

## **CHAPTER 5: CONCLUSION AND POLICY IMPLICATIONS**

### **5.1 CONCLUSION**

This study of the SMIs' development and its role in industrial deepening revealed that on the whole, this sector has shown to have great potential for growth. The study has also shown that small and medium scale enterprises could play an important role in Malaysia's industrialisation plan during the time of recession, if given the right conditions and incentives.

Employment creation is one of the important features in SMIs. SMIs generally tend to be more labour intensive. The majority of the employed workforce in the SMIs originated from the informal sector or squatters area due to the close proximity of the many small enterprises with the informal sector and the relatively abundant labour supply from these areas. However, labour turnover is common among the small enterprises. This is because employment in the SMIs is regarded as a training ground for entrepreneurship and skill formation. Once the employees obtained the necessary skill and experience, they would prefer to be self-employed by setting up their own business.

The study also shows that over period 1988-1994, the scope and scale of activities of the SMIs has expanded considerably. This is reflected by the

increase in the number of SMIs, an expansion in their level of employment and output, as well as an increase in the number of loans allocated to them. The success in the expansion of employment opportunities, inspite of the recessionary environment, again demonstrates the important catalytic role of these industries in the promotion of entrepreneurship, creation of employment and the revitalization of the economy.

The majority of the SMI enterprises were established by the entrepreneurs as a result of their experience from their previous employment. This reinforces the general belief that SMIs represent a good training ground for entrepreneurial activity. In a free-market economy where individual enterprise is the key to economic actualization and growth, the SMI, therefore, symbolizes the catalytic sector where entrepreneurship in many respects; it stimulates the individual to mobilize the financial resources at his disposal for the establishment of a business unit, it pushes him to expand his contacts for the purpose of workforce recruitment, technology acquisition and marketing, and it forces him to be continuously on the move for new technological development and new market prospects.

One of the important contribution made by SMI is that they help to tap the pool of unused resources for productive purposes. Another important contribution made by SMIs are their complementary role in the industrial sector. They supply a significant portion of the demand for intermediate goods and services in this sector thus enabling many large industries and big corporations to

incorporate more product into their production programmes without incurring unduly high overheads and additional capital outlay. Besides, SMI also supply a substantial part of the demand for simple and inexpensive consumer goods at prices within the means of the lower income groups.

The SMIs have made considerable contributions to the industrial programmes in the country. This was speeded up by the government policies that are specifically designed to promote SMIs. In the current industrial programmes, the SMIs are expected to complement the roles of the large scale industries. Various government agencies and private sectors, are being assigned specific roles aimed at ensuring an effective effort for the development and expansion of SMIs. These include financial, management supervisory and R&D services.

Although the large scale industries are generally better performers, there are certain sub-sectors, especially those associated with resource-based industries, where the SMIs performed relatively better. SMI Entrepreneurs should take this opportunity and utilise the available local resources to excel in their industrial activities. The future prospect for the SMIs is bright if they can maintain their competitiveness in both local and export markets.

## **5.2 POLICY IMPLICATIONS**

The rigorous development of SMIs could serve as a basis for spearheading the efforts for revitalization of the economy. In order to achieve the above

vision, existing Malaysian SMIs need to be developed and modernized so that the industrial sector could be diversified and its role in the revitalization process enhanced.

In view of the above problems stated, there is a need to formulate a comprehensive and systematic programme of assistance for developing SMIs in Malaysia.

Firstly, the infusion of new technologies and new production techniques is essential to enable the development and modernization of the SMIs. This can be achieved by the government offering more training programmes and consultancy and advisory services. Advisory services to the SMIs is, in fact, the weak link in the chain of entrepreneurial development programmes in Malaysia. There is a need to provide more technology know-how and advisory services and for this, the agencies concerned will have to start building up a cadre of advisors with practical orientation to small enterprises.

The effective promotion of SMI enterprises requires not only the supply of advisory services but even more importantly, the provision of extension services. In Malaysia, as in many other developing countries, field officers are employed to advise farmers about new technology and more profitable methods. Unfortunately, little has been done in this way for the small entrepreneurs. The possibilities of effectively organized field advisory services for small enterprises should be seriously considered. An industrial extension

**service will help to disseminate industrial innovations including techniques for better production and management among small businessmen.**

**Another area of advisory assistance required by the SMI enterprises is marketing. At present, marketing consultancy services is not provided by any one of the member agencies in the Coordinating Council. Such a service is needed and to be effective, a Marketing Consultancy Service Unit should be set up by the government to provide marketing consultancy services to small enterprises on matters relating to new enterprise planning and development, with particular emphasis on marketing; answering inquiries and finding solutions to marketing problems encountered by small enterprises, providing advice and furnishing information on government regulations and procedures affecting trade and industry, and providing marketing management assistance. Moreover, assistance should be made available to SMIs in order to assist them to penetrate foreign markets. For this purpose, foreign marketing agents should be engaged to provide the necessary and timely information, contacts and the latest standard requirements so that products can be tailored to the market needs. Other strategies such as upgrading the level of skills among the SMI employees, technology and management capacity as well as proving a comprehensive and integrated plan for the promotion and development SMIs should be considered.**

**Efforts should also be taken at promoting the marketing of exports for products from SMIs. Existing government institutions such as MIDA, Malaysian Export**

Trade Centre (MEXPO) and the network of Malaysian trade commissioners overseas should be more fully utilised to disseminate information to both local small businessmen who wish to know more about overseas market conditions, and foreign buyers who are interested in exploring the Malaysian market for supplies.

Government should publicise various policies, incentives and programmes to promote SMIs to enable SMIs to obtain latest information pertaining to these programmes. Besides there is a need for the government to develop a policy to make it mandatory for all SMIs to register under one body, such as under SMIDEC, MITI, MED or FMM. This is for the benefit of all parties where both parties are able to provide information in both ways. This can provide SMIs with timely and needy information pertaining to various new policies, programmes and facilities that are available.

Besides the needed advisory and consultancy services, there should be more infrastructural support from the government for SMIs. As has been noted earlier most of these small enterprises are located in informal area or squatter area with no proper roads, water supply and frequent electricity cut-off. Efforts should be made to upgrade the areas so that their access to the various amenities can be improved.

In order to encourage commercial banks to help small enterprises, the Central Bank or the Bank Negara should offer to refinance such loans at lower interest

rate. At the same time commercial banks should also make a great effort to assist small enterprises. They should adopt a development and not a commercial orientation in processing loan application from small entrepreneurs. Bank should also increase the grace period for small loans. Small enterprises generally find it difficult in getting 'off the ground' during the initial two or three years. An extended grace period will increase the chances of survival for small enterprises.

In reorientating strategies to encourage a more export-oriented SMI sector, current incentives with respect to export, need to be restructured to ensure that the resource allocation according to comparative advantage is attained, and protection mechanisms are systematically attuned to the overall goal of encouraging the development of SMIs for the export market. Besides this, incentives should be given to small firms manufacturing, or intend to manufacture intermediate goods for raw inputs for the domestic large firms as well as for foreign joint-ventures. This would enhance inter and intrasectorial linkages and facilitate transfer of technology in the domestic economy. This ultimately would set the whole of the manufacturing sector in general, and SMIs in particular, on the path to greater specialization, vigorous economic linkages, keener export expansion and higher efficiency.

The majority of SMIs are trapped in a quagmire and lack the capacity to plan and transform their operations to meet the challenges of global competition. This group will need nothing short of a concerted effort and a comprehensive

programme which addresses the needs of the sector in management; marketing, product development and quality improvement, finance and forging of supplier relationships. Such an approach would require an extension programme to create greater awareness by bringing the services to the SMIs. It is envisaged that the newly approved SMI agency will bring under one roof the various programmes to develop the sector. At the same time improvements and expansions should be made to the following existing programmes:

- (i) Special consideration in government and government-related private enterprises procurement policies which tend to favour the larger and medium size domestic firms;
- (ii) A more liberal stand on disbursements under ITAF II & III, which at present is not an outright grant but rather a reimbursement against expenditures. Such a mechanism does not overcome the problems of access to finance faced by SMIs as they have no recourse to the capital market or access to credit owing to their limited collateral: very often such firms struggle with their cash flows.
- (iii) Since many of the SMIs cater to the domestic market, there should be a strong local content policy in the many mega projects being undertaken in the country over the next 5 years. There is no reason to limit such a policy on local sourcing to the manufacturing production alone.



- (iv) Based on the geographical concentrations of clustering of main product firms, to provide facilities such as technology centres for SMIs to test their products, providing training etc.
- (v) As tariff levels fall with AFTA, there is a need to reduce or harmonise domestic taxes such that domestic producers are not unwittingly penalised vis-a-vis imports.
- (vi) As R&D institutions and Universities are corporated, it is hoped that they would focus their R&D efforts on indigenous technology and product development activity for support SMIs.
- (vii) More serious effort needs to be made to encourage and flush out SMIs from back-yard operations to move into SMI industrial parks where there is technology and R&D support and environmentally friendly facilities.
- (viii) SMIs need to be encouraged to move into greater automation and technology upgrading and benchmark themselves against world class standards.
- (ix) Small and Medium Scale entrepreneurs need to change their attitude from seeking incremental change to attempting fundamental change through

**Business Process Reengineering (BPR). Only then can they strive to become regional and world-scale manufacturers.**

**(x) All SMIs must strive to achieve ISO standards. Unless they set such high standards for performance, they will become uncompetitive in an increasingly liberal trading environment.**

**(xi) In the wake of short supply of skill labour, the immigration policy need to be adjusted to the requirement of SMI which might be small in size capital outlay but of high-tech and skilled intensive in nature.**

**(xii) Public and private agencies involved in industrial development must reorientate themselves to stop thinking in functional terms and begin thinking in relational terms to support cluster development.**

**Since the subcontracting system is a vital aspect in the growth of SMIs, and as an impetus for the enhancement of economic linkages, the government should seriously consider measures to promote subcontracting between SMIs and large firms. One proposed measure is to establish a subcontracting exchange system in the form of the so-called umbrella concept, whereby the government develops SMI enterprises by awarding them with some subcontracts from the main suppliers of government purchasers. This strategy would facilitate the achievement of the government's aim to promote local flavour in the products produced by large firms and foreign joint-ventures and**

at the same time alleviate the marketing problem of the products of SMIs, especially in the private sector and overseas markets.

Last, but not least important, is the patent right protection. The government should formulate a set of protection for patent rights. Should the small entrepreneurs are able to produce new products and services or venture into modern small and medium enterprises with new innovations, they should be offered patent rights protection against copying. This would enable them to enjoy the full benefits of their labour, and contribute towards the generation of greater entrepreneurial efforts, so essential for the development of the small industries.