

The Effectiveness of the Government Policies to Support Local SMEs: The Case of Penang, Malaysia

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1. *Introduction*

This paper examines the contribution of the Malaysian government's Small and Medium Enterprises (SMEs¹) hereafter) policy to the development of SMEs in Penang. The recognition of the significant contribution of SMEs to national economic development has gradually led to a prominent position of these enterprises in the policy agendas of many developing countries (World Bank 1984, 1997, UNIDO 1986, Little et al. 1987, ADB 1990, Smallbone 2000, Best 2007). SMEs in Malaysia have been considered as a major driver of economic development. Chee (1986) recognised that such enterprises are better allocators of limited domestic resources, and are less dependent on imported inputs, than are large enterprises. SMEs also form a critical segment of the supply chain of the electronics industries in supporting products such as plastics, precision parts, and machinery. They supply parts and components to domestic large companies (including foreign enterprises) as well as for replacement markets (Hashim 1999, 2002, Moha Asri 1999a).

Nonetheless, systematic studies and evaluation, issues and challenges, on the particular characteristics of policy supports have been lacking in the available literature (Meyanathan & Salleh 1994, Lall 1996, Chin & Lim 2018). Despite the fact that there are as many as 30 public agencies and institutions and more than 10 ministries presently involved in providing SME support programmes in Malaysia, only a limited attempt has been made to examine the accessibility and effectiveness of the government-sponsored support programmes to SMEs.

Following the historical and functional review of Malaysian SMEs policy (Oikawa 2020), this paper examines the effectiveness of public assistance to support the development of local SMEs in Malaysia. It draws on the findings of my fieldwork, in which face-to-face

1) The definition and characteristics of Malaysian SMEs are elaborately examined in Oikawa (2020).

Table 2 Company Profiles and Use of Support Programmes

Type	No.	Company Name	Product	Major Customer	No. of Employees	Year of Establishment	Technical	Others	Note
TNC Suppliers	1	S***	Metal	Clarion	68	1987	ISO, PDC	HRDF	Minimum access to government incentives
	2	A***	Plastic	Clarion	662	1985	ISO, PSDC +	HRDF +	Good relationship with Penang State gov. Full membership of PSDC.
	3	P***	Plastic	Clarion	300	1990	ISO, PSDC +	HRDF +	Several SMEs prizes were awarded by local & central governments
	4	H***	Metal	Sharp, Sanyo	89	1995	ISO +	HRDF	No interest in accessing government supports and incentives
	5	N***	Plastic	Sanyo, Clarion	70	2005	ISO +		Intended distant relationship with government (to secure freehand)
	6	C***	Plastic	Sanyo, Clarion	250	1991	ISO, PSDC	HRDF +	Several government supporting schemes are in use.
	7	T**C**	Plastic	Sanyo	28	1979		IE	No interest in accessing government supports and incentives
	8	H***	Plastic	SONY	240	1994	ISO		No need for government supports
	9	G**T**	Plastic	Motolara	27	1993	ISO +		May apply to government financial supports
	10	P***	Plastic	Sanyo	72	1994	ISO +	HRDF +	Several government supporting schemes are in use.
	11	S**C**	Prec. Tooling	Intel, AMD	40	1997	ISO +		Intended distant relationship with government (to secure freehand)
	12	K***	Prec. Tooling	Intel, AMD	31	1989	ISO +	HRDF, IE	Several government supporting schemes are in use.
	13	E**E**	Prec. Tooling	Intel, AMD	25	1995			No interest in accessing government supports and incentives
	14	M***	Prec. Tooling	Intel	18	1994			Intended distant relationship with government (to secure freehand)
	15	G**H**	Electric Kettle	Sanyo	25	1985			No interest in accessing government supports and incentives
	16	S***	Metal Rack	AMD,	18	1999		IE	No interest in accessing government supports and incentives
	17	Y**S**	Spring	Honda	25	1984			No interest in accessing government supports and incentives
	18	D**F**	Plastic	Honda	220	1994	ISO, PSDC	HRDF, IE	Several government supporting schemes are in use.
	19	F**P**	Plastic	Sharp	150	1987	ISO	HRDF	Several government supporting schemes are in use.
	20	J***	Metal	Modenas, Honda	48	1992	ISO, PSDC +		Government supporting schemes as many as applicable are in use.
	21	W***	Metal	Intel	400	1982	ISO +	HRDF, IE	Several government supporting schemes are in use.
	22	M***	Metal	Agilent	100	2005	ISO +	HRDF	Several government supporting schemes are in use.
	23	C***	Plastic	Clarion, Bosch			ISO +	HRDF	Several government supporting schemes are in use.
	24	C***	Metal	Panasonic, Sharp	150	1992			Intended remote relationship with government (for illegal operation)
	25	T***	Precision	Intel			ISO		Intended remote relationship with government (for securing freehand)
	26	R***	Precision	Intel			ISO, PSDC +	HRDF +	Government supporting schemes as many as applicable are in use.
	27	S**P**	Plastic	Western Dig	280	1998	ISO +		No need for government supports
	28	L***	Metal, Precision	Intel			ISO, PSDC +	HRDF, IE	Several government supporting schemes are in use.
	29	T***	Plastic	OEM	40	1989	ISO +	HRDF	No need for government supports
	30	E**P**	Plastic	SONY, Sharp	300	1993	ISO +	HRDF	Unaware of the availability of government supports
	31	A***	Metal	SONY, Sharp	250	1997	ISO +	financing	Several government supporting schemes are in use and they are helpful
	32	M***	Precision	First Solar	15	1995		IE	Intended remote relationship with government (for securing freehand)
	33	B**P**	Plastic	IQ Group	10	1989	ISO		Unapplicable (for majority of foreign ownership)
Non-TNC Suppliers	34	A***	Pet Bottle	local food producers	36	2003		financing	Government supporting schemes as many as applicable are in use.
	35	L**M**	Aluminium Item	local manufacturers	57	1992			Intended remote relationship with government (for securing freehand)
	36	M***	Metal (Screw)	local manufacturers	107	1997	ISO, PSDC+	HRDF +	Several government supporting schemes are in use and they are helpful
	37	S***	Metal (pipe)	local manufacturers	35	1963			No need for government supports
	38	M***	Electric parts	local government	55	1993	ISO, PSDC	HRDF	No interest in accessing government supports and incentives
	39	A**M**	Metal	local government	60	1983			No interest in accessing government supports and incentives
	40	S**P**	Plastic	local market	150	1984			Intended remote relationship with government (for securing freehand)
	41	C**W**	Plastic	local market	25	1990			No interest in accessing government supports and incentives (giving up)
	42	X***	Plastic	local market	80	1995			Unapplicable (site in rural area which is not allowed in industrial use)
	43	K***	Plastic		150	1980	ISO, PSDC+	HRDF, RI	Several government supporting schemes are in use and they are helpful
	44	S**H**	Plastic	local customer	8	1987			Unapplicable (for operating in residential area)

note1) No.20 and No.34 are owned by Bumiputera and No.25 is Indian-Malaysian (with a Chinese co-founder) company.

All others are Chinese-Malaysian owned.

note2) The sign plus (+) means more than one support programme(s) indicated are used in the concerned category. The abbreviations are meant as follows.

ISO: the company obtained ISO certification. PSDC: the company sends workers to PSDC to learn basic operation skills.

HRDF: Human Resource Development Fund is (or was) used. RI: Reinvestment Tax Relief incentive is (or was) used.

IE: the company is located in an industrial estate (including FTZ) with specially equipped physical infrastructure.

(Source) My fieldwork survey (2018-9)

interviews were conducted with government officers and 44 plastic and metal suppliers in Penang in 2019. The following three points will be addressed. First, what types of measures were, and are, put in place to support the development of local SMEs? Second, to what extent are such support policies accessed and how useful are they from the viewpoint of local SMEs? Third, what implications can be derived from Malaysian SME policies in a wider context of economic development and linkage formation between TNCs and local suppliers? The following part of this paper examines these issues.

2. *Government Support Programmes for SME Development in Penang*

In Penang, several agencies offer programmes to support the development of local SMEs, as shown in Table 1. Each agency is owned and run by either the central government or the local, Penang state, government. The programmes offered by the central government agencies are identical to those available nationwide. In contrast, the programmes offered by the state agencies (listed in the lower part of Table 1) are available only in Penang. This section examines the awareness, accessibility, and usefulness of these programmes for SMEs in Penang. My investigation is based on interviews with SME entrepreneurs in Penang, and thus reflects their viewpoint and evaluations.

Interviews were conducted at 44 local firms in 2019²⁾. The company profiles and their usage of the programmes are presented in Table 2. The great majority (41) of firms were Chinese-Malaysian owned, while three were owned by Bumiputera (no. 20 and no. 34) or Indian-Malaysians (no. 25). The size of the firms ranged widely, from eight to over 600 employees. The year of establishment also ranged extensively (from 1963 to 2005), but more than 70% of the firms were established before 1995, with some clustering (13 firms) in the first half of the 1990s. This time pattern appears to be correlated with the economic growth of the Penang region, in which, after a brief recession in 1985–1986, ample opportunities for SMEs to start up and grow emerged in the wake of rapid industrialisation in this area, particularly from the late 1980s.

Several previous studies have examined the accessibility and/or utilisation rates of government-sponsored programmes in Penang (Moha Asri 1999b) or Malaysia in general (Rasiah 2002, JICA 2003). All of these studies reported that a large proportion of SMEs surveyed did not receive any assistance from government agencies. Moha Asri (1999b), for example, found that only 28.1% of SMEs received substantial assistance. Findings from my fieldwork, presented in Table 3, show utilisation rates generally higher than those of Moha Asri, with 55.5% and 72.7% of SMEs getting direct and indirect government support, respectively. The higher figures from my research can be largely attributed to the timing of my data-gathering, which was more than ten years after the other studies, and probably reflects the increasing availability of programmes as time went by. It may also reflect a difference in sampling procedure, which resulted in my sample including a higher proportion

2) In my fieldwork, I totally interviewed 46 SMEs; however, two entrepreneurs declined to mention the issues related to the government policies and they were excluded in my analysis of this paper.

Table 3 Usage Frequency of SME Support Programmes, 1997 and 2018-9

(1) Author's Survey (2018-9) n=44

	Types of Programmes	No. of Firms	(%)
Direct Supporting Programmes	Human Resource Development Fund	19	43.2%
	Skill development programme by PSDC	11	25.0%
	Financial incentives	3	6.8%
	Others	3	6.8%
	Non-recipient of direct supports	20	45.5%
Indirect Supporting Programmes	The use of ISO certification	28	63.6%
	Industrial estate	22	50.0%
	Post on the "invest Penang" website	18	40.9%
	Membership of Industrial Association	10	22.7%
	Others	2	4.5%
	Non-recipient of indirect supports	12	27.3%

(2) Moha Asri's Survey (1997) n=185

	Types of Programmes	No. of Firms	(%)
Training and Technical		22	11.9%
Finance and Credit		20	10.8%
Infrastructure Support		32	17.3%
Marketing and Marketing Research		17	9.2%
Extension and Advisory Services		22	11.9%
Non-recipient of above supports		133	71.9%

note1) Totals can exceed number of firms surveyed because some firms used more than one programme.

note2) Moha Asri's result is slightly modified to fit to my table format.

(Source) My fieldwork survey (2018-9) and Moha Asri (1999b)

of relatively larger SMEs. Larger-scale SMEs may have been better positioned to receive official support as some programmes require companies to meet certain scale criteria (e.g., minimum employee numbers or capital) in order to qualify for benefits. On the other hand, larger scale may be an outcome of, rather than a reason for, government support – my survey cannot identify causality.

I use theoretical principles to divide government-sponsored SME development schemes into two broad categories: direct and indirect support programmes. By "direct" I mean that a firm must intentionally apply to the programme in question, which, if it is successful, helps that particular firm in various ways (technologically, financially and/or managerially). On the other hand, "indirect" government programmes aim to facilitate the functioning of the

market in general, bringing up the overall productivity of the firms concerned. Considered from a different angle, indirect support is similar, though not identical, to the concept of a pure public good, which is non-excludable and non-competitive and whose benefits can be obtained freely by all. These two categories are examined in greater detail in the following sections.

3. The Use of Direct Support Programmes

Among the direct programmes, the most frequently used were the Human Resource Development Fund (HRDF) and the skill development programmes offered by the Penang Skill Development Corporation (PSDC).

The Malaysian government created the HRDF in 1993, with the aim of encouraging companies to provide more training to employees. This is a nationwide scheme. PSDC was established four years before HRDF, in 1989, with its primary mission being the provision of specialised skills training to help local firms upgrade personnel from production workers to technical specialists (Somchit 1994). As can be surmised from the name, PSDC is a local agency, mainly controlled by the Penang Development Corporation (PDC). An important characteristic shared by these two “popular” programmes is that they are conducted on a compulsory, not voluntary, basis. A firm with more than 50 employees is required to pay an income tax of 1% (initially 2%) to HRDF, but can claim reimbursement of the cost of training programmes up to the full amount of this tax. PSDC training programmes are a valuable opportunity for firms located in Penang, which often send groups of workers and machinery operators to the Centre to learn basic and/or semi-advanced operational skills, with the cost being fully paid back by the HRDF.

The positive effect of these programmes on productivity seems beyond doubt. They are an embedded and consistent skill development mechanism at the regional level. Their semi-compulsory nature deters individual firms from under-investing in human capital. They also benefit from economies of scale: group training programmes are efficient, effective, and relatively inexpensive, if managed and operated in a centralised manner. Government-run agencies are often said to be inefficient and slow to respond to market needs. However, PSDC successfully avoids these problems, as its programmes are all designed, developed, and implemented in consultation with local staff of TNCs. The value of these programmes was summarised by a manager of company No. 19:

It is a waste of money not to use HRDF for our employees' training. As we have already paid the HRDF tax, we want a reimbursement. We send workers, operators and technicians to PSDC. PSDC is very useful as it offers various training courses, depending on workers' skill levels.

Undoubtedly, these programmes are helpful for firms which need to train workers on matters of basic knowledge and operational skills. It is believed that this has effectively contributed to the steady overall increase in manufacturing productivity in the Penang area (PSMB 2018). However, regarding the implementation of HRDF and PSDC, some caveats should be noted.

First, as is clearly shown in Table 2, several of the SMEs interviewed did not use these programmes. There are several reasons for their non-use. Some companies do not know about the availability of, or how to apply to, the programmes. Others are disqualified by their size or sector. However, a considerable number of companies simply choose to stay away from government agencies because they want to keep their business performance, and particularly their finances, undisclosed. Some SMEs also resent the "compulsory" nature of these support programmes, with the use of PSDC training courses being just a way of offsetting the tax. These inhibitions are related to the distrust that Chinese entrepreneurs feel toward the Malay-dominated government.

Second, HRDF and PSDC are not exclusively SME support schemes. Larger enterprises, including local TNC subsidiaries, also enjoy enormous benefits from the standardised training courses PSDC offers, which is one of the reasons local TNCs support and cooperate with PSDC. Moreover, SMEs with fewer than fifty employees are not eligible to participate in the programmes, and therefore derive no benefits from them. This is problematic because it is these small firms that have the greatest need to upgrade their technological capabilities and hence the greatest scope for benefiting from government support programmes. Their exclusion, however, means that in reality the programmes may widen technological gaps between large and small local companies³⁾.

Apart from these two popular programmes, other direct support programmes are far less used by SMEs. Only three of the companies interviewed received financial support,

3) The relatively limited effect of HRDF and PSDC on SMEs is attested to by the 1997 report of the World Bank (1997, 61), which concluded: "HRDF has had a significant role in increasing training among medium and large firms...but not small firms. Among purely domestic firms, HRDF has only been effective in increasing the training of large firms with over 250 employees."

including the reinvestment tax allowance; two were Bumiputera-owned firms. Special licences or consulting services, which are included in “Others” in Table 3, were utilised by only three SMEs. Based on these small numbers, it can be concluded that the contribution of other direct support programmes to promoting the development of local SMEs was extremely limited.

4. The Use of Indirect Support Programmes

A large proportion of surveyed SMEs received the benefits of ISO certification (63.6%), location in industrial estates (50.0%), website posting of the company name (40.9%), and industrial association membership (22.7%). Far fewer (4.5%) received “other” benefits, such as provision of information about overseas markets. Some points should be noted regarding the implications of each of the indirect support programmes.

In recent decades, ISO or other third-party certifications have become widely used as a screening tool by global TNCs to assess suppliers’ technological and managerial capabilities (Corbett 2006). Therefore, SMEs in developing countries need to obtain ISO certification to be accepted as qualified suppliers to TNCs (Clougherty & Grajek 2008). From a theoretical perspective, this system reduces the problem of information asymmetry between principal and agent (Terlaak & King 2006, Tari et al. 2013). Third-party certification documents the quality, safety, reliability, efficiency, compatibility, and environmental friendliness of products and services. Thanks to the availability of such quality assurance systems, customers can minimise uncertainty and risk surrounding products and services in these dimensions, allowing them to enter into business with authenticated partners more easily. Thus, the ISO system facilitates economic activity, and is particularly helpful for developing countries (Hudson & Jones 2003). For these reasons, the government-run Standards and Industrial Research Institute of Malaysia, or SIRIM, was established to adopt and spread the use of ISO among Malaysian manufacturers.

SIRIM was established in 1975 to carry out a broad range of functions related to standards testing, registration for quality control, research and development (R&D), and technical extension and consulting. It includes a national multi-disciplinary R&D centre whose primary purpose is to assist enterprises to solve technical problems using advanced technology and thus help their businesses to grow. In the area of quality assurance, SIRIM practices a firm commitment to quality standardisation, with the aim of upgrading the quality of Malaysian products. Standardisation programmes under SIRIM cover all stages,

from the formulation of specifications to the provision of technical assistance to local enterprises, including product certification, product listing, laboratory accreditation based on ISO/IEC Guide 25, and registration of quality systems based on the ISO 9000 series of standards (Ho 1995).

The important role that the ISO system has played in Malaysian industrial development is indisputable. However, one may ask: Is the promotion of ISO a government-sponsored support programme for local SMEs? Although the ISO system itself is a public good, it was established and developed by an international organisation based in Europe, not by the Malaysian government. What the Malaysian government has done, through SIRIM, is to facilitate the diffusion and uptake of this system across Malaysia. However, my interviews reveal that most ISO users did not receive any specific support from the government in this regard. They were simply voluntary users of the system:

At the beginning, our customer TNC requested that we get ISO certification. We hesitated at first, but we found ISO was a good guideline for introducing standardised methods of quality control and assurance. Without it, we would have had trouble knowing how to improve our production methods.

SME entrepreneurs were eager to obtain ISO certification because it was advantageous—it was becoming a prerequisite—for securing a high-volume business with TNCs. In most cases, ISO certification was achieved mainly by the supplier companies' own motivation and efforts; only occasionally did their customer companies, including local TNCs, give support and advice. Some SMEs often used SIRIM for technical advice and services, but such cases were relatively few. It is true that the use and diffusion of the ISO system was helpful in facilitating business between TNCs and local SMEs (Nee 2011); however, most local SME entrepreneurs did not regard this achievement as being a result of Malaysian government programmes.

Other indirect support programmes included the use of industrial estates, information provision through the website of “invest Penang” (a state government-run agency for industrial development), and membership of industrial associations. Regarding these programmes, most SME entrepreneurs in Penang shared a similar belief: that the programmes were irrelevant. Generally speaking, Penang's SME entrepreneurs were unaware, or even suspicious, of government support for local SME development. One

Table 4 Reasons for not Using SME Support Programmes, 1997 and 2018-9

(1) Author’s Survey (2018-19) n=22

Reasons for not using Programmes	No. of Firms	(%)
Unawareness of programme availability	18	40.9%
Distrust of government policy	15	34.1%
Out of reach (unqualified to apply)	13	29.5%
Not particularly needed	12	27.3%
Long interval to final approval	8	18.2%

(2) Moha Asri’s Survey (1997) n=133

Reasons for not using Programmes	No. of Firms	(%)
Not aware of such assistance	42	31.6%
Do not know how to apply	9	6.8%
Worry of leakage of trade secrets	16	12.0%
Outside the reach	71	53.4%
Government assistance is not useful	26	19.5%
No such need	23	17.3%
No time to work with government officers	17	12.8%

note1) Total number of firms which regarded themselves as non-recipients was 22 for (1) and 133 for (2).
 note2) The number far exceeded the total number of non-recipient firms, because (i) several firms give more than one reason, and (ii) some firms regarded themselves as non-recipients but they were merely unaware of their position as a recipient of indirect supporting programmes such as a tenant of industrial estate and a user of HRDF.
 note3) Moha Asri’s result is slightly modified to fit to my table format.

(Source) My fieldwork survey (2018-9) and Moha Asri (1999b)

entrepreneur, despite being a constant user of the HRDF scheme, stated:

We have not received any government support from day one. As a matter of fact, we do not know what types of government programmes are available to us.

As can be seen from the above discussion, evaluation of the effectiveness of government SME support policy is far from straightforward. Some government support was clearly beneficial, but most of it was used unconsciously, not proactively.

5. Low Level of Interest in Accessing Government Support

My interviews with local SMEs revealed low levels of interest in, recognition of, and use of government-sponsored support programmes. This is consistent with the findings of previous research (Moha Asri 1999b, Rasiah 2002, JICA 2003). Still, Table 3 clearly shows more use of government programmes than earlier studies. One reason is that previous studies considered only “visible” or “spontaneously-approached” programmes—that is,

programmes that SMEs proactively apply to and take advantage of. By this definition, for example, HRDF would not be considered as government support, because it is compulsory, not chosen by SMEs as a business decision for its value. In addition, as explained above, some support programmes included in my study are invisible to beneficiaries. Most SME entrepreneurs regarded themselves as non-recipients of government support, even though they in fact enjoyed benefits from support programmes such as HRDF and ISO. Based on these observations of lack of awareness, it is not surprising that many SME entrepreneurs showed little, or even no, interest in government support schemes.

Table 4 presents my interview results regarding the reasons for not using SME support programmes offered by the government. The figures shown are of the replies to the two-part question: "Do you, or did you, receive any government support? If not, why do you not, or did you not, use government support?" A total of twenty-two SME managers or founders answered that they were non-recipients, and they explained the reasons. Interestingly, the number of "non-recipient" firms exceeded the numbers indicated in Table 3. This again implies that some SME entrepreneurs were completely unaware of actually being beneficiaries of government support such as HRDF.

The table shows that 18 out of 44 SMEs (40.9%) reported that they were not aware of the existence of any government support programmes. Surprisingly, several SMEs did not even know the names of SMIDEC or HRDF. The second most-common reason for not using the programmes, given by 15 SMEs (34.1%), was implicitly-expressed distrust of the "Malay"-dominant government. All of these respondents were Chinese-Malaysian and firmly believed that government programmes were designed to provide assistance exclusively to Bumiputera entrepreneurs; for this reason, they rejected the idea of applying from the very start. Several of these companies also expressed a firm intention not to approach the government because they did not want to disclose their business performance, especially their financial status. This can be seen as another form of their distrust of the government. 13 SMEs (29.5%) saw government assistance as being out of their reach because they did not meet certain requirements or criteria specified by the agencies, such as a good track record, a guarantor, qualifications, and experience. Some of these companies were also operating outside industrial zones, which meant they felt guilty and saw themselves unqualified to apply for any government-provided services. 12 SMEs (27.3%) reported that they simply did not need the assistance. Finally, 8 companies (18.2%) considered applying to the programmes but realised that the process would take too long to be of use for their immediate purposes.

These findings clearly indicate that a majority of local SMEs have little interest in and low expectations for the use of government assistance. However, several SMEs expressed deep appreciation of government support they had received. Two Bumiputera companies (No. 20 and No. 34 in Table 2) and one Indian company (No. 26) took advantage of more than one type of support programme—a common pattern was HRDF plus financing and/or marketing services—which they said was extremely helpful for running and developing their businesses. While these cases can be considered typical examples of a pro-Malay system that has long received harsh criticism, particularly from Chinese manufacturers, some Chinese-owned companies (No. 31 and No. 43, for example) shared the positive view of a helpful government. These Chinese SMEs highly appreciated government financial support that helped them to rejuvenate their businesses. Thus, the answer to the question of whether the government is helpful or unapproachable remains unclear. A hint may lie in these words of a Chinese entrepreneur (No. 31):

Government support was really helpful when we had a financial problem. We had been in communication with government officers for a long time before that. Maybe because of this, they understood our difficulties and helped us so carefully.

Only a few of the SMEs surveyed were clearly conscious of themselves as beneficiaries of government assistance. Their voices are important to help understand the true impact and value of the programmes the government planned and implemented. Bumiputera-owned company No. 20 was probably, among the companies I surveyed, the SME that benefited most from the government programmes. The founder of company No. 20 was deeply grateful for the government support the firm received:

As we are a tiny company, making commodity products (metal stamping), bank loans would be financially burdensome. We applied for government grants and are now benefitting from a “Grant for Product and Process Improvement” and a “Matching Grant.” Previously, we also used the “Industrial Linkage Programme” and the “Productivity Management Programme.” Being small (fewer than 50 local workers), we are not entitled to use HRDF, but the government subsidises about half of our staff training programme expenses. Without such support, our company

could not survive.

The words of this Bumiputera SME founder paint a clear picture of the positive and caring attitude of the government toward “targeted” SMEs. The founder stated that government support programmes were fairly generous, far-reaching, and long lasting. The provision of such generous support to this SME might be attributable to his/her ethnic advantage as a Bumiputera. However, combining his/her words with those of the Chinese entrepreneur (No. 31) quoted above, a different picture of government SME support emerges: a friendly attitude and accessible programmes once a trusting relationship is established between an SME and government support agencies. There is no doubt many more SMEs like No. 20 for which government support has played a key role in enabling them to start and develop their business relationships with local TNCs.

6. Conclusion: The Role of Government in Supporting SMEs

This paper examines the nature and the effectiveness of government support programmes for SME development in Malaysia. The use and ease of access of the programmes by local SMEs was described using the results of my survey of SMEs in Penang. One of the striking facts revealed in my survey was widespread unawareness by local SMEs of government assistance. There were two different types of unawareness: passive and proactive. The former comes from simply not knowing about available programmes, or taking support for granted. Some firms were enjoying benefits from government support programmes like HRDF, but did not regard themselves as recipients.

Proactive unawareness, on the other hand, has stronger and rather negative implications: some firms were unaware of specific support programmes because of their general unswerving intention to stay away from the government. Reasons included distrust of the government, belief that programmes were for Bumiputera only, and business secrecy. These attitudes undermine the establishment of productive relationships between government and private industry.

Whatever the reasons for unawareness or failure to take advantage of government SME support programmes, it is difficult to avoid the conclusion that these programmes have not been as vital and useful for local SME development as hoped. Even though the government has often stated its strong commitment to SME promotion, it should be stressed here that gracious government intentions cannot be translated into effective actions without

trust-based interactive dialogue between government and SMEs. My findings suggest that the lack of awareness and take-up of SME support programmes by SMEs is due to three main reasons.

First and most importantly, as is repeatedly pointed out, past government policy programmes focussed predominantly on the development of Bumiputera enterprises. Such biased treatment has gradually been reduced but still remains in a few instances; for example, some programmes are still offered exclusively to Bumiputera companies. Malaysian Chinese-owned SMEs form the vast majority of manufacturing businesses, and most of these are cynical about government action. Second, it is often reported that government programmes are slow and ineffective. Applying means going through inefficient bureaucratic procedures and there may be a long waiting time before approval; as a result, applicant companies may lose interest long before the application process is completed and the result announced. In addition, the allocation of government resources for SME support was insufficient. Finally, support programmes still seem to partly overlap with each other, and often appear to lack direction, clarity, and organisational strength in assisting small firms. The situation was far worse before the establishment of SMIDEC in 1996, when no agency was exclusively concerned with coordinating multi-faceted support programmes for SMEs, which may have left a legacy of distrust of government commitment to SME support.

Thus, a key issue is obviously the effectiveness of government policies in terms of the criterion of successful development of local SMEs. Regardless of the lack of awareness by many local SMEs of the availability and accessibility of government support programmes, SMEs have in fact enjoyed substantial benefits from programmes and services such as HRDF and from efficient infrastructure. Undoubtedly, without such support, Penang's industrialisation would have been far less successful and in that sense the role of government was important. Previous studies confirm this view (Rasiah 1996, 2002, Hutchinson 2008, Singh 2011).

However, government SME support could have been more effective. I believe, and there is evidence to support the view, that the government could have made a larger contribution to promoting SME development in Penang than it actually did. For this presumption to support, three points should be noted.

First, in practice, preferences and incentives were overwhelmingly given to large industry, including TNCs. For example, under the Investment Incentives Act (IIA) of 1968, the criteria for incentive provision were mainly capital investment, employment, and export performance. The IIA was replaced by the Promotion of Investment Act in 1986; however,

large enterprises were still given some advantage over local SMEs (Chee 1987). SMEs and large enterprises often work collaboratively, but are also competitors with each other in some critical areas, such as labour and raw material markets and land acquisition. Thus, from a broader economic viewpoint, government support schemes may generally have favoured big companies and penalised local SMEs.

The second point is related to the timing of policy commencement. A large proportion of successful SMEs were started and developed before the major support programmes were fully formalised and implemented. For example, the HRDF programme started in 1993 and SMIDEC was established in 1996. By contrast, most SMEs started up and got their businesses on track before the mid-90s, when the major programmes were not yet operating or were still in the trial stage. Undoubtedly, government support schemes were helpful for SME development, but the evidence suggests that most support became available and useful only after many SMEs had already developed, mainly by their own efforts.

The final point concerns the coverage of government policies. The problem is twofold. First, as described above, the SMEs that benefitted most from government assistance tended to be either Bumiputera-owned firms, which took advantage of support programmes that focussed exclusively on Bumiputera, or non-Bumiputera firms like No. 31 that made sustained efforts to build relationships with government agencies. It is safe to conclude that the government assistance was generous and helpful for these local SMEs in their efforts to become suppliers to local TNCs. However, such beneficiaries were extremely limited in number; they made up only a small portion of Penang's entire SME population.

The second problem is related to the stages of company growth. It is understandable, due to the requirement that a support recipient be a legal entity, that most government programmes support SMEs that are in relatively advanced stages of development. No programmes were designed and carried out to support truly "infant" SMEs. There is clear evidence that many tiny start-ups were not entitled to apply to any programmes because the government set minimum requirements such as number of employees, amount of paid-up capital, and financial conditions. This is problematic because start-up is the most critical time in terms of SME survival; empirical studies report that a vast majority of companies go out of business within five years after start-up (Shane 2008). This was confirmed by my interviews; many successful entrepreneurs stated that they had experienced the most difficult period immediately after they launched their businesses. The biggest issue, they reported, was financial. The government's inattention to this stage of SME development may have contributed to entrepreneurs' cynicism and indifference toward government

action.

The general view of the Malaysian government's programmes to support SME development is that they were successful and widely appreciated (Meyanathan & Salleh 1994, Harvie & Lee 2008, Tambunan 2009). Although many local SMEs were not aware of their own usage of government assistance, the programmes and services surely enhanced the overall productivity of companies and contributed positively to the business climate in the Penang region. However, legitimate doubts have been raised about the effectiveness of the government support. The most convincing evidence of the programmes' limited impact is the fact that a large number of SMEs in Penang have demonstrated an ability and strong motivation to go into business and have struggled successfully for survival with no or very little support from the government. In particular, no special programmes were available for start-up SMEs. If government policies had been more favourable for SMEs by providing more adequate financing, technical assistance, and extension and advisory services to promising start-ups at the right moment, the growth and development of SMEs in Penang would have been greater and more prosperous.

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