SME INTERNATIONALISATION
Malaysia Breaking the Boundaries

Dato’ (Dr) Hafsah Hashim
SME Corp. Malaysia
Outline of the presentation

1. SMEs Worldwide
2. Going Global, The World is the Market
3. Malaysia SMEs in Global Market
4. Keep Moving Forward
SMEs and the Global Economy

SMEs are the world’s most concentrated, booming and innovative engine for world trade and economic growth

SMEs Contribution:

- 95% SMALL BUSINESS
- 50% GDP
- 60%-70% EMPLOYMENT

Source: ITC-WTO Study, 2014
The importance of SMEs to the global economy

‘A key driver for economic growth, innovation, employment and social integration’
The Europe Commission

‘SMEs are the engines of growth and innovation in the APEC region’
APEC

‘SMEs are the backbone of the ASEAN economies’
ASEAN, February 2013

‘Across the developed and developing world, SMEs remain the largest source of untapped trade growth and are the main source of employment’
International Trade Centre (ITC), 2013
Going GLOBAL...

The WORLD is the MARKET...
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Internationalisation is the way forward for SMEs particularly in small markets...

- By population, many countries have very small domestic market
- To grow, imperative to tap on global markets
- Internationally active businesses:
  - More likely to grow into larger firms
  - Upgrade their human and technological capital in order to meet the demands of supply chain partners
Drivers of Internationalisation

1. Economies of scale
2. Expand market share
3. Increase productivity
4. New Business Practice
5. Enhance Information Flows
6. Adopt New Technology
The strategies for SMEs Internationalisation

Internationalisation is not only limited to exports and imports thus SMEs should spread their wings to abroad through...

- Licensing
- Subcontracting agreements
- Foreign Direct Investment
- Joint Ventures (JVs)
- Exchange of technology
SME Benefits from Internationalisation

- Enhance market share of SMEs
- Increase competitiveness in global market
- Better business diversification
- Enhance business agility
- Organisational flexibility
- Innovation-led and productivity-driven
- Offer customisation of products or services (diversification strategy)
- Create job opportunity
…the 10 challenges rank differently to Internationalisation

**Ranked by SMEs**

1. Shortage of working capital
2. Identifying foreign business opportunities
3. Limited information to locate/analyse market
4. Inability to contact potential overseas customer
6. Lack of managerial time to deal with internationalisation
7. Inadequate quantity of and/or untrained personnel for internationalisation

**Ranked by policy makers**

2. Shortage of working capital
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1. Inadequate quantity of and/or untrained personnel for internationalisation

Source: Ranked by SMEs and OECD/APEC member policy-makers, Small Business: a global agendas, ACCA 2010
Barriers ranked in the top 10 by SMEs only, this is for number 5, 8, 9, 10 which is not being ranked by policy-makers.

Barriers ranked in the top 10 by policy-makers only for number 7, 8, 9, 10 which is not being ranked by SMEs.
Government and the private sector can play a bigger role in facilitating the internationalisation of SMEs

**Pre-Internationalisation**
1) Foreign Market Knowledge
   - Identify market constraints and opportunities abroad
2) Human capital
   - Key individual’s experiential knowledge in international business and operation abroad
3) Managerial knowledge
   - Understand the differences in social, political and legal in abroad

**Internationalisation**
1) Personal Network
   - Develop a worldwide network to identify opportunities in foreign markets
   - Develop foreign market knowledge to identify the speed of firm’s internationalisation
2) Access to resources

**Post-Internationalisation**
1) Firm’s Business Network
   - Domestic customers and partners
   - Foreign customers and partners
2) Technological experiential knowledge resources
   - The ability to continued in internationalisation with ability of innovation
SMEs should be **GLOCAL** to meet world demand

**Think Global, Act Local**

- **Readiness** – SMEs reacts to competitive pressures or threats in performing its business activities internationally
- **Openness** – SMEs ability to think and accept beyond any limitation to go global market
- **Flexibility** - SMEs ability to adjust passively by changing its activities over time to meet local needs
- **Acceptability** – SMEs accept and understand the differences in social, legal and political that vary across the world

SMEs should be GLOCAL to meet world demand.
Malaysia SMEs in Global Market
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In Malaysia, SMEs are important economic agent.

97.3% (645,136) business establishments in the country are SMEs.

SMEs cut across all sectors of the economy:
- 90%: Services
- 5.9%: Manufacturing
- 3%: Construction
- 1%: Agriculture
- 0.1%: Mining & Quarrying

SMEs contribution to the economy:
- 35.9%: GDP
- 65.0%: Employment
- 17.8%: Exports

Source: Department of Statistics Malaysia and SME Corp. Malaysia
Beginning 2014, new SME definition came into effect to take into account changes in the economy:

- **Manufacturing**: Sales turnover \( \leq \text{RM50 mil (USD12 mil)} \) OR full-time employees \( \leq \) 200 workers.
- **Services & other sectors**: Sales turnover \( \leq \text{RM20 mil (USD4.8 mil)} \) OR full-time employees \( \leq \) 75 workers.
- **Locally incorporated** under Companies Act 1965; or
- **Registered** under ROBA (1956) or (LLP) Act 2012; or
- **Registered** under respective authorities in Sabah & Sarawak; or
- **Registered** under respective statutory bodies for professional service providers.

Not public-listed company in main board in Malaysia or other countries

Not a subsidiary of public-listed company in main board in Malaysia or other countries

Not a subsidiary of large firms, MNCs, GLCs and State-owned enterprises.
Malaysia has a comprehensive framework for SME development

- National SME Development Council was set up in 2004
- Chair: Prime Minister of Malaysia
- Members: 13 Ministers, Chief Secretary to Government, Governor of Central Bank & Director General of Economic Planning Unit

Significant progress made…

SME Definition
SME Macro Statistics
Censuses on SMEs
SME Development Framework
SME Corp. as central coordination agency

SME Masterplan
Centralisation of training programme & advisory
Information – Annual Report, SMEIPA, SMEinfo portal
New financial products – microfinance, guarantee
Financial infrastructure – SME Credit Bureau, Small Debt Restructuring Scheme, transformation of DFIs
SME Corp. is the **Central Agency** for SME development

Roles of SME Corp:
- National SME Policy
- Coordination of SME programmes
- Business development and outreach
- Secretariat to NSDC
Strategies & Initiatives under SME Corp Malaysia

- **Ratings, Certifications & Awards**
  (SCORE, MCORE, Enterprise 50, National Mark of Malaysian Brand, 1-InnoCERT)

- **Industrial Linkages & Showcases**
  (Annual SMIDEX Showcase, Annual SME Week, B2B)

- **Building capacity & capability**
  (SME Expert Advisory Panel (SEAP), Skills Upgrading Programme, BAP & E², SME @ University)

- **Access to financing**
  (SME Emergency Fund, Shari’ah Compliant SME Financing Scheme, Commercialisation of Innovation Fund)

- **Access to Information**
  (Sembang Petang, Pocket Talks, Seminars, Forums, Mobile Gallery, Publications, Facebook & Twitter)

- **International Cooperation**
SCORE is a game changer and a start of an internationalisation journey

SME Competitiveness Rating for Enhancement (SCORE):
A tool developed in-house in 2007 for firm level measurement

1. SCORE evaluation

2. Models available:
   - Manufacturing
   - Retail & Distributive Trade
   - Construction
   - ICT
   - Maintenance, Repair & Overhaul
   - Professional Services

3. 3 – 5 stars: Competitive & export-ready companies
   - Financing & assistance to go global
   - Enhanced competitiveness

4. SCORE re-evaluation

3 – 5 stars: Competitive & export-ready companies

0 – 2 stars: Very basic business operation
   - Capacity building
   - Improved performance

SCORE is a game changer and a start of an internationalisation journey
Indicate **targeted assistance** to potential SMEs to become homegrown Champions that will expand globally.

**What is SCORE?**
- A diagnostic tool to rate and enhance competitiveness of SMEs based on their performances and capabilities.
- Developed in August 2007.

**Function**
- Identify strengths and weaknesses for improvements; and
- Facilitate linkages.

**7 Parameters**
- Business Performance
- Financial Capability
- Management Capability
- Production Capability
- Technical capability
- Quality System
- Innovation

**Characteristics**
- 0 – 2★: Very basic business operation
- 3 – 5★: Competitive and export-ready companies

**Collaborators**
- PUNB
- CIDB
- MINDEF
- TPM
- MDEC
- PSDC
- SME Bank
- TM
- MPC
- HDC
- NCIA
- MTIB

**Example of Radar Diagram for 3-Star company**

**Analysis:**
Weak in financial capability

**Assistance:**
Requires training in financial management & improvement in quality management
3 Key elements to the SCORE Process:

01. Evaluation Form
Based on online self assessment or manual submission (rural areas)

02. On-site Visit
A trained SCORE auditor will conduct verification visit

03. Results
SCORE Star Rating as well as its diagnosis & action plans will be sent to the company
Internationalising SMEs in Malaysia...

One way of doing this...

Create globally competitive SME in Malaysia

Increase SME contribution of GDP from 32% to 41% by 2020

...through SME Masterplan (2012-2020)
SME Masterplan to facilitate innovation-led & productivity-driven growth to achieve high income nation

**Vision**
Globally competitive SMEs across all sectors that enhance wealth creation and contribute to the social well-being

**SME Development Framework**

**Goals**
- Increase Business Formation
- Expand number of high growth and innovative firms
- Raise Productivity
- Intensify formalisation

**Focus Areas**
- Innovation & Technology
- Access to Financing
- Human Capital
- Market Access
- Legal & Regulatory Environment
- Infrastructure

**Action Plan**
- Reliable database
- Monitoring & Evaluation
- Effective Coordination
- Effective Business Services

Institutional Support

Image source: SMECORP MALAYSIA
HIP 4: **Going Export (GoEx)** offers customised assistance to new exporters and SMEs venturing into new markets

- **Aimed to address challenges faced by SMEs on new market entry overseas**
- **A customised approach to provide end-to-end facilitation to SME exporters**
- **Target total exports of 25% by 2020** (APEC average: 30% of exports)

**Programme Management Team**

**Preparation & Execution Of Export Sales Plan**
- Customised assistance on steps to export
- Link to expertise
- Link to buyer

**Emerging SME Exporters**

- Required services
  - Partial payment for required services

**Going Export Programme**
Creation of World Class LED/SSL Home Grown Companies
Penetration Into International Market

- Philippines
- Indonesia
- Myanmar
- UAE, Canada
- Thailand, UAE
- Singapore
- Japan
- Australia, New Zealand
- India
- Saudi Arabia
- Brunei

Companies: PPlus Lighting, HAN JDQ, Avialite and Econoon, LED Vision

Penetrated international market. Assistance provided are for Energy Star.
Green LED / SSL Report Card: Sales Performance

Sales Performance (RM mil)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>65.6</td>
</tr>
<tr>
<td>2013</td>
<td>70.1</td>
</tr>
<tr>
<td>2014</td>
<td>88.7</td>
</tr>
<tr>
<td>2015</td>
<td>116.9</td>
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</tbody>
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Continuous Awareness is vital for successful international ventures.

Awareness on export assistance services among SMEs can help them venture into new markets that concern in the following areas:

- Networking and overseas business contacts
- Professional help in managing overseas operations
- Assistance in branding and promotion

MEs should take advantage of Support Programmes provided by the government and private sectors to enhance their capacity and capability to penetrate global market.

Adequate attention to the needs and problems of SMEs will assist ME agencies in the region to measure SME Internationalisation as well as greater SMEs development programmes.
Advantage of Economic Spillover

Economic integration among countries has increased significantly in recent years.

SMEs in the region should take the advantage of Economic Spillover for better direction in the future.

- Trade linkages
- Financial linkages
- Indirect effects

A country’s economic growth is positively influenced by both the growth rate and relative income level of its Trading Partners in which SMEs can achieve economic scale and competitiveness to penetrate regional and global market.

Significantly, the importance of growth spillovers has increased...
the little pieces that make up the big picture, generating wealth of no small measure, the collective strength of our nation’s economy, providing employment, driving demand, creating opportunities.

Being small is more and the more the better, in our interest to see them prosper, I’ve transformed to serve their needs I’ve striving to ensure they succeed.

Es are the building blocks of our nation’s economic growth.