



DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES



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STRATEGIES AND POLICIES

STRATEGIC THRUSTS

1.01 For SMEs in both the manufacturing and services sectors to contribute significantly to the realisation of the long term competitiveness of the country, five strategic thrusts have been set:

- (1) enhancing the competitiveness of SMEs;
- (2) capitalising on outward investment opportunities;
- (3) driving the growth of SMEs through technology, knowledge and innovation;
- (4) instituting a more cohesive policy and supportive regulatory and institutional framework; and
- (5) enhancing the growth and contribution of SMEs in the services sector.

(1) ENHANCING THE COMPETITIVENESS OF SMALL AND MEDIUM ENTERPRISES

(i) Integration into the Regional and Global Supply Chains

1.02 Integration into the regional and global supply chains of MNCs will facilitate SMEs in their efforts to internationalise their operations. SMEs will be encouraged to take advantage of outsourcing and offshoring trends among the MNCs and large corporations, especially in the high value-added activities outsourced by the latter. Measures to facilitate the integration of the SMEs include:

- encouraging SMEs to focus on nurturing and enhancing core competencies, such as process and product engineering, as well as adopting ICT, to meet international standards on quality and delivery imposed by MNCs;
- promoting intensively the utilisation of international standards, for example, the RosettaNet Standard. MNCs and large corporations with an extensive supply base will be identified and encouraged to adopt the RosettaNet Standard, as well as drive its application among their suppliers;
- continuing support programmes to enhance the efficiency and competitiveness of SMEs to enable them to reap the benefits arising from the outsourcing trend. Advisory programmes, involving both foreign and local experts, will be strengthened to provide the necessary technical know-how and support to enhance the productivity of SMEs; and

- encouraging local and foreign hypermarkets and large retail outlets to market the products of SMEs and undertake brand promotion for the SMEs locally and overseas.

(ii) Rationalisation and Specialisation into Selected High Value-Added Activities

1.03 To remain regionally and globally competitive, SMEs will be encouraged to move up the value chain. Examples:

- SMEs in apparel and furniture to move into designing, branding and patenting;
- SMEs in the food industry to diversify into the production of products, such as convenience and bio-organic foods;
- SMEs in the electrical and electronics (E&E) industry to move into areas, such as automation equipment, instrumentation and systems integration;
- SMEs in automotive parts and components to be more involved in D&D activities during the planning and development of new models;
- SMEs in the palm oil industry to expand and diversify into more downstream activities, such as food products, pharmaceuticals and other manufactured fats products; and
- SMEs in the manufacturing related services industry to be more involved in activities such as heat treatment, wire harnessing and polishing.

(iii) Specialisation in Core Competencies to Develop Market Niches

1.04 SMEs will be encouraged to specialise in products and services which leverage upon their core competencies to create and develop market niches, both domestically and internationally. They will also be encouraged to acquire expertise to effectively market their products and services. Greater collaborative efforts will be undertaken between technical and development agencies to improve and strengthen the core technological competencies and capabilities of SMEs.

1.05 The Government will facilitate the acquisition and enhancement of skills and competencies of SMEs, especially in emerging technologies, such as biotechnology and photonics, through:

- emplacement of employees of SMEs at MNCs and large corporations; and
- provision of support programme for SMEs to acquire cutting-edge technologies, including 'bridging technology'⁴, to upgrade their operations.

⁴ Bridging technology is a combination of several technologies, which can be utilised to provide a broader range of products or services

(iv) Customer-Driven Approach

- 1.06 SMEs will be encouraged to adopt a more customer-driven approach in business operations, through programmes on customer relationship management, to enhance their customer relationship skills. Focus will be given on efforts to enable SMEs to acquire better understanding on market structure and customer demands, which will provide them with insights on the market needs.

(v) Strengthening Inter-Firm Linkages

- 1.07 Increased outsourcing and offshoring activities by large firms and MNCs provide opportunities for the greater participation of SMEs in the global market. Inter-firm linkages among SMEs and between SMEs and large corporations, as well as MNCs, will be intensified and strengthened to enable SMEs to become reliable and competitive suppliers.
- 1.08 Presently, the ILP under SMIDEC is confined to the production phase of the manufacturing sector. The scope of the ILP will be widened to cover the entire value chains in both the manufacturing and services sectors. In addition, the existing incentives under the ILP will be reviewed and strengthened to attract participation by large corporations and MNCs in the programme.
- 1.09 The Government policy of according preference to using and procuring local products and services will be continued. The private sector will also be encouraged to source their inputs, parts and components, as well as services, from domestic suppliers.

(vi) Adopting Best Business Practices and Benchmarking

- 1.10 SMEs will be encouraged to adopt best business and management practices, such as supply chain management, customer relationship management and enterprise resource planning, to gain competitive edge. They will also be encouraged to benchmark against their peers and competitors to improve performance. Training programmes will be designed, in collaboration with industry associations and chambers of commerce, to encourage the participation of SMEs in benchmarking programmes provided by NPC.

(vii) Transformation and Restructuring of Businesses

- 1.11 SMEs will be encouraged to transform their business models and practices to be cost effective and responsive to changes in the business environment. This may involve the restructuring, streamlining and consolidation of operations, as well as the repositioning of businesses. SMEs will also be encouraged to form strategic alliances and consortia to leverage upon complementarities and synergistic business networks.

(2) CAPITALISING ON OUTWARD INVESTMENT OPPORTUNITIES

- 1.12 SMEs will be encouraged to undertake outward investments to gain inroads into new export markets, as well as be more competitive suppliers to MNCs. It will also enable SMEs to benefit from wider sourcing for industrial inputs and provide better opportunities for collaboration and resource sharing. Measures to facilitate such efforts include:
- encouraging more financial institutions to provide loans to SMEs for new investments overseas, especially in the ASEAN region; and
 - SMIDEC initiating closer bilateral cooperation with its foreign counterparts to facilitate networking between domestic and foreign SMEs. Under this initiative, cooperation programmes will be undertaken, involving other relevant Government agencies, including MATRADE and NPC. Such cooperation programmes include industry linkages, joint trade missions, exhibitions, and exchange of information and best practices.
- 1.13 To enable SMEs to capitalise on outward investment opportunities, they will be encouraged to:
- acquire an understanding of the characteristics and requirements of the different markets which they are targeting;
 - possess sufficient international marketing knowledge and skills to be able to gain access to new markets; and
 - adopt greater application of ICT in business operations, as well as utilisation of e-commerce.
- (i) *Equipping Small and Medium Enterprises with Knowledge and Skills***
- 1.14 To compete effectively in the international market, SMEs will be encouraged to equip themselves with knowledge and skills in areas such as financial management and marketing. These skills will enable SMEs to respond to new market trends and requirements of the different market segments. Efforts will be undertaken to assist SMEs to further develop their technical skills, especially in creating innovation and generating economic value from knowledge applications.
- 1.15 SMIDEC, together with other agencies and the private sector, will review the present training and apprenticeship programmes and assist in the formulation of new programmes, to incorporate knowledge management plans and strategies, as well as knowledge-based applications and practices among the SMEs. Existing training programmes, aimed at enhancing entrepreneurial capabilities, including marketing and financial management, will be expanded and reinforced. In marketing, training modules will focus on areas such as negotiation skills, merchandising, pricing, brand building and consumer behaviour, to enable SMEs to keep pace with new market trends and requirements. In addition, industry associations will be encouraged to establish a specialised training

entity to provide relevant and requisite training, specifically in the areas of technology adoption and resource management. This effort will further support and improve the business efficiency and operational capabilities of SMEs.

(ii) Access to Market Intelligence

- 1.16 SMEs will be encouraged to gather market intelligence to facilitate entry into new markets through undertaking specific market studies by themselves or accessing secondary sources of information. This will, among others, enhance their awareness on new and emerging aspects of business operations and practices, such as innovation, acculturation, advertising and the changing medium of communication, to strengthen local brands and build market share.
- 1.17 An interactive trade portal, MITI and Agencies Trade and Industry Information Exchange (MATRIIX), has been developed, which provides a comprehensive source of information on market intelligence. The trade portal provides information on areas such as market requirements, consumer preferences, and international standards and regulations, as well as environmental requirements. Real time market information from other agencies will be incorporated into the trade portal.

(iii) Conformance to International Standards and Regulations

- 1.18 SMEs will be encouraged to conform to international standards and regulations to gain access to the export market. The formulation and adoption of Malaysian standards for products and services, in line with international requirements, will be accelerated and their enforcement enhanced. SMIDEC will collaborate with the regulatory bodies to facilitate SMEs in conforming to the required standards and regulations.

(iv) Greater Involvement of Trading Companies in the Export of Products and Services of Small and Medium Enterprises

- 1.19 To encourage more trading companies to market the products and services of SMEs, the existing export incentives will be reviewed. Greater involvement will be encouraged among Malaysian large trading companies, including GLCs, in facilitating SMEs to export their products and services.

(v) Enhancing the Role of Industry Associations in Facilitating Market Access for Small and Medium Enterprises

- 1.20 Industry associations will be encouraged to assume a more pro-active role in facilitating market access for their members among the SMEs. This will include undertaking bulk breaking of imported raw materials and components, and the provision of common facilities, such as warehousing and cold-room and testing facilities. Assistance will be provided to industry associations which undertake these activities.

(vi) Leveraging on the Halal Hub

- 1.21 SMEs involved in activities such as food processing, pharmaceuticals, cosmetics, beauty care and palm oil-based products, will be encouraged to obtain *halal* certification to leverage upon the competitive edge of the country in becoming the *halal* hub. SMEs will also be encouraged to be involved in the provision of related *halal*-compliant services, such as cold-chain facilities, transportation, handling and forwarding, and warehousing services.

(3) DRIVING THE GROWTH OF SMALL AND MEDIUM ENTERPRISES THROUGH TECHNOLOGY AND INNOVATION

- 1.22 In line with global trends and technological advancements, growth in future businesses will be mainly driven by technology and innovation. The emergence of new technologies and products, as well as the introduction of advanced applications and processes in the markets, have influenced ways of doing business. For SMEs to be able to respond to this development, measures which will be instituted include:

- adoption and application of leading technologies, including effective utilisation of ICT;
- encouraging research and D&D activities;
- closer collaboration with specialised Government research institutes and universities;
- enhancement of the human capital of SMEs;
- nurturing innovative and resilient SMEs;
- acculturation of entrepreneurship and innovation; and
- creation of a more conducive business environment, which stimulates vibrant and innovative entrepreneurial activities.

(i) Adoption and Application of Advanced Technologies

- 1.23 The adoption and application of advanced technologies, including ICT, will contribute towards the creation of SMEs which are competitive and able to respond in a timely manner to market demands and changes. High priority will be given to efforts to strengthen the technological capacities and capabilities of SMEs to meet the challenges of globalisation and increasing competition. Strategies will be directed at encouraging and enabling SMEs to acquire technologies which will enable them to move up the value chain. Such technologies will also assist SMEs to achieve product and service differentiation. In the process, a greater number of local technology-based companies will be created among the SMEs.

1.24 Support programmes to accelerate the adoption of technologies in relevant areas among the SMEs will be continued and strengthened. SMIDEC, in collaboration with technology-based institutions, such as SIRIM Berhad, MTDC, MDeC and Malaysia Bio-Technology Corporation, will introduce technology foresight programmes for SMEs, which will enable them to be aware of and take advantage of future technologies.

(ii) Encouraging Research and Development Activities

1.25 SMEs will be encouraged to undertake high value-added activities in areas such as R&D, and product and process engineering, to gain and sustain competitive advantage within the context of expanding supply chains. Continual upgrading of existing products, processes and services will be encouraged to meet the dynamic market demands for more innovative and sophisticated products and services.

1.26 Specific programmes will be implemented to nurture local SMEs as R&D partners to tap the opportunities of R&D outsourcing by MNCs and GLCs. Measures will also be undertaken to encourage collaborative ventures among MNCs, GLCs and SMEs to facilitate technology transfers and skills development. Existing programmes for enhancing technological capabilities and supporting R&D activities among SMEs will be strengthened. The scope of coverage of the programmes will be expanded to include the acquisition of 'bridging technologies'.

(iii) Closer Collaboration with Specialised Government Research Institutes and Universities

1.27 To overcome resource constraints faced by SMEs in undertaking R&D activities, closer and pro-active collaboration between SMEs and research institutes and universities will be undertaken. Measures towards more effective collaboration include:

- making R&D programmes of these research institutes and universities more market-driven to meet specific needs of SMEs, with emphasis on innovation; and
- upgrading resource and institutional capacities of these research institutes and universities to enable the provision of more effective advisory services and the commercialisation of more research findings.

1.28 To intensify the promotion and dissemination of research findings, SMIDEC, in collaboration with research institutes and technology-based institutions, will establish a database on technologies, processes, systems designs and softwares, which are ready for commercialisation. In addition, a dedicated commercialisation fund for SMEs will be considered to encourage SMEs to undertake the commercialisation of potentially viable R&D results. The role of incubation

centres to support the development of start-up companies will be strengthened. Benchmarking of these centres with those in other countries, which have created commercially successful SMEs through their incubation programmes, will be undertaken.

(iv) Enhancing the Human Capital of Small and Medium Enterprises

- 1.29 Developing human resources is vital in driving growth through technology and innovation, as well as enabling SMEs to move up the value chain. To bridge the gaps in the human resource development of SMEs, existing programmes on skills upgrading and the acquisition of core competencies and specialised knowledge will be continued and enhanced. Training modules for SMEs will be re-oriented to reflect changing market requirements and technology advancements to create the supply of skilled and knowledge workers, both in technical and managerial fields. The provision of these training programmes will also include training within the organisations of the SMEs.

(v) Nurturing Innovative and Resilient Small and Medium Enterprises

- 1.30 A critical mass of innovative SMEs will be nurtured to generate growth which is driven by technology and innovation. This category of SMEs will also be created through mergers and acquisitions, consolidations and strategic collaborations. Efforts involving both public and private sector institutions in nurturing innovative and resilient SMEs and developing required talents include:
- undertaking special support programmes to encourage GLCs, MNCs and local institutions and enterprises to create technopreneurs and intrapreneurs from within their organisations; and
 - encouraging both public and private research institutions, such as Malaysian Institute of Microelectronics System (MIMOS), Technology Park Malaysia, SIRIM Berhad and universities, to establish more incubation and business start-up centres. These centres will be the catalyst for the growth of innovative SMEs, as well as those with leading technologies.

(vi) Acculturation of Entrepreneurship and Innovation

- 1.31 Innovativeness will be nurtured at an early stage through the education system. Modules on entrepreneurship and entrepreneur related skills will be incorporated into the curriculum at the tertiary level, including universities. This will develop and enhance innovative and entrepreneurial talents. Creating awareness and acquiring such capabilities will facilitate the change in mindsets, as well as inculcate positive business values and discipline.
- 1.32 Existing entrepreneurship programmes, including advisory and outreach services, will be expanded to equip SMEs with new and improved management and business practices and methods in production, quality improvement, marketing

and distribution to raise productivity, efficiency and profitability. New schemes, including those on increased automation and business coaching, as well as the provision of technical skills, to assist SMEs to develop, commercialise and market innovative ideas, will also be implemented. Programmes on 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 providing appropriate infrastructure, encouraging transfer of technology and improving access to financing. New support mechanisms will be introduced to enhance the outreach programmes for SMEs, including advisory services on business, design, packaging and marketing.

(vii) Creating a More Conducive Environment for Technology and Innovation

- 1.33 A more conducive environment for technology and innovation among the SMEs will be created, including supportive institutional framework. Active involvement of industry associations will be encouraged, supported by close collaboration between entrepreneurs, research organisations and financial institutions, for the creation of a vibrant entrepreneurial community. In addition, incubation centres will be strategically located to support the creation of a critical mass of innovative enterprises. An industry-driven 'National SME Focal Point', involving entrepreneurs, research institutes, financiers, including venture capitalists, and relevant Government agencies, will be established as an avenue for the exchange of information, including new technology and market trends and best practices in R&D and research commercialisation.

(4) INSTITUTING A MORE COHESIVE POLICY, REGULATORY AND INSTITUTIONAL FRAMEWORK

(i) Policy and Regulatory Framework

- 1.34 A systemic approach to catalyse the growth of new entrepreneurs and SMEs will be adopted to achieve a higher rate of success among businesses. Programmes on SMEs, especially in the services sector, will focus more on the developmental aspects, including meeting specific targets and requirements of the SMEs. The implementation of these programmes will be more coordinated.
- 1.35 Financial support programmes to meet the special needs of the different categories of SMEs will be continued and strengthened. The coverage of the programmes will include enhancing financial guarantees and widening the scope for the securitisation of borrowings. The SME Bank will guarantee loans granted to SMEs by other banking institutions, as well as facilitate the securitisation of SME loans, enabling them to also tap the capital market. To encourage greater participation in export markets, new trade financing arrangements, covering pre-shipment and post-shipment financing, will be introduced.

- 1.36 The capital market will complement traditional sources of funding for SMEs. Innovative financing instruments will be introduced for knowledge-intensive, as well as technology-intensive, start-up enterprises, using intangible collaterals, such as ideas, knowledge and expertise, as their principal assets to source funds from the capital market. SMEs will also be encouraged to utilise other alternative sources of financing, including equity financing and venture capital, as well as other financial instruments. Existing Government-owned venture capital funds will be increased, providing more emphasis to the financing needs at the pre-seed and start-up stages. In addition, the creation of more private venture capital funds will be encouraged. Collaboration between research institutes, business incubators, entrepreneurs and venture capitalists will be strengthened to create wider networking and funding opportunities.
- 1.37 A Services Sector Development Fund for SMEs will be considered to assist potential entrepreneurs to upgrade their technical and professional skills, especially in supply chain management and integrated logistics activities and services. The fund is proposed to be utilised, among others, for the purchase of new machinery and equipment required to enable SMEs to participate in the relevant targeted services sub-sectors, including manufacturing-related services.
- 1.38 The Government will continue with the provision of industrial sites and special parks for SMEs at more competitive rates. This will include agriculture and *halal* parks, in addition to building business premises and providing office space at strategic locations. Regulations and procedures will be reviewed to make them more business-friendly, which will result in faster processing and decision making. Other support programmes for SMEs include:
- providing assistance in the registration and patenting of IPs; and
 - extending the existing market development programme and technical advisory services, which mainly cater for the development of export markets, to cover the promotion of products and services of SMEs in the domestic market. To facilitate this greater coverage, the business and technical advisory services provided by SMIDEC will be enhanced and the scope of Market Development Grant expanded.

(ii) Institutional Framework

- 1.39 Measures to enhance the institutional framework include:
- promoting greater inter-agency coordination to make development programmes on SMEs more effective through complementarities of efforts and sharing of knowledge;

- strengthening the role of the National SME Development Council to include coordinating functions between Federal and State Governments, as well as local authorities, to facilitate the growth of SMEs;
- reinforcing the collaboration between the Government, entrepreneurs, industry associations, researchers, academia, financiers and venture capitalists through the 'National SME Focal Point'. This will be an avenue for policy discourse, and technical and advisory consultations, including financial requirements, to mobilise resources and synergies for the overall development and growth of SMEs; and
- adopting performance appraisal and monitoring mechanisms, as well as enhancing the advisory capacity of the implementing Government agencies, to improve the efficiency of the delivery and outreach of the support programmes for SMEs.

(5) ENHANCING THE GROWTH AND CONTRIBUTION OF SMALL AND MEDIUM ENTERPRISES IN THE SERVICES SECTOR

1.40 Services sub-sectors with potential growth for SMEs include distributive trade, professional and business services, logistics services, construction and ICT.

(i) *Distributive Trade*

1.41 Measures to encourage the greater growth and contribution of SMEs in distributive trade include:

- promoting more new products and services for franchising;
- providing assistance for local franchised products and services;
- upgrading the quality of premises and services;
- improving existing training programmes for SMEs to focus on required skills, such as managerial, technical, pricing, packaging and merchandising;
- enhancing inter-firm linkages and market access;
- encouraging the utilisation of ICT to raise productivity and efficiency along and up the supply chains;
- enhancing the capacity and capability of SMEs to operate in strategically located up-market shopping complexes and tourist destinations; and
- improving the access to information and market intelligence to facilitate changes in the merchandise mix, in response to changing consumer trends.

(ii) Business and Professional Services

1.42 Measures to promote the greater growth and contribution of SMEs in business and professional services include:

- developing programmes to encourage professionals to become entrepreneurs in their own fields. These include encouraging entrepreneurs to establish specialist chains, such as pharmacies; dental and medical clinics; and legal, accounting, engineering and consultancy firms;
- MATRADE and Professional Services Development Corporation providing greater focus on facilitating SMEs in professional services to enter the export market;
- encouraging domestic professional services to provide inputs and participate in negotiations towards mutual recognition arrangements; and
- encouraging the establishment of small office home office, as these business entities will be more flexible to meet customer demands.

(iii) Logistics Services

1.43 SMEs will be encouraged to participate in the integrated logistics supply chain, as they have the potential to provide the delivery services in the country. To improve the efficiency and capabilities of the business operators, the present incentives will be reviewed.

(iv) Construction

1.44 Measures to encourage the greater growth and contribution of SMEs in the construction sub-sector include:

- strengthening the technical expertise of SMEs in selected and specialised services;
- encouraging SMEs to link to large construction companies to form a capable domestic sub-contracting base to enable the SMEs to participate in construction projects domestically and overseas; and
- enhancing the capabilities of SMEs in the industry through specialisation, consolidation and mergers.

(v) Information and Communication Technology

1.45 Measures to encourage the greater growth and contribution of SMEs in the ICT sub-sector include:

- considering the provision of seed and start-up funding to stimulate the growth of more technopreneurs and SMEs in ICT; and
- providing business development and mentoring services to nurture technopreneurs and SMEs in ICT.

POTENTIAL GROWTH AREAS FOR THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES

1.46 Several knowledge-intensive industries and selected services have been identified as having the potential and competitive advantage for the development and future growth of SMEs.

(a) Manufacturing Sector

Industry	Potential Areas
(i) Resource based	<ul style="list-style-type: none"> - herbal and traditional medicines - cosmetics - palm oil-based products - wood based products - food and beverages, including convenience food for the <i>halal</i> market
(ii) Machinery and engineering	<ul style="list-style-type: none"> - precision machining and tooling - process and product engineering - automation and system automation
(iii) Electrical and electronics	<ul style="list-style-type: none"> - components for semi-conductors and radio frequency identification - precision stamping - D&D of integrated circuits - high end printed circuit board assemblies - substrates of printed circuit boards
(iv) Medical devices	<ul style="list-style-type: none"> - medical diagnostic devices and kits - medical and surgical disposable devices and equipment
(v) Manufacturing-related services	<ul style="list-style-type: none"> - software development and software systems integration - mould design and texturing - prototyping services - burn-in or testing of integrated circuits - failure analysis or repair centres for integrated circuits, printed circuit boards and printed circuit board assemblies

- calibration and maintenance services
- surface mounting, using advanced and composite materials
- (vi) Metal products
 - galvanised iron
 - special steel, including alloy steel and stainless steel

(b) Services Sector

Industry	Potential Areas
(i) Distributive trade	<ul style="list-style-type: none"> - retail - wholesale - restaurants - motor vehicle distribution - motor vehicle trade and repair services - franchising
(ii) Transport services and logistics	<ul style="list-style-type: none"> - forwarding - packaging - haulage - warehousing - storage - bulk breaking - integrated logistics supply chain
(iii) Tourism services	<ul style="list-style-type: none"> - hotels - transportation - eco-tourism - agro-tourism - health tourism - edu-tourism
(iv) Professional and business services	<ul style="list-style-type: none"> - human resource management - market research - management consultancy - advertising

- legal
 - accounting, book-keeping, auditing and tax consultancy
 - architectural
 - engineering
 - R&D
 - environment and energy
- (v) Education and training
- courses on new technologies/methods/processes/technical standards
 - entrepreneurship
 - professional accredited courses
- (vi) Construction
- civil engineering (metal works, electrical works, plumbing, sewerage and sanitary works, refrigeration and air conditioning works, painting works, carpentry, tiling, and flooring and glass works). To adopt clustering approach in bidding for projects by combining complementary skills and expertise, especially in civil engineering
 - residential and non-residential construction
 - infrastructure (for example, bridges)
- (vii) ICT
- customised software development
 - consultancy in e-commerce
 - consultancy in security