

## CHAPTER 3

### MALAYSIAN SMALL AND MEDIUM ENTERPRISES (SMEs)

#### 3.1 Definition

While small and medium enterprises (SMEs) and small and medium industries (SMIs) may seem interchangeable in some discussions, this section will highlight the difference between the two.

In a survey report published by APEC (1994), it was clearly no consensus on the definition of SMEs in the APEC region. Various indexes used by the member economies to defined SMEs such as number of employees, invested capital, total amount of assets, sales volume and production capability have resulted a widely differed meaning on this group of companies. Nevertheless, the criteria of number of employees is the most commonly used.

According to Small and Medium Industries Development Corporation (SMIDEC)<sup>3</sup>, “SMI [Small and Medium Industry] is defined as a company with an annual sales turnover of not exceeding RM25 million or full-time employees of not exceeding 150.” The definition of SMIDEC is restricted to manufacturing industries is understandable, since its inception objective is to assist Malaysia towards the realization of an industrial country.

In this study, Malaysian SME is extended to a broader definition as follows:

“A homegrown company which is incorporated under Malaysia's Companies Act with at least 40% local equity and not be listed on any stock exchange.”

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<sup>3</sup> SMIDEC, a government body under the administration of Ministry of International Trade and Industry, is responsible for the promotion and coordination of SMI development in Malaysia. [http:// www.smidec.gov.my](http://www.smidec.gov.my)

In other words, the limitation of revenue and employees number becomes insignificant. Rather, as long as these companies are not listed companies and with a minimum 40% equity owned by Malaysian, they will be considered to be the participating companies in the survey for this report.

### 3.2 An Overview of SMEs in Malaysia

Contribution of SMEs towards Malaysian economy is significant in terms of establishment and employment. They constitute 92 per cent of total manufacturing establishments, and account for 34 per cent of total employment in Malaysia. (JBIC, 2001) Collectively, they contributed RM 185 million from multi sectors as shown in Table 3-1.

Table 3-1 Distribution of SMEs by Sector 1996

Sectors	Number of firms		Value-added		Employment	
	Number	%Share	RM Mil	%share	Workers	%share
Textiles & Apparel	3,331	17.5	958	5.2	49,422	8.8
Wood-based Product	2,953	15.6	2,464	13.3	114,301	20.3
Food Industries	2,904	15.3	3,019	16.3	71,084	12.6
Electrical & Electronic	599	3.2	1,427	7.7	42,088	7.5
Machinery	1,064	5.6	763	4.1	24,152	4.3
Rubber-based Product	408	2.2	1,054	5.7	31,731	5.6
Transport Equipment	423	2.2	530	2.8	14,535	2.6
Fabricated Metal Product	2,260	11.9	1,463	7.9	47,251	8.4
Plastics	1,009	5.3	1,557	8.4	47,364	8.4
Non Metallic Mineral Industries	708	3.7	874	4.7	24,300	4.3
Chemicals( Industrial & Others	429	2.3	1,866	10.1	15,871	2.9
Irons & steel basic Industries	362	1.9	436	2.4	10,417	1.7
All remaining sectors	2,500	13.2	2,111	11.3	71,080	12.7
Total	18,950	100	18,522	100	563,596	100

Source: SMIDEC ([www.smidec.gov.my](http://www.smidec.gov.my))

A total of 18,950 establishment of Malaysian SMEs also covers all states with various type of businesses. Table 3-2 shows the distribution and coverage of SMEs in 15 state-based locations.

Table 3-2 Distribution of SMEs by State and Industry 1996

State/ Sector	Food Industries	Textiles & apparel	Wood	Rubber	Machinery	Electrical & Electronic	Transport	All remaining sectors	Total
Johor	14.9	17.8	15.0	17.0	23.9	22.8	12.4	17.8	17.3
Selangor	9.6	12.7	12.1	19.9	16.1	34.7	39.0	17.6	15.4
Perak	15.6	8.0	12.9	14.9	13.8	10.0	12.9	13.8	12.8
Sarawak	9.7	9.9	14.2	4.7	0.7	1.4	4.1	9.4	9.3
Kuala Lumpur	4.8	12.7	3.3	3.7	13.7	8.2	13.0	8.5	8.1
Pulau Pinang	9.1	4.6	6.3	6.6	9.0	5.9	3.8	8.4	7.4
Sabah	9.9	6.6	11.1	5.4	7.3	1.2	2.6	5.0	7.0
Melaka	5.8	5.2	5.2	7.3	3.6	4.7	2.9	4.6	4.9
Kedah	5.7	3.6	4.1	5.8	3.1	6.7	2.6	3.5	4.0
Pahang	4.5	6.6	4.8	3.2	3.1	0.9	2.1	2.4	3.8
N.sembilan	3.3	6.1	3.2	7.6	2.6	2.6	2.7	2.7	3.6
Kelantan	3.3	3.4	3.6	2.9	0.9	0.4	0.0	3.5	3.2
Terengganu	3.0	2.0	3.7	0.7	1.5	0.4	1.7	1.9	2.3
Perlis	0.7	0.4	0.3	0.2	0.4	0.0	0.0	0.6	0.5
Labuan	0.2	0.5	0.1	0.0	0.5	0.2	0.0	0.5	0.4
Total Percentage	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Number	2,904	3,331	2,953	408	1,064	599	423	7,268	18,950

Source: SMIDEC ([www.smidec.gov.my](http://www.smidec.gov.my))

In 1996, SMEs accounted for 93.8 per cent of all establishments in the manufacturing sector and contributed 27.3 per cent to manufacturing output, 25.8 per cent to value added, 27.6 per cent to fixed assets, and 38.9 per cent of employment (Table 3-3). In 2001, SMIs recorded a 9.4 per cent growth in added value, 3.8 growth in employment and 1.2 per cent in output (NPC, 2002).

The path of development for SMEs in APEC countries, or particularly in Malaysia, is not short of difficulties. Among others, lack of funds and technical

knowledge for industrial upgrading, and lack of comprehensive data and information on SME establishment are commonly encountered by the SMEs. From the perspective of human capital, most SMEs are not employing skilled workers to ensure quality

Table 3-3 Principal Statistics of Manufacturing Sector, 1996

	Total	% Share by Size of Firms				
		Small	Medium	SMEs	Large	Total
No. of Firms	20,204	76.0	17.8	93.8	6.2	100
Output (RM million)	273,439	3.9	23.4	27.3	72.7	100
Cost of Input (RM million)	201,901	3.6	24.2	27.8	72.2	100
Value-Added (RM million)	71,538	4.7	21.1	25.8	74.1	100
Worker ('000)	1,449	11.4	27.5	38.9	61.1	100
Salaries (RM million)	19,170	8.2	24.8	33.0	67.0	100
Fixed Assets (RM million)	112,831	4.0	23.6	27.6	72.4	100

Source: SMIDEC, 2002

production of goods and services. And generally they are not fully utilising the technical assistance, advisory services and funds which are made available by various supporting institutions (APEC, 1994).

### 3.3 The Significance of the Companies of Enterprise 50

As an award recognising the successful local companies, the Enterprise 50 which is jointly organised by the Small and Medium Industries Development Corporation (SMIDEC) and Accenture, will be the sixth thus far in 2002.

Since its inauguration, the Enterprise 50 has attracted a total of 518 nominations, and 215 firms had been successful awarded. Among these firms, 106 Enterprise 50 winners have ISO certification. Based on strong fundamentals and strategic development, 15 of the Enterprise 50 winners to date have been listed on the Kuala

Lumpur Stock Exchange and that among 2001's winners, 34 companies were exporters and that their total exports amounted to RM1.1 billion.