

VENDOR DEVELOPMENT PROGRAM AMONG SMALL AND MEDIUM INDUSTRIES (SMIS): A MALAYSIAN EXPERIENCE

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Abstract

The supplier-buyer relationship has been increasingly undertaken in recent years, by academics, consultants and operations management. Present and especially future development strongly urge for more systematic and transparent decision-making. Developing longer-term relationships and using longer-term contracts, are additional ways to manage, develop and improve supplier performance (Monczka et. al 1998) who, often becomes a partner with the purchaser. This paper investigates the supplier development programme initiated by the government of Malaysia to stimulate the economic growth through SMIs sector in co-operation with the large firms (LFs). The economic and industrialisation development propelled by the government has encouraged the development of SMIs working closely with large firms (LFs). This programme was successfully implemented when the government introduced it in the heavy industrial program - the manufacturing of national car PROTON in 1988. The success story of PROTON has initiated the government to disseminate this programme into other industries. Empirical findings from a survey of 15 SMIs and 6LFs (from 4 different industrial sectors) within the Klang Valley in the supplier development programme indicated that the success rate is not encouraging. Suppliers lack skills and financing to make the necessary investments in training, new technology, research and development to make an effective partnership with final producers.

INTRODUCTION

To be an industrialised nation, manufacturing has to play a dominant role at the expense of agriculture and rural development (Todaro 1994; Jomo 1993; Chowdury and Islam 1997; Alavi 1996). In many countries, multinational corporations (MNCs) have helped accelerate the process of industrialisation (UNIDO 1995; Alavi 1996; Anuwar and Wong cited in Jomo 1993). In the Newly Industrialised Countries (NICs) of South Korea, Taiwan and Singapore (Chowdury and Islam 1993), the implementation of import substitution (ISI) initially and later export-orientation (EOI) strategies (Alavi 1996; Jomo 1993) has assisted to accelerate the manufacturing sector. Latterly, Malaysia has developed its manufacturing sector through export-oriented strategies, which has led to the emergence of many large firms (e.g. PROTON – the national car manufacturer). Malaysia then became one of the 'Tigers Economies' of South East Asia. The country's economy has been transformed since the last thirty years through a process of rapid industrialisation through foreign direct investment (FDI) which has been at the heart of this transformation, with (MNCs) playing a crucial role.

The country's impressive records of economic development in recent years are well documented (before the Asian crisis mid-1997). With an average growth rate of above 8% for seven consecutive years, a considerable low inflation rate and

sustained export growth is indeed an achievement incomparable with any other developing or developed countries. However, critics of government policies have pointed out its incoherence in the past two decades by many economic commentators (Anuwar and Wong 1993; Lim 1992) on the country's industrial process to sustain long-term economic growth and also commented on the significance of the role of SMEs. Later in 1996 (in the Sixth Malaysian Plan-MP6) the government, has positioned SMEs as the keystone in the economic and industrial policy. This has been supplemented with the set up of well-organized government agencies such as the Malaysian Industrial Development Agency (MIDA), Ministry of Entrepreneur Development (MED), and the Ministry of Finance (MOF) etc., which illustrates the significance of SME to the overall government economic policies. This continued interest form a policy perspective that has been manifested in the 1st and 2nd Malaysian Industrial Master Plans.

The importance of SME's towards the industrialization process was observed by UNIDO (1995); that successful programs of industrialization are those, which move towards increasing the absorption capabilities of SMEs to make them attractive to large enterprises. A strong SME sector is vital to a buoyant economy, creating jobs, providing the foundations for large companies of the future and contributing to the country's long-term growth. In fact, it has been a fundamental building block of Japan's manufacturing strength area in its SMEs (Hines, 1994). In addition, SMEs have an important role in revenue and will increase domestic value-added; they strengthen industrial linkages between large firms and SMEs as suppliers of components. In Columbia, the expansion of SME has contributed to the rapid growth in production, employment, and above all the country's economy, especially in the manufacturing sectors (Cortes, *et. al.*, 1987). It has also contributed to other countries such as South Korea (Song, 1990; Rhee, 1994; Robert, 1994), Thailand (Thongpakde *et.al.*, 1994), Indonesia (Thee, 1994), Singapore (Soon, 1994) and Taiwan (Schive and Jeen-Hwa, 1991). Thus, the Malaysian government has taken initiatives to accelerate the development of SME so that it will be one of the primary foundation for the country's future industrial thrust (Mahathir, 1995). Malaysia is no exception. In visualizing the Vision 2020 that is to be a fully developed and industrialized nation and the future progress toward that end is seen to depend greatly upon the development of SMEs.

Nonetheless, while SMEs are seen to have an important future role in generating employment opportunities, securing home markets, earning of valuable export revenue, and strengthening of industrial linkages; the evidence of success in nurturing SMEs to effectively fulfil such roles is currently interspersed with the disappointment at the lack of progress in many areas of potential SME development within Malaysia (Wyer and Mason, 1999).

At the pace and nature of the recent economic growth and development, there is a real need to support the SME enhancement within the context of the major challenges facing future Malaysian economic development. The future challenges confronting Malaysian economic development will see substantial change in the nature, and complexity of the problems with which SMEs will have to cope, thus requiring high level management skills and creative and innovative support approaches from the government. The large corporations are to assist SMEs managers to create market in their linkages with large corporations.

In Malaysia, the majority of the manufacturing companies fall under SME¹. The majority of SMEs are owned by Malaysian, while foreign-owned SMEs accounted for 23 per cent of medium-scale establishments and 3 per cent of small-scale establishments. Local SMEs are generally labor intensive and many do not use state-of-the-art technology and equipment. According to an Industrial Research conducted in 1988, there were 28,335 manufacturing associations in Malaysia in which 92.6% of them are SME companies which create 40.2% job opportunities for the whole industry. In addition, it was also revealed that 69% of the SMEs company comprises family or individually owned companies. On the capital aspect, 77% of them have capital less than RM50,000 while 10% is between RM50,000 - RM100,000 and the remaining 13% has a paid up capital between RM100,000 - RM500,000.

However the productivity of SMEs are still behind the overall amount produced compared with larger industries (NPC, 1997). SMEs productivity output only amounted to RM11,900 compared to larger industry productivity output that holds up to RM33,700. The capital intensity on the other hand for each worker has only reached RM12,300 compared to RM45,000 for larger industry.

The above information indicates that Malaysian SMEs are still far behind the pace of larger industries. In order to fulfil the government's aspiration to develop Malaysia as an industrial country in the year 2020, many approaches have been studied to develop SMEs in a systematic and well-planned manner at every level of implementation stage. The approach of this paper is to examine, within the context of the impressive and remarkable record of economic development on the government effort on the Vendor Development Program (VDP) under the responsibility of the Ministry of Entrepreneur Development (MED). It has been a long-term view to develop the SMEs to become the eventual manufacturer and supplier for industrial inputs (parts and components), machinery and equipment for the MNCs/Local Large Scale Industries (LLSIs). Therefore this paper will try to answer these questions:

- To what extent has the government policy been successfully implemented and what are the factors that influence the failure or success of SMEs at the implementation stage?
- To examine and evaluate the effectiveness of the program in achieving buyer-seller partnership and determine key lessons for policy makers, academician and practitioners.

The results of the research have strong implications for all companies and related government agencies who will face the need to effectively manage the program. However, before these results are presented a short review of the VDP and supplier management literature will be given, followed by a detailed explanation of the research methodology.

¹ Effective from January 1998, the new definition for SMEs: Small scale industry consists of local companies with 50 or less full time employees with annual sales turnover of not more than RM10 million. Medium scale industry comprises local companies employing between 51 and 150 full time employees with annual sales turnover of RM10 million to RM25 million.

Vendor Development Program (VDP)

The objective of VDP (theoretically known as supplier management and development) is to develop Malaysian SMIs as competitive manufacturers and suppliers of components required by large industries and MNCs for local and overseas market through industrial linkages. Later, VDP was extended to the whole industries to establish the Bumiputera Commerce and Industrial Community (BCIC) and the middle class entrepreneurs. Under this program it is intended that they play the role of the vendor (supplier) company to manufacture and supply parts and components to large local companies including MNCs. In the long run, it is expected that SMIs will be able to transform to become large-scale companies in the manufacturing sector, which do not mainly focus on supplying parts and components to local markets but also penetrate into the international market. It is also expected, eventually that these vendors would become 'Owned Brand Name' (OBN) manufacturers in their own rights.

As well as stimulating the growth of the SME sector, the policy sought to address issues of uncompetitiveness, location and simplification to the institutional structure responsible for the oversight of SMEs. Specific problems identified in the SME sector included low level technology, lack of finance, low production volumes, managerial inefficiencies and poor linkages. The later were seen as particularly important in terms of the country's development.

To stimulate the capability of SMEs as suppliers to large enterprises, an eminent policy initiative known as the Vendor Development Program (VDP) was established and implemented in 1988. This was also aimed at SMEs manufacturing components for large-scale manufacturers. Currently the program covers six industrial sectors: automotive, electrical and electronics, rubber, plastic and light engineering. Under the scheme large firms are appointed as 'anchor' firms linked to a number of SME vendors. Examples of specific schemes under the VDP include:

- Perusahaan Otomobil Nasional (Proton) Component schemes. Launched in 1988, Proton was the anchor firm tasked with developing Malay (Bumiputera) SMEs in the automotive sector
- Electrical and Electronic Components Scheme launched in 1992 with Sharp, Sapura, Matsushita, Sony, Hitachi, JVC and Phillips acting as anchor firms to develop SMEs in the electrical and electronic sectors.

Under the VDP, anchor firms are required to work in close partnership with their associated SMEs. Through partnership SMEs are expected to gain a better understanding of the manufacturing requirements of large firms (LFs). These are extended to meeting required specifications and tolerances, achieving deliver targets and meeting quality requirements. Anchor firms are required to give SME personnel access to manufacturing processes in order to enhance their technical knowledge and skills.

This program is run by committee members comprises official from MED (acted as chairperson and secretariat), Economic Planning Unit (Prime Minister Department), Implementation Coordination Unit (PM Department), MOF, Small Medium Industries Development Corporation (SMIDEC), Central Bank, MIDA, National Entrepreneur Limited Corporation (PUNB), relevant technical agencies such as Standard Institute of Research and Industries of Malaysia (SIRIM) on behalf of the government. Then come the representatives from the anchor companies (the large

industries) and the banks/financial institutions (Figure 1). Each agency has its specific function to assist the SMEs in their own capacity. The main tasks of the committee comprised of:

1. Formulation of the scheme's implementation policy.
2. Ensuring smooth implementation of the scheme.
3. Coordinating and facilitating the channeling of assistance and management consultancy to the vendors.

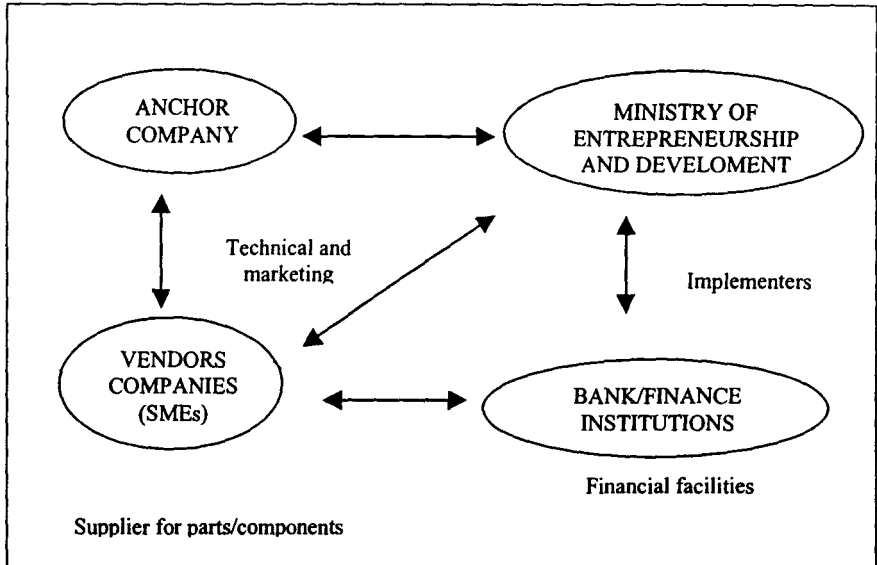
The future of VDP will comply with the nation's new industrial strategy, which will focus more on new approaches, such as in aerospace and ship building, by encouraging participation of more MNCs and large-scale industries (LSIs) as anchor companies in the high-tech industry. The involvement of such companies could assist, nurture and expedite the development of SMI companies in the manufacturing of equipment and components as well as providing the industrial support for the respective sector. Secondly, decentralization of the program whereby as VDP grows, it becomes more complicated to be handled just through one division under the MED. To ensure that more vendors could be established throughout the country to serve MNCs and LSIs in all the states; the co-operation of State Economic Development Corporation (SEDC) is inevitable. Thirdly, a periodical factory visits by representative of MED, an anchor company and banks/financial institutions. It is aimed to improve the factory condition, production, and management as well as building up good mutual relationship among the parties involved and thus all problems incurred could be identified, analyzed and solved for the betterment of vendors. Fourth, the participation of sub-vendor in the VDP, in order to encourage more entrepreneurs participating in this program, the anchor companies and their vendors are advised to develop sub-vendors under them. This mechanism will give a multiplier effect in which more sub-vendors could be developed and later on, be upgraded to vendor status in the future. The commitment of the anchor companies to convince their vendors to appoint sub-vendors is very important under this approach. The benefits of these new strategies are:

1. To expedite and facilitate the development of local SMI vendors.
2. To create good linkages between vendor, anchors, and government.
3. To fully utilize idle machinery and equipment.
4. To market and promote parts and components produced by local SMIs.

Presently, there are various schemes provided by the Government to strengthen industrial linkages such as expenditure incurred by large companies, including MNCs in providing technical assistance to the SME as the suppliers of components, which are not allowed as a deduction in the computation of income tax. The expenditure allowed includes expenditures incurred for the training of employees, product development and testing and factory auditing to ensure the quality of vendor products. In addition, SMIs that are suppliers of components to large companies will be granted Pioneer Status.

Figure 1

The Vendor Development Program



As an additional incentive, it is proposed that SMEs, which produces intermediate goods in an approved scheme be granted Pioneer Status with 100% exemption or Investment Tax Allowance of 60 percent with 100 percent exemption on the statutory income.

Further, to encourage vendors to produce intermediate goods for the international market, it is proposed that vendors, in an approved scheme and capable of achieving world class standards in terms of price, quality and capacity, be granted Pioneer Status for 10 years with 100 percent exemption on its statutory income.

Supplier Management

Supplier management has been defined as a co-operation effect between a buying firm and its suppliers to upgrade suppliers various capabilities in the area of quality, cost-cutting, delivery and technology development (Watts and Hahn, 1993). While, Ellram and Krause (1994) define it as an effort of a buying firm with a supplier to increase the performance and/or capabilities of a supplier and to meet the buying firm's short and/or long-term supply needs.

Supplier management has attracted the interest of researchers and practitioners who have recognised that supplier plays a vital role in improving manufacturing performance (Monczka *et. al.*, 1998). This is because effective supplier management reduces costs (Hines, 1994; Coote, 1996), close long-term relationship (Landeros, 1995) and leads to higher quality (Sako, 1992; Lascelles and Dale, 1989; Nishiguchi, 1994). Other benefits include better delivery performance (Giunipero, 1990) and support for new product development (Womack *et. al.*, 1990) both of which lead to competitive advantage.

The development of long-term collaborative relations with other operating partners in the supply chain represents one of the fundamental elements of good business management systems. The theme of partnerships between buyer and seller

can improve profitability for all parties (Ellram, 1991). In the environment of a high degree of co-operation, buyers and sellers are increasingly involved in relations that aim to maximise the efficiency of the whole supply chain in which they operate. Nishiguchi (1994) through his extensive research stressed that the Japanese manufacturer can produce such a great variety of goods with speed and quality, outnumbering their competitors which was indeed significant to supplier-buyer relationship and are the heart of world-class manufacturing in Japan's two most successful industries, automobile and electronics.

However indeed, developing company-supplier relationships is not a straightforward process. Lascelles and Dale (1988) in their studies of product quality improvement from 300 United Kingdom-based suppliers and 3 major automotive customers through supplier development found that supplier development requires a fundamental shift in the supplier-customer relationship. Lascelles and Dale argue that companies should treat their suppliers as long-term business partners and suggested six activities in the areas. (1) Customers' companies should establish and articulate program objectives and set priorities for action. (2) Identify key suppliers as potential long-term partners, make plans to reduce supplier base and recognize suppliers that achieve preferred status. (3) Communicate the program objectives and methodology to key player. (4) Assess the capability of suppliers to meet purchase requirements. (5) Engage in advanced quality planning and develop an ongoing quality improvement relationship with suppliers, based on a free exchange of information. (6) Formally recognize suppliers that achieve preferred status.

Research carried out by Galt and Dale (1991) revealed that Japanese motor manufacturer relationship with their suppliers was entirely different from that of UK motor manufacturer; the Japanese maintain fewer suppliers and therefore the portfolio was easier and less costly to manage; and the relationships were very close, problems were discussed openly and solved together. The technical expertise of suppliers was recognized and they worked with the manufacturers on new designs; and suppliers were totally committed to their customers' objectives and were able to identify improvements that their customers could make as well as buyer identifying changes required at suppliers.

Several researches were conducted within the Asian countries such as (Hahn *et. al.*, 1989 in South Korea; Soon, 1994 in Singapore; Thee 1994 in Indonesia and Thongpakde *et. al.*, 1994 in Thailand) but little has been done in Malaysia, to name a few Rasiah (1990); Salleh (1991); Lim (1988) and Musa (1997). From their studies, there were some significant positive results on the vendor program, however they revealed a number of shortcomings in implementing the program. Furthermore, most of these researches were conducted in the automotive industry and few in electronic industries.

From the literature review it can be seen that supplier management is an increasingly important aspect of competitive manufacturing. Supplier management is an important area for continuous research and due to the prominence of this sector in the Malaysian industrialisation program. The lack of local research and general issues needed for more understanding of the importance of buyer-supplier long-term relationship and within an exploratory study, development of supplier relationships are all important topics to investigate. Consequently the researcher wishes to investigate, whether SMEs in Malaysia faces such difficulties so that the government's effort to implement the vendor development scheme will materialize through its policy.

Research and Data Collection

This research is designed to examine the vendor development program, which is specifically selected because the above program was quite successful in the automotive industry. The government was trying to emulate this success into other sector of industry in particular to get the bumiputera (indigenous) entrepreneur involvement.

Personal interviews were conducted rather than mail questionnaires because of the expected low response from the recipient and the complex nature of the issues involved, weighed against such approach. Therefore, the exploratory nature of the research and the problems of conducting research with companies based in Malaysia led to the choice of case study methodology. Case studies allow an objective, in-depth examination of contemporary phenomena, where the investigator has little control over events (Yin, 1989). However, if they are rigorous and well designed, case studies can offer a truly scientific research approach (Miles and Huberman, 1994).

Following this, semi-structured questionnaire, interviews and surveys of governments officials who are directly involved in the SME development (such as MITI, MED, SMIDEC, NPC and other related agencies) in Kuala Lumpur and Petaling Jaya were conducted (Klang Valley). A survey on personal interviews was conducted on SMEs (vendors) and large industries according to industries selected that is (1) automotive; (2) telecommunication; (3) electrical and electronic; and (4) energy sector, to examine the effectiveness of vendor program. List of SMEs participated in the VDP were obtained by visiting the local government office (i.e. MED). Details of more than 80 companies (Table 1) from various industries were obtained and from these samples 15 SMEs were selected. These 15 SMEs were linked to 6 large anchor firms in the automotive, energy, electrical and electronic and telecommunication sectors, as indicated in Table 2.

Table 1
Achievement of VDP (Nov 1999)

Country of origin	No.	
Japan	30	37.50
USA	5	6.25
Germany	1	1.25
Taiwan	2	2.50
France	1	1.25
Australia	1	1.25
Korea	1	1.25
Malaysia	38	47.50
New Zealand	1	1.25
Total	80	100.00

Sector of Industries in the VDP

- Automotive
- Electric and Electronic
- Plastic
- Rubber
- Machine and Engineering
- Furniture
- Telecommunication
- Filming
- Exports and Trade
- Ship building and maintenance
- Motorcycle
- Food
- Services
- Textiles
- Building Components

Table 1
Anchor Firms and Associated SMEs

<i>Anchor company</i>	<i>Sector</i>	<i>No. of SMEs</i>
Proton	Automotive	4
Perodua	Automotive	2
EPE	Energy	2
JVC	Electrical/Electronic	2
Sharp	Electrical/Electronic	2
Sapura	Telecommunication	3
<i>Total</i>		15

Research Findings

Several government agencies were visited especially those that are related to the SME development and are discussed below. However, MED are already discussed at length in the VDP subsection.

The Malaysian Industrial Development Authority (MIDA) is an agency mainly responsible for industrial development promotion and co-ordination, policy-making of industrialisation, tax incentives, labour forces, technology and infrastructure. It provides an industrial site for SMEs to operate their production. National Productivity Corporation (NPC) was established as the principal institution to improve national productivity and quality upgrade managerial and supervisory skills and competence through training and development programme, research and consultancy. Function of the SME development department is to improve quality, productivity and output of SME.

Standard Industrial and Research Institute of Malaysia (SIRIM), as the national primer mover in industrial research and development of product and services through excellence in technology and quality. The SME development department was set up to enhance SMEs competitiveness through quality and technology training programme and higher education courses for the SMEs. SME are encouraged to come and use the testing laboratories and expertise available to test their products.

Ministry of International Trade and Industry of Malaysia (MITI) is responsible for planning and the implementation of international trade and national industrial policies to enhance economic growth and upgrading the level of competitiveness of Malaysian products and services globally. In addition, the agency is also responsible of formulating policy in trying to strengthen linkages between one big company and supporting industries.

SMIDEC (Small and Medium Industry Development Corporation) with the basic objectives of co-ordinating the overall development of SME and to developing SME into a company that is reliable, efficient, and competitive capable of offering quality products, parts and components and services with high value-added content. SMEDEC will emphasize linkage program that helps to form a linkage with the large enterprises. Under this approach SMIDEC is trying to promote the SME manufacturing by supplying critical parts and components to the larger anchor companies.

Under the Prime Minister department, the Economic Planning Unit (EPU) has been supportive on SME development, by providing provision of incentives and infrastructure facilities to stimulate private sector. These includes fiscal incentives, tariff protection, industrial estate land to developed a modern SME.

All the departments visited above are not directly involved in the daily operation of the VDP. They form as advisory and policy makers, except MED, where the anchor companies and SMEs can meet whenever available. The majority of the SMEs shy away from seeing the above government agencies even though they are facing very crucial issues.

It was revealed that there are two programs of linkages between the large firms and SMEs: First, a vendor program initiated by the anchor firm itself without government intervention. Second, the Vendor Development Program (VDP) supported by the government. The author has focused on the program under government initiatives - VDP, because it was directly a government policy. The program was formerly under the Malaysian International Trade and Industry's (MITI) supervision but later moved to the Ministry of Entrepreneurship Development (MED) that established a special division called Vendor and Franchise Department.

Thirdly, before the economic crisis hit the country, this program was run successfully (especially PROTON) as reported in the Implementation Progress Report VDP by MITI in May 1995 (before moved to MED) as:

1. Creating a market between SME and large-scale local companies/MNC through industrial linkages;
2. Technical and financial assistance able to increase the SME (vendor) capacity;
3. Creating confidence to other large scales companies/MNC and creates more market opportunities for the SMEs;
4. That vendors companies are more bankable to get facilities from the financial institutions; and
5. Creating better opportunities to vendor companies to penetrate local market and international market.

The economic crisis that hit the country and many other Asian countries in the mid-1997 due to the collapse of stock exchange and depreciation of currencies have tarnished the whole economic growth and business environment. Many large companies are badly affected such as the national car manufacturer (PROTON) has reduced its production due to poor demand. The poor demand was derived from the people income depreciated drastically. It was so critical that PROTON has to reduce their production volume to 60 percent that directly tarnished the supply of components and parts by the SMEs (vendors). The SMEs are badly affected. During the interviews, to those SMEs under the VDP of PROTON, they too have lowered their production capacity. For example, before the crisis, there were running at two shifts, but later have to run one shift. Unfortunately, PERODUA VDP was only able to develop eight vendors and only 2 SMEs are operating.

However, in the electric and electronic (E&E) industries, they are slightly better than the PROTON SMEs. The demand from SMEs to supply the anchor companies has not depreciated. But they are aware and taking precaution should thing happen in future.

In the telecommunication industry eventhough they have accepted the government initiatives to develop VDP, they lack the implementation experience in executing the program. It was revealed that the anchor companies stills practice bidding process for low prices among the suppliers. This practice discouraged the vendors in the program, as there are still in the nurturing process to compete. Furthermore, Anchor Company tends to favor their own subsidiaries (SMEs) in offering subcontracting.

The author wish to highlight, as advocated by Hines (1994), the Japanese was successful in developing supplier relationship between anchor company and its vendors because of the existence of such association like *Kyoryuko Kai*. Unfortunately, there was no such supplier association to support the growth of VDP within the surveyed industries, except for Proton Vendor Association (PVA). The PVA has helped to nurture the vendor's members to be competitive to support PROTON and it proofed to be successful. Therefore, such existence of association is a very significant contribution to spur the development of such program.

Almost all the firms surveyed (87 per cent) said that they were actively seeking to make their business competitive in term of global market requirements. Plagued by the economic crisis, many anchor companies have reduced production significantly, that resulted in local demand saturated and in order to survive they need to penetrate overseas markets. Many SMEs are not prepared to go international due to quality problem and lack of expertise on technical and marketing at international level.

However only just over a quarter (27 per cent) of the SMEs surveyed rated the VDP as achieving its objectives. The rest were unequivocal in describing the scheme as unsuccessful. The reasons cited for the scheme's poor performance ranged from lack of interest in partnerships on the part of the anchor firm to too much political influence. When the economy was prosperous, they were many small companies established, to take advantage of the large firms being run by someone who has influence in the company. SMEs were established to support those large companies because there was someone who has political influence to support the small company. Thus, these small companies were set up not because they have expertise in their specialization but rather someone influential is in the large companies. So, these entrepreneurs do not have the perseverance to undergo the hardship in case of turmoil as what is happening now.

Suprisingly, 73 per cent of the SMEs said that there was a lack of support for the partnership on the part of the anchor firm with whom they were working. The root of the misunderstanding between the suppliers and the buyer is lack of dual free two-way communication. Everyone is accusing each other for the failure of the program. Good communication and trust are required to facilitate information exchange and is a prerequisite in good partnership (Sako, 1992). Communication and commitment are critical in order to achieve the true benefits of good relationships.

Plagued by the economic crisis many small firms are in deep financial troubles. Sixty per cent of SMEs are more interested in obtaining government funding than operating the scheme effectively. In addition, 75% of the SMEs unveiled that they are still not bankable to get facilities from financial institutions. As a result without government financial support to revive their cashflow, many small SMEs will face bankruptcy. Under this crucial condition, the approval of RMI.5b to save these SMEs should be taken up immediately and efficiently.

Of all the firms surveyed many indicated that they performed no research and development except for two SMEs, which had received some kind of support from the anchor firm in remedying this situation. Much help depends on the anchor company or from SIRIM. SMEs lack innovation and would only wait for the support from the anchor companies, to develop new products.

Summary and Conclusion

Except SMEs from Proton, other SMEs are still at premature stage in this program. Most of the SMEs (90 per cent) started joining the program in 1994 and they are 100 per cent indigenous bumiputera entrepreneurs. In the literature review, the value of long-term relationship with suppliers, the so call partnerships have been strongly advocated. However, this concept of partnerships and long-term relationships are mainly short-term or do not exist. All case companies monitored their suppliers on various criteria including quality, delivery, service and price. The main reason for this was to maintain standards. Almost 60 per cent of the anchor company commented that these SMEs quality still need further improvement, among other reasons due to lack of innovation and technology utilization. The anchor companies are satisfied (85 per cent) with their delivery and reliability as long as the schedule planning is agreed between them. Since this VDP is new, most anchor firms are developing and encouraging new SMEs, especially the bumiputera entrepreneurs to participate in the program rather than to practice the policy of reducing their supplier base (Monczka *et. al.*, 1993; Landeros *et. al.*, 1995). As mentioned earlier, there are SMEs in operations due to their influence to get support from the anchor or some other agencies.

The above findings evaluation is far from a comprehensive evaluation of a particular aspect of industrial policy, nonetheless the picture that emerges from this major finding in that part of Malaysia's industrial policy, seeks to further develop the SME sector.

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