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The Success Stories of Malaysian SMEs in Promoting and Penetrating Global Markets through Business Competitiveness Strategies

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Abstract

Over the past decade, the Government of Malaysia has become increasing aware of the significant contribution of small medium enterprises (SMEs) to the national economy. A number of Government programmes and incentives were offered to the SMEs in the past years but with limited impact. This lecture touches on the nature and contribution of the Malaysian SMEs in the first five years of the 21st century. An attempt was made to identify the success factors and weaknesses of SMEs from official reports of Government agencies, and findings of research studies on the subject. Recognising the challenges posed by globalisation and trade liberalisation on the Malaysian SMEs, the Government revamped its policies, programmes, incentives, and approaches which are currently implemented in the Ninth Malaysian Plan and the Third Industrial Master Plan. The objective is to enhance the SMEs' capacity and capabilities through continuous product development, knowledge and technology acquisition to empower them to compete with other global players offering high quality products and services at competitive prices.

Keywords: *Malaysian SMEs, challenges and strategies, SME programmes, entrepreneur's success factors, business linkages, case examples.*

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"*In my view, the advent of globalisation and trade liberalisation will bring with it both greater competition and a wealth of opportunities. To reap the benefits SMEs (must) strive to compete with other global players offering high quality products and services at competitive prices. Hence, it is my wish that SMEs fully utilise the programmes and incentives being offered to enhance their capacity and capabilities through continuous product development, knowledge and technology acquisition*" (Dato' Seri Abdullah Haji Ahmad Badawi, 2007).

Introduction

Malaysian SMEs can be defined according to size, turnover and activity. An enterprise is considered to be an SME based on the annual sales turnover or number of full-time employees, as indicated in Table 1, below.

Table 1 - Definition of SMEs in Malaysia

Category	Micro-enterprise	Small enterprise	Medium enterprise
1.Manufacturing, manufacturing-related services and agro-based industries	Sales turnover of less than RM250,000 or fewer than five fulltime employees.	Sales turnover between RM250,000 and RM10 million or between five and 50 full-time employees.	Sales turnover between RM10 million and RM25 million or between 51 and 150 fulltime employees.
2.Services, primary agriculture and information and communication technology (ICT)	Sales turnover of less than RM200,000 or fewer than five fulltime employees.	Sales turnover betweenRM200,000 and RM1 million or between five and 19 full-time employees.	Sales turnover between RM1 million and RM5 million or between 20 and 50 full-time employees.

(Source: SMIDEC 2004).

In terms of the total numbers of SMEs in the country, the 2000 census conducted by the Department of Statistics showed that there were 20,455 active establishments in the manufacturing sector out of the 44,185 manufacturing companies registered with the Companies Commission of Malaysia (CCM), as shown in Table 2. Out of these 18,271 (or 89.3 per cent) were SMEs. The textiles and apparel sector accounted for approximately 17 per cent of the total, making it the largest. This sector is followed in size by food and beverages (greater than 14 per cent), metals and metals products (14.3 per cent) and wood and wood products (13.6 per cent). The 2000 census also captured a total of 192,527 establishments in the service sectors, of which, 96.8 per cent were SMEs. Most of the companies in the services sector (88 per cent) were in the retail and wholesale, followed by education and health (4.4 per cent), professional services (2.9 per cent) and transport and communication (2 per cent).

Table 2 - Distribution of SMEs by Size

Type	Number of Establishments	Share (per cent)
Micro	7,171	39.3
Small	9,445	51.7
Medium	1,655	9.1
Total SMEs	**18,271**	**98,3**
Large	2,184	10.7
Total	**20,455**	**100,0**

(*Source: Malaysian Department of Statistics, Census 2000).*

More recently, the 2005 Census of Establishment and Enterprise found that the bulk of business establishments (99.2%) are SMEs, of which about 80% are micro enterprises. The 2005 Census results also show that SMEs are a major source of employment, providing jobs for over 5.6 million workers and accounting for 56% of total employment. However SME contribution to the economy is still disproportionately low - SMEs contributed only 32% of gross domestic product and 19% of the total export value.

Macro Performance of SMEs	**2003 (%)**	**2005 (%)**
SMEs' Contribution to GDP	31.9	32.0
SMEs' contribution to employment (excl. Govt.)	55.8	56.4
SMEs' share of total exports	18.9	19.0

*(*2005 data estimated based on the Census 2005's profiles and other relevant data).*

Similarly, productivity levels in the SMEs were found to be significantly lower than large enterprises as they generated an average value added per employee of just RM14,740, far lower than the RM47,830 generated by large enterprises. By prioritising SME development, the Government aims to increase SME contribution to GDP from 32% to 37% and total exports to rise from 19% to 22% by 2010.

As shown in Table 3, the largest concentration of SMEs were in the textile and apparel sector (18.2 per cent), followed by food and beverages (15.2 per cent), metals and metals products (14.8 per cent) and wood and wood products (14.1 per cent).

Table 3 - Distribution of SMEs in the Manufacturing Sector (by sector)

Sector	**Number of establishments**	**SMEs**	**Proportion of SMEs (per cent)**
Textiles and apparel	3,419	3,319	18.2
Food and beverages	2,949	2,749	15.2
Metal and metal products	2,918	2,709	14.8
Wood and wood products	2,776	2,582	14.1
Paper, printing, publishing	1,288	1,195	6.5
Machinery and engineering	1,249	1,135	6.2
Plastic products	1,121	988	5.4

Electrical and electronics	907	543	3.0
Non-metallic mineral products	893	803	4.4
Other (jewellery)	733	666	3.6
Petrochemical and chemical	712	526	2.9
Transport equipment	507	433	2.4
Rubber and rubber products	482	366	2.0
Palm oil and palm oil products	434	155	0.8
Leather	67	65	0.4
Total	**20,455**	**18,271**	**100.0**

(Source: SMIDEC, 2004).

In terms of geographical location, the majority of manufacturing companies in Malaysia were found to be located in the West Coast of Malaysia, which is industrialised and has ports facilities. Johor has the largest concentration of manufacturing companies such as textiles and apparel and the wood-based industries because of the availability of cheap labour and logging activities, with 17.5 per cent, followed by Selangor (16.7 per cent), Perak (9.4 per cent) and Pulau Pinang (8.7 per cent). SMEs in Selangor are predominantly in the transport equipment and electrical sectors while in Johor, there is a large concentration in the textiles and apparel and the wood-based sectors. The majority of other sectors (such as food and food-related manufactures) are concentrated in the states of Perak and Johor. This is likely due to the vast forest concentration in Johor and Perak, and somewhat deforestation in Selangor to provide communication and transportation infrastructure to link the nation's capital city with other parts of Malaysia and the world.

SMEs in the Manufacturing Sector

For the purpose of this presentation, only SMEs in the manufacturing sector will be discussed. Small and medium enterprises in the Malaysian manufacturing sector are involved in activities such as processing and production of raw materials, for instance, food, beverages, textiles, petroleum, wood, rubber and the assembling and manufacturing of electrical and electronics appliances and components, among others. As indicated in Table 4 below, the output of SMEs has grown by 9.7 per cent during 2002–03, value added production has expanded by 11.8 per cent and employment by 3.7 per cent — all due to the improvement in labour productivity in Malaysian SMEs. Table 4 also indicates that the share of employment by SMEs has expanded from 31.5 per cent in 2002 to 32.5 per cent in 2003, due to the growth in employment of 3.7 per cent contributed by SMEs.

Table 4 - Contribution of SMEs in the Manufacturing Sector

Indicators	**Value**	**Share Contributed to Manufacturing Sector Output (per cent)**		**Annual Growth (per cent)**	
	2003	2002	2003	2002	2003
Total output (RM billion)	68.9	62.8	29.1	29.1	9.7
Added value (RM billion)	14.2	12.7	26.1	25.8	11.8
Employment	375,840	362,345	32.5	31.5	3.7

(Source: National Productivity Corporation).

Table 5 below shows that the increase in labour cost per employee of 7.3 per cent closely matches the increase in value adding per employee of 7.8 per cent, implying a tight labour market. Therefore, in order to improve further the competitiveness of SMEs in the country, a reduction in unit labour cost is needed. However, in terms of SMEs' performance in the manufacturing sector, according to the National Productivity Corporation, in 2003 this sector performed well in all the key economic indicators. Table 6 indicates the contribution of this sector to output, and to value-added products, as well as their growth.

Table 5 - Labour and Capital Productivity of SMEs in 2003

Labour Productivity	Value	Growth
Output per employee (RM)	183,222	5.6
Added value per employee (RM)	37,675	7.8
Labour cost per employee (RM)	18,762	7.3
Added value per labour cost (number)	2.0	0.4
Unit labour cost (number)	0.1	1.6
Capital Productivity		
Fixed assets per employee (RM)	35,792	4.0
Added value per fixed asset (number)	1.1	3.6

(Source: National Productivity Corporation).

Table 6 - Contribution to Output, Growth in Output, Contribution to Value-Added Products and Growth in Value-Added Products by SMEs in the Manufacturing Sector

Segment	Contribution to Output (%)	Growth in Output (%)	Contribution to Value-Added Products (%)	Growth in Value-Added Products (%)
Food and beverages	30.6	9.1	19.8	16.3
Wood and wood products	8.3	11.5	9.6	16.3•
Rubber and plastic products	10.8	8.8	12.2	13.3
Machinery and equipment	2.9	8.9	4.2	11.3
Transportation	2.5 -	2.3	3.3 -	0.5
Textile and apparels	2.2	1.2*	3.2	4.7#
Chemical and chemical products	11.9	10.6	12.6	16.3
Metal and metal products	13.6 -		13.9 -	
Electrical and electronics (E&E)	5.2 -		5.1 -	
Non-metallic mineral products	4.8	10.5	6.6	13.7

(Source: National Productivity Corporation).

^ Inclusive of growth in both furniture (6.3) and wood and wood products (5.2).

• Inclusive of growth in both furniture (8.0) and wood and wood products (8.3).

* Growth in apparels was 2.0, while textiles had a -0.8 decline. Total growth was 1.2 for 'textiles and apparels'.

Growth in apparels was 3.5, while growth in textiles was 1.2. Total growth was 4.7 for 'textiles and apparels'.

Table 6, above, also shows that the food and beverage sectors contributed the highest output (30.6 per cent), followed by metal and metal products (13.6 per cent), then chemical and chemical products. In addition, E&E had a total contribution of 23.1 per cent to the manufacturing output; but only 5.2 per cent belongs to SMEs, implying the dominance of multinational corporations (MNCs) in the industry. The decline in the output of motor vehicles and transportation were due to the anticipation of tariff reductions as a result of the ASEAN Free Trade Agreement (AFTA). Consumers withheld purchases because of uncertainty, and this affected the SME supply of parts and components.

As can been seen from Table 7 below, the food and beverages sector has the highest rate of employment (16.6 per cent), due to low barriers to entry. SMEs have become increasingly aware of opportunities in the convenience and halal food market, and strong growth in the sector reflects this trend. The wood and wood products sector has had a positive impact on capacity expansion and technological upgrading, and has the second-highest rate of participation (16.2 per cent), followed by rubber and plastic products (13.1). This sector has seen increased improvement in higher-end products and accompanying capital intensity, as well as improvements in process efficiency. This has caused a strong increase in capital productivity, because of fixed assets becoming more efficiently utilised. The industry has been actively expanding into new export markets, and experienced strong market share growth in China, Hong Kong, Japan and Singapore. Nevertheless, the US remains the dominant market in rubber consumption.

Table 7 - Employment Distribution of SMEs in the Manufacturing Sector

Segment/Industry	Employment by SMEs (%)	Growth in Employment (%)
Food and beverages	16.6	3.5
Wood and wood products	16.2	13.3*
Rubber and plastic products	13.1	4.4
Machinery and equipments	4.1 -	- 4.3
Transportation	2.8	1.1
Textile and apparels	7.2 -	- 6.6#
Chemical and chemical products	5.3	10.3
Metal and metal products	12.9 -	
Electrical and electronics	5.8 -	

(Source: National Productivity Corporation).

* Inclusive of growth in both furniture (11.4) and wood and wood products (1.9).

The total decline of -6.6 is a result of declines in both textiles (-3.3) and apparels (-3.3).

The metal and metal products sectors are among the major employers in SMEs, with a participation of 12.9 per cent (see Table 7). Malaysian SMEs have responded well to the strong demand and higher prices for iron and steel products in the export market with a rapid expansion in production. Other major employers include textiles and apparels as well as chemical and chemical products. The textile and apparels sector is substantially labour intensive, but tends to adjust to changes (for instance, a loss of advantage in factor costs) by reducing employment in favour of capital input.

Productivity Performance of SMEs in the Manufacturing Sector

Small and medium enterprises (SMEs) in the manufacturing sector continued to perform well in 2006 with a growth rate of 7.4% in value added to

RM17.8 billion. Concurrently output grew from RM82.0 billion to RM88.3 billion or 7.7% while employment rose from 394,670 to 402,496 or by 2.0%.

Table 8 - Total Output, Value Added and Employment of SMEs in 2006

	Value Level		Percentage Share of Manufacturing sector (%)		Growth (%)
	2005	2006	2005	2006	2006
Total Output	81,990	88,266	29.6	29.8	7.7
Value Added	16,576	17,798	25.9	26.0	7.4
Employment	394,670	402,496	31.3	31.3	2.0

(Source: Computed by National Productivity Corporation (NPC) from Annual Survey of Manufacturing Industries, Department of Statistics, Malaysia, and various issues).

** Value Level for Total Output and Value Added are in RM Million*

SMEs account for 96.5% (39,436), of all enterprises in the manufacturing sector. The majority are engaged in the food and beverages sub-sector (32.5%), followed by chemicals and chemical products (15.6%), rubber and plastic products (10.3%) and fabricated metal products (6.6%). These industries accounted for 79.0% of total SME output, 29.8% of total manufacturing output, 26.0% of total value added and 31.3% of total manufacturing employment.

Table 9 Distribution of SMEs in the Manufacturing Sector in 2006

Food and Beverages	32%
Chemical and Chemical Products	16%
Rubber and Plastic	10%
Fabricated Metal Products	7%
Basic Metals	6%
Non-metallic and Mineral Products	4%

Furniture	4%
Other	21%

(Source: Computed by National Productivity Corporation (NPC) from Annual Survey of Manufacturing Industries, Department of Statistics, Malaysia, and various issues).

A continuous rise in fixed asset investments, growing steadily by 2.7% to RM 37,000, indicates that SMEs are becoming more capital intensive. Investments in fixed assets have enabled SMEs to achieve a higher growth of 2.5% in capital productivity. Furthermore, high investments in infrastructure, new machinery such as precision machining and tooling, process and product engineering and automation, has improved SME capacity to produce products and services that meet global market requirements. Companies able to manage existing machineries efficiently recorded higher capital productivity indicating that SMEs were efficient in using resources to create value.

Despite contributing substantively to output and value added, wood-based products and furniture sub-sectors remained low in capital utilisation, a reflection of the labour-intensive nature of the industry. This was also the case in the labour dependent textiles and apparels sub- sector.

Analysis of Success Factors of SMEs

In a study on entrepreneurs' success factors and escalation of SMEs in Malaysia conducted by the University Putra Malaysia in 2006, Che Rose, Kumar and Lim examined the relationship between venture growth and the factors, namely personal initiative, human capital, areas of focus on competency and government support programs. The study found that a large number of entrepreneurs affirmed personal initiative as a major key to success. Entrepreneurs with high personal initiative will naturally overcome the disadvantages or weaknesses in them with their self-starting and proactive attitude. The study also established a positive relationship of the entrepreneurs' education level, working experience and their parents' owned business with their success. It thus provides a clear indication as to which area of competency the entrepreneurs should focus on. On the whole the findings of this study serve as a guideline for founding entrepreneurs to succeed in their attempt to achieve superior venture growth.

Many studies on SMEs' growth and the key success factors contributing to venture growth showed that only 10% of these start-ups survived beyond the 10 years mark. 79,310 businesses discontinued in Malaysia during the year 2002, as most were unable to cope with the transition from an entrepreneurial style of management to an organized, professionally managed workforce and as a result, not being able to capitalize on further market opportunities. Some studies held that founding entrepreneurs should be replaced by professional managers, who are able to manage organizational growth better. On the contrary, Willard, Krueger and Freeser found that founding entrepreneurs could have the competencies to perform equally well as professional managers. Entrepreneurs who have the necessary competencies especially in the area of operations, finance, marketing, human resources and management skills required for the business are more likely to be successful at startup. Bruno, Leidecker and Harder showed that a major reason business venture fall short was managerial problems and this view was supported by Ibrahim and Ellis, and Landesberg and Edmunds who attributed the vast majority of business failures in the formative years to managerial shortcomings.

From my personal discussion with SME entrepreneurs, most of them affirm personal initiative as one of the major key to success. They concur that entrepreneurs with high personal initiative will further enhance their management, improve business operation skills and embark in a continuous learning and development attitude. They place great importance of human resource, as all areas of HR have significant relationship with venture growth. As the company grows, the founding entrepreneurs must align their SMEs to promoting the company and its product and services, as well as understanding market needs and customer feedback. Knowing the trends and what comes next as accurately as possible will allow long term continuation for the business. Founding entrepreneurs must also be involved in strategic planning pertaining to competition, because this ensures the future and the survival of the company.

SMEs Facing Domestic and Global Challenges

According to the SMIDP's 2001–2005 study report, SMEs in Malaysia are facing many new challenges, domestically as well as globally. These challenges include:

- intensified global competition
- competition from other producers (for example, China and India)
- limited capability to meet the challenges of market liberalisation and globalisation
- limited capacity for technology management and knowledge acquisition
- low productivity and quality output
- a shortage of skills for the new business environment
- limited access to finance and capital, and the infancy of venture funds in initial or mezzanine financing
- the high cost of infrastructure
- a general lack of knowledge and information.

In his 2004 paper entitled, "SMEs in Malaysia: Pivot Points for Change", Ting identified five key challenges facing Malaysian SMEs: lack of access to finance, human resource constraints, limited or inability to adopt technology, lack of 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.

In 2005, United Parcel Services (UPS) 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 house wares, 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.

Saleh and Ndubisi (2006) conducted a pilot survey of 100 Malaysian SMEs to determine the competitiveness issues they faced. The survey findings show that labour cost, innovation and access to funding and working capital are the main challenges to Malaysian SMEs. The review indicates that Malaysian SMEs account for more than 90 per cent of the total manufacturing establishments in the country. The evidence suggests that SMEs play a vital role in the nation's economy and are a major source of various economic contributions. The largest number of concentration of SMEs is in the textile and apparel sector, followed by food and beverages, metals and metals products, and wood and wood products. The key message from this study is that SMEs in Malaysia are facing domestic as well as external challenges, which could hinder their resilience and competitiveness. They include:

1. SMEs in Malaysia often face difficulty in obtaining funds from financial institutions and the government. Usually the interest charges by financial institutions on loans borrowed by SMEs are high.

2. Lack of human capital is the most significant challenge for Malaysian SMEs. It is often too expensive for Malaysian SMEs to employ a professional and competent workforce.
3. SMEs in Malaysia face a high level of international competition; this includes AFTA and competition from MNCs or new competitors (for example, China and India).
4. There is a lack of access to better technology, and ICT hinders efficient and productive business operations among Malaysian SMEs.
5. The high level of bureaucracy in government agencies hinders efficient business development operations among Malaysian SMEs.
6. There is a low level of research and development.
7. There is a substantial orientation towards the domestic market.

Having identified some of the challenges facing SMEs in Malaysia, we now present some strategies that the government and the agencies responsible for the development of SMEs in Malaysia (such as SMIDEC and MCA, among many others) — and SMEs themselves — may adopt. First, the government should play a leading role in educating SME practitioners on the incentives available to them and how to access them. These incentives should be delivered through an establishment really cares for the success and sustainability of SMEs in the country. Delivering government incentives through many channels (including profit-making businesses such as commercial banks) creates confusion among SMEs and opens up the opportunity for a third party (for example, a consultant or agent) to gain undue advantage by acting as a mediator between SMEs and the government. This makes access to such incentives cumbersome and expensive for small businesses. Therefore, the government should avoid delivering incentives through too many agencies (especially for-profit-making ones), and also dismantle the bureaucratic procedures that cause inefficiency in government initiatives and projects. The government should also increase the number of centres that offer consultancy and expert services to SMEs, and engage more experts in different areas (for example, IT, financial planning, marketing planning and so on). It should ensure that SMEs have access to these incentives at a lower cost and in a more effective way. The efficiency and effectiveness of the delivery system of incentives are vital to their uptake and utilisation.

Regarding poor access to finance, even though the Malaysian Government has allocated funds under the Eight Malaysia Plan and delivered it through its agencies, there are many complaints by SMEs regarding the difficult qualification criteria for accessing these funds, and the bureaucracy in these agencies. Besides difficulties in meeting the requirements for these funds, SMEs also have difficulties because of transparency issues. However, there are some positive efforts on the part of the government in this regard, with the availability of CGC, in which the government guarantees loan applications by SMEs who are regarded as high-risk borrowers. However, for the CGC to be more effective, more flexibility should be applied in the application process to enable more SMEs to receive the guarantee letter. On the other hand, SMEs in Malaysia should not totally rely on government agencies; they should to find their own path of progress by relying on strategies that allow them to access new markets, increase their revenue and expand their customer base. First, Malaysian SMEs facing challenges from a more integrated and liberalised world (for example, AFTA, ASEAN-China), should consider networking and forming strategic alliances as viable options. By identifying and cooperating with these allies, SMEs in Malaysia can gain access to overseas markets, increase sales and revenue, access external sources of funds, gain technological know-how, become more resilient and become stronger, in order to withstand domestic and foreign competitive onslaughts, as well as reap other benefits.

SMEs should consistently invest in market research, R&D and innovation in order to increase their competitiveness. By embarking on market intelligence, they should be better able to understand the needs and wants in the marketplace. Such understanding should assist in delivering superior value to customers, compared to what their competitors are able to do. This in turn will increase customer retention rate. SMEs should leverage the advantages of being small by deploying relationship marketing strategies. The relatively small customer base of SMEs makes them more suitable for long-term customer relationships. By establishing long-term relationships with customers, they should be able to build customer loyalty, and in turn reduce cost of operations. Prior research (for example, Reicheld, 1993; Ndubisi, 2003) has shown that it is far cheaper to serve an existing (loyal) customer than to attract and serve a new one. Last, another strategy SMEs should consider is counter-trade. Counter-trade, or reciprocal trade, can assist SMEs to overcome capital shortages, especially when they contemplate going overseas. Countertrade strategies can also be used to access closed foreign markets, as well as allowing for transfer of technology and technological know-how from advanced countries to SMEs in developing nations like Malaysia.

Government Policy on Enhancing SMEs' Competitiveness

The development of a competitive and resilient small and medium enterprise sector is a key component of the Malaysian Government's economic growth strategy. Recognising that the SME sector in 2006 comprises 99.2% of total business establishments and employs more than 5.6 million workers, the Government embarked on promoting entrepreneurship and SMEs as an important thrust to achieve balanced economic development and higher living standards at all strata of society. The SME sector contributed 32% of the real gross domestic product (GDP) and 19% of the total export value of the nation.

Realising the ample opportunity to increase the contribution of SMEs in the domestic economy, the Malaysian government has set a number of performance targets for SME development. These targets are to increase SMEs' contribution to GDP to 37% and its share of total exports to 22%, and for SMEs to employ over 6.2 million workers by 2010. The Government's programmes and initiatives for SME development will, therefore, be focused on achieving these targets, especially in the areas of developing human capabilities and the necessary enabling infrastructure that will allow for the establishment of high performance and high value-added SMEs.

In 2006, the Government implemented a total of 213 major programmes, involving a total expenditure of RM7.8 billion. The main focus of these programmes was on enhancing the capacity and capability of SMEs, particularly in the areas of entrepreneurship development, marketing and promotion, product development and technology enhancement. Thus far, the implementation of these programmes has benefited more than 287,000 SMEs. In 2007, a total of 189 programmes were launched with a financial commitment of RM3.7 billion. These programmes focused on building capacity and capability, human capital development as well as marketing and promotion. Specific programmes were also introduced to strengthen linkages between SMEs, large domestic companies as well as multinational corporations. Such linkages also provide an invaluable tool for SMEs to develop strong technical, competitive and innovative capabilities as well as managerial and business skills.

Furthermore, the Government continues to further develop the enabling infrastructure to support the growth of entrepreneurship and small businesses. In this respect, business premises, factories and workshops will be provided for SMEs in the rural areas. Additionally, product packaging, distribution and marketing centres have been established to ensure efficient and effective distribution of agriculture and agro-based products of SMEs. Specific focus is also being given to enhance the penetration of the products and services of our SMEs in the global market. To assist SMEs in this area, the Government encourages banking and development financial institutions to offer fast, flexible and convenient micro-financing to individuals and enterprises. To address the funding needs of start-ups as well as those in strategic sectors such as agriculture, biotechnology and ICT, an increase in allocation has been made to venture capital funds, making the total available funds for venture capital investments amounting to RM3.3 billion in 2006.

In 2006, a total of RM46.5 billion of loans were approved to more than 102,000 SME accounts by both banking and development financial institutions. In 2007, these financial institutions were projected to have approved a total of RM51 billion loans to about 110,000 SME accounts. In addition, more than 37,000 loans were expected to be approved under various Government schemes.

Going forward, industries involved in Halal products and services, Franchising, and Information and Communications Technology have been identified as new sources of economic wealth. In support of this, the Government has established a solid regulatory framework, necessary physical infrastructure as well as incentives to encourage SME participation in these areas. On its part, the Government will continue to play a facilitative role in creating a conducive business environment to ensure that SMEs develop to their fullest potential as a prime driver of economic growth.

1. The Ninth Malaysia Plan (9MP)

During the 9MP, the principal SME policy is the development of a competitive, innovative and technologically strong SME sector that is able to contribute to the domestic economy and compete globally. Strategies will be directed at acquiring technologies to propel SMEs up the value chain in the manufacturing, agriculture and services sector. These include:

Outsourcing

Programmes will be implemented to nurture SMEs as Research and Development (R&D) partners. Collaborative ventures among Multinational Corporations (MNCs), Government-linked companies (GLCs) and SMEs will facilitate technology transfer and skills development and marketing;

Inter-firm linkages

Creating business links between SMEs, GLCs and MNCs would enable SMEs to be more competitive and become reliable suppliers for global outsourcing networks which would expand Malaysia's trade with new export markets;

Entrepreneurship programmes

Programmes, including advisory and outreach services, will be expanded to equip SMEs with new and improved management and business practices, methods in production, quality improvement, marketing and distribution; and

Knowledge skills

Further development of technical skills amongst SMEs, especially in generating innovation and creating economic value from knowledge application.

2. Third Industrial Master Plan (IMP3)

The priority accorded to developing domestic SMEs is further reiterated in the IMP3. The 15-year blueprint, published hand in hand with the 9MP, has outlined five clear strategies to support the development of diverse and competitive SMEs. The six strategies are:

i. Competitive Edge - Integration and Rationalisation

In order to enhance competitive advantage, SMEs are encouraged to integrate with MNCs, capitalising on the current outsourcing trends among large corporations especially in high value added activities. SMEs need to move up the value chain through rationalisation and specialisation, focussing on building and enhancing their core competencies, in order to compete regionally and globally. Specialisation will in turn enable SMEs to better leverage on their core competencies in order to create a market niche in both domestic and overseas markets. SMEs will need to fully understand the market structure and customer needs in order to be flexible in adapting to changing demands and trends.

Efforts are already underway to assist SMEs in this aspect by placing SME employees at MNCs and through financial assistance in acquiring cutting edge technology. This includes “bridging technology” which combines several technologies and can help SMEs upgrade operations by providing a broader range of products or services.

The increased outsourcing trend amongst MNCs provides an excellent avenue for participation in the global market. To promote this further, the Government will intensify and strengthen inter-firm linkages with MNCs, enabling SMEs to become reliable and competitive suppliers. Currently, the Industrial Linkages Programme (ILP) under the Ministry of International Trade and Industry (MITI) is confined to the production phase of the manufacturing sector. This will be widened to cover the entire value chain for both the manufacturing and the services sectors.

The adoption of best business practices and benchmarking is key, for any business, in the ongoing effort to remain competitive. To this end, benchmarking programmes provided by the National Productivity Corporation (NPC) are promoted through industry associations and chambers of commerce. The Benchmarking On-line Networking Database (BOND) is a database of best practices and performance measurements set up by NPC to assist organisations in undertaking benchmarking activities.

ii. Shared Services and Outsourcing

To help realise Malaysia’s potential, the Government will undertake international promotions to brand Malaysia as a major global hub for shared services and outsourcing (SSO) and increase awareness of Malaysia’s competitiveness. Incentives will also be given to MNCs in Malaysia, such as tax exemptions on revenue from SSO, which can serve as a significant customer base for local outsourcing service providers to develop world-class competencies and large scale operations.

iii. Outward Bound - Armed and Prepared in a Global Arena

With the advent of a more liberalised market, SMEs can no longer rely on domestic demand. An expanded market provides new opportunities and greater export opportunities to capable SMEs. Financial institutions are urged to support domestic businesses, including SMEs, in their ventures overseas. This will go hand in hand with efforts from various Ministries and Agencies, such as the Ministry of Domestic Trade and Consumer Affairs (MDTCA), Small and Medium Industries Development Corporation (SMIDEC), Malaysian External Trade Development Corporation (MATRADE) and Multimedia Development Corporation (MDeC), who will initiate closer bilateral cooperation with foreign counterparts as well as promote industry linkages, joint trade commissions and exhibitions to facilitate networking between local and foreign SMEs. In 2006, nearly 1,000 SMEs benefited from business matching and enhancement programmes for example, the ILP. For successful penetration into overseas markets, SMEs also need to be equipped with knowledge and skills in financial management and marketing. Ongoing programmes designed to enhance entrepreneurial capabilities have been expanded to include negotiation skills, merchandising, pricing, brand building and consumer behaviour.

To further aid SMEs in this area, an interactive portal, MITI and Agencies Trade and Industry Information Exchange (MATRIIX), was developed to provide information on market intelligence such as consumer preferences, international standards and regulations, and environmental requirements. Plans are underway to introduce real time market information from other Agencies. It is crucial for SMEs to conform to international standards and regulations for successful expansion to overseas markets. To ensure this, SMIDEC will collaborate with the necessary regulatory bodies to help SMEs conform to international standards and regulations. This is especially relevant for success in the Halal arena, a new and exciting growth area highlighted in the 9MP.

The global Halal food business is currently worth RM2 trillion and is expected to reach the RM6 trillion mark by 2010. This has initiated Malaysia's move towards becoming a Halal Hub by 2007, providing an opportune area for overseas expansion. To hasten this process the Halal Industry Development Corporation (HDC), was set up in 2006. With RM100 million allocated, the HDC will oversee the development of the Halal industry. Incentive packages in the development of the Halal Hub has been enhanced with RM20 million allocated to the SME Bank to help entrepreneurs develop Halal products.

iv. ICT - Friend Not Foe

In line with global trends, growth amongst domestic SMEs will inevitably be driven by technology and innovation. The emergence of new technologies and products has influenced the way business is now conducted. As such, high priority has been given to strengthening technological capabilities of SMEs, with a total allocation of RM12.9 billion being set aside for information and Communications Technology (ICT) under the 9MP. Government agencies such as the Malaysian Technology Development Corporation (MTDC), MDeC, SMIDEC and the Malaysian Biotech Corporation (MBC) will collaborate to introduce technology foresight programmes to allow SMEs to take advantage of available technology.

To further promote research and development (R&D), collaborative ventures will be encouraged among MNCs, GLCs and SMEs to facilitate technology transfers and skills development and marketing. To further aid this endeavour, closer collaboration with Government institutions and universities are to be promoted through the Technology Development Cluster Programme set up in 2006 to help SMEs to undertake the commercialisation of potentially viable R&D results. Technopreneur development will be expanded to support science and technology based SMEs, particularly Bumiputera SMEs, to benefit from home grown technologies. Measures to be undertaken include the provision of appropriate infrastructure, transfer of technology and improved access to financing.

Ultimately for any business to thrive, a conducive environment with supportive regulatory and institutional framework needs to be created. To achieve this an industry driven National SME Focal Point, involving entrepreneurs, research institutes, financiers, venture capitalists and relevant Government agencies, will be established for the exchange of information including new market and technology trends. Also launched in 2006, was the SME info portal providing information on all aspects of SME development including financing, training and support.

v. Cohesive and Supportive Framework - Encouraging Potential to Shine

In order to achieve a higher rate of success, the approach has to be systematic and coordinated. This synchronised approach is to be carried out alongside financial support programmes to:

- Assist potential entrepreneurs to upgrade technical and professional skills;
- Assist in the purchase of new machinery and equipment;
- Provide industrial sites and special parks at competitive prices;
- Provide assistance in the registration and patenting of intellectual property (IP); and
- Reduce red tape for faster processing.

Greater support will be on offer through more inter-agency coordination in order to mobilise resources and obtain synergies for the overall development of SMEs.

vi. Nurturing the Services Sector - Towards New Areas of Growth

The Census of Establishments and Enterprises 2005 has indicated that a significant 86.5% of SMEs are in the services sector. In order to tap into this burgeoning sector several areas for growth have been highlighted within this category. They include:

- Distributive trade - increasing new products and services for franchising;
- Business and professional services - encouraging g entrepreneurs in specialist skills such as pharmacies and dental clinics;
- Logistics services - increased SME participation in the integrated logistics supply chain;
- Construction and related services - SMEs are to be encouraged to link with large construction companies to form strong domestic sub-contracting base to secure contracts locally and overseas; and
- Information and Communications Technology - to foster and stimulate growth of more ICT technopreneurs and SMEs by providing seed and start up funding.

With the increased allocation of resources outlined in the 9MP and IMP3, the Government has demonstrated its strong commitment for the development of efficient and competitive SMEs; a commitment that is more significant than ever as Malaysia moves towards realising its objective of becoming a developed nation.

On August 9, 2008, the Prime Minister announced that Bank Negara had set up two financing facilities of up to RM1.2bil to help SMEs improve productivity by acquiring more efficient and better machineries, and expand their business. The two facilities are the RM700mil SME Assistance Facility and the RM500mil SME Modernisation Facility. The SME Assistance Facility will assist viable SMEs facing financial difficulties to manage temporary cash-flow problems so that they can continue operations and preserve employment. The SME Modernisation Facility will provide financing to SMEs to modernise operations. He called upon small and medium enterprises (SMEs) to make full use of the RM1.2bil financing facilities set up to help them weather these hard times. He added that the Government wanted SMEs in the country to expand so that they account for a higher business volume.

Case Example of SMEs' Success through Business Linkages: Penang, Malaysia *(Building SMEs' Global Competitiveness through Technology Upgrading)*

Business linkages are a hot topic in development circles. The ability of SMEs to compete in the global market place depends on their access to certain critical resources such as finance, technology and managerial skills. Transnational Corporations (TNCs) have been an important means for SMEs to gain access to new technologies and management know-how.

In fact, Malaysia is the leader in the field in terms of using linkages to transfer technology to SMEs. The smart partnerships between government, TNCs, SMEs, and their support institutions have yielded impressive results. Linkages transformed Penang from a sleepy agricultural economy and trading station to the Silicon Island of the East.

- In 2000 the manufacturing sector had become the main engine of growth and accounted for 45 percent of the State's GDP as compared with 13 percent in 1970;
- Together the partners have created a diversified, vibrant economy with growth rates of over 8 percent:
- Between 1970 and 2002 industrial enterprises increased from 31 to 731; and jobs from 84,000 to 150,000:
- During the same period unemployment declined from a high of 16 percent to a low of 4 percent;
- All this has allowed Penang to reach the first Millennium Goal—a decent standard of living.

Foreign direct investment (FDI) now makes a solid contribution to the local economy in that a larger part of the FDI circulates locally due to the availability of competitive suppliers. For example, in 2000 65 percent of the TNCs' suppliers were locals.

A number of the SMEs which have been through the supplier development programme have become transnational in their own right. One was recognized by Money Asia as the best SME in Malaysia and another has won numerous awards for product, vendor and supplier excellence. Both SMEs are listed on the Kuala Lumpur stock exchange. They became “best-in-class” technology corporations through the smart approach.

The Penang process for technology upgrading

Penang is one of the thirteen states of the Federation of Malaysia and has a population of about 1.2 million. The Governments, both at the Federal and State level, played a catalytic role in the economic transformation of Penang by adopting a pro-business stance. They fostered a conductive environment for the development of the manufacturing sector through vision, pragmatic policies and transparent incentives. In fact, the economic transformation of Penang was based on the three “Is”: institutions, infrastructure and incentives.

First “I”: institutions

The Penang Development Corporation (PDC) established in 1969 is the principal development agency for the State. The PDC pioneered the concept of Free Trade Zones to encourage foreign investment in export-oriented activities. It acts as a one-stop shop that interfaces between potential investors and the local authorities and the local business community. It advises investors on how to get started in Penang by providing assistance in planning, siting the plant and submitting applications to various departments as well as finding suitable local partners. PDC has two free industrial zones and five industrial parks covering an area of 2370 hectares. It has been instrumental in assisting global players, such as AMD, Dell, Fujitsu, Hewlett-Packard, Hitachi, Intel, Motorola, Fairchild and many others to locate subsidiaries in Penang.

They were also encouraged to contribute to the local economy through linkages with local SMEs in a wide range of industries, including electronics, engineering, metals, plastics, packaging and textiles/apparel.

Another key institution is the Penang Skills Development Center (PSDC). The existing labour pool is supplemented by school leavers entering the labour market after 11 years of formal education as well as graduates from technical institutes, colleges and universities. However, they do not always have the skills that are demanded by industry. Their skills are further fine-tuned through on-the-job training or in specialized training centres such as PSDC. This unique institution pools together the resources of the private sector, the government and academia. It received modest initial support from the State government and is now managed by a management council drawn from the private sector. The 94 corporate members of PSDC contribute experts, training materials and equipment so that the Centre can provide state-of-the-art training for a variety of engineering, technical and management skills. It has created the Global Supplier Programme (GSP) which is critical to sustaining the linkage process in Penang.

The Global Supplier Programme is a deliberate two-part process which complements the company vendor programmes like Intel's. It consists of skills training and a linkage to a larger enterprise. Developing managerial and technical competencies is a pre-requisite to being coached and mentored by a TNC. Successful SME graduates are then paired up with a TNC. But this is not a simple matchmaking exercise using a data base as is so often the case. In fact matchmaking hardly figures in the strategy. Instead it is the serious alignment of philosophies, needs and capabilities of the partners that takes months and years.

Second "I": infrastructure

Penang government has put great emphasis on ensuring good transportation facilities and links, utilities and other physical infrastructure for the business sector. Penang International Airport, the second largest in Malaysia, has been upgraded with improved facilities and a new air cargo complex. In addition, the Penang port is a major hub for the region with modern facilities for both international and coastal vessels including a deep water wharf, a new container terminal and a bulk cargo terminal. Penang is at the intersection of the North-South and East-West highways and is served by the national railway line, thus ensuring quick access to Kuala Lumpur, Singapore and Thailand.

Adequate electric power is supplied via the National Grid System and by 2 power stations within the State. Penang Water Authority supplies water meeting WHO standards. Recognizing the critical value of information and communication technologies, investments in IT have made the telecommunications infrastructure and services in Penang one of the best and most modern in the region. Penang.Net is the State Government's farsighted strategy to strive for a smart partnership between a private sector-let consortium of technology and telecommunications providers and the State Government to develop Penang into an IT state through a high-bandwidth infrastructure.

Third "I": incentives

Various attractive tax incentive packages are provided for approved projects, in order to ensure that start-up and operating costs are competitive. Both local and foreign enterprises can benefit from tax holidays, investment tax allowances, and reinvestment allowances. In addition there are also special incentives for hi-tech industries, export credit refinancing, industrial building allowance, R&D activities, training and training facilities. It is important to note that the incentives are for TNCs and SMEs alike. Without the incentives it would be difficult to convince top TNC management to invest the time and effort in coaching and mentoring SMEs since they could more easily change partners whenever they found better ones. On the other hand, SMEs need the incentives in order to maintain their cash flows so that they can meet TNC requirements. In particular pioneer status and investment tax allowances enabled SMEs to invest in R&D.

Intel: Pioneer of the Smart Approach

Intel arrived in Penang in 1972 and was one of the original eight pioneers (Agilent, AMD, Osram, Bosch, Clarion, Hitachi, Fairchild, Intel) attracted to the FTZ by PDC. It currently employs 8000 workers. It has crafted a supplier development programme called the “Smart Approach”. The FTZ of Bayan Lepas is a hotbed of both competition and cooperation. A number of other TNCs have developed supplier programmes that are strikingly similar to the “Smart Approach”. Intel’s objective for supplier development was to demonstrate its commitment to grow Malaysian based suppliers by continuing its efforts to nurture existing and potential new suppliers. Intel has been chosen by the Financial Times as the best employer in Asia.

- Intel looks for the following four qualities in potential suppliers:
- Competitiveness: safety, quality, delivery, price
- Capability: technical, materials, process
- Stability: vision, finances
- Resourcefulness: management, human resources, training.

TNCs such as Intel are in a strong position to choose their partners. They look for SMEs that can meet their corporate requirements as well as international standards on crucial production issues such as price, quality, delivery, health, labour and environmental standards. SMEs, on the other hand, are not usually “partnership” ready because they lack information, experience, contacts and above all the human and financial resources to implement the managerial and technology changes needed to do business with the TNCs. However, it is unrealistic to think that in a world of giants, SMEs can become partnership ready without assistance. If one were to classify Intel’s approach to SME linkages, it has three prongs:

- Develop supplier capabilities and competencies

- Provide business opportunities for SMEs
- Partner with government and community.

Intel uses the following five steps in selecting and nurturing its suppliers.

First, Intel identifies or sources suppliers who are willing and capable of meeting its requirements. This process is facilitated by the fact that Intel "indigenized" its managerial work force and it is easier for them to evaluate the potential suppliers.

Second, Intel matches its business needs with the capabilities of the potential suppliers and it provides them with initial training. Intel collaborates with external skill centers to develop supplier these capabilities. It uses the Penang Skills Development Center and participates in its Global Supplier Programme and the National Institute of Occupational Safety and Health for contractor safety certification training. It also shares Intel's internal training courses with its suppliers. It gives access to its innovation centers and engineers and consultants. It assigns Intel staff to SMEs to share know-how. It engages in a phased upgrading of technology from SME plant layout to design capability, flexible manufacturing and ISO certifications.

Third, it gradually allocates tasks or contracts based on the SME's abilities and gradually increase these contractual opportunities as the SME grows in its abilities.

Fourth, it continually refines the SME's capabilities and promotes continuous improvement through coaching by setting up supplier briefings, contractor dialogues, business technical reviews and one-on-one sessions between Intel senior management and SME managers who evaluate and benchmark progress.

Lastly, when the SME is mature and it is able to supply other parts of Intel's global supply chain it becomes a global supplier. Intel insists that their SMEs have a diversified customer base and are not totally dependent on Intel. It propels local suppliers to the international scene by organizing road shows for selected suppliers, facilitating strategic alliances and fielding local suppliers for international projects. In this last stage of the smart approach the SME often is called upon to supply the solutions for Intel's technical problems, thus becoming a "total solution supplier". Part of the agility gained by the SMEs comes from the fact that Intel also shares its "technical roadmap" with its suppliers so that they can pre-position themselves and get ready for change

Indeed, the "Penang experience" has received international recognition and illustrates the following key elements or lessons Government agencies and SMEs can profitably apply the concept of business linkages:

- Commitment by both government and TNCs
- Targeted FDI strategy to attract TNCs with positive corporate philosophy and willingness to delegate to local managers to develop linkages
- Recognition that strategic engagement by government and TNCs is a long-term process
- Establishment of public-private sector dialogue
- Formation of meso institutions, i.e. skill centres, such as PSDC
- Use of appropriate economic incentives
- Selective vs. indiscriminate support for SMEs.

Appendix:

Case Examples of Successful Malaysian SMEs (*Source: SME Annual Report 2007*).

1. Banghuris Homestay - The Kampung Getaway

Banghuris Homestay, made up of three villages – Bukit Bangkong, Hulu Chuchoh and Ulu Teris - has been part of the Homestay programme since 1997. Starting with 14 participating houses, the Banghuris Homestay now boasts 68 houses and over 80 bedrooms. It all started simply enough with the *Kampung Terbaik* (Best Village) award in 1993. The accolade garnered a lot of attention with frequent visits from domestic and international tourists. The interest from outsiders gave Tuan Haji Basir bin Wagiman, the Village Headman, the idea of translating visits into a viable business concern which has now taken root translating into 6,000 paying visitors in 2007 within 10 years.

Through the Homestay programme visitors are given a glimpse into the cultural and daily lives of a Malaysian village while staying with 'adopted families'. As part of 'stay' activities, visitors can opt for several packages which include cultural shows, like traditional martial arts *silat* and music, cooking programmes, visits to rubber and palm oil plantations, fruit orchards and cottage industries producing local ingredients to produce snacks like tapioca chips and curry puffs.

The Homestay received a variety of assistance from the Ministry of Tourism (MOTOUR) and the Homestay Association. The participants received training from the outset, on the rudiments of hospitality - from types of service to hygiene standards for cooking and cleaning. Promotional help was also given with free promotional brochures advertising the Homestay and assistance with building infrastructure for the village. 4.86 hectares of land was given in 2004 by the Selangor State Government to create a recreational and activity park. Funds were also provided to build a multi-purpose hall that can accommodate 800 people for the park. Banghuris has also participated in various marketing fairs organised by MOTOUR.

The villagers were initially reluctant to join the programme, worried about cultural and language barriers. As the main initiator of the programme Tuan Haji Basir had to convince the villagers that these could be overcome and that the programme would bring monetary rewards. Citing unity and mutual cooperation as the main contributing factor to its success, the Homestay programme has involved the active participation of all the inhabitants of the three villages. By successfully utilising on resources and attractions already present locally, such as agricultural land, local produce and talent, the tourism dollar is filtered down throughout the village.

This was definitely the case for Puan Hajah Shamsiah Jurain, and her frozen food business, now in its 5th successful year. Hajah Shamsiah began operations with the help of *Jawatankuasa Kemajuan dan Keselamatan Kampung* (JKKK) who provided her with premises and machinery to start her business. Her frozen snacks, such as curry puffs, *roti canai*, sausage rolls and various *kueh*, now supply Homestay houses in the villages, supplementing her other commercial sales. In addition to this, she provides cooking courses for tourists interested in learning more about local delicacies.

Her cottage industry business grew and now generates employment to housewives and single mothers who are able to make a monthly income of up to RM2,000. Hajah Shamsiah is one of many who have benefited from the Homestay programme. The change in the villages since the programme commenced has been tremendous. The once poor farming community has been transformed into a relatively affluent one with homes equipped with TVs and cars. The programme has also produced a more harmonious and neighbourly atmosphere with inhabitants united towards communal economic betterment.

The programmes have been so successful that courses are now being offered to other villages wanting to join the Homestay programme. Future plans to improve the Banghuris Homestay include further facilities upgrades, such as installation of air-conditioning units in all homes and additional bathrooms to increase the comforts of visiting tourists. With these initiatives Banghuris hopes to increase tourist arrivals and improve revenue collections.

2. Proreka (M) Sdn Bhd

Incorporated in April 2000, Proreka (M) Sdn Bhd is primarily involved in the supply and manufacture of OEM automotive parts and components for car manufacturers. Founded in 2000, what started as a prototype builder and supplier of small plastic automotive parts has now turned into a hub specialising in the design of car components with total sales of RM50 million for year ended 2007.

The company is led by its Chairman, Y.M. Tunku Dato' Seri Mahmud bin Tunku Besar Burhanuddin and the company's operations are spearheaded by its Chief Executive Officer, Mr Yong Nam Yun and Executive Director, Mr Thomas Lim Teck Ling. Proreka possesses advanced in-house development and production facilities in Malaysia. The facilities are backed up by the company's capabilities in manufacturing, R&D, human resources and a dynamic, solutions-driven work philosophy.

Today, Proreka has the capability to undertake automotive projects, from design concept (including whole vehicle styling deliberations with prototype and model building), right up to the mass production of parts and components. Training has been a determining factor in the company's success, serving to better equip staff in an area of fierce competition and increasing globalisation. This has enabled the company to become more competitive, able to move quickly up the supply chain and bid for higher value projects. “At the on-set, we only had the capability to compete with local players but today, after equipping our staff sufficiently, we are able to compete in foreign markets like Japan, Thailand and India by leveraging on the skills and talents of our staff”, stated the Executive Director.

A proactive and passionate team led by the committed management of Proreka, has led to continuous training for staff and exposure to the latest technologies through its global strategic alliances. The company has a policy which ensures that staff undergoes at least one training course per year. Proreka has utilised in full the assistance available through the HRD Fund under PSMB. Employees also benefitted from training and consultancy services by Japanese experts under MITI's Malaysia-Japan Industrial Cooperation Programme (MAJAICO), when they were exposed to best practices in manufacturing processes. In 2007, Proreka was recognised for its efforts, receiving the coveted Human Resource Minister Award for the Best Human Resource Development in the Malaysian manufacturing sector in the SME category from PSMB and was a finalist for the Most Improved Vendor by Proton Holdings Bhd.

According to the team, this and other successes can be attributed to several factors. While Government assistance received from SMIDEC, MATRADE and MIDA has been invaluable, being pro-active and ensuring the company capitalised on the available assistance has also been a crucial component of continued growth.

3. MM Vitaoils Sdn Bhd - A Global Success

MM Vitaoils Sdn Bhd (MM Vitaoils) was founded by Encik Mazlan Muhammad in May 1999 and has its initial roots as a trading company exporting Malaysian commodities such as palm oil products. As the business grow, Mazlan saw ample market demand for quality palm oil products and decided to move into the manufacturing segment to capitalise on this demand. With an initial RM2 million trade finance facility from EXIM Bank at the end of 2002, additional funding from a Convertible Redeemable Share from Perbadanan Usahawan Nasional Berhad (PUNB) for RM1.2 million and RM6 million in financing from Malaysia Industrial Development Finance Berhad (MIDF), Mazlan set up a packing and packaging plant producing edible oil products such as cooking oils, salad oils, margarine, shortening and vegetable ghee catering to consumers and industries.

Over the years Mazlan has maintained focus on improving MM Vitaoils manufacturing processes, upgrading product quality and range and marketing his products. MM Vitaoils' factory in Shah Alam has an annual production capacity of 12,000 metric tonnes and has the flexibility of using different packaging materials such as nylon pouch bags, tubs, cans, jerry cans, pet bottles, carton boxes, drums and flexi tanks. The range of versatile packing sizes has enabled MMV Vitaoils to cater for a wider market, from household consumers to larger customers such as those in the food industry.

Since its establishment, MM Vitaoils has developed a well spread-out export market and almost all its products are now sold overseas. Products are currently sold in 63 countries in Asia, Europe, the Middle East and Africa. Through investments in technology for product development, MM Vitaoils has to date developed over 24 in-house brands such as Palmas, Serimas, Rise and Shine and Qualitaste. Business growth has also been supported by an effective marketing and branding programme, which is associated with high-quality, palm oil-based products promoted as a healthier lifestyle alternative.

MM Vitaoils has received assistance from numerous Government schemes and programmes along the way, helping contribute to its successful business expansion. MM Vitaoils received grants from SMIDEC and Malaysian Palm Oil Board (MPOB) for quality and product development. MM Vitaoils' in-house R&D department liaises with MPOB for the testing of new products at MPOB's pilot plant. In addition, MATRADE's Brand Promotion Grant (BPG) and Market Development Grant (MDG) were used in export market development efforts. The company has also received marketing support from MATRADE and MPOB, who have helped MM Vitaoils to source for potential clients overseas. MM Vitaoils also received the pioneer status qualification from the Malaysian International Development Authority (MIDA), which brings with it a 70% income tax exemption.

Various MM Vitaoils' personnel have attended the complimentary training sessions held by the Malaysian Productivity Corporation (MPC).

Looking back, Mazlan reminisces that determination, positive thinking and inner strength were some of the key attributes that helped him steer a successful course. Mazlan also believes that SMEs able to identify trends and practice a customer centric approach are more likely to succeed.

4. Elit Purnama Sdn Bhd - Sharply Dressed Exports

The product of a family that successfully pursued the ready-made garment trade, Ms Anita Hiong ventured alone in 1999 to establish Elit Purnama Sdn Bhd (Elit Purnama), a garment contract manufacturing business offering its services to local and foreign brands and labels. Its own in- house brand, "Je t'aime" was created, offering contemporary designs for ladies, men and children. Business has grown tremendously and today Elit Purnama stands out as a successful SME Original Equipment Manufacturer (OEM) fashion house in Malaysia, offering a range of services from the designing of garments and fabric sourcing to the development of its clients' in-house brands. Staff size now totals 35 including a seven strong team of designers. The company's revenue is expected to reach at least RM10 million in 2008.

Aided by MATRADE's specialized marketing missions overseas, Elit Purnama ventured into the export market in 2006. The company has since been a successful recipient of MATRADE's MDG and the WTOP programme both in 2006 and 2007 respectively. As a result of these two programmes, the company is expected to benefit from three trade shows abroad and five international exhibitions this year alone. Marketing efforts thus far are already paying off and today some 20% of Elit Purnama's revenue comes from the export market, where the company is involved in designing and contract manufacturing garments for leading brands in Spain, France, Australia and Ireland. A recent marketing foray to the United States yielded another major new contract.

Founder Anita is quick to point out that the invaluable assistance given by MATRADE, which included business matching opportunities and allowing SMEs usage of MATRADE's offices abroad, was key in helping the company secure export contracts. Over the years, efforts have been made to improve product quality. Elit Purnama benefited from SMIDEC's Packaging and Product Development Grant which provided RM80,000 for product enhancement. Training and staff development has also been a key factor in building the business, and here training courses undergone by the staff and management include MATRADE's Women Entrepreneur Conference, while staff is sent for up to six MPC training programmes a year.

In addition, Elit Purnama is currently in the process of receiving assistance from SMIDEC's Soft Loan Scheme for Factory Relocation to set up its new factory. The company also receives reexport incentives from MIDA such as tax breaks on the import of fabrics. Anita attributes Elit Purnama's success to factors such as having a good understanding and knowledge of one's business and to the various Government programmes and incentives Elit Purnama has received. Anita also maintains positive thinking and the love of one's job as being fundamental to achieving success in life.

5. Roondy (M) Sdn Bhd

Roondy (M) Sdn Bhd was formed as a shoe manufacturing company in 1987. Its founder, Lewre Lew, started the company with dreams. He dreamt of making high quality, stylish shoes that could be appreciated by all. Soon after, Lew began to participate in international exhibitions. At that time, not many people were thinking of exporting. Exporting was mostly to Singapore and that too not even as an OEM, but only as supplier. Lew recalls people asking, "What you want to export to the U.S., Europe? *Bolehkah?*"

Roondy shoes made their international debut at the world famous GDS shoe Fair in Dusseldorf, Germany in 1991, thanks to the sponsorship of Matrade. The following years saw Roondy shoes exported to over 30 countries, with Roondy as an OEM for many brands. Lew dreamt of having his own brand. In 1995, after meeting with shoe legend Datuk Jimmy Choo, his resolve strengthened. In 1997, in the midst of the Asian crisis, the self-named Lewre brand was born and launched simultaneously in Malaysia and Germany.

The Lewre brand name has continuously shown remarkable growth. Within a year of its birth, it had made inroads into many of the fashion capitals of the world. Lewre outlets mushroomed all over the world with outlets in 20 countries, including Australia, New Zealand, the United States, Taiwan, Thailand, Singapore, Spain, The United Kingdom, Italy, Greece and the Middle East. Lewre also caught the attention of celebrities who began to clamour for Lewre's bespoke shoes. Since then the brand has been the darling of celebrities and the jet-setters.

Today, though 20% of its revenue is still via original equipment manufacturing, Lewre International Sdn Bhd exports to 25 countries. Half of its shoes are still locally manufactured and the local market accounts for 30% of sales.

6. Perusahaan Sindi Sdn Bhd

Perusahaan Sindi Sdn Bhd was established in 1983 in Penang. Malaysia. From its humble beginning as a small manufacturing facility, Sindi has become the trusted global icon in the swim products business. The Group is a major manufacturer and exporter of the most comprehensive range of quality swim products, from inflatable and foam swimming aids, swimwear for kids and adults, aquatic baby wear, learn-to-swim programs for kids, to a wide selection of swim caps and swimming accessories, and UV protected swim and beach wear.

With an annual sale of USD 15 million, Sindi exports its entire production to overseas markets in U.S.A. and Canada, Europe, United Kingdom, Australia and New Zealand, Japan and Russia under the major global brands, such as, Speedo, Arena, Tribord, Floaties, Kiefer, Eyeline, Kellogg's, Imagination, and Blue Seventy, among others. Sindi is now poised to become the world's leading designer and producer of the best water confidence and safety products.

Through the years, Sindi has committed much of its effort and resources to upgrade and sustain the quality and safety of all its products. All Sindi products are subject to the stringent control protocol, as well as the simulated testing for quality and safety, complying with The European and US quality and safety standards, and also TS Japan. The journey has indeed been arduous, challenging, but rewarding.

Sindi's success in becoming a global player in the swim products business can be attributed to the following factors: (a) the initiative of a team of visionary managers turned entrepreneurs, (b) the ability to win the friendship and trust of overseas customers, (c) the willingness to collaborate with customers and suppliers on a win-win arrangements, (d) the continuing acquisition of appropriate technology in product design and development, as well as in manufacturing, (e) the passion for quality and safety, (f) the practice of financial prudence and waste elimination as the dominant workplace culture, and (g) more importantly, the capability building and the retention of human capital in Sindi.

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