

CHAPTER FOUR: RESULTS & ANALYSIS

4.1 SUMMARY STATISTICS OF SURVEY

Part 1 Company Profile:

The survey forms have been distributed to old companies and also new start-ups, range from 1940s to 2002. 113 or 35.65% of the respondents have commenced their operations in 1990s as shown in Table 1 below:

Table 1: Date of Commencement of Operations

Year	Number of Respondents	Percentage (%)
1940s	4	1.26
1950s	5	1.58
1960s	12	3.79
1970s	60	18.93
1980s	82	25.87
1990s	113	35.65
2000s	41	12.93
TOTAL	317	100.00

Part 2 Ownership Structure:

In terms of ownership structure, most of them are controlled by Non-Bumiputra (more than 50% shareholding) and family business (more than 50% of capital is held by the majority shareholder and his family).

As shown in Table 2, out of 317 respondents, 264 or 83.28% of them are controlled by non-Bumiputra shareholders, 26 or 8.20% are Bumiputra

shareholders, 4 or 1.26% are foreign shareholders, 4 or 1.26% are mixed and 19 or 5.99% of them didn't declare:

Table 2: Shareholding Structure

Shareholder	>0 to 30%	>30 to 50%	>50 to 70%	>70 to 100%	Total
Bumiputra	10	3	7	19	39
Non-Bumi	2	9	12	252	275
Foreign	13	10	3	1	27
Not Stated	19				

Table 3: Majority Shareholder and His Family

% of Paid up capital	Not Stated	>0 to 30%	>30 to 50%	>50 to <100%	100%	Total
No. of Respondents	51	14	28	65	159	317

As shown in Table 3 above, 224 (65 plus 159) or 70.66% of the respondents are controlled by the majority shareholder or his family, which own more than 50% of the company's paid up capital.

It reflects the general view that the family business is the most significant form of business organisation among SMEs, as such; the characteristics of family business should be taken into consideration when developing the SME policy.

Table 4: Type of Establishment

	Sole Proprietorship	Partnership	Limited Co.	Not Stated	Total
No. of Respondents	49	35	229	4	317
%	15.46	11.04	72.24	1.26	100.00

The limited company that incorporated under Company Act 1975 is the biggest segment of the SMEs with 229 or 72.24% of the total respondents. This is in line

with the policy of most of the banks which targets on limited company rather than sole proprietorship or partnership.

The failure rate for small businesses is higher than for big businesses, and profits fluctuate with general economic conditions. US Small Business Administration (SBA) (www.sba.gov) statistics show that 63% of new businesses will have failed within six years. The primary cause of business failure is incompetent management. Other reasons include poor financial control, failure to plan, inappropriate location, lack of inventory control, improper managerial attitudes, and inability to make the "entrepreneurial transition."

A sole proprietorship is a business owned and managed by one individual. They are simple to create; they are the least costly form to begin; the owner has total decision-making authority; there are no special legal restrictions; and they are easy to discontinue. The disadvantages are unlimited personal liability of owner; limited managerial skills and capabilities; limited access to capital and lack of continuity.

Limited company (Sendirian Berhad) is the most complex of the three basic forms of ownership, is a separate legal entity. To form a corporation, an entrepreneur must file the articles of incorporation. Corporations offer these advantages: limited liability of shareholders; ability to attract capital; ability to continue indefinitely; and transferable ownership.

Part 3 Business Operation:

The survey forms have been distributed to the companies in various sectors to reflect a wider cross industry picture:

Table 5: Products / Services Produced

Sector	No of Resp.	%
Agriculture, hunting, forestry and fishing	17	5.18
Mining and quarrying	1	0.30
Manufacturing	127	38.72
Electricity, power generation, gas and water	3	0.91
Information technology and communication	1	0.30
Life sciences: medical, healthcare, biotechnology, environmental technologies and pharmaceutical products	3	0.91
Education, includes establishment of higher education institutions	2	0.61
Construction	27	8.23
Trading	89	27.13
Restaurant and hotels	4	1.22
Transport, storage and communication services	4	1.22
Financing, Insurance, Real Estate and Business Services	19	5.79
Other services, such as medical and dental services, hairdresser, laundrette, etc.	31	9.45
TOTAL	328	100.00

As shown in Table 5 above, some of the respondents ticked more than one sector in the survey form, for instance, manufacturing and life sciences, the total of 328 is higher than the number of total usable survey forms received (317).

The most common sector is still manufacturing with 127 or 38.72% of total respondents and follows by trading with 89 or 27.13% of total respondents. Both of them comprise more than half of the total respondents.

Table 6: Buyers of Products / Services

Description	No of Resp.	%
Intermediate producers	27	8.26
Final producers	71	21.71
Customers	229	70.03
TOTAL	327	100.00

As shown in Table 6, although the government has encouraged the SMEs to produce more intermediate products or capital goods, the buyers of the respondents' product/service are mostly end-users. As some of them have more than one type of buyer, for instance, intermediate and final products, the total of 327 is higher than the number of total respondents received (317).

Table 7: Main Products / Services of Total Sales

Sector	No of Resp.	%
Agriculture, hunting, forestry and fishing	15	4.73
Mining and quarrying	1	0.32
Manufacturing	116	36.59
Electricity, power generation, gas and water	3	0.95
Information technology and communication	1	0.32
Life sciences: medical, healthcare, biotechnology, environmental technologies and pharmaceutical products	3	0.95
Education, includes establishment of higher education institutions	2	0.63
Construction	26	8.20
Trading	82	25.87
Restaurant and hotels	4	1.26
Transport, storage and communication services	4	1.26

Financing, Insurance, Real Estate and Business Services	19	5.99
Other services, such as medical and dental services, hairdresser, laundrette, etc.	30	9.46
<i>Not stated</i>	11	3.47
TOTAL	317	100.00

The statistic shows that 36.59% of the total respondents has the manufacturing as the main product / service which comprise more than 50% of the total sales, and follows by trading which is 25.87%.

Table 8: Market of Products / Services

Market	No of Resp.	%
Domestic Market Only	199	62.78
International Market Only	9	2.84
Combination of Both	76	23.97
<i>Not Stated</i>	33	10.41
TOTAL	317	100.00

As shown in Table 8, 62.78% of the total respondents still relied on the domestic market, only less than a quarter of them have a combination of both domestic and international market. The pure international players comprise only 2.84% of the total respondents.

It shows a worrying pattern that Malaysian SMEs might not have the capacity and the required international marketing skills to sell their products or services to international market.

It could be due to the lack of entrepreneurship which is to explore the global market.

Table 9: Supply of Raw Material

Market	No of Resp.	%
Domestic Market Only	183	57.73
International Market Only	10	3.15
Combination of Both	75	23.66
<i>Not Stated</i>	49	15.46
TOTAL	317	100.00

As shown in Table 9, most of the respondents are still mainly purchasing the raw material from domestic market, probably because their products do not required high technology or at the high end and can be easily sourced in domestic market. It could be also because they do not have the international network or unable to purchase in bulk from cheaper supplier.

However, with the emerging e-commerce through Internet, it would be easier for SMEs to access the global supply network and source for cheaper, higher quality raw material in an efficient manner.

Table 10: Research & Development

Conduct R & D	No of Resp.	%
Yes	53	16.72
No	264	83.28

As shown in Table 10, 264 or 83.28% of them do not have the research and development activities in their companies.

In a research on the Chinese family business by Tony Fu-Lai Yu, the Chinese family businesses in Asia choose not to upgrade their technologies bases within global competition. Rather, they tend to pursue guerrilla entrepreneurship, imitative follow-my-leader and specialise in international co-ordination. These strategies enable them to compete and survive in the global market.

The statistic in Table 10 shows that the Malaysia SMEs might have the same pattern. However, to gain the long-term competitiveness of their products and services, the SMEs shouldn't ignore the long-term impact of research & development.

Table 11: Marketing Method

Method	No of Resp.	%
On Your Own	279	69.40
Government Trade Fairs / Roadshows	29	7.21
Private Trade Fairs / Roadshows	42	10.45
Through Trading Companies	19	4.73
Others	33	8.21

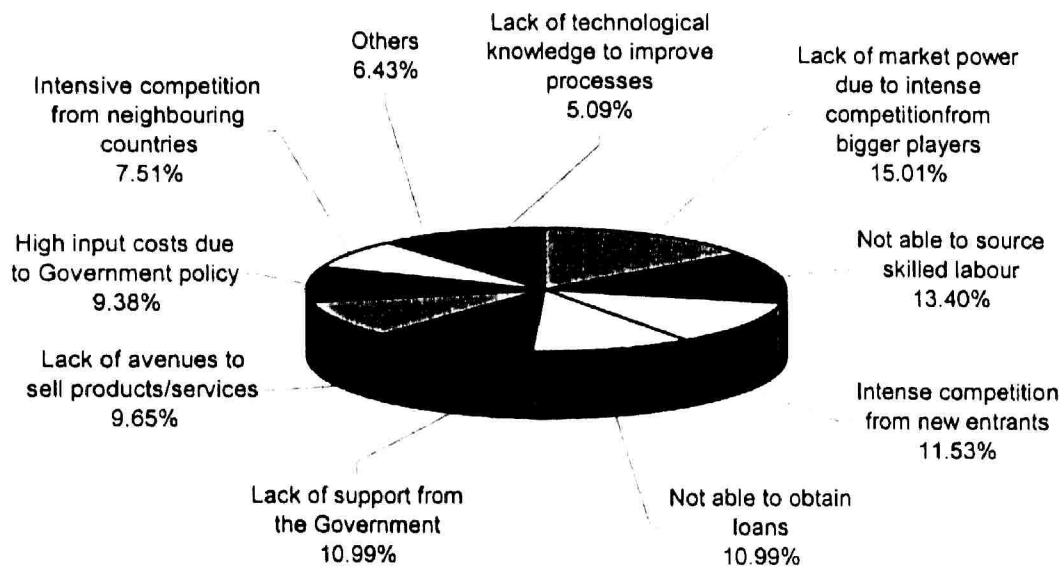
As shown in Table 11, it is suggested that most of the respondents market their products / services on their own. Private trade fairs play a relatively more effective role compare to government trade fairs. As such, there is still a gap for government agencies like SMIDEC and MATRADE to play a more effective role.

Federal governments and state governments always organise business delegations and roadshows to potential foreign countries to attract foreign direct investment and explore the business opportunities. From the statistic, they didn't deem as effective marketing method by the SMEs.

Table 12: Most Critical Problem in The Business

Critical Problem	%
Lack of market power due to intense competition from bigger players	15.01
Not able to source skilled labour	13.40
Intense competition from new entrants	11.53
Not able to obtain loans	10.99
Lack of support from the Government	10.99
Lack of avenues to sell products/services	9.65
High input costs due to Government policy	9.38
Intensive competition from neighbouring countries	7.51
Others	6.43
Lack of technological knowledge to improve processes	5.09

Most Critical Problem in The Business



As shown in Table 12, the most critical problem in the business of the respondents is lack of market power due to intense competition from bigger players.

Following the implementation of trade liberalisation regionally and globally, if SMEs can't find their niche market to compete with much larger multinational corporations, they could be going out of business.

To compete with bigger players, the SMEs need to know the capability and skill gaps in international business, to benchmark with MNCs, increase their flexibility and capacity to promptly respond to changes of business environment.

For the respondents who choose "Others", their specific critical problems are:

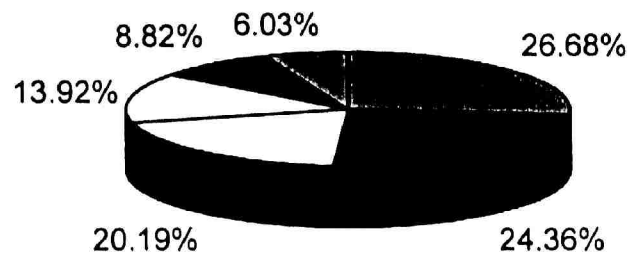
- Use of high technology machineries
- Tax regulation on leasing companies

- Strict immigration law on foreign labours
- Slow collection for credit sales
- Shortage of raw materials supply
- Sales tax
- Pirated products
- Over capacity and price cutting
- Low prices of palm oil
- Lack of liquid assets
- Lack of safety at sea for our fisherman and fishing boats
- Lack of foreign workers
- Lack of enforcement from local product certification body
- Income tax
- Delay of government approval
- High duty for import products
- Illegal printing companies

Table 13: How Can Government Assist in Marketing

Government Assistance In Marketing	%
Set up a central database for facilitate business matching	26.68
Facilitate greater access to trading companies	24.36
Organise more trade fairs/ roadshows within Malaysia	20.19
Organise more trade fairs/ roadshows overseas	13.92
MATRADE to be more active in coordinating marketing efforts overseas	8.82
Others	6.03

Government Assistance in Marketing



- Set up a central database for faciklitate business matching
- Facilitate greater accesss to trading companies
- Organise more trade fairs/roadshows within Malaysia
- Organise more trade fairs/roadshows overseas
- MATRADE to be more active in coordnating marketing efforts overseas
- Others

The earlier result in Table 11 shows that most of the respondents market their products / services on their own, only 7.21% went for government trade fair and roadshows. Among this 7.21% of SMEs, more than the half chose government assistances in the form of setting up a central database to facilitate business matching or facilitating greater access to trading companies.

It shows that the government, who always has the latest and most comprehensive information on business opportunities, are expected to play a more effective role in disseminate the information for business matching.

The information from business delegations to various countries and official data from other countries should be effectively shared among the SME community.

For the respondents who choose "Others" , their suggestions include:

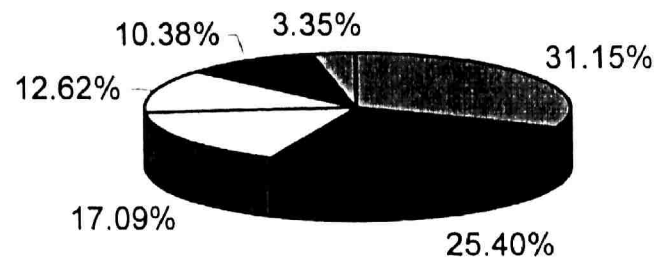
- To persuade the use of Malaysian products

- To organise farmer to plant systematically and assist in production automation
- Strict enforcement of Copyright Act against piracy
- Reduce import duty of machinery
- Organise business matching directly
- Lower costs for trade show participation
- Incentive for construction industry in loan support
- Greater access to cheaper funding
- Do not allow cartel to dictate price which affect the competitiveness
- Be more flexible in foreign labour
- Anti-corruption campaign in the private sector

Table 14: How Can Government Assist in Business Operation

Government Assistance in Business Operation	
Provide tax incentives/subsidies	31.15%
Provide greater access to loans/financing	25.40%
Provide greater support in technological development	17.09%
Set up a central body that collates and disseminates information on SMEs	12.62%
Set up a central body to provide training to SMEs	10.38%
Others	3.35%

Government Assistance in Business Operation



- Provide tax incentives/subsidies
- Provide greater access to loans/financing
- Provide greater support in technological development
- Set up a central body that collates and disseminates information on SMEs
- Set up a central body to provide training to SMEs
- Others

As shown in Table 14, providing tax incentives / subsidies is the most important government assistance to the respondents' business operation.

In the 2003 Budget tabled by the government on 20 September 2002, it was proposed that the corporate tax rate for SMIs with paid-up capital of RM2.5 million and below be reduced from 28% to 20% on chargeable income up to RM100,000. This measure is matching with the demand of SMEs.

On the other hand, the result also shows that the SMEs hope that the government could provide greater access to the loans and greater support in technological development. The respondents also place high hope for a central body that collates and disseminates information on SMEs.

It shows that the government agencies like CGC and SMIDEC are not well known by the SMEs and not effective in assisting the SMEs.

For the respondents who choose “Others” , their suggestions include:

- Train more skilled worker
- Give more support to the lower level of SMI
- To construct more infrastructure and also the maintenance
- Provide planting allowance for small estate holders
- Lower sale tax
- Implement policies to accelerate the loan disbursement process
- Government has to support the use of Malaysian products
- Encourage Malaysian to buy Malaysian products

Table 15: Level of Computerisation

Level of Computerisation	
Low. Only a few employees know how to use computers	42.27%
High. Work is done mainly using computers	31.23%
There is no computers in the company	19.56%
Not stated	6.94%

As shown in Table 15, the level of computerisation is still low among the SMEs. Nearly 20% of the respondents have no computer in their companies and 42.27% of them have a low level of computerisation.

Table 16: Level of Automation

Level of Automation	
Manual/Labour intensive	41.96%
Semi automated	37.85%
Not stated	17.03%
Fully automated	3.15%

The level of automation is also still low among the respondents. Nearly 42% of them are manual or labour intensive and only 3.15% are fully automated.

Table 17: Staff Training

Staff training	
Yes	39.43%
No	60.57%

Production technology can be imitated as anyone can buy the same computers or hardware systems, but people and organisational culture are clearly less imitable.

However, as shown in Table 17, among the respondents, only less than 40% of them provide staff training. Apparently they do not deem people training as the basis for competitive success.

In Table 2, 13.40% of the respondents deem “not able to source skilled labour” as the most critical problem, many SMEs also have long complained about skills shortage, but few are doing much about it. This could be due to a corporate culture that does not value the firm ' s human assets.

Table 18: Types of Staff Training

Types of Staff Training	
Upgrading of technical skills	28.85%
Management training	27.27%
Technical skills training for new staff	26.09%
Motivational training	13.04%
Others	4.74%

As shown in Table 18, more than 80% of staff training is related to technical and management skills. Other types of trainings include motivational training, industry safety, time management and IT.

Most of the SMEs build their own businesses from scratch or succeeded the business as the new generation of owner. As such, usually they have adequate technical skills and product /service knowledge.

Table 19: Advisory Services

Advisory Services	
Yes	37.54%
No	62.46%

As shown in Table 19, only 37.54% of the respondents obtained advisory services.

Table 20: Advisory Services Providers

Advisory Services Provider	
Private companies	41.63%
Banking institutions	24.89%
Family members	16.74%
Government agencies	10.41%
Others	6.33%

As shown in Table 20, among the 37.54% of the respondents who obtain advisory services, 41.63% of them obtain the services from private companies, for example, consultancy firms. Only about 10% of them get the services from government agencies.

As such, the proposed SME Information & Advisory Centre by SMIDEC may not well receive by the SME community unless they can really effectively provide SMEs with useful information for their business growth. In fact, SMIDEC has providing advisory services through its Business Clinic together with commercial banks and other institutions on every Wednesday at SMIDEC office.

As shown in Table 20, 16.74% of the respondents obtain the services from their family members. In many Chinese family establishments, children of the founder often grow up in the factory. Infected by the founder ' s enthusiasm, the new generations learn the Chinese style of management and subsequently use the same stock of knowledge as the founder to solve business problems they later encounter (Siu and Martin, 1992, p. 91).

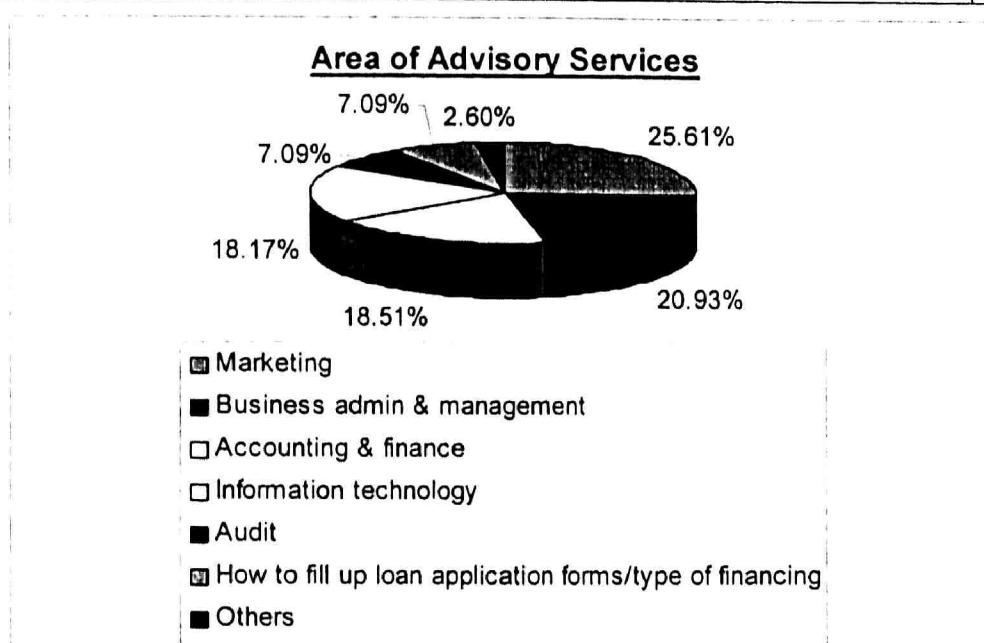
The young generation will continue seeking opinion from their family members based on the trust and sharing the experience, similar knowledge and culture among them.

For the respondents who choose " Others " , their services providers include:

- Companies in the same sector
- Suppliers
- SIRIM
- Personal friends
- Legal Adviser
- Foreign professionals
- Business associations

Table 21: Area of Advisory Services

Area of Advisory Services	
Marketing	25.61%
Business admin & management	20.93%
Accounting & finance	18.51%
Information technology	18.17%
Audit	7.09%
How to fill up loan application forms/type of financing	7.09%
Others	2.60%

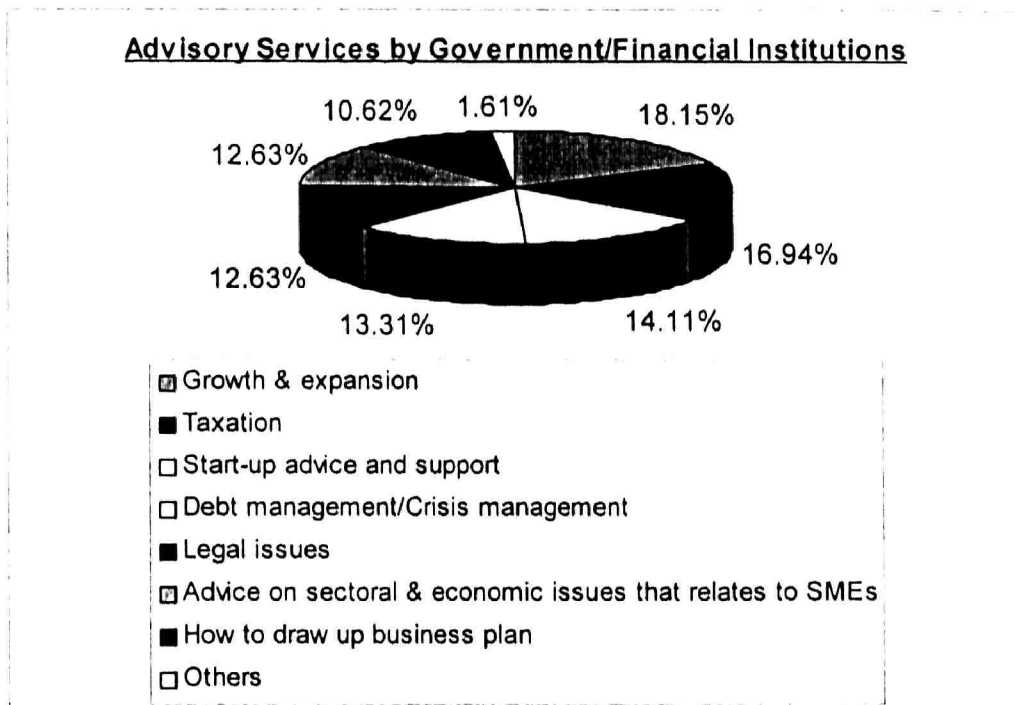


The result in Table 21 shows that more than a quarter of the respondents choose marketing as the area of advisory services / training they require for themselves and employees.

Business administration and management, accounting and finance, information technology are also the main areas of advisory services.

Table 22: Advisory Services by Government/Financial Institutions

Advisory Services by Government/Financial Institutions	
Growth & expansion	18.15%
Taxation	16.94%
Start-up advice and support	14.11%
Debt management/Crisis management	13.31%
Legal issues	12.63%
Advice on sectoral & economic issues that relates to SMEs	12.63%
How to draw up business plan	10.62%
Others	1.61%



As shown in Table 22, to develop the SMEs, the focus of advisory services provided by the Government / financial institutions should be on the growth and expansion (18.15%).

Other areas like taxation (16.94%), start-up advice and support (14.11%), debt management / crisis management (13.31%), legal issues (12.63%), advice on

sectoral & economic issues that relates to SMEs (12.63%), how to draw up business plan (10.62%) are also not less important.

As many respondents tick more than one choice in the survey forms, it shows that the SMEs still facing difficulties in many areas.

For the respondents who choose “Others” , their suggestions include:

- Assist SMI in obtaining financing for seasonal orders they received
- Product statistics and market segmentation information
- Market outsourcing
- Cost management

Table 23: Fee for Advisory Services

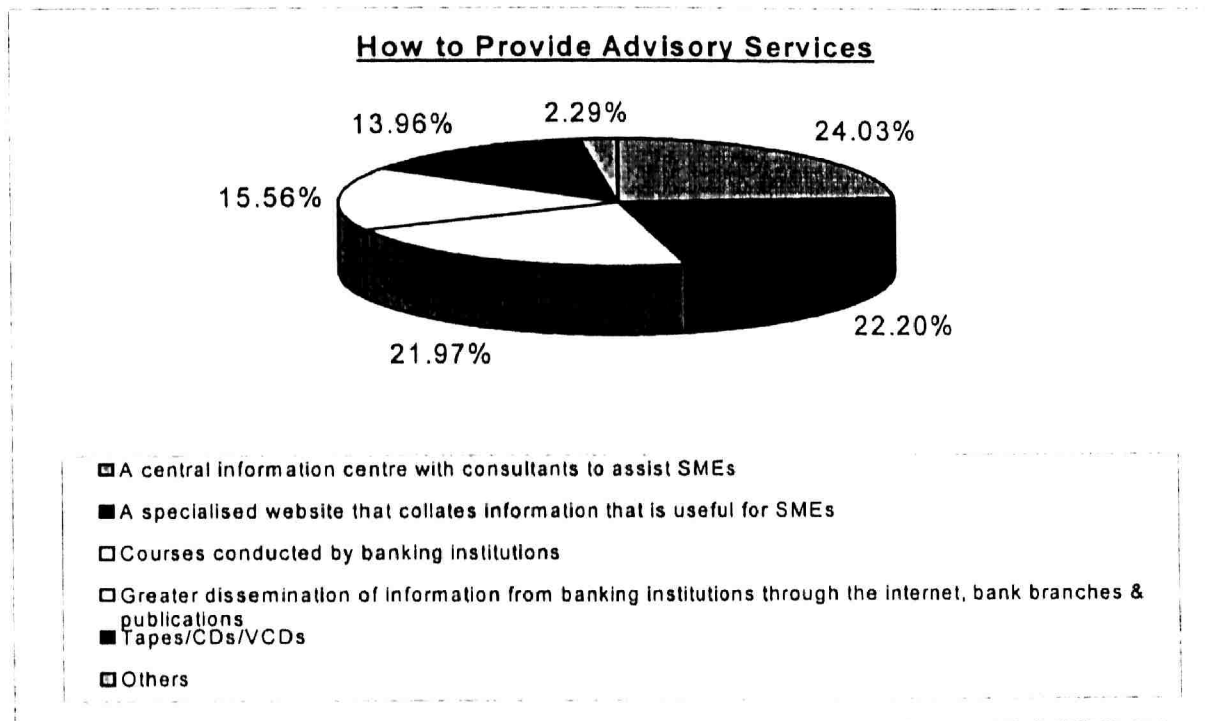
How Much To Pay for Advisory Services (RM)	
1 to 1,000	40.06%
>1,000 to 5,000	19.87%
>5,000 to 10,000	9.15%
>10,000 to 50,000	2.21%
>50,000 to 100,000	0.00%
>100,000 to 500,000	0.00%
>500,000	0.95%
Not stated	27.76%

As shown in Table 23, 40.06% of them are willing to pay only less than RM1,000 for the advisory services that they have ticked in the earlier question.

Many of them (27.76%) chose not to answer. SMEs are very practical in paying fees for the services they received, if the services are not satisfactory and not necessary for their business, they would not willing to pay a single cent more.

Table 24: Ways of Providing Advisory Services

How to Provide Advisory Services	
A central information centre with consultants to assist SMEs	24.03%
A specialised website that collates information that is useful for SMEs	22.20%
Courses conducted by banking institutions	21.97%
Greater dissemination of information from banking institutions through the internet, bank branches & publications	15.56%
Tapes/CDs/VCDs	13.96%
Others	2.29%



As shown in Table 24, in terms of ways of providing advisory services, a central information centre with consultants to assist SMEs (24.03%) is the first choice, follow by a specialised website that collates information that is useful for SMEs (22.20%) and courses conducted by banking institutions (21.97%)

As such, the proposed SME Information & Advisory Centre by SMIDEC could play a critical role as the preferred choice of SMEs if running well by SMIDEC.

As shown in Table 25, most of the respondents (21.46%) chose cheaper labour cost as the main factor to improve their competitiveness.

However, following the open up of emerging developing countries like China and Vietnam which have a cheaper labour cost compare to Malaysia, Malaysian SMEs will be unable to continue rely on the cheap labour as the competitive factor to attract buyers or investors.

The respondents also realise that the availability of skilled labour (14.65%) and marketing channels to penetrate international markets (14.14%) are increasingly critical in the globalised economy.

Without the international skills and capabilities, and continuous product innovation, the SMEs are unlikely to go beyond the domestic market and to survive and win in the globalised economy.

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Part 4 Financial Information (for financial year ending 2000):**Table 26: Total Assets**

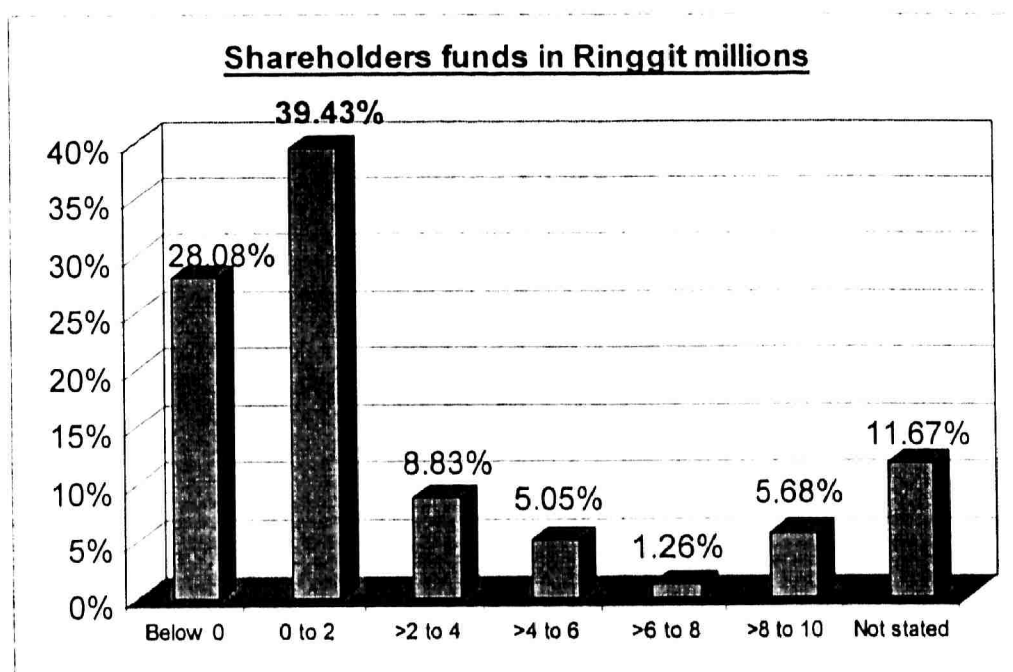
Total Assets in RM million	
0 to 5	65.93%
>5 to 15	13.88%
>15 to 20	4.73%
>20 to 25	2.21%
>25 to 30	1.26%
>30 to 40	0.95%
>40 to 50	0.32%
>50	1.58%
Not stated	9.15%

As shown in Table 26, about 66% or two third of the respondents have the total assets of not exceeding RM5 million. It is the typical asset size of Malaysian SMEs.

Table 27: Shareholders Funds

Shareholders Funds in Ringgit millions	
Below 0	28.08%
0 to 2	39.43%
>2 to 4	8.83%
>4 to 6	5.05%
>6 to 8	1.26%
>8 to 10	5.68%
Not stated	11.67%

As shown in Table 27, 67.51% (28.08% plus 39.43%) of the respondents have the total shareholders funds of not exceeding RM2 million.



In the 2003 Budget tabled by the government, it was proposed that the corporate tax rate for SMEs with paid-up capital of RM2.5 million and below be reduced from 28% to 20% on chargeable income up to RM100,000.

As such, most of the SMEs will be benefited from the reduction of corporate tax in year 2003 after the budget being approved by the parliament.

Table 28: Total Liabilities

Total Liabilities In RM million	
0 to 5	74.45%
>5 to 15	9.78%
>15 to 20	1.89%
>20 to 25	0.00%
>25 to 30	0.63%
>30 to 40	0.63%
>40 to 50	0.63%
>50	1.26%
Not stated	10.73%

As shown in Table 28, more than 74% of the respondents have the total liabilities of not exceeding RM5 million. This is in tandem with their relatively small total assets.

Table 29: Total Borrowings

Total Borrowings In RM million	
0 to 5	76.03%
>5 to 15	7.57%
>15 to 20	1.26%
>20 to 25	0.63%
>25 to 30	0.00%
>30 to 40	0.63%
>40 to 50	0.32%
>50	0.63%
Not stated	12.93%

As shown in Table 29, more than 76% of the respondents have the total borrowings of not exceeding RM5 million. Compare to the figure shows in the Table 27 that 67.51% of the respondents have total shareholders funds of not exceeding RM2 million; the gearing level of SMEs is healthy.

Table 30 Gross Sales

Gross Sales In RM million	
0 to 2	0.00%
>2 to 4	10.41%
>4 to 6	6.94%
>6 to 8	5.36%
>8 to 10	4.42%
>10 to 15	5.68%
>15 to 20	1.89%
>20	5.68%
Not stated	59.62%

As shown in Table 30, most of the answered survey forms indicated their gross sales is in the range of RM2-4 million (10.41%), however, about 60% of the respondents did not answer the question. This could be due to their reluctance in disclosing their business performance and worry on income tax reporting.

If we exclude the unanswered respondents, 25.78% of the respondents would have the gross sales of RM2-4 million.

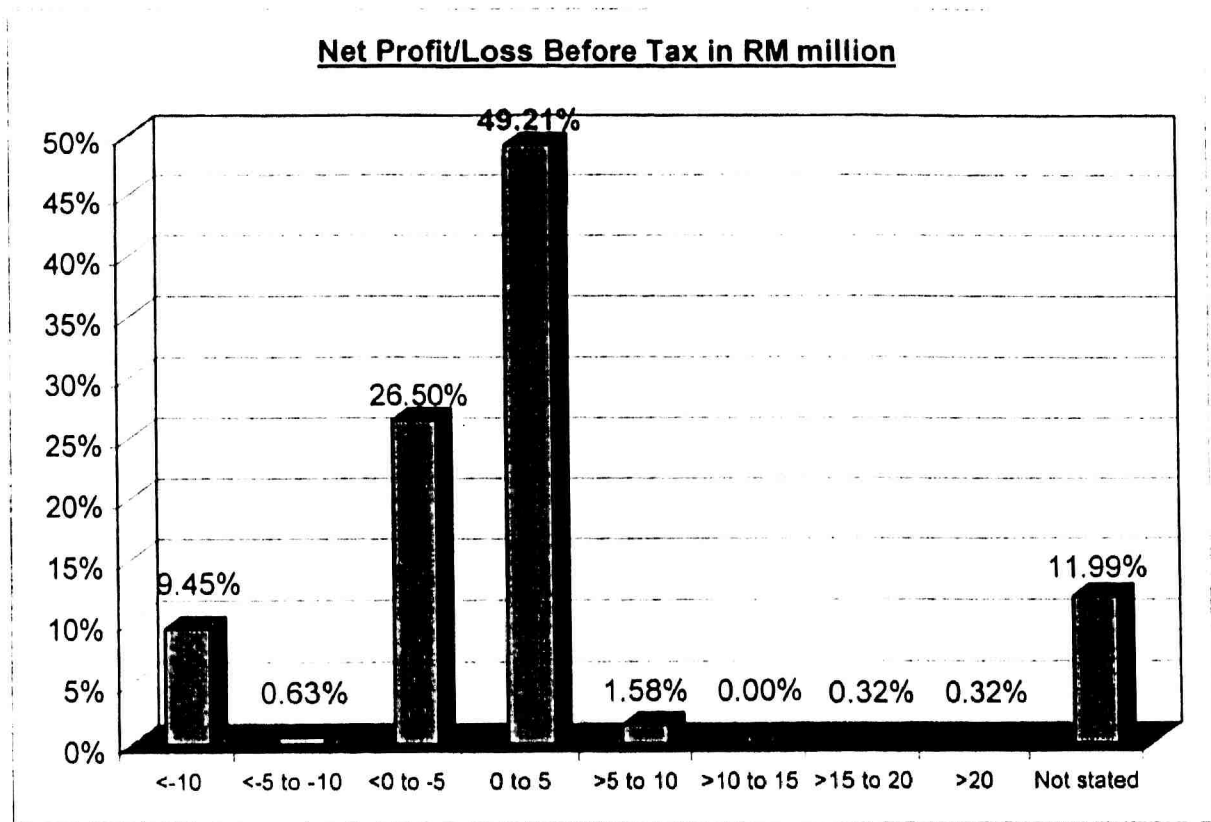
SMEs are defined by SMIDEC and MITI as industries and entrepreneurs/enterprises with an **annual sales turnover** of not exceeding RM25 million and employ less than 150 **full time employees**.

Only 5.68% of the respondents have an annual sales turnover of exceeding RM20 million. A portion of them may exceed the limit of SME definition set by SMIDEC and MITI.

However, this study is in the context of OCBC Bank Malaysia 's SME portfolio which is defined according to loans amount and listing status.

Table 31: Net Profit/Loss Before Tax

Net Profit/Loss Before Tax in RM million	
<-10	9.45%
<-5 to -10	0.63%
<0 to -5	26.50%
0 to 5	49.21%
>5 to 10	1.58%
>10 to 15	0.00%
>15 to 20	0.32%
>20	0.32%
Not stated	11.99%



As shown in the Table 26 and 27, about 66% of the respondents have the *total assets* of not exceeding RM5 million and 67.51% of the respondents have the *total shareholders funds* of not exceeding RM2 million.

Notwithstanding, 49.21% of the respondents have the **net profit / loss before tax** of not exceeding RM5 million. Again, a significant portion (11.99%) of the respondents did not answer this question and this could be due to their reluctance in disclosing their business performance which may subsequently affect their income tax reporting.

Surprisingly, 26.50% of them reporting loss of not exceeding RM5 million and 9.45% of them suffered loss of more than RM10 million.

Table 32: Full Time Employees

Full Time Employees	
1 to 10	0.00%
>10 to 20	16.72%
>20 to 30	6.31%
>30 to 50	8.52%
>50 to 70	1.26%
>70 to 100	5.68%
>100 to 120	3.79%
>120 to 150	2.21%
>150	1.58%
Not stated	53.94%

As shown in Table 32, most of the answered survey forms indicated the number of full time employees is in the range of 10 to 20 workers (16.72%), however, 53.94% of the respondents did not answer the question. This could be due to their reluctance in disclosing their foreign workers.

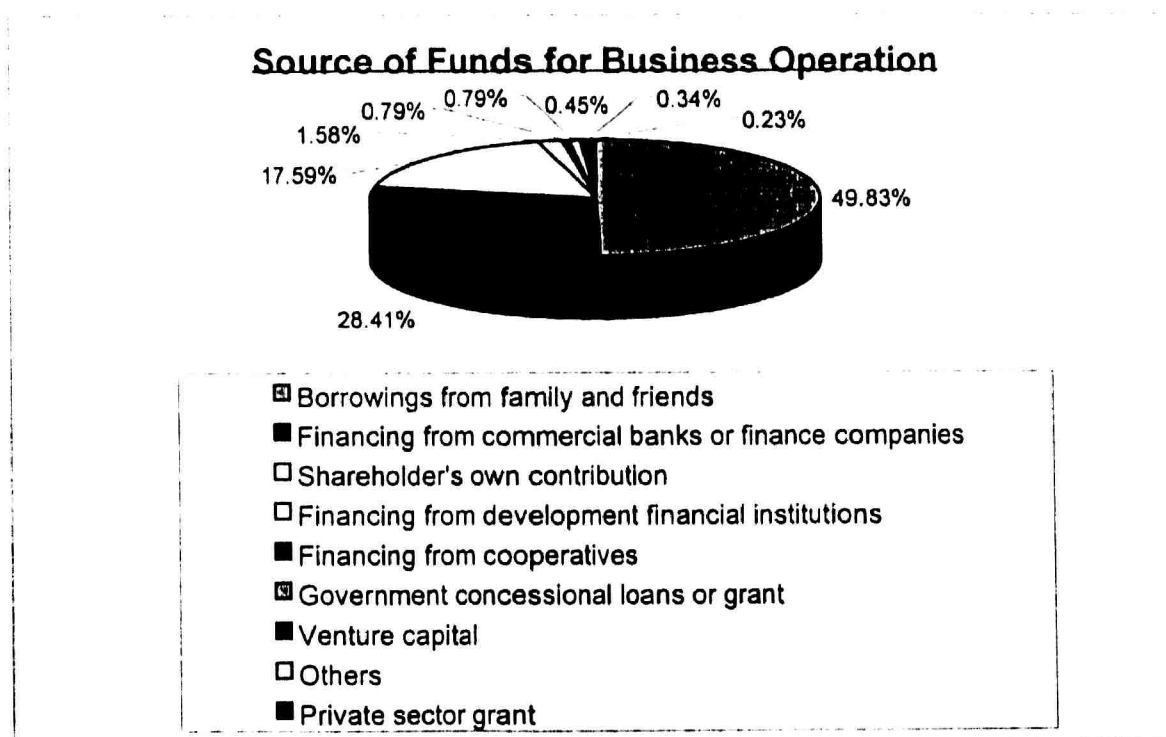
If we exclude the unanswered respondents, **36.30%** of the respondents would have the full time employees in the range of 10-20 workers and **68.49%** of them would have the full time employees of not exceeding 50 workers.

Only 1.58% of the respondents have more than 150 workers, exceeding the limit of SME definition set by SMIDEC and MITI. However, this study is in the context of OCBC Bank Malaysia ' s SME portfolio.

Part 5 Sources of Financing:

Table 33: Source of Funds for Business Operation

Source of Funds for Business Operation	
Borrowings from family and friends	49.83%
Financing from commercial banks or finance companies	28.41%
Shareholder's own contribution	17.59%
Financing from development financial institutions	1.58%
Financing from cooperatives	0.79%
Government concessional loans or grant	0.79%
Venture capital	0.45%
Others	0.34%
Private sector grant	0.23%



As shown in Table 33, almost half of them borrowed money from family and friends as the source of funds for business operations and 28.41% of them obtained financing from commercial banks or finance companies. Shareholders

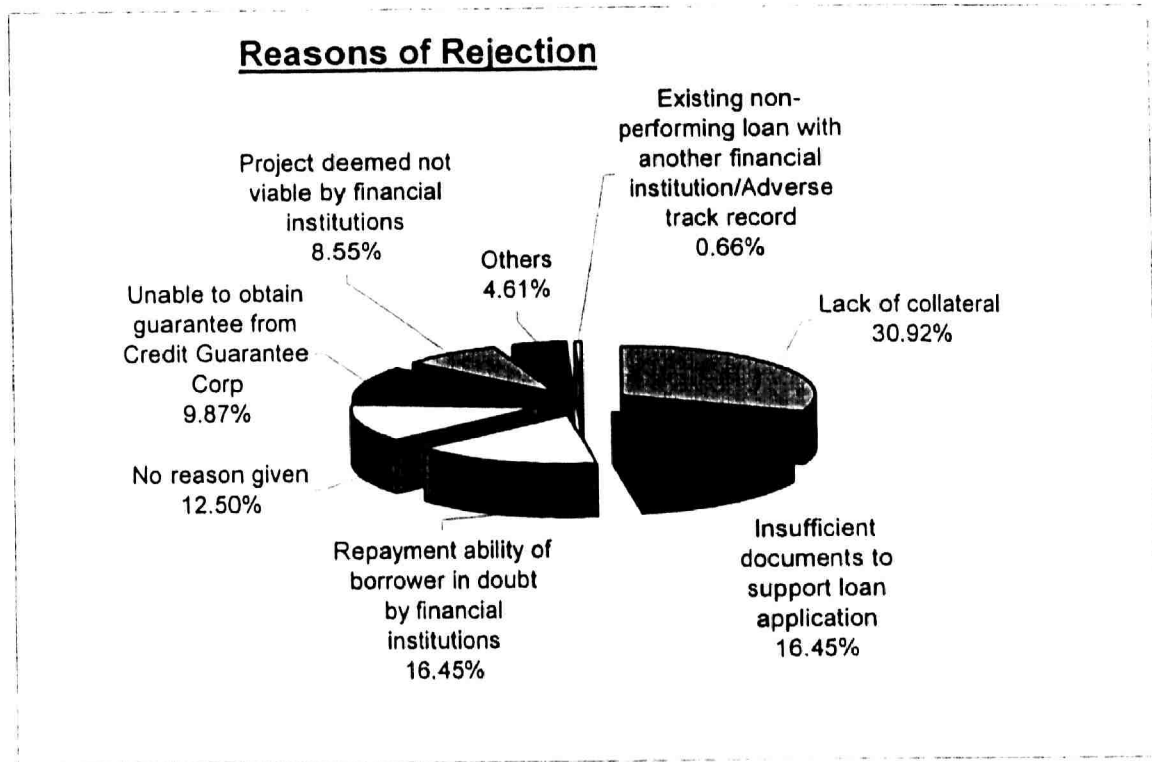
own contribution is also significant, stood at 17.59%. However, government concessional loans or grant is only 0.79%

Normally, the first source of financing a business is always the owner's personal savings. After emptying their own pockets, the next place entrepreneurs turn for capital is family and friends. Some business owners have success financing their companies by taking on limited partners as investors or by forming an alliance with a corporation, often a customer or a supplier.

On the other hand, the survey result shows that in terms of obtaining financing from financial institutions, 76.34% of them have not encountered any problems. Only 23.66% encounter some problems.

Table 34: Reasons of Rejection

Reasons of Rejection	
Lack of collateral	30.92%
Insufficient documents to support loan application	16.45%
Repayment ability of borrower in doubt by financial institutions	16.45%
No reason given	12.50%
Unable to obtain guarantee from Credit Guarantee Corp	9.87%
Project deemed not viable by financial institutions	8.55%
Others	4.61%
Existing non-performing loan with another financial institution/Adverse track record	0.66%



As shown in the table, the three main factors of loans rejection by financial institutions are: lack of collateral (30.92%); insufficient documents to support loan application (16.45%) and repayment ability of borrower in doubt by financial institutions (16.45%).

Basically, the banks will look into many possible aspects among which are:

- Nature of business and purpose of loans
- Relevant management experience and business reputation
- Financial records and source of repayment

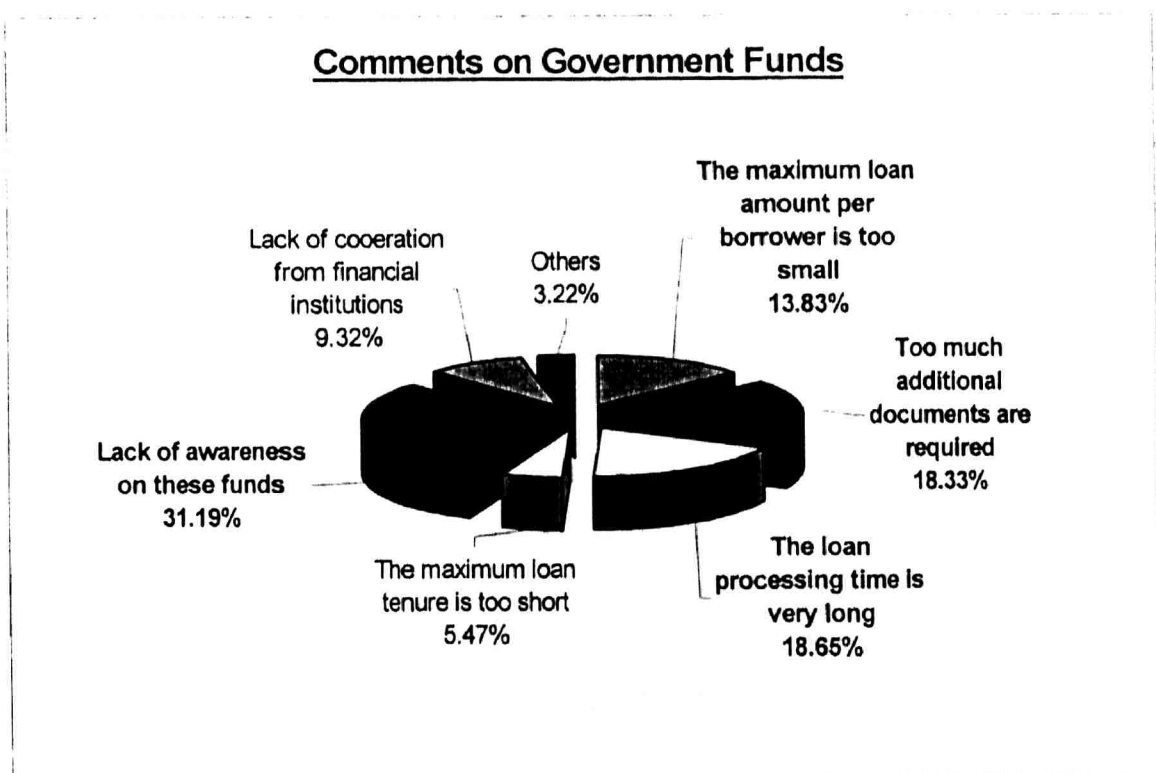
Bank is not charity business, they are also the custodians of the depositors' money; if the borrowers couldn't meet the credit criteria set by the banks, the banks have to reject the loan applications.

On the other hand, the survey result shows that in terms of government special funds, only 4.73% of the respondents obtain financing from the special funds.

This could be due to the Bank ' s focus on selling their own loans packages and their high quality customers who do not need the Government special funds.

Table 35: Comments on Government Special Funds

Comments on Government Special Funds	
The maximum loan amount per borrower is too small	13.83%
Too much additional documents are required	18.33%
The loan processing time is very long	18.65%
The maximum loan tenure is too short	5.47%
Lack of awareness on these funds	31.19%
Lack of cooperation from financial institutions	9.32%
Others	3.22%

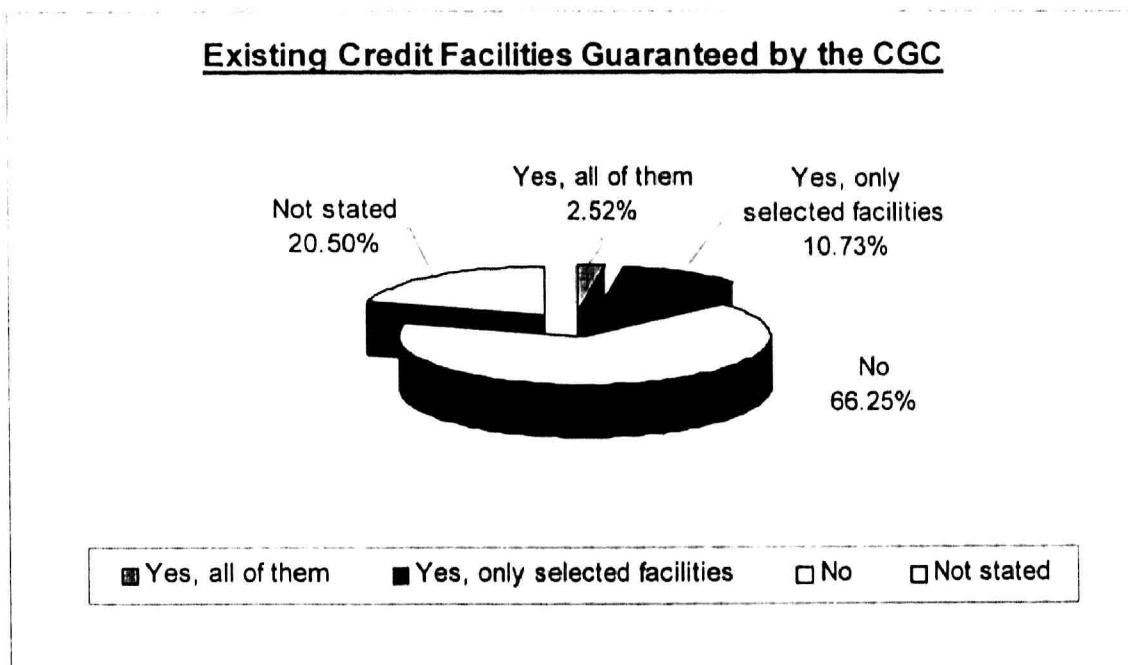


As shown in Table 35, the main comment on government special funds is lack of awareness on these funds (31.19%); it shows that the government should put more efforts in disseminating the information to SMEs.

Other comments are: the maximum loan amount per borrower is too small (13.83%); too much additional documents are required (18.33%), the long loan processing time (18.65%).

Table 36: Existing Credit Facilities Guaranteed by the CGC

Existing Credit Facilities Guaranteed by the CGC	
Yes, all of them	2.52%
Yes, only selected facilities	10.73%
No	66.25%
Not stated	20.50%



As shown in Table 36, most of the respondents (66.25%) said their existing credit facilities are not guaranteed by the CGC.

This figure could be bias in reflecting the general picture of SMEs as the number of customers under CGC schemes is very much affected by the Bank ' s policy or focus.

For this study, the respondents are the SME customers of OCBC Bank Malaysia, which is quite selective in granting loans. As such, those quality customers who obtained the loans from the Bank most probably do not require guarantee from CGC.

Besides, some of the SMEs reluctant to apply CGC guarantee due to the longer processing time and guarantee fee.

Table 37: Guarantee Fee

Guarantee Fee Reasonable?	
Yes	17.35%
No	82.65%

As shown in Table 37, only 17.35% of the respondents think that the guarantee fee is reasonable. Usually CGC will charge 1-3% on top of the interest rate charged by the bank, as such, it is deemed as the extra business costs and tries to minimise it.

countries, which can produce the same product at lower costs or focus on technology and capital-intensive industry. For instance, shoe manufacturers buy the ready-made products from China instead of manufacture the products on their own. As such, their buyers became end-users.

As such, their financing needs may vary and new core business capabilities would be required. The demand on new training courses to enhance their production process has also increased significantly and shifted to some new areas like Total Quality Management (TQM) and Enterprise Resource Planning.

In order to achieve international standard, that is important to promote R&D activities. Again, the statistic is discouraging, only 16.72% of them perform R&D.

Currently there are almost 70% of them market their product / services on their own, it is not sure whether they have the wide enough international networking to compete in a globalised business environment.

To compete in the global market, the SMEs require the global business capabilities, which may be, vary from traditional capabilities.

The SMEs often lacked confidence in their abilities as managers. Even when finance was available and when market opportunities existed, they were reluctant to expand. They had difficulty in delegating, were uncertain about their ability to motivate staff, lacked knowledge of finance, marketing and human resource management. As they were reluctant to give up personal control, they saw themselves as overworked. As such, management skills are important for them to build their managerial competences.

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- The Role of the Government Is Not Significant

It is found that the role of government is not significant among the respondents. Only 7.21% of them willing to market their products / services under government trade fair / roadshows and only about 10% of them deemed government 's support in the business is critical.

However, the survey results indicated government should provide them the marketing assistance by setting up a central database for marketing purposes and providing tax incentive for business operation.

The results also show that 62.46% of them do not require advisory services for their business; if they require, the most popular area would be marketing and they would choose private companies (41.63%) rather than government agencies (10.41%) as the advisor.

In order to elevate SME productivity through knowledge provision, SMIDEC has propose the set up of SME Information & Advisory Centre in the SMIDP, which exploits the power of ICT and Internet networking, delivery of support services and web-based content to SMEs while building up a comprehensive database on SMEs. The Centre will be used for virtual business matching, as well as for collective purchasing of services and content for SMEs. More importantly, it also transmits up-to-date and real-time information to SMEs. The Centre reinforces the technical advisory programme, which will be a key feature in the delivery of SME assistance.

In fact, banking institutions have also started to provide advisory services through seminars and workshops. OCBC Bank Malaysia, together with National SMI Association, have conducted few workshops on cash flow management for SMEs nationwide in year 2001.

- The Level of Computerisation, Automation & Staff Training Are Low

The level of computerisation, automation and staff training are also very low. With this low level of modern technology, their efficiency and capabilities to compete in a high competition environment is in doubt.

In the globalised business environment, the SMEs need to embrace the latest technologies to penetrate non-traditional markets. The SMEs need to see the transformation to adopt latest technologies as inevitable. Traditional sources of competitive are now less effective, proprietary products are now rapidly imitated given computer-aided design, computer-aided manufacturing and the rapid transmission of information.

Computerisation and automation can contribute to lower cost of business including more accurate demand forecasting and planning. It can streamline production scheduling; achieve higher quality and fewer errors. By adopting latest technologies and higher level of automation will enable the SMEs to compete on a level playing field with their foreign counterparts.

However, many SMEs were not convinced about the promise of technology in transforming their businesses into efficient and high productivity businesses.

Although the government has provided many assistance schemes, they were rarely used due to the cumbersome procedures and low policy penetration.

Most of the schemes, for instance, Fund For SMI 2 (FSMI 2) are distributed through most of the commercial banks, as such; theoretically, SMEs should have no problem in accessing the funds.

As most of the target audience are Chinese, the use of English and Bahasa Malaysia in promoting the special funds could be a communication barrier.

The respondents also commented on the cap of loan amount per borrower, additional documents are required and the loan processing time. In fact, the Government has extended the maximum loan amount of some special funds, for instance, Fund For SMI 2 (FSMI2) has extended the maximum loan amount from RM1 million to RM3 million.

The real weakness of FSMI 2 should be the repayment tenure. For FMSI2, after increasing the maximum loan amount to RM3 million, the repayment period remains unchanged at maximum 3 years. It is nearly impossible for a typical SME who needs the government assisted scheme to repay the RM3 million in 3 years time. Only very strong SME who actually doesn't require government assisted scheme could pay back the RM3 million in 3 years.

In terms of required documents, SMEs need to learn to build a more organised business. Most of the documents required are inevitable, however, there could be an excuse for a bank to reject an unfavourable loan application.

There was a suggestion to streamline or standardized the approval criteria on SME loans application raised by National SMI Association in June 2002 and supported by the Government. However, for financial institutions to adopt standardized approval criteria for the business community of SMEs are nearly impossible. That is because different financial institutions would have their different qualitative appraisal inputs, some could be more stringent and some of them like foreign banks, need to follow their parent banks' credit risk policies.

Summary

In summary, from the survey results, it is found that the structure of SME sector, critical problems they are facing, their mindset on competition, capital structure, financing needs, the inefficiency of the government special funds are all basically remain unchanged.

However, in facing the more liberalised and globalised business environment and new challenges, the SMEs need to build their international skill, capabilities and capacity to compete and survive in the fast pace of liberalisation.