

# Competitive Capabilities of Malaysian SMEs: In The Perspectives of Business and Public Policies

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**Abstract - Evidence about the small and medium enterprises (SMEs) in Malaysia; they are important in facilitating economic growth and creating jobs for the Malaysian communities. This paper discusses about the development of SMEs in Malaysia, by focusing on their competitive capabilities, and how these capabilities can be strengthened with the assistance provided by the Malaysian government in terms of public policies. In relation to this, three main government policies are discussed. They are the Eleventh Malaysia Plan (11MP), the SME Masterplan, and the 2017 Malaysian Budget.**

**Keywords: SMEs, Malaysia, Competitiveness, Strategic Plan**

## I. INTRODUCTION

Relatively speaking, the Malaysian economy has been in a healthy state throughout the previous five years. This accomplishment has been contributed by small and medium enterprises (SMEs), being one of the country's key economic engines. Additionally, SMEs have also contributed to the development of three sectors – manufacturing, services and agriculture, as well as information and technology (ICT). Their commitments have impacted the economy a great deal.

The sound performance of SMEs is critical in the process of economic transformation as it is a source of domestic growth and as a provider for outsourcing activities to the private sectors. In addition, SMEs are also important in fostering innovation and growth, and acts as a stabilizer during the economic downturn. Unfortunately, the Malaysian SMEs face difficulty in going forward smoothly due to the uncertainties in global economy and environment, as well as increasing competitive pressures from inside and outside Malaysia. Therefore, Malaysian SMEs need a 'game changer' or strategic planning to revitalise its role to achieve for Malaysia a high-income nation by 2020 (SMEcorp, 2016a).

Despite the fact that SMEs play a vital role to advance a nation's economy worldwide, SMEs globally are confronted with issues, such as lack of financing, low profitability, lack of managerial capabilities, and lack of access to technology and innovation. According to a report by the Ministry of

International Trade and Industry (MITI) in 2006, SMEs in Malaysia need to find alternative ways to resolve issues that hold back their improvement, for example, by concentrating on rationalisation and reorganisation in order to be more competitive and engaged in the global business circle.

Consequently, it is critical to focus on advancing the competitive capabilities of SMEs in Malaysia. This exercise will prompt to improve SMEs, particularly in the midst of participating in the global market. By extending their competitive capabilities, this may empower SMEs to deliver better products and services that are non-comparable with those of competitors, as they have better value in terms of quality and innovation.

Therefore, this paper discusses about the significance of developing competitive capabilities among Malaysian SMEs, and how this may have an impact on SMEs' businesses and public policies in Malaysia.

## II. SMALL AND MEDIUM ENTERPRISES (SMES) IN MALAYSIA

The growth of small and medium-sized enterprises (SMEs) forms the basis of economic advancement of many nations, as they are one of the driving forces for economic advancement. In Malaysia, the SMEs would be given special focus to achieve a comprehensive and balanced growth, as they made up 98.5 percent of total establishments and provided 59 percent of total employment in the economy in 2015 (EPU, 2015). Those statistics showed that SMEs have contributed significantly to the Malaysian business landscape. Hence, it is important for them to develop their competitive capabilities as this is one of the key successful factors.

### A. Definition

In general, there is no single universal definition of SME. However, since July 2013, Malaysia has introduced a new definition of SME, by taking into account several economic issues, such as price inflation; structural changes; and change in business trends. The definition is also determined by two criteria: sales turnover and number of full-time employees (SMEcorp, 2016a) (see Table 1).

In Malaysia, SMEs refer to only pure business entities registered with the following bodies: (i) Companies Commission of Malaysia (SSM) either under Registration of Business Act (1956) or Registration of Company Act (1965) or Limited Liability Partnership (LLP) Act 2012; or (ii) Respective authorities or district offices in Sabah and Sarawak; or (iii) Respective statutory bodies for professional service providers (SMEcorp, 2016a).

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TABLE 1  
DEFINITION OF MALAYSIAN SMES

Sector	Category	Definition
Manufacturing	Micro	Sales turnover not exceeding RM 300,000 or the number of full time employees not exceeding five
	Small	Sales turnover between RM 300,000 and RM 15 Million or the number of full time employees between 5 and 75
	Medium	Sales turnover between RM 15 Million and RM50 Million or number of full time employees between 75 and 200
Services and Other Sectors	Micro	Sales turnover not exceeding RM 300,000 or the number of full time employees not exceeding five
	Small	Sales turnover between RM 300,000 and RM 3 Million or the number of full time employees between 5 and 30.
	Medium	Sales turnover between RM 3 Million and RM 20 Million or the number of full time employees between 30 and 75

Source: SMEcorp (2016a)

**B. SME Corporation Malaysia (SME Corp.)**

The most critical factor to ensure successful implementation of the SME Masterplan is the existence of a strong facilitating agency to implement the Masterplan. For that purpose, the government introduces the SME Corporation Malaysia (or SME Corp.) to assist the development of Malaysian SMEs. However, the role of SME Corp. will need to be tightened to allow greater empowerment to enable the agency to function effectively in executing the Plan. This requires reorganisation of the existing structure and improvement in the coordination mechanism.

Apart from sufficient authority or empowerment, SME Corp. Malaysia would also need to be given sufficient resources so that they have a more active role in the budgetary decision with regards to SME development. The agency would also need to establish a comprehensive Monitoring and Evaluation (M&E) system as a risk mitigation plan to ensure smooth implementation of the SME Masterplan (SMEcorp, 2016a).

**C. Issues and Policies**

Other than SME Corp., the Malaysian government has also created other numerous agencies, such as SME Bank; the National SME Development Council (NSDC); the Malaysian Investment Development Authority (MIDA); and the Ministry of International Trade and Industry (MITI). These other agencies facilitate and coordinate various initiatives, programs, and strategies related to their specialisation roles to promote and foster Malaysian SMEs. Specifically, these agencies drive SMEs' performance and empower them to achieve their potentials.

The government also created the Malaysia External Trade Development Corporation (MATRADE) in order to promote local SMEs, particularly companies that have carved new frontiers in the global markets. MATRADE facilitates SMEs in seeking opportunities to participate in international exhibitions. In fact, MATRADE also created the phrase

'Made-In-Malaysia' as this affirms Malaysian products' commitment to excellence, reliability and trustworthiness. In addition, to assist with SMEs' expansion and sustain their positive development, the Malaysian government has imposed regulations in which all SMEs must be registered with the Companies Commission of Malaysia (SSM) or other equivalent bodies. The purpose is to verify and categorise the status of these SMEs.

The conjunction to assist SME expansion and sustenance has prompted the government to create several strategic plans and policies in order to enhance the participation of SMEs in the Malaysian economy, as:

*i. Eleventh Malaysia Plan (11MP) from 2015 to 2020*

The Eleventh Malaysia Plan (11MP) focuses on developing resilient and sustainable SMEs to achieve a comprehensive and balanced growth. The contribution of SMEs across all sectors is targeted to increase to 41 percent of GDP by 2020, with an average annual growth rate of 9.3 percent. The target contribution is based on the extent of development of the SMEs. For example, during the 11MP period, the extent of development will be in accordance with the SME Masterplan (2012-2020) initiatives. Included in the initiatives are Six High Impact Programs (HIP) and also other supporting programs provided by the government. According to the plan, the Malaysian SMEs can be strengthened by increasing their share in the GDP and exports (EPU, 2015). The plan lists six main strategies to assist SMEs in Malaysia. These are shown in Table 2:

TABLE 2  
THE STRATEGIES FOR SMES

Strategies	Description
Strategy 1	Enhancing productivity through automation and innovation by promoting increased use of ICT and continuing the Technology Commercialisation Platform (TCP) and Inclusive Innovation programs
Strategy 2	Strengthening human capital development within SMEs by reskilling and upskilling workers through industry partnerships
Strategy 3	Enhancing ease of doing business by simplifying the process of formation and formalising of the business as well as increasing the ease of access to financing
Strategy 4	Increasing demand for SME products and services by reviewing policies for procurement from SMEs and encouraging SMEs to obtain international standards and certifications to increase exports
Strategy 5	Creating home-grown champions through Catalyst Programme to build high performing SMEs into regional and international players
Strategy 6	Developing SMEs in Sabah and Sarawak by strengthening infrastructure, encouraging market expansion through e-commerce, reducing the cost of doing business, and increasing the outreach of government assistance

Source: Adapted from EPU (2015)

Moreover, the previous plan - the Tenth Malaysia Plan (10MP) (from 2011 to 2015) proves that the strategies implemented resulted in more comprehensive and sustainable growth. This was manifested rising household income, low unemployment rate, benign inflation, and a robust financial system.

Despite the above, challenges still lie ahead for Malaysia. Therefore, SMEs need to focus on enhancing productivity, unlocking innovation, and maximizing their export potentials

(EPU, 2015). For those reasons, the government will assist SMEs in many aspects, such as capacity development; infrastructure reinforcement; and fund increment. The government also has set up a marketing agenda to assist SMEs in expanding their market.

There are many efforts and assistances provided by the government. These undertakings are purposefully delivered to attract both domestic direct investment (DDI) and foreign direct investment (FDI) in higher value-added and knowledge-intensive employment activities. In fact, these endeavours would contribute significantly to the advancement of SMEs in Malaysia.

Table 3 displays SMEs' contribution across all sectors, targeted to increase to 41 percent of gross domestic product (GDP) by 2020, with an average annual growth rate of 9.3 percent. The increment to GDP is expected to be contributed significantly by the success of the SME Masterplan (2012-2020) initiatives, inclusive of the Six High Impact Strategies.

TABLE 3  
SMEs' CONTRIBUTION TOWARDS THE MALAYSIAN ECONOMY

Item	2010	2015	2020	10MP	11MP
				Achieved	Target
Contribution of SMEs to GDP (RM billion in 2010 prices)	262.9	371.9	578.6	1,605.8	2,420.8
Annual growth rate (%)	8.3	9.3	9.3	7.5	9.3
Share of GDP (%)	32.0	35.0	41.0	33.4	38.4
SMEs' Exports (RM billion in 2010 prices)	100.3	147.8	243.7	634.0	995.0
Share of Total Exports (%)	15.7	19.0	25.0	17.3	22.4
Share of Total Employment (%)	57.1	59.0	62.0	57.8	60.7

Source: SMEcorp (2016a)

ii. SME Masterplan from 2012 to 2020

This plan is developed as a 'game changer' in order to accelerate the growth of SMEs to help Malaysia achieve a high-income nation by the year 2020. This plan, therefore, is expected to contribute to the Malaysian economy in 2020 in three aspects:

- GDP: 41 percent (2010: 32 percent)
- Employment: 62 percent (2010: 59 percent)
- Export: 25 percent (2010: 19 percent)

Source: SMEcorp, (2016b)

TABLE 4  
HIGH IMPACT PROGRAMS (HIP)

High Impact Programs	Objectives
i. Integration of Business Registration and Licensing	• To enhance ease of doing business
ii. Technology Commercialisation Platform (TCP)	• To encourage innovation
iii. SME Investment Programme (SIP)	• To provide early stage financing
iv. Going Export (GoEx) Programme	• To expedite internationalisation of SMEs
v. Catalyst Programme	• To promote homegrown champions
vi. Inclusive Innovation	• To empower the bottom 40%

Source: Adapted from SMEcorp (2016a)

The conjunction to accelerate the growth of SMEs in three aspects has prompted the SME Masterplan to engage Six High Impact Programs (HIP), as shown in Table 4. The HIP plays an important role because this will contribute significantly towards achieving the goal of the Master Plan. These HIPs are the drivers of change that would make the difference and take SMEs to the next level of development. Hence, it is important to ensure that all the six HIPs are successfully implemented in order that the full impact can be realised. Basically these programmes would be managed and delivered by the private sector, but will be owned by a Ministry or Government agency. The agencies that have been given the mandate will report the progress and outcomes through a Central Coordinating Agency (CCA) to National SME Development Council (NSDC).

iii. Malaysia's 2017 Budget

The Malaysia's 2017 budget also supports SMEs by allocating RM75 million for any programs under the SME Masterplan. In addition, the government allocates another RM 15 billion under various schemes belonging to Syarikat Jaminan Pembiayaan Perniagaan, and this will be extended until 2025 (MITI, 2016).

A part from the above, many initiatives are allocated to ensure SMEs' continuity. The budget is broad based and inclusive, taking into consideration the various economic groups of SMEs, namely agriculture; farmers; small entrepreneurs; women entrepreneurs; exporters; start-ups; and Bumiputera entrepreneurs (see Table 5).

TABLE 5  
MALAYSIA'S 2016 AND 2017 BUDGET

Budget 2016	Budget 2017
<ul style="list-style-type: none"> <li>• RM 235 million is allocated to MATRADE to promote Malaysian exports</li> </ul>	<ul style="list-style-type: none"> <li>• A total of RM350 million is allocated for export promotion of SMEs. This includes RM130 million under the National Export Promotion Funds channelled through MATRADE, SME Corp. Malaysia and MIDA</li> </ul>
<ul style="list-style-type: none"> <li>• RM 200 million under a funding Scheme for Technology and Innovation Acceleration by Malaysia Debt Ventures Berhad</li> </ul>	<ul style="list-style-type: none"> <li>• Initiatives to support start-ups include RM200 million for Working Capital Guarantee Scheme (WCGS) and introduction of a new pass category Foreign Knowledge Tech Entrepreneurs to encourage investment in high technology start-ups.</li> </ul>
<ul style="list-style-type: none"> <li>• RM 900 million to increase equity ownership and strengthen Bumiputera enterprises and business</li> </ul>	<ul style="list-style-type: none"> <li>• To empower Bumiputera entrepreneurs, a total of RM1.4 billion has been allocated for programmes implemented by various agencies such as SME Bank, MARA, TEKUN.</li> </ul>
<ul style="list-style-type: none"> <li>• RM 100 million to be channelled to 10,000 Indian entrepreneurs through the Indian Community Development Scheme</li> </ul>	<ul style="list-style-type: none"> <li>• For Indian entrepreneurs, a total of RM200 million has been allocated for business financing programmes under TEKUN and Amanah Ikhtiar Malaysia (RM150 million) and another RM50 million for programme to increase capacity and income</li> </ul>
<ul style="list-style-type: none"> <li>• RM 90 million is provided as micro credit for Chinese hawkers and petty traders. RM 50 million for SME via Koperasi Jayadiri Malaysia Berhad (KOJADI)</li> </ul>	<ul style="list-style-type: none"> <li>• For Chinese entrepreneurs, a total of RM90 million has been allocated for SME loans through KOJADI (RM50 million), RM20 million for microcredit loans under the Malaysian Chinese Women Entrepreneurs Foundation and RM20 million for loans to Chinese hawkers</li> </ul>

Source: Nadeswaran (2016)

As a long term commitment, the Government is committed to continue with the implementation of the SME Masterplan initiatives and other development programs. Therefore, as a facilitating agency – SME Corp. is expected to continue to work closely with the relevant ministries and agencies to ensure that the programs and incentives announced under the 2017 Budget will benefit the SMEs.

### III. COMPETITIVE CAPABILITIES AND SMES

Competitive capabilities that were built over a period of time enables an organization to achieve sustainable competitive advantage leading to superior profitability (Day, 1994). This will help firms to grow and prosper among other firms in the marketplace (Zulkifli & Perera, 2011).

A conjunction of sustainable competitive advantage and superior profitability is very important for small and medium-sized enterprises (SMEs) as this can realise their competitive capability in terms of creation of added value. Hence, it is crucial to invest heavily to develop the competitive capabilities so that the SMEs can survive and prosper in the current competitive environment. Evidence from existing studies confirmed that organizations' efforts in developing competitive capabilities can have a positive impact on their business performance (White, 1996; Zulkifli & Perera, 2011). Therefore, SMEs must create unique and hard to imitate products or services to combat competitions.

Over the past decades, Malaysia has transformed itself into a competitive manufacturing and export base. Apart from that, it has also focused on the development of a knowledge-based economy that emphasises information technology to enhance the development of an educated and trainable workforce (Zulkifli & Perera, 2011).

Unfortunately, most SMEs in Malaysia are facing the same problems of lack of capital and outdated technology. For example, to export in the global market, SMEs generally require the extra money, time and effort; however, not all SMEs are willing to invest in those. Other problems also inhibit SMEs to integrate into the international market. They are lack of foreign distribution channels; differences in product specifications; difficulties to collect payment from foreign customers; high risks involved in selling abroad; difficulty in providing after sales service; managerial hesitation towards exporting; and lack of capacity for exporting (Mahajar & Hashim, 2001).

According to the Chief Executive Officer of SME Corp., Datuk Hafsah Hashim, another problem encountered by Malaysian SMEs is the inability or difficulty in finding access to financing and working capital. In relation to this, Datuk Hafsah explained that entrepreneurs do not place much importance on research and development (R&D) because of the huge amount of investments required to conduct it. This contributes a significant distraction for SME operations in Malaysia.

These problems and obstacles are often influenced by the inability to provide better resources, capacity and skills; and these will indirectly affect the competitiveness of the firm. Consequently, the Malaysian government comes in to provide rescue by providing many initiatives and schemes with the assistance of relevant agencies to enhance and promote the

competitiveness of SMEs, both serving local and international markets.

One of the rescue examples is the Free Trade Agreements (FTAs), where the government regards the SMEs as part of Malaysian economy contributors. Through FTA, SMEs are able to help the Malaysian economy as they have achieved economies scale, expanding market share and increased productivity then. The purpose is to seek better market access and opportunities to trade in goods and services (MITI, 2016). Therefore, the Malaysian SMEs are encouraged to leverage on FTAs as they are able to penetrate the export markets as well.

To create competitiveness among SMEs, the government has decided to also implement a tax deduction rate from 19 percent to 18 percent, as announced in the 2017 Budget. As this exercise provides benefit in terms of cost reduction, it is parallel in terms of advantage provided by the other incentives and schemes under the SME Masterplan, and the extension of guarantee under the Syarikat Jaminan Pembiayaan Perniagaan.

The SME Corp. also introduces the SME Competitiveness Rating for Enhancement (SCORE) tool to measure the extent of competitiveness and capabilities of companies at the firm level. This tool is created for business matching purposes by providing SMEs' with baseline data. With the data, SMEs are able to evaluate and track their capabilities and performance. This tool, indeed, provides the implication of interventions; hence facilitating the linkage between SMEs and large enterprises; government-linked companies (GLC); hypermarkets; and other government agencies, such as MATRADE and MIDA.

Malaysian SMEs also play an important role in the export market, and this aspect is particularly important in developing their competitive capabilities. These capabilities include the opportunity to expand output, provide value-added activities, create employment opportunities and contribute to broadening the Malaysian export base (Zain, Khalili, & Mokhtar, 2008). Table 6 shows the contribution of Malaysian SMEs to export markets.

TABLE 6  
SMES CONTRIBUTION TO EXPORT MARKETS

Year	2010	2011	2012	2013	2014
Share of SME Export of Overall Export	16.4	16.9	17.5	17.8	17.8
SME Export Growth	-	12.2	2.8	1.6	6.2

Source: SMEcorp (2016a, 2016b)

Unfortunately, many issues have inhibited Malaysian SMEs to be actively involved in the global market. A previous study by Zain et. al. (2008) has identified several export barriers faced by Malaysian SMEs, namely difficulty to modify current products that meet international requirements, fluctuations of the change rate, lack of foreign channel distribution, risks, lack of capital and high costs incurred in selling abroad.

Hence, the SMEs in Malaysia are suggested to overcome the constraints faced when applying for external financing by the need to prepare proper accounting records and to practice prudent financial management. Apart from that, the Malaysian SMEs should also maximise the usage of e-commerce in order to encourage and expand market coverage globally, as outlined in the sixth strategies of the 11MP.

Moreover, while there are many potential advantages to be explored, Malaysian SMEs need also be risk takers by way of aggressively promoting their products and services in an uncertain market. This can be done by taking advantage of all programmes and initiatives provided by the Government, government-related agencies and the private sector. In addition, the SMEs need to construct and implement new strategies and improvement methods so as to anticipate an improving global environment.

Moreover, the Government is actively encouraging SMEs to apply the concept of *Glokal*, as introduced by the sixth Prime Minister, Datuk Seri Najib Tun Razak, to attain as many as possible achievements in the global arena without forgetting one's place of origin. This concept is useful as Malaysian SMEs should no longer regard threats and obstacles as blockages for moving forward, but as opportunities that can be translated into as advancement of business growth (Zulkiffli & Perera, 2011).

The government has also taken proactive measures to assist Malaysian firms, including SMEs, by providing them with incentives, namely duties and sales tax exemption; double deduction for promotion of exports; double deduction of expenses for promotion of exports of services, and double deduction of expenses for promotion of Malaysian brands (Ahmad & Chowdhury, 2012)

In conclusion, Malaysian SMEs need to be more proactive by participating in the various schemes and incentives provided by the government, and should have a good rapport with other related agencies, other than maximising the use of resources and capabilities to become more competitive.

#### IV. CONCLUSION

SMEs are an important engine of economic growth in many countries, and the key suppliers and service providers for leading industries. SMEs do not only become the source of a country's employment, generate income for the economy of the country via exports and provide increment to GDP, SMEs also contribute to the quality of life of the population. Data also suggest that SMEs are vital contributors to a country's economic wellbeing, including Malaysia.

Therefore, the Malaysian government has introduced many policies, incentives, programmes and financial assistance (as indicated in the 11MP, SME Masterplan and the 2017 Budget) to spur the development and growth of the country's SMEs. The programmes of development include capacity and capability building to enhance SMEs' competitive skills and knowledge. For example, many initiatives have been introduced to accelerate the entrepreneurship knowledge, mindset and skills and re-educate employees in new skills and abilities that are technology-based and e-commerce, and at the same time encourage Malaysian SMEs to specialise and collaborate with the other sectors of the economy.

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