesses have strengths, and they slightly disagree (2.169) that their businesses have weaknesses. In terms of opportunities, the respondents slightly agree (mean 3.650) that their businesses have opportunities, and slightly disagree (mean 2.416) that their businesses have threats.



Nonparametric test of Chi-Square was conducted to test the first hypothesis (H1: Small enterprises do perform strategic planning). The results in Table 7 show that the enterprises have a written mission statement (Chi-Square = 3.103, Sig. = 0.078), have a set of long-term objective (Chi-Square = 83.917, Sig. = 0.000), have a person or group with specific responsibility for identifying opportunities and threats in the external environment (Chi-Square = 119.297, Sig. = 0.000), have a person or group with specific responsibility for identifying the strengths and weaknesses (Chi-Square = 0.345, Sig. = 0.557) and have a group with specific responsibility for business and strategic planning (Chi-Square 83.917, Sig. = 0.000). Three of the strategic planning activities are statistically significant, so it is concluded that the hypothesis is partially accepted.

For the second hypothesis (H2: There is a positive relationship between strategic planning activities with the performance of small enterprises), a discriminant analysis was performed. The results in Table 8 show that the hypothesis is partially accepted. Four out of five strategic planning activities have positive relationship with the performance of small enterprises. Specifically, there is a significant relationship between having a written mission statement with the company's increase in sales (Pearson Chi-Square = 26.786, Sig. = 0.000) and there is also significant relationship between having a written mission statement with an increase in the number of employees employed (Pearson Chi-Square = 30.665, Sig. = 0.000). The results also show that there is significant relationship between having a set of long-term objective with an increase in sales (Pearson Chi-Square = 23.979, Sig. = 0.000) and an increase in number of employees (Pearson Chi-Square = 24.410, Sig. = 0.000). There is a significant relationship between having a person or group with specific responsibility for identifying strengths and weaknesses of the enterprises with an increase in sales (Pearson Chi-Square = 7.080, Sig. = 0.000), and with an increase in the number of employees employed (Pearson Chi-Square = 7.284, Sig. = 0.007). Finally there is a significant relationship between having a group with specific responsibility for business strategic planning with an increase in sales (Pearson Chi-Square =

23.979, Sig. = 0.000) and an increase in the number of employees employed (Pearson Chi-Square = 24.410, Sig. = 0.000).

## **5.0 DISCUSSION AND CONCLUSION**

In conclusion, the findings of this study support the relevance of several previous studies (Dincer et al. (2006); Lyles et al. (1993); Peel & Bridge (1998); Siu (2000)) where the small enterprises do perform strategic planning activities and there is an effect of strategic planning on the performance of small-medium enterprises.

A number of implications for management practice arise from the findings. First, small enterprise owners appear to have greater commitment to the formulation aspects of strategy and relatively less commitment to the implementation and evaluation of strategy. The enterprises have people responsible for strategic planning but they do not have people responsible for identifying the weaknesses and threats of the business. Second, the enterprises do not focus on long term planning, as planning in most small enterprises are very much subjected to short time horizon, which generally indicate a short-term perspective. Small business owners should be encouraged to adopt a longer time horizon when engaging in the planning process.

Essentially, proper and careful strategic planning among small enterprises is vital regardless of its relatively diminutive feature as compared to big enterprises. To remain healthy and competitive, small enterprises must be as ambitious and vigilant of the business environment as big enterprises. This is so to ensure the secured and healthy growth of small emerging enterprises is sustained to succeed in both domestic and global markets.

The limitation of this study is the sample of more than 50 per cent of its respondents of being retailers. Retailers may have a different approach towards strategic planning as compared to manufacturers. The low initial set up cost for retailers may influence their practice in planning. If future study can differentiate the strategic planning practices and performance of the different types of small businesses it would be more interesting and meaningful.

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Table 1: Reliability Analysis of Studied Variables

<b>Variable</b>	<b>Cronbach Alpha</b>
Background	0.735
Strength	0.807
Weakness	0.818
opportunity	0.795

Table 2: Distribution of the Respondents

<b>Type of business</b>	<b>Frequency</b>	<b>Percent</b>
Manufacturing	60	20.7
Retail	166	57.2
Service	64	22.1
Total	290	100.0

Table 3: Distribution of Respondents based on Last Year Sale Turnover

<b>Amount</b>	<b>Frequency</b>	<b>Percent</b>
Less than RM1 million	174	60.0
More than RM1 million but less than RM2 million	87	30.0
More than RM2 million	29	10.0
Total	290	100.0

Table 4: Distribution of the Respondents based on Number of Employees

<b>Number of Employees</b>	<b>Frequency</b>	<b>Percent</b>
Less than 10 people	206	71.0
10-20 people	59	20.3
21-30 people	25	8.6
31-40 people	0	0
41-50 people	0	0
Total	290	100.0

Table 5: Factor Analysis and Reliability Analysis for SWOT Analysis

<b>Item</b>		<b>Factor 1</b>	<b>Factor 2</b>	<b>Factor 3</b>	<b>Factor 4</b>
S5	My business is adaptable to technology	<b>.0.555</b>	0.007	0.256	-0.519
S6	We always innovate our products	<b>0.465</b>	0.006	0.333	-0.428
S7	My business has cost advantage over competitors	<b>0.644</b>	-0.149	0.241	0.001
S9	We have competitive advantage over our competitors	<b>0.523</b>	-0.319	0.251	0.157
W1	My business has no strategic plan	-0.009	<b>0.497</b>	-0.183	0.132
W2	My business is in poor financial position	-0.136	<b>0.529</b>	-0.201	0.317
W3	We are under-staffed	0.003	<b>0.659</b>	-0.004	-0.008
W5	My business has insufficient market strategy	-0.278	<b>0.636</b>	-0.002	-0.002

W6	Our employees have wrong combination of personal skills	-0.001	<b>0.666</b>	0.000	0.192
W7	The profit in my business decreased	-0.001	<b>0.695</b>	0.006	0.001
W8	We have out-dated product line	-0.007	<b>0.499</b>	-0.166	0.147
W9	My business has limited distribution network	-0.425	<b>0.555</b>	0.000	0.009
W10	My business has poor marketing materials	-0.341	<b>0.620</b>	-0.009	0.346
O1	My business skills are transferable to new products	-0.000	-0.004	<b>0.499</b>	-0.174
O2	Our products expansion can meet new market demand	-0.007	-0.319	<b>0.690</b>	-0.175
O3	Customer demand for our products is increasing	0.192	-0.396	<b>0.445</b>	-0.264
O4	We have new technologies that create more opportunities	0.486	-0.000	<b>0.658</b>	0.104
O5	We expanded our business into additional product line	0.007	0.002	<b>0.769</b>	0.130
O6	My business has global sales opportunities	0.281	-0.000	<b>0.647</b>	0.106
O10	I have strategic partners that create more sales	0.004	-0.150	<b>0.721</b>	0.008
T4	There is new trade regulation effect my business	0.003	0.148	0.000	<b>0.715</b>
T5	There is change in demand that affects my business	-0.008	0.430	0.135	<b>0.532</b>
T6	My supplier increases their cost	-0.302	0.174	0.136	<b>0.433</b>
T7	Our competitors pulling away our employees	-0.003	0.006	-0.141	<b>0.607</b>
T9	There is demographic fluctuation that effects my business	0.134	0.464	-0.121	<b>0.552</b>
	Variance	20.652	12.127	5.529	5.039
	Reliability	0.701	0.829	0.832	0.712
	Eigen values	8.261	4.851	2.212	2.016

(Notes: F1= Strength; F2 = Weakness; F3 = Opportunity; F4 = Threat)

Table 6: Planning Characteristics

<b>Did your company:</b>	<b>Yes</b>	<b>Per cent</b>	<b>No</b>	<b>Per cent</b>
Experience an increase in last year sale	158	54.5	132	45.5
Experience an increase in the number of employees	146	50.3	144	49.7
<b>Does your company have:</b>	<b>Yes</b>	<b>Per cent</b>	<b>No</b>	<b>Per cent</b>
A written mission statement	160	55.2	130	44.8
A set of long-term objective	223	76.9	67	23.1

A person or group with specific responsibility for identifying opportunities and threats in the external environment	52	17.9	238	82.1
A person or group with specific responsibility for identifying the strengths and weaknesses of your company	150	51.7	140	48.3

**Table 7: Non-Parametric Test Chi-Square**

<b>Statement</b>	<b>Chi-Square</b>	<b>df</b>	<b>Asymp. Sig.</b>
Does your company have a written mission statement	3.103	1	0.078
Does your company have a set of long-term objective	83.917	1	0.000
Does your company have a person or group with specific responsibility for identifying opportunities and threats in the external environment	119.297	1	0.000
Does your company have a person or group with specific responsibility for identifying strengths and weaknesses of your company	0.345	1	0.557
Does your company have a group with specific responsibility for business and strategic planning	83.917	1	0.000

**Table 8: Discriminant Analysis**

<b>Statement of strategic planning activities</b>		<b>Did your company experience an increase in sales last year</b>		<b>Did your company experience an increase in the number of employee employed</b>	
		No (%)	Yes (%)	No (%)	Yes (%)
Does your company have a written mission statement	No	62.3	37.7	67.7	32.3
	Yes	31.9	68.1	35.0	65.0
		(Chi-Square=26.786; Sig=0.000)		(Chi-Square=30.665; Sig=0.000)	
Does your company have a set of long-term objective	No	71.6	28.4	76.1	23.9
	Yes	37.7	62.3	41.7	58.3
		(Chi-Square=23.979; Sig=0.000)		(Chi-Square=24.410; Sig=0.000)	
Does your company have a person or group with specific responsibility for identifying opportunities and threats in the external environment	No	47.9	52.1	52.1	47.9
	Yes	34.6	65.4	38.5	61.5
		(Chi-Square=3.037; Sig=0.081)		(Chi-Square=3.176; Sig=0.075)	

Does your company have a person or group with specific responsibility for identifying strengths and weaknesses of your company	No	53.6	46.4	57.9	42.1
	Yes	38.0	62.0	42.0	58.0
		(Chi-Square=7.080; Sig=0.008)		(Chi-Square=7.284; Sig=0.007)	
Does your company have a group with specific responsibility for business and strategic planning	No	71.6	28.4	76.1	23.9
	Yes	37.7	62.3	41.7	58.3
		(Chi-Square=23.979; Sig=0.000)		(Chi-Square=24.410 Sig=0.000)	