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**CULTURAL CONSTRAINTS IN LEADING MALAYSIAN *SMEs*
TO GLOBAL MARKETS**

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Cultural Constraints in Leading Malaysian *SMEs* to Global Markets

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Abstract

Small and Medium Enterprises (SMEs) play an important role in the economic development of many countries. SMEs are also dominant in the Malaysian economy. Their contribution to the national economy, however, remains modest in terms of value added and exports. During the last 2-3 decades, the process of globalization has gained momentum. Malaysia has embraced globalization with open arms and benefited in terms of foreign trade and investment. Along with trade and investment opportunities, globalization has brought challenges of competition, technological change and new business environment to local producers. Given their size and structure, the SMEs in Malaysia are particularly affected by these challenges. To make further progress, the SMEs need to become more dynamic and enter global markets. This requires enhanced competitiveness, entrepreneurship and innovation capacity on the part of SMEs. This paper argues that, among other things, some aspects of the national culture act as constraints in leading the SMEs to the global markets. The paper makes recommendations to overcome these constraints.

KEYWORDS: SMEs, competitiveness, national culture, globalization

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Introduction

Small and medium enterprises (SMEs) play a crucial role in the economic development of many countries. Some of the leading examples are the development experiences of Japan, Taiwan, Korea, USA and Europe, where SMEs account for more than 90-95 per cent of the total business and industrial establishments. More than their importance in the number of establishments, SMEs are known for their capacity for generating employment. Development of SMEs has also served as a useful vehicle for improving income distribution and promoting regional development. Additional benefits of SMEs have been derived from their dynamism, flexibility and low overheads. They have also been instrumental in creating forward and backward linkages in the economy and playing a complementary role to the development of large firms. Most important of all, the SMEs have been a platform for entrepreneurial training and experimentation. In USA, a very large number of prominent corporations have their roots in small family businesses [14, 16]. Similar experiences have been observed in the developing countries – Hong Kong, Taiwan, Singapore, Malaysia, India and Thailand.

More recently, the traditional virtues of the SMEs have started to erode with the advancing process of globalization [1]. First, with enhanced economic integration and free trade, SMEs are facing global competition not only in exports but also through more liberal imports. As a result, the SMEs have to be more competitive to survive and grow in the changed business environment. Second, globalization has promoted internationalization of production structures and outsourcing. Hence, the firms have to compete not only with other firms – but also with the whole global production system. This puts heavy demands on SMEs (which have size and resource constraints) in terms of cost competitiveness, quality and service. Now the SMEs have to change their business perspective from the economy of ‘proximity’ to the economy of ‘globality’ to achieve international standards. Third, the advances in transport technology and ICTs, have increased the outreach of large multinational companies, which enjoy economies of scale in the global economy. This poses a serious threat to the competitiveness of SMEs in a wide range of businesses. Fourth, technological advancements (both product and process

technologies) have been very rapid during the last 3-4 decades and are still continuing. Firms, which can afford large R&D budgets and are innovative, can gain competitive advantage over other firms which face size and resource constraints and lack dynamism. This affects SMEs adversely vis-à-vis large corporations. Fifth, inter-firm alliances and networking are creating some of the new global economies (through cost reduction in R&D, marketing and learning). The SMEs are somewhat handicapped in building international alliances and networks.

Despite all of these negative factors, SMEs in relatively more advanced/developed countries have done well – USA, Western Europe, Taiwan, New Zealand and Ireland. SMEs in these countries have used their strengths of flexibility, low overhead costs and a more focused management to their advantage. Some of the negative factors (brought about by the globalization process) have been offset/reduced by their entrepreneurial dynamism, effective management systems, and participation in the international supply chains. In the developing countries, SMEs links with large corporations (as suppliers of parts and components as is the case in the automotive and electric and electronics industries or as service agents in the transport and courier service industry) have proved an effective way to benefit from globalization.

Small and Medium Establishments (SMEs) in Malaysia

Role and Nature of SMEs

SMEs in Malaysia have been defined on the basis of the number of employees and sales turnover by the Ministry of International Trade and Industry (MITI). In specific terms, a small-scale firm is an establishment ‘with less than 50 full time employees and annual sales of not more than RM10 million’. A medium-scale firm is an establishment with ‘51-150 employees and annual sales of RM10-25 million’.

According to the available statistics, SMEs in Malaysia accounted for a large proportion of the total establishments in the economy (99% in 2005). A vast majority of the SMEs

are found in the four sectors, namely agriculture related activities, construction, business services and manufacturing [11]. Out of these four sectors, SMEs play a more important role in the manufacturing sector. This can be seen from the fact that in 2005, the SMEs in the manufacturing sector, totalling 33,113 establishments, contributed 44.0 per cent to sectoral employment, 29.0 per cent to output, and 31.0 per cent to value-added [17]. Exports by the SMEs in the manufacturing sector are estimated at 20.0 per cent of the output.

Various studies have examined the performances of SMEs and their contribution to the Malaysian economy. Problems and issues relating to SMEs have also been identified through surveys and case studies [1, 11, and 12]. Some of the more important findings, which are relevant to the present study, are summarized in the following.

Problems and Issues

- In terms of international comparisons, SMEs play a much more important role in Japan, South Korea and Taiwan in generating employment and adding value than in Malaysia.
- A very large proportion of the *Malaysian* SMEs falls in the category of micro/small establishments and has low productivity per worker.
- The capital cost of employment generation is relatively much lower in small establishments as compared to the medium and large size establishments [1].
- The economic structure and productivity levels of Malaysian SMEs vary widely. Some are very modern and linked to global markets and players, while others are small, traditional type, family based, and using old technology to produce low quality products for the local and regional markets.
- Most commonly reported problems *faced by SMEs* are lack of access to credit, marketing, technology, management, skilled labour, raw materials and a shortage of suitable sites and premises for SMEs operations [1].

- Management practices in SMEs are still very limited in focus. Strategic management is confined to a small proportion of modern firms. In most cases, business planning is less rigorous and informal [15].
- Owner-managers are quite common in small firms. Professional management cadres are very *thin* except in the case of medium-scale modern firms in the manufacturing sector.
- Management styles and practices are highly influenced by the ethnic background of the owner/manager. Malay owned and Chinese owned establishments show a marked difference in human resource management, financial management and business planning.

Development Policy and Support Programmes

Malaysia recognized the importance of SMEs in tackling national issues of development and equity. The First Malaysia Plan aimed at solving the problems of SMEs (mainly access to credit) faced by the bumiputras. The primary purpose was to promote economic equity by assisting bumiputras to own businesses. Subsequently, the New Economic Policy aimed at poverty reduction among bumiputras. To achieve this goal, entrepreneurship development and promotion of SMEs, especially in the manufacturing sector, received high priority.

Subsequent Development Plans recognized the wider role of SMEs, i.e. training, savings, and mobilization of resources, entrepreneurship development and inter-industry linkages. A number of institutions were created to mount the necessary support programmes. Over time, the focus of development was broadened to include export development. In the new Millennium, SMEs are further entrusted with the responsibilities of promoting national economy. The National Development Vision (covering the period 2005-2020) envisages a multipurpose role for the SMEs, i.e. dynamic and competitive SMEs in the manufacturing and service sectors, linked to global markets and serving the goals of national development (growth and equity). To face the new challenges of globalization, the *Ninth Malaysia Plan* and the *Third Industrial Master Plan* aim at building

innovation- driven SMEs [17]. A number of support programmes are envisaged to give the SMEs a new orientation; a shift from racial ownership structure and poverty reduction to ‘global competitiveness’ and ‘growth.’

Cultural Constraints in Advancing Entrepreneurship and Effective Management of SMEs in Malaysia

Culture and Management Practices

‘Management’ means different things to different people. Society’s social structure and culture deeply affects management styles and management practices. The Anglo-Saxon concept of ‘management’ is a process and includes managers as well, who carry out the process. Managers, as a class, are considered as indispensable for making others produce, through motivation. In USA, a manager occupies a central position in the management of an organization and is considered as a cultural hero. But in other countries of the world, the focal point of management may be different due to the cultural differences. Some of the well-known examples are, as follows¹.

Japan: The ‘core’ of the Japanese enterprise is the permanent worker. Permanent and non-permanent workers take part in *Japanese-style* group consultations for important decisions. Japanese have developed their own ‘PM’ theory of leadership (P stands for performance and M for maintenance). Japanese management gives more attention to social stability and is less concerned for the individual employees. The system, based on group commitment/control, has worked well for the Japanese economy for the last 50 years.

Germany: The cultural hero in Germany is not the manager but the engineer. Elements of the medieval guild system still prevail. A large majority of the workers have gone through the apprenticeship system. German workers, being highly skilled and responsible, do not need a manager to motivate and control them. The ‘boss’ is there to assign tasks and serve as an expert in tackling technical problems. Personnel in the leadership and staff categories are relatively small as compared to USA, UK and France.

Netherlands: Management in Holland is based on consensus among all parties. Open-ended exchange of views and a balancing of interests are encouraged. The organization in Holland is

¹ Based on the article by Geert Hofstede (1993). Cultural Constraints in Management Theories. *Academy of Management Executive*, Vol. 7, No. 1, pp 8-21, adapted by Bob De Wit and Ron Meyer [6].

like a 'household'. Young people show job preference for freedom to adopt their own approach to the jobs, being consulted by the boss, training opportunities, and contributing to the success of their organization. Employees maintain a consensual relationship with the organization. Leadership in Holland pre-supposes modesty- not assertiveness, as is the case in USA.

Overseas Chinese: Overseas Chinese living outside in Taiwan, Hong Kong, Singapore, Indonesia, Malaysia, Thailand and Philippines carry different styles of management. Overseas Chinese enterprises tend to be small, cooperating with other organizations through networks, based as personal relations. They are family owned, family managed; generally focus on one product or market, with forged growth by market opportunities. Decision-making is centralized. They are low profile and extremely cost-conscious. Overseas Chinese prefer to run business with key positions confined to the family members. Overseas Chinese have been quite successful in business (even being a minority) in South East Asia.

The Management process cannot be isolated from other processes taking place in a society. It interacts with what happens in family, at school, in politics, and government. As such, it has to relate with society's beliefs and values, i.e. culture. In management literature, cultural differences between nations have been described in five bipolar dimensions.

These are:

- (i) Power distance – degree of inequality among people which the society considers as normal.
- (ii) Individualism – degree to which people in a country prefer to act as individuals rather than as members of groups.
- (iii) Masculinity – degree to which tough values such as assertiveness, performance, success and competition, prevail over tender values like the quality of life, warm personal relationships, service, care for the weak, and solidarity.
- (iv) Uncertainty avoidance – degree to which people prefer structured over unstructured situations. In structured situations, there are clear rules of behaviour laid down by tradition or by written laws and rules. Such societies are more rigid. In low uncertainty avoidance, people are more easy going, flexible and see new things with curiosity.

- (v) Long-term vs. short-term orientation – with long-term orientation, values are oriented towards future, like thrift and persistence. Under short-term orientation, value oriented towards the past and present, like respect for tradition and fulfilling social obligations.

The Anglo-Saxon societies (USA/UK) have very high degree of individualism and masculinity, while the power distance is low. Given these cultural traits, the managers are very assertive. Employees and the enterprise are connected through ‘contractual relationship’. So the motivation for work comes from monetary incentives. The enterprise works like a market place. Control comes through competition between individuals.

In the case of Japan, individualism is at a medium level but masculinity, uncertainty avoidance and long-term orientation are at very high levels, giving strength to group commitment and forward looking perspectives. Overseas Chinese are low in individualism but have a high power distance and high long-term orientation. This provides them with impetus to collectivism, austerity and persistence.

Table 1

Country	Cultural Dimensions - Ranking for Selected Countries				
	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	Long-term Orientation
USA	L	H	H	L	L
Germany	L	H	H	M	M
Japan	M	M	H	H	H
Netherlands	L	H	M	M	M
Hong Kong	H	L	H	L	H
Indonesia	H	L	M	L	L
Malaysia*	H	M	M	M	M

* Estimated national average L = low M = medium H = high

Case of Malaysia

Culture in Malaysia is quite diverse. Three main races are living in harmony, i.e. Malays, Chinese and Indian. All of them have their own unique cultures. In the business world, foreigners (mainly Westerns, Japanese, Koreas and Taiwanese) are quite prominent. Thus, the national culture is quite diverse with some acceptable norms (Table 1).

Power distance is high – so group affiliations/commitments are quite important. Individualism and the other cultural dimensions are at medium level. This makes Malaysia quite different from USA and Japan. Management theories, which work in Anglo-Saxon and Japanese culture, may not be very effective in the Malaysian context. The problem becomes more complex when we realize that the cultural differences among the *three* racial groups are quite significant (Table 2).

Table 2

Malaysia: Cultural Dimension Ranking By Race

	Overseas Chinese	Malays	Indians
Power distance	H	H	L
Individualism	L	M	H
Masculinity	H	M	M
Uncertainty Avoidance	L	H	M
Long-term Orientation	H	L	H
Source: Estimates	H=High	M=Medium	L=low

As shown, Chinese in Malaysia have high power distance, high masculinity, low uncertainty avoidance and high long-term orientation. With these cultural features, collectivism, austerity and persistence will dominate their management style. Malays, on the other hand, have a culture which features high power distance, giving them ‘group’ affiliation/loyalty. High uncertainty avoidance makes them more tradition bound and closer to risk aversion. Long-term orientation is low, making them less thrifty and more inclined to fulfilling social obligations. Indians in Malaysia are high in individualism and high in long-term orientation. This makes them more receptive to monetary incentives and generally thrifty.

To sum up, cultural factors in Malaysia can become a constraint in achieving effective management if the Anglo-Saxon theories and practices of management are followed. But to explore the issue further we need a framework to evaluate the impact of culture on management effectiveness. This is discussed in the next section.

Culture and Management Effectiveness

Performance

To relate culture and management effectiveness, we need an analytical framework. Generally speaking, the key management tasks are to – (a) ensure good organizational performances; and

(b) build organizational capabilities to cope with change. Focusing on these two aspects of management, we find that the Anglo-Saxon system of management uses motivation and control mechanisms to carry out the first task, i.e. ensuring good organizational performance. Motivation is created and sustained through monetary incentives and good human resource management (HRM) practices. Control comes through contractual relationships and competition between individual employees. The system works well due to *low* power distance and *high* individualism. In the Japanese system of management, motivation is ensured by creating a permanent group of employees committed to the good performance of the organization. Instead of competition, control is exercised through the group participation in the affairs of the organization. Maintenance management, which gives a lot of attention to the welfare and security of the employees, helps to sustain motivation and control of organizational performance. The system works well due to the medium levels of power distance and individualism.

In Malaysia, both the Chinese and Malays have cultural ingredients for collectivism/group affiliations. But there is no permanency of the group and the maintenance management is weak. Hence, the Japanese style of management cannot be fully copied. The group affiliations, which are strong both in the case of Chinese and Malays, are supplemented with monetary incentives. This mixed system can solve the ‘motivation’ problem to some extent, but the control mechanisms become weak. This can adversely affect the organizational performance, particularly in matters of quality and service.

Another issue, which is important, is the cultural diversity of the employees. In Malaysia, SMEs may be staffed with exclusively Chinese or Malays, but often are staffed with a mixture of many races – Malaysian Chinese, Malays, Indians and foreigners. With such a wide range of cultural diversity, problems of HRM can arise, as no single management system will suit the organization.

Considering the *above-mentioned* culture related issues and problems, there is a need to develop new systems of management, particularly relating to HRM theory and practice.

Coping with Change

The *second* important management task for an organization is to cope with change. This task has become extremely important with globalization, which is bringing swift changes in technology, products, markets, business models, and the relative availability of key

inputs (capital and human resources). Organizations, which can cope with change, are likely to be more successful in the present day business environment.

Experts believe (and empirical facts support it) that three ingredients help organizations to build capabilities to manage change [18,19].

These are:

- Creativity
- Innovation capacity
- Entrepreneurial spirit

In terms of the cultural dimension, these require open thinking, free interaction among people, self-reliance, curiosity and spirit of inquiry, risk taking, and an organizational culture which promotes learning and rewards innovations.

Most societies may not have all of these cultural features, but they should be able to build the missing elements, through leadership and organizational efforts. In the Western World, a number of cultural features such as individualism, low uncertainty avoidance and low power distance, are favourable to build creative and innovation organizations. The missing ingredients are developed by creating an organizational culture, which promotes learning and rewards innovations. Investment in R&D and suitable HRM practices are adopted to build learning and innovative organizations. In some cases, the national culture may not be in harmony with the 'desired' organizational culture. In these cases, the national culture and the organizational cultures are separated. Examples are quite common among Multinational corporations, which develop their own unique cultures to achieve organizational goals and to succeed in the changing global environment. In Japan, some aspects of the national culture are averse to creativity and innovations, i.e. medium power distance and high uncertainty avoidance. But long-term orientation and Japanese *unique* ways of ensuring interaction among the employees help to bridge the cultural gaps. In other words, what national culture cannot do, the organizational culture does it.

In the case of Malays, the national culture with high power distance, high uncertainty avoidance, and low long-term orientation, creativity and innovations are difficult goals to attain. Also in Malay organizations, the 'boss' is taken very seriously and the decision-making is centralized. As such, such organizations are at a disadvantage to develop creative and innovative organizations.

The Chinese organization has high power distance, which is not a favourable cultural factor. But low uncertainty avoidance and long-term orientation make them more entrepreneurial. The Malaysian Indians have low power distance and high individualism, which are favourable factors to cope with change. But the share of Malaysian Indians is relatively small in total population and in SMEs. Thus the organizational behaviour of SMEs is very much influenced by the Chinese and Malay cultural traits.

Some Empirical Evidence

General

Studies by Geert Hofstede have tried to integrate the various cultural dimensions and classify countries into 'clusters'. But the results are not conclusive due to the complexity of the multidimensional nature of culture. Ronen and Shenkar have classified countries into eight clusters on the basis of attitudinal dimensions. In terms of GNP per capita, the Anglo-Saxon Cluster (U.S.A, UK, Canada, Ireland, and South Africa) stands better as compared to the Latin European Cluster (France, Belgium, Italy, Spain, and Portugal). Similarly, the Nordic Cluster (Finland, Norway, Denmark and Sweden) has performed better than the Germanic Cluster (Austria and Germany). By comparing country Clusters, based on culture, researchers Simcha Ronen and Oded Shankar conclude that an empirical relationship exists between culture and economic performance [13, p.124]. Another Study by Fons Trompenaars, based on a Survey of managers in 28 countries, classifies countries in terms of their relationship orientations. The Study provides useful insights for doing international business more effectively [13, p. 131].

Malaysia

A Study by Hashim [11, pages 21-24] provides information on the problems faced by SMEs in Australia and Malaysia. The relevant data is summarized in Table 3.

Table 3
Problems Reported by SMEs (% frequency)

Particulars	Australia	Malaysia
Sales & Marketing	40.2	22.3
HRM	15.3	35.8
Management	14.3	5.5
Production/Operations	8.6	19.2
Finance	8.9	16.1
Product Development	6.7	-
Others	6.0	1.1
Total	100.0	100.0

Although a comparison of problems faced by SMEs in Australia and Malaysia may not be in order due to the differences in business environment and government support, yet some differences are quite glaring and need to be recognized. For example, the SMEs in Australia faced ‘sales & marketing’ problem as the leading problem (40.2% as compared to 22.3% in Malaysia). This may be due to a more intense competitive environment for SMEs in Australia. Other problems faced by SMEs in Australia are at the minor to modest levels. But in the case of Malaysia, the biggest problems encountered are the HRM – Human Resource Management (35.8%), followed by Marketing (22.3%) and Finance (16.1%). The frequency of SMEs reporting the HRM and Finance problems is *twice* as high as in Australia. It is surprising that SMEs in Malaysia encounter these two problems with high intensity. Probably the explanation lies in the cultural aspects of Malaysian owners/managers. It is obvious that a weak entrepreneurialship is responsible for HRM problems (i.e. shortage of workers, high employee turnover, etc.) A capable

entrepreneur will not run into these problems if appropriate investment choices are made and suitable incentive systems are adopted. For financial problems, cultural aspects such as living beyond means/conspicuous consumption, mixing personal and organizational finance and over- borrowing) are responsible. We cannot hold Government support responsible for this phenomenon as the financial support programmes in Malaysia are quite liberal and extensive [2]. To sum up, cultural aspects of SMEs owners/managers have significant impact on the performance of these organizations.

Research Limitations

It may be mentioned that the empirical research on culture and organizational performance in Malaysia suffers from information gaps. Research methodology used in most studies is simple/inadequate to capture the complexity of SMEs or the national economies. Nonetheless, the studies are useful in emphasizing the cultural dimension in organizational behaviour, and enhancing our understanding about business entities and their problems.

Recommendations to Overcome Cultural Constraints

A few suggestions are in the following to eliminate/reduce the cultural constraints for leading the Malaysian SMEs to global markets.

These are-

- (i) *SMEs as separate entities* – each small and medium firm (SME) is a legal entity and, hence, should be treated as such. In terms of finance, management, assets and liabilities, financial viability, etc. they should be treated separate from the owner's personal finance, assets and liabilities.
- (ii) *National culture vs. organizational culture* – in managing SMEs, the national culture and the organizational culture should be separated, as is the case of

multinational companies. National culture is slow to change and, taking a broader view, it may not be necessary to change it. But a quick solution would be to evolve an organizational culture, which is financially prudent, promotes creativity, innovations, and entrepreneurial spirit. Also those organizational features should be developed which can help to achieve organization's own special goals. This can be done by educating and training the owners/managers as well as by giving proper orientation to the new entrants in the world of business and industry.

- (iii) Leveraging cultural strengths – Malaysia possesses a number of good cultural aspects, which gives the society a number of benefits in terms of social peace and economic progress. While forging an 'organizational culture', the SMEs and business experts should try to retain cultural traits which are useful and come up with new ways/theories of management which will suit the purpose. Japan is a good role model for this type of endeavour.
- (iv) Support programmes – the government support programmes are too general and industry focused. There is a need to reorient them and give a more firm-based focus. Programmes should be designed in the spirit of 'nurturing' firms rather than carrying out fire-fighting operations. Selection and monitoring of SMEs for government support, information on global markets, use of consultants and grants, operational relevance of various institutions, venture capital facilities and programmes, are some of the areas which need a careful review.
- (v) Role Models – are needed to build suitable organizational models and to inspire young entrepreneurs. An effort should be made to prepare case studies of outstanding SMEs (at home and abroad) as teaching material. In the absence of home environment, schools and colleges should provide education, which makes young people creative/innovative and inculcates in them entrepreneurial spirit. In USA, 50% of the new SMEs had at least one

member of their family in business. For a young nation like Malaysia, it may not be possible to learn business culture at home. The educational institutions have to fill this gap.

Concluding Remarks

This paper attempts to identify some of the cultural constraints in leading the Malaysian SMEs to the global markets. The Malaysian SMEs, with the exception of electrical and electronics and textile industries, serve the local markets. To face global competition and play an enhanced role in global markets, the SMEs must overcome the cultural constraints and build dynamic organizations to suit the changing global environment. The Paper emphasizes the need for the *SMEs* to build organizational culture (while retaining the more useful aspects of the national culture), and to promote creativity, innovations and entrepreneurial spirit.

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