

Report of ACCCIM Survey on SME for the First Half of 2007

Introduction

BNM Report 2006 indicates that 99.2% or 546, 218 of Malaysian business establishments are Small and Medium Enterprises (“SMEs”) while large companies totalling 4,486 (0.8%) made up the remaining. These 546,218 SMEs provide greater employment opportunities, about 5.6 million or 56% of the total employment market.

However, despite accounting for 99.2% of total business establishments, the SMEs contribution to country’s GDP is only at the level of 32%, and in terms of exports value is 19%. As the backbone of country’s economy and their significant presence and role, the SMEs need to be more aggressive to improve their productivity and competitiveness, particularly the micro enterprises which made up 80% of the total SMEs, in order to move up the value chain in this increasing competitive economic environment.

As a leading business organisation in Malaysia, ACCCIM is making its efforts to lead, awake, encourage and assist the Malaysian SMEs so as to enhance their global competitive edge.

Survey Objectives

1. To collate information and statistics in relation to the Malaysian SMEs, and to have an in depth understanding of the problems and issues facing by SME.
2. To study and analyse the needs of SMEs in terms of their capital management, marketing and human resource management.
3. The result of the survey would provide a basis for ACCCIM to submit relevant memoranda to various government agencies as well as to formulate the action plans.

Respondents Background

1. The survey was conducted from 15th January 2007 to 20th March 2007. A total of 1,400 questionnaires were sent to various industries and 682 questionnaires were returned. The overall response rate is about 49%. These 682 respondents made up the sample of this survey.

2. Of this 49% respondents, 34 % (234) were from central region of Malaysia (Kuala Lumpur, Selangor and Negeri Sembilan), followed by eastern region (Kelantan, Terengganu and Pahang) which comprise of 161 respondents (24%).

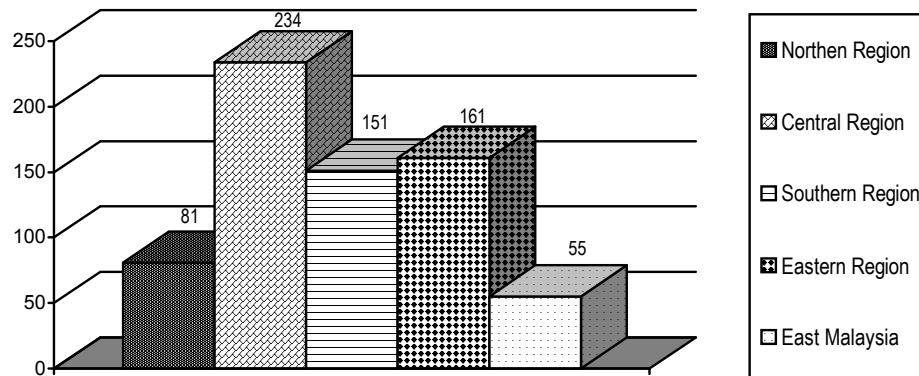


Diagram 1: Respondents Background According to Region

3. 30.8% of the respondents are wholesale & trading, 21.1% representing manufacturing, 10.1% in construction and property whilst 7.9% are professionals, i.e. lawyers, accountants, chartered engineers, architects and etc.

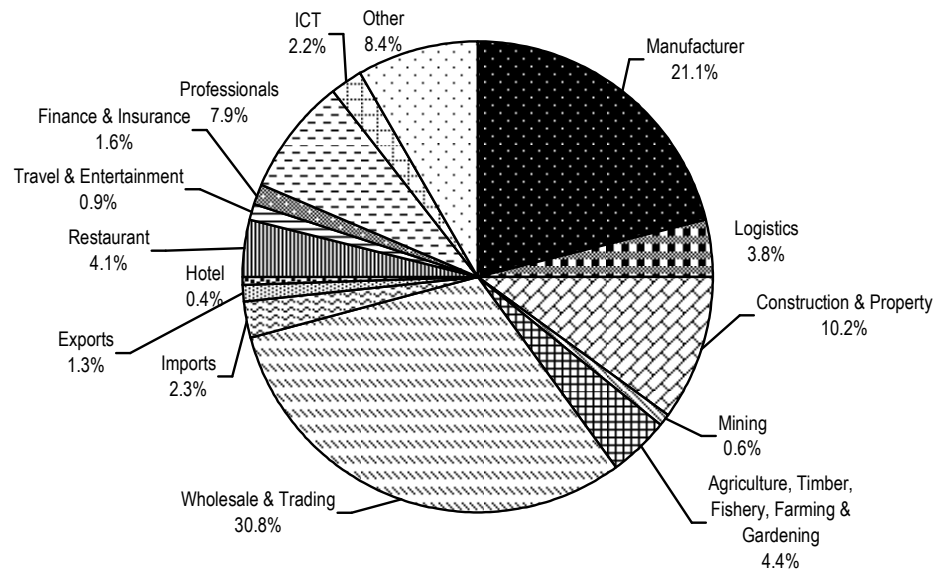


Diagram 2: Respondents Background according to Industries

Survey Findings

1. No. of Employees

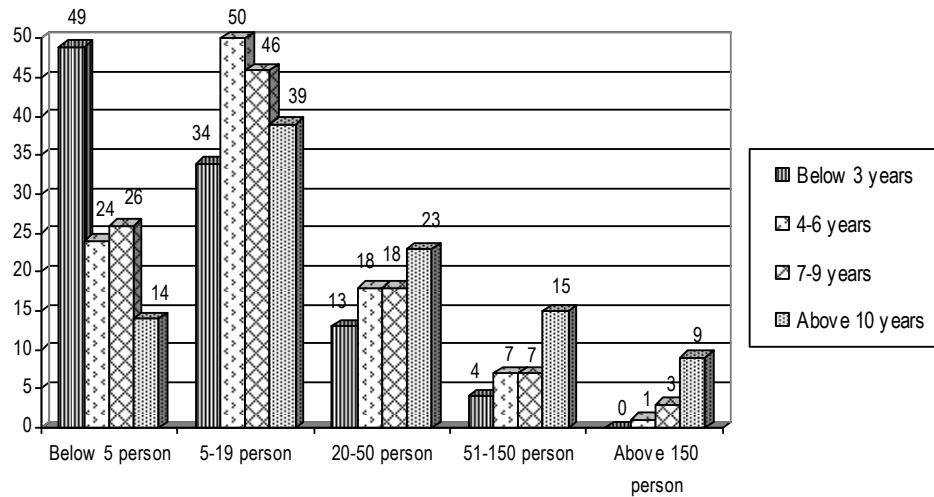


Diagram 3: No. of Employees according to year of establishment

49% of the respondents in the first 3 years of their establishment are having full time employees below 5 persons while 34% polled that their employees are between 5-19 persons in the early stage of establishment. Thus shows that most of the SMEs' development are relatively slow.

With regard to the industry, companies which employed below 5 employees are mainly professionals (41%), ICT (33%) and wholesale & trading (33%).

Meanwhile, the manufacturing sector and primary industries (agriculture, timber, fishery, farming & gardening) are too dependent on labour i.e. adopting labour intensive model, perhaps due to lack of computerisation and automation. 66% of primary industry and 65% of manufacturers response that their number of employees are above 20 persons.

2. Annual Turnover

60% of the SMEs' annual turnover is below the mark of RM1 million in the first 3 years of establishment. Only 22% of SMEs manage to achieve turnover of above RM10 million after 10 years in operation.

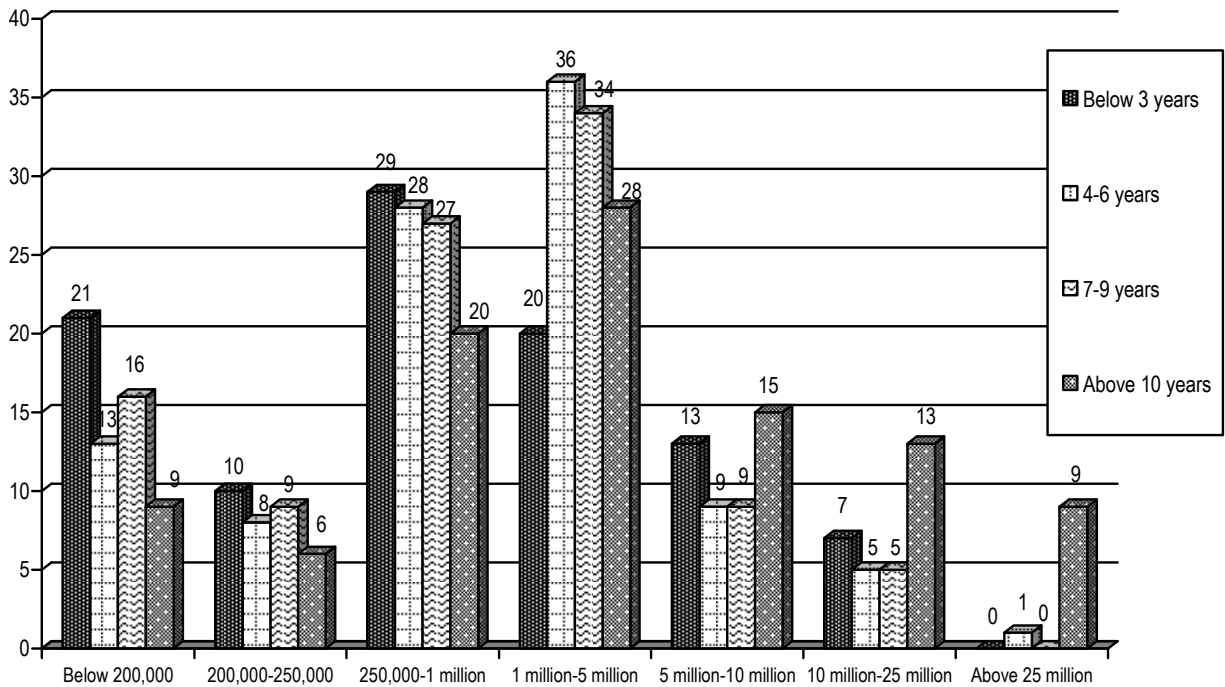


Diagram 4: Annual Turnover

In general, 53% of the respondents manage to achieve a turnover of between RM250,000 to RM5 million. The survey shows that most of the industries achieve a turnover in the range of RM1 million to RM5 million; i.e. logistics, construction & property, wholesale & trading, imports & exports and hotel.

A point to note is that ICT as a promoted industry by Government, is showing a relatively low annual turnover. 80% of the ICT businesses reported that their annual turnover are below RM1 million whereas 77% of professionals are also fall under this category.

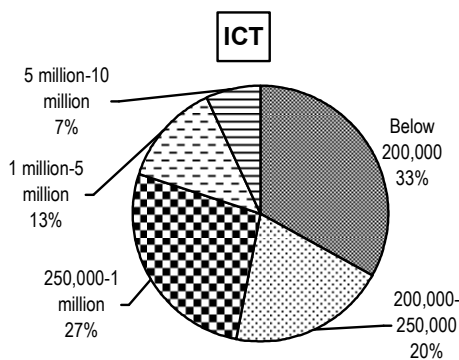


Diagram 5A: Annual Turnover-ICT

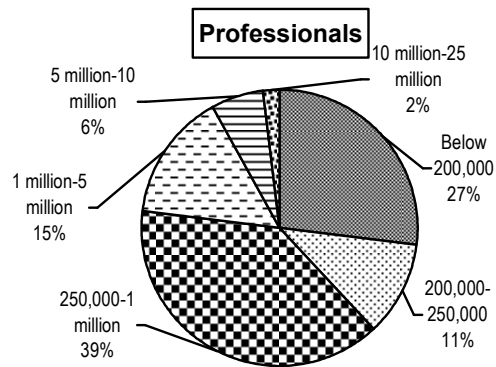


Diagram 5B: Annual Turnover-Professionals

We can therefore conclude that the development of Malaysian ICT sector was not as flourish as we thought of and the development of professionals also facing some limitations. These

could due to stiff competition faced by these SMEs in the local market and lack of exploration to overseas market of these sectors.

3. Establishment of Company

The respondents in this survey attributed that 47% of the ICT companies are established below 3 years. This shows that Malaysian new entrepreneurs are keen on this sector as a start!

From the analysis, in Malaysia, there are six sectors which shown gradually growth in numbers and development based on years of establishment. These six sectors are manufacturing, logistics, construction & property, primary industries, wholesale & trading, imports & exports and professionals.

4. Source of Initial Funding

The survey highlighted that most of the SMEs sourced their initial funding from personal savings, family members and friends (62%).

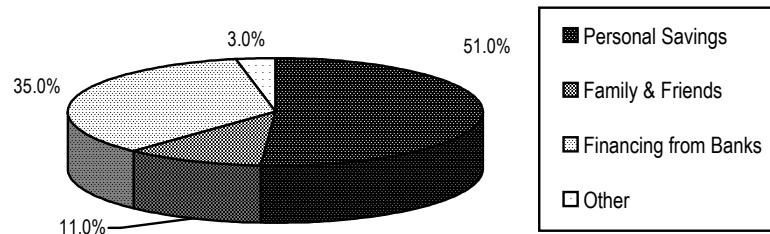


Diagram 6: Source of Initial Funding

For companies established above 10 years, almost half of them (42%) sourced their initial funding from commercial banks whereas for those companies established below 6 years, quarter of them or 25% sourced their initial funding from commercial banks.

This could due to commercial banks are more willing or prepared to assist the SMEs at their initial stages of business 10 years ago! This highlighted that those SMEs with the assistance of commercial banks contribute to their growth today.

Before the bank mergers in year 1999, the local banks were more understanding and friendly to the micro and small businesses. These micro and small businesses may obtain their financing easier in order to develop and expand their business and hence survive in this competitive business environment. With bank merger, most micro and small businesses are

facing variety of constraints when they turn to the commercial banks for financing. Therefore, these potential SMEs ability are indirectly affected in order to compete and contribute effectively to the economy.

With regard to the sector of industry, 67% respondents from the Travel & Entertainment sourced their initial funding from banks, followed by manufacturing (52%) and logistics (46%) sectors. The result of the survey also indicated that there are 4 sectors are not inclined to source their initial funding from banks i.e. hotel, ICT, professionals and mining sectors.

50.3% of the respondents from the Northern region sourced their initial funding from bank. Similarly 46% of the respondents from East Malaysia would obtain financing from banks for their initial funding. Respondents from Southern region were mostly depend on their own savings and family & friends resources, only 30% of them sourced initial funding from banks.

5. Loan Applications from Commercial Banks

Although most of the companies sourced their initial funding from personal savings, family and friends, but generally they will source for financing from commercial banks after they have commenced operation. For companies established for 4-6 years, a total of 62% would seek facilities from banks whereas 80% of companies established above 10 years seek financing from banks.

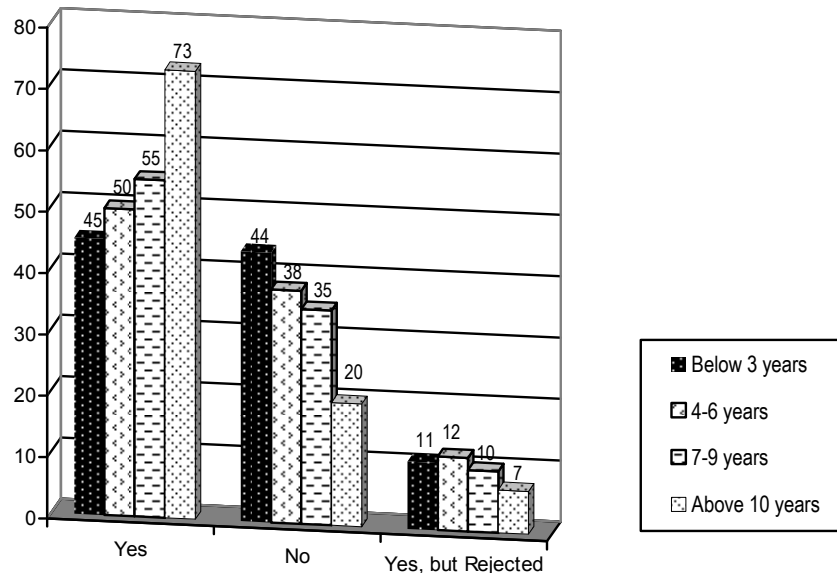


Diagram 7: Loan Application with Commercial banks

The survey shows that tourism and entertainment, primary industries and manufacturing are amongst those most sought funding from banks, i.e. 100%, 83% and 72% respectively.

However, amongst the respondent ICT industry is the one that facing the highest rate of rejections from the banks pertaining to loan application.

6. Main Obstacles Faced by SMEs in Obtaining Financing

The findings show that 77% of respondents selected are lack of collateral, lack of financial track record and viability of business / project.

For those businesses operate below 3 years, the main reason for rejection of their loan applications is lack of finance and track record (36%) whilst lack of collateral is the constraint faced by businesses operate above 4 years (about 44%).

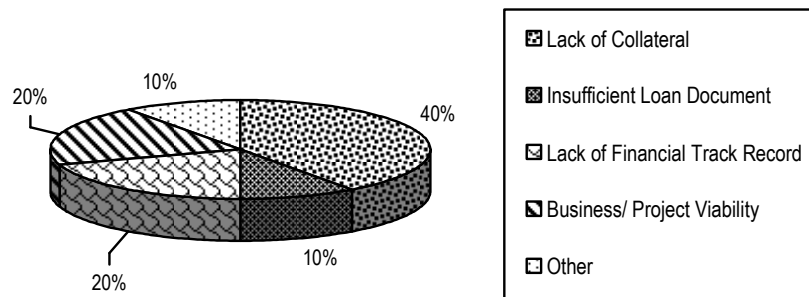


Diagram 8: Main obstacles of Rejection for Loans

7. Soft Loans, Grants and Tax Incentives provide by Government

Although the Government provide various soft loans, grants and tax incentives to the SMEs, but there were still 67% of the respondents are not aware of or lack of understanding on these facilities.

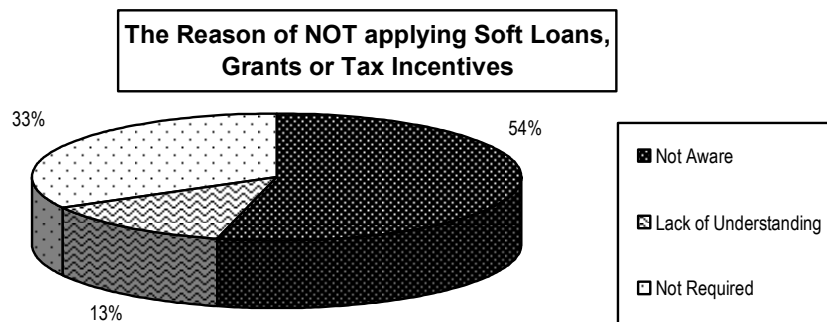


Diagram 9: Reasons for not Applying for Soft Loans, Grants & Incentives

Generally the SMEs, which intends to apply for government’s soft loans, grants and incentives should possess its “know-how” or to seek for professional consultancy. By and large, Malaysian SMEs are concentrated merely on business operation and ignore other

salient information that may have a great help to them. Therefore SMEs must, through various network or medium such as computers and internet, to gather information on government and related agencies' financial assistance.

From regional perspective, respondents from Penang, Perak and Selangor are the most aggressive applicants in terms of grants and tax incentives whereas for Eastern Coastal region, respondents from Terengganu are most aggressive. In comparison, respondents from Kuala Lumpur did not show the same! This may due to larger member of manufacturers and factories in Penang, Perak and Selangor whereby businesses in Kuala Lumpur are mainly in the field of trading and services.

In terms of soft loan applications, the findings are similar with the above except for Kuala Lumpur and Johor of which these regions are very aggressive in soft loan applications.

For East Malaysia, their applications for soft loans, grants and tax incentives are lower than 10%. 1/3 of the East Malaysia respondents indicated that they are not aware of or lack of understanding on these information whilst other polled that they are not in need of these assistance.

In Peninsular Malaysia, the awareness level of the respondents from Kedah, Negeri Sembilan and Melaka are the lowest as compared to Penang respondents which is the highest.

8. Tax Issues

There were 39% of the respondents unable to understand the Self Assessment System (SAS) whilst 65% of the respondents cannot understand the differences between Field Audit and Tax Investigation.

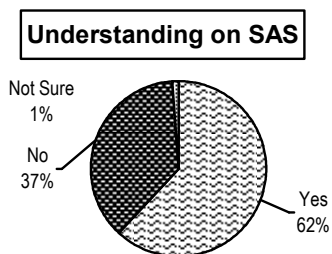


Diagram 10A: Understanding on SAS

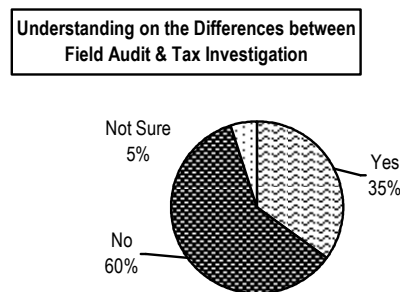


Diagram 10B: Understanding the Differences Of Field Audit & Tax Investigation

40% of the respondents that have undergone tax field audit indicated that the time frame given by Inland Revenue Board (IRB) is insufficient and the said exercise has affected their businesses.

The survey also shows that IRB has frequently conducted its tax field audit on these sectors, namely construction & property, imports & exports and manufacturing of which higher tax and penalties had been imposed.

Based on the regional perspective on SAS understanding, respondents from Penang have the highest level of understanding (92%), the lowest are from Melaka (48%).

Generally, tax field audit cases are lesser in East Malaysia. 18.5% of the respondents from East Malaysia reported that they have undergone tax field audit by IRB. Concurrently, 60% of respondents from Peninsular Malaysia have undergone field audit.

Amongst the respondents in Peninsular Malaysia more tax field audit cases has been reported in Kedah and Pahang (41%) whilst Melaka is the least (7%).

9. Marketing

With regard to SMEs marketing strategy, survey indicates that most SMEs products/ services are limited to domestic market. 80% of the respondents reported that their products/ services focus on local market whilst only 2% manage to penetrate overseas market.

SMEs from Northern region are the most aggressive in term of overseas market penetration (about 10%), followed by Southern region (7.5%).

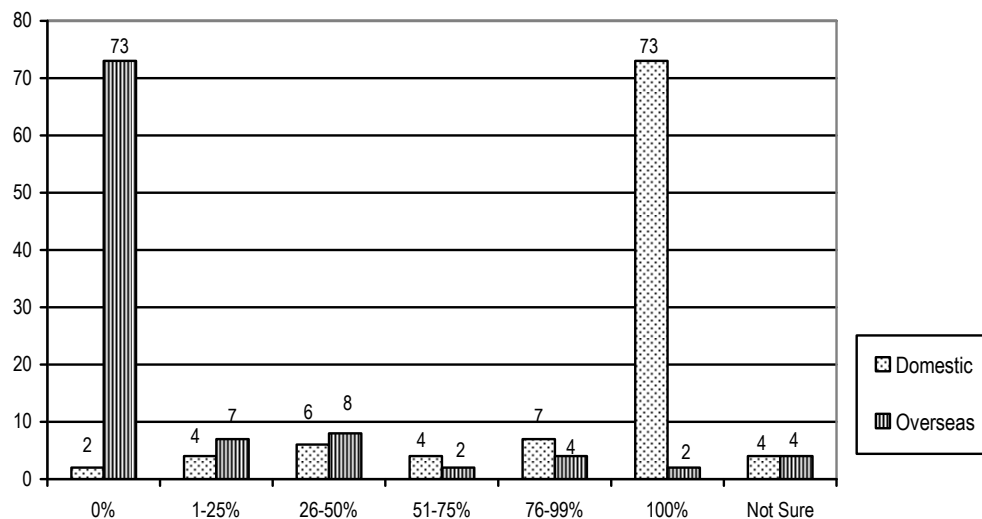


Diagram 11: Main Market of SMEs

This shows that the SMEs are not utilising the assistance programmes provided by MATRADE which aims to help SMEs to penetrate overseas markets.

10. Business Environment

Overall, only 24% of the respondents satisfied with Malaysian business environment. 46% of the respondents were in the view that our business environment is normal. There were only 3 sectors satisfied with Malaysian business environment i.e. logistics, travel & entertainment and ICT.

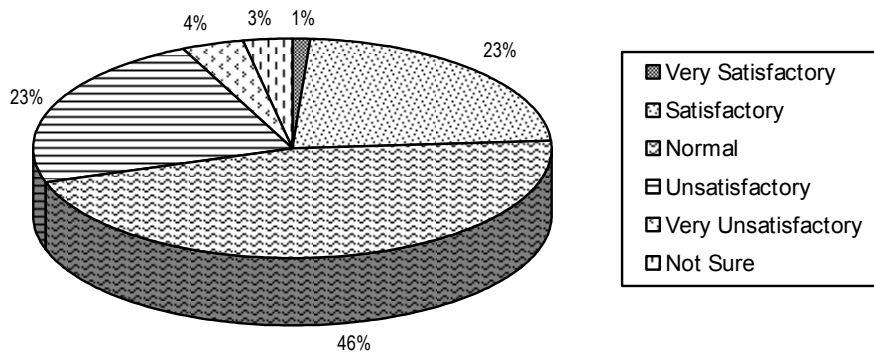


Diagram 12: Satisfaction on Business Environment

11. Factors Affecting Business

For most of the sectors, the factors affecting their businesses are mainly EXTERNAL factors, i.e. licensing approval, policies, local government rules & regulations, customs policies etc. These sectors include manufacturing, logistics, primary industries, wholesale & trading, imports and exports.

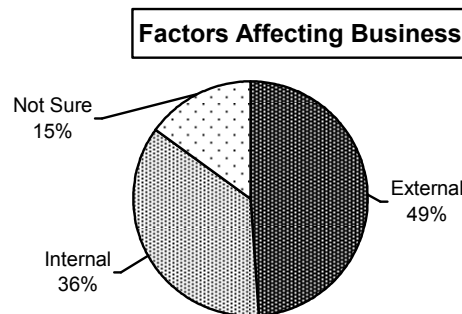


Diagram 13: Factors Affecting Business

12. High Rate of Employee Turnover

Overall, there are 38% of the respondents facing high rate of employee turnover. For certain sector, the problem becomes more critical as all the respondents from hotel industry facing this problem, followed by restaurant (57%) and manufacturing (51%).

Penang is the state facing the highest rate of employee turnover (54%) whereas Kedah is the lowest (16%).

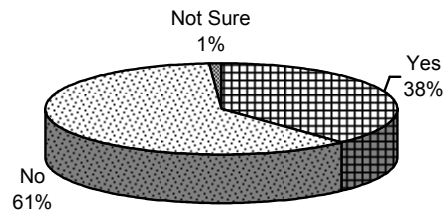


Diagram 14: Facing Problem of Employee Turnover

13. Main Reasons of Employee Turnover

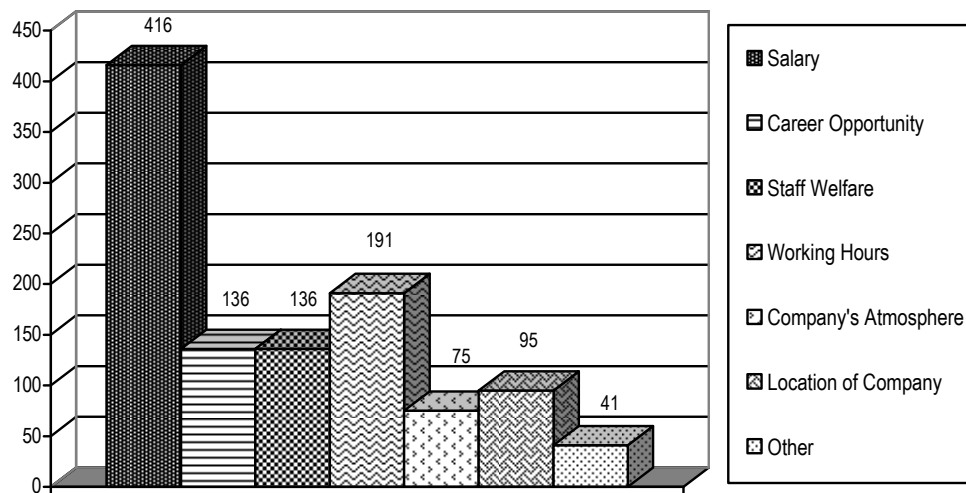


Diagram 15: Reasons of Employee Turnover

The main reasons caused the high rate of employee turnover are salary (61%), working hours (28%), staff welfare and career opportunity (20%). The result reflects the immaturity of Malaysian employment market which over emphasised on the salary and working hours issues.

For hotel industry, long working hours should be the main reason caused to their high rate of employee turnover.

14. Shortage of Skilled Workers

61% of the respondents from construction & property and 56% of respondents from manufacturing polled that their facing shortage in skilled workers.

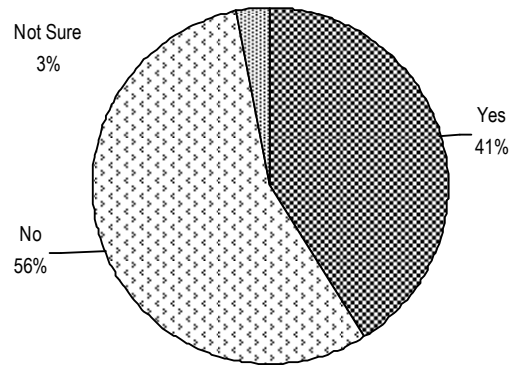


Diagram 16: Facing Shortage of Skilled Workers

Penang, Selangor and Johor are the states facing highest level of shortage in skilled workers (54%, 48% and 49%) in respect to the number of factories in these states. We also manage to get most respondents from Penang and Selangor cited their willingness to offer industrial training to vocational and technical students.

Conclusion

1. The SMEs have not utilise in full of the soft loans, grants and tax incentives provided by government effectively, but sourced their funding from commercial banks with higher interest rate, which in turns increase their operating cost.
2. Lack of global views - the SMEs are still focusing on domestic market and do not explore into the overseas market.
3. Regard to venture into overseas market, SMEs need to improve the quality of their products/ services and the management skills, instead of the labour intensive operating model with ICT adoption and automation.
4. To expand and develop the business, SMEs should source their funding from various ways and means, apart from financing from commercial banks, there are government's soft loans, grants and incentives available for our SMEs.
5. It is difficult for SMEs to get financing from commercial banks as compared with 10 years ago. After the banks mergers, the bankers are very rigid in processing the loan applications from SMEs and thus brought negative impacts to the development of SMEs.