

# Small and medium scale enterprises in malaysia



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This section defines the term small and medium-scale enterprise (SME) and discusses the significance of these firms in environmental degradation. The term ' Small and Medium-Scale Enterprise' or SME in short is broadly used to include any enterprise that involves relatively few individuals or employees engaged in activities that create waste byproducts. Any references in this Section and the followings to small firms or small enterprises refer to SME as defined here. SMEs in newly industrialized countries are characterized by simple, labor-intensive manufacturing methods. Equipments are often secondhand, and the manufacturing process is commonly generalized as inefficient in comparison to larger industries (Benavides, 1992).

In Malaysia, SME is defined as a company with annual sales turnover of not exceeding RM 25 million and full-time employees of not more than 150 workers. The clear differentiation between small and medium in administrative aspect is:

**Small Company:** a company with full-time employees of not more than 50 and with an annual sales turnover of not more than RM 10 million; and

**Medium Company:** a company with full-time employees of 51 to 150 and with an annual sales turnover of more than RM 10 million to RM 25 million.

Certainly it is understood that SMEs are benchmarked against annual sales turnover, and number of employees. Most SMEs are classified under the manufacturing sector though in Malaysia. The establishment of standard definitions for SMEs will facilitate better identification of SMEs across sectors, thus enabling more effective formulation of SME policies and implementation of SME development programs, and provision of technical and financial

assistance. It will also allow better monitoring of SME performance and its contribution to the economy.

In 2005, the National SME Development Council (NSDC) approved the use of common definitions for SMEs in the manufacturing, manufacturing-related services, primary agriculture and services sectors. These definitions are applied by all Government Ministries and Agencies involved in SME development, as well as by the financial institutions. The use of common definitions for SMEs will strengthen government efforts to create effective policies and support programmes for specific target and make it easier to provide technical and financial assistance to SMEs; and allow for the identification of SMEs in the various categories and levels.

Based on previous research, The total numbers of SMEs in Malaysia counts 111, 855 in year 1999, and 88 percent are small companies while the remaining 12 percent qualify as medium companies. Based on current analysis with reference to SMECorp Malaysia, it is observed that there is a huge growth in the SME sector which can be observed through the profiles of SME development in Malaysia.

In Malaysia, SMEs are mostly concentrated in food and beverages, fabricated metal products, machinery and equipment, wood and wood products, textile, apparel, and leather sectors. Although SMIs embodied the majority of manufacturing establishments in Malaysia, its contribution to total value-added and employment was about 28 percent and 33 percent. On a per company basis, they contribute less to total value-added and employment than larger companies. This is due primarily to their size, which limits their

ability to adopt advanced technologies, employ more skilled workers, increase their production capacity, expand their market, or enjoy economies of scale. SMEs primarily manufacture finished products for the larger companies rather than intermediate products, reflecting the lack of strong industrial linkages within the manufacturing sector.

## **Functions of SMI in Malaysia**

The major role of SMI in Malaysia is to boost up the nation's economy growth thus creating distinctive opportunities to young entrepreneur to succeed in business. This statement is deliberately supported by the Prime Minister Datuk Najib Tun Razak who stated that the move by SMECorp which would be responsible in putting forward ideas and views to improve these programs, was in line with the aim to boost the contributions of SMI to the country's economical growth. Besides that, SME can reduce the number of poverty and poor people in Malaysia and also throughout the world as it promotes economic growth. Based on research, it is found that SMEs are the major source of income and serves as a breeding ground for entrepreneurs and a provided of employment (UNIDO, WSIS Report, February 2003).

Furthermore, SME is the centre on advisory and information. Its objective is to provide business advisory through the 'SME Business Advisory Center' which helps to give advice to the entrepreneur to set up their company and financial status. The SME organization helps to distribute information on government funds and incentives on SME and indirectly plays the role as channel for feedback on SME issues. In the business world, SME helps to nurture and develop competitive environment through capacity building programs and financial abilities. It aims on creating competitive SME

suppliers of materials or services to larger industries. This is complemented by the Global Supplier Program which aims at enhancing capabilities of SMEs to become world-class suppliers of products and services. It helps to break the barrier between SMEs and larger industries and also to provide a strong infrastructure support for SMEs.

## **Small and Medium-Scale Enterprises Development in Malaysia**

The important role of SME sector as a contributing factor to the nation's economic growth is well recognized. While SMEs account 99.2% of total business establishments, the SME sector contributes 32% of real gross domestic products (GDP) and 19% of total exports in Malaysia. Therefore, there is huge opportunity to increase SMEs contribution to the domestic economy. In this regard, the government has set a number of performance targets for the SME sector. These targets include increasing the contribution of SMEs to a GDP of 37%, its share of total exports to 22%, and for the SME sector to employ over 6.2 million employees by the end of 2010. The government's programs and initiatives for SME development was intensified with more focused and targeted programs in the year 2007. A total of 189 programs were organized and implemented in the same year with a financial support worth of RM 3.7 billion for SME development in Malaysia.

According to the Small and Medium Industries Development Corporation (SMIDEC), SMEs account approximately 99% of the entire establishment in various different fields which includes manufacturing, services, and agricultural sector. SMEs have also provided 65% of total employment and it

is expected that the value added production of SMEs to hit RM 120 billion of 50% of total production in the manufacturing sector by the year 2020.

SME in Malaysia has contributed to the GDP of 32% in the year 2006 in comparison to statistics of SME in other regions which includes 40% in the United States of America, 57% in Germany, 55% in Japan, 60% in China, 57% in Indonesia and 38.9% in Thailand in the same year. Though Malaysia is still lagging behind in SME performance in comparison to those countries, the development is progressive as the SMEs in Malaysia are proactive in seeking to establish smart partnership and strategic alliances. Due to high cost of research and development and lagging of innovation and commercialization, only a collaborative effort between Malaysia SMEs and Malaysia public institutions may yield fruitful outcomes.

With this it is clear that SMEs are an important component of Malaysian economy and are considered to be the backbone of industrial development in the country.. Strong and competitive environment will enhance resilience of the domestic economy. Given the present amplification and focused efforts on the development of SME in Malaysia, the role of SME will continue to grow and gain more prominence in the future. To be a developed nation, it is important for industries, and the country, as a whole, to achieve global competitiveness through transformation and innovation of the manufacturing and services sector.

### **Constraints on Malaysia SMEs**

Malaysia SMEs face many barriers and challenges apart from playing its role as vital contributors to exports, employment and the economic growth of the

diversified nation. These avert the SMEs from breeding further thus it locked in a critical position to face new challenges that are arising from globalization, liberalization and extensive organizational, institutional and technological change. Moreover, it is recognized that these challenges facing SMEs in Malaysia degrade its performance. Among many other highlighted challenges that is faced by SMEs of Malaysia includes financial incapability, low productivity, lack of access to management and technology, lack of managerial capabilities, and heavy regulatory burdens. According to an APEC study (1994), the SMEs in Malaysia are facing many challenges, which can be summarized as follows:

Lack of broad framework in terms of policies towards SMEs improvement.

Agencies use conflicting definitions to categorize SMEs at the operational intensity.

Existence of many channels for SMEs without effective coordination

Insufficient data and information on the expansion of Malaysian SMEs.

Incapacity to be in the mainstream of industrial development.

Complexity in accessing loans and other forms of financial aid.

Many SMEs in Malaysia still occupy lands or sites that are not approved to be used for industrial purposes.

Underutilization of technical assistance, advisory services and other incentives made available by the government and its agencies.

Lack of skilled and talented workers, which have an effect on the eminence of production as well as efficiency and productivity.

Non-leveraging of various incentives that are provided by the promotion of the Investment Act 1986 and the Income Tax Act 1967.

Based on the study report documented by the SMIDP of year 2001 to 2005, SMEs in Malaysia are facing many new challenges, domestically as well as globally. These challenges include:

Deepened global competition

Competition from other producers (for example, China and India)

Limited capability to meet the challenges of market liberalization and globalization

Limited capacity for technology management and knowledge acquisition

Low efficiency and quality output

Deficiency of skills for the new business environment

Limited access to finance and capital, and the immaturity of venture funds

High cost of infrastructure

Lack of general knowledge and information

More recently, Ting (2004) highlighted many challenges that are still facing Malaysian SMEs. He identified five key challenges: lack of access to finance, human resource constraints, limited or inability to adopt technology, lack of <https://assignbuster.com/small-and-medium-scale-enterprises-in-malaysia/>



information on potential markets and customers and global competition. He also argued that there is a high risk that SMEs will be wiped out if they do not increase their competitiveness in the new, rapidly changing world of globalisation. More recently, UPS (2005) conducted a survey to determine the competitiveness issues faced by SMEs in selected 12 Asian countries. This study was based on more than 1, 200 decision makers from Asian SMEs during 2004 in several countries (for example, Australia, China, India, Malaysia, among other Asian countries). The respondents were from a different range of industries, for example, automotives, garments and textiles, gifts and housewares, among others. One of the interesting findings of this study was that 73 per cent of the respondents considered Chinese SMEs to be more competitive than the SMEs in their own countries. The survey reported that the Philippines and Indonesian SMEs were ranked as the least competitive, while Malaysian SMEs came in tenth, and were considered competitive by 27 per cent of respondents. The survey also studied some of the obstacles to SMEs competitiveness across Asia. The results showed that innovation and access to market intelligence and other business information, and access to funding and capital, are the biggest challenges for SMEs across Asia. However, in the present study, a pilot survey of 100 Malaysian SMEs to determine the competitiveness issues they faced showed that labour cost, innovation and access to funding and working capital are the main challenges to Malaysian SMEs.

## **Significance of Small and Medium-Scale Enterprises in Environmental Degradation**

Industrial wastes usually contain traces or larger quantities of the raw materials, intermediates, final products, co products, byproducts, and residuals of ancillary or processing chemicals used in a particular industrial process. Substances present in industrial wastes in any country include detergents, solvents, cyanides, heavy metals, organic acids, nitrogenous substances, fats, salts, bleaching agents, dyes, pigments, phenol compounds, tanning agents, sulfides, and ammonia. The health hazards of these industrial wastes include exposure to high concentrations of toxic chemicals causing poisoning and burns, or exposure to low doses for long periods, which can induce chronic diseases, cancers, sterility, and reproductive problems. Significant buildups of heavy metals have been reported in almost all industrial urban areas of Southeast Asia, posing hazards to human health and aquatic organisms (Hamza, 1991).