

## **CHAPTER FIVE: CONCLUSION**

### **5.1 SUMMARY**

SMEs are the backbone of nation's industrial development and competitiveness. They contribute significantly in terms of employment generation & income distribution; as supporting industries, SMEs provide parts, components and services to heavy industries & others.

In the Second Industrial Master Plan (IMP2), 1996-2005, and The Eighth Malaysia Plan (8MP), 2001-2005, the government continues showing strong support in developing SME sector.

In facing the increasingly globalised economy, to build the international skills and capacity of the SMEs, the government and commercial banks, trade and industry associations should formulate new programmes to promote SMEs and overcome the new challenges. It cannot be effective initiated or implemented without the strong commitment from the government and other relevant institutions and subsequently translate into a system of policies.

### **5.2 IMPLICATION**

There are many areas that SMEs can improve to enhance its competitiveness. The results of this study indicate that the internationalisation level of the SMEs is still relatively low. Few areas, namely, buyers, suppliers, market of products and services showed that SMEs penetration rate to foreign market is still low.

Other areas like R & D, computerisation, automation, training, advisory services, which are significantly associated with their capabilities building have been found as the unfavourable areas for SMEs.

As the survey has pointed out, the response from SMEs regarding the use of government advisory services and assistance schemes is poor, many SMEs are hardly aware where to look for assistance. This fact indicates the poor SME support system and seems to suggest the need for the government agencies to go out to the SMEs rather than wait for them to come in.

It is unlikely that the government will achieve her intended goals of improving the international capabilities of SMEs in the country if no more down to earth and simpler SME support approaches are provided.

All these problems are probably interrelated. For instance, poor computerisation gives rise to problems in meeting foreign market needs; inadequate R & D limits the capabilities of SMEs to improve the product quality.

In view of this, to accelerate the capacity and capabilities building in facing the new challenges in a globalised economy, a comprehensive integrated programme comprising selected combination of financial, marketing, industrial advisory services and other developmental aids is urgently needed.

These results have important implication on the formulation of SME policy by the government, commercial banks, trade and industry associations to assist SMEs which usually do not have sufficient resources, to go beyond domestic market

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and take on the challenges and opportunities arising from trade liberalisation and globalisation.

### 5.3 RECOMMENDATIONS ON SME POLICY IN A GLOBALISING WORLD

- The Government

The government should ensure there are SME institutions deal exclusively with the problems and challenges facing by the small businesses. This is to ensure that the capacity and capabilities building of the SMEs will not be made secondary to the interests of other sectors, especially during the liberalised and globalised transition period.

As shown in the survey result in Table 35, the top comment on the government funds is “lack of awareness on these funds” (31.19%), the government also play a more effective role in disseminating information of funds as well as business opportunities on existing market and potential foreign markets they might exploit.

To improve the penetration rate, the government agencies should also using Chinese language in promoting the special funds, as most of the SMEs are Chinese and many of them couldn't communicate effectively in English.

To assist SMEs to enter the export market, the government could provide them the information and necessary skills in handling the more complex international trade transactions.

The government can put the useful information on business opportunities over the Internet or channel through commercial banks, trade and industry associations. The business information obtained through the official overseas delegates should also be disseminated to small businessmen as most of them do not know where to look for market information and do not have the status in the commercial hierarchy or international business network.

Government could help the private sector develop consistent measurement frameworks and reporting for SME-based investments, such as publishing annual statistics on the profitability and performance of SMEs. It could also help in the benchmarking of the risk/reward profile of growth SMEs.

- Support for SMEs Through International / Regional Strategies

In an increasingly globalised / regionalised business environment, the government needs to develop international / regional strategies to support SMEs.

As a business support programme, in 1998 the European Commission adopted a new multi-country programme in support of private sector development in the candidate countries in Central and Eastern Europe.

The Commission also forms cooperation with Non-EU countries and implementing specific schemes to support SME activities beyond EU borders.

The Market Access Database, available to all economic operators via the Internet, has been fully operational since the end of 1996 with distinct positive benefits, in particular for SMEs. Subsequently, the EU and the US are also developing an SME user-friendly information and cooperation database.

In addition, in order to reduce regulatory obstacles faced by traders and exporters, Mutual Recognition Agreements (MRAs) have been signed between EU with Canada, United States, Australia, New Zealand and Switzerland, the positive business and trade benefits of the MRAs are particularly of value to SMEs which usually have to cope with the tremendous regulatory, test and certification burdens of multiple domestic jurisdictions.

With reference to the EU ' s experience in formulating regional policy, ASEAN or Malaysia government can gather and disseminate the information on the trade barriers affecting exports according to various sectors and countries; provide basic information of interest to SME exporters, such as the rates of customs duties and internal taxes in key export markets, import licensing requirements, special customs clearance formalities.

- Business Advisory

As shown in Table 21, the SMEs need various types of advisory services, from marketing to IT and audit. As such, there is a need for the government to identify qualified consultants from various specialise areas of industrial and commercial activity. They can also act as the intermediaries for the SMEs in accessing to various government schemes.

For example, Federal Association of German Management Consultants has compiled registers listing the specialisms offered by their members to make the industry more organised and easier to access.

- Role of SME Bodies

The SME bodies, either government agencies or non-government associations could play a greater role in pooling the resources and coordinate information dissemination to the SMEs.

Malaysian Textile Manufacturers Association (MTMA) and Malaysian Plastics Manufacturers Association (MPMA) have successfully capitalised the fund from Human Resource Development Fund (HRDF) in developing industry software and training software to improve their members' competitiveness. They are also assisting government agencies in identifying SMEs for government grants by establishing a set of systematic and transparent criteria.

In Malaysia, SMIDEC needs to tighten their working relationship with all SME associations and relevant parties in assisting Malaysia SMEs. As the co-ordinator for SME development, SMIDEC should call annual meeting with various trade and industry associations and commercial banks, to discuss on current SME main challenges, government plans and assistance schemes in order to effectively communicate and disseminate the information on government assisted schemes and plans to all levels of SMEs.

Some SMEs have used **strategic alliances** as a viable entry strategy option to successfully penetrate markets held by major incumbent suppliers.

In a recent research, strategic alliances are shown to be an effective entry-cum-deterrence strategy for SMEs to successfully penetrate markets that are well established and dominated by major corporations. In addition, SMEs can use strategic alliances as an entry strategy without restricting themselves to target only those markets ignored by bigger firms (Khai Sheang Lee, Guan Hua Lim, Jiuan Tan, 2000).

In EU, **public-private sector partnerships** are a way of strengthening delivery mechanisms for government assistance to SMEs (EU, 2000).

"One-stop-shop" models in several Member States (e.g. Netherlands and UK) of EU emphasise the involvement of private sector organisations - typically professional firms and local employers - in helping to define business support priorities and to deliver assistance. For example, in Italy, transferring responsibility for the administration of financial assistance schemes from public agencies to commercial banks has greatly speeded up the process of delivering assistance to SMEs and led to a more targeted approach.

More generally, the use of private sector intermediaries tends to make schemes more accessible; the appraisal of SME applications tends to be carried out more quickly and to a higher standard.



In a nutshell, the government assisted schemes, private sector financing schemes, training, advisory support and technology innovation can be integrated into more holistic set of measures to help small firms develop their competitiveness and growth prospects.

#### 5.4 SUGGESTIONS FOR ADDITIONAL RESEARCH

Due to the time constraint, this study does not include further analysis to find out the correlations between the size of firms and profit; utilisation of government assisted scheme; problems faced by entrepreneurs; training programmes and advisory services, etc.

There could also some further analysis to find out the internationalisation level of various sectors as the level is varied among sectors; manufacturing could be highly internationalised but printing could be limited in domestic market.

As a response to the recognition of the increasing amount of world trade that SMEs account for and SMEs constitute a substantial part of many, more researches are needed to gain greater understanding and insight into the potential and actual contribution of small and medium-sized enterprises (SMEs) in the global economy and share the experience in assisting SMEs among ASEAN countries' governments in developing regional SME development strategies and assistance schemes.

**(THE END)**