

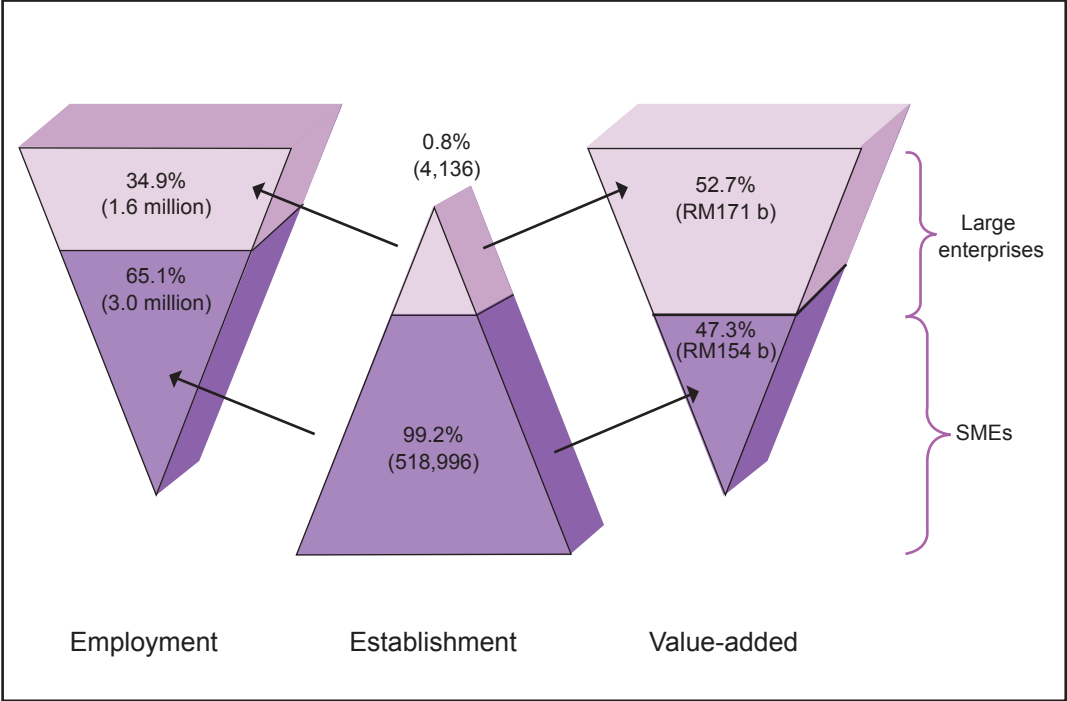
:: Status and Performance of Small and Medium Enterprises

The Census of Establishments and Enterprises 2005¹ indicates that 99.2% or 518,996 of business establishments are small and medium enterprises, of which 411,849 are micro enterprises. Most of these SMEs are in the services sector, particularly in retail, restaurant and wholesale businesses. Total employment in the SMEs accounted for more than 3 million workers, and generated RM154 billion value-added in 2003.

The availability of data on the status and performance of SMEs is important in assisting the Government to formulate more targeted strategies and policies to promote the development of SMEs. Therefore, the National SME Development Council requested that a nation-wide census be conducted to obtain comprehensive information on the status and performance of SMEs in the country.

¹ Preliminary assessment

The Census of Establishments and Enterprises 2005, initiated in March 2005, is the first comprehensive census carried out on business enterprises in the three major sectors of the economy, namely agriculture, manufacturing and services. Questionnaires were sent to 1.7 million business establishments, and completed responses were received from 523,132 establishments, comprising micro, small, medium and large enterprises (please see Chapter 3 on the definitions).



Overview of Establishments

The Census results show that there are 518,996 SMEs, representing 99.2% of total business establishments in Malaysia, while large enterprises (LEs), numbering 4,136 business establishments, made up the remaining.

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Over 411,849 micro enterprises made up 79.4% of the total SMEs and 78.7% of total business establishments in the country. Small enterprises accounted for 18.4% or 95,490 establishments, followed by medium enterprises, representing only 2.2% or 11,657 establishments.

SMEs by Sectors

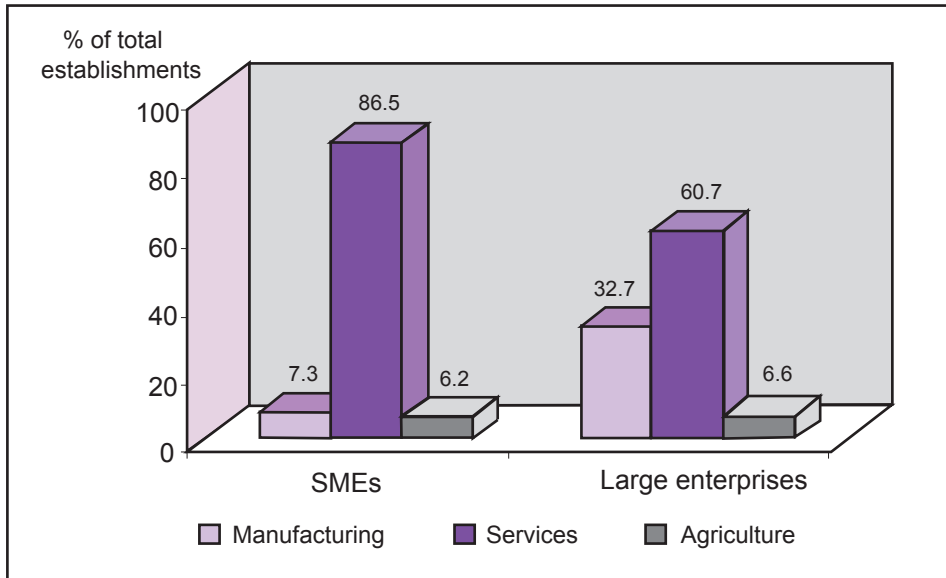
SMEs formed the bulk of business establishments in the three sectors – agriculture, manufacturing and services.

SMEs in the services sector formed the largest category, with over 449,004 SMEs (or 86.5% of total SMEs) engaged in this sector. The bulk of the SMEs is micro enterprises (80.4%), followed by small (17.6%) and medium (2.1%) enterprises respectively. Most of the SMEs are in the following services sub-sectors: retail, restaurant, wholesale, transportation and communication and professional services.

There are 37,866 SMEs in the manufacturing sector, mostly in textile and apparel, metal and mineral products and food and beverages production. About half of the SMEs in the sector are micro enterprises, followed by small (39.5%) and medium (5.2%) enterprises.

Meanwhile, there are 32,126 SMEs in the agriculture sector, primarily in food crops and market produce, horticulture and livestock. 93.3% of the SMEs in agriculture sector are micro enterprises.

SMEs and Large Enterprises by Sectors

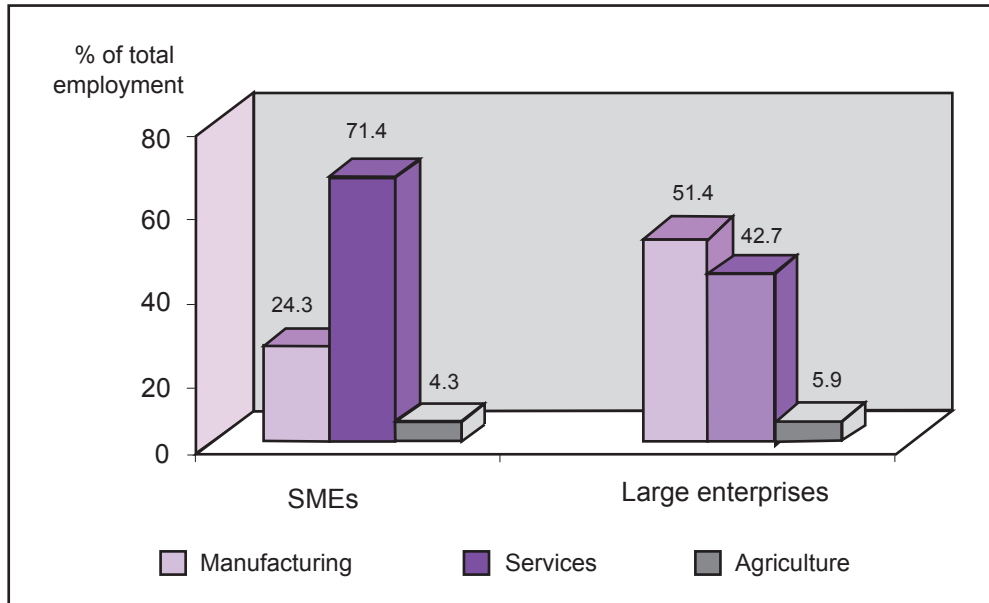


In terms of legal status of the SMEs, sole proprietorship formed the largest group accounting for 68.5% of the total SMEs. This is followed by private limited (21.2%) and partnership (9.7%). The bulk of micro enterprises is in the form of sole proprietorship, while most of the small and medium enterprises are in the form of private limited.

SMEs and Employment

The Census results confirmed that SMEs are major employers in the labour market. The 518,996 SMEs that responded to the census employed over 3 million workers, accounting for 65.1% of the total employment of 4.6 million of these business establishments. Of these, 2.2 million workers were employed in the services sector, while 740,000 and 131,000 were employed in the manufacturing and agriculture sectors respectively. Employment created by SMEs comprised of self-employed (working proprietors, active business partners and unpaid family workers) as well as full-time and part-time workers.

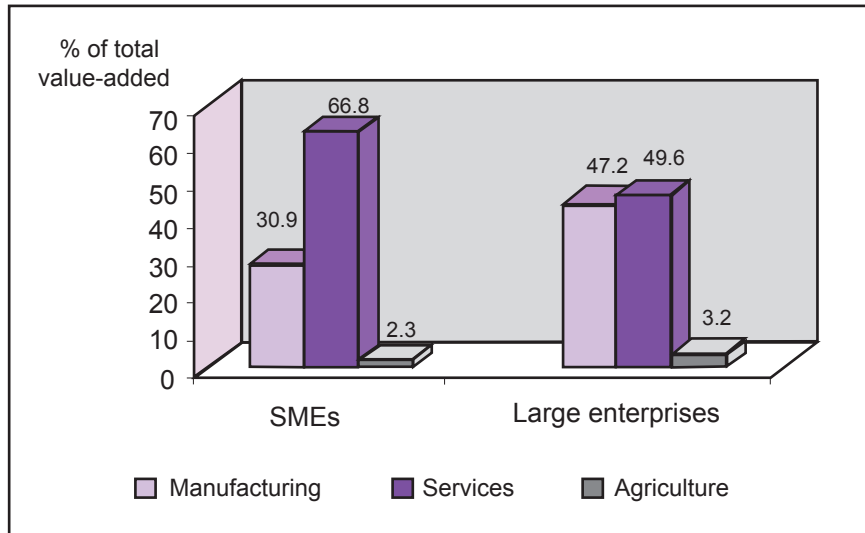
SMEs provided greater flexibility in employment terms. About three-quarters, or 76.5% of the total SME workers were hired on a full-time basis, while 16.7% were self-employed, and another 6.7% as part-time workers. In contrast, 97.1% of the total workforce of the large enterprises was hired on a full-time basis, while the remaining 2.9% was hired as part-time workers.

SME Employment by Sectors

SME Contribution to Total Value-Added and Output

SMEs generated about RM154 billion of value-added and RM405 billion output in 2003. However, despite accounting for 99.2% of total business establishments, SMEs accounted for only 47.3% and 43.5% of the total value-added and output of the business establishments that responded to the Census. In comparison, SMEs contributed about 50% of total value-added in the Republic of Korea and 55% of gross domestic product in Japan.

In terms of value-added by sector, SMEs' contribution was highest in the services sector, accounting for 54.7% of total value-added, followed by agriculture (39.7% of total value-added of the sector) and manufacturing (37.1%). This reflected the dominance of large enterprises in the manufacturing sector, where 1,353 large enterprises contributed about 62.9% of total value-added of the sector. Similarly, 271 large enterprises contributed about 60.3% of total value-added in the agriculture sector.

Contribution to Total Value-Added

SMEs and Productivity

The Census results showed that generally, SME productivity was very much lower than that of large enterprises. SMEs generated RM0.3 million of value-added and RM0.8 million output per establishment, compared with RM41 million of value-added and RM127 million output per establishment for large enterprises.

Similarly, in terms of labour productivity, SMEs generated RM0.05 million value-added and RM0.13 million output per employee, compared with RM0.1 million of value-added and RM0.32 million output per employee for large enterprises.

Value-Added per Employee

Value-Added per Employee or labour productivity reflects the efficiency of employees in generating value-added. Overall, SMEs recorded Value-Added per Employee of RM50,419 with medium enterprises generating the highest level at RM76,911, followed by small enterprises (RM48,528) and micro enterprises (RM38,162). The values recorded by SMEs are in contrast to the large enterprises which registered Value-Added per Employee of RM104,579 indicating higher efficiency of employees in generating added value.

Among the sectors, SMEs in the manufacturing sector registered the highest Value-Added per Employee at RM64,089, followed by SMEs in the services (RM47,151) and agriculture (RM27,526) sectors.

Fixed Assets per Employee

Fixed Assets per Employee or Capital Intensity denotes the amount of fixed assets allocated to each employee. It indicates whether an enterprise is relatively capital-intensive or labour-intensive. Overall, SMEs registered a value of RM61,296. The medium enterprises registered the highest level at RM102,764, followed by small enterprises (RM54,891) and micro enterprises (RM45,878). Large enterprises recorded a higher figure of RM150,162 indicating that they are more capital-intensive.

The agriculture sector recorded the highest level of Fixed Assets per Employee at RM125,095, followed by the manufacturing sector at RM76,535 and services sector at RM52,274. The high ratio of Fixed Assets per Employee particularly the SMEs in the agriculture sector reflected that there was a shift towards capital-intensive of the sector by increased investments in infrastructure, new machineries and equipments.

Labour Cost per Employee

Labour Cost per Employee refers to the remuneration and benefits received by each employee. A high ratio implies high returns to individual employees and vice-versa. Overall, each employee in the SMEs received an average remuneration and benefits amounting to RM13,104 per year in 2003. The medium enterprises recorded the highest level at RM19,276, followed by small enterprises at RM15,449 and micro enterprises at RM7,199. On the other hand, Labour Cost per Employee in the large enterprises was higher at an average of RM23,698.

Highest remuneration was received by employees in the manufacturing sector at RM14,774, followed by the services sector (RM12,966), while employees in the agriculture sector received the lowest remuneration at RM5,951.

SMEs and Export

Of the 523,132 business enterprises that responded to the Census, only 5,221 enterprises provided responses to questions on their export performance, of which 4,257 are SMEs. These SMEs exported goods and services worth RM38 billion in 2003. This, however, only accounted for 16.6% of the total export value of RM229 billion by these 5,221 businesses.

SME exporters were mainly in the manufacturing sector (more than half) and SMEs in the sector contributed about 85.7% of the total SMEs' export value. The remaining SME exporters were in the services (40.6%) and agriculture (1.8%) sectors and contributed 13.9% and 0.4% of the total SMEs' export value, respectively.

Investments in R&D

The findings of the Census indicated that the level of investment in research and development (R&D) is very low among businesses in the country. Only 2,747 or 0.5% of the total establishments indicated that they invested in R&D in 2003. The expenditure on R&D by SMEs in 2003 amounted to RM2 billion and accounted for only 1.3% of the total value-added. The investments by SMEs and large enterprises in R&D only accounted for 0.6% and 0.7% of their total value-added respectively.

Of the total establishments engaged in R&D, 85.7% or about 2,355 were SMEs. However, in terms of value, SMEs' investment in R&D accounted for about 46.3% of the total investments in R&D.

SMEs and Marketing

The Census showed that less than 10% of the 518,996 SMEs undertake some form of marketing and promotion activities. In terms of proportion, SMEs in the manufacturing sector is the most active in engaging in marketing and promotion followed by the services and agriculture sectors.

SMEs in the manufacturing and services sectors undertook their marketing activities mostly through the media followed by branding and participation in expositions.

SMEs and Access to Financing

The Census also provided information on access to financing by SMEs. The areas covered include sources of financing for SMEs, types and purpose of financing as well as constraints faced by SMEs in obtaining financing. The findings are presented in Chapter 6 of the report.

Profile of SMEs in Malaysia and Selected Countries

In the absence of a global benchmark for defining SMEs, a variety of measures, have been developed to define SMEs in every economy. These include measures which take into account the number of employees, total invested capital, total amount of assets, sales volume and production capability. The most commonly used measure, however, is the number of employees.

Bearing in mind the likely difference in the definitions of SMEs, it is important to note that Malaysia's position mirrors that of other economies. In terms of SMEs as a percentage of the total establishments, as in most others in the global economy, SMEs account for around 99% of total establishments with the profile of SMEs in Malaysia not differing much from other countries.

Major SME Statistics[^]

Country	Measures used in the definitions of SMEs	% of total establishments	% of total workforce	% of SMEs' contribution to GDP/total value-added (*)
Malaysia	Employment and sales	99.2	65.1	47.3*
Japan	Employment and assets	99.7	70.2	55.3
Taiwan	Employment, sales and capital	97.8	77.2	n.a
Korea	Employment and assets	99.8	86.7	50*
Thailand	Employment and fixed assets	99.6	69.0	38.9
Singapore	Employment and fixed assets	91.5	51.8	34.7*
Germany	Employment and sales	99.7	79.0	57.0 ^a
Indonesia	Assets and sales	99.9	99.6	57
China	Employment, sales and assets	99.0	69.7	60*
Philippines	Employment and assets	99.6	69.1	32*

Note :

a GNP

[^] Updated on
30 May 2006

Sources:

- Malaysia - CENSUS 2005
- Japan - JASME Annual Report 2004-2005, JASME (<http://www.jasme.go.jp>)
APEC - SME Profile (<http://www.actetsme.org>)
A Comprehensive Framework for the Development of SMEs in Malaysia (BNM 2003).
- Taiwan - *White Paper on SMEs in Taiwan 2005*, SMEA (<http://www.moeasmea.gov.tw>)
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- Indonesia - APEC - SME Profile (<http://www.actetsme.org>)
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- Philippines - *National SME Development Agenda (NSO - 2000/2001)*, DTI (<http://www.dti.gov.ph>)
APEC - SME Profile (<http://www.actetsme.org>)

Key Observations

The Census provides further insights on the state of the SMEs in the country. These insights are certainly useful to policymakers in formulating strategies and programmes to strengthen the capacity of the SMEs to contribute to the economy.

The observations that may have implications on the policy for SMEs include the following:

- Given the large number of SMEs and their contribution to the economy and employment, it is certainly critical for the Government to focus on strengthening the competitiveness and resilience of SMEs;
- A large proportion of micro enterprises highlighted the need for appropriate strategies to nurture and support this group of businesses. The strategies should be comprehensive, covering areas such as infrastructure, and programmes to support their development as well as facilitating their access to financing;
- Relatively low levels of investment in R&D and productivity among SMEs need to be addressed. If left unchecked, these would have an impact on the competitiveness of the SMEs. Therefore, one of the strategic thrusts of SME development is building the capacity and capability of the SMEs, focusing among others on strengthening SMEs product development and adoption of technology;
- There is a large potential to increase exports by SMEs. This requires a comprehensive strategy covering among others product development, quality accreditation, branding, as well as marketing and promotion; and
- Relatively small percentage of SMEs undertake marketing and promotion activities. Comprehensive and well-coordinate strategies need to be undertaken to strengthen the SMEs capability in this important aspect.

Bank Negara Malaysia's SME Survey

In an effort to assess the current state of the SMEs, their requirements and to identify issues faced by SMEs, Bank Negara Malaysia initiated a survey on SMEs in November 2001. The survey was conducted through the financial institutions and Chambers of Commerce. The findings from 7,700 SMEs and the study of the experiences of Japan, Thailand, Chinese Taipei and Germany in supporting their SMEs served as the basis for the formulation of the report on "A Comprehensive Framework for the Development of SMEs in Malaysia".

(a) Profile of SMEs

The SMEs were involved in a wide range of economic activities. 33% were involved in distributive trade, while 23% were involved in other service activities, ranging from hotels and restaurants to finance, insurance, real estate and business services. SMEs in the manufacturing sector constituted 32% of the total number of respondents.

In terms of ownership structure, 88% of the SMEs were family-owned businesses. The SMEs were generally very small, with 77% of SMEs having total assets of less than RM5 million, whilst 74% had less than 50 full-time employees. Due to their small size, majority of the SMEs cater mainly for the domestic market. Only 8% of the SMEs export their products.

Box Article : Bank Negara Malaysia's SME Survey

(b) Assistance Required by SMEs

The survey highlighted that most of the SMEs faced a variety of constraints that impeded their ability to compete and contribute effectively to the economy.

(i) Financing of SME Operations

62% of the SMEs in the sample data indicated that they have no problems obtaining financing. With respect to sources of financing, nearly half or 47% of the SMEs reported that they borrowed from banking institutions to fund their business operations. 32.4% of the SMEs were self-financed whilst 11% relied on other sources such as family, friends and supplier credit. Only 4.1% of the SMEs borrowed from development financial institutions.

(ii) Usage of technology

The survey revealed that only 5% of the SMEs had fully automated their operations, whilst 45% were still labour-intensive. Furthermore, 48% of the SMEs reported low usage of computers in their daily work. The inability to leverage on technology would result in activities that are less competitive and affect the SMEs ability to compete in the global market place.

(iii) Training

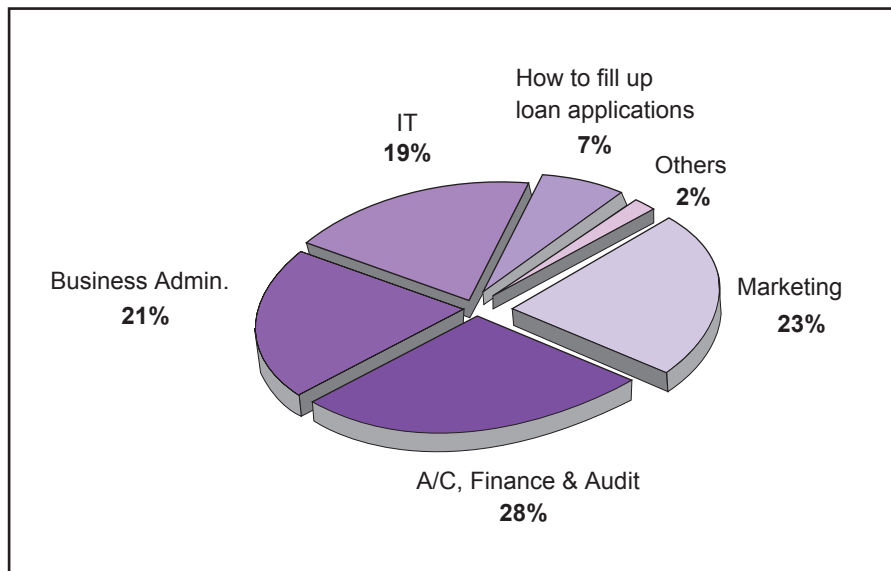
The survey findings indicated that training had been somewhat lacking among the SMEs, with 43% of SMEs not providing training to their staff. Of those that provided training, their programmes have generally involved technical training consisting of basic, on-the-job skills. Only 43.6% of the SMEs that provided training have training modules on business and management areas.

(iv) Advisory Services

Another factor that appeared to be inhibiting the performance of SMEs is the lack of access to advisory services to enhance their business operations. From the responses received from the SMEs, it was observed that SMEs required considerable business and financial advice to assist them in improving their business viability.

The survey highlighted that the majority of the SMEs (52%) do not have access to advisory services, while those who had access to advisory services relied on the private sector. Only 14% of the SMEs seek advisory services from Government agencies. To improve their business viability, the SMEs have highlighted that they require advice mainly on marketing, business administration and management, information technology and accounting and finance.

Advisory Services Required by SMEs

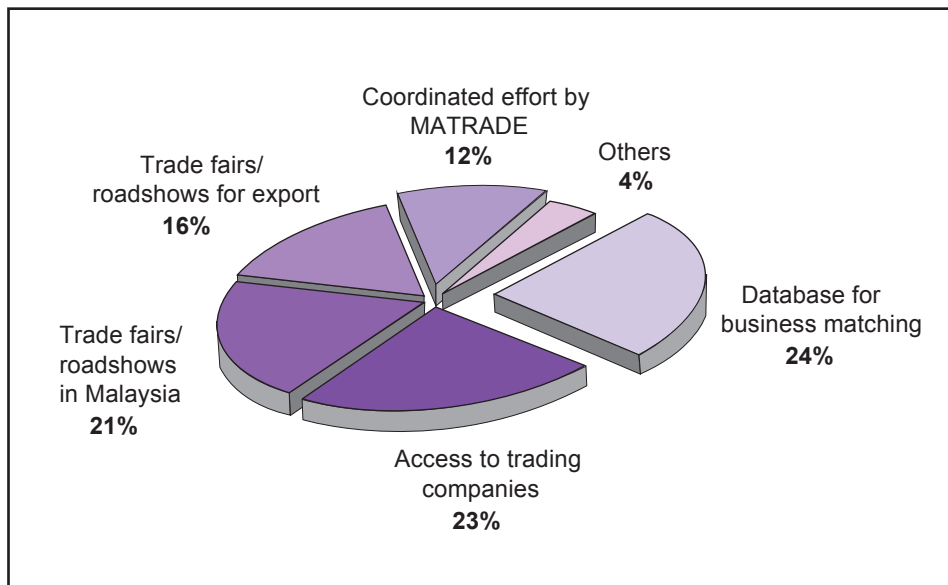


Box Article : Bank Negara Malaysia's SME Survey

(v) Marketing Assistance

The results of the survey also indicated that the SMEs were focusing mainly on the domestic market. They were less engaged in international trade, thereby distancing themselves from major market opportunities. More than 60% of the SMEs rely on their own marketing efforts to sell their products, whilst 21% sell their products through trade fairs. Only 7% sell their products via trading companies. SMEs require Government assistance for business matching, to facilitate greater access to trading companies and to organise more trade fairs and roadshows within Malaysia as well as overseas.

Marketing Assistance Required by SMEs



Box Article : Bank Negara Malaysia's SME Survey

(vi) Problems in Business Operations

Many of the SMEs surveyed indicated a number of issues that they faced. Government support in the areas of information technology, accessibility to information and training programmes was also required. The problems faced and desired areas of Government assistance highlighted by SMEs are shown in the following chart :-

Problems in Business Operations and Desired Forms of Government Assistance

Rank	Problems	Rank	Desired Forms of Govt. Assistance
1	Competition from bigger players	1	Tax incentives
2	Not able to obtain loans	2	Greater access to financing
3	Not able to source skilled labour	3	Greater technological support
4	Competition from new entrants	4	Central body that collates and disseminates info. on SMEs
5	Lack of Govt. support	5	Central training body

(c) Key Success Factors of SMEs

Bank Negara Malaysia also conducted a number of case studies on successful SMEs in Malaysia to identify the key success factors of these SMEs. SMEs involved in the case study had been in operation for more than 10 years, and had been selected based on their financial performance and track record.

The case studies demonstrated that although the SMEs were from different industries, all the enterprises shared common critical success factors, namely:

- Sound management capability and integrity;
- Sound business culture and entrepreneurial spirit;
- Prudent financial management;
- High quality products and services;
- Good programme for human resource development;
- Strong support from financial institutions in terms of lending and advisory services; and
- Strong marketing strategies, including good network with suppliers.

Box Article : Bank Negara Malaysia's SME Survey

