

**A Critical Analysis of Policy Initiatives
Involving Small and Medium Enterprises
In Malaysia**

By

Abu Bakar Abdul Hamid

A thesis submitted in partial fulfilment of the requirement for Doctor of Philosophy to
Derbyshire Business School, University of Derby

September 2003

Abstract

This thesis is a study of Malaysian government policy for stimulating the role of small and medium enterprises (SMEs) in economic and industrialization growth. It was envisaged that SMEs would be one of the primary foundations for the country's future industrial growth. Besides being playing a major role in generating employment, SMEs were to be critical in strengthening industrial linkages, penetrating the markets and generating export earnings. It had been emphasised that there is a need to set programmes into the industrial process which enhance industrial linkages between SMEs as suppliers of parts and components and large enterprises. However, as reported by UNIDO (1995) the implementation of such programmes have not always been successful in developing countries due to lack of communications between agencies, lack of private sector investment, inconsistency in implementation and unfair regulatory burdens placed on SMEs. Furthermore, the government of Malaysia (1995) commented that common features of SMEs are poor quality, delays in delivering their services, absence of technological innovation and a lack of managerial capabilities. For the empirical study, a survey and an in-depth case study were conducted to determine the government policies for encouraging linkages between large firms and the SMEs, specifically the vendor development programme (VDP) and the local content requirement programme (LCR). The study uses the rich data of interviews and observation to evaluate critically the positive and negative lessons from the two initiatives. The results from the study show that SMEs and anchor companies welcomed government policy to stimulate SMEs. However, several failures of the VDP were recorded at the implementation stage. In contrast the LCR had few critical problems and benefited SMEs and anchor companies. Numerous incentives available in the promotion of SMEs have not fully benefited SMEs overall due to implementation obstacles and the managers' preference to concentrate on the daily operation of their SME. The concept of close relationships between an anchor company and supplying SMEs is still relatively new and there was evidence in the failure of SMEs and anchor company to communicate openly. Nonetheless, within the study the performance of SMEs in fulfilling the operating requirements was encouraging as evidenced by the absence of negative comments from the anchor companies regarding on the delivery, quality and cost of the SMEs. The study recommends that there should be a continuous communication and commitment between anchor company and the SMEs with periodic visits and monitoring by the appointed government agency. In addition lessons should be learnt from the operating of the VDP concept by Proton and Japanese firms. Finally, anchor company should have a high level of market access either to domestic and overseas markets.

Acknowledgement

Acknowledgement is given to many people and organisations that have provided inspiration and guidance throughout the research period. I would like to thank those people at University Teknologi Malaysia (UTM) for their generous support throughout the research particularly Haji Salleh, Ebi, Rohaizat, Hisyam, Nek Fauziah, Rosmidah and Azri.

For commenting on the thesis, I am indebted to people at the University of Derby. I would also like to thank Prof. Alan Clarke, W. Murphy and Prof. D.J. Smith, for their ideas and inspiration for the completion of a daunting piece of work. Without these people in the supervisory team, the thesis would still remain incomplete. Thanks are also due to my fellow researchers at the University of Derby including Suzana, John, Razib, Wan, Spring, (to name a few) for their willingness to share ideas and experiences.

Finally, I am indebted to my parents and family who have encouraged me to produce my best work. My wife, Siti Norliza; and my children: Nazri, Adziim, Intan, Kak Wa, Ameen, Izza and Najmia have been a constant source of encouragement for the completion of this thesis.

LIST OF CONTENTS

ABSTRACT	I
ACKNOWLEDGEMENT	II
LIST OF TABLES	VII
LIST OF FIGURES	VIII
LIST OF ABBREVIATIONS	IX
CHAPTER I INTRODUCTION	1
1.1 Overview of the Small and Medium Enterprises	1
1.2 Statement of Problem	7
1.3 Objectives of the Study	11
1.4 Scope of Study and Methodology	12
1.5 Thesis Organisation	13
CHAPTER II MALAYSIA ECONOMY, PERFORMANCE & PROBLEMS	14
2.1 Introduction	14
2.2 The Malaysian Economy – prior to the crisis	15
2.3 The background of Malaysian Industrial Development	21
2.3.1 The Industrial Era	24
2.3.1.1 Phase 1	25
2.3.1.2 Phase 2	26
2.3.1.3 Phase 3 and 4	28
2.4 The Manufacturing Sector	33
2.6 International Trade	34
2.7 Balance of Payment	36
2.7 The Asean Economic Crisis- How it Affected Malaysia	38
2.8 Conclusion	41
CHAPTER III LITERATURE REVIEW	44
PART A GOVERNMENT SUPPORT FOR THE DEVELOPMENT OF SME LINKAGES IN MALAYSIA	
3.1 Introduction	44
3.2 Industrial Structure	44
3.3 SMEs Role in Industry Policy	46
3.4 Definitions of SMEs	51
3.5 SME Characteristics and Contributions	54
3.6 SME Policy Initiatives	58
3.7 The Development of SME Policy	59
3.7.1 SME Promotion Policies	59

3.7.2	SMIDEC	65
3.7.3	Development of Linkages – Linkage SMEs and large firms to develop manufacturing base	67
3.7.4	The Implementation of VDP	70
3.8	Specific Policy Initiatives	74
3.8.1	Strategic Alliances between Large Enterprises and SMEs	74
3.8.2	Policy Initiatives on Subcontracting	79
3.8.3	The Policy of Localisation	81
PART B	SUPPLIER DEVELOPMENT RELATIONSHIP	86
3.9	Supplier Development/Supplier-Customer Relationships	86
3.9.1	Definition	87
3.9.2	The importance of supplier management	88
3.9.3	Organisation of Supplier Association (<i>Kyoryoku Kai</i>)	96
3.10	Conclusion	98
CHAPTER IV	METHODOLOGY	105
4.1	Introduction	105
4.2	Objectives of the research	109
4.3	The First Survey	110
4.4	Application of the Case Study	113
4.5	Research Design	118
4.6	Case Study Method Research	120
4.7	Detail of the second field research	121
4.8	Data and information collected through interviews	123
4.9	The use of interview materials	123
4.10	The quality of research design	124
4.11	Direct observation	125
4.12	Interviews	126
4.13	Gaining and Maintaining Access	127
4.14	The Role of the Researcher	128
4.15	Analysing Data	131
4.16	Conclusion	133
CHAPTER V	RESULT OF FIRST SURVEY	134
5.1	Introduction	134
5.2	The nature of Business of the anchor companies and SMEs	135
5.2.1	The nature of business of the anchor companies	135
5.2.2	The nature of business of SMEs in the VDP	140
5.2.2.1	Ownership Status of the LF and SMEs	148
5.2.2.2	Locational Site of the Sampled Firms	150
5.2.2.3	Size of the sampled firms	150
5.2.2.4	Age of the sample firms	151
5.3	Government policy SME support programme from the Sampled firms	154

5.3.1	Government assistance in terms of grant	155
5.3.2	Research and Development	156
5.3.3	Political link between anchor and vendor	156
5.3.4	Competitiveness in the global market	157
5.3.5	The success rate of the programme	158
5.3.6	High dependence on anchor company	159
5.3.7	Criteria for measurement of performance	161
	5.3.7.1 Comments on quality	161
	5.3.7.2 Comments on schedule delivery	161
	5.3.7.3 Comments on costs (pricing)	162
5.4	Comments on the LCR and VDP	163
5.4.1	Localisation of programme and raw material	163
5.4.2	The Vendor Development Programme	164
5.4.3	VDP in the current economic crisis	167
5.4.4	Developing into partnership between SMEs and anchor companies	169
5.5	Proton case	170
5.6	Other government agencies	177
5.6.1	Malaysian Industrial Development Authority (MIDA)	177
5.6.2	National Productivity Corporation	178
5.6.3	Standard Industrial and Research Institute of Malaysia (SIRIM)	180
5.6.4	Small and Medium Industry Development Corporation (SMIDEC)	184
5.6.5	Ministry of International Trade and Industry (MITI)	188
5.7.	The Association	192
5.7.1	Small and Medium Industries Association of Malaysia (SMIAM)	192
5.7.2	Federations of Malaysian Manufacturers (FMM)	195
5.7.3	Proton vendor Association	197
5.8	Conclusion	206
CHAPTER VI FINDINGS FROM AN IN-DEPTH CASE STUDY		213
6.1	Introduction	213
6.2	The evolution of the telecommunication industry	214
6.3	Overview of Sapura Holdings	217
6.3.1	Telecommunication	219
6.3.2	Information Technology	221
6.3.3	Metal-based industries	223
6.3.4	Research and Development	225
6.3.5	Other related business	226
6.4	The Role of Sapura in Economy, Government Policy and the VDP	227
6.4.1	The Shortcoming of the VDP	228
6.5	Teledata Sdn Bhd/Jususan Surai Sdn Bhd	233
6.5.1	History and Business	233
6.5.2	Share Capital and Directors	234
6.5.3	Production facilities	234
6.5.4	Research and Development and Local Content Policy	235
6.5.5	Quality Control	236
6.5.6	Customers, market Share and Competition	236

6.5.7	Vendor System	237
6.5.8	MD Personal Comment on VDP	237
6.5.9	Pricing comment	238
6.6	Agisson Plastic Industries Sdn Bhd	239
6.6.1	History and Business	239
6.6.2	Production facilities	240
6.6.3	Raw material	240
6.6.4	Customers, market and Competition	241
6.6.5	Poor Performance	243
6.6.6	Pricing	245
6.7	Samar Manufacturing (M) Sdn Bhd	249
6.7.1	History and Business	249
6.7.2	Share capital	249
6.7.3	Company policy and philosophies	250
6.7.4	Management Team	250
6.7.5	Production facilities	251
6.7.6	Raw material	252
6.7.7	The Vendor System	253
6.7.8	Localisation Programme	255
6.7.8	Price	255
6.7.9	Delivery	255
6.8	Pandan Saintek Sdn Bhd	257
6.8.1	History and Business	257
6.8.2	Quality commitment	258
6.8.3	Production facilities	258
6.8.4	Raw material	259
6.8.5	Management team	259
6.8.6	Customers, Markets Share and Competition	260
6.9.	Conclusion	261
CHAPTER VII CONCLUSION		263
7.1	Types of Policy	263
7.2	Findings from Survey and the Case Study	266
7.3	The relationship between large firms and SMEs in meeting operating Requirements and identifying where SMEs tend to be poor in their Performances	277
7.4	To examine and evaluate the effectiveness of the SMEs policy Initiatives – VDP and LCR	278
7.5	Critically analyse and evaluate the benefits of the government policy towards the two initiatives for both the LFs and SMEs	284
7.6	Additional research and recommendations	289
BIBLIOGRAPHY		292
APPENDICE		
	Appendix 1	

LIST OF TABLES

Table 2.1	Malaysia Key Data (GDP) 1994-1999	18
Table 2.2	Malaysia Key Data (GDP) 2000-2002	19
Table 2.3	Share of Industrial Sectors in GDP (%)	22
Table 2.4	The Malaysian Industrial Strategies	24
Table 2.5	Approved of Manufacturing Projects 1991-1995 and 1996-1998	32
Table 2.6	Growth of Manufacturing Industries, 1990-1995	34
Table 2.7	Gross Export of Manufacturer, 1990-1995	35
Table 2.8	Balance of Payment, 1990-2000	37
Table 3.1	Contribution of SMEs in Manufacturing Sector	56
Table 3.2	Contributions of SMEs towards value-added and Employment in manufacturing sector in 1989 from Several countries	57
Table 3.3	Local Content Items Achieved by Proton	82
Table 3.4	The Vendor Management Model	93
Table 4.1	Relationships between research questions, research strategies, instruments and research units	119
Table 4.2	Research questions in relation to the literature survey and research method	120
Table 5.1	Anchor companies and SME in the industry	139
Table 5.2	Legal Distribution of Sampled Firms by Ownerships Status	149
Table 5.3	Size of sampled firms	151
Table 5.4	Distribution of the sampled firms (SMEs) in age Group	152
Table 5.5.	Distribution of the sampled firm by age joining the VDP	153
Table 5.6	Distribution of grant as government assistance	155
Table 5.7	The success rate from the sampled firms	158
Table 5.8	Degree of dependence of vendors on its anchor company	160
Table 6.1	Sapura Holdings Five Year Record Year ended 31 January	218

LIST OF FIGURES

Figure 2.1	Map of South East Asia and Malaysian Industrial Areas	16
Figure 2.2	The Annual GDP Growth	20
Figure 3.1	The Vendor Development Programme	71
Figure 3.2	Conceptual framework of the study	104
Figure 4.1	Units of Analysis	107
Figure 4.2	Collection of information	122

LIST OF ABBREVIATIONS

AFTA	-	ASEAN Free Trade Agreement
ASB	-	Amanah Saham Bumiputera (Bumiputera Trust Fund)
ASEAN	-	Association of the South East Asian Nations
BCIC	-	Bumiputera Commerce and Industrial Community
EOI	-	Export Oriented Industrialisation
EPU	-	Economic Planning Unit
FTZ	-	Free Trade Zone
GDP	-	Gross Domestic Product
GNP	-	Gross National Product
HICOM	-	Heavy Industrial Corporation of Malaysia
ICA	-	Industrial Coordination Act
IMP	-	Industrial Master Plan
ISI	-	Import Substitution Industrialisation
LCR	-	Local Content Requirement
LF/LE	-	Large Firm/Large Enterprise
LLC	-	Large Local Company
LMW	-	Licensed Manufacturing Warehouse
LUTH	-	Lembaga Urusan Tabung Haji (Pilgrimage Management Council)
MARA	-	Majlis Amanah Rakyat (People's Trust Council)
MED	-	Ministry of Entrepreneurship Development
MIDA	-	Malaysian Industrial Development Agency
MITI	-	Ministry of International Trade and Industries
MNC	-	Multinational Corporations
MOF	-	Ministry of Finance
NEP	-	National Development Policy
NIC	-	Newly Industrialised Country
NPC	-	National Productivity Corporation
PNB	-	Permodalan Nasional Berhad (Nasional Investment Corporation)
PROTON	-	Perusahaan Otomobil Nasional (National Automobile Manufacturer)
PVA	-	Proton Vendor Association
PVD	-	Proton Vendor Development
RIDA	-	Rural Industrial Development Authority
RM	-	Ringgit Malaysia
SCX	-	Subcontracting Exchange Scheme
SIRIM	-	Standard and Industrial Research Institute Malaysia
SME	-	Small and Medium Entrepreneur
SMIDEC	-	Small Medium Industry Development Corporation
UDA	-	Urban Development Authority
VDP	-	Vendor Development Programme
MAS	-	Malaysian Airline Systems
KTM	-	Keratapi Tanah Melayu (Malaysian Railways)

CHAPTER 1

INTRODUCTION

1.1 Overview of the Small and Medium Enterprises

In the post Second World War era, economic progress and development comprising annual increases in gross national product (GNP) per capita (Todaro 1994) have been closely identified with industrialisation. 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 1997), the implementation of import substitution (ISI) initially and later export-orientation (EOI) strategies (Alavi 1996; Jomo 1993) has assisted the acceleration of the manufacturing sector. The development of the Malaysians manufacturing sector through export-oriented strategies for example, has led to the emergence of many large firms (e.g. PROTON – the national car manufacturer).

Malaysia's impressive record of economic development through the 1980s and 1990s is well documented (Bank Negara Report, 1998 i.e. The Central Bank of Malaysia). An average growth rate above 8% for seven consecutive years, a considerably low inflation rate and sustained export growth is an achievement

surpassing any other, either developing country or the developed countries (further details are discussed in chapter 2). However, economic commentators have criticised government policy for being incoherent in the past two decades (70's and 80's) (Jomo 1993; Anuwar and Wong 1993; Lim 1992) with the impact on the country's industrial process to sustain long-term economic growth and also commented on the significance of the role of Small Medium Entrepreneurs¹ (SMEs). Later in 1996 (in the Sixth Malaysian Plan) the government, however, positioned SMEs as the keystone in the economic and industrial policy. This has been supplemented with the set up of well-organised government agencies such as the Malaysian Industrial Development Authority (MIDA), the Ministry of Entrepreneurship Development (MED), and the Ministry of Finance (MOF) etc., which illustrates the significance of SMEs to the overall government economic policy. In practical terms, this continued interest from a policy perspective has continued since the 1st and 2nd Malaysian Industrial Master Plans. The hierarchy of the plan will be explained in chapter two. The Malaysian Plan is a five yearly long-term economic development plan for the country. The country started its five-year long-term planning with the First Malaysia Plan in 1965 until 1970 and now is into the Eighth Malaysia Plan from year 2000 until 2005. It is important to note that the Malaysian Industrial Master Plan (IMP) focuses only on the development of the industrial sector of the country.

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.

The importance of SMEs for the industrialisation process was observed by UNIDO (1995), noting that successful programmes of industrialisation are those which move towards increasing the absorption capabilities of SMEs to make them attractive to large enterprises. A strong SME sector is seen to be 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 recognised that a fundamental building block of Japan's manufacturing strength was its SMEs (Hines, 1994). SMEs are important to the final assemblers (the large corporations) because they support the industry through activity as subcontractors in a production system to supply parts and components or intermediate products.

SMEs have an important role, to play other than generating employment, revenue and increase domestic value-added; as they strengthen industrial linkages between large firms and SMEs as suppliers of components. Nonetheless, 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. In Columbia, the expansion of SMEs has contributed to a rapid growth in production, employment and above all in the country's economy especially the manufacturing sectors (Cortes, et. al., 1987). It has also contributed within 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 1991). Hence the Malaysian government took initiatives to accelerate the development of SMEs so that they could be one of the primary foundations for the country's future industrial thrust (Mahathir, 1995).

The increasing magnitude and significance of the SMEs is a recognised feature of most nations. Malaysia is no exception. In her vision to be a fully developed and industrialised nation by the year 2020, (Hamid et al, 1993) future progress toward that end was seen to depend greatly upon the development of SMEs. The “vision 2020” of the country recognised the importance to industrialise rapidly by capitalising on the country’s strengths and forcefully tackling the weaknesses. In pursuit of this policy, the government needs to deal with the problem of a narrow manufacturing base and further needs to diversify, because most of the Malaysian manufactured exports comes from the electrical and electronic sector (50 per cent of the total manufacturing) and the textile industries. Furthermore there is a need to generate local intermediate products and strengthen weak industrial linkages. Furthermore, there has seen an inadequate development of indigenous technology, too little value-added, too much simple assembly and production. There is also a need to counter the rising production costs, by improving efficiency and productivity, and to overcome the serious shortage of skilled manpower (Hamid et al 1993).

The evidence of success in nurturing SMEs to effectively fulfil such roles is currently interspersed with disappointment at the lack of progress in many areas of potential SME development within Malaysia (Wyer and Mason 1999). Therefore it can be seen that the Malaysian industrial policies give SMEs an important role to play in generating employment opportunities, in strengthening industrial linkages, in penetrating markets and generating exports earnings, thus they have a crucial role for tomorrow entrepreneurs. The government has strived to devise appropriate assistance

schemes and has seek to raise the level of management expertise, technological know-how and skill levels of the employees in this very important and neglected economic sector.

The pace and nature of the economic growth and development, before the Asian crisis, within Malaysia, meant that there was a real need to consider support for 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; rising production costs, brought about by rising cost of labour, raw materials and overheads, and serious shortage of skilled manpower with which SMEs will have to cope. High level management skills and creative and innovative support approaches from the government and the large corporations to assist SMEs managers to create markets in their linkages with large corporations were seen as a priority of the Government.

In Malaysia, the majority of the manufacturing companies fall into the category of SME². 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 (Lim 1992, Fong, 1990). Local SMEs are generally labour intensive and many do not use state-of-the art technology and equipment. According to research conducted in 1988, there were 28,335 manufacturing

² Before the new definition announcement made effective in January 1998.

companies in Malaysia, of which 92.6% were SMEs, which created 40.2% of job opportunities for the whole industry (Mohd Asri, 1993).

However the productivity levels of SMEs were still behind the overall levels of larger industries (NPC, 1997). SMEs productivity output only amounted to an average of RM11, 900 compared to the larger company's productivity output that total up to RM 33,700. The capital intensity on the other hand for each worker only reached RM12, 300 compared to RM45, 000 for larger industry.

Research conducted by the Government on 13,992 SMEs in 1988/89 showed that 69% of the SMEs were family or individually owned. Considering the capital aspect, 77% had capital of less than RM50,000 while a further 10% were between RM50,000 - RM100,000 and the remaining 13% had a paid up capital asset value of between RM100,000 - RM500,000 (MITI, 1994b).

The above information indicates that Malaysian SMEs were still far behind the pace of larger industries. In order to fulfil the government's aspiration to develop Malaysia as an industrial country for the year 2020, many approaches have been studied to develop SMEs in a systematic and well-planned manner at every level of the implementation stage of the policy process. The approach of this thesis is to examine, within the context of the impressive and remarkable record of economic development, the government effort on the Vendor Development Programme (VDP) and the Local Content Requirement (LCR) policy. These two policies had the long-term view of enabling SMEs to become the eventual manufacturers and suppliers for

industrial inputs (parts and components), machinery and equipment for the MNCs/Local Large Scale Industries (LLSIs).

1.2 Statement of Problem

Jomo (1994); Anuwar and Wong (1993); and Lim (1992) and (1994) have noted that several Malaysian government policy initiatives were successful while others needed further modification to support the programme. The requirement for sustained industrialisation has led to several Newly Industrialised Countries (NICs) examining the role of SMEs (UNIDO, 1995). Many programmes have been initiated to enhance the linkages between SMEs and the large enterprises, including tax incentives, umbrella and vendor systems, local content requirement, information exchange and cluster creation to encourage SMEs to be effective (UNIDO, 1995). The implementation of these programmes has not always been successful in developing countries due to lack of communications between agencies and the level of private sector involvement. Inconsistencies in implementation, unfair regulations placed on SMEs and lack of managerial accountability were also seen to undermine the effectiveness of these policies (UNIDO, 1995). Fundamental weaknesses in the manufacturing sector are recognised by Malaysian government. Rafidah (1996) indicated a lack of the industrial structure that was manifested in the relatively weak linkages among SMEs, including the lack of support linkages with large companies and the domination of the foreign sector without strong two-way relationships with

domestic firms³. Due to their size, inadequate capital, management, marketing, production capacity and low utilisation of modern technology, SMEs have exhibited a lack on inter-industry linkages, poor quality and delays in delivery to support the large industries (Government of Malaysia, 1995).

Amongst the prominent problems facing the SMEs development nationally are the shortage of skilled personnel, poor linkage development, lack of market access, inadequate finance, unintended impact of policy instruments, competitions from foreign SMEs and technological constraints (Salleh, 1990; Chee, 1986).

In Malaysia, inter-industry linkages are not widespread and the local SMEs produce few intermediate products for large enterprises (Anuwar 1993). In most industrial countries, the large and better-integrated industries tend to lose from their small counterparts. The larger industries tend to supply components and intermediate goods for large firms. However, it could be seen that these are the stages of development of greater inter-industry linkages. Japan demonstrated strong linkages between large and small firms (Sako, 1992; Hines, 1994; Leenders and Blenkhorn, 1988) that the Malaysian government intended to emulate.

The business environment facing smaller firms is often very difficult to assess and it is also difficult to predict their achievement with any level of accuracy (Chee, 1986). There are many reasons for the lack of market access for the SMEs. Most

³ For further details please refer to the 'Sixth and Seventh Malaysian Plan' by the Economic Planning

SMEs are too dependent on the local markets for sale of their products and only a small number have successfully marketed internationally (Salleh, 1991; Sarkar et al, 1992). Academics and practitioners have advocated that the main reasons were lack of funds, no research and development (R&D) to upgrade quality, unattractive packaging and labelling, plus poor quality and distorted information on the demands of the international markets (Salleh, 1991; Sarkar et al, 1992; Chee, 1986; Aziz, 1981).

A major finding from academics and practitioners is the lack of ability of SMEs to access organised capital markets. Most of their capital funding derived mainly from small personal savings, loans, from friends, or even relatives and sometime pawnshops (Chee, 1986; Aziz, 1981). The discouraging factor is that bankers are always asking for collateral, while loans from moneylenders, middlemen and pawnshops can be even more difficult. On the other hand, SMEs difficulty in accessing institutional credit at reasonable interest rates was seen to be due to poor management by the SMEs themselves, thus resulting in poor credit ratings, uncertainty about their business and the risks involved and low financial returns (Chee, 1986).

Unfortunately (Anuwar, 1993), although government policy, regulation and practices are not to discriminate against SMEs, however they suffer some impacts and heavy penalties. For example, some major fiscal incentives are biased in favour of large and capital intensive enterprises. Another example of discrimination faced by

SMEs is related to government procurement policies, whereby most government bulk purchasing and tenders favour large enterprises because of better quality and lower prices.

The local SMEs often face severe competition from foreign SMEs counterparts. For example, the Japanese relocated their SMEs to Malaysia because of the rising yen and the need to serve their own Japanese firms. These SMEs have higher levels of technology, have longer relationships with their MNCs and thus procurements policies tend to favour them (Government of Malaysia, 1996).

Malaysian SMEs have low technology, lack innovation, lack special equipment and have an unqualified workforce. Inadequate market access and less R&D had substantially affected the development of new products and the upgrading of the existing products (Government of Malaysia, 1996). Thus the creation of linkages between large enterprises and SMEs would help promoting technology development and technology transfer. Under the subcontracting system, the Vendor Development Programme (VDP), SMEs were given every form of assistance by large enterprises in terms of product quality, standard design and machinery and equipment upgrading and even quality raw materials. The VDP was initiated in 1988 and aimed at developing SMEs in the manufacturing of parts and components to large industries. The local content requirement (LCR) was initiated in tandem with the automobile industry in the mid-1960s, to encourage the consumption of local raw materials in parts and components to be supplied to the large industries. The details of the two initiatives are fully discussed in chapter three.