

CHAPTER 3

SMALL AND MEDIUM ENTERPRISES IN MALAYSIA

3.0 Summary

This chapter aims to discuss the importance of SMEs in Malaysia. Essentially, the chapter establishes a definition of Malaysian SMEs, discusses the role of these enterprises in the Malaysian economy and their development. The chapter ends with review of the issues and challenges faced in the internationalization of these such enterprises.

3.1 Small and Medium Enterprises in Malaysia: An Overview

Back in the fourteenth century, the development of the Malayan economy (as the country was then known as the Malay Peninsula or Malaya), directly involved the trading of several commodities, mainly, porcelain and spices. In the seventeenth century, the Malayan economy was mainly focused on producing global commodities, tin rubber and palm oil. The economy of the country continued to be commodity-based after achieving independence in 1957 until the 1970s. At that time, SMEs in Malaysia largely involved in agricultural and small services such as wholesaling, retailing and restaurants (Ahmad, 2012). After the 1970s, diversification of the Malaysian economy from the mining and agricultural sectors to manufacturing activities led to strong economic growth (Aris, 2007). According to Gomez and Jomo (1998), as a major exporter of tin, rubber, palm oil, pepper, tropical

timber and petroleum, together with a fast developing manufacturing sector, Malaysia was widely recognized as one of the most successful countries in the world. The manufacturing sector contributed to an increase in Malaysian exports, especially of electrical and electronic products and become the key factor in sustained rapid economic growth. This economic transformation led to the establishment of many SMEs in the manufacturing sector. However, the development strategy for SMEs during that time mainly focused on the domestic – oriented market, small-scale industries and in particular, the creation of the bumiputera commercial and industrial community (NSDC, 2005).

In the mid 1990s, the functions of SMEs in the development of the Malaysian economy became more significant. Due to the Asian financial crisis in 1997-1998, and the force of globalization, these enterprises were marked as a means for generating domestic-led investment, stimulating economic expansion and increasing job opportunities in the country (Aris, 2007). Subsequently, SMEs have been transformed and strengthened as a mechanism to encourage domestic investment whilst providing significant links in the development of a broad-based, globally competitive industrial sector.

To date, with the support from the Malaysian government, SMEs have grown tremendously, encompassing various activities. Rather than focusing on manufacturing and agricultural activities, the enterprises are also extensively

involved in service activities and have proven to be resilient in the changing business environment (NSDC, 2009/10).

3.2 Definition of Small and Medium Enterprises in Malaysia

In general, there is no established worldwide definition of SMEs (Hooi, 2006; Omar and Ismail, 2009) and most researchers have used their own definitions, according to their specific focus (Abdullah and Bakar, 2002). From a broader point of view, Arbaugh et al. (2008) defined enterprising firms as one which operates to create wealth through new economic activity by bringing together unique packages of resources to exploit marketplace opportunities. From the perspective of international business, researchers and practitioners have defined SMEs based on the socioeconomic development of each country (Chelliah et al., 2010). For example, in the United States, these enterprises are defined as companies with 500 or fewer employees (Cavusgil et al., 2008) while in Taiwan, Lin and Chaney (2007) defined SMEs as an establishment with 650 employees or less.

In Malaysia, several researchers defined SMEs as having less than 200 employees and fixed assets of less than RM2.5 million (Aziz, 1981; Chee, 1986; Abdullah, 2002; Salleh, 1991). Hashim and Abdullah (2000b) introduced the quantitative criteria to further define SMEs in Malaysia by including the following; (1) it is actively managed by its owners, or in other words, “owner-managed and family business”, (2) it is highly personalized (i.e. with an owner’s preferred

management style), (3) it is largely local in its area of operation, and (4) it is largely dependent on internal sources of capital to finance its growth. The rationale behind the inclusion of these four qualitative criteria was to establish the entrepreneurial orientation that will reflect the general ownership profile of SMEs in Malaysia.

In 2005, the National SME Development Council approved the use of standard definitions for SMEs in the manufacturing, manufacturing-related services, primary agriculture and service sectors. The definition of SMEs was based on two criteria, the total sales turnover/revenue by a business in a year; or the number of full-time employees by a business. Generally SMEs in Malaysia were defined as follows: Manufacturing sector: Sales turnover of less than RM25 million or full-time employees of less than 150; Services and other sectors: Sales turnover of less than RM5 million or full-time employees of less than 50 (NSDC, 2011/12). The detailed definitions according to three categories, namely Micro, Small and Medium are presented in Table 3.1 below.

This study adopted the definition of SMEs used by the National SME Development Council as the sample of the study includes the main three main sectors that have been identified by the Council.

Table 3.1: Definition of Small and Medium Enterprises in Malaysia

Size	Manufacturing (including agro-based) & manufacturing- related services	Primary Agriculture	Services Sector (including ICT)
Micro	Annual Sales Turnover: Less than RM250,000 OR Number of Full-Time Employees: Less than 5 employees	Annual Sales Turnover: Less than RM200,000 OR Number of Full-Time Employees: Less than 5 employees	Annual Sales Turnover: Less than RM200,000 OR Number of Full-Time Employees: Less than 5 employees
Small	Annual Sales Turnover: From RM250,000 to less than RM10 million OR Number of Full-Time Employees: From 5 to less than 50 employees	Annual Sales Turnover: From RM200,000 to less than RM1 million OR Number of Full-Time Employees: From 5 to less than 20 employees	Annual Sales Turnover: From RM200,000 to less than RM1 million OR Number of Full-Time Employees: From 5 to less than 20 employees
Medium	Annual Sales Turnover: From RM10 million to less than RM25 million OR Number of Full-Time Employees: From 50 to less than 150 employees	Annual Sales Turnover: From RM1 million to less than RM5 million OR Number of Full-Time Employees: From 20 to less than 50 employees	Annual Sales Turnover: From RM1 million to less than RM5 million OR Number of Full-Time Employees: From 20 to less than 50 employees

Source: National SME Development Council, SME Annual Report 2011/12

The definition of manufacturing, services and agriculture adopted in this study is based on the recommendations of the Malaysia Standard Industrial Classification 2008 (MSIC 2008) ver. 1.0. The definitions include the following activities:-

(i) Manufacturing is defined as:

The physical or chemical transformation of materials or components into new products, whether the work is performed by power-driven machines or by hand, whether it is done in a factory or in the worker's home, and whether the products are sold at wholesale or retail.

(ii) Services is defined to include the following:

- a) Services related to electricity, gas, steam and air conditioning supply, water supply; sewerage, waste management and remediation activities, transportation and storage, information and communication, accommodation, food and beverage, real estate activities, professional, scientific and technical activities, administrative, support services activities, education, human health and social work activities, art, entertainment and recreation, personal services and other activities.
- b) Distributive trades which encompass wholesale and retail trades, sales and repair of motor vehicles and motorcycles.
- c) Activities of financial intermediation i.e. obtaining and redistributing funds in the form of deposits by Central Banks and other monetary institutions. It also includes all units engaged in insurance and pension funding as well as other activities auxiliary to financial intermediation.

(iii) Agriculture is defined as:

- a) The breeding, keeping cultivation of all kinds of animal or vegetable life except forest trees and marine life. Agriculture and animal husbandry services such as land clearing, weeding, pests spraying, etc. are also included in this category.
- b) Forestry and logging includes the production of round wood for the forest-based manufacturing industries as well as the extraction and gathering of wild growing non-wood forest products. Besides the production of timber, forestry activities result in products that undergo little processing, such as fire wood, charcoal, wood chips and round wood used in unprocessed form (e.g. pit-props, pulpwood, etc.). These activities can be in natural or planted forests.

3.3 Profile of Small and Medium Enterprises

In the period of 2003-2010, the number of SMEs increased by about 100,000 to around 645,000, and thus illustrating an increase of 17.7 %. In contrast, the number of large enterprise establishments increased by almost 3 fold to about 17,800. This indicated that many of these large establishments could have been generated from SMEs (DOS, 2011).

Table 3.2: Profile of Small and Medium Enterprises

Percentage of Shares by Sector	
Services	
Sub-sectors	Percentage
Wholesale, Retail Trade, Repair of Motor Vehicles and Motorcycles	49.9
Food and Beverages	24.6
Transportation and Storages	6.9
Private Services (e. g: beauty centre, repair ,laundry)	6.3
Professionals	3.3
Others: (e. g: lodging, health, education)	9.1
Manufacturing	
Sub-sectors	Percentage
Clothes/ Apparel	24.0
Food Products	15.1
Fabricated Metal Products	10.5
Printing	7.7
Furniture	4.9
Rubber and Plastic products	4.6
Wood Products	3.8
Non-Metallic Mineral products	3.6
Machinery and Equipment	3.2
Metal Base	2.9
Chemical Products	2.5
Textile	2.5
Others (e. g: paper, electrical equipment)	14.6
Construction	
Sub-sectors	Percentage
Special Trades	40.2
Non-residential Buildings	21.5
Civil Engineering	21.0
Residential Buildings	17.3
Agriculture	
Sub-sectors	Percentage
Agricultural crops	70.4
Livestock	13.4
Fisheries	11.6
Forestry and Logging	4.5
Mining and Quarrying	
Sub-sectors	Percentage
Stone quarrying	83.6
Mineral mining	16.4

Table 3.2: Profile of Small and Medium Enterprises, continued

Number of Establishments by Firm Size				
	Micro	Small	Medium	Total
Number of establishments	496,458	128,787	19,891	645,136
Percentage share of total SMEs, %	77.0	20.0	3.0	100
Percentage share of total establishments, %	74.9	19.4	3.0	97.3
Number of Establishments by Legal status				
Legal Status	Sole Proprietor	Partnership	Limited Companies	Others
Number of establishments	458,269	54,938	118,678	13,251
Percentage share of total establishments, %	71.0	8.5	18.4	2.1
Percentage of Establishments by Geographical Location				
State		Percentage		
Selangor		19.5		
Kuala Lumpur		13.1		
Johor		10.7		
Perak		9.3		
Sarawak		6.8		
Sabah		6.3		
Pulau Pinang		6.3		
Kelantan		5.9		
Kedah		5.7		
Pahang		4.6		
Negeri Sembilan		3.8		
Terengganu		3.5		
Melaka		3.4		
Perlis		0.8		
Labuan		0.3		
Putrajaya		0.1		
Total		100		
Annual Salaries and Wages				
Category		RM		
SME		18,335		
Mining & Quarrying		22,759		
Manufacturing		19,569		
Services		18,323		
Construction		16,810		
Agriculture		12,479		

Table 3.2: Profile of Small and Medium Enterprises, continued

Number of Full-Time Employees					
Category		Percentage			
Full-time employees		77.7			
Part-time employees		3.6			
Others		18.7			
Nature of Work					
Category		Percentage			
General workers		50.2			
Clerical and related workers		24.0			
Technical and supervisory		12.4			
Management, professional and executive		13.4			
Source of Financing					
Category	Other Sources (Grants, financing from government, co-operative and leasing)	Family and Friends	Internal funds or shareholders	Microcredit, banks, and other financial institutions	
Overall	30.0	14.3	55.9	20.3	
Micro	28.8	15	58.1	16.2	
Small	33.6	12.7	49.6	30.7	
Medium	35.5	8.5	46.4	47.7	
Usage of Fund					
Category	Research and development	Re- financing	Purchase/Renting machinery	Upgrade production process	Working capital
Overall	18.1	4.9	43.6	25.0	75.6
Micro	15.7	3.8	37.0	23.0	74.6
Small	20.8	6.1	50.1	28.8	77.8
Medium	25.5	9.0	66.7	25.3	74.2
ICT Usage					
Usage			Percentage		
Used ICT			27		
Did not use ICT			73		
Internet Usage					
Usage			Percentage		
Used Internet			67		
Did not use Internet			33		
Website Usage					
Usage			Percentage		
Used Website			12		
Did not use website			88		

Table 3.2: Profile of Small and Medium Enterprises, continued

Promotion and Marketing Activities				
Type of Activities	Overall	Micro	Small	Medium
Marketing agent	2.8	1.3	6.1	12.7
Advertisements	3.3	1.9	7.0	12.8
Flyers, catalogues etc.	5.1	3.8	8.2	13.2
Local expositions and exhibitions	1.1	0.5	2.2	5.9
Overseas expositions and exhibitions	0.4	0.1	0.8	2.5
Press release wire	0.3	0.2	0.6	1.4
Search engine optimisation	1.4	0.8	3.2	5.8
Social networking websites	1.6	1.0	3.0	5.0
Events sponsorship	0.6	0.4	1.2	2.5
No promotion	86.6	90.4	77.3	63.2

Source: Economic Census 2011. Profile of Small and Medium Enterprises. Department of Statistic. Malaysia.

In 2010, SMEs accounted for 97.3% of the total 662,939 establishments as compared to 99.2% in 2003. The focus of these SMEs on the services sector increased from 87% to 90% or 580,985 establishments. Another 6% of the total SMEs (37,861) were in the manufacturing sector, followed by 3% in the construction sector (19, 283) and the remaining 1% (6,708) in the agricultural sector and the remaining 0.1% in the mining and quarrying sector. The major change was seen in the share of SMEs in the agriculture sector which had decreased significantly from 6.2% previously to 1%, mostly due to the exclusion of farmers and smallholders whom represented a big community in the agricultural sector (DOSM, 2011).

In the services sector, SMEs were mainly in the distributive trade sub-sector (wholesale and retail trade services) which include repair of motor vehicles and motorcycles, followed by food and beverages services and transportation and storages services. For the manufacturing sector, SMEs were mostly in clothes and apparel, food products, fabricated metal and printing and reproduction of recorded media.

Meanwhile, in the construction sector, SMEs were found primarily in the special trades sub-sector, constituting about 40% of the total establishments in that sector. Special trades refer to the construction of parts of buildings and civil engineering works without responsibility for the entire project and in the agricultural sector, most of the SMEs were in the agricultural crops while in the mining and quarrying sector, the majority of the SMEs were in the stone quarrying business (84%).

The majority of the SMEs were microenterprises, forming 77% of the total number of establishments in Malaysia in 2010. Small-sized SMEs accounted for 20%, and the remaining 3% were medium-sized SMEs.

Microenterprises were dominated by the services sector, accounting for close to 80% of SMEs in the sector. Microenterprises are generally owner-operator with less than five full-time employees. Most of the SMEs in the manufacturing and

agricultural sectors were also microenterprises, constituting 57.1% and 56.3% of SMEs in their respective sectors. As for the construction sector, the size of SMEs was distributed across medium, small establishments and microenterprises. In the meantime, SMEs represented a large percentage of the mining and quarrying sectors.

In terms of the legal status of SMEs, the percentage of private limited companies decreased from 21.3% in 2003 to 18.4% in 2010. In contrast, the percentage of sole proprietorship increased from 68.4% to 71%. Partnership and limited liability companies recorded slighter increases of 3.2% and 1.7% respectively. Meanwhile, other legal organizations recorded a high growth of 416.2% from 3,184 establishments in 2003 to 13,251 establishments in 2010. These organizations included public limited companies, co-operatives, public corporations and private non-profit organizations.

Meanwhile, in term of geographical locations, Klang Valley (Selangor and Kuala Lumpur) recorded nearly one-third of the total SMEs, followed by Johor with 10.7% and Perak 9.3%.

In 2010, the average annual salaries and wages per employee that worked with SMEs was RM18, 335 per employee. Employees in the medium-sized category

received the highest annual salary and wages of RM21, 974, whereas the small-sized and microenterprises category received RM18, 807 and RM13, 269 respectively.

SMEs in the mining and quarrying sector received the highest average annual salaries and wages of RM22, 759 per employee. In contrast, SMEs in the agricultural sector received the lowest annual salaries and wages of RM12, 479 per employee (i.e. RM1, 039.92 per month) that is slightly above the present official minimum wage of RM900 per month in West Malaysia and RM800 per month for East Malaysia.

In terms of the total number of full-time employees, SMEs in Malaysia employed 77.7% full-time employees with the remaining 3.6% as part-time employees and 18.7% accounting for other modes of employment. Half of the total number of full-time employees in the SMEs was being employed as general workers, while a quarter of them were employed as clerical and related workers. A small number were in technical, supervisory and management positions (12.4%) and also professional and executive staff (13.4%).

In the 2011 Census, it was found that majority of the SMEs (55.9%) obtained financial sources from internally-generated funds or from the shareholders. However, most of the medium-sized firms (47.7%) were able to secure their funds from financial institutions, which include commercial banks, micro-credit organizations

and development financial institutions. As for the microenterprises and small-sized firms, their main sources of finance were from their own internally-generated funds.

In terms of fund usage, nearly three-quarters (75.6%) of SMEs used the funds for working capital. The financing requirements for this were similar across all sizes, namely microenterprise (74.6%), small-sized firms (77.8%) and medium-sized firms (74.2%). The other main activities that required financing (43.6%) were for purchase and lease of equipment, machinery, vehicles, computer hardware and software as well as land and buildings.

In conducting their business operations, three-quarters of the SMEs (73%) did not use ICT and for those that used ICT, two-thirds (67%) used the internet in their business operations. However, only 12% of the SMEs had their own websites.

Notably, most of the SMEs (86.6%) did not conduct any promotions in selling or marketing their products and services. Among the microenterprises, 90% of the SMEs did not undertake any promotional activities and as for the medium-sized firms, 37% conducted some form of promotional and marketing activities in 2010.

3.4 Manufacturing Sector

In 2010, there were 37,861 establishments (95.4%) categorized as SMEs in the manufacturing sector from a total of 39,669 establishments. More than half of the total SMEs establishments were microenterprises, accounting for 21,619 establishments, while small-sized establishments represented 13,934 (36.8%) and medium-sized, 2308 (6.1%).

The value of gross output produced by the SMEs was RM194.0 billion (23.2%) as compared to the total gross output in the manufacturing sector of RM836.5 billion. The corresponding value added was RM38.1 billion or 22.3% of the total value added for the manufacturing sector, RM170.7 billion.

Medium-sized firms contributed to about two-thirds of the gross output with RM130.6 billion, with the remaining one-third contributed by small-sized and micro SMEs.

The major contributor to value added was also the medium-sized SMEs, accounting for 58.8%. The total employment generated by SMEs was 698,713, representing 38.6% of the total employment of 1,812,360. Small-sized firms employed about half of these employees, followed by medium-sized enterprises which accounted for 38.7%.

Table 3.3: Profile of Small and Medium Enterprises in Manufacturing Sector

Establishment by Sector									
Category		Establishment				Percentage			
Micro		21,619				57.1			
Small		13,934				36.8			
Medium		2,308				6.1			
Macro Indicators									
Variables	Total	SMEs	%	Micro	%	Small	%	Medium	%
Value of gross output (RM million)	836,494	194,032	23.2	3,853	2.0	59,540	30.7	130,639	67.3
Value added (RM million)	170,673	38,058	22.3	1,344	3.5	14,348	37.7	22,366	58.8
Employment (persons)	1,812,360	698,713	38.6	67,892	9.7	360,299	51.6	270,522	38.7
Gross Output and Value Added									
Description	Gross output (RM billion)		%		Value added (RM billion)		%		
Manufacture of food products	69.5		35.9		8.3		21.9		
Manufacture of rubber and plastic products	22.0		11.3		4.1		10.8		
Manufacture of chemicals and chemical products	20.3		10.5		4.9		12.9		
Manufacture of fabricated metal products, except machinery and equipment	11.8		6.0		2.9		7.5		
Manufacture of basic metals	11.4		5.9		1.8		4.7		
Totals	135.0		69.6		22.0		57.8		
Establishment by Legal organization									
Size	Sole Proprietorship			Private Limited Company			Others		
Micro	17,355			2,295			1,969		
Small	2,658			9,812			1,464		
Medium	9			2,226			73		

Table 3.3: Profile of Small and Medium Enterprises in Manufacturing Sector, continued

Establishment by State		
States	Establishments	Percentage
Selangor	8,314	22.0
Johor	4,828	12.8
W.P. Kuala Lumpur	4,201	11.1
Perak	3,833	10.1
Kedah	2,809	7.4
Pulau Pinang	2,614	6.9
Sarawak	1,977	5.2
Kelantan	1,814	4.8
Terengganu	1,782	4.7
Negeri Sembilan	1,495	3.9
Sabah	1,382	3.7
Pahang	1,305	3.4
Others	1,507	4.0
Employment in the Manufacturing Sector		
Category of workers	Employment	Percentage
Paid employees	668,342	95.7
Working proprietors, active business partners and unpaid family workers	30,371	4.3
Category of Workers		
Category of workers	Employment	Percentage
Managerial and professional	53,114	8.0
Technical and supervisory	56,631	8.5
Clerical and related occupations	54,927	8.2
General workers	40,545	6.1
Production/operative workers	449,523	67.2
Part-time workers	13,602	2.0

Table 3.3: Profile of Small and Medium Enterprises in Manufacturing Sector, continued

Salaries and wages					
Category of workers	Paid employees		Salaries and wages		Average salaries and wages received per annum (RM)
	Number	%	RM million	%	
Managerial and professional	53,114	8.0	3,562	27.2	67,066
Technical and supervisory	56,631	8.5	1,678	12.8	29,635
Clerical and related occupations	54,927	8.2	1,146	8.8	20,862
General workers	40,545	6.1	604	4.6	14,884
Production/operative workers	449,523	67.2	5,984	45.8	13,313
Part-time workers	13,602	2.0	105	0.8	7,687
Total	668,342	100.0	13,079	100.0	19,569

Source: Economic Census 2011. Profile of Small and Medium Enterprises. Department of Statistic. Malaysia.

SMEs that produced food products contributed the highest with a gross output of RM69.5 billion (35.9%) and value added of RM8.3 billion (21.9%) while rubber and plastic products produced a gross output of RM22.2 billion (11.3%), chemicals and chemical products produced RM20.3 billion (10.5%), fabricated metal products, except machinery and equipment accounted for RM11.8 billion (6.0%) and basic metals produced RM11.4 billion (5.9%). These five main sub-sectors accounted for more than two thirds of the value of the gross output (RM135.0 billion) and half of value added (22.0 billion).

In 2010, the majority of the SMEs operated as sole proprietorships with 20,022 establishments (52.9%). This was followed by private limited companies with 14,333 establishments (37.8%) and other ownership types with 3,506 establishments (9.3%). In terms of size, sole proprietorships were mostly microenterprises with

17,355 establishments (86.7%) while small establishments accounted for the largest number in private limited companies, 9,812 establishments (68.5%).

In terms of the geographical distribution of SMEs in the manufacturing sector (according to states), Selangor showed the highest number of SMEs with 8,314 establishments (22.0%). This was followed by Johor with 4,828 establishments (12.8%). Four regions recorded more than 2000 SMEs, which were W. P. Kuala Lumpur, Perak, Kedah and Pulau Pinang. Other states that contributed 4.0% of SMEs were W. P. Labuan, Perlis and Melaka.

Table 3.3 shows that out of the total employed in SMEs of 698,713 persons, 668,342 persons (95.7%) were paid employees. Another 30,371 persons (4.3%) were working proprietors, active business partners and unpaid family workers.

In terms of paid employees, production/operative workers represented the highest number with 449,523 employees (67.2%). The percentage of employed workers by SMEs in the three categories, managerial and professional, technical and supervisory and general workers were relatively similar, at 8.0% to 8.5%.

Salaries and wages disbursed by SMEs amounted to RM13.1 billion. Out of this, RM6.0 billion (45.8%) was paid to production/operative workers. For the managerial and professional category, they received salaries and wages amounting to RM3.6 billion (27.2%). They also received the highest average annual salaries and

wages of RM67, 066. As for the technical and supervisory category, they received annual average salaries and wages of RM29, 635.

3.5 Services Sector

In 2010, SMEs in the services sector accounted for 98.2% of the total establishments (591,883). Microenterprise made up 79.6% (462,420), followed by small enterprises, 18.3% (106,061) and medium enterprises that made up 2.2% (12,504).

SMEs in the services sector generated RM286.6 billion or 41.3% of the total gross output (RM693.4 billion) and RM165.3 billion or 42.9% of total value added (RM385.1 billion). Small-sized establishments contributed the highest gross output and value added of 45.8% and 46.3% respectively. However, in terms of numbers, small-sized establishments accounted for only 18.2%. Microenterprise establishments contributed about one-third of the gross output and value added. Notably, microenterprise establishments accounted for more than three-quarters of SMEs. A similar pattern was observed in the distribution by value added.

In terms of output, SMEs in the distributive trade sector which includes wholesale and retail, repair of motor vehicles and motorcycles contributed the largest to the gross output, at 45.1%. The contribution of other sectors were financial services, 15.1%, food and beverages, 11.1% and transportation and storage, 6.8%.

Table 3.4: Profile of Small and Medium Enterprises in the Services Sector

Establishment by Sector							
Category		Establishment			Percentage		
Small		106,061			18.3		
Medium		12,504			2.2		
Micro		462,420			79.6		
Value of Gross Output and Value Added							
Category	Gross output		No. of establishments		Value added		
	RM (Billion)	%	Establishment	%	RM (Billion)	%	
Micro	87.7	30.6	462,420	79.6	52.3	31.6	
Small	131.1	45.8	106,061	18.2	76.5	46.3	
Medium	67.7	23.7	12,504	2.2	36.5	22.1	
Sub-Sector by Size							
Sub-sectors	SMEs	Micro	%	Small	%	Medium	%
Total services	580,985	462,420	79.6	106,061	18.3	12,504	2.2
Personal services and other activities	36,721	34,427	93.8	2,218	6.0	76	0.2
Transportation and storage	40,025	34,790	86.9	3,901	9.7	1,334	3.3
Arts, entertainment and recreation	6,217	5,174	83.2	874	14.1	169	2.7
Food and beverage service	142,721	117,020	82.0	24,459	17.1	1,242	0.9
Wholesale and retail trade, repair of motor vehicles and motorcycles	289,789	228,113	78.7	55,048	19.0	6,637	2.3
Legal Establishment							
Category	Sole proprietorship		Private limited company		Partnership		Others
SMEs	73.1		16.2		8.5		2.2
Micro	81.7		8.7		7.0		2.6
Small	42.9		41.4		14.8		0.8
Medium	11.3		76.3		10.2		2.1
Establishment by State							
State				Percentage			
Selangor				19.1			
W. P. Kuala Lumpur				13.4			
Johor				10.4			
Perak				9.2			
Others				47.9			

Table 3.4: Profile of Small and Medium Enterprises in the Services Sector, continued

Salaries and Wages					
Category	Paid employees (number)	%	Salaries & wages (RM billion)	%	Average annual salaries and wages per worker (RM)
SMEs	1,973,083	100.0	36.1	100.0	18,323
Micro	659,539	33.4	8.9	24.8	13,588
Small	928,609	47.1	18.1	50.0	19,461
Medium	384,935	19.5	9.1	25.2	23,689

Source: Economic Census 2011. Profile of Small and Medium Enterprises. Department of Statistic. Malaysia.

The SMEs in the services sector were dominated by microenterprise establishments. The main sub-sectors in microenterprises were personal services and other activities (93.8%) transportation and storage (86.9%) and arts, entertainment and recreation (83.2%). Medium-sized establishments in these sub-sectors were quite small with less than 3.5%. In terms of small-sized establishments, information and communications made up for 46.4%, electricity, gas, steam, and air conditioning supply represented 41.1% and professional, scientific and technical activities showed 38.8%.

In terms of legal organization, the majority of SMEs in the services sector (73.1%) were established as sole proprietorships. SMEs under private limited companies made up for 16.2% while partnerships accounted for another 8.5% of the establishments. The microenterprises were dominated by sole proprietorships, with

81.7%. Similarly, private limited companies were dominant in medium-sized and small-sized establishments with a share of 76.3% and 41.4% respectively.

The largest number SMEs in the services sector were found in Selangor with 110,714 establishments (19.1%). This was followed by Wilayah Persekutuan Kuala Lumpur with 78,085 establishments (13.4%), Johor, had 60,618 establishments (10.4%) and Perak, 53,322 establishments (9.2%). Kelantan had the largest concentration of microenterprise establishments accounted for 93.1% of the SMEs in the state, followed by Terengganu with 89.7%, Perlis (89.1%) and Kedah (88.4%).

SMEs in the services sector employed a total of 1,973,083 or 75.6% of total employees in 2010. Small-sized establishments employed the largest paid employees with 928,609 (47.1%) employees while microenterprise establishments employed 659,539 (33.4%) paid employees, with the remaining 384,935 (19.5%) paid employees employed by medium-sized establishments. In terms of gender, SMEs in the services sector employed largely male workers with 1,483,233 paid employees (56.8%) with the remaining 1,127,140 paid employees (43.2%) being female workers.

Salaries and wages paid out by SMEs in the services sector amounted to RM36.1 billion or 44.4% of the total salaries and wages paid (RM81.4 billion). Out of this, small-sized establishments paid out RM18.1 billion (50.0%), medium-sized establishments paid out RM9.1 billion (25.2%) and followed by microenterprise

establishments at RM8.9 billion (24.8%). The average annual salaries and wages per employee was RM18, 323. Employees in the medium-sized establishments received the highest annual salary, at RM23, 689, followed by small and micro establishments with annual salaries of RM19, 461 and RM13, 588 respectively.

3.6 Agriculture Sector

SMEs in the agricultural sector recorded 6,708 establishments or 76.0% out of the total 8,829 establishments. The majority of these SMEs were microenterprise establishments with 3,775 establishments (56.3%), followed by small-sized establishments with 1,941 (28.9%) and medium-sized establishments with 992 (14.8%).

About 70.0% of the SMEs in the agricultural sector were in the crops sub-sector with 4,725 establishments, followed by livestock, 900 establishments (13.4%), fisheries with 781 establishments (11.7%) and forestry and logging with 302 establishments (4.5%). The three sub-sectors of crops, livestock and fisheries were characterized by micro establishments accounting for more than 55%. In contrast, the majority of the forestry and logging sub-sectors were medium and small enterprises with 270 establishments (89.4%).

Table 3.5: Profile of Small and Medium Enterprises in Agriculture Sector

Establishment by Category								
Category		Establishment			Percentage			
Micro		3,775			56.3			
Small		1,941			28.9			
Medium		992			14.8			
Establishment by Sub-Sector								
Sub-sector		Micro		Small		Medium		
Crops		2,678		1,413		634		
Livestock		613		179		108		
Fisheries		452		261		68		
Forestry & logging		32		88		182		
Key Indicators								
	SMEs	%	Micro	%	Small	%	Medium	%
Gross output (RM million)	5,194	100.0	769	14.8	1,871	36.0	2,554	49.2
Value added (RM million)	2,665	100.0	343	12.9	937	35.2	1,385	52.0
Employment	78,777	100.0	13,718	17.4	24,864	31.6	40,195	51.0
Gross Output and Value Added								
Sub-sector		Gross output			Value added			
Crops		3,338			2,020			
Livestock		788			209			
Forestry and logging		487			240			
Fisheries		581			195			
Establishment by Legal Status								
Legal status					Percentage			
Sole proprietorship					49.4			
Private limited company					39.7			
Partnership					9.0			
Others					1.8			
Gross Output								
Legal organization	Crops (RM million)	Livestock (RM million)	Forestry & logging (RM million)	Fisheries (RM million)	Total gross output (RM million)			
Sole proprietorship	499	199	128	154	980			
Partnership	166	158	61	131	516			
Private limited company	2,439	429	269	288	3,452			
Others	234	2	2	9	247			
Total gross output (RM million)	3,338	788	487	582	5,195			

Table 3.5: Profile of Small and Medium Enterprises in Agriculture Sector, continued

Establishments by State			
State	Establishment		
Johor	994		
Perak	962		
Selangor	834		
Sabah	812		
Pahang	630		
Kedah	603		
Kelantan	326		
Sarawak	322		
Pulau Pinang	269		
Others	956		
Employment by Size			
Type of employment	Micro	Small	Medium
Paid employees	9,430	23,702	39,850
Working proprietors, active business partners & unpaid family workers	4,288	1,162	345
Salaries and Wages			
Sub-sector	Total paid employees	Salaries & wages (RM million)	Average salaries & wages per annum (RM)
Agriculture	72,982	911	12,483
Crops	55,884	640	11,452
Livestock	4,321	63	14,580
Forestry & logging	6,986	124	17,750
Fisheries	5,791	84	14,505

Source: Economic Census 2011. Profile of Small and Medium Enterprises. Department of Statistic. Malaysia.

SMEs in the agricultural sector generated a gross output of RM5.2 billion and value added of RM2.7 billion. About half of the output and value added were contributed by medium-sized establishments. In terms of employment, medium-sized establishments employed 51.0% of the employees.

Within the four sub-sectors, crops contributed to RM3.3 billion or 64.3% of the total gross output. This was followed by livestock at RM788.2 million (15.2%), fisheries with RM1.5 million (11.2%) and forestry and logging at RM486.8 million (9.4%). In terms of value added, crops contributed the highest to value added with RM2.0 billion (75.8%) and livestock at RM209.0 million (7.8%), forestry and logging at RM239.9 million (9.0%) and fisheries at RM195.3 million (7.3%).

The majority of SMEs in the agricultural sector were sole proprietorships with 3,316 establishments (49.4%). This was followed by private limited companies with 2,666 establishments (39.7%) and partnerships with 602 establishments (9.0%).

SMEs established as private limited companies contributed the highest to gross output with RM3.5 billion (66.4%). The share of gross output of other establishments included sole proprietorship at 18.9%, and partnerships at 9.9%. Within the agricultural sub-sector, the gross output of private limited companies was the highest in the crops sub-sector, RM2.4 billion (70.6%).

In terms of the geographical distribution of SMEs according to states, Johor recorded the highest number of SMEs with 994 establishments (14.8%), Selangor had 834 establishments (12.4%) and Sabah with 812 establishments (12.1%).

The number of workers in SMEs in the agricultural sector was 78,777 or 20.2% of total employment. Paid employees comprised 72,982 persons (93.0%),

while working proprietors, active business partners and unpaid family workers accounted for 5,795 (7.0%). Medium-sized establishments employed the majority of paid employees with 39,850 persons (54.6%) while the small-sized establishments employed 23,702 persons (32.5%).

SMEs in the crops sub-sector employed a total of 55,884 paid employees, forestry and logging with 6,986 employees, fisheries, 5,791 employees and livestock with 4,321 employees. The average salaries and wages paid per annum by SMEs in the forestry and logging sub-sector was RM17,750, followed by livestock (RM14,580) fisheries (RM14,505) and crops (RM11,452).

3.7 Performance of Small and Medium Enterprises in Malaysia

SMEs are recognized as the backbone of economic growth and as a generator of employment (Hoq et al., 2009; Khaliq et al., 2011; Muhammad et al., 2010). In Malaysia, SMEs account for about 99% of total business establishments and contribute to 31% of the country's gross domestic product. The SMEs' share of total employment and exports of the country were 56% and 19% respectively (NSDC, 2009/10).

SMEs in Malaysia remained resilient and continued to growth at a relatively strong pace of 6.8% in spite of the challenging external environment in 2011. The growth was primarily supported by domestic demand. Constructive labor market conditions, continued access to credit, increasing income, and high commodity prices

were the main factors in supporting the continuing robust domestic demand and development in SMEs growth. Moreover, with the official Gross Domestic Product projection of 4.5 – 5.0% in 2012, SMEs are projected to generate a steady growth rate of 6.5 – 7.0%. The growth will be driven mainly by SMEs in the services sector amidst continued domestic demand (NSDC, 2011/12).

Growth rates in the global economy were moderated in 2011, following strong recovery in the previous year. Structural weaknesses in the advanced economies were problematical due to a sequence of shocks including natural disaster in Japan disrupting the world manufacturing production, together with geopolitical concerns in the Middle East and Africa. These, coupled with the continuing international financial reforms and structural adjustments, heightened volatility in the financial markets.

In the APEC region, SMEs which accounted for 90% of all businesses and as much as 60% of the workforce are integral to the region's development. SMEs have also been recognized as a source for innovation and contributions to forward-thinking ideas that boost the economic growth of the region.

In Europe, the European Progress Microfinance Facility was launched in 2010 in collaboration with the European Investment Bank Group with the objective

to help entrepreneurs facing difficulties in getting loans to start or develop their own business and proved to be a huge success. The facility emerged as an important tool to create jobs, by assisting start-ups among micro-entrepreneurs, with a total of 20 microfinance providers from the European Union receiving guarantees or funding (debt or equity) to facilitate lending to prospective micro-entrepreneurs. The facility given, worth €170 million, covered the duration of two to three years. In 2011, The European Commission also presented a package of measures to enhance the research, innovation and competitiveness of SMEs in Europe with an allocation of €2.5 billion for programmes from 2014 to 2020.

In contrast, findings from the Small Business Outlook Survey of the United States Chamber reported that 84% of small business owners were of the view that the United States economy was on the wrong track. The SMEs in the United States faced various issues such as the national debt position (47% of the respondents), the new health care law (39%) and the impact of regulations (36%). Furthermore, economic uncertainty was also indentified as the main impediment to hiring more employees (55%). SMEs accounted for nearly 98% of all United States exporters with the value of exports of US\$380 billion in 2010 (NSDC, 2011/12).

It is noted that, based on the report entitled Economic Census, 2011: Profile of Small and Medium Enterprises, SMEs constituted 97.3% of total business establishments in the Malaysian economy. To date, these SMEs have performed

favorably due to pro-growth policies with the establishment of the National SME Development Council.

The revised time series data from the Department of Statistics Malaysia on Gross Domestic Product at 2005 prices, reported that SMEs Gross Domestic Product grew at an average annual growth of 6.3% in the period of 2005-2011, higher than the average growth rate of the overall economy of 4.5%. This analysis is consistent with previous time series based on Gross Domestic Product at 2000 prices, reflecting similar trends whereby the Gross Domestic Product growth of SMEs consistently outperformed the overall economic growth from 2004. Accordingly, the contribution of SMEs to the economy increased from 29.4% in 2005 to 32.5% in 2011.

Table 3.6: Small and Medium Enterprise Value-added and Overall Gross Domestic Product Growth (Annual change in %)

Year	Overall GDP Growth	SME Growth
2006	5.6	6.4
2007	6.3	10.0
2008	4.8	6.5
2009	-1.5	0.2
2010	7.2	8.0
2011	5.1	6.8
2012e	4.5-5.0	6.5-7.0
2013f(f= forecast)	4.5-5.5	
Value Added		
Year	Value-added (RM Billion)	Percentage
2005	159.7	29.4
2006	170.0	29.6
2007	187.0	30.7
2008	199.3	31.2
2009	199.7	31.7
2010	215.7	32.0
2011	230.4	32.5

Source: Economic Census 2011. Profile of Small and Medium Enterprises. Department of Statistic. Malaysia.

Even though SMEs are seen as important agents of economic growth, the contribution of Malaysian SMEs is relatively low when compared with the industrial and other developing countries as indicated in Table 3.7. With the country's favorable economic conditions, there is huge potential in developing Malaysian SMEs to become catalysts and important domestic sources of growth in the economy. Nevertheless, international comparisons of SMEs contribution should be a cause of concern given the differences in the criteria used to define SMEs as well as the specific context of each economy.

Table 3.7: SME Contribution to GDP in Selected Countries (% share)

Country	Contribution To GDP (% share)
Japan (2007)	53
Germany (2008)	53
UK (2008)	51
Korea (2007)	49
Singapore (2007)	49
Thailand (2008)	38
Malaysia (2009)	31
Philippines (2006)	30

Source: SME Annual Report 2009/10

In 2011, SMEs remained resilient, recording a comparatively strong Gross Domestic Product of 6.8%, supported by domestic demand and supportive policies and incentives by the government as compared to moderate growth in the overall economy of 5.1% in 2011. Employment and labor productivity growth these enterprises were also higher than total employment and productivity growth. SMEs grew by 3.9% (total employment growth: 3.7%) and the SMEs productivity grew by 2.8% (total productivity growth: 2.1%).

Looking at sectoral Gross Domestic Product, the growth rate of each sectors in the SMEs were higher than the overall sectoral Gross Domestic Product growth. The highest growth was in the manufacturing sector (7.6%), followed by agriculture (6.4%) and the services sector (6.4%). The strong performance of SMEs in the manufacturing sector was supported by the strong growth of consumer and primary-related cluster industries which included food products, clothing and textiles and construction –related products such as non-metallic minerals and fabricated metal products. This was also supported by the early implementation of the Government Transformation Programmes on civil engineering activities in the rural areas and also the various programmes under the Economic Transformation programmes that generated strong construction activity in the later part of the year.

Table 3.8: Small and Medium Enterprises GDP and Overall GDP Growth by Key Economic Activities in 2011 (at 2005 prices)

	Year 2011 (% annual change)	
	SME GDP Growth	Overall GDP Growth
Mining and Quarrying	3.4	-5.7
Construction	2.9	4.6
Agriculture	6.4	5.9
Manufacturing	7.6	4.7
Services	6.4	7.0
Total	6.8	5.1

Source: Economic Census 2011. Profile of Small and Medium Enterprises. Department of Statistic. Malaysia.

In the service sector, the higher growth of SMEs was driven by wholesale and retail trade activities, including trading of motor vehicles, which created the main component of the SMEs value-added of the sector (52% of total share). This was followed by other consumer-oriented services that comprised finance, insurance,

real estate and business services, which was supported by high consumer spending in 2011.

Meanwhile, in the agricultural sector, strong global demand, high commodity prices and favorable weather conditions also benefited farmers in food-related activities as well as smallholders in the rubber and oil palm sub-sectors. Furthermore, farmers and fishermen reaped from higher outputs of livestock, fish and agricultural cash crops such as paddy, vegetables, fruits and flowers.

2012 started with relatively slower momentum as a result of the moderated global growth since the second half of 2011, when economic activity in the majority of the advanced economies were relatively slow due to greater policy uncertainty. The United States was experiencing a fragile recovery whilst countries in the European Union remained in recession. The weakened economic conditions in the advanced economies strongly affected domestic economic activities in emerging economies. In addition, continuous volatility in the international financial markets further affected the growth prospects of the rest of the world. Asia remained the engine of growth with the moderation in economic activity in most countries due to a slowdown in domestic demand (BNM, 2012).

Despite being affected by these global developments, domestic demand continued to grow in Malaysia, supported by the nation's economic growth. This trend is predicted to continue forward. The Malaysian government plays a significant role in providing support to the economy by encouraging private domestic investment activities, emphasizing innovation and raising productivity among SMEs and also helping the bottom 40% of the income pyramid. Thus, these measures generated a direct positive impact on consumer spending. Subsequently, SMEs which were the major suppliers of goods and services also benefited directly and indirectly from these measures.

With the steady growth rate of the Malaysian economy in 2012 at 5.6% (2011: 5.1%), the SMEs Gross Domestic Product is expected to achieve a higher growth of 6.5% – 7.0%. This expected higher growth would be supported mainly by firm domestic demand and also from continuous strong activity in the services sector. The wholesale and retail trade together with financial, business and private services sub-sectors and domestic-oriented industries in the manufacturing sector are able to provide support to growth in SMEs Gross Domestic Product during the year.

3.8 Small and Medium Enterprises: Internationalization and Challenges

Internationalization is a major element of a firm's growth (Peng and Delios, 2006). The liberalization of international markets and digitization influence large corporations and the SMEs to conduct their business beyond their national borders and compete in foreign markets and new regions (Barkema et al., 2002). Schulz et al. (2009) argued that most of the SMEs involved in internationalization generate their earnings more in global markets rather than in the home countries. These enterprises are also known as "born global" or "instant internationals" (traditional SMEs which enter international field almost from inception), "backsources" (SMEs that re-concentrate their international activities back to the home base) and "born regional's" (SMEs that gain their force out of a local embeddedness and never shift capacity beyond export activities).

The presence of SMEs is a key resource in the Malaysian economy. The internationalization of these SMEs is no longer an option but a necessity due to the globalization of the world economy (Hashim, 2012). In spite of their constraints, Malaysian SMEs are under pressure to expand as well as to compete globally in order to survive in the current competitive market. Several factors influence the internationalization of Malaysian SMEs. Among them are network factors, firm factors, industrial factors, external and motivational factors (Senik et al., 2010).

Malaysian SMEs exporters are mainly from the manufacturing sectors (57.6%) followed by services (40.6%) and agriculture (1.8%). As of 2005, the major export destinations for manufactured products were the ASEAN countries (27.2%), the USA (23.4%), the European Union (10.4%), Japan (7.4%), Hong Kong (7%), People's Republic of China (6.1%) and 18.5% to the remainder of the world (EPU, 2006). Even though Malaysian SMEs have the potential to grow globally, there exists some obstacles that SMEs face in their internationalization process, and these will hinder them from achieving economics of scales and competing in the international market (Saleh and Ndubisi, 2006). The decision to enter new markets represents one of the most challenging options for such enterprises. Various challenges facing SMEs in the globalized environment are difficulty in facing recessions, barriers from global sourcing, low productivity, lack of managerial capabilities, lack of financing, difficulty in assessing management and technology, heavy regulatory burdens and business competition (Saleh and Ndubisi, 2006; Abu Bakar et al., 2006; Foon and Eu-Gene, 2006, Scarborough et al., 2012). In addition Ting (2004) argued that Malaysian SMEs could be wiped out if they did not raise competitiveness in the future.

To this end, the SMEs in Malaysia require government support or assistance to become more competitive in the global business environment (Muhammad et al., 2010). The role of government is to support companies to shift to higher levels and gain competitive advantage in the globalized business environment (Samad, 2007). There are various incentives, programs and policies that have been implemented by

the government in order to strengthen SMEs and also to facilitate them in dealing with global competition. These include long-term strategic planning, export agents, financial agents, negotiators, and tax and incentives, which are further discussed below.

Long-term strategic Planning

Long term policies and institutional frameworks have been established to facilitate the needs of SMEs. The 8th Malaysia Plan (2001-2005), emphasizes the development of SMEs in the manufacturing sector. Similarly, the National SME Development Council was established in 2004 with the objectives to ensure that the development plans of SMEs followed the right path. The agency works closely with other agencies, ministries, banks and financial institutions, giving support to SMEs and monitoring their outcomes. The 9th Malaysia Plan (2006-2010) and the Third Industrial Master Plan (2006-2015) continue to outline key strategies for the development of SMEs. The aim is to enhance their capabilities to become regional and global entities and to compete for access to global supply and production chains. Thus, increasing their access to capital, obtaining access to business services, improving the general business environment and enhancing the application of ICT, building capacity and enhancing productivity can help shape or speed the development of these enterprises. Funds were made available through the Malaysia External Trade Development Corporation, the Malaysia Technology Development Corporation and SME Corp.

Export Agent

The Malaysia External Trade Development Corporation (MATRADE) plays a significant role as a facilitator for the internationalization of Malaysian SMEs. Various export initiatives have been launched by this agency to assist the engagement of these enterprises in export activities. The corporation is responsible for developing overseas markets for the products and services of SMEs. Additionally, the Market Development Grant scheme provides assistance in developing these export markets. Specific grants can be used for international trade fairs, investment and trade missions, market negotiations to access foreign markets, promotional activities in exports markets, initial investments in establishing offices abroad, outsourcing, research on markets and monitoring projects and contracts abroad, international tenders, and conducting export market research abroad (MATRADE, 2009, 2011).

Financial Agent

Beside management support and promotive policies for the internationalization of SMEs, the Malaysian government also provides financial support for SMEs to penetrate overseas markets. Multi-Currency Trade Financing provided by the EXIM Bank facilitates the financial transactions for SMEs. Facilities that have been offered by EXIM bank include suppliers credit (financing that enable exporters to execute orders in hand, Overseas Contract Financing and Export Service Facility, Buyer Credit (loans granted to foreign buyers of Malaysian goods and

services), Malaysia Kitchen Financing Facility (designed to finance the establishment of Malaysian restaurants overseas) and Overseas Project Financing (Exim Bank, 2006).

Negotiator

In order to create fair competition and opportunities for SMEs exporters, the Malaysian government is actively involved in trade negotiations and regional and bilateral trade agreements to reduce trade barriers. SMEs have to ensure that they comply with market requirements in terms of product quality, delivery schedules and pricing in order to benefit from this advantage.

Tax and Incentives

In a bid to encourage public listed SMEs to expand and compete in the international market, stamp duty and real property gain tax were exempted for the mergers and acquisitions undertaken by listed companies on the Malaysia Bourse. Malaysian-owned SMEs that acquired a foreign-owned company to learn about high technology production within the country or gained new export markets for a local product were also granted a deduction equivalent to the acquisition costs for five years (SMIDEC, 2009). Moreover, the government also provides incentives and grants with the purpose of creating quality Malaysian brands and to distinguish Malaysian products in the global market. These incentives include outsourcing inputs for business activities and seeking out lower cost inputs, increasing productivity and

upgrading technology, business collaboration to improve production, research and development and marketing, creation of a pro-business environment, continued efforts to enhance delivery systems and reduce the cost of doing business and enhancing conditions of market access through tariff negotiations under bilateral, regional and World Trade Organization arrangements.

Research related to the internationalization of Malaysian SMEs found that exporting was the most used mode of entry and increase in profit was the major reason for internationalization. A study in the manufacturing sector by Senik et al., (2010) indicated that a number of factors influence the internationalization of manufacturing SMEs in Malaysia including firm characteristics, industry factors, external influence and motivational aspects. However, a similar study in Penang, by Chelliah et al. (2010) showed that competitive advantage, management attitude and international knowledge and experience do not show a significant relationship with internationalization. The findings indicated that emerging economies have different set of variables that explain the process of SMEs internationalization.