

Malaysia herbal industry: profile of SMES

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Abstract: The review of the small business literature reveals lack of study on the SMES. This study addresses the issue by examining the profile of SMES in herbal industry of North Malaysia. Adapting the stratified sampling method the data was collected from 160 respondents. Findings of the study indicate that the industry was dominated by various ethnicities, young and educated entrepreneur which spur the economic growth of the region.

Key words: Profile of herbal industry in the northern Malaysia

1. Introduction

The small and medium enterprises have been playing a significant role in developing the economic activities of the world. Based on the United Nations (UN) Report 2014, the role of Small and medium enterprises (SMES) are significant in the business system not only for developed nations but also for developing economies in the world (United Nations, 2014).

2. Literature Review

The SMES have been the backbone of Malaysian economic growth. Based on their sheer numbers, size and nature of operations in Malaysia, the role of SMES in promoting endogenous sources of growth and strengthening the economic development was impressive.

Despite their pivotal role in the development process of the New Economic Policy (NEP), Malaysian research involving SMES appears to have been neglected (Hashim, 2015).

Furthermore in Malaysia the SMES are now exposed to the new challenges of globalization. With the execution of World Trade Agreement, there are some opportunities as well as threats, particularly in view of the liberalization of trade and investment under the ASEAN Free Trade Area (AFTA), the ASEAN Investment Area (AIA), the European Union (EU) and the emerging market of the Eastern Europe, India and China.

The interdependence of SMES and large enterprises in collaborating with each other has led to the further expansion of SMES. The potential of SMES to promote domestic-led growth in new and existing industries and to strengthen the resilience of the economy in a competitive and challenging environment is inarguable. Economic growth in developed countries such as Japan, Korea, Taiwan

and many others, was significantly generated by SMES activities.

Fig. 1 illustrates the trend of the contribution of Malaysian SMES to the Overall GDP of the Nation. It clearly indicates that in 2007 the SMES hit the highest point that is 10% of the GDP and badly hit by effect of World Economic turmoil in 2009. In 2010 it recovers almost 9%. From 2010 it decrease slightly and start to grow in 2011 onwards.

Fig. 2 illustrates the percentage contribution of Malaysian SMES to Gross Domestic Product (GDP) is 33% compared to low income countries 16% , middle income countries 39% while high income countries 51%. It clearly indicates that SMES in Malaysia play an importance role to economic growth of Malaysia.

Fig. 3 illustrates the new definitions of SMES. It clearly shows that SMES were being categorized into Micro, Small and Medium. Besides that two main sectors are being separated that is Manufacturing and Services and other sectors.

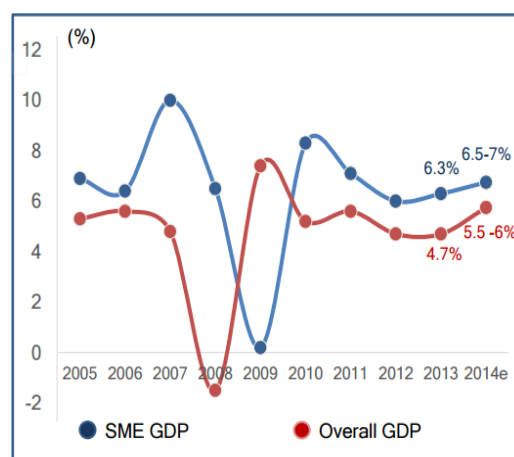


Fig. 1: Contribution of SMES to GDP 2014 (Source: SMECORP 2014)

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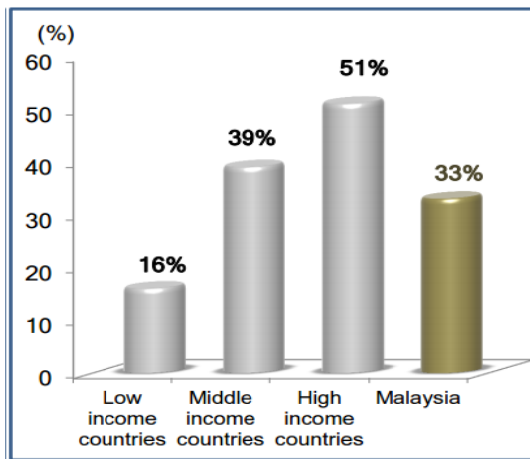


Fig. 2: Contribution of SMEs to GDP (Source: SMECORP 2014)

New SME Definition Based on Size			
Category	Micro	Small	Medium
Manufacturing	Sales turnover of less than RM300,000 OR employees of less than 5	Sales turnover from RM300,000 to less than RM15 mil OR employees from 5 to less than 75	Sales turnover from RM15 mil to not exceeding RM50 mil OR employees from 75 to not exceeding 200
Services and other sectors	Sales turnover of less than RM300,000 OR employees of less than 5	Sales turnover from RM300,000 to less than RM3 mil OR employees from 5 to less than 30	Sales turnover from RM3 mil to not exceeding RM20 mil OR employees from 30 to not exceeding 75

Fig. 3: Definition of SMEs (Source: SMECORP 2014)

Malaysian government has chosen herbs industry as the first Entry Point Project (EPP1) for the nation's Agriculture New Key Economic Area.

At the earlier stage of the EPPI for the commercialization of the herbal industry, five types of herbs were identified with the aim of producing high-value products amounting RM2.2 billion of the Gross National Income (GNI).

The five herbs identified are Tongkat Ali, Kacip Fatimah, Misai Kucing, Hempedu Bumi and Dukung Anak. Followed by six more herb species was added to the project that is mengkudu, roselle, ginger, Mas Cotek, belalai gajah and pegaga. The Malaysian government forecasted the herbal industry to soar over RM2 trillion by 2020. The estimated value is a threefold increase compared to the RM777 billion worth of trade in the herb sector in 2009 (Daily Express, 2013).

2.1. Malaysia herb's classification by product groups

2.1.1. Flavors & fragrance

a. Cosmetics

- b. Perfumes
- c. Oil for aroma
- d. Essential oil
- e. Beverages

2.1.2. Pharmaceuticals/Herbal

- a. Remedies/ Drugs
- b. Vitamins/supplements

2.1.3. Health/ Functional food

- a. Health food
- b. Herbal teas
- c. Herbal supplement

2.1.4. Bio-pesticides

- a. Insect repellent
- b. Crop pesticide
- c. Household pesticide

3. Methodology

3.1. Procedure and sample

This study was based on the information gathered from small and medium enterprise that involved in the herbal industry. Based on the stratified sampling approach the data for this study was collected from companies located in Perlis, Kedah, Penang and Perak. The listing provided by the Global Information Hub on Integrated Medicine and the listing from State Economic Development Corporation of Perlis, Kedah, Perak and Penang. was utilized as the sampling frame.

In the present study, a small and medium sized enterprise was define as a firm with 300 or fewer employees. Based on this criteria a total of 1480 small and medium sized enterprises that are involved in the herbal industry was identified. Out of these 160 agreed to participate and completed the questionnaires. The overall response rate of the study was about 10.8 percent.

By using a structured questionnaire, the data on the profile of the herbal industry was gathered through face to face interview with the 160 owners and managers of the firms.

The breakdown of respondent by states are; 15 from Perlis, 55 from Kedah and 60 from Penang and 30 from Perak.

This study adapted the questionnaires developed by

Hashim et. al. 2003. The structured questionnaires adopted in this study consists of two sections with a total number of 19 questions. Question 1 to 7 in section one was used to obtain the general information concerning the respondents. While questions 8 to 19 in section two

was used to obtain the firms' characteristics.

4. Findings

Table 1: Respondent Ethnicity

Ethnicity	Frequency	Percent
Chinese	111	69
Malay	43	27
Indian	6	4
Total	160	100.0

Source: Own

Table 1 illustrates the respondent profile based on race. It clearly indicated that 69 % of the respondents are Chinese and 27 % are Malays and 4 % are Indian.

Table 2: Age of respondents

Age(years)	Frequency	Percent
20-40	80	50
41-60	64	40
61 and above	16	10
Total	160	100

Source: Own

Table 2 illustrates that 50 % of the respondents ages between 20-40 years old, 40 % ages between 41- 60 and the remaining 10 % ages 61 years and above.

Table 3: Gender

	Frequency	Percent
1.00	97	61
2.00	63	39
Total	160	100.0

Source: Own

Table 3 illustrates 61% of the respondents are male and 39% are female.

Table 4: Marital Status

Marital Status	Frequency	Percent
Married	116	73
Remarried	18	11
Never	19	12
Divorced	5	3
widowed	2	1
Total	160	100.0

Source: Own

Table 4 illustrates the respondent marital status. It clearly shows that 84% of the respondents are married, 12 % never married.

Table 5: Ownership

	Frequency	Percent
Founder	92	57
Cofounder	9	5
Inherited	25	16
Purchased	9	6
Hired	25	16
Total	160	100.0

Source: Own

Table 5 illustrates that 62 % of the respondents are founder, 16 % are hired and 16 % inherited the business.

Table 6: Number of business owned

Class Interval	Frequency	Percent
nil	8	5
1-3	96	60
4-6	32	20
7-9	16	10
Above 9	8	5
Total	160	100

Source: Own

Table 6 illustrates the number of business owned. It clearly indicates that majority of the respondents that is 60 percent owned business min of one and maximum of three .Whereas 20 % owned more than 3 business, while the remaining 5. % did not own any business.

Table 7: Reason for starting business

Reason start business	Frequency	Percentage
Laid off	3	2
Don't like working	3	2
To be own boss	19	12
Develop own ideas	71	44
Make more money	35	22
Family request	29	18
	160	100

Source: Own

Table 7 illustrate that 44% of the respondents start a business to develop own ideas whereas 22% for making money, 18% based on family request.

Table 8: Types of business

Types of business	Frequency	Percent
Sole Prop	72	45
Partnership	32	20
PLC	40	25
PubLCo	8	5
others	8	5
Total	160	100.0

Source: Own

Table 8 illustrates the types of business of the respondents. It clearly indicates that majority of the respondents that is 45% are Sole proprietorship, 25 % are private limited companies, while 20 % are partnership and the remaining 5% are public listed companies and others.

Table 9 illustrates that 60 % of the respondent's breadth of operations are local while 40% operates in the foreign market. Table 10 illustrate that 70% of the respondents start their operations above 1992while 25% in between 1961 and 1991. While 5%start their operations before 1960.

Table 11 illustrate that 35 % of the respondent own business less than 35 % of the equity, while 25 % of the respondent's own equity between 35% and less than 71% and 40 % of the respondents own equity between 71% to 100 %.

Table 12 illustrates the number of business owned. It clearly indicates that majority of the

respondents that is 60 percent owned business min of one and maximum of three. Whereas 20 % owned more than 3 businesses, while the remaining 5. % did not own any business.

Table 9: Breadth of operations

	Frequency	Percent
International	48	30
National	32	20
Regional	16	10
Local	64	40
	160	100

Source: own

Table 10: Start operation

	Frequency	Percentage
1900-1930	4	2.5
1931-1960	4	2.5
1961-1991	40	25
1992<	112	70
Total	160	100

Source: own

Table 11: Percentage of business owned

Class Interval	Frequency	Percentage
1-34	56	35
35-70	40	25
71-100	64	40
Total	160	100

Source: Own

Table 12: Number of business owned

Class Interval	Frequency	Percent
nil	8	5
1-3	96	60
4-6	32	20
7-9	16	10
Above 9	8	5
Total	160	100

Source: Own

Table 13 illustrate that 40% of the respondent sold less than 20 products, 20% sold between 21 to 30 products, 10% sold between 31 to 50 product, 5 % sold between 51 to 90 products while 20 % sold more than 91 products.

Table 13: Percentage of Product sold

Class Interval	Frequencies	percentages
1-20	64	40
21-30	32	20
31-50	16	10
51-70	8	5
70-90	8	5
91<	32	20
	160	100

Source: own

Table 14: Illustrate the number of products that generate 80% of the dollar volume of sale. It shows that 70 % sold between 1-10 products, 10% sold between 11-20 products, while 20 % sold more than 21 products.

Table 15 illustrates the volume of business for the last fiscal year. It shows that 30% of the respondent generates sales volume between RM100,000 to

RM500,000. Whereas 30 % generates sales between RM501,000 - RM2,000,000. While 40% generates sales volume of more than RM,2000,000.

Table 14: Number of products that generates 80 % of sales volume

Class Interval	Frequencies	Percentages
1- 10	112	70
11-20	16	10
21-30	8	5
31-40	8	5
41-50	8	5
Above 51	8	5
	160	100

Source: own

Table 15: Volume of business last fiscal year

Class Interval	Frequency	Percentages
RM100,000-500,000	48	30
RM501,000-1,000,000	24	15
RM1,000,001-2,000,000	24	15
Above RM2,000,000	64	40
Total	160	100

Table 16: illustrates the capital at the business start- up. It shows that majority of the respondent that is 80 % paid up capital at the business start- up is between RM 101,000 to RM 500,000 while 5% their paid up capital at business start- up is above RM 500,000 and 15 % of the respondent paid up capital at business start- up is greater than 1,000,000.

Table 16: Paid up capital at business start- up

Class Interval	Frequencies	Percentage
<100,000	16	10
101,000-500,000	112	70
500,001-1,000,000	8	5
>1,000,001	24	15
Total	160	100

Source: own

Table 17: illustrates the volume of sale at the business start- up. It shows that majority of the respondent that is 60 % volume of sale at the business start- up is between RM 101,000 to RM 500,000 while 20% volume of sale at business start- up is above RM 500,000 and 5 % of the respondent volume of sale at business start- up is more than 1,000,000.

Table 17: Volume of sale at business start- up

Class Interval	Frequencies	Percentage
<RM100,000	24	15
RM101,000-500,000	96	60
RM501,000-1,000,000	32	20
>RM1,000,000	8	5
Total	160	100

Source: own

Table 18: Number of employees at business start up

Class interval	Frequency	Percentage
5-50	128	80
51-100	8	5
>100	24	15
Total	160	100

Table 18 illustrates the number of employees at business start-up. It shows that 80 % of the respondents employs between 5-50 employees at their business start-up. While 5 % employs between 51-100 employees and the remaining of 15 % employs more than 100 employees at the business start-up.

Table 19: Number of employees at last fiscal year

Class Interval	Frequency	Percentage
5-50	96	60
51-100	16	10
>100	48	30
Total	160	100

Table 19 illustrates the number of employees in the last fiscal year. It shows that 60 % of the respondents employs between 5-50 employees at last fiscal year. While 10% employs between 51-100 employees and the remaining of 30 % employs more than 100 employees at the last fiscal year.

5. Conclusions

The SMES in herbal industry in North of Malaysia consists of various kinds of ethnics. Despite of the country's uniqueness, the differences in term of cultural and religion was not a problem for them to work together to enjoy the peace and prosperity of the nation. The industry continue to play a major role in the area providing job opportunities for the population and increasing their market share as the trade liberalizations became a new challenge to the industry. Based on the current situation in the northern region of Malaysia, majority of the owner of SMES in the industry are still young and are well educated hence there is a great potential for the industry to grow.

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