

## Helpfulness and Benefits of Using SMIDEC Assistance Programs on Small and Medium Enterprises in Malaysia

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### Abstract

*This paper focuses on the helpfulness and benefits of the SMIDEC export assistance programs for small and medium-sized enterprises (SMEs) in the Malaysian manufacturing sector. More specifically, the study attempted to investigate the exporting assistance programs offered by SMIDEC. The data for the study was collected through the mail questionnaires and face to face interview to the selected SMEs. From the total number 300 questionnaires mailed, 56 firms responded and 20 questionnaires was completed through face to face interview. Data from the questionnaires were coded and entered accordingly into the SPSS statistical software. The descriptive statistics such as mean, standard deviation and frequency distribution were utilized to analyze the data collected from the participating SMEs. The empirical information resulted from analyzing the data obtained from the 76 SMEs suggests the following findings such as most of the firms stated that they are lack of awareness of the exporting programs offered by SMIDEC, the SMEs perceived the export assistance programs as important; the usage of the export assistance programs varied among the SMEs and the SMEs received various benefits from the assistance programs.*

**Keywords:** SMIDEC, Malaysian manufacturing sector, export assistance programs and small medium enterprises

### 1.0 Introduction

Exporting activities provides small and medium-sized enterprises (SMEs) are ways of expanding their businesses internationally. For a small or medium business, developing export markets can be both a growth opportunity and as a major challenge. Moreover, in view of stronger competition, maturing markets as well as limited domestic market opportunities, SMEs need to be given strong consideration to expand their exporting activities. However, in Malaysia, the small and medium-sized enterprises (SMEs) appear to be lagging in their exporting activities. At the present moment, although SMEs made up of more than 90 percent of the total manufacturing firms in Malaysian manufacturing sector, they managed to export about 20.8 percent of their total output in the sector. This amount contributed to only about 10.8 percent of the country's total exports of manufactured products. These figures suggest that majority of the SMEs in Malaysia depend on selling in the domestic market, and that they are not exploiting the opportunities available in foreign markets.

In an effort to assist the SMEs in their exporting activities, the Malaysian government has introduced various exporting assistance programs. Over the years, the Malaysian government has introduced these export assistance programs to support and encourage more SMEs to export as well as to enable them to increase their share of the country's total exports. In Malaysia, the concerned over the future survival of small and medium-sized enterprises (SMEs) in the context of the global competition has been voiced by many. More and more academics, politicians, bureaucrats, and owners as well as managers of small businesses have expressed their apprehension. Even though some are cautiously optimistic about the possible opportunities, others are quite pessimistic concerning the challenges and threats of the global business system.

### 2.0 Literature Review

Currently, SMEs in Malaysia are not clearly defined, except in the manufacturing and banking sectors.

Two common parameters used to define SMEs in the manufacturing sector are sales turnover and number of employees. Of the various definitions of SMEs found in Malaysia, the more widely accepted definition is the one used by the Ministry of International Trade and Industry (MITI). MITI, which is responsible for industrial development in Malaysia, defined an SME thus (New Strait Times, January 19, 1998):

- a. A small-sized firm as "a firm with less than 50 full-time employees, and with an annual turnover of not more than RM10 million".
- b. A medium-sized firm as "a firm with between 51 and 150 employees, and with an annual turnover of between RM10 million and RM25 million".

According to the Small and Medium Industries Development Corporation (SMIDEC) SMEs are defined as manufacturing companies or companies providing manufacturing related services with annual sales turnover not exceeding RM25 million and full-time employees not more than 150 (SMIDEC, 2003). Ogram (2008) classified exporting firms as those that have exported over the last three years and that their exporting sales represent at least one percent of their gross annual sales. Exporting is considered the most common mode of entry into international business among SMEs. Although exporting appears to be attractive to SMEs, previous empirical studies have indicated that exporting firms faced various obstacles. An earlier study by Alexandrides (2011) found that smaller firms faced difficulties in initiating exporting. Alexandrides concluded that high intensity of competition in foreign markets, little knowledge of exporting activities, insufficient understanding of export payment procedures, and difficulties in identifying foreign market opportunities as the major reasons why firms fail to initiate exporting.

Similarly, Bilkey (2009) discovered some of the most formidable barriers to successful small business exporting. These were: (1) high risk; (2) insufficient financing; (3) protective foreign government regulations; (4) inadequate distribution channels; (5) insufficient knowledge of marketing opportunities abroad; (6) difficulties in understanding foreign business practices; (7) difficulties in conforming to foreign product standards and specification; (8) difficulties in collecting payments from foreign customers; (9) inadequate representation in foreign markets; and (9) lack of foreign marketing connections. Both Moini (2009) and Kedia and Chokar (2009) found low levels of awareness of export assistance programs, implying that assistance providers are not doing an adequate job of promoting their programs. Usage of export assistance programs was very high for firms that were aware of the services. Kotabe and Czinkota (2009) found that assistance providers were not targeting their resources consistent with the export assistance needs of firms and Howard and Herremans (2012) found that successful exporters did not find government assistance providers to be particularly helpful. According to Baucerchmidt & Gellespie (2010), greater knowledge of the conditions under which program use is effective. This also can be benefit government policy makers those seeking to improve export promotions. Management's use of government export assistance can contribute to successful export development strategy. Export encouragement strategies should be designed and carried out with clear target audiences in mind. Targeted firms should be informing how export operations can contribute to their profits and growth.

### **3.0 Research Objective**

To determine the effectiveness of the export assistance programs, this study focused on the following:

- The level of usage of the SMIDEC's exporting programs among the SMEs; and
- The benefits received by the SMEs from using the exporting programs offered by SMIDEC.

### **4.0 Methodology**

This study is confined to selected small and medium-sized enterprises (SMEs) in the Malaysian manufacturing sector. In this study, a small and medium-sized enterprise (SME) is defined as a manufacturing firm with an annual turnover of less than RM25 million and as one which is actively managed by its owner/s. Based on this definition, 300 SMEs were identified from the 2012 Federation of Malaysian Manufacturers (FFM) Directory of Malaysian Manufacturers.

The data for this study was collected by mail survey and face to face interview in July 2013 to September 2013. The data was also collected through the telephone conversations and a follow-up letter was sent to the participation of the firms to confirm the date of the interview.

Structured questionnaires were then mailed to the top management of the 300 firms selected. Out of the total number of 300 questionnaires sent, 56 usable questionnaires were received and 20 questionnaires were completed by face to face interviewed, yielding a response rate of 25.3 percent.

Data from the questionnaire were coded and entered accordingly into the SPSS statistical software. The descriptive statistics such as mean, standard deviation and frequency distribution were utilized to analyze the data collected from the participating SMEs. The study used simple random sampling. However, for this research purpose, descriptive statistic would only show the frequency and percentage of the general background of respondents (e.g. the age, race, monthly income, education background, etc). The validity of the questionnaires was done by using face content validity through an expert opinion and pilot test was conducted. Cronbach alpha were used to test the reliability of the study and pilot test was done before the actual questionnaires being distributed to the respondents.

## 5.0 Findings

**Table 4.1: Characteristics of Respondents**

		N	Percentage
<b>Position:</b>	Owner and CEO	12	15.8
	Owner and Manager	11	14.4
	Manager but Not Owner	32	42.1
	Owner but Not Manager	4	5.3
	Others	17	22.4
	<b>Total</b>	<b>76</b>	<b>100.0</b>
<b>Race:</b>	Malay	50	65.8
	Chinese	16	21.1
	Indian	6	7.9
	Others	4	5.3
	<b>Total</b>	<b>76</b>	<b>100.0</b>
<b>Gender:</b>	Male	35	46.1
	Female	41	53.9
	<b>Total</b>	<b>76</b>	<b>100.0</b>
<b>Marital Status:</b>	Married	33	43.4
	Remarried	2	2.6
	Never Married	41	53.9
	<b>Total</b>	<b>76</b>	<b>100.0</b>
<b>Years of Experience:</b>	1-3 years	44	57.9
	4-6 years	18	23.7
	7-9 years	5	6.6
	10-12 years	3	3.9
	13 and Above	5	6.6
	No Experience	1	1.3
	<b>Total</b>	<b>76</b>	<b>100.0</b>
<b>Number of Businesses Owned:</b>	Never own any	42	55.3
	1	19	25.0
	2	6	7.9
	3	4	5.3
	More than 5	5	6.6
	<b>Total</b>	<b>76</b>	<b>100.0</b>
<b>Level of Education:</b>	School Certification	4	5.3
	Diploma	1	1.3
	Bachelor Degree	64	84.2
	Master Degree	4	5.3
	PhD Degree	3	3.9
	<b>Total</b>	<b>76</b>	<b>100.0</b>

Table 4.1 summarizes the characteristics of the respondents in this study. The respondents consisted of manager but not owner (42.1%), export executive (22.4%), owner and CEO (15.8%), owner and manager (14.5%) and owner but not manager (5.3%). Malays constituted majority of the respondents (65.8%), followed by Chinese (21.1%), Indians (7.9%), and others races (5.3%). Forty-one respondents were female and 35 male. Of the 76 respondents, 41 were single, 33 were married and two remarried. Majority (57.9 %) of the respondents had one to three years work experience, another 18 (23.7%) had between four to six years, five respondents had between seven to nine years and the remaining three respondents had between 10 to 12 years of working experience. Forty-two respondents never owned any business, 19 respondents had one business, six had two businesses, four had three businesses, and five had more than five businesses. In term of level of education, 64 respondents obtained bachelor degrees, four respondents each had school certifications and master's degrees, three respondents had PhD degrees and one respondent had a diploma.

The characteristics of the 76 SMEs that participated in this study are summarized in the following Table 4.2.

**Table 4.2: Characteristics of the Sample Firms**

		N	Percentage
<b>Legal Form in Business:</b>	Sole proprietor	19	25.0
	Partnership	13	17.1
	Private Limited	44	57.9
	<b>Total</b>	<b>76</b>	<b>100.0</b>
<b>No. of Employees:</b>	1-30 employees	22	28.9
	31-100 employees	15	19.7
	101-200 employees	9	11.8
	201-300 employees	12	15.8
	More than 300 employees	18	23.7
	<b>Total</b>	<b>76</b>	<b>100.0</b>
<b>Firm Established:</b>	Originally private, from time of start up	41	53.9
	Joint venture, domestic and foreign private owners	19	25.0
	Privatization of a state-owned firm	7	9.2
	Private subsidiary of a foreign-owned firm	3	3.9
	Private subsidiary of a formerly state-owned firm	1	1.3
	Others	5	6.6
<b>Total</b>	<b>76</b>	<b>100.0</b>	
<b>Government Agency/ State Body Have A Financial Stake:</b>	Yes	28	36.8
	No	48	63.2
	<b>Total</b>	<b>76</b>	<b>100.0</b>
<b>Percentage of Total Ownership:</b>	Less than 10%	6	7.9
	11-20%	10	13.1
	21-30%	6	7.9
	More than 40%	6	7.9
	Not Relevant	48	63.2
	<b>Total</b>	<b>76</b>	<b>100.0</b>
<b>Foreign Company/ Individual Have A Financial Stake:</b>	Yes	30	39.5
	No	46	60.5
	<b>Total</b>	<b>76</b>	<b>100.0</b>
<b>Percentage of Total Ownership:</b>	Less than 10%	15	19.7
	11-20%	7	9.2
	21-30%	5	6.6
	More than 40%	6	7.9
	Not Relevant	43	56.6
	<b>Total</b>	<b>76</b>	<b>100.0</b>
<b>Total Sales of Business (2002):</b>	Less than RM500,000	15	19.7
	RM500,001-RM5,000,000	23	30.3
	RM5,000,001-RM10,000,000	13	17.1
	RM10,000,001-RM15,000,000	4	5.3
	RM15,000,001-RM20,000,000	2	2.6
	More than RM20,000,000	19	25.0
<b>Total</b>	<b>76</b>	<b>100.0</b>	
<b>Net Profit (before tax) (2002):</b>	Less than RM10,000	9	11.8
	RM10,001-RM100,000	19	25.0
	RM100,001-RM200,000	4	5.3
	RM200,001-RM300,000	8	10.5
	RM300,001-RM400,000	7	9.2
	RM400,001-RM500,000	7	9.2
	More than RM500,000	22	29.0
	<b>Total</b>	<b>76</b>	<b>100.0</b>
<b>Operation in Other Countries:</b>	Yes	32	42.1
	No	44	57.9
	<b>Total</b>	<b>76</b>	<b>100.0</b>
<b>Exporting Activity:</b>	Yes	33	43.4
	No	43	56.6
	<b>Total</b>	<b>76</b>	<b>100.0</b>
<b>Percentage of Total Sales in Export (2002):</b>	1-10%	7	9.2
	11-20%	6	7.9
	21-30%	10	13.2
	31-40%	2	2.6
	More than 40%	9	11.8
	Not Relevant	42	55.3
<b>Total</b>	<b>76</b>	<b>100.0</b>	

As shown in the above Table 4.2, 44 of the 76 sample firms were private limited companies, 19 were sole proprietors, and 13 were partnerships. Fifty-eight companies had between one to 300 employees and 18 companies had more than 300 employees. Forty-one were startup companies, 19 companies were joint ventures between domestic and foreign private investors, seven were privatized government companies, five were subsidiary of private companies, and one company was a subsidiary of a formerly government-owned firm.

The respondents indicated that they owned from less than 10% to more 40% of the ownership of their firms. Of the 76 companies, 15 firms had total sales of less than RM500,000.00, 23 firms had sales between RM500,001 to RM5 million, 13 firms had total sales of between RM 5 million to RM10 million, four firms had between RM10 million to RM 15 million, two firms between RM 15 million to RM 20 million, and 19 firms had more than RM20 million in total sales for the year 2002. Nineteen firms (25%) had net profit of between RM10,001 to RM100,000, nine firms (11.8%) had net profit of less than RM10,000, eight firms (10.5%) had net profit of between RM200,001 to RM300,000, seven firms each (9.2%) had net profit of between RM300,001 to RM400,000 and RM400,001 to RM500,000. The remaining four firms (5.3%) had net profit of between RM100,001 to RM200,000.

Of the 76 firms, 44 firms did not have any operation in other countries. Thirty-two firms indicated that they had operations in other countries. Thirty-three firms reported that they were presently involved in exporting. Of these 33 firms, 10 firms (13.2%) had their percentage of total sales in export (2002) of between 21 to 30%, nine firms (11.8%) with more than 40%, seven firms (9.2%) had 1 to 10%, six firms (7.9%) had between 11 to 20% and two firms (2.6%) had between 31 to 40%.

### 5.1 Helpfulness of the SMIDEC Programs

Table 4.3 below presents the percentages of the responses to questions on the helpfulness of the 12 export assistance programs offered by SMIDEC.

**Table 4.3: Helpfulness of the SMIDEC Programs**

Program	Not Helpful At All	Not so Helpful	Not Sure	Helpful	Very Helpful
	N (%)	N (%)	N (%)	N (%)	N (%)
Grant RosettaNet Standard Implementation	11 (14.5%)	1 (1.3%)	44 (57.9%)	12 (15.8%)	8 (10.5%)
Soft Loan Scheme for Factory Relocation	8 (10.5%)	4 (5.3%)	32 (42.1%)	22 (28.9%)	10 (13.2%)
Grant for Upgrading Engineering Design Capabilities	8 (10.5%)	2 (2.6%)	37 (48.7%)	18 (23.7%)	11 (14.5%)
Grant for Business Planning and Development (ITAF1)	7 (9.2%)	3 (3.9%)	31 (40.8%)	23 (30.3%)	12 (15.8%)
Grant for Product and Process Improvement (ITAF2)	7 (9.2%)	1 (1.3%)	30 (39.5%)	26 (34.2%)	12 (15.8%)
Industrial Linkage Programme (ILP)	7 (9.2%)	3 (3.9%)	37 (48.7%)	18 (23.7%)	11 (14.5%)
E-Manufacturing Grant (ERP)	8 (10.5%)	3 (3.9%)	41 (53.9%)	15 (19.7%)	9 (11.8%)
SME Expert Advisory Panel (SEAP)	11 (14.5%)	3 (3.9%)	44 (57.9%)	12 (15.8%)	6 (7.9%)
Grant for Productivity and Quality Improvement and Certification (ITAF3)	8 (10.5%)	3 (3.9%)	36 (47.4%)	19 (25.0%)	10 (13.2%)
HeadStart 500	10 (13.2%)	4 (5.3%)	39 (51.3%)	13 (17.1%)	10 (13.2%)
Enterprise 50	10 (13.2%)	7 (9.2%)	34 (44.7%)	17 (22.4%)	8 (10.5%)
Factory Auditing Scheme	10 (13.2%)	8 (10.5%)	33 (43.4%)	16 (21.1%)	9 (11.8%)

**Table 4.4: Mean and Standard Deviation Scores of Helpfulness of the SMIDEC Programs**

Program	Mean	Standard Deviation
Grant for Productivity and Quality Improvement and Certification (ITAF3)	4.00	1.10
Grant for Upgrading Engineering Design Capabilities	3.97	1.11
SME Expert Advisory Panel (SEAP)	3.01	1.05
Grant RosettaNet Standard Implementation	2.93	1.09
Enterprise 50	2.92	1.13
Factory Auditing Scheme	2.92	1.15
HeadStart 500	2.88	1.13
E-Manufacturing Grant (ERP)	2.82	1.05
Soft Loan Scheme for Factory Relocation	2.71	1.11
Industrial Linkage Programme (ILP)	2.70	1.07
Grant for Business Planning and Development (ITAF1)	2.61	1.10
Grant for Product and Process Improvement (ITAF2)	2.54	1.08

The figures in Table 4.4 indicate the mean scores of the helpfulness of the 12 export assistance programs provided by SMIDEC. The mean scores vary from 2.54 to 4.00. In general, these results suggest that the 12 programs offered by SMIDEC were not so helpful to their firms.

**Table 4.5: Benefits of the SMIDEC Programs**

SMIDEC Programs	Benefits
S1 Grant RosettaNet Standard Implementation	Increased export sales
S2 Soft Loan Scheme for Factory Relocation	Increased production
S3 Grant for Upgrading Engineering Design Capabilities	Improved product
S4 Grant for Business Planning and Development (ITAF1)	Gained new foreign customers
S5 Grant for Product and process Improvement (ITAF 2)	Increased production
S6 Industrial Linkage Programme (ILP)	Gained new foreign customers
S7 E-Manufacturing Grant (ERP)	Penetration new foreign market
S8 SME Expert Advisory Panel (SEAP)	Increased production
S9 Grant for Productivity and Quality Improvement and Certification (ITAF 3)	Increased production
S10 HeadStart 500	Penetration new foreign market Gained new foreign customers
S11 Enterprise 50	Penetration new foreign market Increased net profit
S12 Factory Auditing Scheme	Improved product

Table 4.5 shows that the respondents in the study were also requested to indicate whether they had benefited from using the various export assistance programs offered by the five government agencies. The benefits of the government export assistance programs are summarized in Table 4.6 below.

**Table 4.6: Benefits of the Export Assistance Programs**

Benefits of the Export Assistance Programs
Increased export sales
Penetration new foreign market
Increased production
Gained new foreign customers
Increased net profit
Improved market growth
Improved product
Improved exporting process
Improved international networking

## **6.0 Conclusion**

Based on the results of this study, the following findings may be summarized. First, at the general level, the results of the study suggest that the level of awareness of the various export assistance programs among the SMEs is still low.

Second, the results of the study in general indicate that to certain extent the SMEs in the study perceived the export assistance programs provided by SMIDEC as not so helpful to their firms. Third, in term of the usage level of the export assistance program among the responding firms, the results of the study suggest that the SMEs in the study have been using the programs to a certain degree. Finally, the results of study appeared to suggest that the SMEs that used the various export assistance programs provided by SMIDEC had received various types of benefits from the programs.

## **7.0 Implication of the Study**

The finding of the study on the helpfulness of the export assistance programs offered by SMIDEC suggest that there is further need for the providers of the export programs to show the SMEs the helpfulness of the export assistance programs in assisting them with their exporting activities. Second, there is also need to increase the usage of the various export assistance programs among the SMEs.

With regard to this, SMIDEC need to increase the SMEs' commitments in using the various export assistance programs offered by them. These agencies can do so by showing the potential tangible benefits a firm can gain from using the various export assistance programs.

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