

# REINVENTING SMEs AS PIVOTAL CONTRIBUTORS



**BY**

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# IMPORTANCE OF SMEs IN MALAYSIAN ECONOMY

- **99.2% or 548,000 of total businesses are small and medium enterprises.**
- **Employing 57% total workforce.**
- **Contributing 35% of GDP (vs Korea:50%, Japan:55%, Germany:57%, China:60%)**
- **Contributing 20% of total export. Most SMEs concentrate on domestic market, only 27% export directly.**
- **Since 2004, SMEs growing at 7.7%, faster than average national GDP 5.7%**

# **IMPORTANCE OF SMEs**

- **Source of Endogenous Growth**
- **Key Role in Industry Structure linking upstream, downstream industries**
- **Source of Innovation (in USA, responsible for half of all innovations)**
- **Building up a Middle Class Society**
- **Major source of employment**
- **Continuously support development, stabilizing society**



# MAJOR INVENTIONS BY U.S. SMALL FIRMS



## EXHIBIT 1.6

### Major Inventions by U.S. Small Firms

Acoustical suspension speakers	Aerosol can	Air conditioning
Airplane	Artificial skin	Assembly line
Audiotape recorder	Automatic fabric cutting	Automatic transfer equipment
Bakelite	Biosynthetic insulin	Catalytic petroleum cracking
Continuous casting	Cotton picker	Fluid flow meter
Fosin fire extinguisher	Geodesic dome	Gyrocompass
Heart valve	Heat sensor	Helicopter
Heterodyne radio	High-capacity computer	Hydraulic brake
Leaning machine	Link trainer	Nuclear magnetic resonance
Pacemaker	Personal computer	Prefabricated housing
Piezo electrical devices	Polaroid camera	Pressure-sensitive cellophone
Quick-frozen foods	Rotary oil drilling bit	Safety razor
Six-axis robot arm	Soft contact lens	Sonar fish monitoring
Spectrographic grid	Stereographic image sensing	Zipper

Source: Office of Advocacy of the U.S. Small Business Administration.



**SMI**  
**MALAYSIA**

**Profile of  
SMEs in Malaysia**

# Definition of SMEs

## Manufacturing, Manufacturing-related services & Agro-based Industries

### MICRO

sales turnover  
< RM250,000

OR

full time  
employees < 5

### SMALL

RM250,000 > sales  
turnover < RM10 mil.

OR

5 > full time employees <  
50

### MEDIUM

RM10 mil. > sales turnover  
< RM25 mil.

OR

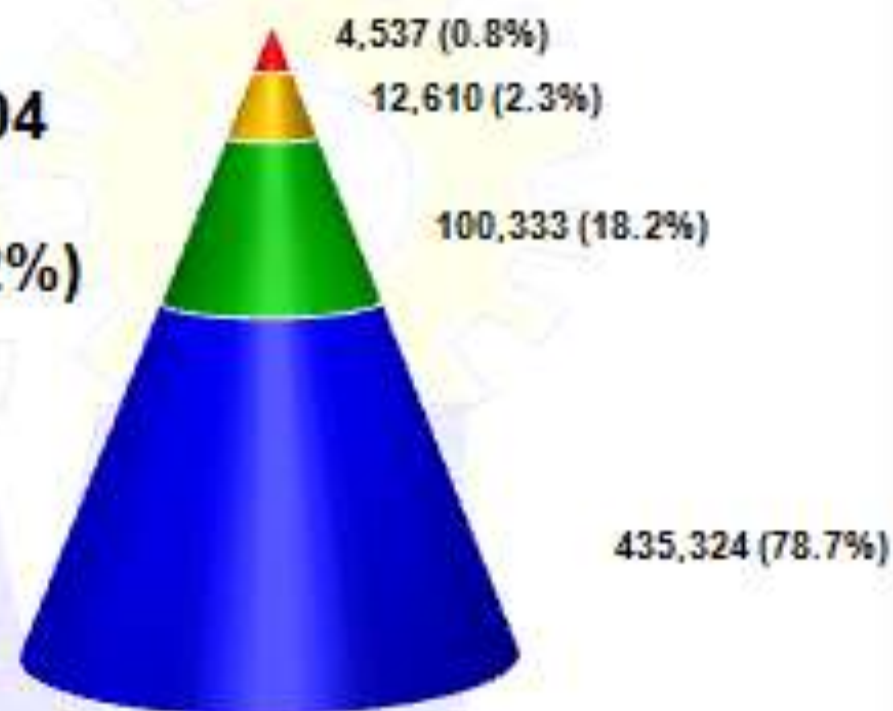
51 > full time employees <  
150

MALAYSIA

# Profile of SMEs

□ Total establishments : 52,804

□ No. of SMEs : 548,267 (99.2%)



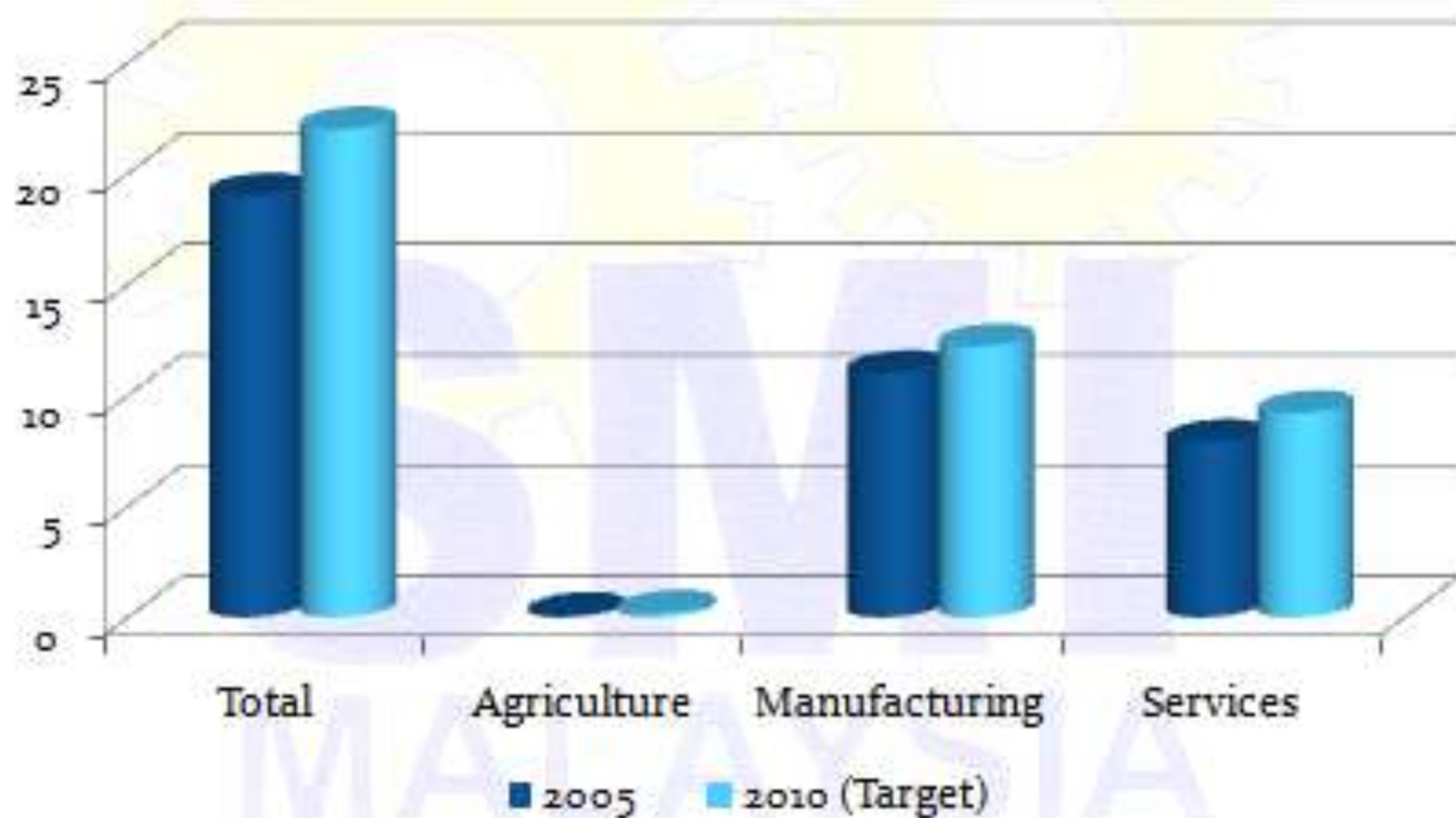


# Contribution of SMEs to GDP





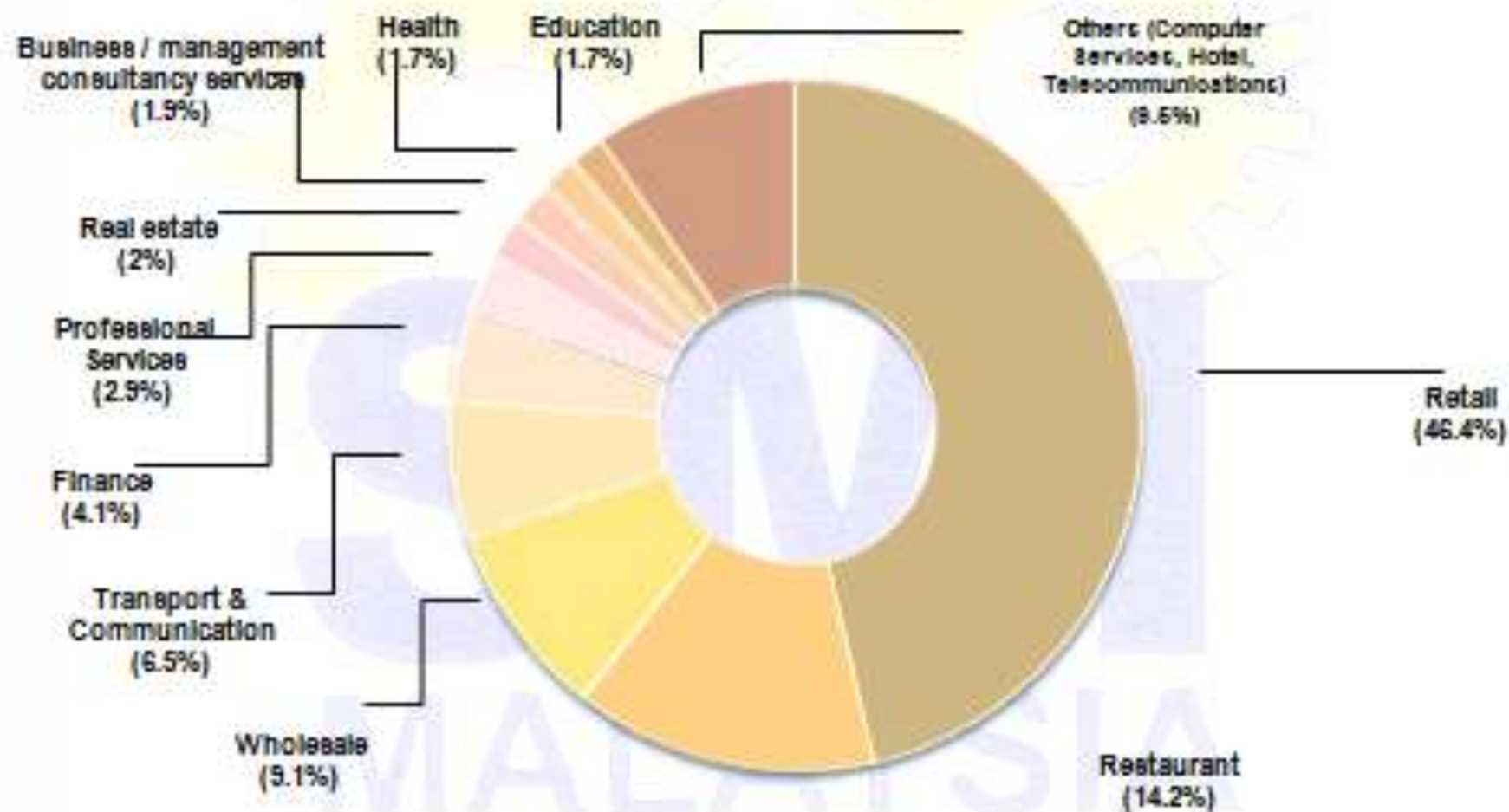
# Contribution of SMEs to Total Exports



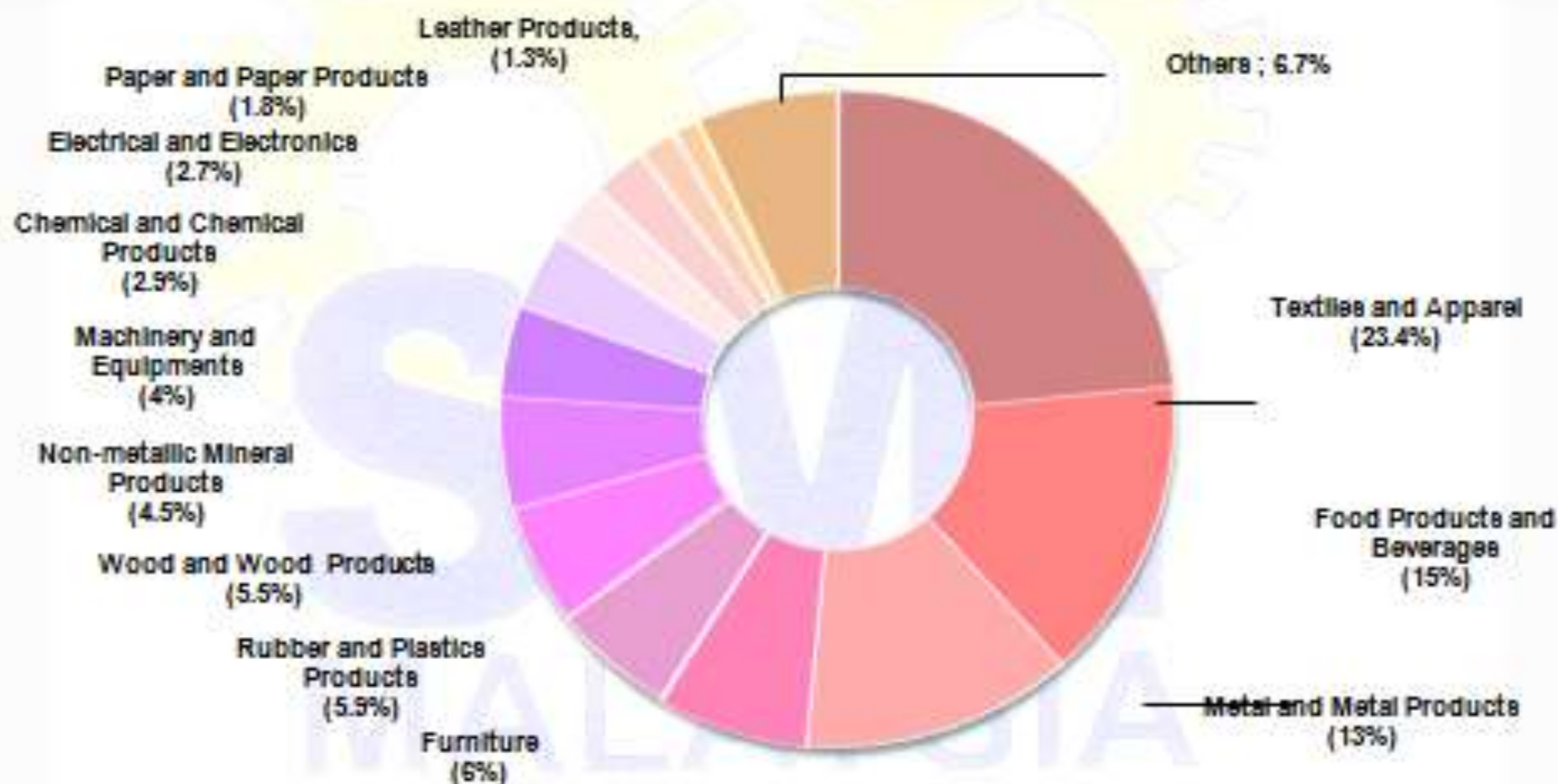
# Distribution of SMEs by State



# Distribution of SMEs in the Services Sector

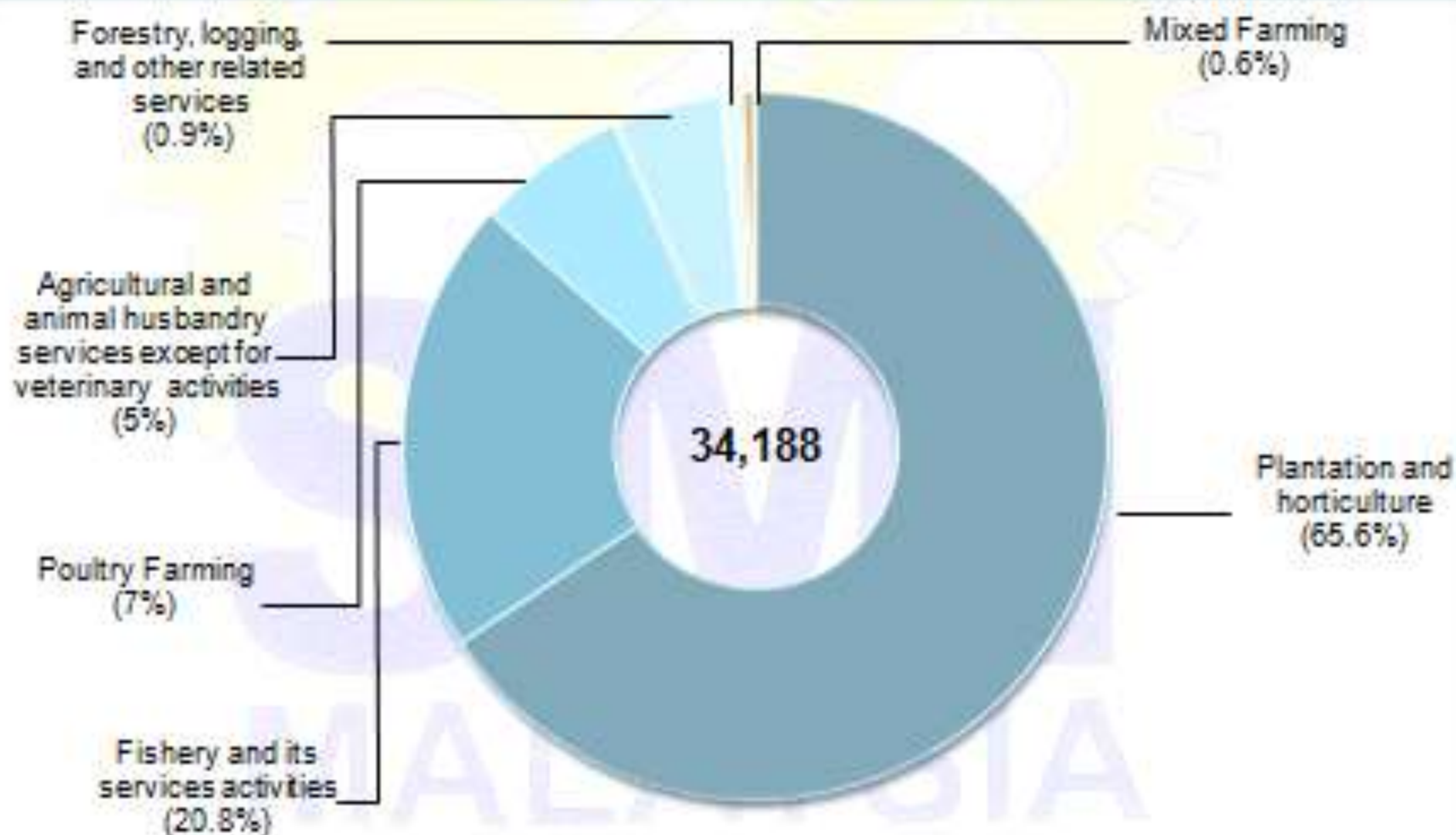


# Distribution of SMEs in the Manufacturing Sector





# Distribution of SMEs in the Agricultural Sector



# **TRANSFORMING THE MALAYSIAN ECONOMY**

- **AGRICULTURAL ECONOMY- 1957**
- **COMMODITY BASED ECONOMY – FROM 1970s UP TO MID1980s**
- **MANUFACTURING BASED ECONOMY- UP TO DATE**
- **TRANSFORMATION TO KNOWLEDGE BASED HIGH INCOME ECONOMY UNDER NEW ECONOMIC MODEL- TO ACHIEVE BY 2020**

# **ACHIEVING GROWTH THROUGH MALAYSIA'S ECONOMIC PLANS**

- **10 YEAR OUTLINE PERSPECTIVE PLANS OPP3 (2001-2010)**
- **INDUSTRIAL MASTERPLAN – 3rd IMP (2006-2020)**
- **5 YEAR MALAYSIAN PLAN -9MP (2006-2010), 10 MP (2011-2015)**
- **YEARLY ANNUAL BUDGETS**

# **TRANSFORMATION TO HIGH INCOME ECONOMY UNDER NEW ECONOMIC MODEL**

- **ACHIEVING PER CAPITA INCOME OF USD 15,000 BY 2020**
- **12 NATIONAL KEY ECONOMIC AREAS, NKEAs:**
- **Oil and Gas**
- **Palm Oil**
- **Financial Services**
- **Wholesale & Retail**
- **Tourism**
- **ICT**
- **Education Services**
- **Electrical & Electronics**
- **Business Services**
- **Private Health care**
- **Agriculture**
- **Greater Kuala Lumpur**



# **SMEs –GROWTH DRIVERS IN NEW ECONOMIC MODEL**



- **CONTRIBUTION TO GDP TO INCREASE TO THAT OF DEVELOPED NATION**
- **TO UP SCALE THE VALUE CHAIN**
- **DRIVING GROWTH THROUGH MARKET AND TECHNOLOGY DRIVEN INNOVATION, CREATING HIGH SKILLED JOBS**
- **PLAYER IN ACCELERATING DOMESTIC INVESTMENT WITH PRIVATE SECTOR DRIVING GROWTH IN 10 MP**

# SWOT ANALYSIS OF MALAYSIAN SMEs



## • **STRENGTHS:**

- Agile
- Flexible
- Toughness
- Cost Management
- Good OEM supplier

## **WEAKNESS:**

- . Insufficient capital
- . Low risk tolerance
- . Lack collateral
- . Lack Talent mgt
- . Weak governance

# SWOT ANALYSIS

## • **THREATS:**

- Lack of Consumer demand
- . Low entry Criteria
- . Financial Institution deleveraging
- . Hypermarket Entry

## . **OPPORTUNITIES:**

- . Govt Support
- . AFTA, Globalization
- . Emerging Market
- . Rise of New Business-Green Technology, etc
- . E-Commerce

# **PRO ACTIVE GOVERNMENT SPECIAL SME INITIATIVES**

- **OVERCOMING THE ASIAN FINANCIAL CRISIS 1997-98: RM2.0b FUND FOR SMI**
- **OVERCOMING THE PETROLEUM PRICE HIKE MID 2008: RM1.2b SME ASSISTANCE FUND**
- **OVERCOMING THE GLOBAL FINANCIAL CRISIS 2008-09: RM12b SME GUARANTEE SCHEMES UNDER RM67.5b STIMULUS PACKAGES**



# **OTHER MAJOR SME INITIATIVES**

- **ESTABLISHMENT OF SMIDEC-1996  
ESTABLISHMENT OF NATIONAL SME  
DEVELOPMENT COUNCIL-2004**
- **ESTABLISHMENT OF SME BANK -2005**
- **INTENSIFYING ROLE OF BANK NEGARA IN  
SME FINANCING**
- **ESTABLISHMENT OF SME CORP MALAYSIA  
2009**
- **IN 2010, OVER 300 SME PROGRAMS &  
FINANCIAL COMMITMENT RM6.0b**



# MAIN CHALLENGES FACED BY SMEs IN MALAYSIA

✓  
1. FINANCING

✓  
2. MARKET ACCESS

✓  
3. ICT / COMPETITIVENESS

✓  
4. HUMAN RESOURCE

# **FINANCING PROBLEMS FACED BY SMEs**

- **Bank Mergers – squeezing out or marginalization effects on SMEs**
- **Banks over reliance on centralized computerized loan scoring & CCRIS report, squeezing out marginal SMEs**
- **Banks: Too risk adverse, shy away from certain sectors, relying on collateral**
- **SME BANK- FDI, Unable to take public deposits, Funding constraints for loans**
- **SMEs : Unable to provide necessary documentation , business plans, track records.**

# **ACCESS TO MARKET PROBLEMS FACED BY SMEs**

- **Competition from lower cost producing countries of China, Vietnam etc.**
- **Lack of expertise in export marketing**
- **Lack of viability to export small quantities to overseas**
- **CAFTA, AFTA, Globalization- Challenges as well as opportunities**
- **Domestic market- increasing domination of hypermarket with unlevel playing field**



# ICT CHALLENGES FACED BY SMEs

- **Financial Constraints to Acquire ICT & New Technology**
- **Lack of Expertise on ICT complexities**
- **Lack of ICT Technical Staff**
- **Time and Effort to Learn to migrate to New Technology**
- **High Software Licensing fees**
- **Difficulties in Choosing the Right technology**
- **Fear of Unreliability, Cyber Security, Data Loss,**

Inform

# **HUMAN RESOURCE CHALLENGES FACED BY SMEs**

- **SMEs loose out in attracting best talent due to lack of capacity in paying.**
- **Due to shortage of local workers, SMEs resort to hiring contract foreign workers further exacerbates the skills upgrading process.**
- **Currently there are about 1.8 million foreign workers in Malaysia.**
- **At times, SMEs are reluctant to accept the training and incentives offered by the Human Resource Ministry because employees who receive training often leave for greener pastures.**

# HUMAN RESOURCE CHALLENGES FACED BY SMEs

- **SMEs traditional mindset that training is unnecessary is gradually changing.**
- **With active promotion of training by SMI Association and HR Development Corporation, SME utilization of HRDF fund is now 67% vs. 35% 5 years ago.**
- **However, some SMEs remain dependent on labor-intensive activities as they are unable to upgrade both the technical know-how of their workers or acquire better equipment due to various constraints.**



# HUMAN RESOURCE CHALLENGES FACED BY SMEs

- Many SMEs are traditionally family-run business & face succession planning issue.
- Older SMEs may lack formal training in management techniques, IT or are sufficiently exposed to international and global market. However the newer ones are now better educated and are adopting modern management.



# WAY FORWARD TO REINVENT SMEs AS PIVOTAL CONTRIBUTORS

## • ***HOW THE GOVERNMENT CAN FACILITATE:***

- **ESTABLISHMENT OF MINISTRY OF SME**
- **PROVIDE CONDUCTIVE BUSINESS ENVIRONMENT**
- **FINANCING:**
  - **REVIEW OF SME DEFINITION :**
  - **ANNUAL TURNOVER TO BE LESS THAN RM50 MILLION**
  - **REVAMP OF SME BANK INTO COMMERCIAL**
  - **REVAMP OF GRANTS TO SOFT LOANS TO IMPLEMENT FAIRLY, 2 YRS=0%, 2YRS= 2%**
  - **GST: TO AVOID TEDIOUS PROCESSES**

# GOVERNMENT'S ROLE

- ***ACCESS TO MARKET:***
  - PROMOTE ESTABLISHMENT OF SOGA SHOSHAS or TRADING HOUSES TO EXPORT SME PRODUCTS OVERSEAS
  - ENSURE HYPERMARKETS PROVIDE FAIR ACCESS TO SMEs, CAP VARIOUS FEES AT 12% VS 20-25% NOW
  - UPGRADE MATRADE TO BIGGER ROLE
  - FUND TRADE CHAMBERS TO ORGANISE OVERSEAS TRADE MISSION & EXHIBITIONS
  - ENSURE GLCs OUTSOURCE TO SMEs, ESP OIL & GAS
  - PROMOTE MADE IN MALAYSIA BRANDS
  - REVAMP BRAND DEVELOPMENT GRANT

# GOVERNMENT'S ROLE

- ***ICT ENABLING:***
  - **SPEED UP BROADBAND PENETRATION**
  - **ENCOURAGE USE OF LOCAL SOFTWARE AND ICT PRODUCTS**
  - **PROVIDE INCENTIVES AND SOFT LOANS FOR TURNKEY ICT SOLUTIONS**
  - **PROMOTE USE OF LATEST ICT TECHNOLOGY TO LEAP FROG / QUANTUM LEAP**
  - **ESTABLISH e-CLUSTERS**
  - **PROMOTING AND ENABLING E-BUSINESS**
  - **INTENSIFY COLLABORATION BETWEEN UNIVERSITIES , PRIVATE SECTORS IN R& D AND COMMERCIALISATION**

# GOVERNMENT'S ROLE

- ***HUMAN RESOURCE :***
- **FOREIGN WORKERS: - REVIEW 10MP PROPOSAL WHICH PENALISE SMEs EMPLOYING FOREIGN WORKERS AS THERE IS GENUINE SHORTAGE OF LOCAL WORKERS, ALLOW TIME TO AUTOMATE, ETC**
- **FACILITATE SMEs RELOCATION TO CHEAPER OVERSEAS COUNTRIES OVERCOMING WORKERS SHORTAGE BY BUILDING MALAYSIAN INDUSTRIAL PARKS OVERSEAS AND FORGING GOVERNMENT TO GOVERNMENT AGREEMENT TO PROTECT INVESTMENTS**
- **PROMOTE MENTORING BY GLCs & MNCs**
- **REVAMP EDUCATION SYSTEM, ENCOURAGE ENTREPRENEURSHIP, CONSULT ASSOCIATION IN HR PROGRAMS**
- **TALENT CORP: TO ADDRESS SPECIAL NEEDS OF SMEs**
- **UTILISE RETIRED EMPLOYEES**



# WAY FORWARD TO REINVENT SMEs AS PIVOTAL CONTRIBUTORS

- ***HOW THE SERVICE PROVIDERS, ENABLERS CAN FACILITATE:***
- **BANKS & FINANCIAL INSTITUTIONS:**
  - RESPONSIBLE ROLE IN SME FINANCING
  - ADEQUATE REVIEW PROCESS IN LOAN PROCESSING
  - NOT RELYING HEAVILY ON COMPUTERISATION SCORING & CCRIS REPORT, APPLY HUMAN TOUCH AS WELL
  - USE INDUSTRY EXPERTS TO EVALUATE SME BUSINESS VIABILITY
- **ICT PROVIDERS: RELIABLE, EASY TO USE, LOW COST SOLUTIONS FOR SMEs**

# WAY FORWARD TO REINVENT SMEs AS PIVOTAL CONTRIBUTORS

- ***WHAT SMEs SHOULD DO:***

***While enhancing the current core strengths, SMEs need to shed some old traits and develop new capabilities & to transform***

- ***FINANCING:***

- **KEEP PROPER ACCOUNTING RECORDS, EMBRACE GOOD CREDIT CULTURE**
- **UPGRADE FINANCIAL MANAGEMENT SKILLS**
- **CONSIDER NON TRADITIONAL ALTERNATIVE FINANCING eg MEZZANINE FINANCING, PRIVATE EQUITY, BARTER EXCHANGE, ETC**

# SME's ROLE

- ***ACCESS TO MARKET :***
  - EMBRACE e-COMMERCE
  - LEVERAGE ON BRANDING
  - LEVERAGE ON R & D
  - GO FOR GLOBAL MARKET ESPECIALLY ASEAN, BRIC, MIDDLE EAST
  - LEVERAGE ON INNOVATIVE PRODUCTS, SPEED TO THE MARKET

# SME's ROLE

- ***ICT ADOPTION:***
- **ICT ADOPTION TO ACHIEVE PRODUCTIVITY AND COST SAVINGS**
- **USE LOW COST HIGH IMPACT ICT SOLUTIONS**
- **LEVERAGE ON E-COMMERCE, CLOUD COMPUTING ETC**
- **ADOPT CYBER SECURITY MEASURES & STANDARDS TO IMPROVE MARKET CONFIDENCE AND GLOBAL COMPETITIVENESS**



# SME's ROLE

- ***HUMAN RESOURCE:***

- ATTRACT AND RETAIN TALENTS TO GROW
- PROVIDE CAREER PROSPECTS WITH FLEXIBLE INCENTIVES AND EQUITY PARTICIPATION POSSIBILITIES
- EMBRACE MODERN MANAGEMENT TECHNIQUE
- INVEST IN TRAINING & SKILL DEVELOPMENT
- EMBRACE SUCCESSION PLANNING
- EMBRACE GOOD CORPORATE GOVERNANCE

# WAY FORWARD TO REINVENT SMEs AS PIVOTAL CONTRIBUTORS

- ***ROLE OF NGOs: SMI ASSOCIATION OF MALAYSIA***
  - **VISION IS TO MAKE SME THE ECONOMIC POWERHOUSE OF THE COUNTRY BY 2020**
  - **OVER 3000 MEMBERS NATIONWIDE**
  - **APPRECIATE GOVT'S HELPING HAND, HAS PROGRAMS IN PLACE TO COMPLEMENT TRANSFORMATION OF SMEs TO MOVE UP THE VALUE CHAIN**

# ROLE OF NGO's

- ***PROGRAMS OF SMI ASSOCIATION OF MALAYSIA:***
  - **CONFERENCES & ROADSHOWS**
  - **SME RECOGNITION AWARD SERIES**
  - **SMI 1-STOP SOLUTION EXHIBITION (SMIOSS)**
  - **TRADE MISSIONS OVERSEAS**
  - **DIALOGUES WITH GOVERNMENT MINISTRIES**
  - **BUSINESS MATCHING & NETWORKING**
  - **e-PORTAL & TRADE DIRECTORIES**



# Association Activities

SME Recognition Award Presentation & Grand Dinner





# Association Activities

Trade Missions and Agreements



# Association Activities

## 1. Seminars and conferences







THANK YOU!

