

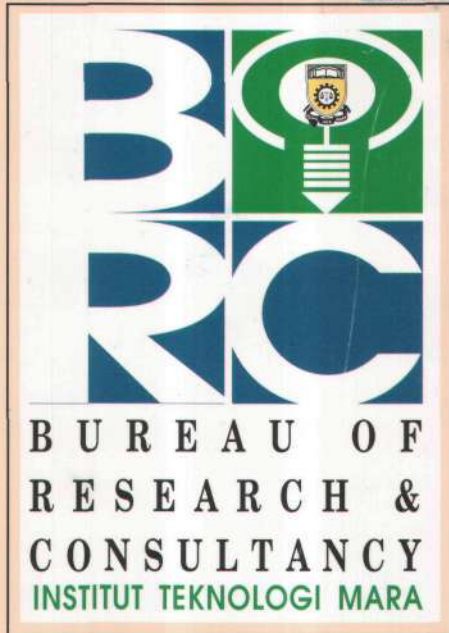
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SMALL AND MEDIUM INDUSTRIES IN TERENGGANU AND THEIR CONTRIBUTION TO THE STATE ECONOMY

by
Norudin Mansor
Nordin Abu Bakar
Wan Mansor Wan Mahmood
A. Aziz Jaafar

ABSTRACT

The main objectives of this studies are:

- i. To analyse the type of various programmes that are commonly being adopted by SMI.
- ii. To investigate the effectiveness of existing programme to meet challenges among the large industries.
- iii. To provide and identify programmes that can help SMIs to compete.

The economic growth of the country and the existence of external investors added to the strength of the world economic climate, help to create more avenues for the local investors towards improving the SMI sectors. Since 1987 the total investments in SMIs had increased tremendously from RM61.7 million to RM629 million. In 1991 alone, SMIs in Malaysia expanded at the rate of 89.5%. However, Malaysia which had been considered as a developing country is still far behind when compared to newly industrialized countries such as South Korea, Taiwan, Hong Kong and Singapore.

Keywords: Small and Medium Industries (SMI), Terengganu.



The authors are academic staff of the MARA Institute of Technology, Terengganu Campus.

INTRODUCTION

The important contribution of Small and Medium Industries (SMIs) in the developed and developing countries has been acknowledged. Towards the end of 1980's and the beginning of early 1990's, the Malaysian Government seriously began measures to nurture and upgrade the capabilities of SMIs. The development of SMIs that moved accordingly with the government's overall objective to develop local entrepreneurship, creates productive employment, and increases the productivity and incomes of small entrepreneurs.

If we consider Malaysia as a developing nation, it is still far behind when compared to the newly industrialised nations such as South Korea, Taiwan, Hong Kong and Singapore. It is interesting to note that the buoyant economy in Malaysia during the last few years has highlighted the important need for a much stronger SMI base.

The SMIs in Malaysia are in need of programmes for them to be organised in a more integrated manner towards ensuring their growth and development. This will further provide opportunities for good and successful SMIs to grow into becoming Large Malaysian Corporations (LMC) and possibly to be Multinational Corporations. The present involvement of SMIs in a myriad activities, operating in backyard factories and ungazetted land clearly needs to be upgraded.

Analyzing the development of SMIs in Malaysia, there are various factors that contribute to their strengths and weaknesses. To the SMIs, marketing, human resource, production and financial management are considered variables that need extra attention among the entrepreneurs. Despite the efforts carried out by many government agencies such as MARA, FAMA, FRIM, MEDEC, KEMAS and supported further by some private agencies, there is still a need for a special integrated programme that must be implemented in order to improve SMIs.

OBJECTIVE OF THE RESEARCH

Several objectives that can be achieved through this study are as follows:-

Main objectives:

- i. To analyse the type of various programmes that are commonly being adopted by SMI.
- ii. To investigate the effectiveness of existing programme to meet challenges among the large industries.
- iii. To provide and identify programmes that can help SMIs to compete.

Other objectives:

- i. To study the profile of small industries in Terengganu state in terms of the following factors:
 - demographic

- geographic
 - psychographic
 - socio-economic
- ii. To study in detail the policies that have been adopted by the government in supporting the industries.
 - iii. To study the level of co-ordination among various institutions towards the development of the industries.
 - iv. To identify problem-related areas such as financial stability, availability of skill labour force, use of raw-materials, level of competition, land allocation as well as the management expertise required by the industries.

RESEARCH METHODOLOGY

To meet the objectives the researcher used data from secondary and also primary sources. Through secondary sources data was collected from trade associations, government agencies (SOCISO, UPEN), journals and trade publications.

Most of the data was collected through primary sources. By this method a survey was conducted on various small industries so that it could be analyzed to provide comprehensive information to meet the objectives. By means of a survey the researcher prepared a series of questionnaires which comprise of open-ended and also close-ended questions. The questionnaires was designed to provide information pertaining to:

- business profile
- production profile
- marketing profile
- entrepreneurs profile
- management profile
- training profile

In selecting the number of industries, a sample of the population was determined by using stratified and random sampling.

SCOPE AND LIMITATION

In general this study is related to manufacturing sectors such as:-

- wood based industry
- textile industry
- brick manufacturing
- fabrication of steel structure
- plastic and chemical product manufacturing
- food and beverages
- printing industry

- handicraft industry
- tobacco industry
- others

The location of places under study are major industrial areas and other surrounding areas near the major town centres.

EXECUTIVE SUMMARY

After 2 years of research work, this project was successfully completed and presented to the Terengganu State Government.

Through this seminar we are happy to present a brief report about our research project on the topic of "Small and Medium Industries and their contribution to the State Government". The report will consist of the following information:

- i. Industrial profile
- ii. Entrepreneurs' profile
- iii. Marketing profile
- iv. Administration and Financial profile
- v. Production profile
- vi. Problems of SMEs

INDUSTRIAL PROFILE

Small and Medium sized industries in Terengganu are made up of a conservative distribution characteristic. Almost 49.16% of the industries are located in Kuala Terengganu, 19.76% in Besut and the rest are scattered in 5 (five) other districts. This situation shows that good infrastructure facilities that are available in Kuala Terengganu are an important factor which had attracted more investors to carry out their business there.

Referring to our research findings based on the classification of industries the distribution of industries varies according to district. Overall, most of them are located in Kuala Terengganu.

Industry	Percentage	District
Wood based	58	Kuala Terengganu
Brick	38	Besut
Printing	55	Kuala Terengganu
Handicraft	45	Dungun
Food & beverages	67	Kuala Terengganu
Tobacco	82	Besut

The textile, chemical or plastic and other industries are located evenly or scattered in several districts in Terengganu.

Looking at the establishment of SMIs, 33% of the industries had been in the business for less than 5 years, 17% had been in operation for more than 15 years and the majority of the industries had been in business between 5 and 10 years.

In terms of ownership, 94% of SMIs are privately owned and 6% are owned by the government.

As for the capital structure of the industries, more than 90% of the SMI have a paid-up capital which is less than RM500,000.00. Another 10% are within the paid-up capital of RM500,000.00 to RM 2.5 million.

With the rapid technological advancement, it was found that SMIs in Terengganu are still considered labour intensive even though there is an increase in the use of machines. Those entrepreneurs using machine often resort to manual operation when there is machine failure.

ENTREPRENEURS' PROFILE

The research findings make it very clear that 93.25% of the respondents are from Terengganu. In terms of sex, we still have a conservative figure where more than 60% of the entrepreneurs are men. But in the food and beverages industry, more women began to take an active role where the percentage until 1993 indicated they make up 38% of the establishment.

The state of Terengganu can be proud of the Malays' involvement in SMIs since they controlled 94% of the total establishment.

By looking at the education background, the majority of the entrepreneurs are poorly educated with only a few graduates amongst them.

There are still many entrepreneurs utilizing their own savings to venture into business, making up 88% of the total establishments. Some of them are able to get contributions from families, government agencies and some of the financial institutions in Terengganu.

MARKETING PROFILE

In any business, the marketing aspect is supposed to be the most important profile that will determine whether someone can be in a business for a day or a decade or even more. Among the SMIs in Terengganu the survey were able to reveal that the marketing function had been neglected by most entrepreneurs. This may not be true if concentration of activities like production, administration and financial control had been properly channelled to others in the business.

Overall 89.88% among the business owners carry out the marketing function by themselves. Only 10% take the initiative to set up a number of groups. The latter seems

to be very effective as compared to the former. Due to the above constraint, 83.3% of the products are distributed locally, 14.2% for markets outside Terengganu and just 2.5% are able to penetrate the international market.

The SMIs in Terengganu are further weakened due to the fact that only 19.25% of the entrepreneurs have "Brand Names" attached to their products.

In terms of pricing, 61.4% of the establishment adopted cost-plus-pricing, 40% used competitors base pricing, 17.83% were based on break-even and 15.66% used standard pricing. Failure in using the right pricing strategy can be a drawback for any business to compete in the market. Some entrepreneurs often exclude the fixed-cost element before deciding the final price list.

ADMINISTRATION AND FINANCIAL PROFILE

Among the SMIs in Terengganu, 94.69% of them employ full time workers. Only around 5.4% employ part-timers in their business. This strategy is able to maintain a proper control on the performance of the workers.

The recruitment of workers among the SMIs still largely depends on information and recommendations from friends where the statistics indicate the total is 91%. In trying to recruit new workers, SMIs have serious problems where 56.80% of them failed to look for the right candidate. The problem of recruiting non-skilled workers is only 2.9%, 6.64% among the clerical workers and surprisingly only 3.93% at supervisory level.

It is very interesting also to note that most of the SMIs do not seriously consider the importance of accounting records. Most of them do not have accounting records. This explains why they are not able to measure their business performance.

PRODUCTION PROFILE

As the other industries, SMIs production management basically involved a process of transforming input like raw materials, labour, utilities, machines and equipments into the desired output, that is the finish goods. The combination of factors that are normally considered among SMIs in production management are factors like:

a) **Premises and Building Ownership**

Most of the SMI business prefer to own their own building. Until today 68.93% believed that by having their own building they can have more control, thus increased confidence in running the business. A total of 27.67% operate on rented premises and none of them leased the premises.

b) **Technology Level**

Most of the business nowadays use machine and are only partly manual in their production line, that is 66.02%, and only 22.82% among the SMIs still run the

production line on a manual basis. The SMIs seem to be involved in using more machine lately where until now 11.17% focus on a machine intensive policy as the means of production.

c) Age of Machine

Around 60% of the business use machines which are less than 5 years old and approximately 40% are using machines which are more than 5 years old. Looking at their machines most of them are still under-utilized. There were also a few that never took good care of the machines.

d) Accessibility of Raw Materials

In trying to get the raw materials 86.02% of the amount can be easily accessed in the State of Terengganu itself. There was also a small percentage of the materials being purchased from other states of Malaysia especially from Selangor. A very small percentage of the raw material are purchased from nearby countries like Thailand, Singapore and Indonesia.

e) Quality Control Unit

Most of the entrepreneurs understand and realize the importance of quality control in their production line. But from the survey only 30.12% of the SMIs have this unit. In order to make sure that the products are of equal standard, inspections of the production process were carried out on an informal basis.

Other than what has been mentioned there are other factors that had been observed such as production capacity, the nature of the product line and also the skills of the labour which also reflect the production profile of the industry.

PROBLEMS OF SMIs

With the increasing assistance provided by the Federal and State Government as well as other private agencies, there were still problems that remain unsolved. The table below summarizes the major problems that can be considered serious to the development of SMIs in Terengganu.

Type of problem	Total % of SMI Involved
Financial facilities	76.39
Skill labour	50.84
Raw material	47.71
High production cost	43.61
Lack of modern technology	40.72

Accessibility to financial facilities is actually the main problem experienced by most SMIs in Terengganu. The entrepreneurs often have difficulties getting financial backing

due to their inability to produce working papers, not having sufficient collateral and some are not sure where to go to. On top of that SMI's often failed to get adequate credit facilities to run their business.

As to the problem of inadequate skill labour, the seriousness of this problem may remain critical unless steps can be taken to stop the movement of labour especially among the young generation to states like Selangor, Johore and Penang. The labour market is highly competitive nowadays and there is none among the SMI's that can compete in terms of the attractiveness of wages offered by large industries.

Monopolizing of raw materials among large industries and even by certain agencies especially in wood based and textile industries had retarded the production capacity of SMI's. In the food and beverages industry, the irregularity of the supplies is a major concern among the producers. Little is done but actually a lot can be done to break the monopolizing of raw materials.

CONCLUSION

The economic growth of the country and the existence of external investors added to the strength of the world economic climate, help to create more avenues for the local investors towards improving the SMI sectors. Since 1987 the total investments in SMI's had increased tremendously from RM61.7 million to RM629 million. In 1991 alone, SMI's in Malaysia expanded at the rate of 89.5%. However, Malaysia which had been considered as a developing country is still far behind when compared to newly industrialized countries such as South Korea, Taiwan, Hong Kong and Singapore.

It is believed that SMI's will continue to play an active role in supplementing the large industry sectors especially those that involve International Trade.

We really hope that this research project will assist the Terengganu State Government, Government agencies and also the private sector to further improve the performance of SMI's by producing goods that are marketable in local as well as international markets.

It would be appropriate for local SMI's to meet the challenge of being the most important economic catalyst towards building Malaysia into an industrialized nation. This challenge can be realised if the SMI's are well-equipped in all aspects of management, production, finance, marketing, technological advancement and most of all in the development of human resources.