Transformation Building of Micro-Entrepreneurs: A Conceptual Model

Abu Bakar Sedek Abdul Jamak, Saridan Abu Bakar, Zulkipli Ghazali and Roselind Wan

Abstract—The majority of micro-entrepreneurs in Malaysia operate very small-scaled business activities such as food stalls, burger stalls, night market hawkers, grocery stores, constructions, rubber and oil palm small holders, and other agro-based services and activities. Why are they venturing into entrepreneurship - is it for survival, out of interest or due to encouragement and assistance from the local government? And why is it that some micro-entrepreneurs are lagging behind in entrepreneurship, and what do they need to rectify this situation so that they are able to progress further? Furthermore, what are the skills that the micro entrepreneurs should developed to transform them into successful micro-enterprises and become small and medium-sized enterprises (SME)? This paper proposes a 7-Step approach that can serve as a basis for identification of critical entrepreneurial success factors that enable policy makers, practitioners, consultants, training managers and other agencies in developing tools to assist micro business owners. This paper also highlights the experience of one of the successful companies in Malaysia that has transformed from micro-enterprise to become a large organization in less than 10 years.

Keywords—Entrepreneurship, Micro-entrepreneurs, Transformation, Customers

I. INTRODUCTION

Micro SMEs are probably much too involved in the day-to-day operations and fire-fighting daily challenges of their businesses: sales presentations, order fulfillment, customer service, business networking, travel, staff recruitment and training and the list goes on. Effective small business marketing seems so out of reach. Small businesses may face challenges and hardship in their daily, weekly and monthly operations such as those identified in following statements: We've tried flyers, banners, asking for referrals, making many sales presentations, but all these are either ineffective or take up way too much of our time. We thought about advertising and promotions on newspapers, TV commercials and radio jingles, but the costs are exorbitantly high and the response rates are horrendously low. We got a web designer, spent a few thousand of Ringgit, only to get a nice flashy website with no visitors, and collecting digital dust. We've attended training, seminars, and got bombarded with all sorts of joining affiliate programs, selling membership sites and learned nothing that is useful to our traditional business, after spending thousands of Ringgits.

Past research have found that internal factors such as marketing orientation, entrepreneurial personality, and locating and retaining customers are key determinants of small business success [1] although it is recognized that factors such as the age of the firm will affect the importance of each. A study by [2] indicates that early entrepreneurial exposure of respondents to entrepreneurs had a positive impact on business success. In addition, business experience, education and training appear to have a positive correlation with business success [3]. Other studies have found that personal characteristics of leadership, high level of energy, passion, vision and risk taking are positively correlated with business success [4].

Records show that 79,310 businesses were discontinued in Malaysia during the year 2002. It was found that most of them were unable to cope and sustain themselves with the transition from an entrepreneurial style of management to an organized, professionally managed workforce and as a result, unable to capitalize on the vast market opportunities [5]. According to many studies revealed that more than 90% of new start-up businesses have failed within 5 years of their operations.

As stated by Datuk Mohd Johari Baharom, Deputy Minister of Agriculture and Agro-based industry, in Agro-based Industry Entrepreneurs Seminar 2010 that was based on the records, the borrowers with lack of basic business skills are more likely exposed to the risks for failing in business venture [6]. He added that the ministry is forced to tighten up in selection because in the past there are too many borrowers who did not utilize the loans in proper ways, resulting in the closure of their business. Many studies have been done on SMEs; growth and key success factors contributing to venture growth, yet only 10% of these start-ups survived beyond the 10 years mark.

The Malaysian Ministry of Agriculture and Agro-based Industry is trying to guide and coach some 2,000 micro entrepreneurs to upgrade their status as entrepreneurs of small and medium sized industry [6]. Among other things, the Ministry is trying to find ways to improve current annual business income of below RM250,000. Among the 2,000 identified micro entrepreneurs, only 10% have achieved RM 250,000 yearly sales and have showed potential for transforming into small-medium enterprises (SME).

The key problems are how the government can push, upgrade and transform micro-entrepreneurs into successful small and medium sized business owners. Another related problem is what mechanisms of step-by-step strategy the government can implement to help the micro entrepreneurs
transform from merely simple layman businessmen to those who are progressive and energetic business persons. Therefore, the primary objective of this paper is to propose a 7-Step approach to creating successful micro-enterprises, and suggest strategies to transform them into small and medium sized enterprises.

II. DEFINING MICRO-ENTERPRISE (MES)

According to the National SME Development Council of Malaysia [7], Small and Medium Enterprises (SME) are categorized according to (1) number of employees; or (2) annual sales turnover. The National SME development Council has on 9 June 2005, approved the common definitions of SMEs across economic sectors, for adoption by all Government Ministries and Agencies involved in SME development, as well as financial institutions. A micro enterprise in primary agriculture is an enterprise with full-time employees of less than 5 or with annual sales turnover of less than RM200,000; A micro enterprise in manufacturing (including agro-based) and MRS is an enterprise with full-time employees of less than 5 or with annual sales turnover of less than RM250,000; A micro enterprise in services is an enterprise with full-time employees of less than 5 or with annual sales turnover of less than RM200,000.

III. IMPORTANCE OF MICRO-ENTERPRISE TO THE ECONOMIC ENVIRONMENT

In today’s world, small businesses and particularly new ones are seen more than ever as a vehicle for enterprise development, contributing not just to employment and social and political stability, but also to innovative and competitive power [8]. In short, the focus has shifted from small businesses as a social good that should be maintained at an economic cost to small businesses as a vehicle for entrepreneurship. With this shift came the renewed perception of the important role of entrepreneurship. Indeed, recent econometric evidence suggests that entrepreneurship is a vital determinant of economic growth [9], [10], [11].

According to the Department of Statistics (2004), 60% of all companies in Malaysia are micro enterprises as compared to small (28%), medium sized (9%) and large sized enterprises (3%) [12]. The importance of micro enterprise in the development of all sectors in Malaysia suggests that an understanding of the success factors is crucial to the stability and health of Malaysia’s economic advancement towards vision 2020.

IV. ISSUES AND PROBLEMS

In Malaysia, TEKUN Nasional (TEKUN), a Government-linked agency under the Ministry of Agriculture and Agro-based industry, is set up to provide micro loan facilities of not more than RM 50,000 and other supported services to facilitate entrepreneurial development for micro business owners especially Bumiputra Malays. Since TEKUN was launched in 1988, 139,105 entrepreneurs had benefited in getting loan facilities from them. Furthermore, this year (2011) RM162 million loan facilities are available in order to produce 17,000 entrepreneurs. Some of the initiatives and supports provided by TEKUN are training and mentoring programs, business networking, helping entrepreneurs in identifying business opportunities and selecting and monitoring relevant businesses for entrepreneurial growth development. However, TEKUN faces gigantic problems in debt collection. According to Datuk Abdul Rahim Hassan, managing director and CEO of TEKUN Nasional, about 30% of the 170,000 micro borrowers of TEKUN in Malaysia have failed to repay their loans since this agency was formed in 1989 [13]. Most of them could not service their loans facilities due to the problems encountered in their business while some of the businesses are not viable and suffered substantial loss. Why are these micro business owners slow and unable to repay their loan? Is it because of their behavioral nature and attitudes or poor business performance or other financial factors such as poor collections and poor bottom line analysis?

The micro businesses make a significant contribution to jobs, accounting for 30.5 per cent of non-government employment, which represents over 6.5 million people [14]. Statistics indicate that the volatility of the micro-business sector may result in many of these jobs being short-lived [15], [16], [17]. The evidence, however, suggests that failure rates are high among new firms, which tend to be micro-businesses [16]. While new micro-businesses have a tendency to fail, there are also firms that have been in existence for a considerable period of time.

Several issues are crucial to be addressed here:

How can the government push, upgrade and transform the micro enterprise Malays into a more potential and successful small and medium industries (SMI) business owners?

What mechanisms of step-by-step strategy are needed to help the micro entrepreneurs transform from being merely simple businessmen to those who are progressing and energetic Malay business persons?
V. The 7-Step Approach Model for the Creation of Successful Micro-Enterprises

The model in Figure 1 depicts the elements that we believe all successful MEs should have in common to be sustainable and can help them move to the next level of the enterprise in this competitive environment. Figure 1 should not be seen as a comprehensive model of creating successful MEs but rather, to highlight the essential elements needed to be successful entrepreneurs. First and foremost, the most important element to be successful is having a burning desire with strong positive mindedness to achieve their ambitions (vision).

As Figure 1 shows, setting out clear objectives rests on a solid foundation of the financial and marketing aspects of the business. Given a strong foundation of setting the objectives, all other steps can be built. All these important elements can be built through their key tools thus resulting in superior performance of MEs.

A. Setting out Clear Objectives

Strong entrepreneurs must have clear goals that may include vision, mission and objectives. The clear objectives of financial and marketing aspects will provide the foundation of the process. The tools for these steps include clarity and persistence. MEs must have clear directions of where they are heading in their cash flow, profit, targeted sales, number of customers to be captured and the size of market share. MEs should have strong sense of persistency in their product’s values and keep their promises to the target audience in order to attain customers’ trust.

Siu [18] explains that in the opinion of managers, higher performing (in terms of profit, sales volume, market share and ROI) Chinese small firms in Hong Kong gave a higher priority to marketing, particularly strategic marketing planning, than other business functions in their overall approach to business although many still remained sales or production oriented. Rue and Ibrahim (1998) suggest that small businesses with a sophisticated planning process may reap the benefits of these efforts in the long term while Perry (2001) believes that SMEs using sophisticated planning activities (including written business plans) may enhance their chances of survival and success.

B. Attract and Please Customers

Studies have consistently shown that firms which are marketing oriented, or competent practitioners of marketing, perform better in terms of return-on-investment (ROI) and market share.

Most micro SME owners started their business either revolving around their expertise or their passion. They have no intention of becoming the sales and marketing expert that is wholly compatible with the characteristics of SMEs [21]. Hence, micro SMEs owner-managers recognized that building a relationship was vital to a company’s success and they invested considerable time and effort in maintaining good relations with regular clients. At whatever stage of refinement or development, it is argued that SMEs do marketing by networking and this marketing by networking (MBN) can be developed proactively as an approach for marketing which is wholly compatible with the characteristics of SMEs [21].

The ability to keep the customers is the most important indicator of customers’ satisfaction. One of the ways to keep in touch and remind stakeholders of their commitment to customers’ satisfaction is through promotional tag line or brand mantra on satisfaction for example “Going beyond expectations”, “We deliver consistently to your satisfaction”, “exceeding expectations” and so on. Consistently pursuing and improving on customers’ satisfaction will definitely keep them loyal and thus enhancing sustainability for the enterprise.

D. Grow with the Customers and the Business

Strategically, growing with customers and the business involves choosing the hows to improve customers’ needs and to provide superior and personalized customer service that is unmatched by rivals. The ability to employ strategies in expanding more customers, uniquely designed products, strengthening stake holders relationship, pushing better market position and good networking management will help in making the growth.

Growth can be described as the continuity of purchases by the customers. It is seen through a consistent increase in customers’ purchase over a long run. Some companies use strategies such as up-selling, cross-selling, and usage of direct mailings to remind the consumers of their extended services and promotions and building up stronger ties by greater relationship management. In the growth strategy, the MEs should be able to plan for expanding their business to the next level for example, from one small restaurant to a larger one, or in the case of a chain of restaurant and a food manufacturer, growing the business may also mean being able to produce many new products.

a consistent basis or else they will be out of business sooner than they expected.

According to [20], extensive literature review, marketing in small business can be categorized as: marketing as a culture; marketing as a strategy; and marketing as tactic. Marketing as a culture was defined as an analysis of consumer needs and wants and assessment of competitiveness of small enterprises. Marketing as a strategy was defined as a strategy development to enhance actual and potential market position of small enterprises. Marketing as tactic was defined as an analysis of the 4Ps (namely product, price, place and promotions) to influence the performance or growth of small enterprises.

C. Keep the Customers and Make Them Stay Loyal

Networking with customers usually involved building a relationship with one or two important individuals in those companies. Should those individuals leave then the relationship with the company would dissolve [21]. Hence, micro SMEs owner-managers recognized that building a relationship was vital to a company’s success and they invested considerable time and effort in maintaining good relations with regular clients. At whatever stage of refinement or development, it is argued that SMEs do marketing by networking and this marketing by networking (MBN) can be developed proactively as an approach for marketing which is wholly compatible with the characteristics of SMEs [21].

As Figure 1 shows, setting out clear objectives rests on a solid foundation of the financial and marketing aspects of the business. Given a strong foundation of setting the objectives, all other steps can be built. All these important elements can be built through their key tools thus resulting in superior performance of MEs.

A. Setting out Clear Objectives

Strong entrepreneurs must have clear goals that may include vision, mission and objectives. The clear objectives of financial and marketing aspects will provide the foundation of the process. The tools for these steps include clarity and persistence. MEs must have clear directions of where they are heading in their cash flow, profit, targeted sales, number of customers to be captured and the size of market share. MEs should have strong sense of persistency in their product’s values and keep their promises to the target audience in order to attain customers’ trust.

Siu [18] explains that in the opinion of managers, higher performing (in terms of profit, sales volume, market share and ROI) Chinese small firms in Hong Kong gave a higher priority to marketing, particularly strategic marketing planning, than other business functions in their overall approach to business although many still remained sales or production oriented. Rue and Ibrahim (1998) suggest that small businesses with a sophisticated planning process may reap the benefits of these efforts in the long term while Perry (2001) believes that SMEs using sophisticated planning activities (including written business plans) may enhance their chances of survival and success.
E. Out-compete rivals and compete successfully

Product differentiation is a source of competitive advantage in some businesses while others focus on niche markets [22]. It would appear from this study that marketing strategy did contribute positively to small business success and the ability to think how to outcompete rivals strategically.

In the market place, competitions among micro entrepreneurs are so great that some of them are fighting for the same customers and attacking each other in terms of price, quality, spaces, and bombardment of promotional materials and chasing after the customers with all sorts of value added gadgets. These micro competitions use all means of attacking abilities in order to gain a greater market share and of course “to survive”. They however lack the ability to implement marketing strategies, differentiate their offerings against rivals, the funds needed in promotions, be innovative and react effectively to the competitiveness of their rivals. The skillful entrepreneurs on the other hand, are aware of their rivals and they have good databases of information and feedbacks. They also have detailed plans in mind on the reacting patterns to be adopted, improvising their products and services features and ability to think ahead in pushing more sales on the niche markets.

F. Conduct proper systems and operations

It is also important to note that all internal operations and communicating systems support the company’s strategy in providing their broad array of products and services and may in fact, be able to boost competitiveness against their rivals. To conduct proper systems, the owner-managers of small companies should at least have a strong sense of leadership to lead in daily, weekly meeting, organize executions of plans, set up standard operating procedure and ensuring all departments are working cooperatively well. In small business, all operations are more likely to report and get orders from the owner-managers and as such planning and actions can be taken swiftly and efficiently. Statistical information, briefings and meeting can provide a feel for the latest development in the market place and personal contacts will add a feel for their employees’ dimension.

In operating a proper system, there is no rights or wrongs as feedbacks from employees and customers will help improve the system and operations. As the business expands, appropriate checks and balances can expose weaknesses that need to be adjusted and corrective actions taken. Micro-enterprise owners in Malaysia are always complaining about high turnover of the employees and staff abscouring from the workplace seems to be a normal scenario in small business environment. A proper system for motivating the employees through rewards and incentives will definitely serve as a tool for achieving the targeted financial and marketing results and also the greater will be employees’ commitment to a good day-in, day-out strategy of performance target.

G. Evaluation and taking corrective actions

The process of evaluation and making corrective actions involves information gathering, counting on several options of the rights and wrongs, decision process and formally adopting the agreed upon course of action. The evaluation of each will involve benchmarking and having a checklist to ensure the proper executions. The role of leadership in the implementation process such as regular meetings with employees as well as coaching and mentoring them to the right directions of the enterprise are critically required from time to time.

The process of evaluation and making corrective adjustments varies according to the situation. In small business, the time frame for deciding what corrective changes (proactive or reactive) to initiate may take a few hours, a day, a few days, weekly or even monthly if the situation is complicated. Successful small businesses are skilled and deeply involved in working together with their employees to get on track. Owners-managers of small enterprises must always stay on top of what is going on in their daily operations and should clearly understand the progress in all departments, providing solutions on every issue involving employees and customers and hence persistently pushing corrective actions to attain profitability. Lastly, evaluation and taking corrective actions (level 7) must be included in the planning process for a successful execution effort of the 7-Step model that will transform micro-enterprise into the next level enterprise.

VI. CASE STUDY

A case study of “ADABI” brand was undertaken to delineate the Seven-Step approach for transformation building adopted by the company (Table 2).

A. ADABI brand

ADABI was founded in 1984 as a micro food manufacturer (cottage industry) by a young Malay dropout undergraduate. In the beginning, the curry products were produced under the brand name of “Cap Kelapa” but the sales were very weak and hardly progress. After a few years, he realized that there are great potential in Malay household markets for its products but he failed to tap it and grow the business. Then with the help of a retired marketing expert acting as a part-time consultant, he rebranded the products as “ADABI” and ventured into an aggressive promotional campaign to create awareness among the Malay segments with a limited fund. The company then decided that a logo of a traditional Malay palace would represent the aspiration of the company to provide their consumers with the highly authentic taste associated with the refined taste of the royals of the past. It’s tagline “Sajian Istana di zaman silam” (The Palace’s menu of the past) and the Malay palace logo denotes the fact that ADABI products have a very strong heritage, and this has effectively position the company’s presence in the consciousness of its consumers who are majority Malays.

In less than 10 years, ADABI had transformed from a mere micro-enterprise to become a large organization and the brand has become a household name of best top 10 brands in Malaysia. Now, ADABI manufactures products with over 86 types of products under four main categories: powdered spice mix, processed paste, soya sauce and flour mix. The company was able to visualize their vision of “Every household kitchen in Malaysia should use ADABI products” and through the association of the brand to trust, quality, taste and easy availability in every retail outlets in Malaysia.
From the beginning with annual sales of a few thousands Ringgit (RM) and less than 5 workers in 1984, the company has seen rapid growth to its current RM288 million sales in 2010. The brand consciousness stands at par with other famous international food products brands like Nestle in Malaysia. Increasing competition however has pushed the company to explore and expand its presence in the international markets. It has managed to penetrate the overseas consumer market and has distributing agents in Brunei, Singapore, Japan, China, Thailand, Canada, Europe and Australia. Its overseas market contributes 30 percent on earnings.

From a humble beginning, ADABI brand is a good example of how a micro-enterprise could transform into a giant conglomerate through 7-step approach model for creation of a successful entrepreneurs.

### TABLE II

**TRANSFORMATION BUILDING OF 7-STEP APPROACH OF ADABI**

<table>
<thead>
<tr>
<th>Steps</th>
<th>ADABI Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Setting out objectives</td>
<td>Vision: ADABI products in every Malay kitchen household in Malaysia. Financial: to achieve cash flow, prompt payment, etc. Marketing: to achieve sales, market share to grab, to penetrate all retail outlets in Malaysia etc. Their marketing planning is bench mark against Nestle (biggest food manufacturer in Malaysia)</td>
</tr>
<tr>
<td>Attract and please customers</td>
<td>Look appealing, nice and partially see through (windowed) packaging. Taste and quality that well suited to the Malays. Ensuring all products are easily available in every retail outlets at affordable price within the reach of Malay consumers. Promotional budget of 5-10% of projected sales were allocated for matured products and more than 10% for newly launched products. Communication campaigns in above and below the line promotions such as TV, print ads, demonstrations, sponsorship, outdoor ads, free samples etc. and adapted regionally</td>
</tr>
<tr>
<td>Keep the customers and make them stay loyal</td>
<td>Loyalty programs such as contests, ads specialties, trade sales promotions for retail outlets and wholesalers, commission and incentives are given out. Ensuring excellent services and attended complaints in 24 hours with some gifts. Gathering and annual dinners for all intermediaries and other key customers</td>
</tr>
<tr>
<td>Grow with the customers and business</td>
<td>Many new products are introduced yearly to ensure sales and making more “noise” in the market place. Promotional campaigns are being carried out to get consumers into increasing their purchase. ADABI brand grew into a Malay household name in Malaysia and the company kept on building corporate brand</td>
</tr>
<tr>
<td>Outcompete rivals and compete successfully</td>
<td>Design marketing strategies regionally to ensure that rivals are not going to penetrate local market. Strengthening the corporate brand and strong brand mantra of “Sajian Istana Di Zaman Silam” (The palace’s menu of the past). Reaction patterns based on product lines – they will react very fast to ensure rivals are not going to spoil and penetrate their market</td>
</tr>
<tr>
<td>Conduct proper system and operations</td>
<td>ADABI has systematically outlined the procedure in delivering new products from idea generation to commercialization. And also in distribution of goods until end consumers, quality control systems, transaction, collections, good returns and relationship management</td>
</tr>
<tr>
<td>Evaluation and corrective actions</td>
<td>An evaluation panel was set up from the executives of all departments to evaluate and make adjustments based on weekly and monthly basis. Due to poor coverage, channel conflict and slow repayment ability, ADABI had replaced all key independent distributors in Malaysia with their own subsidiary companies and now their distribution channels are very efficient, prompt service and making a lot of improvements in terms of customer service, satisfaction, availability and also increases sales and profitability</td>
</tr>
</tbody>
</table>

VII. DISCUSSION

The suggested framework model can serve as a guideline to assist policy makers, practitioners, consultants, training managers and other agencies in developing tools to assist micro business owners throughout Malaysia. Hence, the author recommends the 7-Step approach in the creation of successful entrepreneurs and transforming enterprises.

As competition gets more intense, micro-entrepreneurs face challenges to keep ahead in all aspects of management and marketing so that they may be able to survive and transform their company’s into larger enterprises and be sustainable future undertakings. All steps undertaken by micro-enterprise must always be innovative and creatively thought through and implemented.

MEs should first seek to justify their objectives by taking a bigger picture view of their ambitions (vision) and translate this into financial and marketing aspects before they are able to proceed to the next step of the planning processes. For MEs, the ability to attract and please the customers is a crucial activity in term of dollar and cents.

VII. CONCLUSION

This paper discusses the 7-Step model for creation of successful micro-entrepreneurs based on the literature review, research and authors’ experience.

The information derived from the study can serve as a basis for identification of critical entrepreneurial success factors, problems and obstacles that may be able to assist government policy makers, practitioners, consultants, training providers and other agencies in developing tools to assist micro small business owners. The paper will also pave the way for micro small business entrepreneurs to plan and implement initiatives and action plans for the growth of their business in terms of business progression, training as well as business coaching. Findings from this paper will enable the government to assist
micro-enterprises to compete in the ever growing and ever challenging business world.

REFERENCES


