SMEs and HEIs: Observations from Brunei Darussalam and Germany

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Abstract

This paper explores the role of higher education institutions in enhancing the small and medium-sized enterprise (SME) ecosystem in Brunei Darussalam, particularly with regard to improving the spirit of entrepreneurship and the motivation to seek opportunities independently to propel the country’s transition economy forward. A qualitative methodology was adopted for data collection, using semi-structured interviews with Bruneian and German SME owner/managers and sales representatives. The economics perspective of the institutional framework was employed to identify the formal and informal constraints faced by SMEs in Brunei Darussalam. Recommendations are offered to inform the relevant stakeholders about the key issues faced by SMEs so that appropriate forms of guidance and benchmarking can be provided to facilitate the country’s economic development.

Keywords

Developing countries, factor education, government, industry, small business growth, transition economy

Entrepreneurship is one means of empowering a nation’s economy, and higher education institutions (HEIs) are often regarded as offering potential for revenue generation. Research has shown that in 15 years artificial intelligence will have taken over 40% of current jobs (Fortune, 2019). For Brunei Darussalam, which already has an unemployment rate of 9.1% (Trading Economics, 2019) and an over-reliance on the oil and gas sector to support its GDP, it is crucial for its HEIs to take a more active role in strengthening its human resources.

According to Wadhwa et al. (2009), entrepreneurship education in HEIs has the potential to aid the business or start-up success of graduates. The education system, of course, is a continuum and different levels should not be regarded as separate systems (European Commission, 2008): the fundamental pillars of entrepreneurship education are knowledge, skills and attitude (Dragusin and Balalia, 2010), all of which can be honed at different stages of education. Previous research has also identified measures of entrepreneurship success (Bosma et al., 2000), encompassing profit, generated employment and the survival period of the firm.

There are factors relating to the individual that result in the differential growth of small and medium-sized enterprises (SMEs), among them the age of the owner/manager (Xheneti and Bartlet, 2012) and their educational background or qualifications (Virglerova et al., 2017). A range of societal barriers has also been identified, including corruption (Xheneti and Bartlet, 2012) and an insufficient flow of information/assistance from stakeholders (Haji Hashim, 2010). These factors differ across societies and nations, and their identification is key in understanding the issues and opportunities that exist in the economic environment.

This paper explores the role of HEIs in enhancing the SME ecosystem in Brunei Darussalam, particularly with regard to improving the spirit of entrepreneurship and the motivation to seek opportunities independently. The achievement of those aims would help propel the country’s transition economy towards fulfilling its bold long-term development plan, Wawasan Brunei 2035, which aims to turn the Sultanate into ‘a nation widely recognized for the
Accomplishments of its well-educated and highly-skilled people as measured by the highest international standard; quality of life that is among the top 10 nations in the world; and dynamic and sustainable economy with income per capita within the top countries in the world’ (Gov.bn, 2020).

Background

Brunei Darussalam is a Malay Islamic Monarchy. In 2019 it had an estimated population of 459,500 (Department of Statistics, 2020), of which Brunei citizens accounted for around 72%, temporary residents about 20.5% and permanent residents about 7.5%. Malay language is the dominant race at around 66% of the population, with Chinese making up about 10% and other races the remainder. With regard to the economy, exports of crude oil and natural gas support 60% of the GDP and account for about 90% of the government’s revenue. In the 2019/20 financial year, oil and gas contributed B$3,645.608 million to the total government revenue of B$6,007.100 million (CEIC, 2020). The country’s major employer is Brunei Shell Petroleum, followed by the government. This heavy reliance on the oil and gas industry has been perceived as problematic because it subjects the economy to global fluctuations in demand and prices that are outside of the country’s control. Notable changes were observed in the early 2000s when the oil price plummeted, and again in 2019 with the COVID-19 pandemic outbreak that lowered the world’s demand for oil.

Despite the decline in oil prices, the government continues to provide subsidies for necessary goods and services: food, fuel, healthcare and education. In fact, according to a report by the International Energy Agency (cited in Ahmad and Othman, 2014), Brunei Darussalam has the highest rate of subsidy per capita in the Southeast Asia region. It comes as no surprise, then, that there has been little sense of urgency with regard to self-improvement among the general population because a lot of what people need has been provided, and so the motivation has been lacking.

In recent years, however, Brunei Darussalam has become more aware of the economic variability and vulnerability that can affect social stability, employment and the nation’s future. With the enjoyment of sustained peace due to political stability and with its heavy reliance on oil and gas as a major economic source throughout most of its history, the Sultanate is now looking for opportunities to diversify its economy, to reduce its dependency on oil and gas, and to tackle economic issues, including unemployment. There are several recommended directions for economic diversification, including financial services, hospitality and tourism, education and knowledge creation, and agricultural products (Lawrey, 2010). It is, however, important to strike a balance between economic development and the maintenance of the nation’s religious and cultural traditions, which Bruneians hold dear (Bhaskaran, 2010).

Brunei Darussalam–Germany relations

Aside from scrutinizing its own resources, the small Sultanate is also establishing partnerships with other countries. One of these is Germany, with which Brunei has enjoyed long-term collaboration and diplomatic relations. Diplomatic relations were established on 1 May 1984, followed by the opening of Brunei’s embassy in Bonn in 1991: it was relocated to Berlin in 1999. In 2008, a student exchange programme between the two countries was initiated. Germany is an important economic partner to Brunei Darussalam as it supplies a wide range of industrial goods (motor vehicles, machinery, medical technology, capital goods) as well as services (Lufthansa Technik, logistics (DHL), finance (Allianz)). ThyssenKrupp, a plant producing fertilizer, was constructed in 2017 and this plant is worth more than one billion euros. In 2019 the Deutsche Telekom Group – a German telecommunications company – partnered with all three telcos in the Sultanate to form Unified National Networks Sdn Bhd (The Scoop, 2019). Germany has undergone repeated transition economy stages throughout its history, and has always emerged from them successfully. Considering the multi-sectoral presence of Germany in the Sultanate and the experience of existential crisis in the nation’s history, the perspectives of German SME representatives were included in this study to enrich the information gathered.

Stimulating SME growth: Collaboration between institutions

Growth stimuli, or the lack of them, are often the result of action or inaction by institutions involved in the processes relating to the establishment and growth of SMEs – including governmental, financial and educational organizations.

Previous studies on Brunei Darussalam’s economy primarily recommend two means of stimulating economic activity: (1) a central coordinating body to spearhead the process of economic diversification (Lawrey, 2010); and (2) the promotion of a large number of foreign direct investments (FDIs) (Bhaskaran, 2010; Haji Hisham, 2010) in order to market the country more aggressively to the rest of the world. A country with a transition economy is able to restructure and to focus on mobilizing its own capacity, which will in turn broaden its economic base and market profiles. In addition, the Sultanate has a relatively young population, with a median age of 32 (Worldometer, 2020): with the inculcation of the right mindset, this young population can be the engine that will drive the country’s diversification efforts.

In the region covered by the Association of Southeast Asian Nations (ASEAN), SMEs employ more than 60% of the total workforce (OECD/ERIA, 2018). In Brunei Darussalam, SMEs have been estimated to contribute 58% of total employment in the private sector and 22% of the GDP.
from established universities in Europe and Asia and are institutions in the Sultanate have followed positive examples of entrepreneurial development, investment incentives, technology transfer and infrastructure that can benefit businesses. The four young universities and the private sector in Brunei Darussalam have collaboratively provided assistance in financing entrepreneurship and will motivate owners, managers and sales representatives to seek opportunities independently to grow and sustain their business ventures.

**Stimulating SME growth in Brunei Darussalam**

Bateman (2000) highlighted the notion of ‘bureaucratic-administrative’ business culture, which is detrimental to progress in entrepreneurship and innovation as it limits the opportunity for individuals to fulfil their aspirations. Therefore, to enhance the development of local SMEs into competitive and viable businesses, the government, financial institutions and the private sector in Brunei Darussalam have collaboratively provided assistance in financing entrepreneurial development, investment incentives, technology transfer and infrastructure that can benefit businesses. The traditional model of the HEI in Brunei is changing so that the institutions can be globally competitive. All four young universities in the Sultanate have followed positive examples from established universities in Europe and Asia and are experimenting with various approaches to enterprise education (Pittaway and Hannon, 2008), including the establishment of a faculty specifically to deliver modules on business-related studies (department-led), the organization of SME-related seminars and events (campus-wide), and sending students to firms for experiential learning (collaboration-led). However, despite these efforts, some problems persist – for example, the smallness of the domestic market; the lack of diversity in SME profiles, with many similar businesses mushrooming around the nation; and the attitudes of the owner/managers and the surrounding communities. Entrepreneurship can widen the economic base, but what are the underlying constraints faced by SMEs in Brunei Darussalam that lead to a lack of diversity and competitiveness?

**Institutional theory as a framework**

The development witnessed in Brunei Darussalam, including the growth of SMEs, is often institution-led, whether by the government or a third party. Therefore, the economics perspective of institutional theory was adopted for this study (North, 1990). There are two types of constraints in this perspective: formal constraints (which includes the laws and regulations imposed on SMEs, financial institutions and HEIs) and informal constraints (behaviours, mindsets and attitudes that determine actions taken). The findings of this study will be considered within this framework to identify stimuli that can be cultivated to further the development of SMEs in Brunei Darussalam.

**Methodology**

Data were collected through semi-structured interviews conducted with eight participants, each of whom was directly engaged with an SME as owner/manager or sales representative. Four Brunei Darussalam citizens and four German citizens were selected based on purposive sampling. All participants were asked questions regarding their experiences: the type of training they had undergone, anecdotes about their experiences, and what influenced their behaviour when conducting their business. The interviews lasted for 15–30 minutes and were conducted face-to-face or by telephone. All were audio-recorded, and the audio data were transcribed. These data were tabulated according to themes emerging from the dataset (Tables 1 and 2), and discussions were analysed in accordance with the formal and informal constraints identified above.

**Findings and discussion**

Tables 1 and 2 summarize, respectively, the responses of the participants from Brunei Darussalam and of those from Germany. As can be seen, the respondents from Brunei
Darussalam had spent a shorter amount of time in the business than the German respondents. Most of the respondents (except for two Bruneians and one German) had not undertaken formal training or courses and were largely self-taught. **Merging formal and informal constraints**

In the current context, formal constraints refer to the rules, laws and constitutions set by a regulatory body – such as

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the government or a financial institutions – that are inflexible due to their dependence on bureaucracy and are thus outside the influence of SME owner/managers. The formal constraints identified from the participants’ responses include the lack of formal training, the shortage of platforms, unfavourable regulations and unfair competitions. Informal constraints, on the other hand, are attributed to human factors such as the lack of initiative, hostile social practice, a fixed mindset and even lack of motivation, which can be influenced by SME owner/managers. When all SMEs are subject to the same formal constraints or are presented with the same opportunity, informal constraints can differentiate one enterprise from another. The informal constraints identified from the participants’ responses relate to initiative to learn, maintaining rapport, flexibility and customer service. Interestingly, the authors found that often the solution to the formal constraints was found by addressing the informal constraints. Therefore, both types of constraint are paired in the sections that follow. Formal constraints are labelled ‘FC’ and informal constraints ‘IC’. Respondents are labelled R1, R2, etc.

Formal training (FC) and initiative to learn (IC)

As previously mentioned, only three of the eight participants had undertaken formal training, either by enrolling in a business school (R2) or taking courses or training related to running a business (R1, R3). According to Venesaar et al. (2006), such training would be advantageous when aligned with the expectations of students (for example, entrepreneurship lessons in the first year). More educated entrepreneurs are more likely to have the skills, technical knowledge and information to grow their business (Xheneti and Bartlett, 2012); the education they have received supplies them with the confidence to make courageous decisions to grow their venture.

The majority of the participants had not had formal training in running an enterprise. The lack of both knowledge and opportunity to learn formally provided a stimulus to search for alternatives and to learn independently from the Internet (R4), from observations of other businesses (R3) and by learning through reading (R6) – such activities had contributed to the sustainability of their enterprises. They also focused on other means to develop their respective enterprises, for instance by improving knowledge about the products (R7), the cost (R6) and the value a product would add to customers’ lives (R5, R7). They personalized their approach to ensure that they knew why customers should purchase from them (R8). It is clear that, despite not having had the opportunity of formal training in entrepreneurship, these respondents realized the importance of business-related human capital (Xheneti and Bartlett, 2012) alongside their basic efforts to keep the business afloat.

Availability of platforms (FC) and maintenance of rapport (IC)

All Bruneian respondents mentioned various platforms in their accounts of successful sales, such as the MSME ((Micro, Small and Medium-sized Enterprises) Festival (R1) and Bike Week (R3). These platforms, typically organized by the government or other institutions, enable direct interaction between the owners/managers and sales representatives of the SMEs with potential customers.

In contrast, their German counterparts did not rely on these platforms and instead insisted that customer relations were a key factor in determining sales success, regardless of whether they were maintained online or face-to-face at festivals and exhibitions. According to the participants, owner/managers and sales representatives should communicate the value of their enterprise (R2), maintain their level of friendliness (R5) during and after sales, and refrain from being too pushy (R7) as this demonstrates that the seller is respecting the space of the customer to make free purchasing decisions. The establishment of rapport leads to successful purchases of products/services and long-term customer loyalty.

Digital technology is rapidly changing the balance of power, shifting it away from government (Fletcher, 2017) and large corporations to SMEs and consumers (Philips, 2015). Although physical platforms have diminished in importance, especially in 2020 with the impact of the COVID-19 pandemic, the maintenance of good customer relations remains critical. Brunei Darussalam has the third highest social media penetration in the world at 86% (The Nation Thailand, 2017), and a large percentage of the population can be reached by SMEs via digital technology.

Regulations (FC) and flexibility (IC)

Regulations range from promotions (R1) and discounts (R4) offered at festivals and other organized events to recruitment restrictions imposed by the state (R8). Some regulations are seen as constraints as they lower the profit margins of enterprises. Others, such as restrictive recruitment procedures, affect their operations. These formal constraints can be minimized through the learning of marketing strategies, business plan formulation and similar essential knowledge relevant to running an enterprise in Brunei Darussalam. Such knowledge will assist SME owners to make informed, strategic decisions in order to sustain their business and cope with restrictions. It will help them to devise sustainable sales processes and to have the persistence to overcome rejection and barriers in the market (e.g. the ‘no rejection’ slogan of R6 – see Table 2). In addition, if a firm has a small number of employees, people need to perform more than one role, facilitating their acquisition of product knowledge and skills and encouraging the kind of flexibility that leads to creative solutions and a positive attitude in the face of constraints.
Competitions (FC) and customer service (IC)

In the dataset, competition is seen as a constraint (R1 and R4). Azevedo and Haase (2016) reported that, to be competitive, SMEs generally had to be able to lower their operating costs, differentiate their products and services from others, and improve their marketing and branding strategies. Competition can be seen as a stimulus for rebranding an enterprise: SMEs need to re-evaluate their products and services continuously to adapt to the ever-changing needs of local and international consumers. Because SMEs in Brunei are often small and experimental, change should be relatively easy to implement, and it is important that they see that the presence of competition as the sign of a healthy market, with customers able to choose the product or service that best serves their need. Customers are more likely to stay loyal to those enterprises with good customer service. Participants highlighted some faults in this respect—such as ignoring customers after their purchase of a product (R5), slow response, or showing no respect for time (R3, R6, R7)—as reflective of a sales culture with a short-term mindset. A creative and distinctive approach and prioritizing customer service were seen as key factors in successful enterprise development.

HEIs and industry as influencers of the SME climate

In Brunei Darussalam, the government has made efforts to produce a conducive environment for enterprising activity. However, the above identification of formal and informal constraints indicates that there are further stimuli that could be used to develop the entrepreneurial climate and address those constraints, especially through collaboration between HEIs and industry. Entrepreneurship is built on the ability to turn ideas into reality, and HEIs should therefore make greater effort to develop that ability. The benchmark for HEI practices will be negotiated between what educational institutions can offer and what industries can provide. SMEs need structured input to help address such national issues as sluggish economic growth and unemployment. It should be acknowledged that entrepreneurship education does not have to be in the form of formal education (e.g., a degree in Business Administration). As has been noted, most of the respondents felt that informal learning had enhanced their competence. According to Brunei’s Ministry of Education (2018), out of an enrolment of 11,406 students, only 2,573 were in business and administration related majors. It is important therefore that entrepreneurship education is made accessible to students studying in other disciplines. The skills acquired in entrepreneurship education are relevant to many branches of study and transcend perceived disciplinary boundaries. The integration of entrepreneurship into the curriculum, irrespective of the field of study, should be an aim of HEIs in Brunei as part of their wider mission in the 21st century.

HEIs can engage with the demand for entrepreneurship education either by offering courses as extracurricular activities or by embedding entrepreneurial skills in the curriculum. The latter approach will require educators to design assignments and assessments that will motivate learners to be proactive problem solvers and creative opportunity finders. There will be a need for the curriculum to include both identified sets of skills from countries with a more advanced entrepreneurial landscape and locally recognized needs and sensitivities so that the unique culture and identity of Brunei Darussalam are preserved.

Educators are in a key position to raise awareness about and nourish the climate for entrepreneurship, so that learners are motivated to consider it as a career option. They would have the opportunity, in the course of their higher education, to test their ideas, negotiate solutions and obtain feedback. In order to achieve the maximum potential of entrepreneurship education, educators themselves should be educated through practical experience from the corporate world so that they can combine theory with practice in the classroom, communicate ‘how-tos’ to learners in a more accessible way, and develop networks with organizations that will be beneficial to students (European Commission, 2008).

Conclusion

Brunei Darussalam has enjoyed immense wealth from the oil and gas sector and political stability due to the Sultanate’s absolute monarchy. However, in recent years, the instability in oil prices has caused the unemployment rate to increase and remain at a high level. Previous studies on Brunei Darussalam have recommended third-party involvement and increased FDIs as key strategies to address the problem. However, the authors believe that, with its young population and multiple high-potential sources for economic diversification, the nation should also channel efforts towards improving entrepreneurship education and thus growing the economy by developing entrepreneurial attitudes and skills in the future workforce.

There are several insights from this study:

1. Formal and informal constraints are interlinked, and they offer solutions to one another. We can deduce that constraints are not static but are continuously changing and so SMEs have to respond in a timely manner so that they can continue to operate optimally.

2. The advances in digital technology, the rise of activism and the shifting of power towards SMEs and individuals highlights the need for HEIs to equip entrepreneurs with the knowledge, skills and attitudes that will enable SMEs to manipulate the system to their advantage.

3. Entrepreneurship education should be included in curricula at all levels of education, especially in
higher education, in which it should be accessible to students in all disciplines and not restricted to those studying on business and administration programmes. Entrepreneurship education could be offered as extra-curricular courses or embedded in programme modules.

4. Educators should work with already assimilated knowledge from industry to provide networks and real-life contexts appropriate for a mixed group of students from different disciplines and cultural backgrounds.

This paper argues that initiatives in the Sultanate should be geared towards mobilizing its own capacities from the ground up, in order to achieve the desirable goal with sustainable results. The effect of such an approach will become apparent only with a longitudinal study, but action needs to be taken now to support the appropriate development of a future workforce for this developing economy.

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