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THE CHALLENGES FOR SMALL MEDIUM ENTERPRISE (SME) IN THE COTTAGE INDUSTRIES

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Abstract:

There were many reasons why challenges happened around the sellers of SME business. The main purpose of this study was to identify the challenges of small-medium enterprises in cottage industries in Kota Bharu. Based on this study, there were literally four challenges of cottage industries in the SME business. The challenges in this study were the growth challenges in human resources, lack of operation management, financial deficiencies and lack in market power. In this study, face to face interview session was conducted and focused on business owners to obtain more information on what challenges they faced while running a small-medium enterprise (SME) business. The thematic content analysis was used to analyse the interview data. The analyse data suggested themes reflect these challenges.

Keywords:

SME, Human Resources, Operation Management, Financial Deficiencies, Market Power

Introduction

A small to mid-size enterprise (SME) is a business that maintains revenues, assets, or number of employees below a certain level. The criteria for determining an SME varies among countries and industries. For the manufacturing sector, SMEs are defined as firms with sales turnover not exceeding RM50 million (currently less than RM25 million) or employment not exceeding 200 workers (currently less than 150 workers). It was such needed review given the

changes that have taken place in the economy since a common definition was adopted in 2005. Even though the redefinition of SMEs may seem like a small initiative, it is undeniably a path-breaking development on a national scale, as it reflects the country's economic realities, development blueprints, national aspirations and growth objectives of the SME Community. It also takes into account the potential for future innovation, job creation, price inflation, and structural shifts in the economy and changing business trends, among others. Cottage industries industry is not significantly affected by economic conditions and is a steady source of employment for those with little or no formal education and qualifications. Cottage industries can be defined as the series of processes that link raw products from farmers to food products for consumers. Raw fruits, vegetables, grains, meats, seafood and dairy products fresh from the supplier undergo a series of manufacturing processes to prepare products for sale to the public. This often includes preservation processes such as canning and freezing.

Sustainable development in SMEs can be defined as the concept and practice undertaken by small, micro-, or medium-sized businesses which embraces business conducted in a socially responsible manner with regard to the way they relate to local and global social, environmental, and economic issues. The definition infers long-term overall commitment to maintaining equilibrium between social, environmental, and economic concerns rather than short-term profits and ad hoc, bolt-on practices. It is a relatively new subject area emerging in management literature in recent years, but with a paucity of research into the practice of SMEs and frequent conflicting misconceptions of definition of the concept.

Consequently, small and medium enterprises need to sustain a high growth rate, to be able to fulfil their full potential. In the first 10 years of a company's existence, the choice is between robust growth and an early demise. Sustained growth requires a consistent stream of new products/solutions, processes and business models. As an enterprise expands, conventional wisdom suggests that it becomes harder to sustain innovation. The novelty of the original problem that the enterprise may have solved. We state the problem statement of the study of the cottage industry which is growth challenge in human resources, lack in operation management, financial deficiencies and lack in market power.

Literature Review

Business Sustainability

Based on global challenges such as climate changes and the need to act responsible, sustainability is a used term which is also not defined in a generally accepted way. Sustainable Development (SD) first came up in 1987 from the World Commission of Environment and Development (WCED), which is also known as the Brundtland report. They define SD as "the development which meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, p. 43). Further definitions support this approach (e. g. Dunphy et al., 2000) or define SD as the aspects of business operations considering environmental, economic and social sustainability (Barlow, 2004). Despite some differences many of them argue that sustainability is one of the key factors regarding future competitiveness and business survival (e. g. Halgado Grandos, 2014).

By looking of the Dimensions of Sustainability, the key issues of sustainability are usually addressed and divided into the three dimensions of economic, ecological, and social factors. They are also known as the Three Pillars of Sustainability. This model is used in local, regional, and national contexts of governance, business, and organizations (Pope and Morrisson-Saunders, 2005). However, the analogy is often criticized because of the unequal consideration,

if one pillar breaks, it does not impact the entire house (Dawe and Ryan, 2002). Economic, value creation, economic performance, and market presence. Environmental is energy/materials flows, emissions, waste, transport or human and nature co-exists. Social is

Work practices, working conditions, diversity and equal opportunities, social policy compliance, health, and human rights (Halgado Grandos, 2014).

According to Campbell (1996) these issues of sustainability result into three conflicts which is grow the economy, distribute the growth fairly, and in the process do not degrade the ecosystem. Decisions and ratings of current situations are required. Twenty-Fourth European Conference on Information Systems (ECIS), İstanbul, Turkey, 2016 3 Schoormann et al. Sustainability in Business Models.

Strategies of Sustainability is for implementing sustainable consumption there are mainly three strategies (Huber, 1995). Efficiency is the strategy is mostly seen as resource efficiency. It aims to reduce environmental damage. It tries to optimize the input-output ratios of production and consumption (Lüdeke-Freud, 2010). Current trends show that efficiency could enhance sustainability only at margins because there is no elementary change in the consumption. From consistency, it tends to bring industry in line with circular approaches of the nature. The ideal is the metabolic cycle which does not generate waste because every output is reused (Lüdeke-Freund, 2010).

Sufficiency. Due to the fact that habits of consumers have to rethink (Lüdeke-Freund, 2010), sufficiency aims to change present patterns of consumption and production by a new lifestyle and attitudes in society. To address these issues, business models can contribute (e. g. Schaltegger and Wagner, 2008; Tukker et al., 2008). Beside the mainly discussed strategies, there are further approaches. For example, Gronau (2003) suggested a new strategy which is called participation. This requires the involvement of stakeholders.

Elements of Sustainability in SMEs in Cottage Industries

Firstly, development in the face of growth challenges in human resources can be seen through administrative tasks among workers on issues including offer associations, generations, individuals occupied with the procedures, funds needed, and the important association for the organization to grow from industry to industry the big one. Davidsson (2006) argued that with the growth of the firm was changed and not the same as at the beginning. In this recommendation, the organization did not alter its authoritative documents or owners. However, they have altered some of their exercises to produce authoritative workers, in reaction to the growing industry situation. This was also related with Penrose (2009) that already said the constituting a new stage in a changing situation of industry is identified with a quality of an employee's choice.

Furthermore, the operational management, it was needed to organize the amount of something produced in a way to let the performance of an obligation of the cottage industries with a necessary condition. It was already stated that the HACCP system showed an insistent and peremptory request that are materials use up. The results showed that the dimension of the company was decisive for the achieving implementation of the HACCP initial proposal. Small scale undertakings can scarcely bear to satisfy the prerequisites of the ISO 22000, and in this manner, it was not favoured, which was in concurrence with Dora (2013) and Aggelogiannopoulos (2007). The printed material required by the HACCP approach truly blocked the development of the miniaturized scale undertakings, as it backed off the creation and along these lines made such organizations to be ease back to react to the higher request of

their items. Small scale ventures could not bear to utilize somebody with particular learning and duties regarding standard consistence. Besides, keeping in mind the end goal to accomplish similarity, somebody from the organization must be capable. On account of MeatME it was one of its supervisors (Denchev 2014).

At the same time, Alam (2010) already stated in his research that the previous study has compatible that have shown in financial deficiency was the core challenges for SMEs growth. From his study, it showed that a financial deficiency has the higher indicate of something influence on the development of cottage industries SMEs. Same with result that was established by a research which conducted by Zain (2012), what categories of respondents from SMEs in cottage industries industry has drawn up abreast by a position financial deficiencies issues as the higher attention barriers. As approximately the financial deficiencies issues that has been occurred associated with SMEs were lack of something pledged as security for repayment of a loan, confusing loan application on fulfil a particular purpose, great in amount bank interest and a problem in established financial resources and a things that encouraged someone to do something either from bank or government agencies.

Consequently, SME's in Kota Bharu have seen a lot of adjustments in financial terms on facing a lack of market power. Step by step made at the start of the twenty-first century, the best effort was formed in the initiative towards the development of the level of return, tested by competition between organizations, established and capable of linking businesses, and rediscovering Blagoev's (2011) previous business. Although it was still pending its change procedure rather than its intended for the economic market, Kota Bharu has embarked on a correction in the structure that allows Kota Bharu's economic integration into the Malaysian Single Market. Hence, the difficulties that caused cottage industries faced by small industry of cottage industries were to keep their development and strengthen the industry, which was governed by their achievable performance systems. Participating in the market has opened up new results and new demand for growing nutrition processing effort.

As researcher states the literature review of the study of the cottage industry which is growth challenge in human resources, lack in operation management, financial deficiencies and lack in market power.

Conceptual Framework

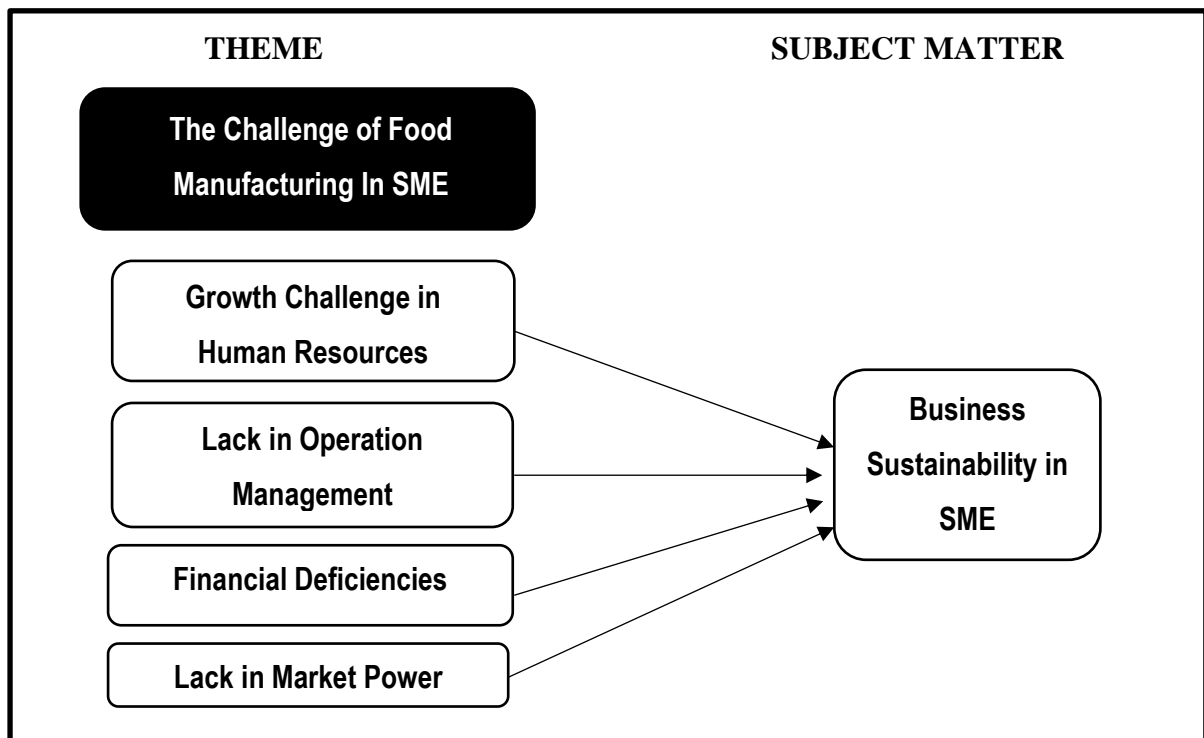


Figure 1: Conceptual Framework

Source: Carneiro (2007), Taylor and Kane (2005), Mather (2005), Karipidis *et al.* (2009), Saru (2007), Rutherford (2003), Harrison (1997), Edelman *et al.* (2002), Mather (2005), Carpenter and Petersen (2002), Rahaman (2011), Alam, (2011).

The subject matter of these study is business sustainable in SME. While from the subject matter were bring out the theme of the study which is growth challenge in human resources, lack of operation management, financial deficiencies and lack of market power.

Methodology

Research Design

Information was accumulated by centre gathering interviews, we focused on the business owners that involved in SME's in Kota Bharu to get them answer the research objectives on what we were investigated. We tried to know what the challenge of cottage industries that they faced. Five informant were interviewed and it is suffice for this study, Creswell J.W (2009). Moreover, there is an informant with different genders were selected and participated in this study.

Research Site

Similar to the above notion, the research is to differentiate, illustrate, and describe the development challenges of small and medium enterprises (SMEs) that provide small and medium business development efforts in Kota Bharu.

Data Analysis Process

In this study, the researchers using qualitative method, which is semi-structured interviews, researcher will interview and explore more about the business owners of the SME business in Kelantan. The interviews are completed by the tape recorded and was then transcript by using manual coding (Braun and Clarke, 2013). The study successfully conducted by getting six

informants of the SME business owners. The purpose of this data is collected is to support and strengthen the qualitative results. In this chapter not only to strengthen the qualitative result but also can respond to this objective study, data has been collected through the aspects which is to identify the growth challenge in human resources, the lack of operation management, the relationship on financial deficiencies and the impact of the lack in market power.

Research Findings

Data Analysis

Informant's Profile

Respondent	Informant A	Informant B	Informant C	Informant D	Informant E
Gender	Male	Female	Female	Male	Female
Age	63	62	55	66	40
From	Pasir Puteh, Kelantan	Sabak, Kelantan	Tumpat, Kelantan	Pengkalan Kubu, Kelantan	Pengkalan Chepa, Kelantan
Position	Owner	Owner	Owner	Owner	Owner
Category	SME Company	SME Company	SME Company	SME Company	SME Company
Years In Venturing In Business	13 years	30 years	20 years	35 years	11 years
Marital Status	Married	Married	Married	Married	Married
Reason For Venturing A Business	Interested in business from young	Try something new by venturing business	Family business	Family business	Interested in business from young

Characteristics of the SME Company Selected

SME COMPANY	A	B	C	D	E
Year of Venturing In Business	2005	1988	1998	1984	2008
Kind of Activity on Business	Cottage industries of bread	Cottage industries of fish become a dry cracker	Cottage industries of meat, chicken and fish become a serunding	BUDU, the tangy, spicy and salty sauce made from fermented anchovies, is commonly used as a dip or flavouring for meals by	Various Murtabak manufactured in Sri Lily factory Murtabak King of Traditional Kelantan, Murtabak Princess, Kabat and Sambusak. All in cool condition. Nice to have you.

Kelantan
folk. Stir in the local beef
and chicken core

No. of employees	10 members	8 members	5 members	8 members	8 members
Capital	RM20000- RM50000	RM10000	RM10000	RM15000	RM10000

Thematic Data Analysis

		SME COMPANY (Informants)						
		A	B		C	D		E
Growth Challenge In Human Resources								
recruitment		direct interview	recruit people village	mostly from	all the worker is from their own family	All children their family	their from own	Direct interview
training		weaknesses in terms of giving training classes to staff	Not because a people in Kelantan already know how to do the processing food	provide villagers usually know do the processing food	Not because their family which is staff already know how to do the processing food	Not because their family already know the processing of the product	provide already of	Provide to their staff in term of training before doing any processing of food
rewards and benefit		money or travel incentives	extra time working and get the extra money	traveling among their family	Money or travel incentives among family	Bonus in term of money		
identify the skills		hired the staff based on their experience in doing cottage industries	mostly looking from the people experience before hired staff	mostly looking from the people experience before hired staff	Just take their family first to guide family business before taking any outside staff	Mostly looking from the people experience before hired staff		
Lack In Operation Management								

Depending on machinery	use hand instead	Using the machine.	Using the machine.	Using the machine	Using the machine
Time needed to complete the production	Depends on the product, more easier the product, less time needed to complete one product.	Cooking in a long time on the stove.	Not too long time needed to make keropok ikan.	Difficult in term of preparation ingredient	Just take a long time on preparation of skin of murtabak
Any certification used	SSM and HALAL JAKIM.	SSM and HALAL JAKIM.	SME business and HALAL JAKIM.	SSM and HALAL JAKIM.	The halal certificate was issued by JAHEIK, a member of the BMF PPIM, Kelantan state champion product in the Groom Big MECD 2004-2008 project. Monitored by the State Development Corporation of Kelantan, State Health Department, Department of Agriculture, and JAHEIK & SIRIM Berhad.
Using preservatives	Benzoates and sorbates.	Spices,herbs and sodium salts.	-	Benzoic acid	Murtabak Raja spiced with chicken or local beef according to Kelantan's traditional King's Spice stuffed with high-grade eggs and onions without any

preservative
and 100%
processed
half cooked.

Financial Deficiencies					
How Manage finance	to	By using some from the famous 10 steps in financial management which is, creating budget, operating the business using the least amount and create emergency fund.	Using the old school system which is recording all the transaction in and out, profit and loss. Suggest them to use the 10 steps so that they can know how to manage their financial by their own.	Use the 10 steps in managing the finance and all transaction were going through the bank.	By using some from the famous 10 steps in financial management which is, creating budget, operating the business using the least amount and create emergency fund.
Have any loan		100% from the owner and taking loan from relatives only.	Loan from the Amanah ikhtiar Association.	-	recipient of the Agro Bank Innovation Award where he received RM15,000
Having difficulty in takeout loan		-	Need to present the business ideas to get the loan.	-	Need to present the business ideas to get the loan.
Any collateral to secure the loan		-	Attending every week meeting with duration of 1 hour time each session and make a payment every week.	They collateral their heritage house that were given for two generations.	-
Lack In Market Power					
concerns and understanding consumer product applications		Very concern	Consumers expect a steady increase in quality, safety and diversity of food	Consumers' perception of food quality is a dinamic variable	'We are looking into ways to market it internationally. The current packaging, I believe, is suitable for the

world market.
It is time for
budu to be
made known to
the world”,
said informant.

rate the effects of buyer behaviour is critical in terms of cottage industries to achieve market success	Always doing the best rate to know every part of customer behaviour	There is a huge variety of consumers.	Consumers seek items to satisfy their basic needs and desires	Changed the packaging for my Budu sauce into tubes instead of bottles. informant want to make it easier for those who travel	easily stored at home in the fridge for serving at any time by heating them in a pan or putting them in the microwave only
types of channel	Direct marketing and online marketing	Direct marketing	Direct marketing and online marketing	Direct marketing and online marketing	Direct marketing and online marketing
market share to increased your sales of product	-	-	-	Looking to international marketing.	Looking in term of agrotech marketing processing of food

Discussion

The challenges in the Human Resource, Finance deficiencies, Operation Management and Market Power, it does effect the flow of business. In another words, we can say that these kinds of problems can make the business become slow down or cannot expand and stay still at the same place without any improvements that will occur. The recruitment of families member do make profit and work becoming easier, but there is no any involvement by another side or people, so, when the family members get another opportunity in another scope, another place, it will make the owner will having difficulties in findings other workers. In the other word to say, the owner didn't learn and know how to communicate with her worker someday that wish to be in the industry. The minimum numbers of workers also influence the rate of production product and also the limited space and machinery will affect the production of product said Cesar Chavez (1927).

To get in the problems arise in the financial, we spotted that the business was running through by not having to make a loan with the banks. This indicated that the business takes time to expand yet, they still make it. Even though they faced difficulties in the beginning, but they are holding up with Campbell Scott (2016) sayings, “work hard is great, being lazy sometimes is great, but failed potential is the worst”. As they are having loan from other side rather than bank, they still need to work hard to make their business run well and become success as they choose the entrepreneur as their main interest in making money for life.

The lack in the operation management has made the industry become more slow and cannot expand properly and also due to the limited spaces in the shop, or factory, our research can

conclude that how big is the space related to how many of machinery can be there and also the ability and affordability to buy machinery and to employ the workers to operate the business. It is all connected, and our research has made all the three owner thinks more about the worker, the welfare and also the marketing of their product. The owner is working hard to provide the solutions to meet a most pressing goal, preserving their way of life for their kids and grandchildren, said Mike Pompeo (2002).

This indicates that all these research question relate to each other and it can be a very strong relations towards each other and can be a very good example to another entrepreneur that wish to open up a new business. On the other hand, we need to understand that not all people are being given the chances to open business by using 100% savings and loan from other institutions and not with bank. There are so many people that want to open the SME business, but they are having problems with their loans and at last, the business didn't do well.

Conclusion

The aim of this study was to identify, describe, and analyse the challenges of small medium enterprise in the cottage industries in Kota Bharu. The conducted case study has taken into consideration the integration of activities into the small management bodies of one to two executives. This requires constant learning, insight, and flexibility. There are no more or less critical difficulties. To the potentially manageable category belong those that overcome and transform them into a stimulating series of events if they are met in the appropriate way by the managers. Challenges may be turned into opportunities and can cause the development of small-sized cottage industries enterprises. Their difficulties are mainly in the spheres of marketing, operations management, human resource management, and networking. However, from these spheres some difficulties can be assigned to the potentially non-manageable category. The latter are related to market pressure, business and political environment, and the regulatory framework.

Depending on their magnitude, such obstacles could result in subsequent ceasing of the business. Growth challenges, which are potentially non-manageable, are mainly in the financial sphere and the fraudulent business practices in the marketing sphere. By maintaining a good business with the good people surround us is not an impossible thing to do. Nowadays there are so many money institutions that will lend the money to the young and new entrepreneur so that they can start up their business. So do the SMEs entrepreneur in Kota Bharu. There are so many of them that it is grow like a mushroom and to be franks with other people, Kelantan is the one of the countries that producing young entrepreneur. So, there are no things to be surprise when mentioning about SMEs entrepreneur in Kota Bharu. In addition, Kelantan is really famous for the signature food and all food in term of cottage industries product.

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