

The Role of Government Linked Companies (GLCs) and Small Medium Enterprises (SMEs) Development in Malaysia

— A Preliminary Assessment —

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Abstract:

In recent years, reviews on policies and strategies to facilitate the overall development of Small Medium Enterprises (SMEs) in Malaysia have been gradually implemented. These reviews include the initiative to strengthen the role of private sector in supporting the overall development of local SMEs. Within the context of Malaysian development, various government economic and social policies were implemented through Government Linked Companies (GLCs). Hence, GLCs' contribution to the Malaysian economy and SMEs is an essential analysis and would provide inputs to the development of SME related policies and action plans. This study analyses SME related policies and development programs in Malaysia and specifically examines the role of GLCs in contributing to the growth of SMEs. Our analysis aims to evaluate the contributions of GLCs on the development of SMEs by asses-

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sing the effectiveness of the vendor development programs and their impact on vendor's growth and performance. We conduct a series of structured interviews with selected GLCs and distribute questionnaires to their vendors. Our findings suggest that SMEs development policies in general and vendor development programs by GLCs in particular have been a little slow to take off. The slow progress can be attributed to both the implementation issues at GLCs and the attitudinal problems of their vendors who lack of sound entrepreneurial culture and ability to compete. A question remains to be answered is whether the implemented policies and development program can be translated into sustainable growth and enhance firms competitiveness or simply an increase in number of SMEs establishments.

Keywords: Malaysia, GLCs, SMEs, vendor development programs

1 . Introduction

In many countries, Small Medium Enterprises (SMEs) are contributing significantly to the economic growth and human development, and play a central role in deepening key industries through inter-firm backward and forward linkages. Malaysia recognized the increasing importance of SME and in the process of putting in place a policy and institutional framework that addresses their development needs. In recent years, government has reviewed relevant policies and strategies to facilitate the overall development of SMEs which include the initiative to strengthen the role of private sector in supporting the overall development of local SMEs.

The 2005 Census of Establishment and Enterprise found that the bulk of business establishments (99.2%) are SMEs, of which 80% are micro enterprises. The census also shows that SMEs are a major source of employment,

about 56% of total employment. However, their contribution in terms of gross domestic product which is only 32% and total export value of about 19% is still disproportionately low (DOS, 2005). Apart from that, SMEs in Malaysia are also facing many challenges such as lack of financing, low level of technology, lack of managerial and technical capabilities, and a high level of bureaucracy in government agencies, among many others (Moha, 1999). These challenges need to be tackled accordingly as they have been hindering SMEs resilience and competitiveness.

This study analyses SME related policies and development programs in Malaysia. We specifically examine the role of Government Linked Companies' (GLCs) as one of the main implementation vehicles of SME development programs. Besides reviewing the development experience of SME policy and implementation system, the study aims to provide a preliminary assessment of GLCs' contribution to the development of local SMEs through their implementation of the Vendor Development Programs (VDP). GLCs are expected to carry out the task of promoting the use of competitive local content, ensuring Bumiputra (i.e. indigenous people and Malays) equity share in the nation economic growth and developing capabilities of their vendors particularly Bumiputra SMEs who are lagging behind their competitors.

Over the years, SME development in Malaysia has been progressing rather slowly but their prospects are gradually improving. The government has shown encouraging efforts and recognized SME's increasing importance to the Malaysian economic development. At the highest policy making level, initiatives have been taken to ensure effective implementations of SME development policies and action plans. Various SME related policies and development plan i.e. VDP were implemented through GLCs. Hence, GLCs' contribution to the development of SMEs is a worthwhile analysis at both macro and micro perspective.

2 . Literature Review

2.1 *Overall development framework for SME Policies in Malaysia*

The current development of SME in Malaysia has received great attention due to its increasing importance to the economy, and is considered as the backbone of industrial development in the country. However, there is lack of empirical studies that focus on the impact of the entrepreneur development programs of Malaysian GLCs and their contribution on the development of local SMEs. This could be due to the complexity nature of SME related policies, overlapping information of the support programs for SME development and aggregate data of Bumiputra versus non-Bumiputra entrepreneurs which impede thorough studies on the relevant subject. Before the formation of National SME Development Council (NSDC) in June 2004, there was a duplication of SMEs related policies and implementation of the support programs because of too many ministries and agencies involve in the SME development. The involvement of more than seven ministries and twenty agencies has resulted in the duplication of the SME related policies and is seen as one of the factors that lead to the slower progress of local SME development (Ahmad et al, 2005). In addition, other factors such as the nature of development programs which do not match the market needs and lacking of genuine entrepreneurial spirit among entrepreneurs particularly Bumiputra may have been deterring the expected progress of their development.

Nonetheless, in recent years, positive changes in the Malaysian landscape of SME development are noted such as the establishment of NSDC in 2004 and SME Bank in 2005. NSDC represents the highest policy making body and charts the future direction and strategies for SME development while the SME bank complements the role of existing financial providers of

SME loans. The following year witnessed the first annual publication of updated SMEs profile or the census of establishments and enterprises by Department of Statistics (DOS) and the creation of one-stop SME online information or the “SMEinfo Portal”. These initiatives and improvements in the formulation of the SME related policies and coordination of the support programs, as well as the improved database reflects the increasing importance of the SME development to the country’s economy and government commitment to develop and strengthen SMEs (SMIDEC, 2006).

An interesting feature of the history of Malaysian economic development that was introduced by the British under their colonial rule of Malaya (pre 1957) need to be understood before one could grasp the current context of SME related policies, particularly Bumiputra related policies which is embedded within the national blueprint of economic development. The historical practice of segregating economic activity along the racial lines; (imported Indian workers on the rubber plantations, imported Chinese workers in the tin mines and trades, while Bumiputra, mostly the Malays dominated the agricultural sectors and a small elite group was allowed into the bureaucracy) during the colonialized time resulted in economic inequalities of the three major ethnic groups with the majority of Bumiputra at the bottom rung. Upon independence from the British in 1957 and racial economic clashes in 1969, it was agreed among representatives of the three ethnic groups that the Malays would be granted certain “special right” in the realm of religion, economic and politics (Ariff and Syarisa,).

The “special right” was then fully articulated under the New Economic Policy (NEP) in 1970 to create more equitable society. The main objectives of NEP was to eradicate poverty and attain at least 30% of Bumiputra equity ownership by 2000, but this goal was extended to the year 2010 as stipulated in the Third Outline Perspective Plan (OPP3, 2001). Table 2.1 shows that the

30% target of Bumiputra equity ownership has yet to be achieved. Within NEP, there is an implementation mechanism such as the creation of Bumiputra Commercial and Industrial Community (BCIC), which involves fostering Bumiputra entrepreneurs, professionals and creating a Bumiputra middle-class. BCIC has become one of the main strategies for strengthening Malaysian SMEs and all related policies and strategies have to take this into consideration without neglecting the Non-Bumiputra entrepreneurs (Economic Planning Unit, 2001).

As mentioned earlier, the policies and programs of entrepreneur development embedded within the larger policies of economic development in

**Table 2.1 : Malaysian Ownership of Share Capital of Limited Companies
1970-2000**

Ownership Group	1970		1980		1990		2000	
	RM (million)	%	RM (million)	%	RM (million)	%	RM (million)	%
Bumiputras	126	2.4	4,051	12.5	20,878	19.3	62,976	18.9
Individuals	84	1.6	1,880	5.8	14,322	14.2	47,344	14.2
Trust Agencies	41	0.8	2,170	6.7	5,556	5.1	5,802	1.7
Non-Bumi	1,827	34.3	14,443	44.6	50,754	46.8	137,413	41.3
Chinese	1,451	27.2	-	-	49,297	45.5	29,318	38.9
Indian	56	1.1	-	-	1,068	1	5,137	1.5
Others	-	-	-	-	390	0.3	2,958	0.9
Nominee Companies	320	6	-	-	9,220	8.5	28,119	8.5
Foreigners	3,377	63.4	13,927	42.9	27526	25.4	10,390	31.3

Source: Mid-term Review of the Eighth Malaysian Plan (2003) and the Seventh Malaysian Plan (1996).

Malaysia. Various programs were undertaken to develop SME as part of the efforts to create conducive business environment and competitive entrepreneurs. Government agencies and GLCs assisted in the development of ancillary and supporting industries through their own vendor programs. In this regard, GLCs are seen as one of the implementation vehicles of SME development program and they are expected to play significant roles to ensure their vendors particularly SMEs fully benefit from the programs. Table 2.2 shows the value of contract awarded to selected GLCs through various vendor development programs (VDP) during the period 1991-2003, which amounted to more than RM 4.4 Billion. As can be seen in table 2.2, PROTON, TMB and TNB have been implementing VDP and awarded substantial amount of contracts to the programs participants.

From a broader perspective, GLCs have been important contributors to the Malaysian economy in terms of providers of investment capital and em-

Table 2.2 : Vendor Development Programs Undertaken by Selected GLCs for the period of 1991-2003

Company	Contract Value (RM million)	SME Development Programs
Perusahaan Otomobil Nasional Berhad (PROTON)	1388.66	Component Scheme Programs Proton Mentor-Mentee Entrepreneur Development Program
Telekom Malaysia Berhad (TMB)	969.92	Manufacturing Product for Telecoms Entrepreneur Development Program
Tenaga Nasional Berhad (TNB)	2046.01	Umbrella Scheme Strategic Joint Venture
TOTAL	4404.59	

Source: Mid-Term Review of the Eighth Malaysia Plan, 2003, only cumulative data is available from the source.

ployment. These companies employ about 3% of national workforces and provide services to millions, and are viewed as an engine of economic growth and prosperity of the country (PCG, 2005). Thus, GLCs play important roles in executing government policies and development initiatives in strategic industries such as financial services, transportation, telecommunications and energy towards a balanced development for the country.

2.2 Definition of GLC and SME

Conceptually, a government linked company (GLC) is a corporate entity that may be private or public (listed on a stock exchange) where an existing government owns a stake using a holding company. There are two main definitions of GLCs which are dependent on the proportion of the corporate entity a government owns. The first definition purports that a company is classified as a GLC if a government owns an effective controlling interest of more than 50%, while the second definition suggests that any corporate entity that has a government as a shareholder is a GLC.

In the context of this study, GLCs are defined as companies that have a primary commercial objective and in which the Malaysian government has a direct controlling stake (PCG, 2005). Controlling stake refers to the government's ability (not just percentage ownership) to appoint board of directors, senior management, make major decisions (e.g. contract awards, strategy, restructuring and financing, acquisitions and divestment for GLCs).

The criteria used in defining SMEs are based on annual sales turnover and number of employees of the SMEs as shown in Table 2.3. A broad definition of SMEs is provided, along with specific definitions for micro, small and medium enterprises. For a wider coverage, businesses are considered as SMEs as long as they meet either the threshold set for annual sales turnover, OR in terms of the number of full-time employees (NSDC, 2005).

Table 2.3 : SMEs Definitions in Terms of Annual Sales Turnover and Full Time Employees

I) Full-time employees:

	Primary Agriculture	Manufacturing (including Agro-Based) & MRS*	Services Sector (including ICT**)
Micro	Less than 5 employees	Less than 5 employees	Less than 5 employees
Small	Between 5 & 19 employees	Between 5 & 50 employees	Between 5 & 19 employees
Medium	Between 20 & 50 employees	Between 51 & 150 employees	Between 20 & 50 employees

II) Annual sales turnover:

	Primary Agriculture	Manufacturing (including Agro-Based) & MRS*	Services Sector (including ICT**)
Micro	Less than RM200,000	Less than RM250,000	Less than RM200,000
Small	Between RM200,000 & less than RM1 million	Between RM250,000 & less than RM10 million	Between RM200,000 & less than RM1 million
Medium	Between RM1 million & RM5 million	Between RM10 million & RM25 million	Between RM1 million & RM5 million

*MRS: Manufacturing-Related Services

**ICT: Information and Communications Technology

Source: National SME Development Council (2005), SME Annual Report

2.3 *GLCs contribution to Malaysian economy and SME development program*

GLCs constitute a significant part of Malaysian economic structure. They account for approximately RM 260 billion in market capitalization or approximately 36% and 54% respectively of the market capitalization of Bursa Malaysia and the benchmark of Kuala Lumpur Composite Index (PCG,

2005).

The contribution of GLCs to the development of SMEs particularly Bumiputra entrepreneurs can also be explained by Privatization Policy which began in 1983. This policy represents a new approach in the national development policy and complements other national policies such as the Malaysia Incorporated policy and developed to underscore the increased role of the private sector in the development of the Malaysian economy. In respect of ownership of wealth, the privatization policy forms an integral part of the Government's strategy in realizing active participation by Bumiputra in the corporate sector to correct the imbalances of its participation. The privatized entity should allocate 30% of its equity to Bumiputra as stipulated in the privatization policy and concession agreement required at least 30% of contract work to be reserved for Bumiputra contractors (EPU, 1991) i.e. contract works in privatized projects involving the construction, telecommunications, utilities sectors etc.

Then, the introduction of Privatization Master Plan (PMP) took place in 1991 to guide the implementation of the program. The PMP contained, among others, a broad policy framework for privatization, procedures for implementation, and assignment of priorities for the projects to be privatized. The privatization program, as embodied in the PMP, had five main objectives; i) to facilitate economic growth, ii) to relieve the financial and administrative burden of the Government, iii) to improve efficiency and productivity, iv) to reduce the size and presence of the public sector in the economy and v) to help achieve the restructuring objectives of the National Development Policy.

Privatization was also used as one of the major vehicles to enhance Bumiputra participation in the economy. In order to ensure active Bumiputra participation, the privatization policy stipulated that Bumiputra should hold a minimum of 30 per cent equity in all privatized entities as cited ear-

lier. In line with the objective to enhance the development of SMEs, the Government has placed particular emphasis on the VDP and the creation of Bumiputra entrepreneurs through GLCs' programs. Efforts were made to promote collaboration between large privatized companies and individual entrepreneurs as well as small companies. In order to ensure the effectiveness of the program, companies bidding for privatization were required to provide detailed vendor development programs, where appropriate, in their respective proposals. Privatization agreements for major privatized entities were incorporated to ensure that these vendor development programs will be effectively implemented. A number of major privatized entities were required to establish VDP through specific provisions in the concession agreement. This provided opportunities for Bumiputra entrepreneurs to participate in major privatization projects

VDP is thus one of the government main initiatives to stimulate SME's growth and increase direct and active participation of Bumiputra vendors. To some extent VDP may have been successful in encouraging bumiputra capitalism but much more research need to be done to evaluate the effectiveness of the programs. The success of the programs should not only be evaluated in terms of enhancing Bumiputra participation but also in developing their capabilities and creating the genuine entrepreneurial spirit among SMEs to ensure their sustainable growth and competitiveness.

3 . Methodology

The scope of this study is to evaluate the contribution of GLCs on the development of SMEs in Malaysia within the national framework of development policies and support programs. Our pilot survey aims to grasp the overall impact of the programs implemented by selected GLCs on the de-

velopment of their vendors. We conduct a series of semi-structured personal interviews with the high profile executive of the three GLCs who are directly involved in the implementation of the programs. This is followed by a pilot survey to the vendors who participated in the development programs. Though the findings of limited case studies and sample size cannot be generalized for the SMEs development at large, to some extent it does allow for a richer understanding of the processes at work, specifically within the Malaysian context.

3.1 Interviews

The interviews and focus group discussion aims to gather insights on the development of vendor development programs at the three selected GLCs which are Perusahaan Otomobil Nasional (PROTON), Telekom Malaysia Berhad (TMB), and Tenaga Nasional Berhad (TNB). Our selection of GLCs reflects the key implementers of vendor development programs over the years. The selected GLCs are also the market leader of automotive, telecommunications and energy sector respectively. A series of structured interviews at each selected GLCs were held prior to the distribution of questionnaires to their vendors. Specific information on the backgrounds and objectives of the programs, their selection criteria of the vendors and the outcomes and impacts of their programs was gathered.

3.2 Sample and Questionnaires

We conduct a pilot survey by distributing questionnaires to the vendors of selected GLCs. The focus of the questionnaires in this study is on the entrepreneur development programs which cover various aspects such as the awareness and participation of Bumiputra vendors in the programs, training, assistance and supports received from GLCs, post-participation impacts, and

further assistance required by the vendors.

4. Analysis and Findings

Our analysis utilizes information from secondary data such as various reports of Malaysian SME development plans and Census of SME establishments from NSDC, SMIDEC and DOS. Most importantly, the main part of the analysis is complemented by the information and data from the interviews and pilot survey to the GLCs vendors. The analysis aims to evaluate the overall development framework of national SMEs particularly on the contributions of GLCs and the effectiveness of VDP towards growth and performance of their vendors.

4.1 *Key issues of GLCs' development programs and their contribution to the SME development*

Entrepreneur development programs under GLCs aims to stimulate local SMEs as reliable manufacturers and suppliers of industrial parts and components required by large industries. It has been argued that the linkage between foreign assembly firms and local SMEs is quite limited because of their low technology levels (Pruvent, 2005). Thus, VDP was introduced to upgrade vendor's production capabilities and at the same time provide technical, managerial and financial assistances through credit facilities and special investment fund.

Most of the GLCs are the market leader in their respective sector but are often criticized as inefficient in terms of their operations, capital management, board effectiveness and procurement policies. As GLCs are striving to address their inefficiency issues and achieve the balance between their social obligation and commercial objectives, several reform programs

are now taking place through GLCs Transformation Programs. One of the initiatives under the program is the new procurement guidelines and best practices, or known as the “red book”. The red book reviews all existing government policies and provides comprehensive guidelines on procurement including how GLCs could support local vendors particularly Bumiputra (PCG, 2005).

Prior to the reform program, there are various issues and problems of the procurement policies and system at hand such as unclear role of entrepreneur development unit and procurement planning, burden of balancing social obligation and commercial objectives, lack of monitoring and evaluation mechanism and resources to oversee vendors progress, entrepreneur competencies level, quality assurance scheme and uncompetitive price and discontinuation of contracts (Tenaga Nasional, 2005).

To some extent, entrepreneur development programs under GLCs have played a significant role in developing Malaysian SMEs at large such as increasing the participation of Bumiputra entrepreneurs particularly in key industries such as of automotive, telecommunications and energy sector. The development programs also helped to increase localization of products and reduce import duty since the products that was previously imported can be sourced locally. While it is generally agreed that there are positive outcomes of GLCs development programs and their contribution to the Malaysian economy, there are some implementation issues and critical area of improvements need to be highlighted.

Our findings indicate that at the GLCs level, there are rather ambiguous objectives of the development programs, for example indicators used to measure the success of the programs are the number of entrepreneurs who have participated in their open tenders and the value of contracts awarded to them. Such indicators would not provide accurate assessment of the out-

comes of the programs in creating resilience and competitive entrepreneurs. On top of that, from the interview at each GLCs and our review of relevant documents pertaining to GLCs implemented programs revealed that the programs also lack specific and clear targets to be achieved within a given time frame and allocated resources. Those setbacks of implemented development programs at GLCs cause difficulties in thorough evaluation of the programs outcomes and clarifications of factors affecting their success or failure.

Hence, further investigation on the progress of VDP is critical, thus a pilot survey on GLCs' vendors was carried out. The remaining part of the analysis depends largely on the questionnaires distributed to their vendors and provides a preliminary assessment of the impact of the development program. In the following section, we illustrate the findings from the survey conducted with GLCs' vendors under study.

The sample size of this survey consists of 20 SMEs who are selected randomly. They are characterized as those vendors with an average number of 39 employees. The total number of employees hired by vendors covered in this sample is 732 employees. The minimum number of employees for the smallest vendor is 6 employees while the largest vendor in this sample hired 107 employees. This range falls within the definition of SMEs as stated in the previous section.

4.2 Findings from SMEs Pilot Survey

4.2.1 Vendors' Awareness and Participation in EDP

From the survey result, 75% of the vendors are aware of the development programs and training conducted by GLCs. However, only 55% of them have been participated in these programs. In addition, when asked "*Is your company familiar with any of the GLCs fund and technical assistance schemes available to SMEs?*" the result shows lack of encouraging answers.

This is illustrated in Figure 4.2.1, where 65% of the vendors indicate that they are not really familiar with any of the GLCs fund and technical assistance schemes. Interviews at the GLCs reveal that some of the vendors show lacks of initiative in keeping themselves update with the on-going development programs.

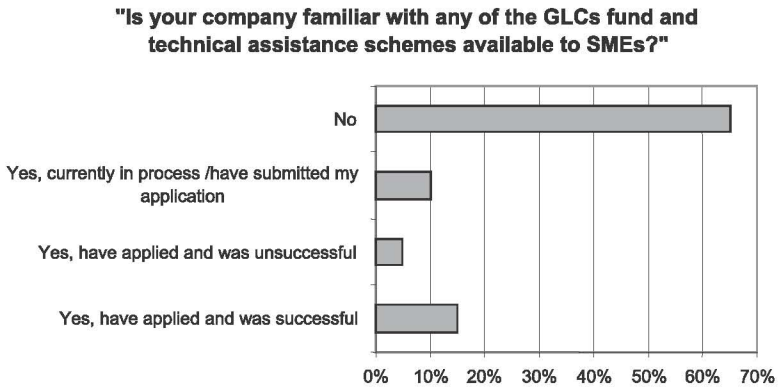


Figure 4. 2. 1 : Application and process for GLCs fund and technical assistance schemes

Although the awareness of the programs seems quite high, the participation in the development program is considerably low. From the vendors' feedback, it seems that even though they are aware of the program, some of them did not participate in the programs because the content of the programs may not be relevant or the required training programs are not available.

4.2.2 *Training and Assistance Received*

From the sample, 55% of the vendors indicated that they have attended the training provided by GLCs. Figure 4.2.2 shows the area of training and

assistance programs and the number of companies which have participated in each of the program.

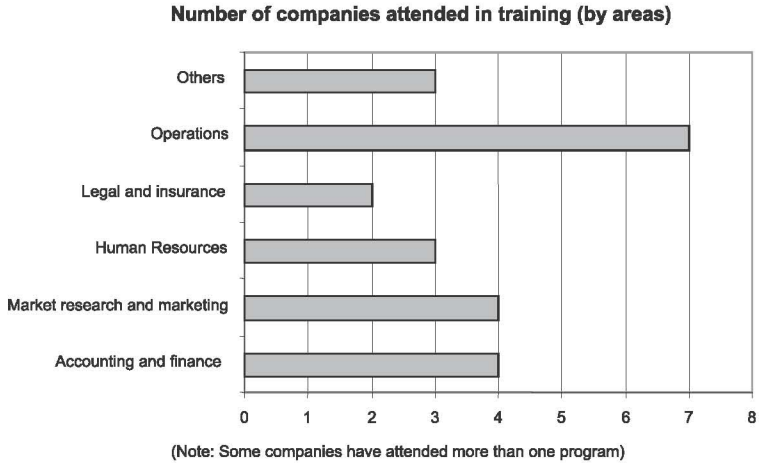


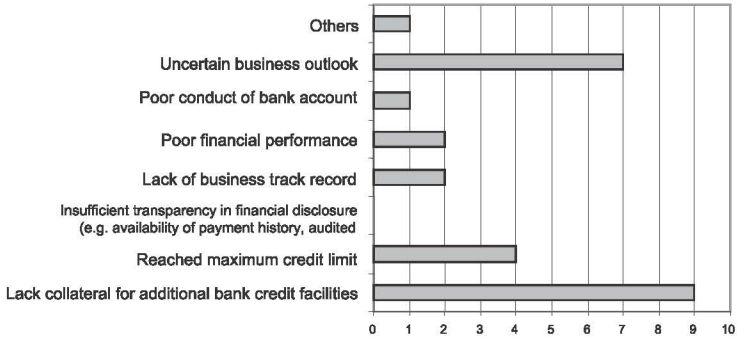
Figure 4. 2. 2 : Number of companies attended in training (by areas)

4.2.3 Difficulties in Obtaining the External Sources of Funds

In addition, only 30% of the vendors in this survey have applied for assistance programs provided by GLCs such as credit facilities, market guarantee, insurance guarantee and technical assistance funds.

Interestingly, 35% of the sample answered that they faced some difficulties in sourcing for external finance. In addition, the questionnaires also address the main causes of the difficulties faced by the vendors in obtaining external funds. Figure 4.2.3 shows main causes of difficulties faced by the vendors in obtaining external funds and the severity of the problems represented by the frequency of the answer.

Main causes of difficulties in obtaining the external sources of funds



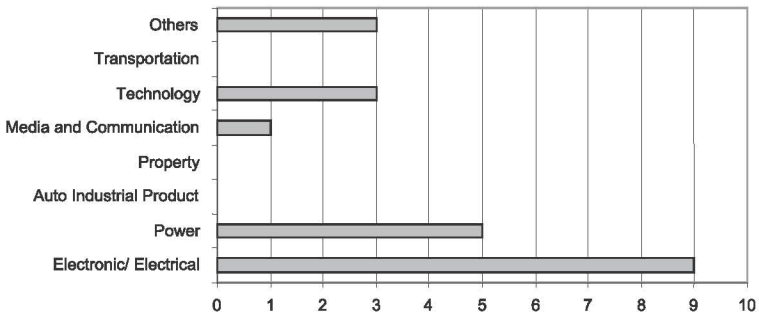
(Note: Some companies have answered more than one causes of difficulties)

Figure 4. 2. 3 : Main causes of difficulties in obtaining the external sources of funds

4.2.4 Technology Transfer & R&D Support

Only 15% of the vendors claimed that they have received some kind of technology or R&D support by the GLCs. This is in line with the feedback from GLCs which mentioned that most of their vendors are characterized with low level of technological capabilities and readiness for technology

Areas of technology transfer



(Note: Some companies have answered more than one area of technology transfer)

Figure 4. 2. 4 : Areas of technology transfer

transfer. Figure 4.2.4 illustrates the areas of technology transfer which have taken place between GLCs and their vendors.

4.2.5 GLCs' Support and Vendors' Performance

From our sample of vendors, we can see that vendors are performing differently. About 50% of the vendors are performing at a moderate growth, which is around 0-5% growth rate. The vendors that report high growth of higher than 6% growth are 35% while the rest of 15% have negative growth. The distribution of vendors in the sample by their performance is shown in figure 4.2.5. For profitability, 35% of the vendors reported high profitability, 45% with moderate profitability, and 20% reports negative profit to total sales. Vendors with high gross to sales ratio account for 50% of the vendors, 30% of the vendors with moderate gross to sales ratio, and 20% of the vendors reported negative gross to sales ratios.

The next compelling question is whether there is any difference in the performance of vendors' characteristics that have and have not participated in any GLCs training or assistance programs. We have performed cross tabulation analysis to answer the questions. Since the sample size is quite small we cannot find any statistical significance of the relationship between GLCs supports and vendors' performance. However, as can be seen from the cross tabulation results in table 4-1, there are some interesting findings and implications.

The vendors who have participated in the development programs i.e. training has lower probability in performing at negative level as compared to the vendors who have not participated in the GLCs development programs. Though the answer to the question of how the development program affect vendor's performance is unclear, given the limitation of this pilot survey, but to a certain extent, it can be said that some vendors have benefited

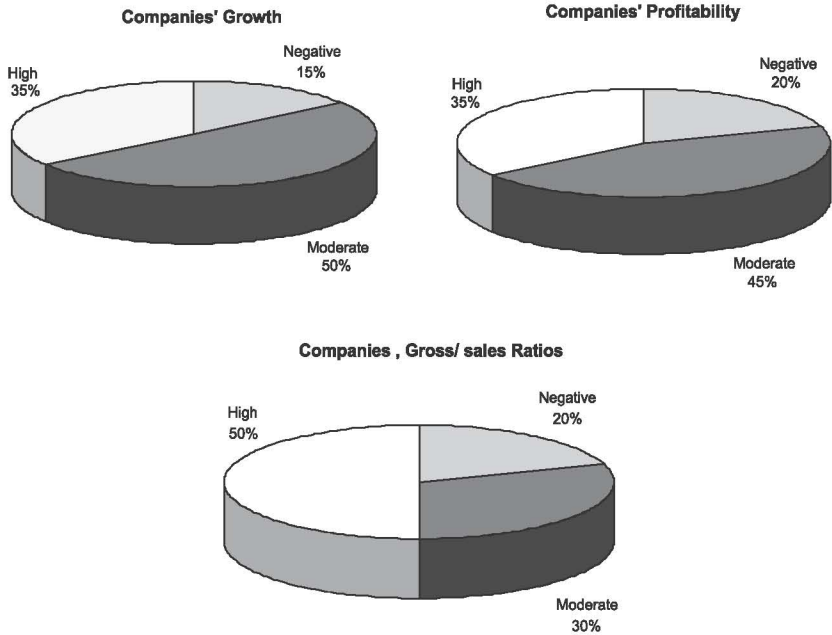


Figure 4. 2. 5 : Vendor's Performance

from the program.

Further, in contrary to what might be expected, the vendors who indicated existence of problems in finding external sources of finance has a higher probability of performing at high or moderate level as compared to the vendors who indicated that they did not face any difficulty in finding external sources of finance. This may reflect the enthusiasm and entrepreneurial spirit of the vendors who faced difficulties in finding external sources of funds but such difficulties may have led to better performance than their counterpart.

Table 4-1 : Cross Tabulation Results for Analysis of Relationships between GLCs' Support and Vendors Performance

		Crosstab				Total
		GROWTH				
		Negative	Moderate	High		
TRAINING	Yes	Count	2	6	3	11
		% within	18.18	54.55	27.27	100
	No	Count	1	4	4	9
		% within	11.11	44.44	44.44	100
Total		Count	3	10	7	20
		% within	15	50	35	100

		Crosstab				Total
		GROWTH				
		Negative	Moderate	High		
TTRANS	Yes	Count	1	1	1	3
		% within	33.33	33.33	33.33	100
	No	Count	2	9	6	17
		% within	11.76	52.94	35.29	100
Total		Count	3	10	7	20
		% within	15	50	35	100

		Crosstab				Total
		PROFITS				
		Negative	Moderate	High		
TRAINING	Yes	Count	1	6	4	11
		% within	9.09	54.55	36.36	100
	No	Count	3	3	3	9
		% within	33.33	33.33	33.33	100
Total		Count	4	9	7	20
		% within	20	45	35	100

		Crosstab				Total
		PROFITS				
		Negative	Moderate	High		
TTRANS	Yes	Count	1	1	1	3
		% within	33.33	33.33	33.33	100
	No	Count	3	8	6	17
		% within	17.65	47.06	35.29	100
Total		Count	4	9	7	20
		% within	20	45	35	100

		Crosstab				Total
		GROSS				
		Negative	Moderate	High		
TRAINING	Yes	Count	1	3	7	11
		% within	9.09	27.27	63.64	100
	No	Count	3	3	3	9
		% within	33.33	33.33	33.33	100
Total		Count	4	6	10	20
		% within	20	30	50	100

		Crosstab				Total
		GROSS				
		Negative	Moderate	High		
TTRANS	Yes	Count	1	0	2	3
		% within	33.33	0.00	66.67	100
	No	Count	3	6	8	17
		% within	17.65	35.29	47.06	100
Total		Count	4	6	10	20
		% within	20	30	50	100

		Crosstab				Total
		GROWTH				
		Negative	Moderate	High		
APPLY	Yes	Count	0	3	2	5
		% within	0.00	60.00	40.00	100
	No	Count	3	7	5	15
		% within	20.00	46.67	33.33	100
Total		Count	3	10	7	20
		% within	15	50	35	100

		Crosstab				Total
		GROWTH				
		Negative	Moderate	High		
EXFINDIF	No	Count	1	7	5	13
		% within	7.69	53.85	38.46	100
	Yes	Count	2	3	2	7
		% within	28.57	42.86	28.57	100
Total		Count	3	10	7	20
		% within	15	50	35	100

		Crosstab				Total
		PROFITS				
		Negative	Moderate	High		
APPLY	Yes	Count	0	2	3	5
		% within	0.00	40.00	60.00	100
	No	Count	4	7	4	15
		% within	26.67	46.67	26.67	100
Total		Count	4	9	7	20
		% within	20	45	35	100

		Crosstab				Total
		PROFITS				
		Negative	Moderate	High		
EXFINDIF	No	Count	3	5	5	13
		% within	23.08	38.46	38.46	100
	Yes	Count	1	4	2	7
		% within	14.29	57.14	28.57	100
Total		Count	4	9	7	20
		% within	20	45	35	100

		Crosstab				Total
		GROSS				
		Negative	Moderate	High		
APPLY	Yes	Count	0	2	3	5
		% within	0.00	40.00	60.00	100
	No	Count	4	4	7	15
		% within	26.67	26.67	46.67	100
Total		Count	4	6	10	20
		% within	20	30	50	100

		Crosstab				Total
		GROSS				
		Negative	Moderate	High		
EXFINDIF	No	Count	3	3	7	13
		% within	23.08	23.08	53.85	100
	Yes	Count	1	3	3	7
		% within	14.29	42.86	42.86	100
Total		Count	4	6	10	20
		% within	20	30	50	100

4.2.6 Vendors' Post Participation Impact

In answering the question of “*is your business experiencing any improvement on your performance after participating in the GLCs development programs?*” 55% of the vendors have answered “yes”. This shows that more than half of the vendors who have been participating in the development programs provided by the GLCs have experienced some kind of improvement in their performance.

However, when asked “*do you think that the implementations of the programs are successful in achieving GLCs target and your business objectives?*” only 37% of the respondents answered “yes”. This indicates that even after experiencing an improvement in their performance, most of the vendors still think that the implementation of the programs is not quite successful in achieving GLC's target and their business objectives.

In addition, GLCs' vendors in this survey also pointed out two main issues of their concern which are the continuance of the development programs and the costing issue. The vendors requested for both continuation in term of GLCs' assistance and support programs; and continuation in the chances of being awarded future projects and contracts. This reflects vendors total dependency attitude on the government-related assistance.

For the costing issue, some of the vendors have been very much interested in many training or technical support programs provided by the GLCs. However, since attending such programs can be costly to some vendors, their participation was decided based on affordability rather than on necessity.

4.2.7 Further Assistance Required

Finally, vendors have been asked to indicate in which areas of further assistance they required. Their response is shown in Figure 4.2.7. It seems

that the vendors have shown a strong indication that they need assistance in marketing their product and some kind of secured market for their product by the GLCs. They also show some interest in improving their business management and information technology skills in order to improve their operational activities.

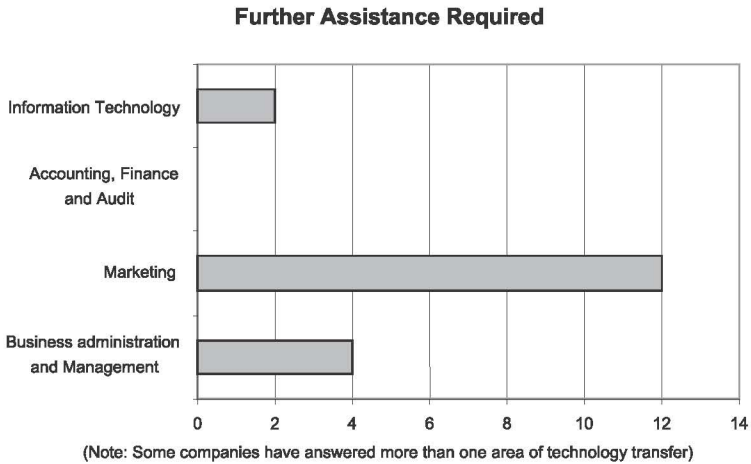


Figure 4. 2. 7 : Areas of further assistance required

5. Concluding Remarks

In analyzing the development of SME in Malaysia particularly Bumiputera entrepreneurs, it is inevitable to examine the national development policies such as NEP and BCIC in which one of their main objectives is to strengthen Bumiputras' economic interest. Thus, our discussions touch on NEP and specifically highlight the involvement of GLCs as implementing vehicles on the development of local SMEs through their vendor support programs. To this end, the results of SME survey may not be conclusive for

generalization due to the small sample size of GLCs' vendors but provide preliminary assessment and future direction of Malaysian SME development for further studies. A large part of our conclusions are credited to the analysis of secondary data and interviews with GLCs and other SME related agencies, and are summarized as follows:

First, while acknowledging the progress and achievement of Malaysian initiatives in strengthening local SMEs, this study also suggest a closer examination on the SMEs development policies and implementation of support programs. The involvement of too many ministries and agencies in the formulation of policies and SME development programs led to fragmentation and duplication in policy making and implementations. Although the recent establishment of National SME Development Council has brought some refreshing light into the direction of SME development policies, but the implementation issues at various ministries and agencies i.e. GLCs, calls for more attention in overseeing and tracking the progress of the development programs at all levels.

Second, the results of our preliminary assessment also show that to a certain extent, extensive support programs mirrored in the NEP related initiatives may have promoted a laid-back attitude and reliance on government assistances particularly among Bumiputras SME. This is supported by the findings from both interviews at GLCs and the survey conducted with their Bumiputra vendors. In general, the results indicated that most vendors are lack of genuine entrepreneurial spirit which hinders their own competitiveness. Our findings also reveal that some vendors lack of awareness of the support programs provided by GLCs and they need a particular assistance in the marketing aspect such as market guarantee from GLCs for their product. Both findings reflect their dependency on the captured market and lack of own initiatives.

Third, the substantial value of GLCs' contracts awarded to VDP participants validate for thorough evaluations of the impact of the programs on vendors' development. This calls for further studies to investigate the effectiveness of those programs in developing local SMEs at a broader scale. Improvements of GLCs development programs coincide with operational improvement of their vendors which in turn would increase competitiveness for both parties i.e. enhancement in product innovation through long term collaboration with key suppliers would enable GLCs to have better access to suppliers latest products and technologies. In this regard, the introduction of *Procurement Guidelines and Best Practices* as GLCs procurement manual in 2006 was deemed critical in addressing the issues of clarity on SME related policies and GLCs' role in developing local suppliers. The procurement guidelines is expected to provide some answers to the issue of lack specific and clear target of each GLC development program as noted in our findings. However, the outcome from the implementation of the new procurement system for vendor development programs would probably take many years to be seen and it would be useful to analyze the impact of these programs later on.

Fourth, the emphasis of "growth with equity" within NEP's efforts particularly in restructuring the society and eliminate the identification of race with economic function is presumably necessary given the circumstances when it was first implemented more than three decades ago. The official government statistics shows that NEP has undoubtedly achieved its objectives of reducing the absolute poverty and enhances equity ownership of Bumiputra. However, after many years of implementation, the drawback of the policy as an efficient system of wealth distribution in addressing economic inequality is debatable. Some would argue that the NEP goals of achieving 30% of the equity ownership held by Bumiputras was not indicative of a

median majority of Bumiputra holding 28% of the national economy, but could theoretically translate into a small group of Bumiputra holding 25% while the remaining Bumiputras are sharing 5%. Such imbalance which might also be valid among entrepreneurs would invite further justification on the discriminatory aspect of the policy not only from non Bumiputras but also from economically marginalized Bumiputras.

Fifth, as SME development is a continuous process; improved framework and related policies is sound only when there is effective coordination and implementation of the support programs. Therefore, mutual development and cooperation among policy makers, implementers of entrepreneur development programs and their target groups is critical to provide a strong basis in developing and strengthening SMEs. As the prospect of Malaysian SMEs are improving with various supporting mechanisms and policies that exist including funding, infrastructure and business advisory services such as those provided by GLCs, all SMEs are urged to fully reap the benefit from the development programs.

On a final note of this study, beside the number of SMEs establishments, issues such as firms' sustainability and flexibility in responding to market changes should be given equal attention, so that the impact of the programs could be translated into their sustainable growth and enhanced competitiveness. In view of rapidly changing business environment and globalization force, perhaps the time has come for SME related policies and development programs pertinent to Bumiputra vendors to focus more on the creation of genuine entrepreneurial spirit, competitive and resilient entrepreneurs, and not be too mired in the matters of equity and subsidies.

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