



## **Logistics and Supply Chain Related Issues Faced by Malaysian SMEs: A Case Study**

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### **ABSTRACT**

This study uses a case study approach in order to identify the logistics and supply chain related issues faced by small and medium enterprises (SMEs) in Malaysia. Previous study revealed that the causes of the failure of SMEs are both internal and external and one of the external factors identified are non-availability or deficiency in logistics and supply chain management. Based on these findings, this study is conducted in order to further focus on the logistics and supply chain related issues. Thus, the objective of this study is to identify the logistics and supply chain issues faced by SMEs in Malaysia. Data were collected through case study interviews with five SMEs. The case study interviews reveal two most common issues confronted by these firms, namely customer service and inventory management issues. These two issues are related to one another as lack of inventory will lead to SMEs inability to fulfil their customer needs. Firms themselves need to rectify these issues as they may result in loss of sales, which will eventually result in loss of customers. The finding also indicates the important role of external supply chain members such as the supplier, carrier or third-party logistics service providers as they directly influence the level of customer services provided by SMEs.

**Keywords:** Small and Medium Enterprises, Logistics, Supply Chain Management, Malaysia

**JEL Classification:** L33

### **1. INTRODUCTION**

The contribution made by Small and medium enterprises (SMEs) towards economic development of a nation is evidence through various statistics and studies that have been conducted beforehand. In Malaysia, 97.3% or 645,163 of 662,939 business establishments in this country are consists of SMEs (SME Corp. Malaysia, 2014). According to the latest annual report produced by the SME Corp. Malaysia, the contribution of SMEs towards Malaysian GDP is 35.9% in 2014 and accounted for 65% of the total employment in this country. There are various factors attributed towards the success of Malaysian SMEs as identified by previous studies. These include factors such as reputation of honesty, good customer service and hard work (Chong, 2012), leadership behaviours of leaders (Arham et al., 2013), and government business support (Shamsuddin, 2014). In addition, Hung et al. (2011) identify six main factors that contribute towards the success of Malaysian SMEs namely networking, product, ability to focus on market,

customer, supportive management, and leadership. Indarti and Langenberg (2005) identified components such as characteristics of the entrepreneurs, the characteristics of the SMEs, and the contextual elements of SME development for the business success of SMEs. There is also evidence that Malaysian SMEs have successfully expanded their business into foreign market and increase in profit is the major reason behind their move. This is understandable as Malaysian market is very small and therefore, SMEs have to expand their market to gain more revenue (Abdullah and Zain, 2011). Overall, Malaysian SMES contributes 19% of the export of this country (SME Corp. Malaysia, 2014).

Despite the success, there are also cases where SMEs failed to sustain their business. Even though there have been no comprehensive studies or accurate figures published so far, the estimated failure rate for SMEs was 60% (Komuniti, 2006). A study by Fatoki (2014) revealed that the causes of the failure of SMEs are both internal and external. Internal factors include lack

of management experience, lack of functional skills and poor staff training and development and poor attitudes towards customers. External factors include non-availability of a logistics and supply chain, high cost of distribution, competition, rising costs of doing business and lack of finance. Based on these findings, this study is conducted in order to focus further on one of the issues highlighted by Fatoki (2014) which is on logistics and supply chain related factors. Thus, the objectives of this study are to identify the logistics and supply chain issues faced by SMEs in Malaysia, and how logistics and supply chain aspects create barriers that impede SMEs business success and internationalisation.

## 2. OVERVIEW OF SMES IN MALAYSIA

SMEs play a vital role in the Malaysian economy and are considered to be the backbone of industrial development in the country (Saleh and Ndubisi, 2006). According to Gibson and Vaart (2008), the definition of SMEs however is different across countries and various multilateral institutions such as the World Bank, multilateral investment fund of the Inter-American Development Bank, the African Development Bank or even the United Nation Development Programme. Even in Asia, there is official definition of SMEs and the Asian Development Bank uses only definitions of individual national governments. According to SMEs Corp. Malaysia, Malaysian SMEs are defined based on their sector, as shown in Table 1.

## 3. LOGISTICS AND SUPPLY CHAIN MANAGEMENT ISSUES

Logistics and supply chain management aspects are one of the important considerations for businesses when expanding their business operations into a new international market. The ability to initiate an effective and efficient logistics and supply chain strategies and proper management of logistics network that span across international borders are essential for firms in order to compete with local firms and also the other MNCs. According to the Council of Supply Chain Management Professionals (CSCMP, 2010), supply chain management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third party service providers, and customers. In essence, supply chain management integrates supply and demand management within and across companies. Logistics management is defined as that part of supply chain management that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of

origin and the point of consumption in order to meet customers' requirements. The definition indicates that logistics are part of the supply chain management that move and position inventory to the desired time, place and possession at the lowest total cost.

Logistics and supply chain management consists of various activities and Bowersox et al. (2013) have list out five key activities which include:

- Facility network design: Plant, warehouse, depot location, size and design
- Inventory management: Procurement and storage of raw material, component, work-in-progress, and finished goods.
- Order processing: Information management and exchange, communication, data transmission, and data processing, import/export documentations.
- Warehousing, material handling and packaging: Storage, cargo handling equipment, loading and unloading, containerisation. Also include break-bulking, repackaging and quality inspection.
- Transportation: Physical movement of inventory from one place to another uses various type of carriers, cost of delivery.

Logistics and supply chain management issues refer to the problems associated with any of the logistics and supply chain activities as mentioned above. These issues are expected to create barriers for international market expansion for small and medium sized businesses. Previous study has identified that manager's lack of knowledge on logistics and supply chain strategy are expected to negatively influence firm's market expansion (Zhang, et al., 2012), and also reduce the possibility of risk taking behaviour and intention to venture abroad (Carter, et al., 1997). In addition, the logistics and supply chain management issues tend to offset a firms effort to establish an efficient supply chain systems, often lead to higher total supply chains costs and decrease flexibility that will adversely affect the firm's competitive position (Carter and Ellram, 1998).

## 4. RESEARCH METHODOLOGY

This study use qualitative research design where data collection was conducted through case study interviews with five SMEs managers from manufacturing and retail industry. The managers are chosen from the list of SMEs available through the SME Corp directory based on the convenience basis. It is because of the difficulties in getting the agreement from many managers to be interviewed. The objective of the interview is to learn the manager's view on business internationalisation, logistics and supply chain issues experienced by these firms and their level of severity. Relevant questions were asked using the supply chain diagnostic tool framework by Foggin et al. (2004) towards the interviewees to ascertain the logistics and supply chain issues

**Table 1: Definition of SMEs in Malaysia**

Category	Small enterprise	Medium enterprise
Manufacturing	Sales turnover from RM300,000 to less than RM15 mil OR employees from 5 to <75	Sales turnover from RM15 mil to not exceeding RM50 mil OR employees from 75 to not exceeding 200
Services and other sectors	Sales turnover from RM300,000 to less than RM3 mil OR employees from 5 to <30	Sales turnover from RM3 mil to not exceeding RM20 mil OR employees from 30 to not exceeding 75

Source: Official website of SME Corp. Malaysia, 2015, SMEs: Small and medium enterprises

faced by the companies. All interviews utilised this framework and then subjected to further analysis to find the common themes emerging from the interviews.

## 5. FINDINGS

In total, five SMEs involved in this study and four of them are from the retail industry while the other one is from the manufacturing industry (Table 2). In terms of the interviewees' position, three of them are the owner (CS2, CS3 and CS4) while the other two are manager (CS5) and import-export officer (CS1). Based on the number of employees, four companies (CS2, CS3, CS4 and CS5) are in the small enterprise category as the number of employees is more than 5 but < 30. Meanwhile, CS1 is a medium sized enterprise as the number of employees employed is 180 people.

## 6. DISCUSSIONS AND CONCLUSIONS

Results of the interview indicate that there is a mix of logistics and supply chain issues faced by the SMEs' owners or managers. The most common issues identified are customer service issues and inventory management issues. In terms of customer service issues, one of the companies (CS2) are having problems servicing their customers, which results in loss of sales and loss of customers to their competitors due to inventory shortages. Loss of sales and consequently loss of customers happens when the customer goes into the shop but could not buy what they want because the product is not available and they leave the shop empty-handed. These customers will go to another shop and if that shop could satisfy the customer's needs, they might not come back to the first shop therefore resulting in the loss of the customer (maybe forever). The inventory shortages sometimes are also caused by late delivery of the suppliers. These suppliers, on occasion, also sent incomplete shipments to the company. This further exacerbates the inventory shortage for the company. When investigated, the reason for incomplete shipments is that the supplier themselves are having problems with their inventory level (sometimes the item that was ordered was out of stock at the supplier's end).

Again, from the aspect of customer service issues, another company interviewed (CS3) stated that their relationship with external supply chain members (their suppliers) are stressful. This company says that the nature of their relationship with their suppliers are transactional, arms-length and with low coordination. The company could not afford a closer relationship with the suppliers because, being a small company, their orders are small and infrequent. The company is also sometimes being relegated to the end of the sequence of importance because of the size of their order. The company also cannot demand much from the suppliers (for example, a faster delivery) due to the size of their order. As a result, the order delivery lead times become unpredictable and erratic, which affect the company's service and reputation among their customers.

The second common logistics issue faced by the companies is inventory issues. Interestingly, two of the SMEs have a contrasting inventory issue: One has too little inventory while the other one faced too much inventory issue. However, one common denominator is that both these companies are in the clothing retail sector that deals with the fast changing trends in fashion. The first company (CS4) has too little inventory due to their financial constraints (lack of capital). Being a small company, the company do not have the capital to buy a large amount of clothing for each of the sizes. According to this company, sizes (of the clothes) have to be carried in the sizes of XS to XXL. To have adequate inventory to service their customer fully, there should at least be 5 pieces for each size (this means 5 pieces for XS, 5 pieces of S, 5 pieces for M etc.). Unfortunately, due to their lack of capital, they could only buy 1 piece for each of the sizes. This is also due to having to carry several colours for the each of the sizes. The company could not afford to buy so many pieces for the same size while at the same time carrying it in so many colours.

In contrast to CS4, another SME interviewed (CS5) has a too much inventory problem. Upon investigation, the reason for this is that the company source their products overseas and to make

**Table 2: Summary of findings**

Case study	Profile	Major logistics and supply chain issues	Severity
CS1	Interviewee position: Import-export officer Industry: Manufacturing No of employees: 180	Product flow issues. • The problem lies with the carriers/3PL providers that they use. • The company have inadequate buying leverage with carriers and their 3PLs.	Moderate
CS2	Interviewee position: Owner Industry: Retail No of employees: 6	Customer service issues. • There are lost sales and lost customers due to inventory shortages.	Moderate to severe
CS3	Interviewee position: Owner Industry: Retail Number of employees: 5	Customer service issues. • Relationship with external supply chain members (suppliers) are stressful • Result in erratic order delivery lead time	Moderate
CS4	Interviewee position: Owner Industry: Retail No of employees: 7	Inventory issues. • Company have too little inventory.	Moderate to severe
CS5	Interviewee position: Manager Industry: Retail Number of employees: 10	Inventory issues. • Too much inventory. • Also having problems with obsolete inventory.	Moderate to severe.

up for the transportation costs, they order in big bundles to get transportation discounts. The company also carry too many stock keeping units. Another problem that contributes to this too much is that their forecast is not accurate enough. Forecasting is vital in the clothing industry because they follow a certain fashion trends. Unfortunately, the forecast that the company used are sometimes not accurate for the Malaysian consumers (i.e., the product might be a bestseller in an overseas market but only receives a lukewarm response here in Malaysia). The inaccuracy in forecasting results in the company having too many unsold inventory and this leads to another problem for the company, which is considering what to do with obsolete inventory. Finally, CS1 is facing a product flow issues as the company have inadequate buying leverage with carriers and their third party logistics (3PL) service providers. This is almost similar to the situation faced by CS3 as small number of orders and infrequent use of the carriers or 3PL services resulted in they are not been considered as a priority among the carriers and the 3PLs.

This study contributes towards the literature as it provides more detail and in depth explanation on the logistics and supply chain related issues faced by SMEs. For practitioners and the government, this study shed lights on the most common issues faced by SMEs. Firms themselves need to rectify these issues as they may result in loss of sales, which will eventually result in loss of customers. As a conclusion, this study has discovered two most common issues as mentioned by the interviewees involved and those issues are customer service and inventory issues. The finding also indicates the important role of external supply chain members such as the supplier, carrier or 3PL service providers as they directly influence the level of customer services provided by SMEs.

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