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## Malaysian SMEs Development: Future and Challenges on Going Green

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### Abstract

Malaysian Small Medium-sized Enterprises (SMEs) is largest business establishment and vital component of the country's economic development. However, limited studies were examined on their development, challenges and future green prospects, especially in service sector. Therefore this article examines the development of SMEs in Malaysia, challenges and opportunities of green practices among SMEs which is play a vital role in the nation growth. The uniqueness of this paper focuses on green practices which is important for SMEs to progress and competitive in domestically and globally. The key messages from these studies examined in this paper are that Malaysian SMEs contribute to the largest business establishment in Malaysia especially service sector and majority of them are in micro size establishment. Nevertheless, there are wide recognition in the literature about the factors hinder SMEs from expanding, this is mainly because high cost of raw materials, high initial cost of investment and shortage of skilled labour. The concept of green environment is still at infancy stage in Malaysian SMEs. Environmental management literature mostly published in the developed countries has proven that ISO 14001 Environmental Management System (EMS) implementation has a positive and significant relationship with SMEs performance. This study is important indicator to encourage other SMEs which has no green practices in place to consider joining the green bandwagon, especially SMEs service sectors. The studies focused are conditioned by the search strategy used. In addition, other key words could be including in future studies such as performance, customer satisfaction, financial performance, environmental and green supply chain management in order to expand this search. The main contribution of this paper is to identify the development of SMEs in Malaysia and future research proposals with regards to the benefit of the green practices (ISO 14001 standards) in Malaysian SMEs service sector.

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## 1. Introduction

Small and medium enterprises (SMEs) play a vital role in the Malaysia economy and are considered to be the backbone of industrial development in the country. SMEs in Malaysia are on track to contribute 41% to the country's GDP by 2020 compared to 32% in 2012, and the local SMEs are now suppliers for multi-national companies (MNCs) in the global chain. With the exposure and skills obtained, many entrepreneurs have raised their companies' ability to penetrate the export market (Business News, 2014). The SMEs in Malaysia are categorized into service, manufacturing, agriculture, mining and quarrying and construction. SMEs recorded a strong growth of 6.0 per cent, while GDP grew at 5.6 per cent in 2012. The prime movers for SMEs were the services, manufacturing and construction and these sectors underpinned the expansion of GDP in 2012 (Department of Statistics, Malaysia, 2013).

Many SMEs around the world have little knowledge about environmental management and do not understand the concept of environmental management. Therefore, it is very difficult for SMEs to see a clear link between EMS implementation and the benefits it offers (Weerasiri & Zhengang, 2012). Although previous research have tended to focus mainly on the impact of large companies on the environment, it has been suggested that the estimated collective impact of small-medium enterprises (SMEs) on the environment is substantial (Hillary, 2000) and could outweigh the combined environmental impact of large companies. Therefore, it may be argued that greater attention should be given to the SME sector in the social and environmental management literatures (Moorthy, 2012). However, based on Yacob et al. (2013) majority of SMEs in Malaysia have not yet given enough attention to this issue unless they are energy intensive ventures or wish to present a clean and green image. In fact, the Malaysian government is fostering a wide range of small to medium businesses in the country to explore the development of green technology, through its Economic Transformation Programme (ETP). In addition, the government is encouraging the adoption of green technology, as declared under the National Key Economic Area (NKEA) (Yacob et al., 2013).

This literature-based paper starts by defining the SMEs and the background of SMEs in Malaysia. It then explores the roles of the SMEs in the economic development of Malaysia and major challenges faced in going green. The discussion leads to a consideration of the importance of green practices taking into account the SMEs. The final section concludes by underscoring the importance of SMEs in economic development and the notion of SMEs which has remained largely untested.

## 2. Definition of small and medium-sized enterprises (SMEs)

### 2.1. Profile of SMEs in Malaysia

A review of the definition was undertaken in 2013 at the 14th National SME Development Council (NSDC) meeting because of developments in the economy since 2005 such as price inflation, structural changes and change in business trends. The new definition was simplified as follows in Table 1.

Table 1. New definition of SMEs in Malaysia by size of operation.

Category	Microenterprises	Small	Medium
Manufacturing	Sales turnover of less than RM 300,000 OR less than 5 full-time employees.	Sales turnover from RM 300,000 to less than RM 15 million OR full-time employees from 5 to less than 75.	Sales turnover from RM 15 million to not exceeding RM 50 million OR full-time employees from 75 to not exceeding 200.
Services & other sectors	Sales turnover of less than RM 300,000 OR less than 5 full-time employees.	Sales turnover from RM 300,000 to less than RM 3 million OR full-time employees from 5 to less than 30.	Sales turnover from RM 3 million to not exceeding RM 20 million OR full-time employees from 30 to not exceeding 75.

Sources: National SME Development Council (NSDC) (SME Corp. Malaysia, 2013).

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