GOVERNMENT POLICY SUPPORT, INTER-FIRM LINKAGES AND
THE SUCCESS OF URBAN SMALL FIRMS IN DEVELOPING COUNTRIES:
A CASE STUDY OF SMALL TEXTILE AND CLOTHING FIRMS
IN KUALA LUMPUR, MALAYSIA

By
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Abstract

Since the early 1970s, the Malaysian government has adopted an export-led industrial strategy within which the promotion of small-scale enterprises is specifically emphasised. The latter reflects the perceived awareness that the economy would become increasingly dependent on external forces with an undesirable impact on the structure of the industrial-base and having unsuitable socio-economic consequences, on the one hand, and the perceived potentiality of small firms to develop in a way that would compensate to some degree, the unbalanced growth of the manufacturing sector, on the other. The government has since incorporated a set of support policies for small firms into successive five-year national development plans and the Industrial Master Plan, with various agencies involved.

The main objectives of this study are, firstly, to attempt to assess how and to what extent the policy supports have reached small firms and have affected the success and development of individual recipient firms. Secondly, an attempt is made to explore the degree and magnitude of inter-firm linkages between small and large firms and their effects on the development of small firms. Thirdly, the study endeavour to identify the organisational attributes (unrelated to support policies and inter-firm linkages) which account for the development of small firms. Fourthly, using a sample of small firms in Kuala Lumpur as a case study, the research considers the wider implications for the different theoretical explanations and policy approaches to small firms (urban) in developing countries. Lastly, it seeks to comprehend the major weaknesses of policy support programmes and propose some possible considerations for reinforcing the existing efforts in promoting the development of small firms in Malaysia.
In order to inquire into the listed objectives, the thesis is divided into ten chapters. The first chapter introduces the study, followed by the second chapter which provides a brief critical review of the main theoretical approaches, namely, 'Dualist', 'Petty Commodity Production' and 'Flexible Specialisation'. Chapter Three outlines the methodological approach of the research, with definition of the variables and indicators as well as the statistical techniques used in the analysis. This is succeeded by a review of the government policy supports in the Fourth Chapter. The results obtained in the analysis of the impacts of various variables on the success and development of small firms are presented in Chapter Five to Chapter Nine. Lastly, the conclusions of the study are presented in Chapter Ten, drawing upon all the previous chapters and also recommending avenues for further research.
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<td>FORIM</td>
<td>Palm Oil Research Institute of Malaysia</td>
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<td>FRIM</td>
<td>Forestry Research Institute of Malaysia</td>
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<td>FTC</td>
<td>Plastic Technology Centre</td>
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<td>FTD</td>
<td>Food Technology Division</td>
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<td>FTZs</td>
<td>Free Trade Zones</td>
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<td>GDP</td>
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<td>IBM</td>
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<td>ICA</td>
<td>Industrial Coordination Act</td>
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<td>IDRC</td>
<td>International Development Research Centre</td>
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<td>IEU</td>
<td>Industrial Extension Unit (at SIRIM)</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<td>IMP</td>
<td>Industrial Master Plan (1986-1995)</td>
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<td>ISI</td>
<td>Import Substitution Industry</td>
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<td>ISIS</td>
<td>Institute of Strategic and International Studies</td>
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<td>ITIs</td>
<td>Institute of Training Institutions</td>
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<td>LMW</td>
<td>Licensed Manufacturing Warehouse</td>
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<td>LDCs</td>
<td>Developing Countries</td>
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<td>MARDI</td>
<td>Malaysian Agricultural Research and Development Institute</td>
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<td>MARA</td>
<td>Majlis Amanah Rakyat (Council of Trust for Indigenous People)</td>
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<td>MEDEC</td>
<td>Malaysian Entrepreneurial Development Centre</td>
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<td>MITI</td>
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<td>Malaysian Knitting Manufacturers Association</td>
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<td>MTMA</td>
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MTUC - Malaysian Trades Union Congress
NEP - New Economic Policy
NERDA - National Entrepreneurial Research Development Association
NIF - New Investment Fund
NPC - National Productivity Centre
PCAs - Principal Custom Areas
PCP - Petty Commodity Production

PTC - Plastic Technology Centre
ROB - Registrar of Business
ROC - Registrar of Companies
SIRIM - Standard and Industrial Research Institute of Malaysia
SEDC - State Economic Development Corporation
SERU - Socio-Economic Research Unit
SLS - Special Loan Schemes
SSED - Small-Scale Enterprise Division (at MITI)
SCX - Sub-contract Exchange Scheme
UDA - Urban Development Authority
UNDP - United Nations Development Programme
UNIDO - United Nations Industrial Development Organisation
UPM - Universiti Pertanian Malaysia
YTCs - Youth Training Centres
WEP - World Employment Programme
CHAPTER ONE

1.0: INTRODUCTION

The interest in pursuing this research study emerged from persistent reports and evidence of contributions that urban small-scale firms make in the process of industrial development of developing countries. The recognition of their roles have been especially emphasised in several vital aspects, including: having more workers per unit of capital leading to employment generation; contributing to more equal income distribution; being a major vehicle for transferring or developing technical know-how; providing impetus for inter-firm linkages to the domestic economy; reducing import requirements and foreign exchange savings, and; inducing indigenously-based and balanced industrial development. The accorded importance given to small firms has indeed resulted in a prominent position being given to these activities in the development agendas of many developing countries. Although there have been many studies conducted on small firms in many countries, less effort has been made to scrutinise the extent to which government policies have had a positive impact on the development of small firms at individual levels.

The particular interest in the development of small firms in Malaysia has grown as rapid industrial development from late 1960s was increasingly linked to the development of the international economy, mainly due to the country’s policy of ‘openness’ in manufacturing and trade activities. As a result, the Malaysian industrial structure has witnessed an export-led orientation. This is viewed as potentially vulnerable since this trend of industrialisation concentrates largely on electronics and electrical goods and semi-conductor industries as well as reliance on multi-national companies (MNCs). The latter are dominated by foreign investors, engaged in enclave-type, capital and import-intensive activities and contribute little to deepening and widening the domestic industrial-base (or industrial-structure). In order to achieve a counter-balancing force which could reduce an imbalance in the domestic industrial-base leading to widening the pattern of manufacturing activity, the promotion and support of small firms has been incorporated as an integral part of the policies of industrial development in Malaysia.

The reflection of this strategy with pronounced emphasis on the role of small firms has found its expression in the ‘New Economic Policy’, five-year national plans (from the
1970s) and the 'Industrial Master Plan'. All of these have since been implemented with a considerable amount of public resources allocated to various support programmes. Nearly thirteen ministries and thirty public agencies were, with varying degree of responsibility, involved in offering a wide range of supports designed to promote the development of small and medium-sized firms. The support programmes covered four areas, including: financial or credit assistance, technical and training assistance, managerial and advisory services, and infrastructure facilities.

The promotion of small firms in Malaysia has paralleled the development of theoretical arguments concerned primarily with the position of small firms in the process of industrial development in developing countries. The critical arguments were largely directed against the dominant school of thought (dualist approach) which perceived small firms as natural units of production, largely autonomous and evolutionary in the sense of 'Rostow's 'stages of development' theory and complementary to larger firms. The approach considers the existing structure of production as a duality of small and large enterprises but hardly recognises the linkages between various scales of production, while advocating a measure of support to small firms in developing countries.

Through critical examination of the dualist approach, there emerged new sets of analysis, broadly labelled the 'Petty Commodity Production' (PCP) approach and very recently the 'Flexible Specialisation' (FS) approach. The former distinguishes various forms of production within the mode of capitalist production as well as forms which are 'remnant' of the pre-capitalist system. The importance of these forms lies in the fact that each has its own internal characteristics and external relation which tend, within given conditions, to reproduce themselves. Therefore, it is argued that the concept of small firms should be clearly defined in relation to various forms of operators within the totality of production before an analysis of their role in overall economic development in a given economic activity can be undertaken. The (PCP) approach considers that the support programmes for small firms should be treated with caution depending on the type of activity and internal characteristics of firms. Predictably, there are analysts who reject the notion of support to small firms for the reason that it may perpetuate the inferior position of small firms and extend exploitative relations with larger firms. Equally there are
scholars who approve supports for selective small firms depending on the nature and importance of activities they are engaged in.

The Flexible Specialisation (FS) is the latest approach in an attempt to study of the position and development of urban small firms in developing countries. This approach is thought to have originally emerged from studies on changes of production system and industrial organisation in the international economy as well as changes in the policies of economic management at the international, national and regional levels. These changes are notably from a dominant mass production (Fordist system -where stable market, factor-cost reductions and economies of scale were key variables which prevailed in the years of post 1945) to a ‘post-fordist’ successor in the later 1980s when more diversified markets, products and production processes (including adaptable workers) where flexibility and innovation in industrial organisation of some advanced countries form the centre idea. In applying its concept on small firms in developing countries, the analysis of changes in industrial organisation at multi-national levels of operation is linked to the historical trajectory of the economic and socio-cultural environment of a given locality (society). The core theoretical breakthrough of this approach is ‘flexible’ meaning ‘possible’, conditions which broadly refer to as technology (multi-purpose machines), firms (inter-firms linkages, collective efficiency and producing a wide-range of products and volume), flexible management adjustments, workers (multi-skilled labour, perform various tasks), institutional and policy conditions in a given location (including geographical proximity). For this approach, there is no steady growth for small firms while the crisis is an integral part of the economic condition and ability to respond to crisis would reflect the ‘drive and energy’ (flexibility) of small firms. The approach considers small firms as integral part of their industrial and socio-cultural environment. Therefore, it has been suggested that generalising the characteristics of policy support, inter-firm linkages, management adjustments etc. and the effects of these conditions on the development prospects of small firms in developing countries should be replaced by the analysis of specific context of economic and socio-cultural environment.

The potentially significant contribution that small firms could make in existing Malaysian industrial development, coupled with comprehensive government policy support
and a substantial amount of public resources to promote the development of small firms, has indeed provided a great stimulus to undertake research exclusively on the positive effects of such policy support on the development of individual small firms. This specific interest is closely correlated to different views at the conceptual level (i.e., 'dualist' or 'liberal neo-classical' approach, 'petty commodity production' (PCP) approach as well as 'flexible specialisation' (FS) approach on the position and prospects of the development of small firms in developing countries in general. Based upon the above mentioned-interests, the study’s fundamental aims have been to investigate and assess empirically the following set of questions:

- how and to what extent has government policy support reached small firms and affected the success and development of individual recipient-firms?
- do any links exist between various scales of production and to what degree and magnitude have such linkages affected the development of small firms?

From the literature review on small firms, attention was also drawn to the fact that there were other factors affecting the development and success of individual small firms, primarily the internal organisation and practices of small firms. Awareness of the existence of other such factors prompted an inquiry with respect to:

- the extent to which internal attributes have influenced the development of small firms?

and

- the relative importance of these attributes, compared with policy support and inter-firm linkages, in terms of their effect on the development of small firms?

In order to investigate the stated questions, field work was conducted in Kuala Lumpur and its satellite town, Petaling Jaya. One particular industry, i.e. the textile and clothing industry was selected for this research on the basis that it comprises a large number of small firms with strong local bases where production technologies tend to be comparably low and accessible (to small operators) and where there is an expanding mass market with ample opportunities for growth. A random sample of small firms, defined statistically, was chosen and a questionnaire form entailing appropriate variables was designed for the selected firms, accompanied by an intensive interview with owner/managers. Similarly, interviews were carried out with the government officials who
were responsible for various schemes intended for the support of small firms. Information collected during the field work was used in conjunction with various official statistics, unpublished reports and research work done by other scholars for strengthening the overall information. The technique of analysis was to provide a detailed description of the internal organisation and attributes of small firms and to attempt to explain the causal relationships of each variable in the success of small firms, while employing a multiple regression analysis technique as a supplementary method.

The study is divided into ten chapters. In order to provide a theoretical background to this study, Chapter Two gives a review of three dominant theoretical approaches used for the study of the development of urban small firms in developing countries, namely 'Dualist', 'Petty Commodity Production' and 'Flexible Specialisation'. In this chapter, the contradictory views on the issues and factors relating to the development of small firms in developing countries between these three different approaches are discussed before the study's conceptual framework is constructed. Moreover, a review of available empirical evidence with respect to these factors (which relate to the development and success of individual small firms) in developing countries is presented before summing up the major issues requiring empirical verification in this research.

The definition of small firms and the major hypotheses of the study are presented in Chapter Three. It describes the methodology and procedures used to survey a sample of small firms in Kuala Lumpur area and its satellite town, Petaling Jaya. Data collected in the survey is supplemented with information concerning the existing government policy support schemes. In addition, secondary data regarding the development of the manufacturing sector as well as small firms in the country complement the basic data base. Chapter Three also explains the criteria used in measuring the success of small firms and statistical techniques for data entry used in the research study.

Chapter Four highlights the existing policy support programmes promoted by the Malaysian government in its commitment to the development of small firms. It serves as a background for the study's observation on types, characteristics, sources (agencies involved) of assistance given or extended to the individual sampled firms. An overview
of the general trend in the development of the manufacturing sector, small firms and small
textile and clothing firms in the country are also presented.

The results of the survey are presented in Chapters 5, 6, 7, 8 and 9. Chapter Five
provides a broad description of the sample as a whole. It includes types of outputs
produced, their locational sites, status of ownership, size and age. The demographic
characteristics of employees (excluding the owner/managers) in the small firms are shown
alongside with their monthly incomes. Similarly, it describes the owner/manager attributes
in the sampled firms with reference to their employment status, age, sex, ethnic
background, educational attainment and their past experiences.

Chapter Six attempts to determine the relationships between each type of existing
support programme and its effect on the success of the sampled firms. It distinguishes
between those which have received at least one support programme and those which have
not benefited at all, so as to evaluate the extent of effectiveness of each type of support
in the success of the two groups of sampled firms. It is, therefore, expected to show the
advantages and weaknesses of existing government policy programmes and to suggest
alternative programmes which might be more effective in their intended purpose.

Chapter Seven explores the nature and extent of inter-firm relationships between
small and large firms in the economy. Particular attention is paid to the validity of the
hypotheses that there are significantly positive relationships between small firms' linkages
with large firms and the degree of success attained by small firms. In this respect, the
degree and multitude of inter-firm linkages will be presented around four issues: i) raw
materials, ii) machinery and/or equipments, iii) products sold, iv) sub-contracting and
putting-out works. Special reference will be made to the implications of the different
theoretical views on the related-issues.

Chapter Eight provides an analysis of the success of the small firms by examining
the personal characteristics of entrepreneurs and their management practices, conducted
on the basis of descriptions of the owner/manager's characteristics revealed in Chapter
Five. Therefore, the employment status of the owners/managers, age, sex, ethnic group,
educational level and experience will be analysed directly in terms of their relationships with the degree of success of their firms. Then the chapter seeks to examine issues relating to management practices. These are: i) regular hours spent, ii) time spent on selected business functions, iii) the use of a regularly written business plan, and iv) products' modification and/or development. Subsequently, the association of these issues with the success of the firms are analysed.

Further enquiry for justifying five other factors potentially affecting the success of the small firms is carried out in Chapter Nine. Thus, the examination of factors such as types of products, locational status, legal status, size and age of the firms and their relationships with the degree of success is discussed. Chapter Nine then gathers the observations of all factors made throughout the study and analyses them in terms of their relative significance, utilising multiple regression analysis.

Finally, some overall conclusions are discussed in Chapter Ten which draws upon the findings and results of all previous chapters and recommends some avenues for further empirical investigation.
CHAPTER TWO

2.0: A REVIEW OF THE THEORETICAL APPROACHES TO THE STUDY OF URBAN SMALL FIRMS IN DEVELOPING COUNTRIES AND FACTORS INFLUENCING THEIR SUCCESS

2.1: Introduction

In the development studies literature, there are three distinct analytical approaches which are concerned explicitly with the position of small-scale firms in developing economies. The theoretical arguments underlying these approaches are marked by differing conceptual frameworks and foci on factors affecting the development prospects of these firms. This chapter provides a review of these three approaches, namely, liberal neo-classical or dualist, petty commodity production (PCP) and flexible specialisation (FS), all of which are espoused to serve as the theoretical background to the research work undertaken for this study.

The main objectives of this chapter are: i) to highlight the three main conceptual approaches and their pivotal arguments in perceiving urban small firms in developing countries, ii) to gather the main issues of these conceptual approaches in relation to factors determining the development prospects of small-scale firms, iii) to consider the most appropriate approach (and/or approaches) which depicts many of these factors, to be used as a tool to formulate the research's conceptual framework, and iv) to further discuss and review the issues and factors affecting the success of small firms within the context of a formulated conceptual framework.

The chapter is divided into eight sections. The next section (2.2) reveals the major arguments and main differences of the three conceptual approaches, i.e. dualism or liberal neo-classical, petty-commodity production and flexible specialisation, regarding factors affecting the success\(^1\) or development prospects of small firms. This is followed by

\(^1\)The words of success, growth, performance and development are frequently and some time synonymously used in the study of small firms. They broadly refer to an increase in either production, sale, turnover, profit, capital, asset, number of employees etc (or a combination of two or a number of these indicators). While a further discussion on the issue will be presented in chapter three, it is relevant to note at this stage that, the success of small firms is measured differently or can be measured in a variety of ways and there has been no consensus on this, (Andersson 1982, Foley 1987 etc.). The criteria used to measure the success of small firms for the purpose of the
formulating a conceptual framework (section 2.3) which recognises 'a priori' issues (i.e. factors influencing success of small firms) discussed in the three different theoretical approaches to be adopted in the research. Sections 2.4, 2.5 and 2.6 elaborate further discussion on the major issues in the context of a formulated framework. Lastly, a summary of the issues and questions in the discussion will be presented.

2.2: The Theoretical Approaches to the Study of Urban Small Firms in Developing Countries

2.2.1: The Dualist Approach and the Urban Small Firms

The term 'dualist' has been used by Moser (1984a and 1984b) to describe the conceptual approach which divides urban economic activity into two separate sectors which in turn have two critical characteristics, i.e. the small-scale sector is seen as evolutionary and independent of their large-scale counterparts, and the inter-linkages between small and large firms are viewed as being benign and beneficial. The term 'dualist' is exclusively used in this research to refer to this body of arguments.

The study of urban economic activities in developing countries within the general framework of the dualist approach which began three decades ago, has generated different coupling-terms regarding the dualist units of production. Among these, to mention a few, are: bazaar-type and a centred firms economy (Geertz 1963), the modern and traditional sector (Todaro 1969), informal-formal sector (ILO 1972), family and non-family enterprises (Friedman and Sullivan 1974), unprotected and protected enterprises (Mazumdar 1976), unorganised and organised activities (Joshi 1976) etc. These various terms broadly refer to small-scale activities on the one hand, and large-scale firms on the other (Schmitz 1982, Moser 1984b). Nonetheless, among those numerous terms employed, the informal-formal sector is the most widely used in the literature of urban small firms as Banerjee, for instance, points out:

"The co-existence of standard western-type employment along with other amorphous kinds of work has been labelled as the formal/informal sector dichotomy and has since been adopted as a general characteristic of the economies of less developed countries" (1981:36).
dichotomy and has since been adopted as a general characteristics of the economies of less developed countries" (1981:36).

Although the originator of the term is Hart (1973:61-89), who used the term 'informal sector' to describe urban workers outside the wage sector, its broad acceptance as a tool in urban analysis is due to the efforts of the ILO (International Labour Organisation) and WEP (World Employment Programme). The term 'informal sector' was developed as a pivotal concept with the various policy-oriented studies set up within the framework of ILO-WEP studies, beginning with the Reports of the Kenya Mission (ILO, 1972). In the years following, the ILO produced a series of reports from intensive studies on a number of countries and cities with special focus on the potential role of small-scale economic activities in relation to employment problems. From the beginning, therefore, the term informal sector was used as an avenue to explain the characteristics of the working population in developing countries in accordance with the general aim of solving the problems of the unemployed and underemployed segments of the urban labour force. In recognising the significance of small enterprises in the development process in Ghana, Hart distinguishes urban employment in two forms, i.e. the 'informal activity' described as an unorganised sector of self-employment which differs from the 'formal' sector - an activity of waged workers, recruited on a permanent and regular basis.

Soon afterwards the ILO Kenya Mission extended the scope of the concept covering the characteristics of activities rather than forms of employment. The study related explicitly to small-scale activities based on several criteria, included the following: 'ease of entry, reliance on indigenous resources, family ownership of enterprises, small-scale operation, labour intensive and adopted technology, skills acquired outside the formal school system, and unregulated and competitive markets' (ILO, 1972:5-6). On the other hand, characteristics of the formal sector were simply stated as the opposite of those identified above (ILO, 1972:6). The absence of a relationship between small and large firms was noted in the ILO report which later recommended recognising or establishing such links for the promotion of small-scale enterprises due to their potentially complementary role.
The report was the most prominent argument depicting the importance of small firms, inspiring a number of independent studies which have taken place in many parts of the three continents (Africa, Asia and Latin America). Despite the ILO emphasising the concept of dualism in terms of the characteristics of small and large enterprises, there have been attempts to apply the term to individuals, households, certain geographical areas, occupational groups (Peattie 1974:102 and Amin 1982:11-13) and certain types of technologies (Schumacher 1973, Dicksom 1974, Gilbert 1982, Widiono 1989, Kaplinksy 1990). Nonetheless, limited links between small and large enterprises has been one of the main attributes of the dualist approach.

In addition, although the ILO’s (1972) definition of small-scale activities is the most significant, there has been no consensus on how to classify small firms in precise terms. It appears that researchers usually adopt their own definition either a priori or interpreting empirical data to determine the dividing points between dichotomous activities of the urban economy (Moser 1982, Richardson 1984). This has resulted in employing numerous criteria which appeared to have equal weight, as for example, Joshi (1980:641) notes as:

"Dichotomisation of urban economic activities into the dual formal-informal framework is strictly speaking justified only when the several dividing lines between large-scale and small-scale, high-productivity and low-productivity, foreign and indigenous, high-wage and low-wage, more or less coincide and also when they mark some discontinuity which does not have to be arbitrarily drawn across a continuum".

This is one of the most significant points on which the early critiques of the dualist approach focused, that is, to define urban economic activities as being small and large-scale enterprises. Faced with the difficulties of developing a sound basis for the dichotomisation of urban productive activities, some researchers proposed triple or even plural divisions (Steel 1976, Bienefeld and Godrey 1975, Standing 1977, Jalloul 1988). Indeed, the definition of small firms from this approach appeared to be problematic and it is difficult to justify a straight-forward conclusion. The division between various activities within small-scale enterprises, particularly between trading activities and productive activities was not sufficiently clarified. Moreover, this approach does not explain the complexity of linkages between various forms of production in urban
economic activity and also does not describe the significance of the socio-economic environment and political forces in a given society in determining the growth or decline of individual small firms.

Having noted these difficulties in dividing the urban economies of LDCs, the several findings regarding the basic concept of this approach may generally be summed up as follows: The first is that the dualist approach depicts urban economic activities as being divided into two separate entities and conceptualises urban small firms as having evolutionary growth and being independent from large firms. This conceptualisation is inevitably linked to an ideological framework of the 'modernisation school'. The second is that although they rarely recognise the existence of relationships between small and large-scale activities, they assume both parties will benefit from this relationship. This assumption finds its best expression in the policy recommendations supporting the small firms which should be fostered, among other, via subcontracting with large firms.

In general, the classification of urban economic activities into two largely homogeneous entities causes severe problems to the conceptual usefulness of the dualist approach and weakens its explanatory and analytical power. In addition, its refusal to recognise the existence of various inter-firm linkages between different sizes and forms of organisation of production and that these linkages may not always be positive, and to underline the importance of the socio-economic environment and political forces in determining growth/decline or transition from one form to another, show the ideological nature of the dualist approach.

2.2.2: Petty Commodity Production (PCP) Approach to the Study of Urban Economic Activities in Developing Countries

After the mid-1970s, the dualist approach received vigorous criticism which resulted in utilising an alternative perspective that evolved within the Marxian-based concept of petty commodity production and its inter-linkages with the capitalist mode of

\[This\ may\ be\ seen\ in\ ILO\ (1972),\ Hart\ (1973),\ Chana\ and\ Morrison\ (1975),\ Sethuraman\ (1977\ and\ 1981)\ etc.\ with\ the\ exception\ of\ Webb\ (1975:48)\ who\ seems\ to\ disagree\ with\ the\ non-existence\ of\ links\ between\ small\ and\ large\ firms.\]
production. The PCP approach distinguished itself from the previous one by its recognition of a multisectorial system of production in the urban economy. It highlights the existence of petty-commodity producers as one form of production within a 'continuum mode', bridging from petty-commodity production to a full capitalist mode of production. While there is the notion of 'bridging' or progress within the (PCP) approach (not dissimilar from a Rostowian conceptualisation), what distinguishes it is the concept of articulation of modes of production within a given economic activity.

In conceptualising small firms as a form of production, Marx's treatment of petty commodity production as a transitional form that emerged in 19th century Europe in a transitional period from feudalism to capitalism received considerable modification in view of the present-day situation in LDCs. It is proliferation rather than dissolution of petty production activities that has been the general pattern (Moser 1982, 1984b). Thus, the "vast majority of small-scale enterprises of the type described in the informal sector fit into the category of petty commodity production" (Moser 1978:1057).

Although both 'form' and/or 'mode' of production are used in explaining economic activities, it has been increasingly accepted that PCP should be regarded as a 'form' of production (see Davies 1979:203 and Scott 1986:31 and also in Gerry 1979, Smith 1986, Basok 1989). This is due to the fact that petty-commodity production exists "at the margin of capitalist mode of production but is nevertheless integrated into it and subordinate to it" (Le Brun and Gerry 1975:20), and that it has never performed as a dominant mode of production as compared to the large-capitalist mode of production.

The earlier explanation of the persistence of non-capitalist forms of production (small firms) in the urban economies of LDCs lies in the basic functions of these firms for the dominant capitalist mode of production. It is claimed that unequal linkages appear to prevail and that capitalist firms benefit from the continuing existence of other forms of productions. The most common mechanism is that small firms are useful in lowering the costs of the reproduction of labour power and/or transferring surplus through various multitudes of linkage, including sub-contracting works (Le Brun and Gerry 1975, Gerry 1979, Gerry and Bickbeck 1981). Therefore, the conservation/dissolution effects of the
capitalist mode of production on other forms of production (small firms) are for the
purpose of reproduction of capitalism. Due to small firms' dependent position, there are
constraints and limitations on their level of capital accumulation and development and in
many respects a loss of autonomy (Gerry 1979). Based upon subordination and their
dependent position, it is argued that policy proposals for small firms will only end up with
the total transfer of benefits to large capitalist enterprises (Leys 1975:117 Breman

Within this approach, not all analysts agree with the above-mentioned position (see
Schmitz 1982, Basok 1989, Scott 1986a and Bernstein 1988). These authors generally
recognise that the analysis of urban small producers needs to be expanded with greater
emphasis being placed on the level of production as against merely a total system of
production and inter-linkages among various enterprises. As Blincow (1986:114) contends,
for instance, an analysis of "petty commodity producers" must concentrate on the specifics
of the domain of production as the essential locus within which the process of
transformation occurs. Friedmann relates this issue to what she calls the "problem of
totality" (1986:119) in which she stresses the mistake of previous writers in assuming that
everything is capitalist in the "capitalist world system" (1986:120).

Besides primarily concentrating on external linkages between multiple levels of
producers, the internal dynamics of small firms, their management practices and
organisation of production are also recognised as important by these analysts. The internal
dynamics are said to have given small firms opportunities to develop and respond to the
linkages with large firms under the constraints of capitalist system, allowing small firms
the possibility of favourable development (Basok 1989:63-64). Besides this shift, deriving
from the petty commodity production approach, its terminology and theoretical framework
has also been drawn upon to explain issues such as class relations, kinship, gender and
ethnicity in the analysis of small firms (see also in Scott 1986b, Isik 1992). In other
words, the internal characteristics of small firms (including personal characteristics and

^This reference entails a change from the argument made by Scott (1979),
previously. See A.M. Scott 1986a 'Introduction: Why rethink Petty
Commodity-Production' in Scott A. (ed.) 'Rethinking Petty Commodity
Production', in Social Analysis Special Issue Series, 20 (December) (pp.3-10).
2.2.3: Flexible Specialisation (FS) Approach to the Study of Urban Small Firms in Developing Countries

From the late 1980s, there has been discussion on the applicability of a new approach known as flexible specialisation (FS) in an attempt to describe the existing position of (urban) small firms in developing countries. The Flexible specialisation approach is thought to have emerged from a wider discussion over the past decades on the changes in industrial organisation and production technology in the international economy, and investment activities of multi-national corporations (MNCs) that have brought about considerable changes in the policies of economic management and production processes at the national and regional levels of many countries, developed and developing countries alike (see for instance Hirst and Zeitlin 1992:70). According to Drakakis-Smith (1987:26-28), these changes result from several circumstances including: rising cost of production in Western Europe and U.S.A not only for wages but also rents and raw material imports too; the availability of cheaper labour resources in the cities of developing countries; the liberalisation of economic activities in some developing countries as a result of the role of international agencies (like the World Bank, UNIDO and ILO) and national governments, to bring employment to inhabitants of these cities and promote their industrial development. From the theoretical perspective, there is a great deal of confusion about how to characterise these changes, especially in the process of industrial production and manufacturing organisation. These have resulted in a number of approaches, among which are: 'regulation theory', 'post-Fordism' and 'flexible specialisation' (detailed discussion of these approaches can be seen in Hirst and Zeitlin 1992:70-115).

The flexible specialisation approach was originally pinpointed by Piore and Sabel (1984) who used this concept to indicate new ways of organising industrial production in specific advanced countries notably in Northeastern Italy (and to some extent Japan), where they allegedly differed from the decline of general Fordist pattern (mass production system) in many other advanced economies. The approach emphasises the change from a dominant mass production system, where stable markets, economies of scale, factor-cost reductions, strict division of labour, the homogeneous market and stability etc exists, to more diversified and ever-changing markets, products and production processes. The main
where they allegedly differed from the decline of general Fordist pattern (mass production system) in many other advanced economies. The approach emphasises the change from a dominant mass production system, where stable markets, economies of scale, factor-cost reductions, strict division of labour, the homogeneous market and stability etc exists, to more diversified and ever-changing markets, products and production processes. The main characteristics of flexible specialisation which differ to that of mass production are summarised in Table 2.1.

Table 2.1: Characteristics of Flexible Specialisation and Mass Production

<table>
<thead>
<tr>
<th>Main Feature</th>
<th>Flexible Specialisation</th>
<th>Mass Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Size of Firm</td>
<td>Scope for small and large</td>
<td>Large only</td>
</tr>
<tr>
<td>ii) Technology</td>
<td>General purpose machinery</td>
<td>Specialised dedicated machinery</td>
</tr>
<tr>
<td>iii) Labour</td>
<td>Broadly trained, multi-skilled and varied tasks</td>
<td>Narrowly trained, fragmented</td>
</tr>
<tr>
<td>iv) Attitude to labour management</td>
<td>Seen as a resource, flat hierarchy, informal</td>
<td>and routinised tasks</td>
</tr>
<tr>
<td>v) Product strategies</td>
<td>Variety, customised, rapid response and innovation</td>
<td>Seen as a cost, hierarchical</td>
</tr>
<tr>
<td>vi) Inter-firm</td>
<td>Close, cooperation and long-term</td>
<td>and formal</td>
</tr>
<tr>
<td>vii) Competitive behaviour</td>
<td>Fast adaptation to change</td>
<td>Standardisation, high volume and</td>
</tr>
<tr>
<td>viii) Institutional framework</td>
<td>Decentralised and local institutions which fuse cooperation and competition</td>
<td>limited range</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Arms-length, short-term and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>adversarial</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Strategy to control market</td>
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<tr>
<td></td>
<td></td>
<td>Centralised national and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>multinational</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Keynesianism</td>
</tr>
</tbody>
</table>


According to Schmitz (1989:12), the existence of the (FS) approach does not stand up as the new "mega theory of capitalist industrial development but the approach stands at a more modest level in advancing the understanding of past and current industrialisation". Besides, this approach attempts to reconstruct a 'historical trajectory of industrial development by identifying empirical forms of 'craft production' throughout the modern period in a given society' and therefore, it 'rejects the notion of linear

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'This article illustrates a new approach from H. Schmitz who was earlier considered as a petty commodity analyst.'

This approach distinguishes itself from the previous two approaches by its wider recognition of flexibility and innovation of production systems (including in time of crisis -'just in time') in a given economic and socio-cultural environment of LDCs. It recognises historically the fact that small firms have not occupied the same inferior position in all countries. Rather, their strength has been affected by the degree of large firm domination, state policies, and differences in the socio-cultural environment (Rasmussen 1992:21). The approach also regards existing small-scale enterprises as being more flexibility and more efficient for a more intensive use of labour instead of scarce capital, as compared to large firms (Schmitz 1989:24). Therefore, essential elements in their survival are exploitation of internal economies of scale and their capacity to adapt to rapidly changing markets (Schmitz 1989:24, Rasmussen, Schmitz and Dijk 1992:4). In this relation, the growth potential of small firms and their resilience during crises depends critically on their efficiency and flexibility to adjust faster to changing circumstances in a specific economic, political and socio-cultural context (Sabel 1986 and Kaplinsky 1991).

The concern with flexibility (including innovation) and efficiency of small firms has extended the conceptual discussion of small firms on a number of crucial and inter-related issues. The most important is that of inter-firm linkages which are regarded as part of the flexibility and efficiency of small firms. The analysis of linkages covers intra- and inter-firm levels implying that enterprises' inter action occurs in clusters among equal

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5 This is despite the fact that the concept of FS has been used in various ways, purposes and has often been confusing (see Lovering 1990:159, Rainnie 1991:353, Harrisson and Kelley 1993:213 etc.). This may be because of its newness in the theoretical debate of small firms.

6 For a detailed analysis of the changes in scale of economies at the product, plant and firm level which show how small firms respond to the changing circumstances, see Kaplinsky (1990 and 1991).
partners (among small firms in an industrial locality/district) and more frequently with input/output suppliers and/or vertical sub-contracting arrangements with large firm counterparts. The most common practice is vertical disintegration which segregates the production functions economically and geographically via the development of a diffused sub-contractors’s net (Sverrisson 1992:32). However, the extent of intra- and inter-firm linkages and the benefits of such links on the development of individual small firms depend upon consumer markets, demand and the specific environments in which small firms operate.

The (FS) approach conceptualises the internal characteristics of small firms in terms of management adjustments in response to changing markets and customer demand in a specific time and locality. The internal adjustments are said to include the ability of the owner/managers of small firms to make more effective use of employees’ or ‘human resources’ in their pursuit of efficiency and flexibility (Hill 1991:397). Overall, three adjustments with respect to the flexibility of owner/managers in small firms are given priority (Harrison and Kelly 1993:213-235). These are: i) functional flexibility, i.e. efforts of owner/managers to redefine work tasks, redeploy resources and reconfigure relationship with suppliers and distributors, ii) wage flexibility, which refers to various efforts by owner/managers to reintroduce greater competition among individual workers, and iii) numerical flexibility, i.e. redesign of jobs to substantiate or substitute part-time, piece-rate, home-workers etc. where necessary. Nonetheless, the features and level of flexibility of internal adjustments very much correlate to ‘socio-cultural dimensions such as the existence of ethnic, religious, kin groups which have a major influence on how business relations develop’ (Rasmussen, Schmitz and Dijk 1992:4), and that eventually effects the development of individual small firms.

The approach also recommends policy support for small firms. In its recognition, the emphasis is given to the existence and effective operation of flexible institutions which

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7Opportunities for small firms (the owner/managers) to utilise the existing ‘surplus labour’ (in many developing countries including unregistered, part-time, piece-rate and unpaid workers) to obtain high labour turnover as compared to wages paid were clearly described by Schmitz (1989:30-34) under labour market conditions in many of these countries.
could provide a supportive environment for specific types of industry in a particular locality (Morris and Lowder 1992:198). Moreover, according to Hirst and Zeitlin (1992:111-112), the institutional route to 'flexible specialisation' is the existence of political, normative and organisational means of creating relationships to foster cooperation and coordination. Two broad ways are foreseen. There are: i) building up strategy, i.e. linking up firms with collaborative institutions to form industrial districts, and seeking to generalise and link such districts so as to form the dynamic core of a national economy, and ii) the strategy of building down, i.e. through reorganisation of major multinational firms into constellations of semi-autonomous sub-units that may cooperate one with another or with other firms in an industrial districts. The question of 'how and to what extent flexible specialisation can be fostered through policies of government or other institutions' is indeed dependent upon the locality where small firms operate (Schmitz 1989:38), and therefore should be analysed in the specific context of sub-industry and country (Rasmussen 1992:21).

As the flexible specialisation approach to the study of small firms in developing countries is being recently developed, some criticisms have been raised. The most important one being argued concerns 'overly flexible and insufficiently specified specialisation' (Sayer 1986:666). Therefore, the concept has been used for different purposes resulting in inconsistencies between different versions (Lovering 1990:159 and Harrison and Kelley 1993:213). In addition, critics also argue that general dichotomies between a mass production system and flexible specialisation are not clear, the changes over-stated, and that they fail to grasp continuities of industrial development in many parts of the world where the mass production system is still expanding (Morris and Lowder 1992:190,200). In some respect, the reality is that the ideal types of FS are united with other forms of industrial organisation in varying degrees (Hirst and Zeitlin 1991). FS is also claimed to be an advocative idea rather than an empirical generalisation and hence, largely hypothetical and difficult to test empirically.

Besides these criticisms, some issues relating to its conceptual underpinnings are indeed relevant to be summarised, especially in its explanation of flexibility and efficiency of industrial organisation. The approach's recognition of both intra- and inter-linkages
between firms has extended the conceptual discussion a step ahead of the previous two approaches presented earlier. The management adjustments on various levels of operation including flexibility towards readily available 'labour surplus' in many parts of LDCs are among the recent advancing theoretical spectrums. The importance of specificity of policy support for small firms with respect to the economic sub-industry and socio-cultural environment is a distinctive feature. However, as this approach is relatively new, many issues raised on these aspects are largely untested.

2.2.4: The Identification of the Major Issues and Formulation of the Conceptual Framework of the Research Study

The discussion has so far concentrated on the main conceptual issues that arise from the three theoretical approaches to the analysis of urban small firms in developing countries. Throughout the review, it is observed that they are distinguished from each other particularly between the dualist approach on one side, and petty commodity production and flexible specialisation on the other, on many essential issues.

The dualist approach distinguishes small-scale activities in terms of a dual-sectoral division. The PCP approach conceptualises small firms as on a continuum mode of production between feudal and capitalist production. This differs from the FS approach which recognises small-scale industry at a more modest level correlating past and current industrialisations in a specific historical trajectory (as a result of industrial development in a given society). The liberal neo-classical approach recognises urban small firms as being evolutionary and independent from large firms, on the one hand, in contrast to the petty commodity and flexible specialisation approaches which embrace small firms as inter-dependent with their large counterparts, on the other. The existence of a relationship between small and large firms is considered by the dualist approach as benign or beneficial and one which should be encouraged. This perception has been questioned by petty commodity approach analysts, as adverse effects on small firms are foreseen. To some extent, however, some analysts in the petty commodity production tend to suggest the relationship between small and large firms is dependent upon specific forms of relationship and types of small firm’s activities. Therefore, despite the fact that a few
petty commodity production analysts express outright objection to policy proposals for the promotion of small firms postulated by the dualist approach, some of them appear to support the proposal depending on the specific types of economic activity (Schmitz 1982, Bromley 1985). Meanwhile, flexible specialisation approach goes a step ahead with respect to the inter-firm linkages emphasising that the degree of linkages and their effects on the development of individual small firms relate exclusively to circumstances in the economic, political and socio-cultural environment. Hence, FS recognises policy support for small firms, but how and to what extent the positive effects of this support depend upon the specific locality.

Having shown different theoretical approaches with respect to the above-mentioned issues in the analysis of urban small firms in developing countries we found that, besides the distinctive conceptual perceptions, these differences are also partially caused by an inadequacy in the analysis of issues relating to the development and success of individual small firms. To illustrate the point, the following issues are considered in turn.

The first major shortcoming relates to policy proposals as a means of promoting urban small firms. The three different conceptual debates are highly hypothetical. Specific characteristics of the policy supports that have reached individual small firms and their possible effects on the development or success of the latter in different parts of developing countries are indeed left largely unexplored (see for instance, World Bank 1978, Sharma 1979, Gibb 1981, Neck 1983, Harper 1984, Richardson 1984, ILO 1986, Manuh 1989). Understanding how and to what extent policy support for small firms in a particular country (as a first initial-step) is crucial towards a wider understanding of the effects of policy on the development of small firms. This is the most crucial reason why this research has given this issue first priority in the analysis. Further reasons and discussion are presented in section 2.4.

The second alleged shortcoming refers to the relationship of urban small firms with other-scales of production. The understanding of the forms and characteristics of inter-firm linkages as well as their real impacts on the development and success of individual small firms is extremely limited (Hill 1985, Pack 1987, Basok 1989, Evcimen, Kaytaz and Cinar
1991, Morris and Lowder 1992). Clearly, benign or favourable effects on the development of small firms postulated by the dualist approach, and exploitation or subordination depicted by many petty commodity analysts have not been supported with sufficient empirical evidence. In addition to the forms and characteristics emphasised by PCP analysts, the specific location of inter-firm linkages and its effects on the development of individual small firms extended by FS scholars have not been substantiated with a clear empirical study. Detailed discussion on this issue is carried out in section 2.5.

The third shortcoming in the analysis of urban small firms in developing countries correlates with the internal qualities, entrepreneurship and management adjustments of the firms (Schmitz 1982, Scott 1986 etc.) Basok for instance, argues that: "... to understand the trajectory of development of small urban enterprises one needs to focus an analysis on internal structures and organisation of production within the context not only of constraints and pressures, but also of opportunities, created by the overall capitalist system" (1989:64). The paramount importance of internal characteristics is particularly emphasised by FS scholars who correlate them to the degree of flexibility in describing managerial adjustments (according to a specific time) in response to the changing markets, including the efforts of managers to redefine work tasks, redeploy resources and reconfigure relationship with suppliers (as just ‘just-in-time’ system of delivery of parts goods etc. -Harrisson and Kelley 1993:214). While these internal and other factors are found to be essential in contributing to the development of individual small firms in many parts of developed countries (see Storey 1983, Foley 1987, Blackburn 1987 etc.), a similar analysis in developing countries is hardly found in the literature. Detailed discussion on the issue is illustrated in section 2.6.

The above-three mentioned issues are highly important and form the core focus of this study. Throughout the review of development literature of small firms in developing countries, this study recognises that there are other inter-related issues raised by analysts from the three approaches, especially those writing about flexible specialisation. These issues include technological innovation, labour conditions and practices, industrial districts etc. Although these issues may be touched as tangentially, they do not form the core focus of the study, as outlined in the previous paragraphs.
be a systematic attempt to bring together the above-mentioned issues from the three different theoretical approaches within a well-defined framework. Specifically, a systematic review of the types of government policy supports, characteristics of inter-firm linkages, attributes of entrepreneurship and management practices as well as the effects of each of these factors on the development and success of individual small firms cannot be found in the literature, despite its importance in providing empirical underpinnings for theoretical questions and vice-versa. This gap is particularly evident for urban small firms in developing countries. In order to bridge and overcome this 'vacuum' in our understanding, the present research seeks to provide an analysis of small firms through an empirical assessment of factors contributing to the development or success of the small firms in Kuala Lumpur and its satellite town, Petaling Jaya.

There are a number of differences among the three theoretical approaches in explaining the above-mentioned issues. In the light of the logical concept of inferences, the PC? and FS appear to have a much stronger explanatory and analytical power relating to the issues and factors most relevant to the success and development prospects of urban small firms, but also for their explicit recognition of policy proposal for specific types of small-scale activities by differentiating the forms and nature of small-scale activities in a given economic context (see in the following sections 2.4, 2.5 and 2.6). This recognition is important for the research, which investigates small firms in a particular industry among the productive activities in the manufacturing sector, i.e. small textile and clothing firms in a specific locality (i.e. Kuala Lumpur and Petaling Jaya)9.

Moreover, the petty commodity production and flexible specialisation is clear in their perception of inter-dependent relationships between small and large firms. The two contradictory views among the authors of PCP approach regarding the nature of inter-firm

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8Bromley, for instance, emphasises that policy supports for small-scale enterprises should be focused on manufacturing, repair and handcraft activities. See in Bromley 1985, Planning for small enterprises in Third World cities. Pergamon Press: Oxford, New York, Toronto. (pp.149-256). See further discussion in Section 2.3.1

9J. Rasmussen (1992:21), one of the FS analysts for instance, emphasises that a case study of one specific sector served as a more appropriate methodology than a sample survey of a wide range of small enterprises across sectoral boundaries in order to examine inter-firm linkages.
44

linkages, i.e. whether subordinating and exploitative (Breman 1976, Gerry 1979, Scott 1979) or favourable on the development of small firms (Schmitz 1982, Chowdhury 1982, Scott 1986, Basok 1989), are indeed the question of an empirical verification. Similarly, the importance of context-specificity emphasised by FS analysts points to the need for empirical study as these relationships may produce different impacts on the development of small firms in different developing countries. In addition, the two approaches recognise the possibility that the internal dynamics and organisational structure (such as entrepreneurship and management adjustments) may influence the development of urban small firms. While this has been shown elsewhere in developed nations\textsuperscript{10}, the characteristics could be different in LDCs. Nonetheless, it is important at this stage to be neutral as the study is partly about comparing these three main approaches in terms of the appropriateness of their conceptual constituents with respect to the issues investigated. This comparison will be discussed in the analysis chapters.

The above discussion of a conceptual framework may be represented in Figure 2.1, corresponding to the 'priori' foci of the research below. The following sub-sections go into a more detailed argument and evidence of issues presented in this sub-section.

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\textsuperscript{10}see for example Storey 1977 and 1983, MacMalcom 1984, Foley 1987, Blackburn 1987 etc.
2.4: Policy Supports for Urban Small Firms in Developing Countries: Rationale and Practice

The recognition of the significant contribution of urban small firms to national economic development has led to a prominent position of these enterprises in the policy agendas of many developing countries (ILO 1986, UNIDO 1986 1991, ADB 1990). Nonetheless, systematic studies on the particular characteristics of policy supports which have reached individual small firms and their effects on the development of targeted firms have been lacking in the available literature (World Bank 1978, Sharma 1978, Gibb 1981, Neck 1983, Harper 1984, Richardson 1984, Hill 1985). Therefore, contrasting views on the issue at the conceptual levels, as shown in earlier sections, have not been verified and tested by empirical analysis reflecting a serious need for more systematic research.

This section will, therefore, briefly review the nature of different conceptual approaches in relation to policy promotion of small firms. Secondly, the rationale for promoting the development of small firms will be summarised alongside the main policy supports proposed in the available literature. Lastly, a review of the main types of policy programmes in different developing countries is presented. Unfortunately, a review of the effects of such policy supports on success of small firms in these countries could not be undertaken for lack of empirical evidence.

2.4.1: The Conceptual Approaches Underlying Policy Supports for Small Firms

There are indeed compelling arguments in favour of promoting the development of small firms in developing countries, despite the fact that some concern has been expressed about the purpose and implication of policy supports for small firms. Starting with the ILO Kenya reports which recommended policy instruments including consolidating sub-contracting links with large firms, there have been similar optimistic views from a number of authors of the dualist approach (Week 1975, Sethuraman 1978, 1981, Richardson 1984, Sanyal 1988) as well as eclectic analysts (Neck 1977, Sharma 1979, Gibb 1981, Harper 1984, Hill 1985 etc.).

As specific rationales for policy supports for small firms will be presented in the later sub-section, it is relevant to look at the fundamental points put forwards by those
who are against policy intervention and raise concern about special policy supports (Leys 1973, Breman 1976 and Bromley 1978). According to Moser, this group of authors belongs to the radical neo-marxist view. Their main claims may be summarised in three fundamental facets viz. structural issues, cost and nature of small-scale activities.

It is basically held that the policy promotion of small firms may eventually benefit those who are in giant firms, due to the nature of the capitalist system which is reflected in unequal and exploitative relationships with small firms. It is also claimed that assistance is ‘elitist’ and that its effects serve merely to reinforce the ‘dual nature’ of society. A few small businesses are assisted to climb into exploitative roles and those which remain are encouraged to tolerate their conditions of subordination by programmes which marginally alleviate some of the more obvious difficulties but avoid any fundamental change. Society must be radically re-structured and pretence at modernising small activities only serves to delay the inevitable revolution. Most of these arguments correspond with the dependency theories in the social sciences which emerged in 1960s.

Critics also maintain that the cost of supporting special policies for small firms is too high for society to carry, due to small firms’ inefficiency (and/or insufficient operation) and inability to provide goods and services to the mass population. Breman, for example, notes that: "... policies should not be oriented towards maintaining inefficient and small scale activities which make use of retrogressive technology" (1976:87). The vast number of small activities have only added to the difficulties of monitoring and controlling the policy programmes introduced. It is argued that it would be much cheaper to initiate changes and adjust the total production system rather than attempting to target a multiplicity of smaller businesses.

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11She went further to point out: "The debate was seen as between liberal neo-classical evolutionary views that policies can be formulated to bring ‘benefit’ of the development of the poor and the radical neo-marxist views which often lead to the conclusion that only a sharp change can improve the situation*, (1984b:76).

12Breman for instance, points out that "The paradox of the situation is that recommended policy change will inevitably be detrimental to an elite which is responsible for its execution*, (1976:187).
The above criticism, however, does not generally represent the perspective of all authors within the petty-commodity approach. Some of them appear to be in favour of policy support (Harriss 1982, Schmitz 1982, Moser 1984, Bromley 1985\(^{13}\) etc.). They propose the removal of constraints on small firms by allowing credit facilities and reconsidering **government discrimination** against small firms, as described by Schmitz (1982), and the upgrading of **entrepreneurship schemes and technology** postulated by Harriss (1982). In addition, **selection of productive activities** for policy supports such as small handicraft, manufacturing and repair as well as **addressing social-economic inequality** to give priority to the potential recipients of those policy are exclusively suggested by Bromley (1985:249-250).

Therefore, the approach of PCP is considered as one of the most appropriate approaches (to be adopted) since greater emphasis is given to economic efficiency and wider social equality as "... small enterprises are very numerous and that they tend to be geographically dispersed, divided between a wide variety of different economic activities and highly heterogenous in terms of the age/sex structure and social composition" (Bromley 1985:250).

It is indeed within the issue of policy support for small firms that the flexible specialisation approach appeared to have a much clearer conceptual explanation. The approach clearly agrees with policy support for small firms, as for instance, Morris and Lowder note that "one aspect emphasised by flexible specialisation literature includes the existence and effective operation of institutions which provide a proper environment for the type of industry" (1992:198). Policy supports, according to this approach however, must be considered within a specific economic and socio-cultural context in a given society (see also in Hirst and Zeitlin 1992:107-115). In this view, cooperation between sympathetic national legal and regulatory framework and particularly effective regional and municipal authorities are among the key elements towards creating a favourable environment for small firms to foster and grow (Spath 1992:8-11). Public resources and services (from policy supports) should identify particular small-scale activities such as

\(^{13}\)This article illustrates a change from the position made by Bromley (1979) previously.
manufacturing and repair which could provide a net benefit to a given society since small-scale enterprises are numerous and many of these firms are less efficient and saturated (see for instance ADB 1990:39).

This realisation of the focus of supports on specific productive-activities could lead to a net increase in employment, more equal income distribution, meeting the production requirements of local market as well as according small firms a critical role in overall industrial economic development. Policy supports, therefore, would have to consider those criteria so that they are addressing not merely the core needs of small firms but essentially the wider interest within the existing society.

2.4.2: The Rationale for Policy Promotions

The arguments in favour of promoting the development of small firms in LDCs are closely related to their potential and actual role as well as their importance in economic development, for which there now exists considerable evidence. These two correlated-issues will be highlighted simultaneously under three elements viz. economic, social and political aspects.

In terms of the economic impact of small firms, employment and income generation are the main reasons advanced. A significant share of employment which in turn provides income, is statistically shown by World Bank reports (1978) and ILO studies (1982) in many different countries. It is noted that small firms account for between 59 and 88 percent of total employment in the manufacturing sectors of developing countries during the period 1967-75 (Andersson 1982). Recently, Little, Mazumdar and Page (1987:300) observed that half of all manufacturing employment in India, Indonesia and many African countries came from small firms.

The significant contribution of small firms to total manufacturing output has also been put forward to argue in favour of policy supports. It was found that in 1980 small firms in Brazil contribute 29.6 percent of the value of production in the manufacturing sector. In Indonesia and Sierra Leone, the corresponding figures were 20 and 44 percent in 1974/75 (ILO 1986:8). There are other economic reasons. According to Soon (1983),
in some newly industrialised countries like Singapore, Taiwan and Korea, an important role of small firms is to support the large local and multinational companies.

Under social considerations, income re-distribution, greater use of local products for local needs, rectification of regional imbalance, greater job satisfaction for workers and provision of a source of livelihood for particular groups such as youth and refugees are among the reasons put forwards (see for instance, in Harper 1984). All these may lead to a reduction of poverty, unemployment and inequity in the society. With respect to political consideration, basic principles of democracy and social justice are well explained by Bromley (1985:250) who points out that policy support are the government obligation as part of its 'power base'. Detailed elaboration may be also observed in Diawana and Kinga (1977)\textsuperscript{14}.

2.4.3: Specific Assistance Activities for Small Firms in Developing Countries

The policy recommendations of many policy makers and academics of related-disciplines (see in Neck 1977, World Bank 1978, 1982, Sharma 1979, Gibb 1982, Harper 1984, UNIDO 1986, 1991, Levy 1991) may be summarised in the following four broad areas: i) financial or credit assistance, ii) technical and training assistance, iii) extension and advisory services, and iv) infrastructure supports. A brief reference to the support programmes in some developing countries is made under these headings.

2.4.3.1: Financial or Credit Assistance: Lack of finance or access to the resources of organised credit facilities is recognised as a major obstacle to the development of small firms. A common feature of most financial support activities observed in practice and in the literature is credit assistance, which may take the form of low interest rate loans, and/or direct subsidies, and occasionally tax and customs relief. Frequently, a much lower interest rate merely covering bank costs might be adopted or imposed for investment loans: or small firms might be made exempt from paying specific income and other taxes during their first few years of operation.

Another policy typically adopted is to oblige banks to allocate a set minimum

\textsuperscript{14} in P. Neck (1977)
proportion of lending to small firms or otherwise face penalties. This policy follows reluctance on the part of the banks to provide loans to small firms on the grounds of risk and overall profitability. Consequently, in Korea for example, commercial banks operating on a nationwide scale must reserve at least 35 percent of their loanable funds for small businesses while other local banks are obliged to allocate 50 percent (UNIDO, 1986:39).

In the light of the reluctance of banks to lend to small firms, credit guaranteed by government agencies has also been adopted in some countries, for examples the policy of setting up special institutions to provide financial assistance to small firms. In Thailand, the Industrial Finance Corporation of Thailand (IFCT) was established in 1973, to finance small firms purchasing raw materials, new technology or imported technology to process local raw materials into new products. The Small Industry Finance Office (SIFO) in Thailand provides the financial supports at a low interest rate, i.e. 14.5 percent per annum with a repayment period of 5 to 6 years for small manufacturing services and handicrafts. It was recorded that up to 1988, a total of 1,203 loans were approved with a total value of 397.5 million bath (Kanthachai 1990: 17-34). The Industrial Bank of Korea (IBK) is believed to be the main source of credits for small and medium-sized firms in Korea. This is apart from the Korea Credit Guarantee Fund (KCGF) which was established in 1971 extending credit guarantees to commercial banks that provide loans to small firms.

Besides the Bank of Malawi and Grameen Bank which are the main credit sources for Malawian small firms under the special loans up to K2,500.00 and 11 percent interest rate, Malawian Saving and Credit Organisation (MUSCO) is also active (Beza 1989:80). In Philippines much financial aid to small firms is directed through the Cottage Industrial Guarantee and Loan Fund (CIGLF). It is a joint programme of public and private financial institutions, the Ministry of Trade and Industry as well as the National Cottage Industrial Development Authority (NACIDA) with a credit maximum of P100,000. Collateral is required for 50 percent of a loan, the rest being covered by CIGLF guarantee (Conti 1990:81-95). In Sri Lanka, the Credit Guarantee Scheme is issued by the Central Bank that covers 60 percent of the total loans (UNIDO 1986). Indonesian Credit Insurance in Indonesia provides the guarantee and bears the risk resulting from non-repayment of the bank credits supplied to small and medium-sized firms, while the Institute of Cooperative
Credit Guarantees (ICCG) guarantees the credits granted by Bank Rakyat Indonesia to cooperatives and small businesses (ADB 1989).

Credit guarantee apart, special institutions have been set up to provide credit to small firms. These can be found in virtually all the countries referred to above and many others. A typical example is the Gujarat Industrial Investment Corporation (GIIC) in India. A public limited company, its objectives are to promote new entrepreneurs in small firms, to develop non-traditional new industries, and to undertake those functions which existing institutions do not give a chance. Patel (1982) gives details of Technicians Scheme whereby Gujarat Industrial Investment Corporation provides 100 percent finance of project costs of small firms and requires no collateral or third party guarantees. Additionally, the loan attracts the following terms, i) no repayment for the first three years, followed by annual instalments spread several years, and ii) a 50 percent subsidy applies on interest for the first three years.

A significant development with respect to institutions is the increasing interest in and support by the World Bank and its affiliated organisations in Development Finance Companies (DFCs) through which assistance is channelled to small firms (UNIDO 1986, 1991). DFCs may either lend directly or, as is more often the case, provide funds for participating commercial banks for on-lending to small firms. DFCs feature prominently in small firms promotion policy in several countries such as Singapore, Korea, and Thailand.

Financial assistance is also provided by the public banks of several countries specifically to develop and upgrade the technological improvements or R&D in small firms’ operation. For instance, the Industrial Development Bank of India decided to impose 5 percent levy on all technology import payments to create a venture fund. With the involvement of several other main agencies in the country such as Venture Capital Schemes, the Unit Trust of India (UTI), the Industrial Credit and Investment Corporation of India, several objectives are formulated along this line, inter alia, i) assessment of innovative technology, products, processes, markets and services; ii) upgrading of technology through in-house R&D and commercialisation of new domestic technology
(ADB 1989). Several banks/agencies in Indonesia with the help of the Asian Development Bank are also involved in a similar form of arrangement. These agencies include Bank Penbangunan Indonesia (BAPINDO), Regional Development Banks (RDBs) and Indonesian Small and Medium-sized Enterprises Institute (ISMEI) (see ADB, 1989).

A few more programmes could be cited, perhaps the most notable being venture capital. The foregoing typify financing policy and programmes in several countries. For instance, in India the above mentioned institutions also provide venture capital where equity participation is restricted to 49 percent of the invested enterprises’ paid up capital. Small firms are given assistance in the forms of: i) conventional loans, i.e. loans granted under certain predetermined conditions (e.g. interest rate and grace period etc.); ii) developmental loans, i.e. allow profit and risk sharing with the project proponents; and iii) equity investment, i.e. the financial assistance takes the form of a direct subscription to the shares of enterprises undertaking the project (see ADB 1989:199-205). In the Philippines, the Venture Capital Cooperative plays a leading role as the business partner with the small entrepreneur rather than a lender (Yonzon 1990:132-139).

2.4.3.2: Technical and Training Assistance: There are two main support activities which may generally be identified in technical and training assistance. The first is entrepreneurial development training for potential entrepreneurs who desire to establish new and small scale businesses. This support activity usually focuses on the development of a business plan, accessing financial sources, viability of business proportions, company formations and basic management skills. This can be seen in many of the above-mentioned countries. With assistance from United Nations Industrial Development Organisation (UNIDO) and ILO, for instance, the Industrial Services Division was established in Thailand in 1972 to provide management training for potential small entrepreneurs. Meanwhile, the Thailand Management Development and Productivity Centre (TMDPC) is set up to promote small industries by providing continuous technical assistance and conducting seminars to manufacturers on management techniques, inventory control, production planning and control (Kanthachai 1990: 17-29).

The Institute of Small Scale Industries (ISSI) was established in 1966 in the
Philippines to provide technical and training assistance to entrepreneurs, namely on managerial production and marketing aspects of small businesses. Meanwhile the Small Business Advisory Centres (SBAC) provides the technical knowhow for young entrepreneurs. In Myanmar (Burma), 'Small Scale Industrial Development in the Co-operatives Sector' was established in 1972 under the initiative of UNDP (United Nation Development Programme) and ILO to disseminate of their own training facilities and technology upgrading (UNIDO 1986:18).

Other examples of similar institutions include: the Malawian Entrepreneurs Development Institute (MEDI) and Small Enterprise Development Organisation of Malawi (SEDOM) in Malawi; the National Science and Development Board and the Design Centre of the Philippines; the Small and Medium Industry Promotion Corporation (SMIPC) in Korea; the Medium and Small Business Administration, Industrial Technology; and Research Institute of Taiwan and China Textile Research Centre in Taiwan.

The second support activity under the technical and training assistance is technical skill oriented-training technology for engineers and workers. It is provided mainly to improve various aspects of technical production broadly including processing techniques, equipment/tool selections, handling processes and overall technology-manufacturing techniques. Courses of this type of assistance varies from one country to another. For example, the National Institute for Development of Skilled Labour (LIDHL) in Thailand provides training for skill improvement of industrial workers ranging from 6 months to 3 years. The same technical advice to engineers and workers in small firms are also given by the Textile Industry Development Centre (Khanthachai 1990:17-29). A similar example can also be found in India where the Birla Institute of Technology appears to have developed very successful integrated programmes (Patel 1982).

2.4.3.3: Extension and Advisorv Services: Extension and advisory services are normally the follow up assistance provided to entrepreneurs who are already involve in business. While technical training assistance is given to potential entrepreneurs, engineers and workers, extension and advisory services are apparently provided for only the
owner/manager of small-scale activities. Three main types of extension and advisory services may generally be noted under extension and advisory services. The first is management consultancy services. This is given either in seminars or short-courses about professional management in business. The organisation of these activities as found in the literature and in practice differs from one country to another. In Indonesia, the Management of Indonesian Enterprises (P.T. BAHANA), for example, is the only major national institution giving assistance in the field of management, amongst other things, to small firms. This institution is apparently involved in all fields of business activity of the private sector and in management consultancy services of enterprises in which it has an interest.

Small Enterprise Development Organisation (SEDOM) which was established in 1982 plays a crucial role in providing extension and advisory services to potential and existing entrepreneurs in Malawi (Beza 1989:80). In the Philippines, the Institute of Small Scale Industries (ISSI) is again the major government institution whose primary function is to conduct managerial and entrepreneurial consultancy development for small and medium-sized firms. The Institute provides training courses and entrepreneurial development programmes in pursuit of various objectives. Another extension and advisory services is the Small Business Advisory Centre (SBAC) launched in 1975 to provide 'post-loan assistance' in the form of techno-managerial consultancy services to small firms' clients funded by World Bank (UNIDO 1986:17).

The second type of extension and advisory service is courses related to marketing and market research. These courses include knowledge of market opportunities, products' innovation and development, attractive packaging etc. The objectives of these courses are generally to identify target markets and customers, to assess their buying habits, price promotion and distribution strategies. Some countries focus their scope of assistance largely on marketing and market-orientation programmes that encourage small firms to manufacture export-oriented products, such as in Korea and Thailand. They also provide useful information on the various potential domestic as well as overseas markets. Moreover, the promotion of greater linkages, especially vertical integration with the large firms, can be observed. In Thailand, for instance, the marketing outlets are provided by
collecting products from producers throughout the country and displaying them at the Naraiphon Store in Bangkok for local buyers and foreign importers. This centre too promoted sub-contracting and vertical linkages among enterprises in the country especially between small and large firms.

In India, the promotion of linkages is well known as ‘ancillarization’ or development of feeder industries. This activity involves in an abiding relationship between small and large industries where the small industry provides a substantial portion of its production of parts, components, sub-assemblies or services to large firms which use these in the production process or final product. Several state-owned companies in particular, have taken the lead by issuing comprehensive guidelines to small industries units registered as ancillary to such companies. In 1982, a total of 7,068 small firms registered with total value of supplies of Rs, 2,330 million and provided employment to 26,702 workers in several sub-industries including textile (UNIDO 1986:7).

The last type of extension and advisory service is courses related to product quality, quality and design improvement. There are normally several agencies in the above-mentioned countries which provide consultancy services to small firms to upgrade the quality, design of their product and quality control system. In some countries, there is one main institution to carry out a broad range of functions relating to standard testing, registration for quality control, Research and Development and consulting15. In the Philippines, for instance, ISSI is also involved in managerial consultancy so as to enable enterprises to upgrade their financial planning, control procedure, to introduce systematic accounting techniques and upgrading quality and design of products (Yonzon 1990: 132-140). The Naraiphon Store in Thailand also provides assistance in other areas such as product design, available raw material, production technique and other necessary assistance.

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15It can also be a government agency established to provide for the testing of commodities, processes, practises and to encourage establishment of quality control and consultancy services providing for the registration for Certificate Making for Quality Control and regulate its use (see ADB 1991).
2.4.3.4: **Infrastructure Supports:** It has long been recognised that the scattered location of small firms poses a major challenge in efforts to assist them. The extra cost of travel may make the appraisal and supervision of small loans less economic, and individual advisers may spend more time travelling than working with clients. The problem in question may also frustrate attempts to provide assistance with raw materials, marketing outlets and specialised technical services. The setting up of industrial sites is usually combined with special incentives and supportive measures (i.e. provision of industrial premises, common production facilities, guaranteed supply of raw materials and services, sub-contracting arrangement etc.) to locate and develop small industries.

Such recognition has led to the consideration of a cluster of small firms on the sites which are not only more convenient for the promotion agency, but also enables the tenants to benefit from an integrated package of services which would be uneconomic otherwise (UNIDO 1986). The case for industrial estates appear strong both for relocating existing business and for encouraging new businesses to start in clusters. Not surprisingly, the literature abounds with evidence of policy support for small firms in this area such as The Industrial Estate Authority of Thailand and the Jurong Town Corporation (JTC) in Singapore. Two specific industrial estates for small firms were built at Liwonde and Lilongwe by the Ministry of Trade, Industry and Tourist of Malawi in order to promote greater incentive for small producers especially in the manufacturing sector (Beza 1989:80). In the Philippines, the Omnibus Investment Code is the major agency for providing industrial estates nowadays and includes incentives to encourage the location of industries in non-urban centres thereby, proposing to improve regional industrial development.

Finally, a review of literature on the types of support and assistance specifically designed to promote small-scale activities indicates the fact that the notion is widely accepted in the majority of developing countries, though the scope and extent of commitment vary greatly from one country to another. Some countries have embarked upon comprehensive programmes designed to promote the development of small firms as an integral part of national plans. This is particularly true in the case of some countries in Asia. While others have periodically implemented a set of plans patchily designed,
under social/political pressures, to alleviate economic conditions of the poor. This is particularly true in the case of many African countries where economic resources are relatively scarce (Manuh 1989 and Levy 1991). However, a review of the implications of these support programmes on the recipient firms could not be undertaken for the lack of empirical evidence from these countries. A review of government support activities for small firms in Malaysia will be made in Chapter Four and the analysis of their implication will be presented in Chapter Six.

2.5: A Review of Characteristics of Inter-firm Linkages and Development Prospects of Urban Small Firms

The discussion of the theoretical approaches presented so far would be incomplete without an investigation not merely of the degree and multitude of inter-firm linkages between small and large firms, but also of the possible effects of such relationships on the development and success of the individual firms involved. In other words, to what extent have small firms been integrated into the dominant capitalist system of production? The urgency of this enquiry is particularly highlighted for the fact that there is an increasing number of sub-contracting and putting-out works being carried out by small firms in developing countries, particularly in those which have relatively advanced industrial bases (see, for instance, Steel and Tagaki 1983, Hill 1985, Pack 1987 and Evcimen, Kaytaz and Cinar 1991).

This section investigates the nature of the relationships between small and other-scale firms by enquiring: i) whether any links exist among the various scales of industrial activities, and if so, ii) the degree and character of such links, and iii) the possible effects of such links on the success of small firms.

Absence of such relationships with large firms is noted by ILO Kenya reports which later recommend establishing such links for the promotion of small-scale enterprises due to its complementary or potentially complementary role (ILO 1972:5-6). The findings of another survey in Nairobi by Chana and Morrison (1975) tend to corroborate

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\[^{16}\text{see also in Weeks (1975), Sethuraman (1977), Nihan and Jourdain (1978) for this view.}\]
the ILO’s observation. In spite of limited linkage on the supply side, involving the purchase of machinery and materials, none of those interviewed produced outputs for large firms. They then conclude that linkages or ties to large firms and institutions are virtually non-existent (1975:130). Referring to the results on small manufacturing in Kumasi (Ghana), Sethuraman (1977:201) cites that direct linkages with the large firms are surprisingly small. As discussed previously, most of the authors who asserted limited or none-existent links are those from the ‘dualist school’ with the exception of Webb (1975:48), who cites several types of data in support of his argument that small and large firms of the urban economy are closely linked.

On the other hand, there are a number of writers who not only hypothesise the existence of closely-integrated relationships but also claim that the linkage tends to create dependency/exploitation and subordination of small firms to the interests of large firms. Their view can be clearly seen from the following two quotations:

"... these enterprises (small) had to depend, in a way, on the mercy of few large houses controlling modern industry" (Bose 1974:17):

"Petty production in all its forms is highly dependent ... and cannot participate in any other but a dependent and subordinate manner" (Gerry 1977:247).

As noted previously, however, not all analysts akin to the petty commodity production (PCP) approach agree that the nature of relationships are always entirely dependent. The organisational structure, internal qualities and management practices, within the wider context of linkages, often provide opportunities for small firms (Berstein 1986, Gibson and Neocosmos 1986, Basok 1989:64) as well as growth prospects for small inter-dependent relationships, as a result of on-going structural changes induced partly by promotional and protective policies adopted by the government in developing countries. Indeed, a large number of small firms are the direct and indirect results of the expansion of larger firms (see Watanabe 1975, House 1984, Robinson 1985, Dijk 1980, Hill 1985, Evcimen, Kaytaz and Cinar 1991, Morris and Lowder 1992).

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17 This line of thinking will be found in Leys (1973), Bose (1974), Blenefeld (1975), Breman (1976), Senghaas-Knobloch (1977), Moser (1978), Scott (1979), Gerry (1979), Portes (1985).
Inter-firm linkages form one of the fundamental arguments in the flexible specialisation approach. For this approach, the nature, characteristics and the effects of such links with large firms as well as among small firms are dependent upon the specific context of sub-industry, which could either prosper or distract the development of individual small firms depending upon the specific economic and socio-cultural environment (Schmitz 1989 and 1990, Ramussen, Schmitz and Dijk 1992, Wilson 1992 etc.).

In view of the different perceptions on the degree, multitude and nature of relationships which may exist between small and large firms, it is important to identify the mechanism by which the extent of linkages can be quantitatively evaluated and also used in the case-study conducted for this research. The notion of economic linkages is commonly studied with reference to the supply side and demand side in a particular market. On the supply side, the market links between small and large firms are variously shown to exist through purchases of: i) raw materials, and ii) machinery and/or equipment. On the demand side, they relate mainly to: i) final products sold, and ii) intermediate inputs or parts reflected in various forms of sub-contracting and putting-out works.

2.5.1: Raw Materials: In the ILO-Kenya report, reliance on indigenous resources is one of the basic features of small scale producers (ILO:1972:6). Similarly, Weeks (1975:4) claims that small producers used largely local inputs. Reviewing the survey results of ILO-sponsored city studies in several African countries, Sethuraman (1977:346-347) notes the small producer's ability to exploit discarded materials. But, probably in anticipation to opposite views on the issues, he mentions that in Kumasi small manufacturing and repair enterprises depend to a considerable extent on imported raw materials. However, in North-East Salvador, Cavalcanti (1981:145-146) shows that a disproportionate number of small producers obtained raw materials from other small firms noting that 46.6 percent of the small firms depend on one supplier as compared to 36.9 percent of the large firms.

In contrast to the above studies, some researchers point out the small firms heavy dependence on either imported or large domestic industries for raw materials. For example, Bienefled (1975:55) holds the view that the small firms' ability to develop is
limited by, among things, its dependence on large-scale industry for inputs. A similar view is expressed by Davies (1979:98), Harris (1984:143) and Basok (1989:53). At some length, Gerry has investigated the dependency idea of small firms on their larger counterparts for raw materials and equipments or machinery. With respect to raw materials, he sets out to demonstrate the "input dependency of petty producers on large capitalist producers" (Gerry 1979:233). By examining dependence for raw materials, he found that 80 percent of furniture producers, 57 percent of metal producers, 43 percent of tailors in Dakar buy their raw materials from large capitalist enterprises (1979:235).

There are other authors who point out similar notions, emphasising the close link between small and large firms in terms of raw materials used by small firms (see Chowdhury 1982:305, Baykay 1984:170, Wall 1984: 170, Kayz 1991:197). Observations have differed, however, not just in different places but also for different economic activities across developing countries. The contrasted issues relating to raw materials are the three areas of: i) the degree of dependency on large firms for the supply of raw material, ii) the relative proportion of the use of local raw materials, and iii) the possible effects of each of these on the success of the individual small firms involved.

2.5.2: Equipment and Machinery: Similarly, as there exists divergent views on raw materials, opinion is divided as to the nature of ties that exist between the small and large firms on the basis of the former's need for equipment and machinery. On the one hand, Tokman (1978:1066) tends to support the ILO view that use of second-hand machinery is one of the basic traits of the small enterprise. The study of small manufacturing in Brazil conducted by Schmitz (1982) attempts to elaborate this view. If this supposition is the case, it would suggest that there is no direct dependence on large firms for the equipment needs of small firms unless large firms are suppliers of the machinery. In other cases, the use of second-machinery might show some dependency of the small firms on the large firms since it is the latter that in some sense 'controls' the rate at which machinery is replaced or made redundant.

In contrast to the above views, dependence for equipment and machinery appears as one of the major causes for the small firms' dependent relationship with the large firms
in the study by Bromley (1978:1168). To Scott (1979:129), "reliance on the capitalist market for the purchase of means of production" represents one of several forms of small firms' "implicit subordination to large-scale capital". Gerry (1979) provides some data in Dakar on the extent of the small firm's dependence on large firms for equipment and machinery. According to him, sewing machines, spare parts and woodworking machinery are all available through international trade (Gerry 1979:238). He also notes that 58 percent of the metal producers, 54 percent of furniture manufacturers purchase their basic equipment new.

In cotton weaving sub-industry, Chowdhury (1982:238-239) shows that smaller 'handloom' and 'power-loom' units of producers are more closely linked to the local market as compared to the 'mill' producers who imported their equipments and machinery. In Appendix 60, he reveals that 93 percent of the 'mill' loom equipment is imported as compared to less than half of the 'powerloom' equipment, while 'handlooms' are bought 100 percent from local producers. The 'mill' loom and the 'powerloom' equipment/machinery is supplied by large firms while the 'handloom' is supplied by small firms.

The evidence presented above shows clearly that small firms are dependent on large firms for their production needs. A relevant question, which is not part of this study, is to what extent small firms are dependent on the import of machinery and equipments. One may safely venture to guess that a similar degree of dependency exists in other developing countries across sectoral activities. This situation can be partly explained by the lack of viable capital goods industry in developing countries and its crucial role in manufacturing parts to be assembled in either small or large firms. It is the task of this study, as presented in Chapter Seven to enquire as to: i) the degree of dependency on the imported machinery/equipment, ii) the degree of dependency of small firms on large firms producing domestic machinery/equipment, iii) the use of first- or second-hand machinery, and iii) the possible effects of each of those variations on the success of individual small firms.
2.5.3: Outputs Sold: Linkages between small and large firms have also been examined in terms of markets for outputs produced by the former. The ILO-Kenya reports noted that goods and services produced by small producers mainly cater for the poor section of the population, low-income households and other small scale enterprises. Similar arguments are also found in Nihan and Jourdain (1978:711), Sethuraman (1977:202) etc. If this is true, it implies that small firms mainly market their products to individuals and households rather than being dependent upon large firms for 're-marketing' their products.

Studies carried out in some places appear to explain the argument. Moir (1981:117) in his study of Jakarta's small enterprises finds that 87 percent of goods and services are exclusively sold to households and other small firms. In Manila, a large proportion of outputs produced by small enterprises is geared towards individuals, households and other small firms (Jurado 1981:142). It is noted that only 12 percent of the goods produced by small firms are directed to other small firms and large firms (Berlinct, Boyo and Cintra 1981:164).

Evidence elsewhere reveals different results. In the case of small carpet weaving firms in Turkey, it is learnt that large firms are the main buyers (Baykay 1984:170, and Ayata 1984:164). Similar findings are found in India (Harriss 1982:20-21,27), in Kenya (Langdon 1984:158-159,160) and Bangladesh (Chowdhury 1982:260-265).

Various city-studies suggest that urban small firms may either sell their outputs produced direct to households, other small firms or large firms. These variations may depend upon the types of activities in which small firms are engaged. In the studies cited, little effort is made to correlate the possible effects of these various linkages on the success of small firms. For the purpose of this study, therefore, both the characteristics of inter-firm linkages with respect the markets for the outputs of small firms and its possible effects on the success of small firms will be examined.

2.5.4: Sub-contracting and Putting-out works: There is no clear consensus among the (PCP) analysts regarding the effects of sub-contracting arrangements with large firms with respect to whether it would create conditions beneficial to the expansion of linkages and
the success of small firms or not. Their views range from insignificant effects to outright harmful effects, depending on the types of activities.

In 1972, ILO reports lay a great emphasis on the importance of sub-contracting. They suggested that the government should increase its purchase from small producers and make it compulsory that large firms should sub-contract part of their requirement, rather than relying on imports (ILO:229). This prescription is well accepted by many researchers (Week 1975:8-11, Souza and Tokman 1976:364, Senghaas-Knobloch 1977:10, Dijk 1980, House 1984, Robinson 1985:65). The most influential author on the argument of sub-contracting work is Watanabe (1975) who believes that it would have positive developmental effects on the growth of small firms. According to him, sub-contracting "can lessen obstacles to small entrepreneurs setting up an enterprise and can help them, once they are established, to survive... reduces the cost and duration of workers' training... and raises industrial efficiency by making for economical use of capital and labour" (Watanabe 1975:71-72). Although his case study is Japanese small firms, he has equally emphasised that the same advantage would occur to urban small firms in developing countries if greater co-operation through this mechanism is practised.

There is other evidence which tends to support the proposition that small firms with sub-contractual arrangements with large firms have benefited. In a study of Upper Volta, Dijk (1980:39) notes that about 25 small entrepreneurs who had sub-contracting work with large firms were the most successful (success was measured in terms of profit, consumption and number of employees) as compared to other small producers who had no such arrangement with large firms. In addition House (1984:290) acknowledges that the income of small sub-contracted firms in Nairobi are higher as compared to the income of non-subcontracted firms.

One of the major criticisms of the ILO-Kenya reports and its follow up studies is directed against their recommendations to induce sub-contracting in order to promote

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"see in Basok (1989).
small firms. Noting its implications, Elkan (n.d.:10)\textsuperscript{19} warns that when small operators become dependent on large businesses, there is a risk of the former being exploited. Other studies\textsuperscript{20} have tended to agree with this diagnosis, that the prospect of such exploitation appears to be more pronounced. The main thrust of the argument is basically the same: the sale of cheap intermediate products by small producers to a market dominated by a few giant firms enables the latter to derive economic surplus from the exploitation of cheap labour employed by the former. This becomes possible since the small enterprises are forced to operate in a market where the input price is higher and the output price is lower than would be the case in a competitive market.

Emphasising this notion, Gerry puts forward the evidence that only between 2 and 3 percent of those who linked themselves with large firms in Dakar had advanced appreciably (Gerry 1979:238). Meanwhile Schmitz (1982:139) reveals that from the sample of sub-contractors selected from a 1976 register of enterprises in Brazil, only 50 percent were still in business in 1979\textsuperscript{21}. From eight urban small producers who were sub-contracting their operation in Salvador, Basok (1989:51-52) found that they earn neither higher nor lower monthly income than the rest of the small enterprises in his sample, thus, he concludes: "... no clear-cut correlation between sub-contracting and monthly incomes seemed to exist" (1989:53). Similar evidence is found by Evcimen, Kaytaz Cinar in Turkey where their hypothesis that the growth potential of small-scale sub-contracting firms is greater than non-subcontracting firms is not confirmed by the empirical results (1991:145). In addition, small sub-contracting firms in Manila were found to be worse off (Hill 1985:250-255).

On the basis of the sample studies quoted above, there have been different results in different places and sub-activities. Detailed observation, however, illustrate that several

\textsuperscript{19}in Amin (1982:39).

\textsuperscript{20}See Bose (1974), Bienefeld (1975), Breman (1976), Gerry (1979), among others for critical views on sub-contracting.

\textsuperscript{21}However, this evidence seems unreliable since it does not explain how many 'independent' enterprises went out of business in these three years. Neither is it clear what has happened to the sub-contractors who no longer exist, i.e. they may have grown into larger-sized firms or become even smaller-sized firms.
essential questions regarding the issue needs to be resolved. Among these are: i) the proportion of products being sub-contracted, ii) forms of sub-contracting work engaged, i.e. either a specific contract to produce output for large firms only, a specific contract for inputs supply from large firms only, or both, and iii) the possible effect of these identified variations on the success of individual small firms involved.

2.6: A Review of Other Factors Affecting the Success of Urban Small Firms

The studies that have been carried out within both dualist and PCP approaches on the potential development of small firms have either ignored or understated the importance of internal characteristics and organisational qualities of urban small firms. We have already noted that the recognition of the role of small firms have been particularly emphasised by those who were primarily concerned with increasing unemployment and poverty in developing countries. As such small firms are sometime in direct competition with goods and services marketed by large firms. Furthermore, the flexibility and diversity of small firms coupled with possible ability to modify and update their technique of production to the needs of local environments provide them with a formidable resources which could open up new markets or challenge large firms, particularly in low-technology industrial activities. This is very much correlated with the internal dynamism and organisational qualities of small firms.

The petty commodity production approach has suggested other issues such as class relation, kinship, gender, and ethnicity within its explanation of general prospects and development of urban small firms (see Scott 1986a and 1986b). Although it is a general suggestion, it, nevertheless, led to a recognition of factors like "internal structure and organisation of production within the context of constraints" (Basok 1989:64) as possible influential forces behind the development of small firms. This may well be linked to the internal nature such as entrepreneurship and management together with external nature (access to resources and inter-firm relationship) described by Schmitz (1982) as the constraints on the growth of urban small firms (see also in Moser 1984:112-114). Nonetheless, the specific qualities of each of these internal characteristics which may effect the development prospects of small firms has not been addressed at either conceptual or empirical levels.
The management adjustments and its flexibility in response to changing markets including in times of crisis are widely recognised by FS analysts as part of an integral analysis of industrial organisation of in a specific socio-cultural context. The effects of these internal adjustments on the development of individual small firms will vary from one location to another. Although in conceptual term, FS has advanced the theoretical discussion, these issues are largely hypothetical and lack empirical evidence.

As the issues have empirically proven to be essential elsewhere in developed nations, in this section, a brief review of available literature will be made from other sources. Since little information on these internal issues affecting the success of small firms in developing countries is to be found, reference to the literature of small firms in other parts of the world is made.

Effective management is by far the most critical factor identified as important to the success and survival of small firms. Drucker (1974) asserts that small businesses need an organised and a systematic management even more than giant firms. This is because they have relatively little reserves to withstand any major mistake in their operation. Besides they do not have economies of scale and resources to afford a large management team to assist them in their business. Therefore, small business not only needs management, but management of a high quality.

An effective management is often one which meets the needs of the business (Freeman 1952:91). This implies that it must have a total functional coverage. Nonetheless, it is increasingly realised that small business are often constrained by the problem of resources. As a result, many small firms have to 'accord' priority in terms of resource allocation to the more essential needs, leaving those less important ones for future planning. Therefore, small firms have to know their 'priori' requirements in order to be more effective.

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The effectiveness of the management of a business is very much affected by its management personnel. Among the people involved, the owner/manager is the most important. He/she often is the key factor that determines the style of management in the business. He/she also plays the important roles of financing, decision-making, and risk-taking. Thus, the ability of the owner/manager to perform has very important bearings on the success of the business. Some of the qualities that are often attributed to a successful entrepreneur are:

"Confident, perseverance, energetic, ability to take risk, resourceful, creative, high need for achievement, initiative, flexible, responsive to suggestions and criticisms, response positively to challenges, independent, good foresight, dynamic, sociable, versatile, profit-oriented, perceptive, optimistic, etc" (Hornaday 1982:26-27).

However many elements in the quoted attributes are immeasurable and difficult to quantify for empirical analysis. Larsen and Chute (1979:35-44) identify that personal characteristics of the owner/manager and management ability are analysable. These include employment status of the owner/manager, age, educational attainment and experience. The level of education and past experience of the owner/manager were also noted by Cooper (1982) to have some important bearings on the success of small firms. He found that a combination of education and prior industrial experience was associated with greater success. Higher education or experience alone was better than a combination of little education and little experience. Similar findings were obtained by Apibunyopas (1983:104), Mayer and Goldstein. However, Aziz (1981) noted that the number of years of formal education of the owner/manager has no significant association with the success of small business. Meanwhile Robert (1972) concluded that for high technology firms, entrepreneurs with Master's degree were more successful than those with Bachelor or Doctorate degrees. Based upon his findings, there seems to be no significant linear relationship between the level of education of owner/manager and business success.

In terms of experience, most researchers agree that experience is correlated with greater success. This is shown in the studies made by Hoad and Rosko (1964), Mayer and

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\(^{23}\)see in Kene, Sexton and Vesper (1982:200)

\(^{24}\)in Kene, Sexton and Vesper (1982:200)
Goldteir (1961), Roberts (1972), Cooper and Bruns (1977) and Apibunyopas (1983). They generally found that entrepreneurs who have more years of experience, more diversified experience, prior experience as an owner, older age and those who spun off from large organisations tend to correlate with greater success. Moreover, managerial and non-managerial experience in the same industry were found to be equally beneficial to the firm. Other entrepreneurial qualities are: alertness to change, ability to withstand competition and provide vision in operational details, self-discipline and expertise (see Allen 1973:244-247).

Small business have often been advised to plan more extensively (Naumes 1978:90-95). Steiner (1967) argued that small firms should have more formalised planning as they have only small reserves of capital and manpower. They could not afford to have the type of slacks which are commonly reported in large business operation. Therefore, it is important that they are 'conscientious' in considering their future in order to 'circumnavigate' the unexpected hazards which a big company would find less perilous. The above view is also voiced by Drucker (1974) and Golde (1964).

While there is strong support for small firms to have proper planning, several contradictory findings have also emerged. For example, Robinson and Pearce (1983) revealed evidence that small firms without formalised planning performed just as well as their counterparts with formalised planning (Robinson and Pearce 1983:197-206). Moreover, Golde depicted this by acknowledging that planning might not help the owner/manager of small firms to make better decisions because they could not recognise and respond to the relevant changes in the environment. Hence, there is little evidence which indicates that formalised planning is important to small firms. Steiner (1972) further emphasised that the relevance and usefulness of strategic planning to small firms is restricted by their operating methods, managerial limitations and poor information system (see in Salleh 1985:26). The above views and findings are also elaborated and extended by Cohn and Lindberg (1972), Boswell (1973) and Bates and Hally (1982).

^25see in A. Salleh (1985:23)
In short, from a brief review of internal characteristics affecting the success of urban small firms, the following factors may be identified for an empirical analysis. These include the follow personal characteristics of the entrepreneur: ownership status of the owner/manager, age, sex, ethnic group, education and experience. Despite the fact that many issues in managerial practises are amorphous, some are identifiable like hours spent on the business, the range of business functions, the use of business plans and ‘innovativeness’. These issues will be further explained and defined where appropriate in the empirical analysis of Chapter Eight.

2.7: Conclusion

In summing up major issues requiring empirical verification, it is useful to outline the essence out of which grew an initial interest in the study of urban small firms in developing countries. Development experience of the last three decades or so has broadly encouraged many developing countries to strive for a strategy generally known as ‘import-substitution’. One of the main principals for a such development strategy is that it could broadly ensure: i) greater employment opportunities to keep pace with an increase in labour force, ii) more equitable income distribution, iii) adaption of technology (or modernise technology) that is appropriate to resource availability, iv) provision of basic needs for all population.

As such a development strategy was being considered and/or introduced, small-scale activities started to draw greater attention from international agencies (such as ILO and World Bank), national policy makers and academics of several related-disciplines. The initial work was almost exclusively optimistic about small-scale activities (ILO 1972, Week 1975, Sethuraman 1977 and 1982 etc.). Overall, these agencies and early scholars tended to exclusively admit the potential role that small-scale activities could play in realising newly formulated-priorities in the development strategy. The approach was commonly known as ‘dualist’ or ‘liberal neo-classical’ approach. This approach, nevertheless, was severely criticised for its lack of analytical conceptions of various issues directly related to the development of small firms. Therefore, it did not take long for a

*see Singer (1970, 1977) and Haq (1976) for detailed discussion and the context in which dual conception is emerged.*
The emergence of a more critical approach broadly named as petty commodity production (PCP) approach is generally ranging in terms of its perception on the development potential of small firms from outright rejection (Lays 1973, Breman 1976, Gerry 1979) to cautious optimism (Moser 1978, 1982, 1984a and 1984b, Schmitz 1982, De Connick 1982, Scott 1986, Basok 1989). The PCP approach tends to emphasise the continuum nature of productive activities (of urban small firms) having distinct historically determined forms of organisation, occupying a specific position in the capitalist mode of production. The notion of linkages and the relative position of small firms has been the core of the PCP approach and is among the contentions which inspired me to undertake research on some of the hypotheses advanced and hotly debated in this approach. In addition to inter-firm linkages, the internal adjustments of small-scale enterprises with respect to changing demands and markets emphasised by the FS analysts also provided stimulus to this study to include those aspects of internal characteristics of small firms which have not received sufficient attention in the literature of urban small firms in developing countries. It is hoped that this study would deepen our understanding of the position of small firms and help to formulate more effective policies aimed at their promotion.

In this respect, three main issues discussed in relation to development prospects of small firms can be put in a testable form, these include: i) policy supports, ii) inter-firm linkages, and iii) internal characteristics. Under policy supports, four areas may be broadly classified. These are: i) financial and credit assistance, ii) technical and training assistance, iii) extension and advisory services, and iv) infrastructural supports. As the evidence regarding the implications of these supports on the success of recipient small firms in developing countries is not available, therefore, testing empirically the validity of these supports is a major part of this study.

The importance of determining characteristics and degrees of inter-firm linkages affecting the success of small firms was clearly noted in our previous discussion of petty commodity approach. At an initial level, three elements have to be verified. These are:
i) whether there are any links between small and large firms, if so, ii) the degree and character of such links, and iii) possible effects of such relationships to the development of small firms. To determine the validity of development prospects and the success of small firms through inter-firm linkages, four main mechanisms are identified. These include: i) raw materials supply, ii) source of equipments and machinery, iii) market for products sold, iv) possibility of various forms of sub-contracting and putting-out works.

To examine the validity of the internal characteristics of small firms, several issues are suggested including the ownership status, age, sex, ethnic group, educational attainment and experience of the owner/manager, on the one hand, and number of hours spent, business functions carried out, the use of business plan and ‘innovativeness’ on the other. While a summary of the issues discussed in this chapter is also presented in Figure 2.2, the major hypotheses of the study will be presented in Chapter Three and sub-hypotheses will be presented wherever relevant in the respective analytical chapters.
Figure 2.2: A Summary of Issues Being Investigated Under the Study's Conceptual Framework

Government Policy Supports
1) Financial Assistance
2) Training and Technical Assistance
3) Extension and Advisory Services
4) Infrastructural Supports

Inter-Firm Linkages
1) Raw Material Suppliers and Its Origin
2) Machinery and Equipment Sources and Its Origin
3) Products' Buyers
4) Forms of Sub-contracting and Putting-out Works

Internal Factors
1) Status, age, sex, ethnic group, education and experience of the owner/manager
2) Number of hours spent, business functions, business plans and 'innovativeness'
3) Others - products, age and size of firms

The Success of Small Firms
CHAPTER THREE

3.0: RESEARCH METHODOLOGY

3.1: Introduction

The review and discussion put forward in the previous chapter illustrated that the development of small firms is essential to the industrialisation strategy of many developing countries. It was stressed that individual firm growth plays an important role in determining the characteristics and dynamism of any modern economy. It was also emphasised that in order to analyse the development prospects of individual small firms, an understanding of the possible influences of the government support programmes, inter-firm linkages as well as internal characteristics of the latter are of paramount importance. However, knowledge and information on these pivotal aspects in the development of urban small firms in developing countries is lacking.

This research is designed to explore the characteristics of those-stated issues at the level of the individual small establishment. It, therefore, involves the 'building up' of variables or factors from the government support programmes, inter-firm linkages and internal characteristics that possibly influence the development of small firms. Towards this end, it was necessary to obtain a wide-variety of primary data on the related issues and variables of small firms. Thus, a survey questionnaire was carried out from July to December 1991 to provide micro level data that form the core information on the enterprises.

Information on macro level data that are necessary for examining the general types of government support programmes for small firms and the development of manufacturing sector as well as small firms in Malaysia was drawn from secondary sources. These include various government publications on Manufacturing Sector’s Surveys and Censuses of Manufacturing Industries (both are from the Department of Statistics), reports and other published and unpublished materials from various government agencies involved directly and indirectly in the development of small industry as well as reports from non-governmental institutions and individual related-materials on the textile and clothing industry.
With a short note on the overall approach of the research, the detailed specification on both micro and macro data will be expanded in section 3.4 dealing with sampling techniques. Attention is turned now to the sampling procedure for the questionnaire survey that forms the basic information for the empirical analysis of the study. In this respect, the first requisite is to define the small firm for establishing the population of the survey.

3.2: Definition of the Small Firm in Kuala Lumpur

As discussed previously in Chapter 2, the three main theoretical approaches, i.e. liberal neo-classical or dualist, petty commodity production and flexible specialisation are different in their operational definition of small firms. However, what is available serves only a limited purpose when the concern is to define small-scale activities in a form that is appropriate for operationalising empirical analysis.

As a result, there has never been a consensus on what criteria should be applied to define a small-scale enterprise in developing countries despite the fact that there is a proliferation of definitions. One study by the Georgia Institute of Technology, for instance, identified over 55 different definitions in 75 countries (Manuh and Brown 1987). It is noted that most definitions appear to have been governed by the interest of the perceiver, the purpose to be served and the stage of development of the particular environment in which the definition is to be employed (see also in ILO 1986). A general tendency among empirical researchers is, however, to define small firms by a certain size of enterprise which is normally measured by either the number of person employed or the value of paid up capital (and/or fixed assets) or a combination of both. Others use less common methods such as value and/or volume of output, sales, turnover, legal status, capital/labour intensity etc.

The Table 3.1 below summarises empirical definitions adopted by a number of researchers. It is observed that, the cut-off line for defining the small firm is drawn from enterprises employing 5, 10, 20, 40 and 50 workers per unit depending on the coverage of government data collection machinery or policies and regulations governing the economic activities in respective countries. It is also noticed that those of the dualist approach generally tend to define urban economic activity as comprising two independent
activities of small and large firms reflected in the sampling survey of population across economic sectors (see for instance, Fapohunda 1981, Sanchez and Palmeiro 1981, Al-Quader 1985 and Hoffman 1986). In comparison, those adopting the petty commodity production and flexible specialisation approaches have based their survey on one or more specific-branches of economic activity, with emphasis on, among others things, vertical linkages within the total social-economic system that may constrain the growth of small firms. The empirical studies of this particular approach can be observed in De Connick (1980), Aryee (1981), Schmitz (1982), Basok (1989) and more significantly in Eveimen, Kaytar and Cinar (1991), Smyth (1992) and Wilson (1992).

While it is widely recognised that a priori assumptions remain a matter for empirical classification within each specific context (see for example, Moser 1984:2), a prime concern is that the methodological approach adopted often imposes severe constraints on both the collection and interpretation of data. Cross-sectoral surveys as always adopted by the liberal neo-classical approach, for instance, are frequently less able to scrutinise the complex-linked set of factors that relate to the internal and external constraints on the success of small firms, as well as having less accountability of each specific sub-sector. Meanwhile, the specific-branched studies relating to 'the collection of productive units and its relative linkage units', also have the problem of representativeness in referring to small firm's activities as a whole.

Having acknowledged this, it is illustrative at this juncture to explore some existing definitions formulated by different government agencies and researchers in Malaysia before establishing our operational definition for the present research. Indeed, a similar difficulty is felt in considering the definition of small firms in the country. So far, there has not been a formal, legal or clear-cut categorisation of what 'constitutes' the small firm in Malaysia. Various government agencies have adopted different definitions.
Table 3.1: Selected Empirical Approaches to Define the Small Firm in Developing Countries

<table>
<thead>
<tr>
<th>Author/ Researchers</th>
<th>Denoted As</th>
<th>City/Area</th>
<th>Defined As</th>
</tr>
</thead>
<tbody>
<tr>
<td>De Connick 1980</td>
<td>Petty Producer</td>
<td>Uganda</td>
<td>Enterprises had not more than 10 employees</td>
</tr>
<tr>
<td>Aryee 1981</td>
<td>Small Firm</td>
<td>Kumasi</td>
<td>Firms with not more 10 employees</td>
</tr>
<tr>
<td>Berlincn, Boyo and Cintra 1981</td>
<td>Informal Sector</td>
<td>Campinas, Brazil</td>
<td>Two criteria of: i) Enterprises with not more than 10 workers, ii) Amount of paid up capital less than $US50,000</td>
</tr>
<tr>
<td>Fapohunda 1981</td>
<td>Informal Sector</td>
<td>Lagos</td>
<td>Enterprises with not more than 10 employees</td>
</tr>
<tr>
<td>Sanchez &amp; Palmeiro 1981</td>
<td>Informal Sector</td>
<td>Cardoba</td>
<td>Enterprises not more than 5 workers</td>
</tr>
<tr>
<td>Ganesan 1982</td>
<td>Small Firm</td>
<td>Few Cities in Asia</td>
<td>Firm with less than 50 employees</td>
</tr>
<tr>
<td>Schmitz 1982</td>
<td>Small Manufacturing</td>
<td>Brazil</td>
<td>Firms having not more than 20 employees</td>
</tr>
<tr>
<td>Al-Quader 1985</td>
<td>Informal Sector</td>
<td>Dacca</td>
<td>Enterprises with 10 and less workers</td>
</tr>
<tr>
<td>Hoffman 1986</td>
<td>Informal Sector</td>
<td>Fayoun, Egypt</td>
<td>Workshops with fewer than 10 employees and annual turnover of less than $E30,000</td>
</tr>
<tr>
<td>Lyberaki 1986</td>
<td>Small Firm</td>
<td>Brazil</td>
<td>Firms having not more than 50 employees</td>
</tr>
<tr>
<td>Cortes, Berry and Ishaq 1987</td>
<td>Small Industry</td>
<td>Several towns in Columbia</td>
<td>Firm with the number of employees between 5 and 49</td>
</tr>
<tr>
<td>Howard 1987</td>
<td>Small Industry</td>
<td>Urban Sudan</td>
<td>Industry with 10 and less employees</td>
</tr>
<tr>
<td>Basok 1989</td>
<td>Small Producer</td>
<td>Costa Rica</td>
<td>Producers employing not more than 20 workers</td>
</tr>
<tr>
<td>Steel &amp; Webster 1989</td>
<td>Small Firm</td>
<td>A Few African Cities</td>
<td>Firms not exceeding 50 employees</td>
</tr>
<tr>
<td>Eveimen, Kaytar &amp; Cinar 1991</td>
<td>Small Firm</td>
<td>Bursa, Turkey</td>
<td>Less than 50 employees</td>
</tr>
<tr>
<td>Smyth 1992</td>
<td>Small Firm</td>
<td>Tegalwangi, Indonesia</td>
<td>Firms having not more than 20 employees</td>
</tr>
<tr>
<td>Wilson 1992</td>
<td>Small Firm</td>
<td>Santiago-Michoacan, Mexico</td>
<td>Firms employing not more than 40 workers</td>
</tr>
</tbody>
</table>

Note: The empirical approaches to define the small firm can be traced back as early as 1960s, nonetheless, it is sufficient to present a relatively recent ones (from 1980s).
The first to state is the practice of the Ministry of International Trade and Industry (MITI) which is responsible for licensing the manufacturing establishment of the country, has been to define the small firm differently over time. For instance, under its Industrial Coordination Act (ICA) which was introduced in 1975, all new and existing industrial establishments with more than 25 workers and paid up capital of more than M$250,000 were required to apply for a new manufacturing license. In 1985, ICA amended its existing provision to cover establishments with paid up capital of up to M$1 million and a full-time workforce of less than 50 employees. A year later, another amendment was adopted extending its regulation to establishments with paid up capital of M$2.5 million and engaging 75 full-time employees. The purpose of these amendment is understood to allow more small and medium-sized firms to operate without having to register with the ICA, and hence giving them more responsibility for their own survival and market conditions (see MIDA 1990:2).

Meanwhile, the Coordination Council for Development of Small Industry defined a small firm as one that has fixed assets of less than M$250,000. Recently, this Council was transferred to the Ministry of International Trade and Industry\(^27\) and was renamed the Small-Scale Enterprises Division (SSED) which is responsible for coordinating government policies and programmes for promoting the development of ‘small and medium-sized industry’. It has now classified a small firm as having paid up capital not exceeding M$500,000 (Ministry of International Trade and Industry, 1990). Meanwhile, under the Credit Guarantee Corporations (CGC)\(^28\), a small firm is defined as one with having paid up capital that does not exceed M$100,000 for ‘non-bumiputra’\(^29\) enterprises and M$200,000 for a ‘bumiputra’ enterprise. The National Trust of People (MARA)\(^30\) has also used its own definition, classifying all firms with paid up capital less than

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\(^{27}\)1st March 1989, from the Ministry of National and Rural Development.

\(^{28}\)Situated under the Ministry of Finance, responsible for providing credit facilities to many industrial establishments in the country.

\(^{29}\)Non-Bumiputra (non-sons of soil) are not the indigenous people of Malaysia and include mainly Chinese, Indian and others, while Bumiputra (sons of soil) are the indigenous people of Malaysia and include mainly Malays, Kadazans, Ibans and others.

\(^{30}\)MARA is located under Ministry of National and Rural Development that is responsible for promoting bumiputra entrepreneurs.
M$200,000 as being a small firm.

Table 3.2: Previous Approaches to Define a Small Firm in Malaysia

<table>
<thead>
<tr>
<th>Agency/Researcher</th>
<th>Denoted As</th>
<th>Defined As</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chee (1975)</td>
<td>Small Industry</td>
<td>Less than 50 full-time employees</td>
</tr>
<tr>
<td>The Industrial Coordination Act (ICA - 1975)</td>
<td>Small Firm</td>
<td>Firm with less than 25 full-time workers and Paid up capital of less than M$250,000</td>
</tr>
<tr>
<td>ICA (1985)</td>
<td>Small Firm</td>
<td>Less than 50 full-time employees and paid up capital of less than M$1 million</td>
</tr>
<tr>
<td>ICA (1986)</td>
<td>Small Firm</td>
<td>Less than 75 full-time employees and paid up capital of less than M$2.5 million</td>
</tr>
<tr>
<td>Aziz (1981)</td>
<td>Small Business</td>
<td>Less than 50 full-time employees</td>
</tr>
<tr>
<td>The Credit Guarantee Corporation (CGC) (1981)</td>
<td>Small Business</td>
<td>Paid up capital of not more than M$100,000 for 'non-Bumiputra' and M$200,000 for 'Bumiputra'</td>
</tr>
<tr>
<td>Chapman (1982)</td>
<td>Small Firm</td>
<td>Less than 50 full-time employees</td>
</tr>
<tr>
<td>The National Trust of People (MARA - 1984)</td>
<td>Small Firm</td>
<td>Paid up capital of less than M$200,000</td>
</tr>
<tr>
<td>World Bank (1984)</td>
<td>Small-scale Firm</td>
<td>Less than 50 full-time employees</td>
</tr>
<tr>
<td>UNIDO (1986)</td>
<td>Small-scale Firm</td>
<td>Less than 50 full-time employees</td>
</tr>
<tr>
<td>The Small-Scale Enterprises Division (SSED - 1989)</td>
<td>Small-Scale Enterprise</td>
<td>Paid up capital not more than M$500,000</td>
</tr>
<tr>
<td>Salleh (1990 and 1991)</td>
<td>Small Firm</td>
<td>Less than 50 full-time employees</td>
</tr>
</tbody>
</table>

It is indeed widely acknowledged that the different definitions of small industry serve specific purposes for the respective establishments. In three studies conducted
recently in Malaysia by three international agencies, i.e. World Bank (1984:4), United Nations Development Organisation (1986:15-16) and Asian Development Bank (1990:9), they adopted the following definition:

i) Small-scale firms - establishments employing less than 50 workers,
ii) Medium-scale firms - those having between 50 and 199 workers,
iii) Large-scale firms - enterprises having more than 200 employees

Besides, a few other independent researchers have used several other measures to define the small firm in the country. Chee (1975:15-17 and 1985:2-3), in his studies of small industry in the Manufacturing sector, has defined small industry as those employing less than 50 full-time workers. In a study of a specific bumiputra entrepreneur in Johor Bharu, Aziz also proposed a small firm as having less than 50 employees. On the other hand, R. Clapham (1982:2-5) classifies small firms in Malaysia as those having a workforce between 10 and 100 full-time employees. Similar to the definitions adopted by Lim and Aziz, Salleh has categorised small firms as enterprises having less than 50 employees (1990:1 and 1991:2-3). Previous approaches to define small firms in Malaysia can be seen in Table 3.2.

Having observed definitions of small firms in developing countries and taking existing definitions in Malaysia into consideration, the term 'small firm' in this study refers to a textile and clothing establishment that has fixed capital (or fixed assets) of less than M$100,000 and employs less than 50 full-time workers. These two criteria of fixed asset and the number of employees applied in the research are thought to be important in view that small firms may adopt a high-technology and capital intensive mode of production that would result in less capacity for generating employment. Since the research considers employment creation as one of the indicators in measuring success, the combination of the two criteria, i.e. fixed capital (or fixed assets\(^{31}\)) and a maximum number of full-time employees is seen to be the most appropriate definition.

\(^{31}\)Fixed capital or fixed assets in the study refers to tangible assets including: land and building, plant and machinery, fixtures, fittings, tools and equipments assets in course of construction and payments on account for tangible assets (see definition of tangible assets in D. French 1985, Dictionary of Accounting Terms, Corner Publication: London).
In addition, this research study investigates a sector of economic activity, i.e. the textile and clothing industry, and recognises the internal and external constraints of small firms within a sector in monitoring and assessing factors influencing their progress, change and development as the detailed in the conceptual framework described in Chapter Two earlier. Thus, it is different from the dualist approach which does not emphasise the issue of inter-firm linkages and its consequences on the development of small firms.

The selection of one branch of industry, the textile and clothing industry as a single industry, was made on the basis of several reasons corresponding to both the conceptual level as well as practical necessity in the research study's location. At the conceptual level, the research which emphasises the relationships and external constraints of small firms as one of the major issues needs a detailed examination of specific inputs and outputs, the character of each and its effects on small firms. This is best done by exploring a specific-branch of economic activity, as compared to a cross sectoral survey. In this sense the study follows the methodology used by analysts in the petty commodity and flexible specialisation approaches.

At the level of the practical necessity of the research study's location, several reasons can be put forward for selecting to focus on the textile and clothing industry. These correspond to the trend of the development of the manufacturing sector in the country over the past three decades or so. The Malaysian manufacturing sector today is dominated by two main sub-sectors, i.e. electronic and electrical industry, and the textile and clothing industry. From that, the textile and clothing industry ranks second after electronic and electrical industry in terms of both shares of employment and manufacturing exports (the figures about this are presented in Chapter Four). Far more significant than its outstanding position in the Malaysian manufacturing sector is the predominance of 'small' nature of activities within this industry (see for instance, Fong 1986, MIDA 1990, NPC 1991 etc.).

This is different from the electronic and electrical industry. Although it forms the largest proportion of the manufacturing sector in the shares of output, employment and export, it is mainly dominated by large firms and multinational companies. For example,
a survey conducted in 1981 commissioned by MITI under the Industrial Master Plan (IMP) reported that only a negligible percentage, i.e. 0.2 percent of the total establishments have fewer than 100 workers, while more than 77 percent had 500 full-time employees or more. In terms of fixed assets, only 10 percent of the total firms had less than M$1 million\textsuperscript{3}. Therefore, the textile and clothing industry is selected for this research for the fact that it comprises a large number of small firms with strong local bases where production technologies tend to be comparatively low, but with an expanding mass market where there are ample opportunities to grow and expand. The selection of one single industry also has the additional advantage of allowing the research to ‘control out’ other factors such as different ‘products’ and/or ‘market’ which might well be problematic in interpreting the data and might raise statistical deficiencies.

Several reasons are put forward as to why Kuala Lumpur and its satellite town, Petaling Jaya, were chosen as the study area. Firstly, based upon previous records and reports, more small textile and clothing firms are operating in the area as compared to other cities or town in the country (Cheong 1982, Fong 1986, Lim 1988, FMM 1991 etc.). This is clearly significant for a sampling survey. Secondly, most of the small firms’ support service agencies are situated in the Kuala Lumpur metropolitan area, with relatively limited regional branch-networks in other cities/towns (see also ADB 1990). It can, therefore, be expected that small firms in the area would have more access to the policy support services provided. This is essential in view of the focus of the research which is, among others, on the impact of government support programmes. The familiarity of these areas to the researcher who has studied and lived there for quite some time is also, to some extent, important.

3.3: The Major Hypotheses of the Research

The issues and questions discussed in Chapter Two regarding factors affecting the development or success of urban small firms will be examined and tested as the core

\textsuperscript{3}Detailed findings on the report can be seen in F. Fong, C. Lim and A. Mahani 1985, \textit{Electronic sector: Draft final report for Malaysian Industrial Master Plan Study}, Faculty of Economics and Administration, University of Malaya, Kuala Lumpur, (January). General characteristics of electrical sub-industry in Malaysia is also highlighted in V. Kanapathy 1987, \textit{The electrical industry: Status and development}, ISIS: Kuala Lumpur.
focus of this research. In relation to this, it is relevant at this stage to state the major hypotheses of the research before a description of sampling techniques of the research study is presented.

The previous chapter has outlined the major reasons for investigating the types of government support programmes and their implications for the success of recipient firms as the first priority. This research project, therefore, will test the following main hypothesis: "there is a significantly positive relationship between the use of government policy support by small firms and the degree of success they attain".

Inter-firm linkages was also discussed in the previous chapter as one of the main priorities in the research study. The variables under this issue are several. Nonetheless, the second general hypothesis is that: "there is a significantly positive relationship between inter-firm linkages with large firms and the degree of success attained by small firms".

The last major issue under investigation relates to the internal characteristics of small firms and other related-factors. The most critical factor postulated in the available literature relates to the experience of the owner/manager as having a close causal relationship with the success of small firms. Therefore, the hypothesis regarding this variables is that: "there is a significantly positive relationship between the previous experience of the owners/managers of small firms and the degree of success they attain".

In order to verify these major stated-hypotheses as well as other sub-hypotheses that are presented in the respective analytical chapters, it was essential to obtain sufficient and relevant data. The research techniques adopted in this study are described in the following section.

3.4: The Research Technique

Generally, three research techniques are adopted in the study. The first is the structured-interview based on a questionnaire. The structured-interviews are the most significant source of information in the study. The questionnaire used (see Appendix I) was designed to gather specific information on basic features of firms, their
characteristics, types and sources of government policy supports used, the extent of inter-
firm linkages, personal characteristics and practices of entrepreneurs and specific
indicators to measure the success of firms. Demographic characteristics of workers were
also investigated.

The second is the unstructured interview. Several personal interviews were
conducted with selected personalities in small firms and government officials in Kuala
Lumpur and Petaling Jaya. General development, the nature of the operation, ownership
status and characteristics of small textile and clothing firms and the manufacturing sector
in the country were given attention in these interviews. General issues about the
government policy supports in relation to the development of small firms were also
discussed. Information gathered through this research technique was used to clarify and
confirm information gathered from the written sources. Lists of personalities with whom
the unstructured interviews were conducted are presented in Appendix II.

Lastly, the study draws on written sources or secondary data. Selected published
and unpublished reports, articles, technical papers and brochures produced by the
numerous government departments and agencies as well as private organisations were
collected to provide information on the development of the manufacturing sector, small
firms and the textile and clothing industry, and on their roles, function and programme
activities initiated for promoting small firms in the country.

3.5: Sampling Frame

Due to lack of comprehensive information on the number of small textile and
clothing enterprises in the study area, a few preliminary steps were undertaken before the
actual sampling survey could be determined.

At the very beginning a general observation and scanning of various governmental
and non-governmental agencies were made for any records, documents and information
relating to the manufacturing sector, textile and clothing industry as well as small textile
and clothing firms in the country and the study area. This helped to avoid the inclusion
of only registered textile and clothing firms in the sample. In so doing, the existing small
textile and clothing firms were given paramount attention. In particular, the identification of the existing textile and clothing firms in the area of the study was drawn mainly from three sources.

The first was contact with the several government officers from different agencies through which government records were collected. This was very important to get to know which firms have received government support. Throughout this contact, lists of textile and clothing firms that do not receive policy assistance were also identified. Among these agencies were:

i) Department of Statistics (Manufacturing Sector’s Surveys and Census of Industries),
ii) Malaysian Industrial Development Authority (MIDA),
iii) Socio-Economic Research Unit (SERU),
iv) Kuala Lumpur Municipality and Petaling Jaya Municipal Council,
v) Small-scale Enterprises Division (SSED at MIMI),
vii) Registrar of Business (ROB) and Registrar of Companies (ROC),
vii) Institute of Strategic and International Studies (ISIS),
viii) National Productivity Centre (NPC).

Secondly, information on the textile and clothing industry was drawn from non-governmental organisations. Several main bodies were approached and these were:

i) Federation of Malaysian Manufacturers (FMM),
ii) Malaysian Textile Manufacturers’ Association (MTMA),
iii) Malaysian Knitting Manufacturers’ Association (MKMA),
iv) Malaysian Garment Manufacturers’ Association (MGMA),
v) Malaysian Institute of Management (MIM),
v) Malaysian Trades Union Workers (MTUW).

Several textile and clothing firms were also identified through visits to areas in which businesses are most concentrated. Through extensive tours of the cities and with the assistance of experienced residents, several areas of concentration were identified. Among them are: Jalan Kuchai Lama, Jalan Sentul, Jalan Gombak and Jinjang in Kuala Lumpur and areas such as sections 8, 9, 11 and 17 in Petaling Jaya. Some local newspapers in which small firms usually advertise job vacancies were also quite helpful, especially daily local newspapers such as Malays Mail and Metropolitan. All above initiatives were used in order to estimate the total number of establishments in the area.
The experience of compiling the list of textile and clothing firms in the study area was not a simple one. There was hardly any comprehensive source where the list of all textile and clothing firms could be obtained. There was certainly no published list or any compilation lists of small textile firms.

The lists from these various sources were collated and processed to ensure that firms appear only once in the final list. A total of 219 textile and clothing firms were identified in Kuala Lumpur and its satellite town, Petaling Jaya (of which 146 firms were in Kuala Lumpur and the remaining 73 firms were in Petaling Jaya). From 219 firms in our compiled list, 76 of them could not be traced when initial visits to their respective addresses were made. Two likely reasons for explaining these untraceable firms are: firstly that they may have gone out of business (bankruptcies), and secondly they may have moved out from the Kuala Lumpur and Petaling Jaya areas. Informal inquiry with their neighbours (for those who had operated close to other firms or residential areas) seemed to support these two reasons.

Moreover, another 17 firms were well-known as large companies and multinational firms (according to our definition of small firms). They were identified from the lists of approved firms/companies from (MIDA, 1991) and from the ASEAN Textile Directory 1990 (1991). In addition, 29 textile and clothing firms in the study area refused to cooperate or to give interviews. The reason given was that they did not have time and were too busy\(^3\) to give an interview, although several (persuasive) measures were undertaken (see the following section).

Therefore, only 97 textile and clothing firms were interviewed in the preliminary survey. During this survey too, the willingness of the firms to give further cooperation was established. Another 37 firms did not want to give further cooperation and another 9 firms were found to be still too large according to the definition adopted in the research

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\(^3\)Words such as 'time is money', they did not want to waste time etc. were always given. The researcher's impression was that they may be worried about 'trade' secrets being leaked and they may also be worried that the researcher may have been from or related to a government office, in addition to the fact that the individuals in business may genuinely be busy.
study. Eventually, from an initial 97 firms (61 firms in Kuala Lumpur and another 36 firms in Petaling Jaya), 51 firms (or 52.6 percent of the total firms surveyed in the preliminary interviews) were available for an in-depth investigation of various issues relating to the objectives of the research (i.e. a total of 34 firms in Kuala Lumpur and another 17 firms in Petaling Jaya). A pilot survey was undertaken interviewing 5 firms in order to test the appropriateness and timing of the designed questionnaire. Having done this, a revision of the existing questionnaire was accomplished before the actual in-depth investigation was undertaken.

3.5.1: Organisation of the Interviews

Because most the owners/managers of the establishments were Chinese, two Chinese economic (business studies) undergraduates from the University of Malaya who originated from Kuala Lumpur and Petaling Jaya respectively, were employed to assist in conducting interviews. These two interviewers were briefed to ensure that they were sufficiently well versed in the methodology and purposes of the survey. They were also selected for this particular job based on the criteria of self-confidence, clarity of expression and inter-personal presentation. On average, each interview lasted approximately one and a half hours in cases where the interview could be done all at once. Nonetheless, since many respondents did not wish to give that amount of time in one session, several visits had to be organised to the same firm.

Interviewees were designated to be the owner/manager. However, if the owner/manager was not available either the accountant or supervisor of the firm, as the representative for the owner/manager, was interviewed. In the case of the workforce, in addition to the owner/manager and/or the accountant or supervisor, workers themselves were approached for particular aspects of the survey. In order to ‘build up’ close cooperation with respondents, every effort was made to explain to the respondents that the survey was conducted independently of government agencies and was solely for academic purposes. In addition, the respondents were informed that all information would be kept strictly confidential and this was also written in a precise way in every questionnaire. Every assurance was given that no individual entrepreneurial establishment would be revealed/identified in the final research. Every completed questionnaire was carefully
checked for consistency and completeness before the researcher left the site.

3.5.2: Stages of Data Collection

Corresponding to the sampling frame described in the previous sections, the fieldwork undertaken can be summarised in three main stages of data collection. The first is the collection of secondary resources from various government agencies and a number of independent bodies for general information on the manufacturing sector and textile and clothing industry in particular, including small textile and clothing firms in the country and in the study area.

The second stage was the interviews based on a short close-ended questionnaire directed at 97 firms. This questionnaire comprised brief information mainly on the scale of operation (number of employees, value of fixed assets or fixed capital), legal status of the firm, the year of establishment and whether they receive government policy supports or not. This preliminary survey was important to obtain general information for the following stage of interviews. Their willingness to provide further information for an in-depth survey was also identified.

The final stage was an in-depth open-ended questionnaire for 51 enterprises, entailing two sub-sets: i) a questionnaire for those firms that receive the government policy support programmes (a total of 23 firms), and ii) a questionnaire for the firms that do not receive any government policy support (a total of 28 firms). This questionnaire was basically the same as the previous one, but with additional information on the reasons why they do not receive any assistance and their opinion on what assistance they would like from government to promote the development of small industries (see Appendix I for questionnaire). It is relevant to note at this point that although the research attempted to allocate an equal number of sampling units between small firms which enjoyed government assistance and those who do not, there is a disproportionate number of small firms which do not receive support programmes in the final sample.

In addition, in the last stage of data collection a questionnaire regarding the labour force was also undertaken. This includes their personal characteristics (viz. sex, age,
ethnic group etc.), education, income earned etc. of all 51 firms.

3.6: Criteria Used in Measuring the Success of the Small Firms in the Sample

The available literature does not reflect a single way in which the success of small firms can be measured. Their success, growth, performance, and development are commonly measured using a range of indicators, including an increase in production, sales, turnover, profit, capital, number of employees etc. Ideally, increased production is only beneficial if the goods produced can be sold, from which turnover or profit is accumulated. Likewise, an increase in the number of employees must be matched by an increase in production and sales, otherwise the firms will not be able to finance the retention of new employees.

Having noted this, however, an increase in production and sales do not always create an increase in employment in the firms. Introduction of machinery and new technology will also increase production without generating jobs. Besides, the introduction of new technology can lead to the loss of jobs whilst maintaining or increasing outputs. Therefore, an increase in production of a small firm does not necessarily create jobs (this issue will be clarified later). In this relation, success may be synonymous with combined increases in production, sale, turnover, profit, capital and to some extent number of employees. However, in most cases, the elements of profit, capital and employment are used as indicators of success, either individually (separately) or in combination. Other indicators such as sales, turnover, fixed assets etc. are also adopted, however, less often as compared to the former indicators.

To illustrate the range of empirical definitions of success for small firms in developing countries adopted by earlier researchers, the following are presented. For the small firms in Yaounde, Cameroon, the annual operating profit was used as an indicator for measuring the successful small firms (Andersson 1987). A similar measure was also adopted by Apibunyopas (1983) in his study of the performance of small firms in Thailand. In measuring the growth of small-scale firms in Turkey, Evcimen, Kaytaz and Cinar (1992) used the net profit before tax and paid up capital as the indicators. In a study of small and medium-scale enterprises in Columbia, the ratio of value outputs to the cost
of value inputs and the ability of a firm to maximise output from a given set of inputs were used as the criteria to assess the economic performance of a firm (Cortes, Berry and Ishaq 1987:232-235). Meanwhile, the success of Nigerian small manufacturing firms was measured by Nafziger (1977) in terms of value of sales. Basok (1989) adopted the monthly income of entrepreneurs as a criteria for the success of small Salvadorean urban enterprises in Costa Rica. Dijk (1980) measured the success of small firms in Upper Volta in terms of profit, consumption and number of employees. In addition, both Amin (1982) and Quader (1985) in their studies of small-scale activities in Dacca have adopted the number of employees and capital accumulation as the main criteria/indicators for the success.

Therefore, success may be measured in various ways, both financially and in terms of the number of employment generation. The research study has adopted three indicators to record the success of the small textile and clothing firms in Kuala Lumpur and Petaling Jaya. These are profit, capital and number of full-time employees (see definitions adopted for profit and capital indicators in Appendix III). The indicators are expressed in terms of: i) the change in the annual index (cumulative index) of the net profit before tax, ii) the change in the annual rate of return on paid up capital, and iii) the change in the annual index of the number of full-time employees. These indexes were based upon a five-year period from 1986 to 1990.

The study decided to develop a more balanced measure of indicators using both financial (profit and capital) as well as employment indicators. This correlates to the research’s definition of the small firms formulated in the earlier section which considered both financial as well as employment aspects. The use of the employment indicator as well as profit and capital is also related to two main reasons. Although the introduction of new technology can lead to the loss of jobs (or can take place without creating jobs) whilst maintaining or increasing output, the introduction of high and sophisticated technology is unlikely for small firms in developing countries where labour-intensive mode of production is commonly practised. This is especially so for the small textile and clothing industry in Malaysia (see Chapter Four). Moreover, several studies of small firms conducted in developing countries tend to show a significant relationship between
financial indicators and number of employment creation (Ganesan 1982, Chowdhury 1982, Ayata 1984, Quader 1985, Andersson 1987 etc.).

The second is that in view of the rapid industrial development in Malaysia, there has been a great realisation of the need for the development of small firms as one strand of the policy to support the big companies as well as to reduce unemployment. Employment generation is perceived as a pivotal reason for the government to promote small firms. It is, therefore, clear that small firms’ growth in employment would be regarded as a measure of success of government policies or at least by those involved in the agencies assisting small firms. This is highly relevant to the research as the impact of government supports is a major part of its focuses.

There are two main reasons why a five-year period was used. Firstly, it is felt that there would be more consistency in the data in terms of progress or change of success than a single year. This is particularly desirable when there is evidence which tends to suggest that business failure rates are disproportionately high for the youngest firms. Taking this into consideration, the probability of a firm’s survival after 5 years in operation is far greater and this will provide useful data for the purpose of any inference that we will make relating to the development of small firms in the study. The second reason is related to the reliability and consistency of the available financial information of the sampled firms during this period.

The initial analysis of the correlation matrix between the three indicators of the success of the sampled firms shows that they are highly correlated. It strongly suggests that the three indicators have a close association, implying that an increase in the profit and capital indexes are also likely to be associated with an increase in the number of employment (a full computation of the indicators for a Firm I as an example of the method of calculation and the results of correlation matrix are shown in Tables 6 and 7.

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34For example Ganguly (1985) found that 50 percent of failure occur in the first two and a half years, 33 percent in the next two and a half years and only 17 percent in the following five years. See in D. Storey, K. Keasey, R. Watson and P. Wynarczyk 1987, The Performance of Small Firms, Crooom Helm: London (p.95).
in Appendix III). Despite the fact that the selected-indicators are highly correlated and could be combined into one-single indicator, the use of such a combination of components to provide standardised measures of success may result in problems in finding independent variables which correlate significantly with the measures of success. Moreover, combining them together as one unit may be arbitrary. Equally, a combination of the indicators may also have the effect of reducing the significance at any correlation with independent variables which may 'act' upon each of the indicators individually. Based upon these reasons, it was decided to analyse these indicators individually despite the earlier indications of a close correlation among them.

The next step is, therefore, to consider the degree of success of the small firms in the sample in terms of the three dependent indicators. The research recognises that the available literature on the method of categorising the degree of success of small firms is inconclusive. The arbitrariness of dividing successful categories is inevitable (a review of some existing methods of categorising the degree of success of small firms is presented in Appendix IV). The study rounded off the mean figures to classify the sampled firms as falling into either a less successful or a more successful category of performance. For the profit and capital indicators, the cut off point is that any firm which have an index of less than 10 percent of each indicator (or negative index), is identified as being in the less successful category. Therefore, those who attain a more than 10 percent increment would be classified as being in the more successful category. Meanwhile, for the employment indicator, the border line is that any firm which has an index below 5 percent in increment index, is identified as being in the less successful category and those which have a 5 percent increment or more would be classified as more successful. Detailed explanations as to why a cut off line of 10 percent is applied to the profit and capital indicators and 5 percent for the employment indicator are advanced in Appendix IV. As shown in the Tables 1, 2 and 3 in the Appendix IV, about 37.3 percent and 45.1 percent of the total firms are found to be in the more successful category in terms of profit and capital indicators respectively, while for the employment index the proportion is 31.4 percent.
3.7: Data Entry and Analysis

Given the focus of the study and the various and somewhat inconclusive methods of analysis offered in the literature on statistical analysis, we decided to analyse the data using quantitative techniques with the supplementation of the statistical analysis wherever applicable. For the purposes of the quantitative analysis, each completed questionnaire form was personally edited and then coded for use on Personal Computer with SPSSPC+ (Statistical Package for Social Scientists) facilities at the Computing Consortium, University College London.

A direct association of every quantifiable factor with the level of the sampled firms' success will be analysed using descriptive technique of analysis as the prime method in the study. This is adapted in conjunction with maintaining a high level of detailed causal-explanatory and an indepth exploration of each quantifiable factor that possibly determines the relative success of small firms. In utilising the statistical technique, some clarifications have to be made. Since variables or factors in the research include all three categories of data that are generally classified by social scientists, i.e. nominal, ordinal and interval/ratio data, different techniques of measurements have to be applied. For the nominal variables, Chi-square measurement are usually used. However, there has been a controversial debate on the restriction of Chi-square application for the expected (average) frequency where the cell is small\(^\text{35}\). As almost all of the expected frequencies for the nominal variables in our sample are small (in the absolute number), those nominal variables would not be analysed using Chi-square\(^\text{36}\).

\(^{35}\)There is a considerable debate about this restriction. However, the literature on statistical analysis generally tends to suggest that Chi-Square may not be appropriately used when the expected frequencies are so small. With only two categories (or one degree of freedom), the number of cases expected to fall in these categories should be at least 5 before this test can be applied. With three of more categories (or more than one degree of freedom), chi-square should not be used when any expected frequency is smaller than 5. In SPSS a warning explanation is shown if any of the above situation occurs, (see for instance, A. Byrman and D. Cramer 1990, Quantitative Data Analysis for Social Scientists, Routledge; London and New York, pp.120-124).

\(^36\)This is also due to our attempt to avoid any methodological drawback as much as possible.
For independent variables that are measured on ordinal and interval scales\textsuperscript{37}, their strengths of association with the success of the small firms will be analysed using the Pearson Product Moment Correlation Coefficient (Pearson $r$) with the value at 5 percent significance level (or $p<0.05$)\textsuperscript{38}. This implies that a maximum of five out of one hundred possible samples that could be drawn might appear to yield an association, when in fact there is no association between them.

One possible drawback of using quantitative techniques of analysis would be its inability to systematically control the effects of other variables as well as assess the relative strength of each quantifiable factor. Therefore, in Chapter Nine, a regression model is used to present an explanatory analysis incorporating those independent variables which 'a priori' are expected to have influenced the relative success of the sampled firms' performance. The advantage of this is its ability to measure each independent variable, 'fine turning' the previous analysis. This will involve the use of the stepwise linear regression technique of analysis. Therefore, using the two major techniques of quantitative analysis, it is the research's highest hope that a detailed exploration and explanation would be revealed in assessing the effects of government policy support programmes, inter-firm linkages, internal characteristics of the firms and other possible factors on the development of small firms. The analysis of these issues will be systematically carried out from Chapters Six to Nine.

\textsuperscript{37}There seems to be a trend in the direction of a more liberal treatment of multi-item scales between interval and ordinal variables that do not appear a rule of thumb which allows the analyst to specify when a variable is definitely ordinal and when it is interval. Statisticians like Labovits (1970 and 1971) for instance suggested that all ordinal variables can and should be treated as interval variables (see also in Byrman and Cramer 1990).

\textsuperscript{38}Although there is no consensus on the level of significance (probability) should be employed, many statistical texts suggest that two significant levels of 0.05 and 0.01 (or one in every 20 cases and one in every hundred cases respectively) are the ones most frequently encountered. Since significance level relates to the probability on which the outcomes might be making such a false inference, an appropriate probability level is needed (see Bryman and Cramer 1990 Quantitative Data Analysis for Social Sciences, Routledge; London and New York).
CHAPTER FOUR

4.0: A REVIEW OF THE DEVELOPMENT OF SMALL MANUFACTURING FIRMS AND THE EXISTING POLICY SUPPORT PROGRAMMES FOR SMALL-SCALE ENTERPRISES IN MALAYSIA

4.1: Introduction

The strategic importance of small industries in national economic development is widely recognised in many countries, developed and developing countries alike. As described in Chapter Two previously, small industries' vital contribution to employment opportunities, income distribution, saving mobilisation, and their complementary role in relation to large firms have been perceived by many including planners, policy makers and academic related-disciplines. Malaysia is no exception, where the government through its numerous developmental agencies, gives high priority to small firm development in its national economic development strategy. Recently, with over 85 percent of the total number of industrial establishments and a 60 percent share of the total equity (Salleh and Fichtner 1991:1), small firms have increasingly been recognised as an integral part of the industrialisation process of the country.

The essence of this chapter is, therefore, to review the development of small-scale firms and the existing policy supports for these firms in Malaysia. This review is thought to be essential in the light of the research's focus on the possible effects of these supports on the development of individual small firms as the first priority in the analysis. In this pursuit, the chapter is divided into six major parts. The next part (section 4.2) highlights the general development of manufacturing sector in Malaysia since 1960s. This is followed by a review of the characteristics and development of small manufacturing firms in Malaysia. In section 4.4, a short profile of development of small textile and clothing firms in Malaysia is presented. Section 4.5 summarises the existing policy supports, the main types and sources of assistance for small firms. A summary of the main issues discussed in this chapter will be made in section 4.6.

4.2: A Short Review of the Development of the Manufacturing Sector in Malaysia

Since Independence in 1957, the manufacturing sector has been the fastest growing sector in the Malaysian economy. Evidence shows that the annual average growth of the
sector at 12.6 percent surpassed the average overall economic growth which was 7.7 percent per year during the period of 1970-79 (see for instance Chee 1985). This trend of development has also resulted in an increase in the structural share of the manufacturing sector in the Gross Domestic Product (GDP), the proportion of manufacturing share in the total workforce as well as manufacturing share in the Total Gross Malaysian Exports.

In 1961, the manufacturing sector consisted of only 8.5 percent of the total GDP. This percentage increased to about 19.1 percent in 1980 to 23.9 percent in 1985 and by 1990, the manufacturing sector account for 26.6 percent of GDP. It is reported that in absolute terms, the share of manufacturing in GDP more than tripled between 1965 and 1980, from M$1.1 billion to M$3.8 billion (average rate of 10.9 percent). Its percentage in the total labour force has also risen, from only 9.4 percent in 1960 to 15.8 percent and 19.5 percent of the total workforce in the country in 1980 and 1990 respectively. In the light of the increase in the manufacturing sector’s share to the GDP, the decline of the agricultural share was phenomenal. Table 4.1 presents the change in the composition of GDP and employment by economic sectors over a period from 1975 to 1990.

There are some noticeable patterns in the development of the manufacturing sector over the last decades. During the period between 1963 and 1968, its relative importance in terms of contribution to value-added and employment was not very much changed. The food, rubber and wood products sub-industries maintained their dominant position in terms of their contribution to the manufacturing sector. The basic metals, textile and clothing, electrical and electronics sub-industries grew most rapidly with an annual growth rate of over 30 percent per annum. Most of these increases were attributed to import-substitution and the expansion of the domestic market (see for example Fong 1985).

From 1968 onward, there has been an observable structural change. In 1968, for instance, the major industrial groups were food processing, rubber and wood products, beverages and tobacco manufacturing. Between 1968 and 1974, a large number of new
industries, especially export-orientated ones, were established\footnote{According to Fong (1986: chapter 1), this development is, among others, due to the direct effect of the Investment Incentives Act 1968 that offers a wide range of incentives to investors.}. The major industrial sub-sectors that expanded were the electronic and electrical industry, textile and clothing industry, food-processing and wood-products. On the other hand, domestic-oriented industries such as chemicals, non-metallic products and printing declined sharply over the same period. The development of the Malaysian manufacturing sector, therefore, reflects a shift from import-substitution products to export-oriented goods.

Table 4.1: Composition of the GDP and Employment by Economic Sectors from 1975 to 1990

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GDP</td>
<td>EMP</td>
<td>GDP</td>
<td>EMP</td>
</tr>
<tr>
<td>Primary</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>34.1</td>
<td>51.5</td>
<td>29.6</td>
<td>42.3</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>3.0</td>
<td>2.2</td>
<td>3.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Secondary</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>19.6</td>
<td>13.0</td>
<td>23.8</td>
<td>21.0</td>
</tr>
<tr>
<td>Building and constructing</td>
<td>15.1</td>
<td>10.1</td>
<td>19.1</td>
<td>15.8</td>
</tr>
<tr>
<td>Tertiary</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All (include electricity, gas, water, Transport and communication, Commerce and trade. Private and public services. Defense etc.)</td>
<td>46.1</td>
<td>35.5</td>
<td>46.6</td>
<td>36.7</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Notes: EMP =Employment, GDP =Gross Domestic Product
Sources: Department of Statistics, Manufacturing Sector Surveys and Censuses of Industries; Various Issues, Government Printer: Kuala Lumpur.
In recent years, manufactured goods for export have become increasingly important. Evidence illustrates that the percentage share of manufacturing in the total Gross National Exports has dramatically increased from 15.3 percent in 1970 to 41.8 percent in 1986. By 1989, over half, i.e. 54 percent of the Total National Export constituted manufactured goods (Ministry of Finance, *Annual Economic Reports 1990/1991*:1991). To date, the major manufacturing export are electronics and electrical products, and textile and clothing goods.

During the Fourth (1981-1985) and Fifth Malaysian Plans (1986-1990), the government allocated a considerable proportion of the budget to the development of the manufacturing sector. This sector is expected not only to generate significant employment but also to become a leading sector in the economy and to contribute to substantial savings and secure foreign exchange earnings for the Malaysian economy, (see also in Sixth Malaysia Plan 1991-1995). More importantly, for many reasons, Malaysia’s manufacturing sector is currently regarded as the bridge of a necessary transition, particularly with respect to the role which it plays in the country’s economic development in general. In other words, if in the past, its main contribution was viewed as one of employment creation, it is now being increasingly projected as the principal sector that promotes the country towards greater heights in economic organisation.

4.3: A Review of General Attributes of Small Firms in Malaysia

The significance and characteristics of urban small firms in developing countries in general are well documented. It is also widely recognised that small firms could and should become an essential component of Malaysia’s industrialisation process. The overall situation of the development of small firms has been acknowledged in several previous studies. Stewpanek’s article on the development of small-scale industries in the Federation of Malaya (1960) was probably the first initiative ever conducted. This study contained very limited statistical data since there was no field study carried out. Wong and Schiper’s (1970) is also among the earlier independent studies. However, the research is restricted to the desirability of the consultative approach rather than on the development of small firms. Chee (1978, 1982, 1984 and 1985) has written several encouraging articles on the characteristics and general development of the country’s small industry. However, his
study covered a sample population of only 377 firms across economic sectors throughout the country and may be regarded as under-representative. The detailed situation of small firms in urban area has not yet received special attention.

In addition, the World Bank (1982) and Asian Development Bank (1990) have also been involved in the study of small-scale businesses in Malaysia. Both studies generally concentrated on technological development and the major obstacles facing small enterprises in manufacturing and repairing firms, suggesting the need for changes and the adoption of new policy instruments and institutions. In addition to the above studies, there are also a few other individual studies focusing on small industries but with a limited scope. For instance, Poponoe (1970) and Mahmud (1981), focused on Malay entrepreneurship, while Othman and Aziz’s (1981) study is restricted to small ‘bumiputra’ enterprises in Kuala Lumpur and Johor Bharu.

Having considered these previous studies coupled with information from the Manufacturing Sector Surveys and Census of Industries made available from Department of Statistics, some general characteristics on the development of Malaysian small firms will be presented. Table 4.2 shows the relative percentage share of the number of establishments by size of firms (measured by the number of employees) and the number of employees by size of firms from 1978 to 1988. Table 4.3 illustrates the total value of output and the total value of fixed assets by size of firms over the period of 1978 to 1988.

In 1988, small firms accounted for 58.8 percent of the total manufacturing establishments and 11.7 percent of the total employment. Small firms, while consisting of about 9.8 percent of the total value of output, contributed 6.3 percent of the total value of fixed assets. This data implies that although over a half of the total number of manufacturing firms are small establishments, their percentage share in employment, output and fixed assets are relatively small. Indeed, there exists an inverse relationship between firm’s size and the shares of employment, output, and fixed assets. The figures also indicate a general decline in the relative significance of small firms during the period 1978-1988, in terms of percentage share of establishments, contribution to employment, total value of output and fixed assets, for instance, from 66.3 percent of the total number
of manufacturing establishment in 1978 to 58.8 percent in 1988. In the share of the number of employees, the importance of small firms' contribution had declined about 4.8 percent over the same period, from 16.5 percent to 11.7 percent in 1988. In absolute terms, however, the number of small firms has increased dramatically, from 2,985 in 1978 to 3,901 enterprises in 1988. A similar trend is also observed in terms of the numbers in employed increasing from 60,714 to 80,918 over the same period.

Table 4.2: The Percentage Share of the Number of Establishments and Total Share of Labour force by Employment Size of Firms in Manufacturing Sector from 1978 to 1988

<table>
<thead>
<tr>
<th>Number of Employee</th>
<th>1978</th>
<th>1983</th>
<th>1985</th>
<th>1988</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Est</td>
<td>Emp</td>
<td>Est</td>
<td>Emp</td>
</tr>
<tr>
<td>0 to 49</td>
<td>58.8</td>
<td>11.7</td>
<td>17.2</td>
<td>11.8</td>
</tr>
<tr>
<td>50 to 99</td>
<td>58.8</td>
<td>11.7</td>
<td>17.2</td>
<td>11.8</td>
</tr>
<tr>
<td>100 to 199</td>
<td>58.8</td>
<td>11.7</td>
<td>17.2</td>
<td>11.8</td>
</tr>
<tr>
<td>200 to 499</td>
<td>58.8</td>
<td>11.7</td>
<td>17.2</td>
<td>11.8</td>
</tr>
<tr>
<td>500 or more</td>
<td>58.8</td>
<td>11.7</td>
<td>17.2</td>
<td>11.8</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Notes: Est = Establishment, Emp = Employment

Table 4.3: Percentage Share of the Total Value of Output and Value of Fixed Assets by Employment Size of Firms in Malaysian Manufacturing Sector.

<table>
<thead>
<tr>
<th>Number of Employee</th>
<th>1978</th>
<th>1983</th>
<th>1985</th>
<th>1988</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pro</td>
<td>Ast</td>
<td>Pro</td>
<td>Ast</td>
</tr>
<tr>
<td>0 to 49</td>
<td>9.5</td>
<td>8.5</td>
<td>9.1</td>
<td>7.8</td>
</tr>
<tr>
<td>50 to 99</td>
<td>9.5</td>
<td>8.5</td>
<td>9.1</td>
<td>7.8</td>
</tr>
<tr>
<td>100 to 199</td>
<td>23.7</td>
<td>18.0</td>
<td>24.2</td>
<td>14.8</td>
</tr>
<tr>
<td>200 to 499</td>
<td>23.7</td>
<td>18.0</td>
<td>24.2</td>
<td>14.8</td>
</tr>
<tr>
<td>500 or more</td>
<td>30.1</td>
<td>40.0</td>
<td>32.7</td>
<td>40.5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Notes: Pro = percentage of output, Ast = percentage of fixed assets
Sources: Department of Statistics, Manufacturing Sector Surveys and Censuses of Industries, various issues, Government Printer; Kuala Lumpur.

The large firms have been expanding most rapidly, not only in terms of the number of establishment and employment, but also in terms of value of output and fixed
assets. It is not known whether the decline in the significance of small firms in the manufacturing sector is due to the relatively higher rate of bankruptcy during the period, or to an increase in their numbers employed which has pushed them into cohorts representing larger firms, or merely to the technical coverage of the surveys conducted by the Department of Statistics.

Table 4.4: Labour Productivity (in M$'000) and Capital/Output Ratio (in M$) by Employment Size in the Manufacturing Sector Between 1983 and 1988

<table>
<thead>
<tr>
<th>Number of Workers</th>
<th>1983</th>
<th>1985</th>
<th>1988</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lab</td>
<td>Cap</td>
<td>Lab</td>
</tr>
<tr>
<td>0-49</td>
<td>0.0488</td>
<td>0.3393</td>
<td>0.0529</td>
</tr>
<tr>
<td>50-99</td>
<td>0.0794</td>
<td>0.2871</td>
<td>0.0877</td>
</tr>
<tr>
<td>100-199</td>
<td>0.1078</td>
<td>0.2885</td>
<td>0.1264</td>
</tr>
<tr>
<td>200-499</td>
<td>0.0952</td>
<td>0.3421</td>
<td>0.1104</td>
</tr>
<tr>
<td>500 &amp; more</td>
<td>0.0622</td>
<td>0.2708</td>
<td>0.1041</td>
</tr>
<tr>
<td>Average</td>
<td>0.0600</td>
<td>0.5333</td>
<td>0.0957</td>
</tr>
</tbody>
</table>

Notes: Lab = Labour productivity, Cap = Capital/output Ratio. Source: Department of Statistics, Manufacturing Sector Surveys and Censuses of Industries, various issues; Government Printer; Kuala Lumpur.

What is quite obvious from Table 4.4 above is that the value added per worker has risen in all firm sizes. Over the period 1983 to 1988 for instance, value added per worker in the small establishments had increased from M$48,800 to M$60,800, while the capital/output ratio has increased from M$339,300 to M$591,000 in the same period. Likewise, it is also reported that fixed capital per unit of output and fixed capital per worker had also increased irrespective of firm sizes (except in 1983) (see Industrial Surveys, Department of Statistics 1984 and 1988). These figures also show that the larger the firms, the higher the value added per worker and capital-output ratio relatively.

Prior studies to date show that the characteristics of small-scale and to some extent, medium-sized firms in Malaysia as in many other developing countries -their organisation, marketing orientation and location -are universal in nature. It has been

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*The figures also suggest that the larger the firms' size, the higher the labour and capital productivity.*
documented that small firms in Malaysia are typically family or sole proprietorship businesses, utilising very low levels of capital. In view of this phenomenon, they tend to be more labour intensive, involving simple management and specialisation of labour, being run as one-person or family tied-operations and with a very simple division of labour. These small firms have restricted access to capital, modern technology, and marketing information. These characteristics result in limited expansion and many of them remain sole proprietorship business (see for example, Chee 1988:7-29, Salleh 1991:3-6).

The location of these businesses is spread across the country, in the countryside as well as urban areas. In the case of urban areas, the activities are generally situated not only in the commercial and industrial centres but also in backyard operations and residential areas. A few small firms were said to have located their operations in dedicated industrial sites. They are also reported to produce goods for lower income household, concentrating on domestic products which are locally orientated and are not suitable for export. A very limited number of them are reported to have been exported (Fong, 1986). Small manufacturing firms have also been reported as basically owned by Malaysians, especially Chinese who account for almost 80 percent of the total establishments, illustrating the traditional Chinese dominance in trade, commerce and manufacturing activities (Asian Development Bank 1990:13). Nevertheless, the number of small firms owned by 'Bumiputra' are increasing, notably in the 1980s in several types of economic activities such as handicraft, batik, food processing and furniture production (Aziz 1981 and Othman 1982).

4.4: A Short Profile of the Malaysian Textile and Clothing Industry: Its Development and Main Characteristics

The industry consists of a broad range of activities which may generally be divided into three main sub-activities (Estanislao and Antonio 1980). These include the manufacture of man-made fibre, the manufacture of fabric from natural and man-made fibre, and the manufacture of other textile products such as gloves, ropes, twine, carpets as well as made up garment products and wearing apparel. The man-made fibre is produced from raw materials which come from the derivatives extracted by refining crude petroleum. The production of man-made fibre can be divided into three types: polyester,
nylon and acrylic. Fabric manufacturing comprises three important elements of spinning, weaving and finishing operations. Natural raw and man-made fibres are cleaned, spun into yarn in pre-spinning and spinning processes, the yarn is then woven into fabrics in the weaving process. The fabrics are then bleached, dyed and printed with patterns in the finishing process. Meanwhile, garment manufacturing includes the process through which the manufactured fabric is converted into made up garments such as shirts, blouses, dresses and many other conversions of fabric into clothing and wearing apparel.

The major obstacle in providing a clear picture of the development of the textile and clothing industry, and the survival and attributes of small textile and clothing firms over the country has been the lack of sufficiently available statistical data. The industry was first officially recorded in 1957 when the weaving mills which produced grey cotton fabric for the domestic market was established in Johore Bharu. According to the Star (1981), by the early 1960s, the other sub-activities of this industry were found with the garment manufacturers, mostly producing simple products such as knitted wear, socks, grey fabrics and batik making. In 1963, the total investment in this industry was about M$10 million with a labour force of about 1,000 workers (the Star as quoted by Cheong 1980:4). From the first report, the textile and clothing industry was said to have grown at a very rapid rate and became one of the major contributor to the country’s manufacturing sector. For instance, the growth rate of output was about 31 percent per annum between 1963 and 1970, with a corresponding rate of about 21 percent per annum from 1976 to 1978. This growth manifested in a considerable increase in the value of sales, value added, the number of establishments and total employment generation. Employment opportunities rose annually to 13 percent while the value of sales increased by 27.2 percent a year over the same period. Since these increases were higher than those for the sector as a whole, the share of textiles in total manufacturing employment rose from 15.2 percent to 17.2 percent, while that of sales increased from 6.4 percent to 8.6 percent (see Cheong 1980: Table 1).

In recent years, the textile and clothing industry has become more and more
significant in the Malaysian economy. The essential role which the industry plays can be observed in terms of its shares of employment and export products. From the period of 1978 to 1988, the value of exported products had risen more than six-fold, from M$414 million to M$3.4 billion, representing 11.8 percent of the total value of exported products in the manufacturing sector. Over the same period, employment increased to almost double from 49,000 to more than 78,000 workers, contributing to about 14.2 percent of the total employment in the manufacturing sector in 1988. In the same year, that of total manufacturing output and value added are 5.7 percent and 7.5 percent of the total in the manufacturing sector respectively (Ministry of International Trade and Industry, Annual Report 1988/89, 1989: 245-249 and see also NPC 1991:1-6).

Meanwhile, the Malaysian Industrial Development Authority (MIDA) also reported that the number of textile and clothing establishments had risen from 268 in 1983 to 352 firms in 1988. They recorded that the total number of employment in those establishments increased from 54,463 to 69,185 workers while the total fixed assets increased from M$690,218 to M$792,692. Nonetheless, MIDA’s figures excluded the establishments that were not registered under the Industrial Coordination Act (ICA) which are believed to be many, especially among the smaller-scale operators. In 1988, the Malaysian Knitting Manufacturers' Association (MKMA) recorded that a total of 155 firms were in business while the Malaysian Garment Manufacturers’ Association (MGMA) estimated that 1,018 clothing firms were operating. A year later, the National Productivity Centre (NPC) made a short compilation from MIDA, MKMA, MGMA and MTMA figures and estimated that 1,259 textile and clothing establishments were in business in 1988 (see NPC 1991).

Taking all these reports and figures into consideration, some useful observations on the existing characteristics of the textile and clothing industry may be made. The predominance of small firms within the textile and clothing industry has been one of its

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41 The industry nowadays encompasses a broad spectrum of manufacturing products such as a polymensation (production of staple polyester fibre), spinning (both natural and man-made fibre yarn), yarn texturising, weaving and knitting of fabrics, finishing of yarn and fabric, manufacture of made-up textile goods (such as laces, braids, cordage, rope, twine, carpets and rugs) and manufacture of weaving apparel (made-up garment). The textile and clothing industry was classified under Malaysian Industrial Standard Classification (MISC) as MISC 321 for the textile products and MISC 322 for clothing and related-wearing apparel products.
major characteristics. For instance, the MIDA survey of 265 registered companies in 1988 revealed that 46.8 percent of firms employed less than 50 employees, accounting for only 5.7 percent of the total employment in the industry (see Table 4.5 below). On the other hand, more than 80 percent of total employment is in larger firms employing more than 200 workers. In terms of paid up capital, 67.6 percent of the total firms had less than M$1 million, however, comprising only 5.8 percent of total paid up capital. On the other hand, only about 24.1 percent of the total establishments had more than M$2 million and above paid up capital, but consisting of 93 percent of the total paid up capital.

Table 4.5: Distribution of Textile and Clothing Industry by Employment Size in 1988.

<table>
<thead>
<tr>
<th>Size of Employment</th>
<th>Number of Firm No.</th>
<th>%</th>
<th>Employment No.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 50</td>
<td>165</td>
<td>46.8</td>
<td>3,155</td>
<td>5.7</td>
</tr>
<tr>
<td>50-99</td>
<td>41</td>
<td>15.5</td>
<td>2,982</td>
<td>5.4</td>
</tr>
<tr>
<td>100-199</td>
<td>32</td>
<td>12.1</td>
<td>4,503</td>
<td>8.3</td>
</tr>
<tr>
<td>200-499</td>
<td>36</td>
<td>13.6</td>
<td>11,948</td>
<td>21.8</td>
</tr>
<tr>
<td>500 and above</td>
<td>32</td>
<td>12.1</td>
<td>32,332</td>
<td>58.7</td>
</tr>
<tr>
<td>TOTAL</td>
<td>265</td>
<td>100</td>
<td>54,920</td>
<td>100</td>
</tr>
</tbody>
</table>

Sources: Malaysian Industrial Development Authority (MIDA), 1990, Textile and Clothing Industry: A List of Registered Firms; Government Printer: Kuala Lumpur.

Indeed, the above figures are parallel to the earlier surveys conducted by Department of Statistics (1983) and Fong (1986). The Census of Industries in 1983 show that the textile and clothing establishments with output size category of M$5 million and above accounted for only 4.2 percent of the total output, however, consisted of about 64 percent of the total value added. In the reverse, only about 42.3 percent of the establishments produced the value of output of less than M$100,000. It is recorded that

Fong (1986) made an initial investigation of a wide-range of textile and clothing activities. From 66 firms interviewed, he found that more than 75 percent of the total establishment were involved in the garment and final products sub-sectors. These include manufacture of knitted garments, clothes and made-up apparel. Apparently, 13.8 percent of them were involved in weaving of fabrics while only 6.2 percent were involved in spinning (man-made fibre yarn), knitting and finishing of yarn and fabrics. He also found that the ownership structure was different across the types of activities. Firms involved in spinning, knitting and finishing of yarn and fabrics were mostly owned by foreign investors (6 compared to 3 locally-owned). On the other hand, about 80 percent of the surveyed firms in the made-up garment and other-related wearing apparel sub-sectors were owned by local businesses. The majority of these firms also catered for the domestic market.
the former was dominated by foreign-owned firms, while the latter were mostly Malaysian-owned enterprises. It is also observed that only a small number of firms were engaged in spinning (both natural and man-made fibre yarn), yarn texturising, weaving of fabrics, finishing of yarn and fabric and manufacture of made-up goods (such as braids, laces, ropes, twine, carpets and rugs), while a significant proportion of enterprises were involved in knitting. The largest proportion of the industry’s activities is the manufacturing of clothes and other-related wearing apparel. While the first two main activities are dominated by large and multi-national companies, the manufacturing of clothes and other-related wearing apparel is predominantly produced by small and medium-sized firms (see for instance, Fong 1986, MIDA 1990 and NPC 1991).

It is equally imperative to note that the textile and clothing industry is a labour intensive industry with a rather low productivity. In 1988, it was recorded that labour productivity measured in the ratio of value added per worker is about M$10,190, far lower than the average in the manufacturing sector which was M$19,837. Since the industry is labour intensive, low investment and low utilisation of technology may also be expected. For example, the percentage contribution of the value of fixed assets to the overall manufacturing sector’s fixed assets is only 4.79 percent. Low investment in this industry is also reflected in the value of fixed assets per worker ratio which is M$12,605 compared to the manufacturing sector which is M$34,530 per worker (NPC 1991:13).

4.5: The Existing Policy Support Programmes for Small-Scale Enterprises in Malaysia

During the early period of Independence, there was no precise government policy programmes designed specifically for the development of small firms. The development of the traditional rubber and tin industries led to the growth of various workshops and foundries to cater for these industries. These became the forerunner of small firms’ development in the country. The palm oil industry provided further impetus to the small and medium-sized firms especially in the area of processing and machinery fabrication and repairs. The development of small businesses was hence, regarded as incidental to this.
When Malaysia embarked on an industrialisation drive in the 1960s, the government policy support programmes for the small and medium-sized industry were originally outlined in the First Malaysian Plan (1966-1970). The government emphasis was still on bigger industries and attraction of foreign investment as, for instance, shown by the introduction of the Investment Incentives Act 1968\(^4\). Nonetheless, the significance of promoting the development of small industry in general and small manufacturing establishments in particular was restated under the New Economic Policy (NEP) in 1971 and reaffirmed in subsequent five-year National Development Plans. The main attention of the Government's small industrial policy promotion and programmes has been focused on the development of indigenous, i.e. Bumiputra entrepreneurs with various public agencies involved in promoting small firms' development and entrepreneurial know how with the central focus on the Bumiputra community\(^4\).

The Mid-Term Review of the Fourth Malaysian Plan (1981-1983:1983) provides the most comprehensive listing of the government’s guidelines for small industrial development. These guidelines, among other things, emphasise the following: i) small firms should not duplicate activities already under taken by the bigger-scale enterprises, and that preference be given to small firms which complement the activities of bigger-scale businesses, ii) the selection of industries must satisfy the need to achieve the New Economic Policy, particularly in encouraging Bumiputra participation in businesses and other commercial activities, and iii) the promotion of small industry should be considered an integral part of the overall manufacturing sector development (see Mid-Term Review of the Fourth Malaysian Plan, 1983).

\(^4\)A comprehensive set of investment incentives was introduced under this Act, incorporating Pioneer Status, Investment Tax Credits, Labour Utilisation Relief, Locational Incentives and Export Incentives. Tax holidays of up to 8 years were provided to firms that qualified under the Act. It was obvious that these incentives were based upon capital investment, employment and export; features that favour only big firms. Only recently, the Act was replaced by the Promotion of Investment Act 1986 in which concessions were made to small and medium-sized firms. Among others, a specific incentive in the form of a 5 percent abatement on adjusted income was introduced for small industries. In addition, pioneer status was no longer given on the basis of capital investment but on activities and products. All companies whose activities and products are on the promoted list (including small firms) are eligible for pioneer status which entitles them to a 5 years tax holiday, (see in MIDA 1990).

\(^4\)see for instance, in Lim (1988:88)
The government policy supports for the development of small enterprises were under further review in late 1988. Since this time new policy initiatives have been progressively introduced, such as through the 1989 and 1990 National Budgets. These together with any other major new initiatives such as Industrial Master Plan\textsuperscript{45} associated with the policy review, were consolidated and reflected in the Sixth Malaysia Plan which covers the period 1991 to 1995.

Overall, it is observable that before 1980, government policy support programmes were essentially ‘inward-looking’, i.e. domestic market-oriented. This was not reviewed until the recession-related downturn in the economy in the early 1980s. As outlined in the Fourth Malaysian Plan (1981-1985:1980), the increasing concentration of local products-orientated is now being replaced by the need for a more outward-looking, i.e. export-oriented development of small firms (see overall incentives for investment in the manufacturing sector in Appendix V). This strategy includes the policy support programmes for small industrial expansion and modernisation through provision of financial assistance, improvement of the incentive system, promotion of R&D activities and the strengthening of the institutions responsible for small firms.

Under the institutional framework, the first to be noted is the Small-Scale Enterprise Division (SSED at MITI). It has primary responsibility for coordinating the Government’s small industrial development programmes. The main functions of this division can be summarised as follow: i) to study and evaluate the existing and forthcoming policies for the development of small firms, ii) to identify opportunities in

\textsuperscript{45}Industrial Master Plan was completed in 1985 as the preparation of the country’s Medium and Long-Term Industrial Development leading up to the year 2000. It was outlined with the cooperation of the United Nation Development Programme (UNDP) and the United Nations Industrial Development Organisation (UNIDO). It proposes the type of industrial policies which Malaysia should adopt and the strategies to achieve the objective set out. The IMP comprises 22 reports in three volumes. Volume I gives an overview of the plan. It summarises the results of the various reports prepared for the plan within the context of a macro-industrial development policy. Volume II describes the development plans for each of the 12 industries selected for the plan studies. Volume III contains a collection of the special studies which are relevant in promoting and implementing the sectoral plans described in Vol. II. These support policies include the New Economic Policy, industrial development, industrial infrastructure, heavy industrial policies, incentive systems, manpower and training, R&D, technology policies, linkages effects and an evaluation of resource policies (see the IMP, MIDA 1985).
industries for involvement of small firms, iii) to provide advice and guidance to entrepreneurs on policies and programmes implemented by government agencies through conferences, dialogues, talks and workshops, iv) to collect and distribute publications on projects, studies and pamphlets on small firms, and iv) to create and implement specific programmes for the development of small firms (MITI 1989: 4-14).

Presently, there are as many as 13 ministries and 30 government agencies with varying responsibilities and offering a wide variety of programmes to promote small industries' development (see Appendix VI). To avoid repetitiveness in reviewing the existing assistance activities, the responsibilities and functions of those existing government agencies will be reviewed with respect to the four main types of policy support identified in Chapter Two, that is: financial and credit assistance, training and vocational educational assistance, extension and advisory services and lastly infrastructure supports (see for instance Lim 1986, MIDA 1985 and 1990, MITI 1990, ADB 1990 Bank Negara 1989 and 1991 etc.).

4.5.1: Financial and Credit Assistance

The financial system in Malaysia is relatively well developed. Under the Bank Negara (the Central Bank) which is the main controller of the country's financial policy, there were 38 commercial banks operating a total of 911 branches by the end of 1988. Moreover, finance companies which total 47 with 486 branches, comprise the second largest group of deposit-taking financial institutions in Malaysia, in addition to several development finance institutions (Bank Negara 1989). In order to make credit more readily and cheaply available to small firms, commercial banks, finance companies and government related-financial institutions had certain criteria imposed on them by the Central Bank. The most important one is the Priority Lending Guidelines which imposes qualitative lending targets introduced in 1974.

This guideline requires commercial banks and other financial agencies to allocate a prescribed proportion of their loans outstanding to small businesses. The guidelines are reviewed each year, specifying required levels of lending to the four priority groups of: the Bumiputra community, small enterprises, farmers and enterprises engaged in
agricultural food production; and loans to buyers of low cost owner-occupied homes, at interest rates below the market rate. Failure to do so means a penalty would be imposed. Since commercial banks, finance companies and government financial-related institutions are the major sources of credit assistance for small firms, a review of the amount of loans, basic interest rate charged and number of recipient firms are briefly presented under these headings respectively.

4.5.1.1: Commercial Banks

Commercial banks are the major sources of credit for small and medium-sized firms consisting of about 20 percent of total new bank credit each year. Under the priority lending guidelines, the maximum interest rate which can be charged by commercial banks is fixed at 1.75 percentage points above the average of the Base Lending Rates (BLR) of the two main commercial banks in Malaysia (i.e. Malayan Banking Berhad and Bank Bumiputra Malaysia Berhad) or 9 percent per annum, whichever is lower. In line with the reduction in the BLR of these two banks, the maximum interest rate for priority sector loans in 1988, for instance, was 8.5 percent.

It has been recorded that Commercial Banks loans to the manufacturing sector rose steadily, from M$7.4 in 1983 to M$13.2 million in 1989. The number of small and medium-sized firms which had received loans through commercial banks also increased over the same period from 39,581 to 57,751 businesses (Bank Negara 1990).

4.5.1.2: The Finance Companies

As in the case of commercial banks, finance companies had similar lending guideline imposed on them by the Central Bank to direct funds to priority sectors. Among these guidelines, a total of 15 percent of their total loans had to be given to small firms and 20 percent of this had to be to the ‘Bumiputra community’. By 1989, a total of M$2,807 million credit was granted to small businesses. The minimum credit for small firms is M$10,000 and the maximum is M$50,000. However, only between 4 and 6 percent went to the small manufacturing firms.
4.5.1.3: The Merchant Banks

There were only 12 Merchant Banks in Malaysia in 1988, but they play a significant role in providing finance to small and medium-sized enterprises especially in the manufacturing sector. For instance, in 1989, it is recorded that these banks provided a total of 7.9 percent of the total loans to the manufacturing sector. These banks also act as special financial intermediaries in the financial market and are engaged in professional, investment advice, financial advisory services and management services. They are also involved in operations such as accepting deposits and making loans, discounting, leasing and bridging finance as well as equity financing.

4.5.1.4: The Development Finance Institutions (DFIs)

There are four specialised Development Finance Institutions in Malaysia catering for loans on concessional terms to support and promote industrial and agricultural development. Besides providing medium and long term capital to businesses, they also provide finance, managerial and limited technical advice to firms involved in the development of new business projects. Basically, DFIs provide the loans to clients who would normally not be able to secure credit from the commercial banks and finance companies. The following role is played by the four-individual Development Finance Institutions.

i) **Malaysian Industrial Development Finance Berhad (MIDF):** This financial institution was launched in 1960 to accelerate development and modernisation in the manufacturing sector in Malaysia. Since its foundation, it has granted more than 3,800 loans and leases of over M$1.8 billion to manufacturing firms. It also provides finance in the form of loans or lease for plant, equipment and machinery. By 1988, it was recorded that a total of M$120.4 million was approved to 152 applicants. The average size of loans was M$792,000. Loans or leases for Bumiputra accounted for 18.4 percent of the total number and 9.1 percent of the total value.

ii) **Bank Pembangunan Malaysia Berhad (BPMB):** This institution was established in
1973\textsuperscript{46} to develop and accelerate Bumiputra participation in the industrial and commercial sectors of the economy. It has played a key role in financing the start-up and growth of new small enterprises and has focused its lending mainly on manufacturing, tourism and the mining (excluding tin-mining) sectors. It provides term loans, plant hire and leasing facilities and conducts entrepreneurial development and advisory programmes for Bumiputra enterprises. The entrepreneurial development programmes were introduced in 1981 with the objective of developing Bumiputra entrepreneurs in the industrial sector. Entrepreneurship development courses are conducted with the cooperation of MARA, the National Productivity Centre (NPC) and Malaysian Entrepreneurial Development Centre (MEDEC). Currently, two main programmes are conducted by the BPMB.

The first is the \textit{Small-Scale Enterprises Development Programme}. This programme was initiated in 1984 co-operating with the other development agencies such as MIDF, NPC, MEDEC and SSED (at MITI) to collaborate with the World Bank assisted programme for the development of the commercial and industrial sectors. The prime aims are to assist small enterprises by increasing availability of institutional credit and technical assistance. The original plan was to provide bank loans alongside technical and advisory services to at least 1,200 small businesses through two DFIs, i.e. BPMP and Malaysian Industrial Development Finance (MIDF). A total of M$234 million was allocated for this programme funded largely by the World Bank at an interest of 7.75 percent to the Malaysian Government which on-lent to BPMB at a rate of 5 percent. BPMB, in turn, charged an interest rate of 7.75 percent to small firms.

The second programme is the \textit{Nursery Factory Scheme}. This scheme was launched in 1985 to provide new factory units for rental at subsidised rates by new Bumiputra firms receiving financial assistance from the BPMB. Under this Scheme, new businesses are provided with support services to assist them in the first three to five years of manufacturing. The BPMB assists with the establishment of a new enterprise by providing advisory services, training and finance. After three to five years of assistance under the NFS, successful entrepreneurs are expected to move out of the nursery complex to make

\textsuperscript{46}By 1989, the BPMB had a staff of 430 persons, of whom 180 were professionals, and 13 branches.
way for other new entrants.

iii) *Industrial Bank of Malaysia* (IBM): This bank was established in 1979 to stimulate development of export-orientated and high technology industries. Its primary aims are to: provide long-term and other financial assistance to capital-intensive industries, especially export-oriented industries and other manufacturing sub-sectors designated as high priority by the Government; to encourage and promote exports through the financing of domestic and international trade; and to finance and assist expansion and modernisation of manufacturing enterprises. In its lending policy, Industrial Bank has adopted a target market approach, selecting specific segments of industry. Other than the shipping industry, recently it focused on the engineering segment of the manufacturing sector including metal-based manufacturing, electronics, electricity, foundry, tool and die forging, machining and manufacture of component parts. It provides long-term loans for up to 25 years with a grace period of up to 5 years. It receives loan funds from the Government at 6 percent interest rate and on-lends at rates ranging from 7.5 to 9 percent depending on the degree of risk involved.

iv) *Bank Pertanian Malaysia* (BPM): Since its foundation in 1972, BMP's main assistance focused on agricultural sector projects and agro-based industries including food processing. Its objective is to accelerate the expansion and industrialisation of the agricultural sectors through providing credit, extension and marketing services to its target group of clients. All loans from BPM are available on the basis of fixed terms and conditions. The interest rates charged are according to the amount of loans approved. For small loans of less than M$50,000 an interest rate of 4 percent and loans larger than this are charged at 6.5 percent of interest per annum.

4.5.1.5: The Credit Guarantee Corporation (CGC)

This Corporation was established in 1973. The main task is to provide guarantee cover to commercial banks for loans extended to small firms. Four main loan schemes have been introduced so far, inter alia: the General Guarantee Scheme (GGS -1973), the

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47 Up to 1989, 47 small firms were benefitted by this programme (27 firms in Pengkalan Chepa, Kelantan and 20 in Jengka Triangle, Pahang).
Special Loan Scheme (SLS -1981), the Hawkers and Petty Traders Scheme (HPTS -1986) and the Principal Guarantee Scheme (PGS -1989). Under these schemes loans can be granted by the commercial banks without collateral up to M$200,000. However, the Corporation covers only up to 60 percent of the total loan in default.

Under the PGS, the lending ceiling has been raised to M$500,000 per account and cover expanded from only term loans and overdrafts to include letters of credit, trust receipts, bills purchased, shipping and performing guarantees as well as export credit financing. By 1988, under both GGS and SLS, loans approved amounted to M$2,811 million for 148,526 applicants. Only 0.9 percent of the total value of loans was given to small textile firms (CGC, 1990). Meanwhile, the CGC received about 2,700 claims from the commercial banks for a value of approximately M$17 million prior to its foundation to 1988.

4.5.1.6: The New Investment Fund (NIF) and the Enterprises Rehabilitation Fund (ERF)

In 1985, the New Investment Fund was launched with M$1 billion fund to encourage investment in new productive capacity in the manufacturing, agriculture, tourism and mining sectors which are considered as a part of the government efforts to foster exports and ensure that funds at reasonable cost were readily available to investors in stated sectors. Two years later the fund was increased to M$1.7 billion. The NIF funds were made available to the manufacturing sector in areas such as the construction of new factories, purchase of new plant and equipment, improvement of existing factories and plant expansion and the manufacture of new products. The minimum amount of fund is M$50,000 and the maximum is M$250,000 per project. By the end of 1989, 75 percent of allocated fund was used with more than M$762 million going to the manufacturing sector.

Enterprises Rehabilitation Fund (ERF) was established in 1988 to help the small and medium-sized firms that need soft loans or seed capital to assist them sort out their difficulties. The Malaysian Industrial Development Finance (MIDF) acts as the secretariat of ERF for assessing and approving the projects. In 1989, a total of 823 applications were submitted to the MIDF.
4.5.1.7: The Export Credit Refinancing Scheme (ECRS)

This scheme was introduced in 1977 to assist exporters to obtain pre-shipment and post-shipment funds in the manufacturing sector including small firms. The assistance is given by the Central Bank through commercial banks. Later in 1986, the full package of reforms was made to provide greater access to credit for exporters, including the suppliers of inputs used in manufacture of export products. In 1988, the interest rate reduced to as low as 4 percent per annum.

4.5.2: Technical Training and Vocational Education Programmes

It has been generally realised that the availability of an adequate supply of well-trained skilled workers, engineers and managers is essential for the successful development of small firms. This may be seen from the current training and vocational education programmes provided by the authority for small firms in the manufacturing sector. These training and vocational programmes may be broadly divided into two categories namely: Entrepreneurial Development and Business Management Training, and Technical Skills Training.

4.5.2.1: Entrepreneurial Development and Business Management Training

Under the entrepreneurial development and business management training, there are four main agencies directly involved, as follows:

i) National Productivity Centre (NPC): It is a premier provider of short courses in entrepreneurial development, management and supervisory skills. By 1988, the centre had 130 staff including 45 full-time professional trainers with skills in applied research and management consultancy.

The Centre’s training programmes cover a broad spectrum of areas including: sales and marketing, export and import procedures: management development, industrial relations, quality control circle, industrial engineering, automation and hotel and tourism management. These courses are conducted at the NPC’s Kuala Lumpur headquarters and at its regional centres in Kuantan, Kuching, Johor and Kota Kinabalu. In addition, the NPC also undertakes several other related functions, these are: research and analysis of
productivity issues and productivity measurement: dissemination of knowledge and data on productivity issues: and provision of a forum for discussion on organisation, management and supervisory issues.

ii) Malaysian Entrepreneurial Development Centre (MEDEC): This centre was established in 1975 at the MARA Institute of Technology (ITM) to provide training for Bumiputras to help them in starting up new businesses. The Centre handles two forms of entrepreneurial training: for ITM resident students and programmes for the public. Only specific training programmes for the public are presented in this sub-section.

The major training programme for the public is the Entrepreneurial Development Programmes (EDP) which is conducted on a full-time basis over a six-week period. The course consists of the following four modules: Entrepreneurial Motivation (involves psychological preparation for the task of establishing new business), Project Selection and Identification (includes recognising market opportunities, market surveys, and the preparation of a working paper on the proposed business ventures), Management (covers topics such as small business management, production management, book-keeping and financial management, cost and credit controls, distribution and retailing, price setting, marketing strategy, taxation and cash control as well as business communication) and Formation of Companies (includes discussion of legal forms of business and the registration of businesses). Graduates of the course receive certificates recognised by the banks which assist in their gaining loans to start-up their businesses. The number of participants in each course ranges from 14 to 32 persons. Usually, the minimum education participants have is secondary level of schooling.

Furthermore, there are two other entrepreneurial programmes conducted by the MEDEC these are: the Entrepreneurial Development Programme for Government Staff and the Graduate Enterprises Programme. The former programme is designed for government employees to help them start their own businesses after they leave public service. The length of the course is four months on a full-time basis. Meanwhile, the latter

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48 The EDP is advertised in the local newspaper two months prior to the course and candidates are required to have a business proposal.
programme is formulated to help graduates who wish to establish their own business enterprises with an eight weeks full-time course or three months evening classes. Both programmes are organised with the assistance of Implementation Coordination Unit-ICU (at the Prime Minister’s Department).

iii) *The Majlis Amanah Rakyat* (MARA): In 1960, the MARA was set up to provide assistance to the Bumiputra entrepreneurs. Up to 1988, a total of 3,571 entrepreneur development courses were conducted where about 162,350 participants were trained. It has provided an integrated approach to entrepreneurial training, counselling and advisory services as well as the provision of business premises for rental at subsidised rates. Prior to 1988, the MARA provided credit facilities amounting M$507 million to 93,452 persons.

Broadly, three basic forms of entrepreneurial development training courses are conducted, namely: *Procreation Programmes* (designed to provided potential entrepreneurs with an understanding of the challenges, activities, responsibilities and risks involved in starting up a new business); *Creation Programmes* (designed to motivate and assist potential entrepreneurs develop a business proposal and evaluate the potential of the project); *Entrepreneur Advancement Programmes* (these courses are designed to assist existing entrepreneurs upgrade their business skills). The topics covering the entrepreneurial development training courses are, among others, bookkeeping, financial management, business management, costing, marketing, distribution, salesmanship, import/export, contract management, food catering management, tourism and construction.

iv) *Small Business Development Centre* (UPMSBDC): In 1981, the Agricultural University’s Small Business Development Centre (UPMSBDC) was established to expand the provision of training and extension services to small businesses and potential entrepreneurs. UPMSBDC also has a strong emphasis on applied research on small businesses and depends on professional expertise at the large Faculty of Management in the UPM.

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*It is a large organisation comprising a staff of 4,300 persons at its headquarters in Kuala Lumpur. It also has 14 State offices and 54 district offices.*
Basically, the training programmes for small businesses cover a broad range of areas, including business management: entrepreneurship and the processes involved in the development of a business plan. Attachment to firms related to trainees' proposed area of business development for on the job training and individualised attention in the development of personal business plans are distinctive features of the UPMSBDC programmes. The length of the course varies from 2 weeks to 9 weeks training.

4.5.2.2: Technical Skills Training

There are several agencies providing technical skills training. These are the following: i) Centre for Instructor and Advanced Skills Training (CIAST): This centre provides various training, inter alia: automotive skills, machinery operation and die making, forging and heat treatment, welding and metal fabrication, rubber moulding, plastic moulding electronics and electrical training, instruments and automatic control equipment, instructor and supervisor training, quality control, production planning and industrial safety. The courses are ranging from 2 to 6 weeks and targeted at three main groups, viz. trade instructors, supervisors and skilled workers.

ii) Forest Research Institute Malaysia (FRIM): This institute was established to provide training courses in wood-based industry including wood moulding, wood working, plywood manufacturing, wood preservation, charcoal making, wood identification, saw operating, saw doctoring, nursery techniques, seed technology and other-related topics. Some of these programmes are directed at upgrading the skills of small and medium-sized firms in furniture manufacture and other areas of the wood-based manufacturing industry.

iii) Palm Oil Research Institute of Malaysia (PORIM): This institute was set up to provide training programmes in the areas of: mill engineers/executives training, product development and technology: palm oil familiarisation programme, chemistry of fatty acids and lipids, training courses for extension services and training courses for students from tertiary institutions. In 1988, a total of 559 staffs was recorded.

iv) Food Technology Division (FTD) under Malaysia Industrial Research Development Institute (MARDI): This division conducts a series of training programmes on selected topics related to food processing technology and food production quality control for
selected commodities.

v) Malaysian Institute of Microelectronic Systems (MIMOS): This institute was set up to promote development of the microelectronics industry and to enhance its innovativeness and competitiveness. It conducts R&D in microelectronics and provides seminars and short-term training courses. Most of their assistance has, however, been given to medium and large enterprises.

vi) Youth Training Centres (YTCs): The Ministry of Youth and Sports has established two training centres for school leavers between 18 and 25 years of age. They are trained in vocational training in areas such as motor vehicle mechanics, agricultural plants mechanics, furniture making, carpentry and joinery, plumbing and bricklaying, general machinery, gas and welding, radio and TV mechanics, air-conditioning, tailoring, plant operator, processing agricultural products, electricity products, and other skilled trades. Discipline and business attitudes were among the priorities given in the training. Two main centres are well-known: these are the Dusun Tua in Perak and in Trengganu.

iii) Institute of Training Institutions (ITIs). This institute has several centres located in Kuala Lumpur, Prai, Johor Bharu, Kuala Trengganu and Labuan. Its objectives are to expand and upgrade industrial training with assistance from the World Bank. Training courses contain 5 main categories: the National Apprenticeship Scheme (NAS) in which new apprentices receive trades training over a three year period of which one and a half years is in-plant training with respective employers; Preparatory Trade Course (PTC) which was set up to provide basic industrial trades skills to upgrade their business operations (courses cover a duration of 4 weeks); Skills Upgrading Course which is designed to enhance the skills of persons who have been in business for at least one year; and finally, Trade Instructor Training Courses established to produce competent trade instructors and supervisors. Table 4.6 refers to the total public development expenditure for education and training during a period of 1981-1990.

56There are also other related government incentives and vocational education programmes provided indirectly by the government to upgrade trades skills. These types of assistance are not directly meant for small firms but mostly for students. The most important ones are the Secondary Vocational
### Table 4.6: Public Development Expenditure for Education and Training in Malaysia

**Between 1981 and 1990 (in M$ million).**

<table>
<thead>
<tr>
<th>Programmes</th>
<th>Fourth Plan 1981-1985 (%)</th>
<th>Fifth Plan 1986-1990 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A) Education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Education</td>
<td>4,334.55 (91.4)</td>
<td>5,262.17 (94.5)</td>
</tr>
<tr>
<td>Government and government aided schools</td>
<td>759.48 (16.0)</td>
<td>784.91 (14.1)</td>
</tr>
<tr>
<td>Secondary Education</td>
<td>1,381.56 (29.1)</td>
<td>1,436.52 (25.8)</td>
</tr>
<tr>
<td>Government and government aided schools</td>
<td>1,024.21</td>
<td>656.86</td>
</tr>
<tr>
<td>MARA junior science colleges</td>
<td>78.94</td>
<td>81.62</td>
</tr>
<tr>
<td>Technical and vocational schools</td>
<td>287.64</td>
<td>698.04</td>
</tr>
<tr>
<td>Higher Education</td>
<td>2,056.81 (43.4)</td>
<td>2,591.95 (46.6)</td>
</tr>
<tr>
<td>Polytechnic</td>
<td>123.25</td>
<td>220.46</td>
</tr>
<tr>
<td>Tunku Abdul Rahman College</td>
<td>0.66</td>
<td>15.00</td>
</tr>
<tr>
<td>MARA Institute of Technology</td>
<td>184.91</td>
<td>225.21</td>
</tr>
<tr>
<td>University of Malaya</td>
<td>53.65</td>
<td>132.91</td>
</tr>
<tr>
<td>University of Science Malaysia</td>
<td>201.54</td>
<td>202.58</td>
</tr>
<tr>
<td>National University of Malaysia</td>
<td>170.34</td>
<td>153.25</td>
</tr>
<tr>
<td>University of Agriculture</td>
<td>186.54</td>
<td>101.52</td>
</tr>
<tr>
<td>University of Technology</td>
<td>300.21</td>
<td>522.62</td>
</tr>
<tr>
<td>Islamic University</td>
<td>31.65</td>
<td>164.40</td>
</tr>
<tr>
<td>Northern University</td>
<td>27.00</td>
<td>164.00</td>
</tr>
<tr>
<td>MARA scholarship and loan</td>
<td>679.09</td>
<td>690.00</td>
</tr>
<tr>
<td>Teacher Education</td>
<td>149.02 (3.1)</td>
<td>284.85 (5.1)</td>
</tr>
<tr>
<td>Other Education Support Programmes</td>
<td>134.54 (2.8)</td>
<td>163.94 (2.9)</td>
</tr>
<tr>
<td><strong>B) Training</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial Training</td>
<td>407.05 (8.9)</td>
<td>303.89 (5.5)</td>
</tr>
<tr>
<td>Industrial training institutes</td>
<td>265.01 (5.6)</td>
<td>276.71 (5.0)</td>
</tr>
<tr>
<td>MARA vocational institutes</td>
<td>104.11</td>
<td>92.20</td>
</tr>
<tr>
<td>Youth training centres</td>
<td>144.34</td>
<td>155.95</td>
</tr>
<tr>
<td>Commercial Training</td>
<td>16.56</td>
<td>28.56</td>
</tr>
<tr>
<td>MARA commercial institutes</td>
<td>0.79 (0.02)</td>
<td>13.00 (0.2)</td>
</tr>
<tr>
<td>Management Training</td>
<td>0.79</td>
<td>13.00</td>
</tr>
<tr>
<td>National Institute of Public Administration</td>
<td>141.25 (3.0)</td>
<td>14.18 (0.3)</td>
</tr>
<tr>
<td>National Institute of Educational Management</td>
<td>80.39</td>
<td>4.18</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>4,741.60 (100)</td>
<td>5,566.06 (100)</td>
</tr>
</tbody>
</table>


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Schools, Polytechnic and Tertiary Education Institutions. These three institutions have over 60 branches across the country and play a major role in equipping vocational training skills, developing and upgrading skills for business purposes to students covering a broad spectrum of courses under the direct responsibility of the Ministry of Education. The Malaysian government also provides incentives for private sector training involving manpower development for the manufacturing sector, especially support for the introduction of new technology or new products. The Federation of Malaysian Manufacturers (FMM) is given approval with a substantial allocation from the Ministry of Finance in the National Budgets of 1988, 1989 and 1990 to implement the government programmes.
4.5.3: Extension and Advisory Services

Under the government's policy support programmes on the extension and advisory services for small firms, three major areas can generally be recognised.

4.5.3.1: Management Consultancy Services: Management consulting services provided are usually given with the provision of supervised credit or training. The emphasis is largely on Bumiputra clients to equip them to establish new small businesses. Provision of credit to small businesses normally involves the preparation of a business plan, management of an accounting procedure/system and the requirement to prepare regular income statements, cash budgets, sources and/or uses of funds, statements and production costing analyses to provide evidence of financial viability for loan approval as well as bank monitoring of loan repayments. Quite frequently, staff of the financing institutions and other agencies make regular visits to small firms to supervise loan disbursements and provide limited advice as part of the credit supervision and monitoring process.

Various government agencies are also engaged in providing numerous forms of management consulting services. Some of them has been already stated previously. Among the main organisations currently involved in management advisory services are the Development Finance Institutions (DFIs), the Commercial banks, MARA, NPC, the Small Business Advisory Centre (UPM) and MEDEC.

4.5.3.2: Marketing and Market Research: The low standard of marketing has long been realised as a major constraint confronted by many small and medium-sized firms, (see for example a report from UPM-IDRC, August 1988). There are several agencies which provide free and subsidised consulting services. These include MARA, MIDA, MEDEC and the DFIs. They have the capacity to provide general advice on marketing but are not normally able to provide small firms with advice on the regular day-to-day marketing activities which need to be undertaken at the level of the individual firm (see for instance, Malaysian Development Bank, 1990:1).

The NPC has conducted a range of short courses in the area of marketing, sales promotion and exporting. All of these are believed to be well-suited to the need of small
and medium-sized firms (NPC 1990:28). These include: courses on effective selling skills; negotiation in selling; management of the sales force; introduction to marketing management; marketing strategy; export and import procedures and documentation; and transactions analysis in selling.

Many approaches are also adopted in the coverage of such training materials including televised training programmes to be screened on national television networks at appropriate time slots. Also self-instruction kits containing training videos or audio tapes along with texts, samples, illustrations, case studies and other materials can be distributed directly to firms for use in in-house training programmes. Such self-instruction kits can be circulated on a loan basis by the respective industry associations as well as through such specialised training institutions such as MARA and MEDEC, in addition to NPC. Moreover, a few government agencies currently operate programmes to assist small and medium-sized firms to market their products. Malaysian Agricultural Research and Development Institute (MARDI), for instance, provides small and medium-sized firms with assistance in marketing processed food products. Similarly, the subcontracting exchange scheme operated by the SSED and MIDA in MITI also plays an important role in linking small firms with bigger manufacturers. Purchasing by the public sector also represents a significant market for small firms.

The intensity of the government policy programmes is also noticeable from the establishment of the Sub-Contract Exchange Scheme (SCX) in 1986 following recommendations in the Industrial Master Plan (IMP)\textsuperscript{51} to promote growth of local supporting industries by facilitating their linkages with large scale manufacturers. The SCX is a computerised clearing-house, linking companies producing components with those which need them. Its purposes basically are to gather buyers and vendors together. The SCX provides a link between the buyers' requirements and the vendors' capabilities and capacity to supply. Enterprises which register with the SCX are normally expected

\textsuperscript{51}MIDA 1985, The Industrial Master Plan 1985-1995; Government Printer; Kuala Lumpur. It has also recommended the Government to lower income tax for small firms to 30 percent as part of the incentives given to investors. As a result, the Promotion of Investment Act 1986 was introduced, allowing small business to receive all the incentives previously enjoyed only by the big firms. Among these include pioneer status, income tax allowance, equity participation and export allowance for agricultural output.
to provide detailed information on their products and production capacities. The services of SCX are provided free of charge. Over 1,600 companies have registered with the SCX, the majority of which are in the light engineering sub-sector followed by plastic products and rubber products sub-sectors. Only few of them are from the textile and clothing firms.

In 1980, the Malaysian Export Trade Centre (MEXPO) was established as a unit of the International Trade Division in the Ministry of International Trade and Industry (MITI), to provide Malaysian exporters with comprehensive marketing information and advisory services on exporting, and assistance with business appointments and participation in trade fairs, and an exhibition centre for export products as well as trade missions. It provides trade enquiry and information services. The enterprises are required to register and services provided are free of charge.

In addition, MEXPO has also organised a few seminars for businessmen who wish to commence exporting to overseas markets. Through these seminars, firms, including small businesses with exporting potential, are introduced to the main tasks and processes associated with penetrating export markets. MEXPO also acts as a reference agency for foreign buyers, providing them with information on goods which Malaysia can supply and assisting them to establish contact with local manufacturers and suppliers. It has a permanent trade exhibition which displays Malaysian products and an Information Centre which is a dispository of trade-related books, pamphlets and reference materials.

4.5.3.3: Product Quality Improvement, Quality Control and Design Improvement: Under these services, several government agencies currently offer assistance. The major institution is the Standard and Industrial Research Institute of Malaysia (SIRIM) which was established in 1975 to carry out a broad range of functions relating to standards testing registration for quality control, R&D, technical extension and consulting services. Three specific Technology Centres under SIRIM were formed, namely: Metal Industry Development Centre (MIDEC), ii) Plastic Technology Centre (PTC), and iii) Foundry

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51It is reported that demands for MEXPO's services has grown rapidly and its limited manpower and financial resources seriously constrain the amount of personnel extension services which it can provide to exporters (see MITI 1989).
Technology Centre (FTC). None of them, however, are related to the textile and clothing enterprises.

Currently, several units within the SIRIM provide technical extension and support services to small firms. The Industrial Extension Unit (IEU), for example, assists small and medium-sized firms to upgrade their technology and modernise production systems. Projects implemented to date include the Intensive Industrial Extension Services which began in 1986 with ten selected projects/industries which received assistance in improving product quality and factory productivity. The consultancy and advisory services provided by IEU usually in the form of shorter term assistance to firms for solving specific technical problems involve factory visits for diagnostic studies to improve productivity and product quality.

4.5.4: Infrastructure Support

One of the main constraints impeding the development of small firms is the high cost of factory space and industrial land. In Malaysia, the responsibility for land matters rests with the State Governments that have taken certain actions to increase the servicing and development of industrial estates through the respective State Economic Development Corporations (SEDCs). In 1988, it is recorded that the cost of developed industrial land ranged from M$10 to as high as M$100 per square meter. On average land cost is about M$500,000 per acre53 (see ADB 1990).

Based upon available information on the infrastructure supports, the following subsections will briefly present the specific characteristics of assistance provided by the Malaysian Industrial Estates Sdn Bhd. (MIEL), Urban Development Authority (UDA), MARA, as well as facilities in the Free Trade Zones (FTZs), the Licensed Manufacturing Warehouses (LMW) and the Principal Custom Areas (PCAs).

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53Presently, costs and affordability rather than the supply of serviced industrial land are the major problems for small firms. The State Authorities have taken action to develop suitable land close to urban centres in properly planned industrial estates but they need assistance from the Federal Government to address the problems of cost and affordability (see ADB 1990).
4.5.4.1: Malaysian Industrial Estates Sdn Bhd. (MIEL)

The main activities of MIEL consist of construction of standard design factory units for manufacturing including small enterprises. It also upgrades the existing sites to cater for individual client requirements. With the collaboration of the State Economic Development Corporation (SEDCs), MIEL has participated in relocation exercises in the states of Selangor, Johor, Trengganu, Pahang and Negeri Sembilan for the relocation of factories occupying unsuitable or illegal sites. These particular projects together comprise 237 factory units. These units had factory building areas between 1,000 to 2,000 square feet and were mainly targeted to small, service-oriented industries.

Factory spaces under MIEL can be obtained through several schemes viz. rental, credit financing via its Factory Mortgage Loan Scheme, and Lease and Purchase Scheme. It is recorded that by 1988, an overall total of 928 factory units had been built since its foundation.

4.5.4.2: The Role of the Urban Development Authority (UDA)

This authority has a large organisation with more than 700 staff including 60 economists and other professional experts such as architects, planners, engineers and lawyers. It was established to assist the entrepreneurs to obtain suitable business premises (including offices and retail shops) in urban areas. It also plays a major role in the establishment in new town development and urban redevelopment as well as to help Bumiputras to set up new businesses in urban areas. This authority also provides consultancy services and project management courses to landowners and assist them to go into business as land developers. One of the major objectives is to assist Bumiputra businessmen to gain access to good quality, well located business premises in urban areas at affordable prices or rents. Therefore, UDA also buys, rents and sells business properties in urban areas.

4.5.4.3: The Role of Majlis Amanah Rakyat (MARA)

As the main objective of the foundation of MARA is, among others, to encourage Bumiputras participating in small and medium commercial and industrial firms, most of the provision is directed to the benefit of this community. Under its Business Premises
Programme, MARA is responsible for providing shopping and office complexes, arcades, shop houses, bazaars and stalls, particularly in the small and medium towns across the country. Before the premises are constructed, this Trust conducts feasibility studies on the type of premises suitable for a particular area, the capability of prospective entrepreneurs to be housed in the premises and their business requirement for space. Priority to rent premises is normally given to entrepreneurs who have already started their businesses in the area but in unsuitable sites. The buildings are rented out at subsidised rentals. The constructions of premises and other business sites are part of the integrated approach adopted for the development of entrepreneurs.

4.5.4.4: Different Status of Industrial Site

There are three status for locational sites provided by the government. The first, Manufacturing Free Trade Zones (FTZs), are areas especially designed for manufacturing firms producing or assembling products for exports. The FTZs enable export-oriented companies to enjoy minimum custom control and formalities in the import of raw materials, machinery, equipment and component parts. The much smaller areas than Free Trade Zones are known as Principal Custom Areas (PCAs). PCAs comprise areas close to the main international ports and airports where several registered export-oriented firms are operating. These firms not only enjoy the minimum custom control and formalities in the import of raw materials, machinery, equipment and component parts but also cater for many small enterprises’ requirements such as mediators. Both FTZs and PCAs have been established at Bayan Lepas, Prai, Mukim Pringgit, Nilam, Bukit Baru, Tanjong Kling, Sungai Way, Ulu Klang, Telok, Panlima Garang, Kuantan, and Pasir Gudang in the State of Penang, Negeri Sembilan, Pahang, Melaka, Selangor, Federal Territory and Johor.

The government has also introduced a scheme called Licensed Manufacturing Warehouses (LMWs) to encourage the dispersal of industrial developments to other less developed areas across the country. The firms in LMWs are accorded similar facilities to factories operating in FTZs and PCAs. The LMWs usually provide assistance to enterprises for which it is not practical to establish their operations in FTZs and PCAs. Their products can be exported or sold locally and import of raw materials are allowed only if the component parts are not available locally. A large proportion of the enterprises
4.6: Conclusion

As the manufacturing sector is the fastest growing sector in the Malaysian economy, with its share in the GDP, total work force and total gross Malaysian exports increasing from 1960 onwards. In addition, it is found that the relative importance among sub-industries in terms of contribution to value-added and employment share of manufacturing sector has also changed. Before 1970, food, rubber and wood industries were the dominant forces in the manufacturing sector. After 1970s, however, electrical and electronic industry, and the textile and clothing industry were the most significant industries. In the 1980s, the manufacturing sector also moved from essentially import-substitution to export-oriented products.

On the basis of the surveys conducted by the Department of Statistics, small firms, although comprising over half of the total number of manufacturing establishments, have a relatively low percentage share in the total number of employment, and total value of output and fixed assets of the sector. The relative significance of small firms in terms of percentage share of establishments, employment, total value of output and fixed assets has also declined over the period 1978 to 1988. Either this decline in relative significance is due to a higher rate of bankruptcies, increases in their number of workers which has pushed them into a higher firm size cohort or due to the technical coverage of the survey which is not clear. In absolute terms, however, it is found that there is a significant increase the absolute number of small manufacturing establishments over the same period.

In Malaysia, it is found that small manufacturing firms are mainly family and sole proprietorship businesses, utilising relatively low levels of capital investment but dependent upon labour-intensive production. The Chinese community is found to be predominantly involved in the activity, while other ‘bumiputra’ involvements are limited to certain types of industry such as handicraft, food, and furniture industries. In particular, small firms in the textile and clothing industry are found to have concentrated on producing clothing/garment products relatively as compared to textile goods which mainly
dominated by multi-national and foreign-owned companies. It is observed that this probably correlates to the nature of the small-scale operation which does not require high capital investment and technology in the clothing/garment sub-industry as compared to the textile sub-industry. The available statistics also show that labour productivity and the value of capital investment in the textile and clothing industry are relatively lower compared to the overall manufacturing sector in the country.

Nonetheless, it is highly evident from this study as well as reports of previous scholars that Malaysia should not neglect the potential contribution of small firms to its industrial development. The existing condition of small firms' inefficiency and largely on traditional organisation and techniques of production have to and should be, changed and improved. Given the rapid economic growth and industrial development, the country is now poised to enter the ranks of NICs (Newly Industrialised Countries) (see for instance Lim 1986 and ADB 1990), Malaysian small firms may have a great prospect for further growth and may offer excellent opportunities for more efficient capital utilisation, greater productive employment, more equal income distribution, entrepreneurship development and greater regional distribution. It is believed that as the country develops, small firms will become even more important as there is a great tendency to associate with large firms as has been the case in highly developed nations such as the United States, the United Kingdom, Japan, Canada etc. Yet small firms remain a vital force in the manufacturing sector and its importance has increased rather than diminished in these countries. In 1953, the Small Business Administration was created by the US Congress 'to protect, strengthen, and effectively represent small firms within the Federal Government, thereby ensuring that small business would be a part of the U.S.'s free enterprise system' (see in Lim 1986:120). In Canada, there is a Minister of State for Small Business which provides unequivocal support to small firms. If these developed countries find it necessary to assist small firms, then Malaysia is no exception and has to follow a similar example. In more recent times, the experience of Japan and the NICs of Asia seem to suggest that small firms are a necessary condition for accelerated and sustained development (Soon 1983, Chen 1984).

The Malaysian government involvement in small industry began exclusively after
1970 when the New Economic Policy was introduced. During colonial rule, small industry was neglected as was the manufacturing sector in general. When the country regained Independence in 1957, the paramount objective of the government was industrialisation and that meant the establishment of large firms. Therefore, there was no policy support to small industry in the country First and Second Malaya Plans\(^4\), although the latter was given some recognition in the First Malaysia Plan (1966-1970)\(^5\).

The First Malaysia Plan, however, emphasised promoting small industry in line with assistance to ‘Bumiputra’ entrepreneurs. The Second and Third Malaysia Plan (1971-1975, 1976-1980 respectively) put great emphasis on promoting small firms in the manufacturing sector as well as entrepreneurship development. From the Fourth Malaysia Plan (1981-1985), the focus has been on making small industry promotion an integral part of the strategies to develop the manufacturing sector and industrial development of the country. It is found that the emphasis has changed from ‘inward-looking’ programmes, i.e. domestic market-orientated, to ‘outward-looking’ supports which encourage small firms to strive for export development.

It is found there are 13 ministries and 30 government agencies with various responsibilities and a number of programmes to promote small industry which are broadly divided into four types. Under financial and credit assistance, the imposition of Priority Lending Guidelines by the Central Bank to the commercial Banks, finance companies and other development finance institutions to lend specified amounts with interest rates below the market level to small firms have been the most important supports. Moreover, with the collaboration of the commercial banks and development finance institutions in particular, the Central Bank has introduced a number of schemes such as the General Guarantee Scheme (CGS), Special Loan Scheme (SLS) and the Principal Credit Scheme (PCS) which are the most accessible to small firms. In terms of the amount and number of firms to have received benefit from government policy supports in particular,

\(^4\)Previous name for Malaysia.

\(^5\)Prior to the First Malaysia Plan (1966-70), there were two other five-year plans known as the First Malaya Plan (1956-1960) and the Second Malaya Plan (1961-1965).
commercial banks and development finance institutions (especially Bank Penbangunan Malaysia Berhad and Malaysian Industrial Development Finance Berhad) seem to have shared a significant responsibility towards providing credit to small businesses.

Two main types of programmes were introduced in providing technical and training for small firms. These include entrepreneurial development and business management training, and the technical skills training. The entrepreneurial development and business management training covers a wide spectrum of courses for a number of small business's activities. Overall, the courses may be summarised into four major aspects of: i) entrepreneurial motivation, ii) project selection and identification (proposal for business ventures), iii) management (small business management, production management, book-keeping and financial management, cost and credit control, distribution and retailing, price setting, marketing strategy, taxation and cash control, management and business communication), iii) formation of companies (includes legal forms of business and registration of business). The National Productivity Centre (NPC) is a forerunner in providing these courses, followed by several other main agencies such as the Malaysian Entrepreneurial Development Centre (MEDEC), MARA and Small Business Development Centre at the National Agricultural University.

Under the government’s policy support programmes on extension and advisory services for small firms, three major aspects are important. These are management consultancy services, marketing and market research, and product quality improvement, quality control and design improvement. For the management consultancy services and marketing and market research, MEDEC, MIDA, and MARA are the main providers, while the Standard and Industrial Research Institute of Malaysia (SIRIM) under its branches provides essential advisory services for product quality, design quality and improvement control. A review also found that The Malaysian Industrial Estates (MIEL) with the collaboration of the State Economic Development Corporation (SEDCs) is the main provider of infrastructural supports for small firms. The Urban Development Authority (UDA), MARA are also among the agencies that play an important part in providing physical facilities for small firms.
To conclude, a review of the existing policy supports above reveals that there are extensive assistance programmes and numerous government agencies involved in supporting the development of small firms in Malaysia. It is indeed with these policy supports that the Malaysian government has hoped to upgrade and modernise the development of small firms corresponding to the rapid industrial economic development of the country for the past decades. However, the success of these supports relies entirely on its implementation. As there has been no assessment on the effectiveness of these supports at the individual level of the development of small firms, one can not conclusively state the outcome of these support programmes. This is one of the paramount reasons as to why the study has chosen to systematically analyse this issue in one sub-industry, i.e. the textile and clothing industry as a prime focus of the research.
CHAPTER FIVE

5.0: DESCRIPTIONS OF THE SAMPLE

5.1: Introduction

This research study is based upon a comprehensive survey of small textile and clothing firms in Kuala Lumpur and its satellite town Petaling Jaya, using the sampling techniques explained in Chapter Three. This chapter describes the surveyed firms on the basis of the information collected in the research. In pursuing this, the chapter is structured in three inter-related parts. The first major part will present the key attributes of the small firms in the sample. The second part discusses the characteristics of workers involved in the small firms. The third part describes the characteristics of the surveyed owner/managers. The last part will summarise the findings of the whole sample.

5.2: The Attributes of the Small Firms

There are five variables relating to the characteristics of the firms in the sample. These are the following: i) type of products, ii) ownership status of the firms, iii) locational site of the firms, iv) size of the firms and v) age of the firms. These variables will be described in each of the following five sub-sections.

5.2.1: Types of Products in the Sampled Firms

There are different types of textile and clothing products produced by the sampled firms. While the distinction between textile and wearing apparel (clothing/garment) products is quite clear under the Malaysian Standard of Industrial Classification (MSIC)\(^5\), detailed specifications of products within the individual textile outputs and clothing/garment goods have not been well clarified in the official records\(^6\). This situation has caused some difficulty in our research study. For example, some sampled firms produce a variety of products covering children wears, men’s shirts, shorts, trousers

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\(^5\)The textile products were known as Code 321 and wearing apparel was given as Code 322. See Industrial Survey 1985, Department of Statistics, Government Printer: Kuala Lumpur.

\(^6\)There has been no clear-cut classification within numerous types of textile goods and a variety of garment/clothing products from the government records (as in Industrial Surveys 1985 and Ministry of International Trade and Industry 1990) as well as private institutions in Malaysia (such as Malaysian Textile Manufacturers Association, Malaysian Knitting Manufacturers Association and Malaysian Garment Manufacturers Association).
and women's shirts, skirts and other fashions. These products are impossible to classify individually according to, for instance, sex and/or age categorisations.

After some observation of the products manufactured by the small firms, the research study classified them into two sub-categories of textile products and three sub-categories of clothing/garment goods. The two sub-categories of textile products are the 'upstream' and 'downstream' textile goods. The 'upstream' textile goods include woven grey fabric, dyeing and finishing yams, spinning, cotton, yams, woollen yarn, polyester yarns, acrylic, knitted fabrics, silk fabrics and yarn dye fabrics. Meanwhile, the 'downstream' textile products produced by the small firms are: laces, braids, rope, twine, rugs, towels, bedsheets and pillow cases. The first sub-category of the clothing/garment products is typical clothing/garment products. These include children wears, ladies fashions, night dresses and skirts, T-shirts, polo shirts, men's shirts, jeans, trousers, shorts, jogging suits and raincoats. The second sub-category is 'batik', 'sari', 'sarung' and silk garments. The third sub-category under the clothing/garment products is other wearing apparels, including gloves, socks, stockings, ties, zippiers, button, labels etc. It is imperative to note at this stage that there may be other ways of classifying the textile and garment products. However, to avoid overlapping products manufactured by the firm in the sample under each sub-category, the above classification is thought to be the most appropriate.

<table>
<thead>
<tr>
<th>Type of Products</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Textile Goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upstream textile goods</td>
<td>7</td>
<td>13.7</td>
</tr>
<tr>
<td>Downstream textile goods</td>
<td>4</td>
<td>7.8</td>
</tr>
<tr>
<td>ii) Clothing/Garment Products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Typical clothing goods</td>
<td>35</td>
<td>68.6</td>
</tr>
<tr>
<td>Batik, sarung, sari and silk garment</td>
<td>4</td>
<td>7.8</td>
</tr>
<tr>
<td>Other wearing apparels</td>
<td>1</td>
<td>2.0</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

On the basis of the above categorisation, the attributes of the textile and clothing outputs are presented in Table 5.1 above. It is learnt that 68.6 percent of the total firms
produce typical garment/clothing products. About 13.7 percent of them manufacture the 'upstream' textile products. The remaining sampled firms producing 'downstream' textile goods, and batik, sarung, sari and silk garments, comprise the least significant proportion.

The data above is closely linked to the nature of this industry in the country where small firms tend to be involved in the clothing/garment products whereas larger firms are more involved in the textile goods, confirming the earlier reports of Fong (1986), NPC (1990) and MIDA (1990). In particular, our finding corroborates the reports that a disproportionate number of large firms and giant multi-national companies are involved in the textile sub-industry using relatively high technology and capital intensive production techniques as compared to the relatively small-scale operation in clothing/garment establishments (as reviewed in Chapter Four previously; see also NPC 1990:13). This reason, hence, coincides with the typical small firms that mainly depend upon labour-intensive production techniques, family business activity and low capital investment, as discussed earlier in section 4.5 of Chapter Four.

5.2.2: Ownership Status of the Sampled Firms

Ownership status in this research was identified as a sampled firm being a sole operator, private partnership, private limited company or a public limited firm. Table 5.2 reveals that 72.5 percent of the sampled firms have sole operator status. 21.6 percent of them are private partnership firms. The finding has, hence, provided further evidence of the domination of family operations in the small firms in the country (Lim 1988, ADB 1990, Salleh 1991) as well as in developing countries (DeConnick 1980, Aryee 1981, Chowdhury 1982, Andersson 1987:172). In addition, as it has frequently been reported that (see for instance Chee 1979, Lim 1986, and Salleh 1990 and 1991) the private partnership firms in the country are usually a form of partnership around family-relations, there is a great possibility that the private partnership firms in our sample are also a

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57 It is important to note at this stage that although only a few sampled firms have registered with the Ministry of International Trade and Industry under the Industrial Coordination Act (ICA) which is responsible for licensing the manufacturing establishment in the country (6 firms), the majority of them have registered with the local authorities, i.e. either at Kuala Lumpur City Hall or Petaling Jaya Municipal Council. Only 17.6 percent (or 9 firms) were acknowledged to have not registered with either ICA or the local authorities. These firms are found to be operating on illegal land (backyard areas).
partnership around a family-relation.

Table 5.2: Distribution of the Sampled Firms by Ownership Status

<table>
<thead>
<tr>
<th>Legal Status</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole operator</td>
<td>37</td>
<td>72.5</td>
</tr>
<tr>
<td>Private Partnership</td>
<td>11</td>
<td>21.6</td>
</tr>
<tr>
<td>Private Limited</td>
<td>3</td>
<td>5.9</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

5.2.3: Locational Site of the Sampled Firms

It is widely accepted that one of the major constraints impeding the development of small firms in developing countries is either the limited availability of industrial sites or the high cost of industrial land and factory space (see McGee and Yeung 1977:113-118, Sharma 1979, Harper and Tan 1979, Farbman 1981, Bromley 1985 etc.). In Malaysia, however, it has been commonly reported that the high cost of industrial land is the most pressing problem rather than the availability of locational sites (Chee 1979, Lim 1988 and ABD 1990).

Due to this problem, many small firms are located illegally in residential and backyard areas, contravening zoning regulations, and influencing their production and growth performance. It is claimed that most small firms are cramped in small spaces under cluttered conditions and with poor plant layout which together contribute to inefficiency, higher costs and low quality products (ADB 1990:35-37). In view of these claims, it is beneficial to observe empirical evidence from our research study.

In describing the locational sites in the study area, we have identified four distinctive types of locational premises used by small firms. The first are proper industrial sites. These sites are specifically provided by the government for small and medium-sized firms (this will be discussed exclusively under government policy supports for small firms in Chapter Six). The second type are shop-buildings. Shop-buildings are usually concrete buildings containing several units/lots built either by government or private developers in the centre of housing or residential areas for small traders and small retailers selling daily
goods for the consumption of the surrounding inhabitants. However, quite often some buildings in many areas (in Kuala Lumpur and its satellite town, Petaling Jaya) or some units/ lots of the buildings are used by other wholesalers and small manufacturing firms, particularly small clothing/garment and food manufacturers. These areas include Jalan Kuchai Lama, Ulu Klang, Ampang Jaya, Sections 8 and 11 and Sea Park. Hence, these establishments were located in the retailing centres of residential areas.

This is different to the third type of locational space, i.e. the siting of firms in houses which are apparently concrete-built houses. Although these firms were also found in residential areas, they are not in one central location of housing/residential areas but are scattered in different parts of the housing/residential areas. Besides the residential locations mentioned in the previous paragraph, the firms which site their operations in houses were also observed in the Taman Tun and Taman Melawati areas. Premise in both shop-buildings and in houses are illegal and contravening zoning regulations. The last type of locational site identified in the study are firms which operate their business on illegal land, sometimes known as ‘backyard areas’. This land is owned either by the government or private property in the typically former mining areas in the Kuala Lumpur and Petaling Jaya that have become squatter settlements. These areas include Jalan Sentul, Jalan Gombak, Jinjang and Ampang areas. While all the sampled firms in the industrial sites, in shop-buildings and in houses have registered with at least the local authorities (if not with ICA), these firms are not registered with any government agencies/local authorities.

Based upon the classification above, characteristics of the locational site of the small firms are presented in Table 5.3. It is observed that more than 54 percent of the total small firms located their establishments in shop-buildings. About 23.5 percent were located in houses. It is interesting to note that only 3.9 percent of the sampled firms are found on industrial sites.

The findings indeed corroborate earlier reports of a disproportionate number of

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This is because locations provided are only for small traders and residential purposes rather than for commercial and industrial areas.
small firms in the country siting their establishments other than in the industrial zones (Lim 1986:41-44, Ismail 1990:52-66). It is generally observed that working conditions particularly in two locations, i.e. in houses and in backyard areas are rather poor in several aspects such as lighting, ventilation and have little regard for safety and pollution control as compared to those who located their establishments in industrial sites and shop-buildings (see also in ADB 1990:35-36).

Table 5.3: Distribution of the Small Firms by Locational Site

<table>
<thead>
<tr>
<th>Type of Locational Site</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shophouse/building</td>
<td>28</td>
<td>54.9</td>
</tr>
<tr>
<td>In Houses</td>
<td>12</td>
<td>23.5</td>
</tr>
<tr>
<td>Backyard Area</td>
<td>9</td>
<td>17.6</td>
</tr>
<tr>
<td>Industrial Site</td>
<td>2</td>
<td>3.9</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

It was mentioned that, nowadays a large number of illegal small firms create a dilemma for the local authorities as compared to 8 or 9 years ago. If they strictly enforce the zoning code regulations, many small firms which operate in shop-buildings, in houses and in backyard areas would be forced to close. This means unemployment for the people who depend upon them, the unemployment rate would go up and manufacturing outputs would decline (Lim 1986:41-44). This is one of the reasons why the authorities do not make a frequent inspection of many small firms operating in shop-buildings and in houses.\(^5\) However, there is more frequent enforcement of regulations on small firms sited on illegal land where disturbances (noise and safety-related precautions) are caused to surrounding residents which are frequently reported.\(^6\)

It is also possible that less enforcement is practised by local authorities in some

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\(^5\)This view was expressed in the conversations with several government officials from the Small-scale Enterprise Division (SSED) at the MITI (Mr. Z. Rafiq), the Kuala Lumpur City Council (the Director of Licensing -Mrs H. Othman) and Petaling Jaya Municipal Council (Assistant Director-Press Division, Mrs Z. Diah).

\(^6\)In addition to the conversations with the government officials during the fieldwork, examples of more frequent enforcement of regulation on small firms sited on illegal land can be seen in New Straits Times (City Extra Volume - Thursday March 25, 1993:1-2) where several reports on illegal small firms and petty traders have been compounded by the Kuala Lumpur City Hall.
areas of shop-buildings due to less prudent planning in the past. It is acknowledged that many small firms were originally far away from the city centre. However, with the rapid development and the expansion of the city and its satellite town, many of the firms are presently surrounded by residential houses. Local authorities have to redesign the residential zones with the result that firms previously located in an industrial zone, are now sited in residential areas (Lim 1986:42).

5.2.4: Size of the Small Firms

The size of the small firms will be described in terms of number of full-time employees and the value of fixed capital. The categorisation of the size of the small firms according to the number of employees are presented in Table 5.4. As the Table shows, 39.2 percent of the small firms in the sample have less than 10 employees, while 23.5 percent have between 10 and 19 employees. The mean of the number of employees is 19.1 per firm.

Table 5.4: Distribution of Firms by Size of Employee Group

<table>
<thead>
<tr>
<th>Size of Employee</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 10 workers</td>
<td>20</td>
<td>39.2</td>
</tr>
<tr>
<td>10 to 19 workers</td>
<td>12</td>
<td>23.5</td>
</tr>
<tr>
<td>20 to 29 workers</td>
<td>6</td>
<td>11.8</td>
</tr>
<tr>
<td>30 to 39 workers</td>
<td>4</td>
<td>7.8</td>
</tr>
<tr>
<td>40 to 49 workers</td>
<td>9</td>
<td>17.8</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

In terms of value of fixed capital, Table 5.5 above shows that the largest proportion of the sampled firms, 45.1 percent, have fixed capital between $M40,000 and $M59,999. About 29.4 percent of them have the value of fixed capital from $M80,000 to $M99,999. The mean of fixed capital per firm is $M62,549.

41A local newspaper, for instance, described the fortnight notice issued by City Hall in Kuala Lumpur to 50 clothing manufacturers who had to cease operation and move out of their premises for contravening regulations. Those affected were small operators with 30 machines each (Malay Mail, June 24, 1981).
Table 5.5: Distribution of Sampled Firms by the Value of Fixed Capital

<table>
<thead>
<tr>
<th>The Value of Fixed Capital (M$)</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below $20,000</td>
<td>3</td>
<td>5.9</td>
</tr>
<tr>
<td>$20,000 to $39,999</td>
<td>1</td>
<td>2.0</td>
</tr>
<tr>
<td>$40,000 to $59,999</td>
<td>23</td>
<td>45.1</td>
</tr>
<tr>
<td>$60,000 to $79,999</td>
<td>9</td>
<td>17.6</td>
</tr>
<tr>
<td>$80,000 to $99,999</td>
<td>15</td>
<td>29.4</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

The finding above clearly corroborates the previous surveys conducted by the Department of Statistics (1982) which noted that the largest proportion of small firms (i.e. 45 percent) were small establishments, that is, below 20 full-time employees, with a small proportion of fixed assets (see also in Lim 1986:17). The findings also parallel the reports of Salleh (1990:2), Fong (1986), MIDA (1990) and NPC (1991) on the predominance of small establishments within the textile and clothing industry in the country (see also in Chapter Four).

5.2.5: Age of the Firms in the Sample

The time period for the age of the sampled firm was measured from the establishment of the firms up to January 1991. The age of the firms are illustrated in Table 5.6. It is observed that 47.1 percent of the sampled firms are found to be in the age group from 7 to 9 years. This is followed by the sampled firms which have been in business for 10 to 12 years, comprising 17.7 percent of the total. The mean age of the firms in the sample is 10.2 years.

The result appears to indicate that the age of small textile and clothing firms in Kuala Lumpur is relatively young, as compared to evidence about all small firms in the country which was put at an average of about 15 years (Lam 1989:28) and 12.3 years (SRM 1990:33). It also seems to be much younger when compared to evidence in Kumasi, Ghana, where it was found about the average length of time in operation of the small firms is 26.5 years (Aryee 1981:91). This would indicate that generalising the age of small firms in Malaysia as well as internationally is not appropriate. Different operational
definitions of small firms adopted in different studies, different sub-industries of economic activity, time and different stage of economic development among developing countries are often thought to be the main determinants for the different results.

Table 5.6: Distribution of the Small Firms by Age Group

<table>
<thead>
<tr>
<th>Age of the Firm</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 3 years</td>
<td>2</td>
<td>3.9</td>
</tr>
<tr>
<td>4 to 6 years</td>
<td>3</td>
<td>5.9</td>
</tr>
<tr>
<td>7 to 9 years</td>
<td>24</td>
<td>47.1</td>
</tr>
<tr>
<td>10 to 12 years</td>
<td>9</td>
<td>17.7</td>
</tr>
<tr>
<td>13 to 15 years</td>
<td>4</td>
<td>7.8</td>
</tr>
<tr>
<td>16 years and above</td>
<td>9</td>
<td>17.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The relatively younger age of the small firms in the sample may well be correlated to the relatively recent proliferation of manufacturing establishments from the early 1970s as the country moved towards the industrial sector as the main contributor to the GDP (see section 4.2 of Chapter Four). Rapid industrialisation and the development of the manufacturing sector in general has directly and indirectly influenced a growing number of small textile and clothing firms as a supporting activity to the proliferation of big textile and clothing companies (see the significant inter-firm linkages which will be described in Chapter Seven).

5.3: Characteristics of Employees in the Sampled Firms

The objective of the research presented in Chapter One indicates that the characteristics of employees are not the main focus of the research, as in the case of many other studies of small-scale enterprises. However, as an understanding of the characteristics of the sample firms is important to the overall findings of the research study, a specific questionnaire was designed to elicit this information. The information was derived from 51 firms comprising a total of approximately 882 full-time workers.

\footnote{According to Fong (1986:Chapter 1), this development is, among others, due to the direct effect of the Investment Incentives Act 1968 that offers a wide range of incentives to investors.}
The research, however, did not question every single employee in these firms. Rather the particulars were made available through either the owner/manager, accountant or supervisor of the firms. It is pertinent to point out at this juncture that although the employees were not directly interviewed, every effort was made in order to guarantee the highest precision on the information which was consistently maintained throughout the fieldwork. In this case, a separate set of questionnaires was designed for participant characteristics. Several visits were made to some firms to give interviewees the time to check further with his/her employees on the information required in the questionnaire when ambiguity or uncertainty arose. Quite often the researcher was asked to go to another person (who was apparently 'in-charge' of the workers) in the same firm to get information on particular participant characteristics.

Information on workers which was collected refers to the following issues: i) demographic characteristics of employees include age, sex, marital status, ethnic group and educational level, and ii) income characteristics such as the manner of wage payment and basic wage per month. These issues will be presented in the following two subsections.

5.3.1: Demographic Characteristics of Employees in the Firms

Age is one issue which was included in the questionnaire and the findings are summarised in Table 5.7. A wide age range among the workers can be observed, from as young as below 16 years old to as old as 50 years. However, 72.8 percent of employees in the sampled firms are in the age group below than 31 years old with the highest proportion in the 21 to 25 year age group. The mean of age is 26.9 years old per worker.

69Because of the way this data was collected, demographic variables relating to workers cannot be cross tabulated.
Table 5.7: Distribution of Employees by the Age Group

<table>
<thead>
<tr>
<th>Age of the Worker</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 16 years</td>
<td>13</td>
<td>1.4</td>
</tr>
<tr>
<td>16 to 20 years</td>
<td>112</td>
<td>12.7</td>
</tr>
<tr>
<td>21 to 25 years</td>
<td>321</td>
<td>36.4</td>
</tr>
<tr>
<td>26 to 30 years</td>
<td>197</td>
<td>22.3</td>
</tr>
<tr>
<td>31 to 35 years</td>
<td>136</td>
<td>15.4</td>
</tr>
<tr>
<td>36 to 40 years</td>
<td>79</td>
<td>9.0</td>
</tr>
<tr>
<td>41 to 45 years</td>
<td>6</td>
<td>0.7</td>
</tr>
<tr>
<td>46 and above</td>
<td>18</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>882</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

It is observed in Table 5.8 that male employees are outnumbered by their female counterparts. Out of 882 full-time employees, about 71.2 percent were women. Our findings indeed confirm the previous studies in the same industry conducted by the Malaysian Trade Union Congress (MTUC, 1985)\(^4\), Ministry of Labour (1985)\(^6\) and Ai Yun (1986)\(^6\). Elsewhere in other developing countries, the domination of female labour force in this industry is also recorded. It is estimated that about 80 percent of the total labour force in textile and clothing industry in Thailand are women (UNIDO 1993:27) and that of the total labour force in Indonesia are 77 percent (see UNIDO 1993:45).

Nonetheless, it is not possible to generalise the high participation of women in the textile and clothing industry over all developing countries. In Bangladesh, it is noted that 90 percent of the total work force in this industry are men (UNIDO 1993:18). Possible explanations for this diversion are different socio-cultural values, technological/automation used, stage of economic development, government policy and legal framework. This

\(^4\) MTUC 1985, *A case Study of Textile and Garment Workers in Peninsular Malaysia*, MTUC; Kuala Lumpur. It is noted that 66.3 percent of the surveyed workers were women (p.22).

\(^6\) Ministry of Labour 1985, *Occupational Profile of the Textile and Clothing Industry in Malaysia*, Government Printer; Kuala Lumpur. It is found that from 24,230 production workers in this industry, 84.4 percent were women (p.3).

\(^6\) Hing Ai Yun 1986, * Malaysian Textile Workers: A Case Study*, Institute of Advanced Studies, University of Malaya, Kuala Lumpur. It is documented that in the garment sub-industry, female-male workforce ratio is 4:1, (p.6).
closely relates to the theoretical assertion raised by flexible specialisation analysts who strongly argue of the need to analyse (small) firms in the context of a specific economic and socio-cultural environment rather than generalising the issue across countries.

Table 5.8: Distribution of Employees by Sex

<table>
<thead>
<tr>
<th>Sex of the Worker</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>254</td>
<td>28.8</td>
</tr>
<tr>
<td>Female</td>
<td>628</td>
<td>71.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>882</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

In terms of marital status of the employees, it can be seen from Table 5.9 that 74.7 percent of the total have single status. The disproportionate number of workers who are single probably correlates to the women factory in the urban areas of the country who tend to get married in the later age as compared to rural women. Taking into account the high proportion of female workers, this would imply that there are a high proportion of single women among the textile and clothing employees in the sampled firms. Although the national average at marriage is not available, Nye (1983) recorded that women in the rural areas tend to get married at a tender age as compared to women in the urban areas, the mean age of the workforce of the sampled firms at 26.9 years implies that high proportion of single women workers are older for not having married. The ethnicity of the workers as shown in Table 5.10 thrown more light on these findings.

Table 5.9: Distribution of the Employees by Marital Status

<table>
<thead>
<tr>
<th>Marital Status</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>659</td>
<td>74.7</td>
</tr>
<tr>
<td>Married</td>
<td>216</td>
<td>24.5</td>
</tr>
<tr>
<td>Separated/widowed</td>
<td>7</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>882</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

---

67He found that women in the rural tend to get married usually between 15 and 19 years old, as compared to women in the urban areas who tend to get married after the age of 18 years old (see 'Status of Rural Women' in Malaysian Women: Problems and Issues, E. Hong (ed.) 1983, Consumers Association of Penang: Penang, Malaysia.
Looking at the distribution of employees by ethnic group, Table 5.10 below clearly shows that Chinese are disproportionately represented in the small firms. Only about 20 percent of the total workers consist of other ethnic groups, that is Malays and Indians. Therefore, our findings verify consistent evidence of predominantly Chinese involvement in business and commercial activities and small firms in the country (see Chee 1979, Lim 1988, Salleh 1991) as well as in the textile and clothing industry (see in MTUC 1985, Ministry of Labour 1985 and Ai Yun 1986). The high proportion of Chinese workers in the sampled firms highly may be related to the fact that a large proportion of owner/managers are Chinese (this will be presented in the next section). This shows that the trend of employing family-labour and relative as their employees in small-scale operation as claimed previously is highly relavant (Fong 1986, Lim 1988, Salleh 1991 etc.). The disproportionate number of Chinese employees in the sampled firms also correlates to the large proportion of unmarried women employees in the sampled firms. The Chinese population resides mainly in the urban areas and tend to get married at a later age as compared to Malays and Indians, who mainly live in rural areas (Nye 1983). However, given the average age at marriage for women in urban areas, this still does not fully explain the finding of older single women in the textile and clothing firms. This raises an interesting question for further research: does working in this kind of job reduce and delay chances of marriage?

Table 5.10: Distribution of the Employees by Ethnic Groups

<table>
<thead>
<tr>
<th>Ethnic Group</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese</td>
<td>698</td>
<td>79.1</td>
</tr>
<tr>
<td>Malays</td>
<td>107</td>
<td>12.1</td>
</tr>
<tr>
<td>Indians</td>
<td>77</td>
<td>8.7</td>
</tr>
<tr>
<td>Total</td>
<td>882</td>
<td>100</td>
</tr>
</tbody>
</table>

From Table 5.11, it is found that the formal educational attainment of the employees in the sampled firms is relatively low as compared to those who usually work in large firms and who are normally required to have a certain level of formal education (Chee 1979, Lim 1988, Salleh 1991). It is revealed that 59.1 percent of the total workers in the sample have obtained the Lower Certificate of Education (LCE), while 29.5 percent...
of them have only attended primary school. None of them is found to have obtained the
tertiary certificate. Therefore, in summary, this demographic information points out to a
predominantly older single Chinese female workforce with relatively low educational
qualification in the sampled textile and clothing firms.

Table 5.11: Distribution of the Employees by Educational Level

<table>
<thead>
<tr>
<th>Educational Attainment</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No formal education</td>
<td>14</td>
<td>1.6</td>
</tr>
<tr>
<td>Primary</td>
<td>260</td>
<td>29.5</td>
</tr>
<tr>
<td>Lower Certificate (LCE)</td>
<td>521</td>
<td>59.1</td>
</tr>
<tr>
<td>Medium Certificate (MCE)</td>
<td>81</td>
<td>9.2</td>
</tr>
<tr>
<td>Higher Certificate (HSE)</td>
<td>6</td>
<td>0.7</td>
</tr>
<tr>
<td>Total</td>
<td>882</td>
<td>100</td>
</tr>
</tbody>
</table>

5.3.2: Income Characteristics of the Employees in the Sampled Firms

Our description will now shift to the economic aspects of the workers. The first
issue to examine is the distribution of the employees by the method of wage payment.
This is presented in Table 5.12. It is observed that the majority of employees are paid on
a daily basis, comprising 56 percent of the total. The data, thus, points out a clear
difference in small firms as compared to the common method of wage payment for
employees in the public sector as well as large companies (Ayadurai 1985). This
clearly reflects the nature of the small operation of the sampled firms that require them
to pay on a daily basis and at piece rate rather than on a monthly basis. This finding
complements the previous evidence of hammock industry in Brazil where it is noted that
a large proportion of employees are paid on piece rate basis (Schmitz 1989:31).

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68D. Ayadurai 1985, The Employer, the Employee and the Law in Malaysia, Butterworth Publication;
Singapore. It is pointed out that although the level of salaries and method of wage payment in the private sector
depend on either employer-employee negotiations or employer-union collective bargaining, the public sector is
always the main guide. Since the government is the largest employer, its wage policy on the monthly basis widely
affects the determinant of method wage payment in the nation.

69It may be relevant to note that since public employees and many of those who are in the large companies
are paid on a monthly basis and this wage policy is practised nationwide, there is a common perception among
the public that monthly payment is more secure income for employees as compared to other methods.
Our finding indeed suggests a significant implication to theoretical argument postulated by flexible specialisation analysts who claimed that the method of payment (piece rate as well as daily basis) is part of 'flexible efforts' made by small firms in their adjustments to minimise the rewards for labour, in addition to the avoidance of national insurance and social security contributions. Through these elements they are able to compete with large firms in terms of cost competitiveness (Schmitz 1989). Although the study does not specifically focus on the issue of whether workers in our sample have registered or not with their respective trade unions and with the Employment Provident Fund (EPF), previous evidence from MTUC (1985), Ministry of Labour (1985) and Hing Ai Yun (1986) have shown that only a limited number of employees in the small textile and clothing industry have done so.

Table 5.12: Distribution of Employees by the Method of the Wage Payment

<table>
<thead>
<tr>
<th>Wage Payment</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly</td>
<td>40.9</td>
<td>10.8</td>
<td>19.5(172)</td>
</tr>
<tr>
<td>Daily</td>
<td>56.3</td>
<td>56.2</td>
<td>56.2(496)</td>
</tr>
<tr>
<td>Piece rate</td>
<td>2.8</td>
<td>31.5</td>
<td>23.2(205)</td>
</tr>
<tr>
<td>Time rate</td>
<td>0.0</td>
<td>1.4</td>
<td>1.1(9)</td>
</tr>
<tr>
<td>Total</td>
<td>100(254)</td>
<td>100(628)</td>
<td>100(882)</td>
</tr>
</tbody>
</table>

Furthermore, there are significant differences in the method of payment between men and women. As the Table shows, 40.9 percent of men get a monthly wage as compared to 10.8 percent of women workers. In addition, the wage payment on the basis of piece rate is a relatively higher percentage for women employees, at 31.5 percent, as compared to men workers who accounting for only 2.8 percent. This data is likely to be linked to the nature of occupational composition of this industry which pays differently for different lines of operation and related to this, reflects gender segregation of jobs in this sub-industry.

Within the textile and clothing industry in the country, production workers who are normally paid on the basis of piece rate or daily basis comprise the largest work force (see Department of Statistics, Population and Housing Census 1980 and Industrial Surveys...
1981). Since most operators of production lines such as knitting, sewing, weaving, cutting clearing and printing operators are traditionally dominated by women (Ministry of Labour 1985:3 and 5, MTUC 1985:32, Ai Yun 1986:6), it is not surprising that a considerable proportion of women workers in our sample are paid on the basis of this method as compared to men employees. The relatively higher proportion of male employees who are paid on the monthly basis as compared to their women counterparts is possibly due to the predominance of men employees work in the technical and administrative jobs such as professional, manager, accountant, technician or mechanic for machinery and/or equipments. These types of jobs usually require employees who are guaranteed by monthly payment.

The above findings are similar to the evidence in Thailand and Bangladesh where the top management positions are all held by men (UNIDO 1993). Most women are confined to the production worker category, attending machines, while their mobility does not usually go higher than to a supervisor (or forewomen) of a production line. Chiefs/shifts leaders with technical responsibility for maintenance and repairs, and production manager posts are all filled up by men. The reason for low female occupational mobility in Malaysia may be traced to the lack of a technical background of women and ultimately to social and religious values which result in a general acceptance by men and women that production tasks are more appropriate to women, and technical and administrative tasks to men. As a general pattern, female manufacturing labour force has the highest percentage of women with no education and the lowest proportion of women with high education. Although the percentage of women in secondary, vocational and higher education increased in the last 20 years, the percentage of women in the field of industrial technology is still less than 17 percent (Jomo 1989:27). Therefore, disparity in educational attainment between men and women presents an additional advantage for men. Socially, women also performing other duties connected to

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70It is recorded that in 1987, only 59 percent of the total women in Malaysia aged 10 years old and above have attended up to formal secondary school and only 7 percent of them have reached tertiary education, (World Bank 1990:235). Meanwhile, in terms of adult illiteracy in 1985, a total of 34 percent is recorded for female as compared to 27 percent of the total male (World Bank 1990:179). Figures on Kuala Lumpur in 1980 show that 2.7 percent of the total male aged 10 years and above are illiterate as compared to 8 percent for female (Department of Statistics 1988:49).
the household and high proportion of single women, so may not have these responsibilities could not afford to give this activity their individual attention.

Nevertheless, the importance of taking into account the socio-economic and political context is critical. For example, in Indonesia in the same sub-industry, over 75 percent of women were found among managers, designers and pattern makers as well as supervisors (UNIDO 1993:45). The strong position of women in other than production line jobs can be explained by traditional involvement of women in these activities which have been accepted culturally (UNIDO 1993:47-48). The rather surprisingly high share of female in the managerial posts in large firms as well as owner/managers in small firms can be explained by the social acceptability of Indonesian socio-culture (UNIDO 1993:45).

<table>
<thead>
<tr>
<th>Wage Payment (M$)</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $200</td>
<td>0.0</td>
<td>1.9</td>
<td>1.9(17)</td>
</tr>
<tr>
<td>$200 to $299</td>
<td>13.8</td>
<td>27.2</td>
<td>23.4(206)</td>
</tr>
<tr>
<td>$300 to $399</td>
<td>39.0</td>
<td>54.3</td>
<td>49.9(440)</td>
</tr>
<tr>
<td>$400 to $499</td>
<td>25.6</td>
<td>7.8</td>
<td>12.9(114)</td>
</tr>
<tr>
<td>$500 to $599</td>
<td>9.8</td>
<td>5.1</td>
<td>6.5(57)</td>
</tr>
<tr>
<td>$600 to $699</td>
<td>7.8</td>
<td>2.5</td>
<td>4.1(36)</td>
</tr>
<tr>
<td>$700 and above</td>
<td>3.9</td>
<td>0.3</td>
<td>1.4(12)</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100(882)</td>
</tr>
</tbody>
</table>

The research study only considered the basic wage per month so as to illustrate the income earned by the employees in the sampled firms. For those who are paid on the basis of piece rate, time rate and daily basis, an overall average income per month was computed. The distribution of employees in terms of basic wage per month is therefore, presented in Table 5.13. It shows that the largest proportion of workers earn between M$300 and M$399 per month, consisting of about half of the total workers. The mean of basic wage received by a worker per month is M$366.

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71It is felt that the basic wage is much easier to obtain, excluding other fringe benefits such as working allowance, overtime, etc. This is because the information on fringe benefits is less reliable and different practices were adopted by the small firms in the sample.
However, reflecting the gender division of labour in production, women receive lower basic wages than their men counterparts. The mean for women employees is M$344 per month which is lower than the mean for overall workers and far below the mean for men workers which was M$461 per month. Thus, not unexpectedly, the wage for workers in the production lines is relatively lower as compared to other lines of operation in the small firms. Since most women work as production operators, they are likely to earn less as compared to men workers. Therefore, educational attainment as well as social perceptions towards women and their work (in the production unit or as hired labour) tend to undervalue them and they are paid less than men in the labour force.

5.4: The Personal Characteristics of the Owner/Manager of the Sampled Firms

The available literature presented in Chapter Two strongly emphasised that there are different characteristics of the owner/managers of small firms, and this may contribute towards an understanding of why some small firms are more successful than others. In view of this emphasis, it is important to examine the detailed characteristics of the owner/manager of the small firms in this section as a basis for further analysis of their potential impact on the success of small firms which will be carried out in Chapter Eight. The study identified six issues to be analysed, as follows: i) the employment status of the managers, ii) age, iii) sex, iv) ethnic group, v) educational attainment and, vi) experience of the owner/manager. The detailed characteristics of these sub-issues are presented in the following six sub-sections.

5.4.1: Employment Status of the Manager in the Small Firms

Table 5.14 illustrates that about 68.6 percent of the total owner/managers are the owners of the firms. More than 23.6 percent of the other managers are found to have a family-connection to the owners of the firms such as son/daughter, brother/sister, nephew etc. Only about 7.8 percent of the managers are individuals outside the family-relation.

The findings, thus, reflect that a disproportional number of managers of the small firms are the owners. With less than 8 percent of the total managers being individuals outside the family, it is evident that there is a predominance of the family business in
textile and clothing firms. The data indeed lends its support to the evidence that the family business is a main characteristic of small firms in the country (see for instance Chee 1979, Aziz 1980, Lim 1986, Salleh 1991 etc.) and elsewhere in developing countries (Amin 1982, Quader 1985, Cinar 1988, etc.).

Table 5.14: The Distribution of the Small Firms by the Status of the Managers

<table>
<thead>
<tr>
<th>The Status of the Manager</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner</td>
<td>35</td>
<td>68.6</td>
</tr>
<tr>
<td>Son/daughter to the owner</td>
<td>6</td>
<td>11.8</td>
</tr>
<tr>
<td>Brother/sister to the owner</td>
<td>4</td>
<td>7.8</td>
</tr>
<tr>
<td>Niece/nephew to the owner</td>
<td>1</td>
<td>2.0</td>
</tr>
<tr>
<td>Other-relative to the owner</td>
<td>1</td>
<td>2.0</td>
</tr>
<tr>
<td>Non-relative manager</td>
<td>4</td>
<td>7.8</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

5.4.2: Age of the Owner-Managers in the Small Firms

The age group of the owner/managers is presented in Table 5.15. A wide age range is found but the largest proportion is in the age group of 36 to 45 years old, consisting of 64.7 percent.

With the mean of age 42.7 years, it is clear that the owners/managers of the sampled firms are relatively older than their employees described in the previous sections. The data also seems to indicate that the age of the owners/managers of the small firms is relatively older as compared to evidence in other countries. For example, in Dacca (Amin 1982:99-101), it was noted that 51 percent of small firms’ owners/managers are found to be below the age of 30 years. This simply implies that generalisations regarding the age of the owner/manager of small firms in developing countries is not possible. Different social and economic conditions in developing countries are the main determinants of the different results.
Table 5.15: Distribution of the Sampled Firms by the Age of the Owners/Managers

<table>
<thead>
<tr>
<th>Age of the Managers</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>26 to 30 years</td>
<td>1</td>
<td>2.0</td>
</tr>
<tr>
<td>31 to 35 years</td>
<td>7</td>
<td>13.7</td>
</tr>
<tr>
<td>36 to 40 years</td>
<td>17</td>
<td>33.3</td>
</tr>
<tr>
<td>41 to 45 years</td>
<td>16</td>
<td>31.4</td>
</tr>
<tr>
<td>46 to 50 years</td>
<td>10</td>
<td>19.6</td>
</tr>
<tr>
<td>Above than 50 years</td>
<td>2</td>
<td>3.0</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

5.4.3: Sex of the Owner/Manager of the Small Firms

As shown in Table 5.16, men are disproportionately represented in the owner/managers of the sampled firms. They are found to be 84.3 percent of the total as compared to female managers who consist of 15.7 percent. The data simply implies that men still predominantly control the managerial work in the small firms. Despite the fact that there have been reports\(^7\) that women are increasingly represented in the manufacturing sector and particularly the textile and clothing industry in the country, their participation has yet to reach a significant number in managerial work. It is interesting to note that out of the eight women owner/managers, five of them are owners, while two of them are relatives of the owners. Meanwhile, six women owner/manager are in the age category of 36 to 40 years old. One of them in the age group between 41 and 45 years and another women owner/manager is aged between 31 and 35 years.

Table 5.16: Distribution of the Small Firms by Sex of the Manager

<table>
<thead>
<tr>
<th>Sex</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>43</td>
<td>84.3</td>
</tr>
<tr>
<td>Female</td>
<td>8</td>
<td>15.7</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

\(^7\) see for instance several reports in: i) J. Arrifin 1983 'Women workers in the manufacturing industries' in *Malaysian Women and Issues*, E. Hong (ed.) Consumer Association of Penang:Penang. It was noted that about 41.1 percent of the total manufacturing workforce of the country were women, (see Table 1), ii) Department of Statistics, 1980, *Population and Housing Census*, Government Printer: Kuala Lumpur, (Vol. 1) shown that 72.7 percent of the workforce in the textile and clothing industry were women. iii) Malaysian Trades Union Congress, 1985, *A Case Study of Textile and Garment Workers in Selangor*, MTUC: Kuala Lumpur. It was found that about 60.3 percent of the total labour force in the textile and garment industry of the country were women.
5.4.4: Ethnic Group of the Owner/Managers in the Sampled Firms

The owner/manager's ethnic groups is shown in Table 5.17. It is learnt that more than 90 percent of the owner/managers in the sampled firms are Chinese managers. Cross tabulation on ethnic groups and sex distribution found that all women owners/managers of the sampled firms were Chinese.

Table 5.17: Distribution of the Sampled Firms by Ethnic Group of the Owner/Managers

<table>
<thead>
<tr>
<th>Ethnic Group</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese</td>
<td>46</td>
<td>90.2</td>
</tr>
<tr>
<td>Indians</td>
<td>3</td>
<td>5.9</td>
</tr>
<tr>
<td>Malays</td>
<td>2</td>
<td>3.9</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

The study's data has shown the predominance of Chinese entrepreneurs and the Chinese community's involvement in the business and commercial activities of the country (see sections 4.3 and 4.4 of chapter 4). The disproportionate number of small textile and clothing firms owned by Chinese is also correlated to the large proportion of the Chinese owners/managers in the small manufacturing establishments (Lim 1988:19, ADB 1990:13, Salleh 1991:3). The findings are also relevant to the previous reports of a limited involvement of Malay entrepreneurs in only several types of economic activity such as food processing, furniture, 'batik' and handicraft industries (see Aziz 1980 and Othman 1982).

5.4.5: Educational Level of the Owner/Manager in the Sampled Firms

Table 5.18 shows the characteristics of the educational attainment among the owners/managers of the firms in the sample. It is shown that the majority of them, i.e. 52.9 percent have obtained the Medium Certificate of Education (MCE). The owner/managers who have either only passed the primary school certificate or who have attained a degree (tertiary), form the least significant proportion. Thus, the relatively low level of educational attainment among the owners/managers of the sampled firms may well be correlated to the nature of the small-scale firms and their family-type of operation,
as compared to the giant companies and large firms which usually appoint managers who have obtained a degree. However, educational attainment of the owner/manager is much higher as compared to the workers’ level presented previously. In terms of educational attainment’s distribution by sex, out of the eight women owner/managers, five of them have obtained the MCE. Meanwhile, two have gained the HSE and one of them has obtained the LCE. Although the number are too small to draw any significant conclusion, it would appear that the women owner/managers have a similar educational profile to that of the men.

Table 5.18: Distribution of the Small Firms by Formal Educational Level Obtained by the Owners/Managers

<table>
<thead>
<tr>
<th>Formal Educational Level</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Certificate</td>
<td>3</td>
<td>5.9</td>
</tr>
<tr>
<td>Lower Certificate (LCE)</td>
<td>11</td>
<td>21.6</td>
</tr>
<tr>
<td>Medium Certificate (MCE)</td>
<td>27</td>
<td>52.9</td>
</tr>
<tr>
<td>Higher Certificate (HSE)</td>
<td>7</td>
<td>13.7</td>
</tr>
<tr>
<td>Degree (tertiary)</td>
<td>3</td>
<td>5.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

5.4.6: Experience of the Owners/Managers in the Small Firms

Looking at the experience gained by the owners/managers, the research study has identified three variables for analysis in this sub-section. The first is the owner/managers' experience in general business (outside the textile and clothing industry) before joining and/or establishing the present firm. The second is the experience of the owner/managers in the textile and clothing industry. Lastly, the owners/managers experience with the present firms will be presented. It is relevant to point out at this juncture that there is no owner/manager who has both experience in the general business and in the textile and clothing industry before joining the present firms.

The experience of the owners/managers in the general business before they joined the present firms are presented in Table 5.19. It reveals that 45.1 percent of them did not have any prior business experience, forming the largest proportion. The mean for the number of years of general business’s experience obtained by the owners/managers in the
sample is 3.3 years.

The result is very much correlated to the nature of family succession in the small-scale activity in the country (Chee 1979 and Lim 1988). Family succession is not necessarily in the same business (for the owner/managers who have not gained the experience in the textile and clothing industry) but the knowledge and experience could be used as a 'stepping-stone' to be involved in other family business sub-activities (see for instance, Lai 1987:85-91).

Table 5.19: Distribution of the Sampled Firms by Length Previous Business Experience of the Owners/Managers

<table>
<thead>
<tr>
<th>The Previous Business Experience</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>23</td>
<td>45.1</td>
</tr>
<tr>
<td>1 to 3 year</td>
<td>2</td>
<td>3.9</td>
</tr>
<tr>
<td>4 to 6 year</td>
<td>17</td>
<td>33.3</td>
</tr>
<tr>
<td>7 to 9 year</td>
<td>6</td>
<td>11.8</td>
</tr>
<tr>
<td>10 to 12 year</td>
<td>3</td>
<td>5.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

The previous experience in the textile and clothing industry obtained by the owners/managers in the sample is illustrated in Table 5.20. This experience not only referred to experience gained at the managerial level, but also from any type of experience obtained in this sub-industry. The data reveals that 60.8 percent of the owners/managers did not have any previous experience in the same industry at all. The mean of the experience in the textile and clothing industry for the owners/managers in the sample is 2.1 years.

Table 5.20: Distribution of the Sampled Firms by Length Previous Experience of the Owners/Managers in the Textile and Clothing Industry

<table>
<thead>
<tr>
<th>The Previous Experience</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>31</td>
<td>60.8</td>
</tr>
<tr>
<td>1 to 3 years</td>
<td>3</td>
<td>5.9</td>
</tr>
<tr>
<td>4 to 6 years</td>
<td>11</td>
<td>21.6</td>
</tr>
<tr>
<td>7 to 9 years</td>
<td>6</td>
<td>11.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>
Therefore, 39.1 percent of the owners/managers in the sample had obtained experience in the same industry before they joined/established the present firms. Given that no owner/manager had experience in both general business and in the textile and clothing industry, this would imply that a very small proportion of the owner/managers who did not have any business experience are involved in the present firms.

Table 5.21: Distribution of the Small Firms by the Experience of the Owner/Manager with the Present Firms

<table>
<thead>
<tr>
<th>Year of Experience with the Firms</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 3 years</td>
<td>7</td>
<td>13.7</td>
</tr>
<tr>
<td>4 to 6 years</td>
<td>22</td>
<td>43.1</td>
</tr>
<tr>
<td>7 to 9 years</td>
<td>10</td>
<td>19.6</td>
</tr>
<tr>
<td>10 to 12 years</td>
<td>1</td>
<td>2.0</td>
</tr>
<tr>
<td>13 to 15 years</td>
<td>2</td>
<td>3.9</td>
</tr>
<tr>
<td>More than 15 years</td>
<td>7</td>
<td>13.7</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

Another issue relating to experience is the number of years the owners/managers in the sample have been with their present firms. The length of time was measured from the date the person who controlled the firms became an owner/manager to the respective firm (up to January 1991). Table 5.21 shows that the largest proportion is of owners/managers who have been with their present firms from 4 to 6 years, consisting of 43.1 percent of the total. Moreover, with the mean of 7.1 years, it was observed that less than 20 percent of the total owners/managers had been with the firms for 10 years and more.

So the overall picture is clear that the owners/managers with the present firms are relatively new. This finding tends to corroborate with the relatively young age of the firm’s establishments found in the previous sections. Thus, it is possible that this finding correlates to the relatively recent proliferation of manufacturing firms as the country is shifting towards the industrial sector as the prime contributor to the Gross Domestic Product which seemed to be the trend from the early 1980s, (see sections 4.1 and 4.2 of Chapter Four). The rapid development in the manufacturing sector in general has directly
and indirectly influenced the growing number of small textile and clothing firms as a supporting activity to the proliferation of big textile and clothing companies (the links between small and large firms will be discussed in Chapter 7).

5.5: Conclusion

This chapter has described the general characteristics of the sampled firms including the attributes of workers and the owners/managers. On the basis of the information provided in the chapter, it is possible to sum up around three issues. The first to note is the attributes of the firms. We found that small firms in the textile and clothing manufacturing sector are disproportionately concentrated in the production of clothing/garment goods as compared to the textile products, corroborating the earlier reports of Fong (1986), NPC (1990) and MIDA (1990). A simple reason for this is that the clothing/garment sub-industry does not require a high capital investment as compared to the textile sub-industry. The entry of small firms, which tend to adopt a labour-intensive mode of production (NPC 1990, Salleh 1991 etc.), into the clothing/garment sub-industry is therefore relatively easier, accounting for their dominant proportion in the sample.

In Kuala Lumpur and Petaling Jaya, we observed that a highly significant percentage of the small firms have sole operator status. It was evident that private limited firms were extremely hard to find. It is indeed the finding that verifies many of previous reports on small firms in the country (see for instance in Lim 1986, Salleh 1990 and 1991 etc.). With the available evidence relating to locational sites, the study found that the majority of the small firms are not located in proper industrial sites. The study suggests that the high cost of proper industrial land is the main determinant to the findings rather than the lack of a proper site.

In addition, with the mean age of sampled firms being 10.2 years, we found that the establishment of the small textile and clothing industry in Kuala Lumpur is relatively recent as compared to previous reports in the country (Lam 1989 and SRM 1990) as well as in other developing countries (Aryee 1981, Chowdhury 1982, Cinar 1988 etc.). The relatively recent development of the manufacturing sector as a result of, among other
things, the Investment Incentives Act (1968) in the country is thought to be highly relevant to the recent proliferation of small textile and clothing industry found in our study.

The second issue refers to the characteristics of the employees. With a mean of 26.9 years of age per worker, our sampled data suggests that employees in the small firms were relatively young compared to the employees in the public sector. The presence of a disproportionately high proportion of female workers in the sampled firms is indeed consistent with reports of very high female participation in the textile and clothing industry in the country (Department of Statistics 1985, MTUC 1985, Ministry of Labour 1985 and Ai Yun 1986). Moreover, the high proportion of single person among the workers in the small firms raises some interesting question about the predominance of relatively old single women in the sub-industry. As Chinese were persistently reported to have been predominantly involved in urban small firms in the country (Chee 1979, Department of Statistics 1985, Lim 1988, ADB 1990, Salleh 1991 etc.), it is not surprising that a similar finding has emerged in our sample.

We also found that more than half of the workers are paid on the daily basis, while a lower but significant percentage are paid on a piece rate basis. A significant proportion of daily and piece rate workers were found to be women. The study suggests that the nature of the small-scale operation of the sampled firms may be the main determinant of the way the wages are paid. Despite the fact that the mean of the monthly basic wage per worker in the sample is M$344, a considerably lower basic income is received by women. The study suggests that the social-cultural factors and different occupational activities performed by women and men workers within the industry as the main reason for such a difference.

Regarding the personal characteristics of the owners/managers of the small textile and clothing firms, several features can be summed up. We found that the small firms in the study’s area were disproportionately run by owners as the managers, a finding that supports the typical sole proprietor and family business operation as found in many small firms in the country (Chee 1979, Lim 1986, Salleh 1991) and elsewhere in developing
countries (Bromley 1985, Ramesh 1989, Conti 1990, Khanthachai 1990 etc.). The presence of an insignificant number of females as compared to their male counterparts as the owners/managers of the small firms illustrated that women are yet to be represented in significant proportions in managerial work, despite the fact that there have been reports of an increasing participation of women in business and manufacturing firms. Simultaneously, in spite of increasing reports of a growing number of Malay entrepreneurs since the introduction of New Economic Policy (NEP) in 1971 (see Aziz 1981 and Othman 1982), their participation in the small textile and clothing industry is proven to be insignificant.

In Kuala Lumpur, the educational level obtained by the owners/managers of the small firms is found to be relatively low as compared to typical giant companies, which parallels of previous findings in Philippines (Jurado 1981), Dacca (Amin 1982), Kenya (Kaplinsky 1984) etc. We found that a just under half of the owners/managers had obtained experience in other lines of general business previously. Added to the owners/managers who had gained experience in the textile and clothing industry, the general picture is clear that a disproportionate number of them had previous business experience in one way or another. The study emphasised that this finding is due to the nature of the typical family business and family succession practised in the small firms in the country.
CHAPTER SIX

6.0: GOVERNMENT POLICY SUPPORT PROGRAMMES AND THEIR ASSOCIATIONS WITH THE SUCCESS OF THE SAMPLED FIRMS

6.1: Introduction

The recognition of the significant contribution of small firms to national economic development has led to the prominent position of these enterprises in the Malaysian policy agenda. Various types of policy supports and the numerous agencies involved in promoting small firms have already been discussed in Chapter Four. Corresponding to that background, this chapter examines four paramount issues based upon the empirical evidence supplied by the sampled firms. The first is to examine the nature and characteristics of the government assistance that has reached the small firms. Reasons given by the sampled firms which do not use the government policy supports are also presented. The second is to understand how far these policy supports have impacts on the success of the small firms, especially in comparison to small firms that do not obtain any government assistance. Lastly, the implications of these policy supports for the different theoretical views in the study of urban small firms in developing countries is discussed.

The chapter is divided into eight sections. Section 6.2 examines the general existing policy supports used by the firms in the sample and the firms which have not used those supports. Section 6.3 will analyse the overall success of the firms which have used the government policy supports as compared to the non-recipient firms in the sample. The use of specific types of existing government assistance and its relationship with the degree of success of the sampled firms will be analysed in section 6.4. The descriptions of sources of financial assistance, and training and technical aids of the small firms will be undertaken in sections 6.5 and 6.6 respectively. Sections 6.7 and 6.8 respectively endeavour to describe sources of extension and advisory services, and infrastructure supports of the small textile and clothing firms in Kuala Lumpur and its satellite town Petaling Jaya. The chapter will end with a discussion on the main weaknesses of existing policy supports.
6.2: Government Policy Programmes and the Sampled Firms

This section will examine two essential issues. The first is the number of sampled firms who have made use of government assistance. For the sampled firms who have not received any assistance, a discussion of the reasons as to why they have not received any assistance from the government will be presented.

Table 6.1 shows that a total of 45.1 percent of the firms in the sample have received government assistance in one form or another and 54.9 percent of them do not receive any government assistance at all. It was relatively difficult to find small textile and clothing firms in Kuala Lumpur area that had received government assistance as compared to those who had not obtained any assistance. Due to this difficulty, it was decided to extend the study area to Petaling Jaya, the satellite town for Kuala Lumpur. Out of the 23 recipient firms, nine of them were found in Petaling Jaya.

Table 6.1: The Distribution of Recipient and Non-Recipient Firms of Government Assistance

<table>
<thead>
<tr>
<th>Type of Firm</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recipient Firm</td>
<td>23</td>
<td>45.1</td>
</tr>
<tr>
<td>Non-Recipient Firm</td>
<td>28</td>
<td>54.9</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>51</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Information on why part of the sampled firms have not made use of assistance is shown in Table 6.2 below. From the Table, it is observed that 12 out of 28 of the non-recipient firms indicated that the government assistance was not useful. A number of firms also claimed that much of the assistance given was not within their reach due to certain requirements or criteria specified by the agencies concerned. Among these criteria they included: a good track record, a guarantor, academic qualification as well as experience. They also highlighted that certain institutions provided assistance for only 'Bumiputera' owners. Because of these criteria, some respondents cited that their applications, especially for financial assistance, were simply rejected. The Table also shows that there are six out of the 28 non-recipient firms, who said that they were not aware of the existence of such assistance. The same proportion said that they did not need the assistance. In addition, some of them also acknowledged that they do not have the time to work it out with the
government agencies and/or officers.

Table 6.2: Distribution of Firms by given Reasons for not using the Government Assistance

<table>
<thead>
<tr>
<th>Reason for not Using the Government Assistance</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government assistance provided is not useful</td>
<td>12</td>
</tr>
<tr>
<td>Assistance procedures too tedious and outside their reach</td>
<td>9</td>
</tr>
<tr>
<td>Is not aware of such assistance</td>
<td>6</td>
</tr>
<tr>
<td>No such need</td>
<td>6</td>
</tr>
<tr>
<td>No time to work out with the government officer</td>
<td>4</td>
</tr>
<tr>
<td>Worry of 'trade' secret being leaked out and does not know how to apply</td>
<td>2</td>
</tr>
</tbody>
</table>

Note: Total number of responses exceeded the number of sampled size (28) may well be due to the fact that each firm given more than one reason.

Two implications suggest themselves regarding this difficulty in finding firms that have obtained government assistance. One possibility is that the government policy supports are yet to reach many firms in general. Nonetheless, considering the substantial government supports as discussed in Chapter Four, it seems curious that government supports is used by less than half the sampled firms. Having said this, it is equally essential to acknowledge that small enterprises are very numerous and tend to be geographically dispersed and divided between a variety of different economic activities across the country. Therefore, in a great majority of cases, the distribution mechanisms for government assistance may fail to function in accordance to its targets and objectives. Another possible factor is that the existing policy supports are yet to cover the small textile and clothing industry in particular. This is also based upon the description in Chapter Four which indicated that unlike the metal, plastics, rubber, palm oil and foundry industries, there is no specific government agency to deal with research and development technology for the textile and clothing industry.

6.3: A Comparison of the Success of Recipient and Non-Recipient Firms of Government Policy Supports

In order to test the prime hypothesis stated earlier in Chapter Three, the survey data are tabulated in Table 6.3. A similar data is also presented in Figures 6.1 and 6.2 for a much clearer illustration. It is observed that sampled firms who receive government
assistance generally represent less than 40 percent in the more successful category of all three indicators that is generally 60 percent of the firms who have government assistance are in the less successful profit, capital and employment categories.

Detailed observation reveals that the only 17.4 percent of firms who are recipients of government assistance are in the more successful profit indicator, much lower in comparison to 53.6 percent of the non-recipient firms. A similar tendency is also observed in capital and employment indicators. For example, 39.1 percent of the recipient firms are observed to be in the more successful capital indicator, much lower as compared to 50 percent of the non-recipient firms. In addition, the firms without government assistance also performed better in the more successful employment indicator at 46.4 percent, in comparison to only 13 percent of recipient firms.

The data in the figures, thus, suggest that the small firms which received government assistance do not show more success in any of the three indicators. Inversely, the sampled firms which have not received assistance indicate a much better success, comparatively. This unexpected finding is hard to explain. It simply implies that government policy supports do not appear to have any impact on the success of small firms, hence, thereby rejecting our hypothesis that there is a significantly positive relationship between the government policy support programmes used by the small firms and the degree of success they attain.

However, several issues may be inferred from the finding above. Firstly, the existing government policy support are unlikely to be adequate and effective in catering for the existing problems confronting small firms in Kuala Lumpur. The literature of small firms in the country (see Lim 1986, Fong 1989, Salleh 1990 and 1991, Ebert-Stiftung 1990 and Hoong 1990) and elsewhere in the developing countries (see World Bank 1978, Harper and Tan 1979, Farbman 1981, Bromley 1985, Tsai 1990, Conti 1990 etc.) frequently emphasise that there is a cluster of problems and barriers that have appeared to inhibited the development of small enterprises. Problems such as lack of access to financial institutions and commercial banks for credit, lack of management and marketing skills, unsuitable premises and other infrastructure facilities may not be, therefore,
Table 6.3: Distribution of the Sampled Firms by Their Degree of Success

<table>
<thead>
<tr>
<th>Government Assistance</th>
<th>Percentage (Number) of Firm in the Less and More Successful Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Profit Indicator</td>
</tr>
<tr>
<td></td>
<td>LSC</td>
</tr>
<tr>
<td>Recipient Firm</td>
<td>82.6(19)</td>
</tr>
<tr>
<td>Non-Recipient Firm</td>
<td>46.4(13)</td>
</tr>
</tbody>
</table>

Notes: LSC - Less Successful Category  
MSC - More Successful Category
Figure 6.1: Recipient Firms of Government Assistance and Their Degree of Success

<table>
<thead>
<tr>
<th>The Degree of Success</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Successful</td>
<td>82.6</td>
<td>60.9</td>
<td>87</td>
</tr>
<tr>
<td>More Successful</td>
<td>17.4</td>
<td>39.1</td>
<td>13</td>
</tr>
</tbody>
</table>

The Indicators of Success (percent)

Figure 6.2: Non-Recipient Firms of Government Assistance and Their Degree of Success

<table>
<thead>
<tr>
<th>The Degree of Success</th>
<th>Profit</th>
<th>Capital</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Successful</td>
<td>46.4</td>
<td>50</td>
<td>53.6</td>
</tr>
<tr>
<td>More Successful</td>
<td>63.6</td>
<td>50</td>
<td>46.3</td>
</tr>
</tbody>
</table>

The Indicators of Success (percent)
comprehensively addressed under the present government assistance. Indeed, the fact that 12 out of the 28 non-recipient firms stated that government assistance was not useful (Table 6.2) may further support this contention. This analysis, hence, confirms the previous studies, especially of Chee (1979), Institute of Development Research Centre (IDRC-1988), and the Federation of Malaysian Manufacturers (FMM-1988) which pointed out that small firms in the country in general, do not receive adequate assistance from the government.

Secondly, the different performances shown in the findings between the recipient and non-recipient firms may also suggest another possibility. The sampled firms who do not receive assistance may already be in a relatively better off position (such as sufficient finance and/or internal working capital, competent management and marketing skills etc.) and are likely well-established firms which do not require any government assistance. This assumption can be linked to some of the earlier reasons given by non-recipient firms. Apart from those who admitted that they do not need these supports, reasons such as: the government assistance is not useful and that they were not aware of the government assistance and had no time to work it out with the government agencies, may be relevant in explaining their relatively better position in the businesses. Therefore, they might be expected to perform more successful than those who demanded such supports. This is different from those who have received the assistance, but are not ‘better-operational firms’ and could in one form or another be having problems confronting their activity and hence required such supports from the government. The ineffective government assistance may not, however, fully solve their existing problems. Thus, the different ‘stages’ of the sampled firms and their operational position coupled with incompetent government policy supports may have synonymously determined our findings above. Further exploration on this assumption will be made in Chapter Seven.

Thirdly, it is interesting to note at this juncture that there may be other factors that are more influential than the government policy supports in influencing the development of small firms in the country. Some of these factors will be analyzed in the following three chapters.
Finally, the above analysis has also contributed towards an understanding of the existing policy supports for small firms. This is particularly useful for bureaucrats and those involved in the promotion of small firms in the country. These findings may seriously question the existing government supports, and they may have to be re-examined, reviewed and up-dated corresponding to the problems, barriers and needs of small firms. Furthermore, they may be other numerous problems of overall shortage of government resources and contradictory policy measures which may also contribute to the ineffective and inadequate assistance. A detailed discussion of these issues is undertaken in the concluding remarks (Chapter Ten).

6.4: The Use of Specific Types of Government Aid and Its Associations with the Success of the Sampled Firms

The government assistance received by firms in the sample as shown in Table 6.4 is quite diverse. It shows that while some firms have made use of only one type of assistance, others have used two or more categories of assistance. The largest group of the sampled firms have received two types of aid, i.e. financial assistance, and extension and advisory services, comprising 34.8 percent of the total. This is followed by the sampled firms who receive extension and advisory services only, comprising 26.1 percent. In addition, about 21.7 percent of them used the training and technical assistance only. A relatively smaller, i.e. 8.7 percent of the total sampled firms, used only financial assistance and factory premises. The remaining 8.7 percent of the total sampled firms used all types of assistance with the exemption of factory premises.

A number of points can be made about the finding above. The first is that no sampled firm receives all categories of government assistance. Indeed, only a small proportion received more than two types of categorise of government assistance, and just under half receive only one type of policy support. This finding gives a useful indication of the nature of assistance which has reached small firms in textile and clothing industry may imply and could further suggest that the focus and intensity of the existing government assistance has yet to be fully implemented, particularly in the case of integrated packages. Since the 1980s the government has made efforts to promote integrated policy supports, covering all types of assistance (see MITI 1989).
Table 6.4: The Distribution of Firms by the Use of Specific Types of Government Assistance

<table>
<thead>
<tr>
<th>Type of Government Assistance</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Single Recipient</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1) Extension and advisory services</td>
<td>6</td>
<td>26.1</td>
</tr>
<tr>
<td>2) Training and technical assistance</td>
<td>5</td>
<td>21.7</td>
</tr>
<tr>
<td><strong>Multiple-Recipients</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3) Financial assist. and Extension and advisory services</td>
<td>8</td>
<td>34.8</td>
</tr>
<tr>
<td>4) Financial and Industrial sites</td>
<td>2</td>
<td>8.7</td>
</tr>
<tr>
<td>5) Financial, training and technical and Extension and advisory services</td>
<td>2</td>
<td>8.7</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>23</td>
<td>100</td>
</tr>
</tbody>
</table>

While 12 out of 23 firms received financial assistance, this was always combined with other types of assistance (unlike the case of training and technical assistance or extension and advisory services). It is also frequently observed that financial assistance will only be provided if the small firm has already received other types of assistance, particularly the extension and advisory services and/or the training and technical assistance. These other types of assistance are sometimes considered as the basic requirement for commercial banks and other financial institutions in approving the financial loans given by MARA and the NPC (in coorporation with several commercial banks and DFIs such as Malayan Banking Berhad, Bank Bumiputra, Bank Pembagunan Malaysia Berhad and Malaysian Industrial Development Finance Berhad).

A further point of interest is the extremely limited number of sampled firms who have made use of the provision of industrial site. This reflects the high cost of factory premises provided by the government agencies in the study area and the country elsewhere. Thus, claims in previous studies regarding the unsuitability of the factory premises provided in terms of the affordability to small firms, may well be relevant to our finding (see Lim 1985:41-44 and ADB 1990:35-37).

The findings also show that extension and advisory services were used most, with at least 16 firms in the sample of 23 having made used these services. This is correlated to the readiness of the government to provide full-scale advisory assistance to the small
and medium-sized firms in the country. For example, NPC alone had 130 staff including 45 full-time professional trainers in the area in 1988. It also has 4 regional centres across the country besides its regional headquarters in Kuala Lumpur. The courses are conducted to cover a wide-range of issues (see also the other government agencies that are responsible for services discussed in Chapter Four). In addition, the requirements to use these services are not tedious in the sense that it does not require a good track record and/or guarantor to attend the course. Anyone who is interested is qualified to be a participant. It is also regarded as the first type of assistance for a new entrepreneur who is interested in business and/or who intends to apply for other existing types of assistance, notably financial credit.

In order to provide a further detailed exploration on the possible effects of government assistance, the information on specific types of assistance used by the sampled firms and their relative degree of success are drawn in Figures 6.3 and 6.4. It is observed that the sampled firms who received only training and technical assistance are found to be less successful. Only 20 percent are found in the more successful profit category and 40 percent in the capital category. In addition, they are not found at all in the more successful employment indicator. A similar tendency is also seen in the sampled firms who received only extension and advisory services, with only 16.7 percent of their total represented in all three indicators of the more successful firms. This means that as much as 83.3 percent of them are found to be in the less successful category of profit, capital and employment indicators.

The above data suggests that there is no direct relationship between the use of either training assistance or extension and advisory services only, and the relative success of the sampled firms. This may reflect that firms receiving only single assistance were unable to upgrade their existing operational activity due to a host of other constraints. It is also possible that the ineffectiveness of each of these kinds of assistance is due to the lack of application of the knowledge which, in turn, is likely due to a series of other barriers which together may relate to the poor performance of these firms. Furthermore, the different sources of training, and extension and advisory services that were used by respective sampled firms may have resulted in the fluctuating data in the figures. These
Figure 6.3: The Use of Specific Types of Government Aid and the Less Successful Sampled Firms

Figure 6.4: The Use of Specific Types of Government Aid and the More Successful Sampled Firms

Indicators:
Type 1 = Training and Technical Assistance Only
Type 2 = Extension and Advisory Services Only
Type 3 = Financial Assistance and Extension and Advisory Services
Type 4 = Financial Assistance and Factory Premises
Type 5 = Financial Assistance, Training and Technical Assistance and Extension and Advisory Services
different sources of assistance will be examined in later sections of this chapter.

Unexpectedly, those who obtained two types of assistance, i.e. financial assistance and extension and advisory services, also have an unimpressive performance. They are not represented in the more successful profit and employment indicators respectively. Only about 37.5 percent of them are observed in the more successful capital category.

Therefore, the finding suggests that there is no obvious impact of financial assistance and extension and advisory services on the success of small firms. This finding is indeed hard to explain. However, it may be useful to point out two possibilities. Firstly, assistance may still be inadequate for small firms in overcoming the overall problems in their business operations. Secondly, the amount of financial credit that was loaned to sampled firms may also be inadequate. In this connection, the lack of internal working capital emphasised in Lim (1986:39-41), which arises from either difficulty in obtaining loans or the loan provided being inadequate, may well be relevant. It is also possible that chronic shortage of working capital and insufficient finance may be symptomatic of poor production planning or other serious management and labour deficiencies that determine the whole operational performance.

A more modestly successful performance may be seen in the sampled firms who have obtained financial assistance and factory premises. About half of them are found in the more successful profit, capital and employment indicators. The finding suggests two implications. The first is that financial assistance and factory premises may relate to the most important needs of respective sampled firms. Moreover, it may also be pointed out that small firms which obtained factory space are expected to have a relatively better position in terms of internal working capital and are well-established firms. This is because many of the premises provided by the authorities are not within an affordable price for small firms (see for instance, in ADB 1990). Hence, only a few of them could afford to locate their operation in the proper premises provided (further analysis about the issue will be carried out section 6.8). It may not be the financial assistance and factory premises that have resulted in the more successful performance, but rather, a relatively better position in working capital and they are likely to be well-established firm which
made access to financial assistance and factory premises easier.

Finally, there are sampled firms who utilised three categories of assistance, namely financial assistance, training and technical assistance, and extension and advisory services. It is found that about half of them are represented in the more successful profit. A similar percentage is also observed in terms of employment. In addition, 100 percent of them are found in the more successful capital indicator.

The data, therefore, suggests that the sampled firms who obtained the three stated types of assistance are relatively more successful. This implies that integrated assistance package could have more impact on the success of the sampled firms than just one type of assistance. This is simply based on the assumption that by having more types of assistance, there is an increased probability of addressing the problems that confront the sampled firms and hence, allows them to expand and grow. In terms of policy implications, therefore, our finding points out that government assistance is more favourable and effective if the provision is not limited to just one or two types. Instead, a full range of support services such as financial assistance, training assistance, marketing and management and infrastructure supports in an integrated policy package is highly desirable if the accessibility to these services could be ensured. These inputs could be to up lift the full potential of small firms' development in the wake of the rapid industrialisation process of the country.

6.5: Source of Financial Assistance

Concerning the financial assistance, the government has established a number of specialised financial institutions and has implemented various policy measures and programmes to make credit readily and cheaply available to small and medium-sized firms. As all these financial agencies and their programmes are discussed in Chapter Four, it is pertinent at this juncture to present the main source of the financial assistance used by sampled firms.

Corresponding to the specific types of government assistance discussed in section 6.4, 12 sampled firms altogether have used the financial assistance with other types of
government services. The sources of these financial assistance are illustrated in Table 6.5 below. It shows that about 41.7 percent of them have used Development Financial Institutions as the source of credit. In fact all of them obtained the credit from the Malaysian Industrial Development Finance. Another 33.3 percent received their financial loan from the commercial banks. In addition, the Credit Guarantee Cooperation is also a source of financial assistance for about 16.7 percent of the sampled firms. The least used financial credit is the New Investment Fund which accounted for only 8.3 percent.

Table 6.5: Sources of Financial Assistance received by the Sampled Firms

<table>
<thead>
<tr>
<th>Source of Credit</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Finance Institutions (all from Malaysian Industrial Development Finance)</td>
<td>41.7</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>33.3</td>
</tr>
<tr>
<td>The Credit Guarantee Cooperation (CGC)</td>
<td>16.7</td>
</tr>
<tr>
<td>New Investment Fund</td>
<td>8.3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>100(12)</td>
</tr>
</tbody>
</table>

At least three other main sources as described in Chapter Four were not used by the sampled firms. These are the Export Credit Refinancing Scheme (ECRS), the Merchant Banks and the Finance Companies. That the ECRS was not used by the sampled firms is understandable since it caters to the credit requirements of exporter firms only, whereas the outputs produced by the sampled firms are mainly for domestic market (this issue will be discussed in details in Chapter Seven). There may be two reasons why the Merchant Banks were not used despite the fact that its services are relevant. Firstly, there are a relatively limited number of merchant banks in the country compared to other financial institutions and/or commercial banks. It is recorded that there were only 12 of them in 1988. Secondly, it is reported that in 1989, only 7.9 percent of the total loans of merchants banks went to the manufacturing sector. Although the percentage that went to small manufacturing firms in particular was not available, it is presumably a very limited amount. A similar observation is found in terms of the financial companies. Although they have 500 branches across the country, only 15 percent of their total loans went to small firms in all sectors in 1989 (as discussed in Chapter Four). Therefore, given the limited number of approved loans allocated to small firms as a whole, the probability of its
reaching the small textile and clothing firms in particular is limited.

It is also observed that under the Development Finance Institutions, only the Malaysian Industrial Development Finance was used by the sampled firms. The finding is likely linked to the focus and scope of operation of the individual Development Finance Institutions. For instance, since its foundation, MIDF has granted more than M$1.8 billion loans to the manufacturing sector. It also provides finance in the form of long and medium terms loans or lease for plant, equipment and machinery. The wide-range of financial loans and leases available in these financial institutions made them more accessible to the small firms as reflected in our findings (see Bank Negara 1990 and ADB 1990).

In the case of CGC, in addition to its focus on small and medium-sized firms, it also has more generous and flexible schemes. For example, loans could be given up to M$200,000 without collateral compared to commercial banks where even M$30,000 has to have collateral. Under the New Investment Funds, it is found that about 75 percent of total allocated funds were used by the manufacturing sector by the end of 1989. It is also recorded that commercial bank loans to the manufacturing sector rose steadily from M$7.4 in 1983 to M$13.2 million in 1988, while the number of small and medium-sized firms which had received the loans through commercial banks also increased over the same period from 39,581 to 57,751 businesses.

The situation with respect to small-scale manufacturing firms is different from sources of financial assistance which were used by the sampled firms. The other three banks, such as the Industrial Bank of Malaysia, Bank Pertanian Malaysia and the Bank Perbangunan Malaysia, were not used. This may be due to the speciality of these banks. The Industrial Bank of Malaysia, for instance, emphasises the provision of financial credit for the development of export-orientated and high technology industries. As our discussion in Chapter Four has shown that because many of the small textile and clothing firms are traditional, labour intensive and produced outputs for the domestic market, they are largely irrelevant to the priorities of the Industrial Bank of Malaysia. Bank Pembangunan Malaysia, on the other hand, has focused on assisting the promotion of 'bumiputra'
entrepreneurs. Again, it is not related to the small textile and clothing firms which predominantly consist of Chinese entrepreneurs. Moreover, the priority of Bank Pertanian Malaysia is agricultural projects/firms.

6.6: Source of Training and Technical Assistance

There is a great recognition of the importance of an adequate and well-trained workforce like managers and engineers, to enhance the development of small and medium-sized firms in the country. As discussed previously, the current training, technical assistance and vocational education programmes for small firms in the manufacturing sector in particular, have been conducted by various agencies. Nonetheless, only a few of those agencies had been approached by the sampled firms.

Table 6.6 illustrates this situation. It is learnt from the seven respondents who obtained training and technical assistance, that the most popular source is entrepreneurial development and business management training. Under this assistance, three main agencies were directly involved in the provision of aid. The National Productivity Centre (under the Business Services Division) is the most used agency. Three of the total entrepreneurs in the sampled firms have used it. Two of these entrepreneurs have received assistance from the Small Business Development Centre (of the National Agricultural University). MARA’s Institute of Technology under its Malaysian Entrepreneurial Development Centre has also been approached by one of the entrepreneurs in the sampled firms. Besides entrepreneurial development training and business management training, there is one entrepreneur who has obtained technical training. This training is under the National Apprenticeship Scheme (in the Ministry of Labour).

The popularity of entrepreneurial development and business management training may be correlated to the focus of the government on the provision of assistance in these areas. This is evident from the number of agencies established, manpower employed and considerable budget spent on the entrepreneurial development and management training that was discussed in Chapter Four. It also implies the recognition on behalf of the government that lack of management skills is a major factor, as suggested consistently by reports in previous studies (see Chee 1977 and 1979, Lim 1985, Salleh 1990 and 1990).
and which led to a major review of its industrial policies and strategies.

Table 6.6: Sources of Training and Technical Assistance received by the Sampled Firms

<table>
<thead>
<tr>
<th>Source of Training and Technical Assistance</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1- Entrepreneurial Development and Business Management Training</strong></td>
<td></td>
</tr>
<tr>
<td>a) Business Services Division (NPC)</td>
<td>42.9(3)</td>
</tr>
<tr>
<td>b) Small Business Development Centre (National Agricultural University)</td>
<td>28.6(2)</td>
</tr>
<tr>
<td>c) Malaysian Entrepreneurial Development Centre (MARA's Institute of Technology)</td>
<td>14.3(1)</td>
</tr>
<tr>
<td><strong>2- Technical Skills Training</strong></td>
<td></td>
</tr>
<tr>
<td>a) The National Apprenticeship Scheme (Ministry of Labour)</td>
<td>14.3(1)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>100(7)</td>
</tr>
</tbody>
</table>

The predominant role of NPC in particular was expected as the centre is a premier provider of short courses in entrepreneurial development training. On top of manpower and other facilities available in the centre, courses provided also cover all sub-sectors of economic activity and do not refer specifically to entrepreneurs. This makes the NPC the most eligible and accessible centre for business-people across ethnic groups and regions in the country. This is different as compared to MARA's Institute of Technology, for instance, which provides assistance only to the Bumiputra entrepreneurs. The Small Business Development Centre at the National Agricultural University is second only behind the NPC. It was basically established for students at the National Agricultural University, and only recently expanded its role to the public. With the double functions it has, it is predictable that the extent of the services it provides is not as extensive as that of the NPC.

6.7: Source of Extension and Advisory Services

From Table 6.3 previously, there were 16 entrepreneurs who had received extension and advisory services from several government agencies. Table 6.7 shows the different sources of extension and advisory services used by entrepreneurs in the sample. Extension and advisory services that are relevant to the sampled firms mainly comprise...
the management consultancy services, marketing and market research services as well as advisory services for product quality improvement, quality control and design improvement.

The National Productivity Centre (NPC) is the most popular agency for management consultancy services. At least 13 entrepreneurs of the sampled firms have used services provided by the NPC. The Small Business Development Centre at the National Agricultural University and MARA's Institute of Technology were also used by a limited number of the sampled firms.

Table 6.7: Sources of Extension and Advisory Services received by the Sampled Firms

<table>
<thead>
<tr>
<th>Sources of Extension and Advisory Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1- Management Consultancy Services</td>
<td></td>
</tr>
<tr>
<td>a) Business Services Division (NPC)</td>
<td>13</td>
</tr>
<tr>
<td>b) Small Business Development Centre (NAU)</td>
<td>3</td>
</tr>
<tr>
<td>c) Malaysian Entrepreneurial Development Centre (under MARA's Institute of Technology)</td>
<td>2</td>
</tr>
<tr>
<td>2- Marketing and Market Research</td>
<td></td>
</tr>
<tr>
<td>a) MIDA - Ministry of International Trade and Industry</td>
<td>9</td>
</tr>
<tr>
<td>b) IDRC - National Agricultural University</td>
<td>3</td>
</tr>
<tr>
<td>c) MEXPO, Ministry of International Trade and Industry</td>
<td>1</td>
</tr>
<tr>
<td>d) Malaysian Entrepreneurial Development Centre (under MARA's Institute of Technology)</td>
<td>1</td>
</tr>
<tr>
<td>3- Product Quality Improvement, Quality Control and Design Improvement</td>
<td></td>
</tr>
<tr>
<td>a) The Standard and Industrial Research Institute of Malaysia, (SIRIM)</td>
<td>1</td>
</tr>
</tbody>
</table>

The number of respondents exceeded the size of 16 is due to the fact that more than one service was provided by those agencies/institutions for a particular respondent.

For the marketing and market research, the Malaysian Industrial Development Authority (MIDA) was the biggest supplier of such assistance with nine respondents had using their facilities. The International Development Research Centre at the National Agricultural University and MARA's Institute of Technology were also among the providers of the marketing and market research. To a lesser extent, Malaysian Export
Trade Centre has also been used by the sampled firms as a source of assistance. It is also observed that the product quality improvement, quality control and design improvement used by the sampled firms was provided by the Standard and Industrial Research Institute of Malaysia (SIRIM). However, only one respondent has used this facility.

The findings above are significant in number of ways. Firstly, the sources of extension and advisory services for the sampled firms are various. However, not all agencies provided the same level of assistance. Some agencies provided more aid than others, such as NPC and MIDA. This finding is similar to the assistance offered under the training and technical assistance. The reason for this may be the same, i.e. the NPC is regarded as the premier institute for providing short and medium courses for small firms of the country.

MIDA appeared to play an important role as well. This is closely linked to the role of MIDA as the main government agency devoting more resources and effort to undertake not only domestic-market research, but also research on all basic aspects of international marketing. Under its Small and Medium-sized Enterprise Division, regular courses on marketing, target market and up-to-date and reliable information on the characteristics of targeted customers, their buying habits, needs, as well as media viewing and reading habits, are provided. The Unit includes information on the prospects of marketable products, price promotion and distribution strategies to suit the needs of small and medium-sized customers. More essentially, this Unit has recently been made responsible for coordinating government policies and programmes for the promotion and development of small and medium-sized firms in the country.

Thirdly, a limited number of the sampled firms have used particular assistance from specific agencies, such as the assistance provided by the MEXPO and SIRIM, which illustrates the less relevant areas of assistance for the sampled firms. SIRIM for instance, mainly concentrates on new and small firms adopting and operating technologically efficient production processes under its Industrial Incubator Project. This project emphasises technical support for the growth of small firms which produce new and technology-intensive products. As the literature has shown, a majority of the textile and
clothing firms of the country are labour-intensive (see in Table 4.4 of Chapter Four). The projects carried out by SIRIM are hence, irrelevant. Moveover, SIRIM also focuses on specific sub-industries mainly metal, plastic and foundry industries that are simply not relevant to the production of textile and clothing goods. MEXPO on the other hand, focuses entirely on advisory services on exporting, and assistance with business appointments and participation in trade fairs and trade missions. As very few of the sampled firms exported their products (as will be discussed in Chapter Seven) it is obvious, therefore, that only a limited number of them obtained help from MEXPO.

Fourthly, many other agencies which are described in Chapter Four are not directly involved in assisting the sampled firms. These are the Sub-contract Exchange Scheme (SCX), MARDI, MIEL, UDA, MAMPU and MIPS. These agencies are believed not to have been directly involved in the small textile and clothing industry. It is, however, imperative to point out the unusual case of SCX. It is known that a few textile and clothing firms have registered for its services, but none of them were found in the sampled firms. This reflects that the Subcontract Exchange Scheme has yet to reach the textile and clothing industry in general, especially the small-scale operators.

6.8: Source of Infrastructure Supports

Our sample has indicated that only 8.7 percent (in fact only 2 respondents) of the total recipient firms received infrastructural supports, i.e. being provided with the proper and permanent factory premises (see in Table 6.4 earlier). All of these factory premises were provided by the Selangor’s State Economic Development Cooperation (SSEDC). One is located in the Jinjang’s Industrial Area and the other one is in Section 17 of Petaling Jaya. The cost of developed industrial land is $M46 per square metre in Jinjang and $M57 per square in the Section 17 respectively (both 1989 prices).

The finding, thus, indicates that an extremely limited proportion of sampled firms are actively considering a proper site for their business. Most locations are of a temporary

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74 The sites developed with the corporation of the Malaysian Industrial Estates Sdn. Bhd. (MIEL). See the specific criteria of industrial site assistance under the MIEL in Chapter Four.
nature in terms of location and illegal land such as in shop-buildings, in houses in residential areas and/or zones as well as in the squatter settlements, as described in Chapter Five. Our finding, therefore, would suggest that the high cost of industrial sites are not affordable for the small and medium-sized firms and thus lends support to the earlier studies in the country (Chee 1979, Lim 1985, Salleh 1990 and ADB 1990). The cost at $M46 and $M57 per square meter paid by the two sampled firms were relatively higher compared to the cost of rental shop-buildings in residential areas like Jalan Kuchai Lama, Jalan Sentul, Jalan Gombak and Sections 8 and 11, where the other sampled firms are operating. This would certainly have not encouraged the small firms to resite their operation, as an extra capital requirement would have to be raised. The study’s finding reflects that cost and affordability, rather than the supply of serviced-industrial land, are the main problem for small firms. It may therefore be suggested that it would be more appropriate for the responsible authority to develop suitable land that addresses this problem of cost and affordability, rather than merely the development of industrial sites.

6.9: Sources of Assistance for Multi-Type Recipient Firms

Earlier discussion of section 6.4 shown that 12 out of 23 recipient firms had received more than one type of assistance. From 12 sampled firms, eight of them had received financial assistance with extension and advisory services. Meanwhile, two out of 12 sampled firms had received financial assistance combined with industrial site and another two of them had received three types of assistance, i.e. financial assistance, training and technical assistance, and extension and advisory services. It was also emphasised that financial assistance will only be provided if small firms have already received other types of assistance, such as training and technical assistance, and extension and advisory services. These other types of assistance are sometimes considered as the basic requirement for commercial bank or financial institutions in approving the financial loans. In view of these combinations of assistance, it is interesting to examine whether there is any particular pattern of policy package given by a number of government.

79For example, it was recorded that in Kuala Lumpur alone, about 180 hectares of land are occupied by the manufacturing establishments illegally, (see NST, Jan. 31, 1983, see also Lim 1986:41-44). These illegal lands included the government and private lands as well as residential areas that contravene zoning regulation of local authority such as City Hall and Petaling Jaya Municipal Authority.
agencies and financial institutions. This is significant from a policy point of view since policy packages and coordination among the existing agencies have recently (from 1980s) become an important focus.

Sources of multiple assistance for recipient firms are shown in Table 6.7. It is observed that there is no specific trend of source combinations among various support agencies and financial institutions. This can be noted, for instance, from a combination of financial assistance and extension and advisory services. It is found that entrepreneurs who attend the course (extension and advisory services) from NPC and the Small Business Centre (UPM) are given financial credit from commercial banks and also from the Malaysian Industrial Development Finance. Similarly, the recipients of CGC finance also do not have to attend a course at specific government agencies, since its allocates credit assistance to those who have received assistance from either MARA, NPC or the Small Business Centre (see in the combination of three types of assistance Financial Assistance, Training and Technical Assistance, and Extension and Advisory Services). Having said this, however, it is found that two sampled firms who received industrial sites from the Selangor’s State Economic Development Corporations (SSEDCs) have both obtained financial assistance from MIDF only.

Some implications regarding the findings above may be presented. The most important one is that, as stated earlier, the impact of the recent initiative of the government to promote integrated policy packages among various government agencies and/or financial institutions in the country has yet to be felt clearly. This finding provides further clarification on the matter discussed in Section 6.4 previously. In addition, the findings also reflect that financial assistance from a particular source may be tied to other types of assistance (particularly extension and advisory services, and training and technical assistance). This provides further information that courses conducted at the NPC, MARA, the Small Business Centre and MIDA are considered as a basic requirement for commercial banks (such as Malayan Banking Berhad, Bank Bumiputra Malaysia Berhad etc.) and Development Finance Institutions (such as Malaysian Development Bank, Malaysian Industrial Development Finance etc.) in approving their loans.
Table 6.8: Sources of Assistance for Multi-Type Recipient Firms

<table>
<thead>
<tr>
<th>Pattern of Sources of Assistance</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A) Firm Receiving Financial Assistance, and Extension and Advisory Services</strong></td>
<td></td>
</tr>
<tr>
<td>i) Commercial Bank and NPC</td>
<td>3</td>
</tr>
<tr>
<td>ii) Commercial Bank and the Small Business Centre</td>
<td>1</td>
</tr>
<tr>
<td>iii) Credit Guarantee Corporation (CGC) and MARA</td>
<td>1</td>
</tr>
<tr>
<td>iv) New Investment Fund and MARA</td>
<td>1</td>
</tr>
<tr>
<td>v) MIDF and the Small Business Centre (UPM)</td>
<td>1</td>
</tr>
<tr>
<td>vi) MIDF and NPC</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>B) Firm Receiving Financial Assistance and Industrial Site</strong></th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) MIDF and SSEDCs</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>C) Firm Receiving Financial Assistance, Training and Technical Assistance, and Extension and Advisory Services</strong></th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) MIDF, NPC and the Small Business Centre</td>
<td></td>
</tr>
<tr>
<td>ii) CGC, NPC and MIDA</td>
<td></td>
</tr>
</tbody>
</table>

With respect to the two sampled firms receiving industrial sites, one particular source of credit is found, i.e. MIDF, and other financial institutions. This is likely to correlate to the amount of credit needed by firms which received industrial site and the role of MIDF. A firm located in an industrial site has to have extra internal-working capital due to cost of factory premises and therefore, may need a large amount of credit. Given the amount of credit provided by MIDF and that its main functions are, among others, to provide loans for plant, equipment and machinery for small firms, the MIDF is predictably the most appropriate agency for small firms to refer to in obtaining their credit assistance for industrial sites. This is different to, for instance, the CGC and Commercial Banks which do not specifically finance small firms specifically to obtain industrial space, in addition to their relatively small maximum loans provided per account (see Section 4.5 of Chapter Four).

6.10: Conclusion

This chapter has presented two essential analyses relating to government policy support programmes for small industries of the country. The first was the characteristics of these programmes that have reached the sampled firms. We found that of the firms receiving several types of assistance, not all enjoyed an equal privilege. Only few sampled
firms were provided more than two types of available assistance, while others had only one or two types of supports. We have found that not all institutions and agencies that were described in Chapter Four have been involved in assisting the small firms in the sample. In the extension and advisory services, two agencies of National Productivity Centre (Business Services Division) and Malaysian Industrial Development Authority (MIDA) seemed to be most active. The National Productivity Centre was also prominent in providing technical and training assistance to the firms in the sample. An extremely limited number of the sampled firms has received the factory premises. All these premises are provided by the Selangor State Economic Development Cooperation (SSEDC). Two major financial institutions appear to be the dominant credit providers to sampled firms, its were Malaysian Industrial Development Bank and the commercial banks.

On examining the effects of the existing government support schemes on the sampled firms in Kuala Lumpur, on the whole, at least several salient points emerge. Firstly, contrary to what was expected, those firms receiving government assistance were not predominantly found to have a more successful performance than those firms not receiving government assistance. Secondly, the number of types of assistance received by sampled firms seems to be correlated to their degree of success, reflecting the need for a fuller range of assistance to ensure more successful growth. Lastly, there is a possibility that government assistance is not the main contributor to the success of the small firms in the sample.

There are theoretical implications on the basis of our evidence that the effects of the existing Malaysian policy support on the development of small textile and clothing firms in Kuala Lumpur and its satellite town, Petaling Jaya appear to be unfavourable, if not fully ineffective. The assumption that policy supports would have straight-forwards beneficial effects on the development of small firms, as suggested by many scholars of the liberal neo-classical approach, may be less accurate. It it clear that policy supports have not always benefited small firms or made them more success that non-recipient firms. There are many other factors affecting the success of small firms that have to be investigated in their development process. In addition, the diversity of economic activity, various degrees of policy implementation in different places, all cautions raised by the
petty commodity production and flexible specialisation analysts may be very important in the light of our finding. This raises a number of questions about the purpose of policy assistance, the target group of assistance, the implementation of multi-types of assistance, types of economic activity as well as the application of the knowledge and/or credit assistance by recipients. This re-enforces the position of flexible specialisation analysts about the need to consider the specific context of small firms within a particular economic and socio-cultural environment.

The study’s assessment is that many small enterprises in the country do not receive adequate assistance despite the existence of numerous policy-oriented supports and various agencies being involved. This inference has given some credence to those who were earlier unable to conclude on the policy supports’ effectiveness on the small firms performance (Lim 1986, Salleh 1990 and 1991, and F. Ebert-Stiftung 1990). Furthermore, this inference also supports the conclusion of Chee (1979), IDRC (1988- at the National Agricultural University) and FMM (1988). A general observation is that the majority of small firms do not have access to government inputs, while some simply are not even aware of the existence of the government policy supports. While small firms-oriented loan schemes have reached some targeted firms, many of them still continue to experience difficulty in raising finance and working capital and in the modernisation of their plants because of lack of collateral, while new firms could obviously not produce the track record that is required.

Therefore, it can be stressed that although the government has stated its strong commitment to and interest in small firms promotion, the intention has not been translated into effective action. In other words, the outreach and effectiveness of most of the public agencies involved at the level of individual small firms are indeed limited and fragmented. Based upon our finding and indeed other reports in the country, the lack of effectiveness is likely to be due to several reasons.

The first is that the stated support and interest in the promotion of small firms seems to represent sometimes little more than a ‘half-action’ service. A relatively few small firms have received the government supports and extremely limited number of them
received a fuller range of assistance have proven this phenomenon. In practice, preference and priority in terms of incentive and programmes is overwhelmingly given to large industry. For example, under the Investment Incentives Act 1968 which incorporated Pioneer Status, Investment Tax Credit, Labour Utilisation Relief, Locational Incentives and Export Incentives was mainly based upon capital investment, employment and export features that favoured only big firms or companies. As a result small firms were unable to benefit from those incentives. The Promotion of Investment Act 1986 (PIA) replaced the 1968 Act, in order to give more concessions to small and medium-sized firms: These include namely: specific incentive in the form of a 5 percent abatement on adjusted income, and the pioneer status which is no longer given on the basis of capital investment but on activities and products (the promoted list of products).

Nonetheless, the incentives provided under the PIA 1986 are still biased towards big export-oriented, capital intensive industries. They are still based on profit and performance and do not really benefit small firms who produce mainly for the domestic market. It is also observed that these incentives are given to companies and hence do not benefit small firms which mainly operate on a sole proprietorship or partnership basis. Similarly, most of the heavily subsidised space in industrial estates such in Cheras, Jinjang, Kepong and elsewhere in the country have been allotted to large rather than small firms. Perhaps what small firms require is not so much tax incentives but rather measures that will address the problems and weaknesses of small firms, that is, management advice, easy access to capital, technical and marketing assistance as well as industrial sites.

The second reason for the apparent ineffectiveness of government policy is that the allocation of resources for small firms is indeed insufficient. This is compounded by inefficient ways in which the programmes are implemented. Besides the limited amount of credit given to the firms in the sample, it was also estimated in 1985 that small firms needed at least M$10,000 million in bank loans, but it was recorded that less than M$300 million was available (see for instance, Lim 1988:122 and 1989). Even then, this amount was reported not to have been properly distributed. Some of the loans went either to undeserving small firms or even to large enterprises (ADB 1990). Thirdly, it is also
imperative to point out that the existing government policy programmes focuses predominantly on the development of new Bumiputra enterprises, most of which are domestic-orientated business and which are mostly ‘saturated’ such as food, furniture and handicraft industries. While the choice of policy programmes lies in the wider political judgement in a specific economic and socio-cultural context of a given society, continuing supports for these firms may be among the reasons for inefficiency in terms of the general net benefit to society. This is because as new firms enter the market, other less efficient or less subsidised firms are forced out. Since competition is strong in the domestic market, the profit margin are expectedly low and mortality rates are high (this issue will be further discussed in Chapter Ten).

Lastly, the overall existing support programmes seem to lack direction and organisational strength in assisting small firms. Before the Division of Small-Scale Enterprises (SSED -now located in the Ministry of International Trade and Industry) was set up in 1981, there was no agency exclusively concerned with coordinating multi-faceted support programmes for small firms in the country. Nonetheless, at present the coordination of implementation among various government agencies is still rather ineffective because of two main factors: i) inadequate resources allocated to this division, and ii) its limited authority to coordinate numerous public agencies (discussed in Chapter Four) which have different priorities and responsibilities in assisting small firms.

It is observed that up to now no systematic step has been taken to coordinate, assemble or analyse the situation of small firms in the country involving as many as 13 Ministries and 30 public agencies. Neither does the available assistance focus on the strategic development of such firms over a medium and long terms period. Most assistance is on a short-term basis. No followed up assistance in one form or another is emphasised. Synonymously, given this lack of effective planning, support programmes for small firms are rarely integrated with the development of other economic sub-activities. The potential development of inter-firm linkages for small firm is not fully justified and realised.

To conclude, although government policy supports are ineffective, a vast majority
of small firms in Malaysia have demonstrated their ability to go into business and survive without government support. This is clearly linked to the earlier contention that the government support programmes are not currently the major factor in determining their development. Nevertheless, it is possible to argue that survival is not sufficient, especially for a country which is now poised to enter the ranks of the New Industrialised Country (NICs). This transitional period to NICs can be considerably distorted if inadequate attention is paid to the development of small firms, widening and strengthening Malaysian domestic industrial-structure. There is indeed scope and ample evidence that many small firms can increase substantially their productivity and rate of growth, and new enterprises can be established in a number of product lines and sub-industries in the wake of the rapid industrialisation development in the country. If government policies were more favourable and if adequate financing, technical assistance, extension and advisory services as well as infrastructure supports were made readily and cheaply available, a more prosperous growth and development of individual small firms could be anticipated.
CHAPTER SEVEN

7.0: THE RELATIONSHIP WITH LARGE FIRMS AND ITS ASSOCIATION WITH THE SUCCESS OF SMALL FIRMS

7.1: Introduction

The literature on small firms in developing countries has increasingly emphasised the need for an empirical study of the relationships between small firms and large firms. The previous studies have focused too much on a description of the 'internal characteristics' of small firms and left a big 'vacuum' on the issue of the linkages between small and large firms and their effects on the development of small firms (see for instance, H. Schmitz 1982, Moser 1982, and T. Basok 1989). This is particularly the case in Malaysia where a number of authors have expressed a great need to explore this issue in the context of the country's rapid industrial development. Simultaneously, there have been reports of increasing sub-contracting works practised by small firms in the industrial economies of developing countries (see for instance, F. Steel and Y. Tagaki 1983, H. Hill 1985, H. Pack 1987 and Evcimen, Kaytaz and Cinar 1991). The increasing practice of sub-contracting among small firms coupled with the lack of evidence on the issue has only added to the growing need for a proper study.

This research survey addresses this mentioned-need by undertaking a detailed exploration of the relationship between small and large firms. In pursuing this, discussion of the available literature in Chapter Two has helped to identify five major components of the inter-firm linkages between small and large firms. These include the following: raw materials, machinery, outputs, sub-contracting works and putting-out systems.

The next section of the chapter, therefore, examines the inter-firm linkages in terms of raw materials and its possible association with the degree of success of the sampled firms. Sections 7.3 and 7.4 respectively present the relationship between small

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76 See for instance in a paper presented at the International Conference on Small and Medium-Scale Enterprises (Lankawi Island, Malaysia, May 28-30, 1990) by Nasser, Kabeer and Narayanan called Small Business Linkages in which they noted that there is a lack of empirical evidence on the study of inter-firm relationship within one sector of sub-industry as well as between sub-industries.
and large firms in the forms of machinery and outputs and their possible effects on the degree of small firms' success. The analysis of characteristics of sub-contracting works and putting-out system and the possible association with the degree of success of the sampled firms will be carried out in sections 7.5 and 7.6 respectively. The last section of the chapter will conclude the findings of the whole discussion.

7.2: Inter-firm Linkages in the Form of Raw Materials Used

Inter-firm linkages in relation to the supply of raw materials will be analysed around three issues. These are, as follows: i) the percentage of local raw materials used by the sampled firms (expressed as the percentage value of the total raw materials used), ii) the source of raw materials used by the sampled firms, and iii) the extent to which firms have contractual arrangement for the supply of raw materials (expressed in the percentage value of the total raw materials used). These issues and their possible association with the degree of the success of the sampled firms are presented in the following three sub-sections.

7.2.1: The Use of Local Raw Materials and Its Association with the Success of the Sampled Firms

The issue regarding the use of local raw materials in small firms has already been discussed in Chapter Two. It is interesting, therefore, to examine how significant is the use of local raw materials by the firms in our sample and to analyse its possible relationship with their relative success. Before doing so, it is appropriate at this stage, to clarify the definition of local raw materials adopted in the study. The activities of multinational companies that have invested and established firms in various developing countries made it a difficult task for the study to identify what indigenous raw materials are in a precise way, since the origin of many transnational companies and their shares of equity and capital in those countries are no longer clear.

In view of this difficulty, we decided to categorise the origin of raw materials used
in terms of local or imported (see in Morris and Lodwer 1992). Therefore, as long as the raw materials used by the sampled firms were locally made, they were considered as local raw materials. This categorisation unavoidably included raw materials produced by foreign firms or other multi-national cooperations in the country. One reason for this is the difficulty in differentiating the percentage share of local or foreign investments in joint-ventured firms. It differs in various sub-sectors of the manufacturing industry and the share of foreign investment has always changed over time. In addition, policies, incentives and procedures towards incoming investments in the country's manufacturing sector has also changed considerably since the introduction of industrial policies in 1967. The changes were part of the Malaysian government's efforts to be more competitive in attracting foreign capital (see MIDA 1990). It was, therefore, not possible to distinguish categorically the issue of indigenous raw materials in any other way.

Based upon the study's definition above, our empirical data are shown in Table 7.1 below. It is observed that in two-third, i.e. 66.7 percent of sampled firms, over 75 percent of the total value of raw materials is made up of local materials. This is followed by 25.5 percent of the firms which used between 51 and 75 percent of local raw materials in their total value of raw materials. Meanwhile, there is no firm in the sample which has used no local raw materials at all. The mean percentage value of local materials in the total value of raw materials used is 76.7 percent per firm.

Table 7.1: Distribution of Sampled Firms by Percentage of Local Raw Materials Used

<table>
<thead>
<tr>
<th>Local Materials Used (% value of total raw materials)</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>1 to 25 percent</td>
<td>2</td>
<td>3.9</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>2</td>
<td>3.9</td>
</tr>
<tr>
<td>51 to 75 percent</td>
<td>13</td>
<td>25.5</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>34</td>
<td>66.7</td>
</tr>
<tr>
<td>TOTAL</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

Morris and Lodwer (1992), for example, have pointed out that classification of local and imported material is one way of looking at the inputs and outputs of the small firms.
The findings clearly illustrate that the majority of small firms use locally available raw materials. This may be correlated to the available local raw materials used to manufacture the textile and clothing products. This may also be determined by the Custom Act 1967\textsuperscript{78} whereby additional tax is imposed on firms importing raw materials that are available locally. Double-checks on the sampled firms importing raw materials showed that they were mainly the small textile producers who had difficulty in obtaining sufficient local supply. This corroborates the previous reports of inadequate local raw materials for manufacturing textile products such as polyester fibre, spinning (both natural and man-made fibre yarn), weaving, and knitting of fabrics, and manufacturing of other textile goods such as laces, braids, cordage, rope, twine, carpet and rugs (see ASEAN Federation of Textile Industry 1990 and MTMA 1991).

The possible association of local raw materials used with the success of the sampled firms is presented in Figures 7.1 and 7.2. The data shows favourable relationships for those who imported raw materials. For instance, 100 percent of the sampled firms using between 1 and 25 percent of local raw materials are found to be in the most successful profit category, compared to only 38.8 percent and 32.4 percent of those who used from 51 to 75 percent and more than 75 percent of the local raw materials respectively. A similar trend is generally observed in the capital and employment indicators, which illustrate that with the increase in the percentage of local raw materials used, there is a decline in the percentage in the more successful cohort.

The above figures are supported by the correlation coefficient test which indicates a significant negative correlation of less than 5 percent for employment and profit. This infers that there is less than a 5 percent chance that there is no relationship between the utilisation of imported raw materials and the success of sampled firms. A lesser negative association is however, found in the capital indicator ($r=-.1908$). Nevertheless, it is enough to reject a null hypothesis and supports the negative relationship between the use of local

\textsuperscript{78}Under the Custom Act 1967, exemptions from custom duty are given for imported raw materials and components that are not available locally (including machinery and components). These exemptions are given to both export-oriented firms and firms producing products for domestic market (see MIDA 1990:23-24).
Figure 7.1: The Use of Local Raw Materials and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Percent of Raw Materials</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 25 percent</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>51 to 75 percent</td>
<td>69.2</td>
<td>69.2</td>
<td>69.2</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>67.6</td>
<td>55.9</td>
<td>76.5</td>
</tr>
</tbody>
</table>

Figure 7.2: Percentage of Local Raw Materials Used and the More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Percent of Raw Materials</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 25 percent</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>51 to 75 percent</td>
<td>38.8</td>
<td>30.8</td>
<td>30.8</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>32.4</td>
<td>44.1</td>
<td>23.5</td>
</tr>
</tbody>
</table>

Pearson Correlation Coefficient Test=

i) Profit r = -.2940, P= .018, S.p.<.05
ii) Capital r = -.1908, P= .090, NS,p>.05
iii) Employment r = -.3827, P= .003, S.p.<.05
raw materials and the relative success of sampled firms.

The unexpected findings above are difficult to explain. However, three possibilities are relevant. Firstly, it may be the case that the price of local raw materials are relatively higher than the imported ones. This may be because of the Custom Act 1967 that was introduced to protect the local producers. Since these domestic producers do not have to compete with the global market internationally, the level of competitiveness is presumably limited and hence affect the price at which the local raw materials are produced. Secondly, it is also a possibility that the quality of available local raw materials is lower than those produced in other countries from where the respective sampled firms have imported. This may result in low quality for the outputs and hence, affect the margin of the firms. Further study on this issue is important from this perspective. Lastly, many of the small firms who imported raw materials were those who produced textile products. As discussed in Chapter Four, small textile firms in the country were found to be very few compared to the number of small clothing and/or garment firms. A relatively fewer number of small textile firms may result in a favourable environment in the general market where they do not face much competition with other small firms and hence, their probability for getting more customers is greater than those of small garment firms.

7.2.2: The Source of Raw Materials and Its Association with the Success of the Sampled Firms

This sub-section will attempt to answer two paramount questions. Firstly, to what extent are the sampled firms dependent upon large firms for their supply of the raw materials used to manufacture their product (expressed as the percentage value of raw materials obtained from large firms to the total raw materials used)? Secondly, what is the impact of this dependence on the relative success of the sampled firms?

Table 7.2 shows that there is no sampled firm that does not obtain less than 26 percent of their total value of raw materials from large firms. Indeed, 68.6 percent of them have large firms as their source for more than 75 percent of the total value of their raw materials. The mean for the source of the supply of raw materials from large firms is 78.7 percent per firm. The above findings signal a strong indication that inter-firms'
relationship is vital in their daily commercial activity. Thus, it should be noted that a close linkage between small and large firms in the supply of raw materials exists in the small textile and clothing industry in Kuala Lumpur.

Table 7.2: Distribution of Firms by Their Characteristics of Source of Supply of Raw Materials Used

<table>
<thead>
<tr>
<th>Percentage Value of Supply from Large Firms</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>1 to 25 percent</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>3</td>
<td>5.9</td>
</tr>
<tr>
<td>51 to 75 percent</td>
<td>13</td>
<td>25.5</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>35</td>
<td>68.6</td>
</tr>
<tr>
<td>TOTAL</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

Our data on the degree of relationship with large firms and its association with the success of the sampled firms are drawn in Figures 7.3 and 7.4. It is revealed that there is no obvious relationship between raw materials bought from large firms and the three indicators of success. Close observation indicates slightly fluctuating data, nevertheless, it is minimal.

The above evidence coincided with the findings of the Pearson correlation coefficient. It illustrates an extremely weak association between the supply of raw materials from large firms and the three performance indicators, whether in terms of the positive association as indicated in the profit indicator or the negative association as illustrated in capital and employment indicators. This implies that there is no significant relationship to be inferred from the increase in the percentage supply of raw materials obtained from large firms with the relative success of the small firms.

The findings above were indeed unexpected. This is based upon the assumption that the higher quantity of raw materials bought from large firms, the more bargaining power the sampled firms would have to ‘push’ the price and then the cost of production down. However, the above assumption may not be applicable to the small firms in that the amount and quantity of raw materials are to be large enough to qualify as bargaining power with the large firms. Hence, the price of raw materials offered by large firms are
Figure 7.3: Percentage of Raw Materials Obtained from Large Firms and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Percent of Raw Materials</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>26 to 50 percent</td>
<td>66.7</td>
<td>0</td>
<td>66.7</td>
</tr>
<tr>
<td>61 to 75 percent</td>
<td>61.5</td>
<td>53.8</td>
<td>69.2</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>62.9</td>
<td>60</td>
<td>68.8</td>
</tr>
</tbody>
</table>

The Indicators of Success (percent)

Figure 7.4: Percentage of Raw Materials Obtained from Large Firms and the More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Percent of Raw Materials</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>26 to 50 percent</td>
<td>33.3</td>
<td>100</td>
<td>33.3</td>
</tr>
<tr>
<td>61 to 75 percent</td>
<td>38.5</td>
<td>46.2</td>
<td>30.8</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>37.1</td>
<td>40</td>
<td>31.4</td>
</tr>
</tbody>
</table>

The Indicators of Success (percent)

Pearson Correlation Coefficient Test=

i) Profit $r = .0054$, $P = .485$, NS, $p > .05$

ii) Capital $r = -.2281$, $P = .054$, NS, $p > .05$

iii) Employment $r = -.0028$, $P = .492$, NS, $p > .05$
not necessarily lower than those offered by the small firms, as was expected. Equally, it may also be assumed that not all small suppliers offer a much lower price for their raw materials. Lastly, it is possible that as the above analysis indicates, the relationship between small and large firms in terms of the source of raw materials is not among the factors influencing the development of small firms.

7.2.3: Contractual Arrangement for the Supply of Raw Materials and Its Association with the Success of the Sampled Firms

The previous sub-section has shown a significant dependency of the sampled firms on large firms for the supply of raw materials. Further observation reveals that some of these firms have not bought raw materials from large firms through a daily or a direct-market link of shelf purchase as normal buyers in a common market. Instead the purchase of raw materials involved a specific contractual-arrangement for their supply and this arrangement did not include other business deals such outputs, sub-contracting works etc.

The study has defined the contract for raw materials as a commercial arrangement involving the supply of raw materials used by sampled firms in accordance with an agreement of the amount, price, credit and period (supply and repayment) with the large-suppliers. Under this arrangement, the value of raw materials that are bought under contract by sampled firms as a percentage of the total value of raw materials used, is considered as the basis of measurement.

Table 7.3: Distribution of the Sampled Firms by the Proportion of Raw Materials Acquired Through Contractual-Arrangements

<table>
<thead>
<tr>
<th>Percentage Value of Raw Material being Contracted</th>
<th>Number</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>27</td>
<td>52.9</td>
</tr>
<tr>
<td>1 to 25 percent</td>
<td>6</td>
<td>11.8</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>9</td>
<td>17.6</td>
</tr>
<tr>
<td>51 to 75 percent</td>
<td>8</td>
<td>15.7</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>1</td>
<td>2.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 7.3 shows that just over half or 52.9 percent of the sampled firms do not
make any contractual arrangements with large firms for the supply of raw materials. The sampled firms who obtained between 26 and 50 percent of their supply of raw materials through a contract with large firms, consisted of 17.6 percent of the total. The mean proportion of contractual raw materials per firms is 19.8 percent.

The 47.1 percent of sampled firms who do engage in contractual arrangements with large firms for the supply of raw materials give a range of reasons for this arrangement, as identified in Table 7.4 below. The Table shows that the chief reason for the contract is the guarantee of a continuous supply from the respective supplier-partners, especially at particular times in the production process. This, according to them is crucial, especially during the shortages of supply in the general market. Moreover, there are respondents who cited that they have a contract for raw materials because of the shortage of raw materials and hence, making them comparatively expensive. Thus, by having a specific contract, they enjoy the level of supply required at a price that is acceptable to them. It is noticed that this is largely practised by small textile producers where local raw materials are inadequate. This seems correlated to the previous reports of the difficulty of the supply of raw materials facing the textile producers in the country (MTMA, 1990). By having the contract, it becomes a priority for the supplier-partners to serve them first, rather than the ordinary buyers. Another most frequently given reason is the advantage of the credit facilities offered by their large-suppliers. There are also other advantages postulated by producers having the contract for raw materials. A much cheaper cost and thus, low cost of production is among the determinants.

Table 7.4: Reasons given by Sampled Firms for Having a Contract for Raw Materials

<table>
<thead>
<tr>
<th>Reason For Having A Contract</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guarantee for continuous supply</td>
<td>17</td>
</tr>
<tr>
<td>Credit facilities offered in the contract</td>
<td>12</td>
</tr>
<tr>
<td>Much convenience having a well-known regular business partner</td>
<td>6</td>
</tr>
<tr>
<td>Price much cheaper</td>
<td>5</td>
</tr>
<tr>
<td>Cannot get material locally/local product expensive</td>
<td>5</td>
</tr>
<tr>
<td>Quick delivery</td>
<td>4</td>
</tr>
</tbody>
</table>

Note: Total number exceeded the size respondents is due to more than one reason were given.
For the 52.9 percent of sampled firms who do not have any specific contract for the supply of raw materials, several reasons were also acknowledged. Some said they had difficulty in finding a suitable partner in a counterpart large firm. It is learnt too that they would not have much freedom of choice if a 'contracted tie' is engaged in. Others acknowledged that they do not need a specific contract since the amount of raw materials used is so small in quantity, they could get them when needed and that they have had no problem of supply so far. It was also found that they could obtain relatively cheaper prices through various suppliers, rather than engaging in a contract with one particular supplier-partner.

Based upon the use of contractual arrangement for the raw materials, the patterns of a relationship with the success of sampled firms may be observed in Figures 7.5 and 7.6. The data shows a very fluctuating position. The resultant statistical tests also show that its relationships with the profit and employment indices, though positive, are extremely weak, and far below the significant level required. The association with the capital indicator is slightly negative and does not reach a significant level of 5 percent. These statistical tests are too feeble to support or reject a positive relationship between those having contracts with large firms for the supply of raw materials and the success of these small firms.

Therefore, the diversity of effects of the contract of raw materials supply on the small firms' success may be dependent on individual arrangements with large firms. The advantages of guaranteed continuous supply cited by them may be relevant. This enables small firms to maintain the level of their operations even in times of inadequate supply in the general market. In addition, continuous supply with fixed prices is also desirable during a shortage of supply that could bring the price up. The price of raw materials in the contracts may vary from firm to firm as well as in a given contract, and this could be lower or higher than in the general market.

A limited assumption may also be pointed out with respect to the favourable credit facilities offered by large contract-partners. This credit facility may 'lift' the burden of lack of cash flow and internal working capital and hence, provide sufficient time to
Figure 7.6: Percentage of the Contract for Raw Materials and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Percent of Raw Materials</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>70.4</td>
<td>59.3</td>
<td>77.8</td>
</tr>
<tr>
<td>1 to 25 percent</td>
<td>60</td>
<td>33.3</td>
<td>33.3</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>44.4</td>
<td>33.3</td>
<td>55.6</td>
</tr>
<tr>
<td>51 to 75 percent</td>
<td>75</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>0</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The indicators of success (percent)

Figure 7.6: Percentage of the Contract for Raw Materials and the More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Percent of Raw Materials</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>29.6</td>
<td>40.7</td>
<td>22.2</td>
</tr>
<tr>
<td>1 to 25 percent</td>
<td>50</td>
<td>66.7</td>
<td>66.7</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>55.6</td>
<td>66.7</td>
<td>44.4</td>
</tr>
<tr>
<td>51 to 75 percent</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

The indicators of success (percent)

Pearson Correlation Coefficient Test=

i) Profit $r = .1197$, $P = .201$, NS, $p > .05$
ii) Capital $r = .0465$, $P = .373$, NS, $p > .05$
iii) Employment $r = .0580$, $P = .343$, NS, $p > .05$
produce outputs and turnover before paying part of the raw materials' cost. The extent to which these possibilities are determinant is limited. Another essential inference regarding the finding is that contracts for raw materials only may not be influential in determining the small firms' success. From this perspective, there may be other variables that play a more powerful role in contributing to the success of the firms in the sample.

7.3: Inter-firm Linkages in the Forms of Machinery Used

Discussion of the literature in Chapter Two had generated three essential questions relating to the inter-firm linkages on the account of machinery, as follows: what is the proportion of local machinery used by small firms? what proportion of small firms use second-hand machinery? and who are the suppliers?

Corresponding to this, there are three issues identified for empirical testing. These are the following: i) the percentage value of local machinery used by the sampled firm (expressed in the percentage value of the total machinery), ii) the percentage value of second-hand machinery used, and iii) source of supply of all machineries (first- and second-hand machines) used by the sampled firms. These issues and their possible associations with the relative success of the sampled firms are examined in the following three sub-sections. It is equally important to note that the machinery that we have investigated were, among others: the spinning, bleaching, threading, weaving, knitting and sewing machines and other related equipments used by the sampled firms to produce their outputs.

7.3.1: Local Machinery Used and Its Association with the Success of the Small Firms

In measuring local machinery a definition to that used with respect to local raw materials is adopted by differentiating local from imported machinery. The percentage value of the local machinery to the total value of machinery used was considered as the basis of measurement. The data for this are presented in Table 7.5. It reveals that about 72.5 percent of the sampled firms used local machinery. By contrast, only 5.9 percent used imported machinery. The mean proportion of the value of local machinery in the total value of machinery used in the small firms is 73 percent.
These findings obviously reflect a large use of local machinery by the small firms in manufacturing their products. The findings may imply three significant factors. Firstly, the disproportionate use of local machines suggests the availability of those machines locally. This may be the result of rapid industrial development of the country in the last few decades, (see Chapter Four) making the machinery required by small textile and garment firms available locally. Secondly, it is observed that many of the imported machines were used by the small textile firms, especially the spinning, bleaching and treading machines. These machines were either not available widely in the domestic market or there was limited choice. Lastly, a significant proportion of small firms using local machinery may also have resulted from the Custom Act 1967 that imposed an additional tax on those who imported machines and/or components that were available locally, the same provision as for the raw materials, (see MIDA 1990:24).

Table 7.5: Distribution of Firms by Percentage of the Local Machinery

<table>
<thead>
<tr>
<th>Percentage (value) of the Use of Local Machinery</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>3</td>
<td>5.9</td>
</tr>
<tr>
<td>1 to 25 percent</td>
<td>2</td>
<td>3.9</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>5</td>
<td>9.8</td>
</tr>
<tr>
<td>51 to 75 percent</td>
<td>4</td>
<td>7.4</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>37</td>
<td>72.5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

The relationship between the percentage value of used-local machinery and the profit, capital and employment indicators is presented in Figures 7.7 and 7.8. It reveals that there is a positive relationship between them, favouring the sampled firms who used local machinery over those having a proportionately higher value of imported ones. This is learnt, for instance, in the profit indicator. It shows that the sampled firms who do not use local machinery are not found at all in the more successful category, compared to those who used more than 75 percent, accounting for 43.2 percent. Those of capital and employment are 33.3 percent and 51.4 percent respectively. Though the data seems to fluctuate the general tendency is in favour of those who use local machinery.

The above findings are obviously reflected in the results of the statistical test. It
Figure 7.7: Percentage of Local Machinery and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Percent of Local Machines</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>100</td>
<td>66.7</td>
<td>66.7</td>
</tr>
<tr>
<td>1 to 26 percent</td>
<td>60</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>80</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>51 to 76 percent</td>
<td>75</td>
<td>60</td>
<td>75</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>56.8</td>
<td>46.6</td>
<td>64.8</td>
</tr>
</tbody>
</table>

The Indicator of Success (percent)

Figure 7.8: Percentage of Local Machinery Used and the More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Percent of Local Machines</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>0</td>
<td>33.3</td>
<td>33.3</td>
</tr>
<tr>
<td>1 to 25 percent</td>
<td>60</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>51 to 76 percent</td>
<td>25</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>43.2</td>
<td>51.4</td>
<td>35.1</td>
</tr>
</tbody>
</table>

The Indicator of Success (percent)

Pearson Correlation Coefficient Test:

i) Profit $r = .2051$, $P = .074$, NS, $p > .05$
ii) Capital $r = .2164$, $P = .064$, NS, $p > .05$
iii) Employment $r = .1097$, $P = .222$, NS, $p > .05$
shows that the association between the different levels of local machinery used and the three dependent variables of employment, capital and profit is positive. However, it is a very weak relationship and that does not reach a significant level at 5 percent. This infers there is more than a 5 percent chance for small firms to decline in percentage of the more successful category with every increase in the percentage of local machinery used.

Therefore, the effects of the use of local machinery on the degree of success of sampled firms are minimally in favour of those using more local components. A limited assumption hence, may be acknowledged. Firstly, these may be relatively cheaper in the local market than the imported ones. This may result from the additional tax imposed on those who imported machinery. Having acknowledged this, however, the type of machinery bought whether taxed or not (corresponding to the available machinery locally) seems likely to be relevant.

7.3.2: The Use of First-Hand Machinery and Its Association with the Success of the Small Firms

The discussion of machinery in the debates around small firms has also centred around their use of new (first-hand) machinery or second-hand machinery. In this subsection, therefore, the analysis will focus on the following two issues: i) percentage value of new (first-hand) machinery to the total value of machinery used by the sampled firms, and ii) the possible association of different degree of use of first-hand machinery with the success of the sampled firms.

The findings are presented in Table 7.6. The data reveal that just over 90 percent of the sampled firms have more than 75 percent of the total value of their machinery comprising first-hand machines. In other words, it is found that no firm had used more than 50 percent worth of second-hand machines. The responses indicated in fact that 90.2 percent of the sampled firms had been equipped entirely with first-hand machinery (i.e. 100 percent).

Several inferences can be made from the data. Firstly, the fact that the majority of small textile and clothing firms in Kuala Lumpur and Petaling Jaya use new machines
reflects that these firms are equally dependent on first-hand machines like their large firm counterparts. Secondly, the finding provides contrasting empirical evidence to previous studies of small manufacturing elsewhere in developing countries. It is pertinent to point out at this juncture that different conditions in different sub-sectors in the manufacturing sector may well be one of the reasons for varying evidence. In addition, different studies' location and the time the research was conducted in different developing countries may also be among the reasons for different results. Therefore, it may be incorrect to distinguish characteristics of small firms' operation in terms of the use of first-hand and/or second-hand machineries.

Table 7.6: Distribution of Sampled Firms by the Use of First-Hand Machinery

<table>
<thead>
<tr>
<th>Percentage (Value) of the Use of First-hand Machines</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>1 to 25 percent</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>51 to 75 percent</td>
<td>5</td>
<td>9.8</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>46</td>
<td>90.2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

The relationship between the use of first-hand machine and the success of sampled firms are presented in Figures 7.9 and 7.10. The data shows that with an increase in the percentage value of the use of first-hand machines, there is a relative increase in the percentage of sampled firms represented in the more successful category of all three indicators. This may be observed, for example, in the profit indicator which shows that 20 percent of the sampled firms using from 51 percent to 75 percent worth of the first-hand machines are found in the more successful profit indicator, lower than 39.1 percent of those who used more than 75 percent worth of the first-hand machinery.

The above results are supplemented by the statistical tests which shows a positive...

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The limited use of second-hand machinery in our findings refute the ILO (1972) reports suggesting a significant utilisation of second-hand machines. This is also contrary to finding of small manufacturing firms in Brazil (Schmitz 1982). Please refer to Chapter Two for different empirical evidence elsewhere in developing countries.
Figure 7.9: Percentage of First-Hand Machines and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Percent of New Machines</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>51 to 75 percent</td>
<td>80</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>60.9</td>
<td>50</td>
<td>65.2</td>
</tr>
</tbody>
</table>

The Indicator of Success (percent)

Figure 7.10: Percentage of First-Hand Machines and the More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Percent of New Machines</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>51 to 75 percent</td>
<td>20</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>39.1</td>
<td>50</td>
<td>34.8</td>
</tr>
</tbody>
</table>

The Indicator of Success (percent)

Pearson Correlation Coefficient Test:

i) Profit $r = .1177$, $P = .205$, NS, $p > .05$

ii) Capital $r = .2988$, $P = .017$, $p < .05$

iii) Employment $r = .2229$, $P = .058$, NS, $p > .05$
relationship. However, only the capital indicator shows a significant level at 5 percent. This implies that there is less than 5 percent chance that with an increase in the percentage value of first-hand machines used, a decline in the percentage of the more successful performance would occur. This, however, does not statistically apply to the profit and employment indicators.

The above results imply that the use of new machineries has advantages for the success of small firms. It is likely that the use of new machineries may have resulted in more efficient production than the use of second-hand machinery. This is based upon the assumption that not only is the speed of production from the first-hand machines is much faster (due to advanced technological development in the competitive market etc.), but also that they are more reliable, breakdown less and cost less to maintain than second-hand machines.

Our evidence shows that the relationship between the use of first-hand machines and the success of small firms was statistically significant for the capital indicator. This may reflect that additional capital requirements for investing in new machinery may not necessarily add to the overall marginal cost for the small firm as was once expected. On the contrary, the return for such investment in new machines may produce favourable effects on the overall operational strategy and manpower. Although the capital cost may be lower (though not always the case) for investing in second-hand machines, the possible frequent breakdowns may inflate the existing capital requirements in their operations.

7.3.3: Source of Machinery Used and Its Association with the Success of the Small Firms

With respect to the source of this machinery, it is found that all of it was bought from large firms. No firm had bought machinery from small firms and/or small retailers. This finding again notes a significant linkage with the wider economic structure. Similar evidence can be found in the study by Bromley (1979:1168) and Scott (1979:127). In view of our finding in the small textile and clothing industry and elsewhere in the developing countries, it may emphasise that small firms are unavoidably dependent upon their large firms counterparts for the supply of machinery.
7.4: Inter-firm Linkages in the Forms of Outputs Produced

One of the major attributes in the available literature of small firms is the relationship with large firms in terms of outputs produced by small firms. From a review of the literature in Chapter Two, there are at least three essential issues that have to be addressed in the empirical analysis. These are, as follow: i) the level of integration between small and large firms expressed in terms of percentage value of the total value of outputs produced by the small firms and bought by large firms, and ii) the extent to which small firms have specific contractual-arrangement for selling outputs to large firms and, iii) their associations with the relative success of the sampled firms.

7.4.1: The Buyer of Outputs and Its Association with the Success of the Small Firms

Data on the buyers of the outputs of the small firms are tabulated in Table 7.7. It reveals that more than half, i.e. 58.8 percent of the sampled firms sell more than 75 percent of their products to large firms. In contrast, there is no single firm that does not sell products to large firms. With the mean value of output sold to large firms to the total value of outputs at 72.3 percent, it is clear that large firms are significant buyers for the outputs produced by the small firms in Kuala Lumpur.

These figures vividly point to a significant relationship between small and large firms in terms of the product buyers for small firms. Other buyers such as small businesses and/or small retailers and households and/or individuals play a very insignificant role. Similarly, there is no firm in the sample which was engaged with public sector or government agencies, either for buying raw materials or in selling its products. The large firms which are predominant business-partners are Malaysia-based multinational companies such Orlando, Lee, Wrangler, Padini etc., local-giant firms and superstores across the country. Moreover, the small firms are also found to be inactive in terms of exports. Their exports expressed as a percentage of their total value sales is less than 5 percent. The findings suggest that many small firms are concentrating on the domestic market which is limited in size. Evidence, thus, has proven the claims previously made by Lim 1986 (25-28), Salleh (1991:3) and many others that the products of small firms in Malaysia largely concentrate on the local market.
Table 7.7: Distribution of Firms by percentage value of Outputs sold to large firms

<table>
<thead>
<tr>
<th>Percentage Value of Total Output Sold to Large Firms</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>1 to 25 percent</td>
<td>2</td>
<td>3.9</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>7</td>
<td>13.7</td>
</tr>
<tr>
<td>51 to 75 percent</td>
<td>12</td>
<td>23.5</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>30</td>
<td>58.8</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

Hence, relationships with large firms seem extremely important for not just for raw materials supply, but also for marketing of their manufactured goods. Elsewhere in developing countries similar evidence may be seen as in Bromley (1978:1168), Basok (1989:52), Eveimen, Kaytar and Cinar (1991:137-138) and Morris and Lodwer (1992:98). Thus, our evidence and elsewhere in developing countries strongly suggested that the degree of interdependence is exceptionally high.

The possible relationship between different percentage values of outputs sold to large firms and the success of the small firms in the sample are presented in Figures 7.11 and 7.12. It reveals a positive relationship between large firms as buyer of outputs and all performance indices. It is observed that the sampled firms who sold between 1 to 25 percent of output to large firms are not represented in the more successful profit indicator as compared to 14.3 percent and 25 percent of firms who sell 26 to 50 percent and from 51 to 75 percent of the total outputs to large firms, respectively. Moreover, 50 percent of the sampled firms who sold more than 75 percent of their products to large firms were the most successful in terms of profit. The data in the capital and employment indicators are similar.

The above findings are vindicated by the results of statistical test which indicates that percentage values of outputs sold to large firms are not merely relevant but significantly associated with all three indices of profit, capital and employment. This infers that there will be less than 5 percent probability for the small firms to decline into the less successful category with every percentage increase in the outputs sold to large
Figure 7.11: Percentage of Products Sold to Large Firms and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Percent of Products Sold</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 25 percent</td>
<td>100</td>
<td>60</td>
<td>100</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>85.7</td>
<td>66.7</td>
<td>85.7</td>
</tr>
<tr>
<td>51 to 75 percent</td>
<td>75</td>
<td>33.3</td>
<td>91.7</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>50</td>
<td>43.3</td>
<td>53.3</td>
</tr>
</tbody>
</table>

The indicators of success (percent)

Figure 7.12: Percentage of Products Sold to Large Firms and the More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Percent of Products Sold</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 25 percent</td>
<td>0</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>14.3</td>
<td>14.3</td>
<td>14.3</td>
</tr>
<tr>
<td>51 to 75 percent</td>
<td>25</td>
<td>33.3</td>
<td>8.3</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>50</td>
<td>56.7</td>
<td>46.7</td>
</tr>
</tbody>
</table>

The indicators of success (percent)

Pearson Correlation Coefficient Test:

i) Profit \( r = .3255, P = .010, S,p<.05 \)

ii) Capital \( r = .2484, P = .040, S,p<.05 \)

iii) Employment \( r = .3450, P = .007, S,p<.05 \)
firms. Hence, it is clear that, as was expected, the total outputs sold to large firms plays an essential role in determining the success of the small textile and clothing firms in Kuala Lumpur and Petaling Jaya.

Our evidence may suggest the following points. There is a possibility that small firms which supply more products to large firms have a more secure income and internal capital flow, and thus would be able to maintain, sustain and even expand their operations. This is because the total goods sold to large firms is usually much larger in quantity than that sold to other small customers. These firms might then find that more time could be spent on other lines of operation such as production and administration that, in turn, could expand the quantity and quality of existing products. For those selling to other smaller unit of customers, more time would be needed to persuade individual customers since they have to depend on a large number of them.

It is possible that the sampled firms who sell more products to large firms have either the advantage of a relatively higher price than other customers or may sell at a similar price rate (or even a lower one), but can compensate the margin with a higher quantity sold. In view of our findings, it is imperative to state that a specific study focusing on this issue is highly desirable. The following sub-sections further supplements the understanding of this issue.

7.4.2: The Contractual-Arrangements for Output Sold and Its Association with the Success of the Sampled Firms

From the significant number of the small firms in the sample who sell their products to large firms, some sell these products through a specific arrangement. By defining the contract for products as a special commercial arrangement to sell the outputs produced by sampled firms, rather than just a shelf-purchase as by other buyers in the general market, a unique contractual-arrangement involving the amount, price, credit and time period with the large-buyers is brought under consideration. Under this arrangement, the output produced by small firms specifically relates to the requirements set by large firm-buyers. The value of outputs sold through a contractual arrangement to large firms as a percentage of the total value of outputs sold, was considered as a basis of the
measurement in Table 7.8.

The Table shows that about 92 percent of them had a specific contract with large firms for the sale of at least part of their outputs. The largest proportion comprised 45.1 percent of the group of sampled firms which sold their products through the contract to the extent of 51 to 75 percent of the total output. The mean value of output sold to large firms on a contractual basis is 48.3 percent.

The finding clearly indicate a disproportionately large number of the sampled firms having a specific contract for their products with large firms. This implies a very high level of vertical integration of small firms' regular commercial activity with their large counterparts. In this relationship, the finding suggests that, not only do the small firms depend on large firms for the marketing of their products, but inversely the dependency of large firms on small firms as a source of finished goods. Our data, hence, supports the previous reports of the increasing practise of ‘extra-market linkages’ among small and large firms in developing countries especially in the small textile and clothing firms (see Pack 1983, Hill 1985 and Evcimen, Kaytaz and Cinar 1991). Some of the firms produce T-shirts, jogging suits, trousers, polo shirts, socks etc. to the Malaysia-based multi-national companies such as Orlando, Padini, Puma, Nike, Wrangler and Lee. Others were linked to giant textile manufacturers in the country like Panglobal Textile Bhd., Pacific Textile Mfg Bhd, Oriental Textile and Garment Bhd., providing items such as yarn dyed fabrics, grey cotton fabrics and a variety of towels (various designs and specifications like bath towels, hand towels, face towels, kitchen towels etc.).

Table 7.8: Distribution of Sampled Firms by Contractual-arrangement for Outputs

<table>
<thead>
<tr>
<th>Percentage Value of Outputs Sold through Contract</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>4</td>
<td>7.8</td>
</tr>
<tr>
<td>1 to 25 percent</td>
<td>12</td>
<td>23.5</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>4</td>
<td>7.8</td>
</tr>
<tr>
<td>51 to 75 percent</td>
<td>23</td>
<td>45.1</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>8</td>
<td>15.7</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>51</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
Several reasons were acknowledged by sampled firms as to why they practised a contract system for their outputs. The most common one was the continuous guarantee of income and turnover for the outputs that are manufactured. Another common reason was that the advanced credit facilities offered by their large counterparts were very attractive and helpful. With the advanced credit, they could overcome some of their problems relating to the shortage of working capital and could maintain the level of cash flow necessary for other business purposes. It was also cited that they secured more time on the production activity rather than in persuading small customers to buy their products. Therefore, only a limited number of employees have to be employed in marketing aspects. A number of them acknowledged that dealing with a regular contract-partner was a more convenient business operation.

Meanwhile, three reasons were given by sampled firms who do not practise the contract system for the sale of their products. Firstly, they did not have a contract-partner who was ready to form the agreement. Secondly, many of their customers were small firms and/or small retailers who do not want to engage in a contractual arrangement. Lastly, a limited number of them pointed out that they did not want to be involved in a contract because specifications given by the large-contract partners were above the capacity of their operations.

Figures 7.13 and 7.14 show the association between different levels of contracted products and the success of the sampled firms. It is found that sampled firms who do not have any contract for their products are not represented in the more successful cohort of either employment, capital or profit. A similar pattern is observed for those who have a contract for less than 26 percent of their total products. On the other hand, 75 percent of the sampled firms who have a contract for more than 75 percent of their outputs, are found in the more successful category of profit and capital respectively, 50 percent in the more successful employment category. Although there are some fluctuations in the figures, they are very small and they do not influence the overall finding of a favourable effect on the success of those having a contract for their products.

The results of statistical tests appear to justify a very strong and positive
Figure 7.13: The Percentage of the Contract for Products and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Percent of Products</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1 to 25 percent</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>25</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>61 to 75 percent</td>
<td>65.5</td>
<td>34.8</td>
<td>66.5</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>25</td>
<td>25</td>
<td>50</td>
</tr>
</tbody>
</table>

The indicators of success (percent)

Figure 7.14: The Percentage of the Contract for Products and the More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Percent of Products</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1 to 25 percent</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>75</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>61 to 75 percent</td>
<td>43.5</td>
<td>65.2</td>
<td>43.5</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>75</td>
<td>75</td>
<td>50</td>
</tr>
</tbody>
</table>

The indicators of success (percent)

Pearson Correlation Coefficient Test=

i) Profit $r = .4960$, $P = .000$, $S,p<.05$

ii) Capital $r = .5953$, $P = .000$, $S,p<.05$

iii) Employment $r = .4170$, $P = .001$, $S,p<.05$
association. The results illustrate that the more the proportion of outputs sold to large firms through a contract, the more favourable the effect on the degree of success, financial and employment.

The findings indicate a close association between the contract for outputs and the degree of success, in favour of those having sold their products through the contract with large firms. Therefore, it provides convincing support to those who believe that a contract system would develop a creative environment for the growth of small firms (Watanabe 1975, Ganesan 1982, Hill 1985, Morris and Lodwer 1992 etc.). It also signals a further clarification to those who were unable to certify the issue in the previous studies such as Schmitz (1982) and Moser (1982). Some possibilities may be deduced from our findings. Firstly, a guarantee of the market for products manufactured is the most essential factor that would secure the income and turnover for the firms and sustain their business operations.

Secondly, the advanced credit facilities given by their large counterparts may be exceptionally useful. This may overcome, as they acknowledged, the most crucial problem in their operation. Similar reports that emphasised the shortage of internal working capital in small firms is also found in the previous studies in Malaysia (see Chee 1979:178, Lim 1986:39-44 and Salleh 1991:6). It is indeed possible that the shortage of internal funds could be reduced by the contractual arrangement with the large firms, thus enabling the small firms to have more cash to obtain raw materials, pay wage bills, for which they would not have to wait till their goods are sold. The reason given by the sampled firms that more time can be focused on the production activity instead of marketing may also be relevant. Another likely possibility is that small firms who have a contract for the products manufactured may be those who are quite well established firms, who were selected by their large-contract partners in terms of product quality, quantity as well as timely delivery. Therefore, the relatively better success of these small firms are to be expected.
7.5: Sub-contracting Work and Its Association with the Success of the Sampled Firms

The literature reflects different perspectives on the benefits of sub-contracting works on the development of small firms. These differences have been concentrated upon the theoretical discussions, namely between optimistic dualists approach and cautious petty commodity production analysts as well as specific context of economic sub-activity of a particular country emphasised by flexible specialisation scholars as discussed in Chapter Two. With increasing reports on the practice of sub-contracting work and its related-arrangements between small and large firms in developing countries (T. Steel and Y. Tagaki 1983, H. Hill 1985, H. Pack 1987 and Evciman, Kaytaz and Cinar 1991), appeals for more empirical studies has been made by scholars such as Schmitz (1982), Moser (1982 and 1984), Hill (1985), Basok (1989), Lowder and Morris (1992).

In this connection, the previous two sub-sections have discussed the specific contractual-arrangements in terms of raw materials and products separately. Having observed the existence of complex-links between the sampled firms and large firms, a much more stable and enduring one to one relationship was identified. Under this arrangement, it involves more than just small firms producing outputs to the large-assembler’s specification, but also includes raw materials and/or credits to be provided by large-assembler firms. It is understood that in reducing the cost of production, large firms have set up conditions which are conducive and manageable for small firms functioning and operation. The key element to these strategies is decentralisation, detachment of production and within these processes there has been a transfer of lines of production to the management of small firms. This is widely known as ‘sub-contracting works’ (see Hill 1985, Blackburn 1987).

The effects of such work carried out by small firms under this arrangement on their own development has been controversial as to whether it brings about benefits for the development of small firms or is merely an exploitation of small firms and their resources, as discussed in Chapter Two. This sub-section, therefore, will be looking at the extent of sub-contracting work and its possible effects on the relative success of the firms in the sample. The practice of sub-contracting work was measured by the percentage value of the outputs produced for the large-assembler firms to the total value of outputs
produced by sampled firms.

Table 7.9 reveals the extent of sub-contracting works in the sampled firms. It shows that more than half, i.e. 56.7 percent of the sampled firms do not engage in subcontracted work at all. On the contrary, only 2.0 percent of them are dependent upon the sub-contracting works for more than 75 percent of their total output. The mean value of sub-contracting work undertaken by the small firms is 20.8 percent.

<table>
<thead>
<tr>
<th>Percentage Value of Sub-Contracting Work Engaged</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>29</td>
<td>56.9</td>
</tr>
<tr>
<td>1 to 25 percent</td>
<td>5</td>
<td>9.8</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>4</td>
<td>7.8</td>
</tr>
<tr>
<td>50 to 75 percent</td>
<td>12</td>
<td>23.5</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>1</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>51</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The data in Table 7.9, therefore, indicate that sub-contracting works are practised between the small firms and large firms in Kuala Lumpur and Petaling Jaya. This is another form of inter-firms’ relationship between small and large firms that has earlier been proven to be highly significant in the manufacturing sector in general and the textile and clothing sub-industry in Kuala Lumpur and Petaling Jaya in particular. Besides, having a specific contract for products, it is worth noting that one sample firm was completely the subsidiary of a large local-company (Dollarquest (M) Bhd.), providing ladies garment-items such as blouses, skirts, dresses, pants etc. While others were not subsidiaries of large firms, they were closely linked to large firms in terms of inputs and outputs.

The small firms involved in sub-contracting gave a number of reasons as to why they engaged in the sub-contracting work. The first common reason is that it helped to expand their businesses. By doing sub-contracting works for large-assembler firms as well as producing goods for the general market, more products and hence a larger turnover could be initiated. Some firms cited that it led to easier business operations because they
do not have to provide their own capital to purchase raw materials and they do not have
to do their own marketing for the goods produced. Moreover, they also admitted that they
did not have to engage with the suppliers for the raw materials since this is done by their
large-assembler firms. In addition to the possibility of credit facilities from large firms,
they also admitted that they did not have to transport the goods produced as their large-
assembler firms take this responsibility. Finally, lower cost of production and hence,
relatively higher financial returns are also among the reasons given.

Several reasons are also given by sampled firms who did not practice sub-
contracting work. The most common is that they did not have a suitable-partner and/or
they have not got the chance to do the job. Another common reason is that it is not easy
to produce goods that could satisfy the specifications of the large-assembler firms. They
acknowledged that many of the large-assembler firms export the outputs and required a
relatively high quality. Therefore, it has just not been possible for them to engage in sub-
contracting work for the large-assembler firms because of the quality of their outputs
which normally cater to the domestic market. There are also sampled firms who admitted
that they need more freedom and that such contracting work does not provide a conducive
environment. There were also sampled firms who cited that some other small firms in
general engaged in subcontracting work because of some difficulties in marketing outputs
and getting inputs, while for them there have been no problem in obtaining raw materials
and selling their products without the contract basis. Thus, such contracting work is not
needed. Some of them would prefer specific contracts for their products only, rather than
sub-contracting their operation. A limited number of them believed that they could have
a relatively lower cost of production and higher return financially by manufacturing the
products on their own.

Figures 7.15 and 7.16 show that as the percentage of outputs sold through sub-
contracting works increases, the more the percentage of sampled firms are represented in
the more successful category of all three indices despite that fact that some small
fluctuations do occur in the data. In the profit indicator, for instance, about 50 percent of
the sampled firms who were sub-contracted for between 51 to 75 percent of their total
outputs, were found in the more successful profit category, compared to only 31 percent
Figure 7.15: Percentage of the Sub-Contracting Work and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Percent of Output</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>69</td>
<td>65.5</td>
<td>82.8</td>
</tr>
<tr>
<td>1 to 25 percent</td>
<td>40</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>75</td>
<td>25</td>
<td>75</td>
</tr>
<tr>
<td>61 to 75 percent</td>
<td>50</td>
<td>50</td>
<td>41.7</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The indicator of success (percent)

Figure 7.16: Percentage of the Sub-Contracting Work and The More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Percent of Products</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>31</td>
<td>34.5</td>
<td>17.2</td>
</tr>
<tr>
<td>1 to 25 percent</td>
<td>60</td>
<td>80</td>
<td>60</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>25</td>
<td>75</td>
<td>25</td>
</tr>
<tr>
<td>51 to 75 percent</td>
<td>50</td>
<td>50</td>
<td>58.3</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

The indicator of success (percent)

Pearson Correlation Coefficient Test=

i) Profit r = .0994, P = .244, NS, p > .05
ii) Capital r = .1216, P = .198, NS, p > .05
iii) Employment r = .2983, P = .017, S, p < .05
of those who do not have any sub-contracting work.

Based upon the above findings, it may be inferred that there is a slight difference between sampled firms with sub-contracting work and those that do not engage in it, in terms of their relative degree of success. This difference is indeed in favour of those having sub-contracting work. These findings are supplemented by the results of the statistical test which shows that all the associations are positive. The association between the sub-contracting work and the employment indicator is highly significant. It implies that there will be a less than 5 percent probability for the small firms to decline into the less successful category of employment with every percentage increase in the output sold to large firms. Although the associations with the capital and profit performances do not reach a significant level, a general pattern of relationship is clear that sampled firms who engage in sub-contracting work are more successful.

On the basis of the findings above, one may infer several points. The first refers to the arguments in the theoretical debate. It seems that the idea that sub-contracting work would have unfavourable effects on the development of small firms as suggested by scholars such as Leys (1973), Breman (1976), Gerry (1979) and Portes (1985) may be irrelevant in the case the small textile and clothing firms in Kuala Lumpur and its satellite town, Petaling Jaya. In particular, our evidence is contradictory to the previous empirical studies in Philippines (Hill 1985:258), in Costa Rica (Basok 1989:54-61) and in Turkey (Evcimen, Kaytaz and Cinar 1991:145). It is important to point out that this difference occurred even in the same industry as the case of the small textile and garment industry in Turkey. Therefore, it may be possible to assert that different locational studies may produce different results even in the same sub-industry, the evidence that corroborate to the argument of those in the flexible specialisation school.

The second is that the effects of sub-contracting work on the success of small firms are generally less significant in the financial performances than the employment indicator. This is indeed hard to explain. However, there may be two possibilities. It is argued that in reducing the cost of production as well as avoiding the full responsibility on manpower involved, large firms have set the conditions which are conducive and
manageable for small firms to produce the output needed by large firms (Murray 1983 and Taylor 1985). Available literature has emphasised the external factors and stated that the small firms are in an unequal relationship with large firms and that they are dependent on large firms for their survival and growth (Bechhoffer and Elliot 1981, Taylor and Thrift 1983, Portes 1985). Based upon this, the implication is that the ability of small firms to create their own ‘destiny’ and therefore, their ability to generate financial returns is likely limited. Nonetheless, this may not reflect on their capability of creating more employees. It is widely reported that the sub-contracting work practised by large firms is to overcome the need of labour and the cost of employing extra workers within acceptable minimum cost of production (see Week 1975:8-11 and many others like Scott 1979, Steel and Tagaki 1983, Portes 1985, Hill 1985 etc.). This could only be done with the detachment of production to small firms. Hence, by sub-contracting its production line, the related works and additional employees are then generated in the small firms.

7.6: Putting-Out System and Its Association with the Success of the Small Firms

Another form of ‘extra-market linkages’ that existed in the firms was the putting-out system. This arrangement is similar to the practise of sub-contracting work, however, it is a system in which small firms sub-contract or put out to even smaller units of production, mainly individuals/households to produce outputs for them. In this study, the degree of practise of the putting-out system was measured by value of the outputs produced through the putting-out work as a percentage of the total value of the outputs produced by the respective sample firms.

This research study found that more than 86 percent of sampled firms were not involved in the putting-out system, reflecting that the putting-out system among the small

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*1 see in Blackburn (1987:219).

*2 see for instance H. Hill in his article called ‘Sub-contracting, technological diffusion and the development of small enterprise in Philippine manufacturing’, in The Journal of Developing Areas, No. 19, Jan. 1985 (pp.245-262), noting that any form of a specific contractual arrangement between small and large firms in the business activity other than the normal routine shelf purchase in the general market, is ‘extra-market’ link.
textile and clothing firms of the country is not widely practised. Only 13.7 percent of the sampled firms were involved in the system, but no firm in the sample put out more than 50 percent of their total value of output. 9.8 percent of them put between 1 and 25 percent of the total value of their output, while the remaining 3.9 percent put out work between 26 and 50 percent of their total outputs (see Table 7.10).

Table 7.10: Distribution of Sampled Firms Involved in the Putting-out System

<table>
<thead>
<tr>
<th>Percentage Value of Output under the System</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>44</td>
<td>86.3</td>
</tr>
<tr>
<td>1 to 25 percent</td>
<td>5</td>
<td>9.8</td>
</tr>
<tr>
<td>26 to 50 percent</td>
<td>2</td>
<td>3.9</td>
</tr>
<tr>
<td>51 to 75 percent</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>76 to 100 percent</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

There are two possible explanations regarding this pattern of relationships. Firstly, the small-scale nature of their operation may not allow the firms in the sample to detach their operations. Secondly, some of those engaged in the putting-out system are found to be relatively well established firms in the business and required an expansion in their production. However, with limited resources to employ more workers on a full time basis and the need control their costs of production, they detached their work outside the premises with limited responsibility for the safety and security for these operation. The 'putting out' firms gave the following information as to who were their putting-out partners, where the system is being carried out and the reason why they practised the system.

Starting with information on the putting-out partner, a total of four sampled firms had individuals and/or households as their partners (see Table 7.11). In addition, two of them were engaged with both individuals and small contractors. It is imperative to note that small sub-contractors usually act as an inter-mediate agent. This agent is responsible for coordinating and identifying the households/individuals who agree to do the work according to the specifications of the sampled firms. Only one of the small firms was engaged with a small contactor only.
In relation to the location of the putting-out partner, Table 7.11 shows that, they were not limited to the area of study only. In fact, only two of the partners were located in the study areas. Five of the ‘putting out’ partners were located in other cities/towns including places as far as Ipoh, Tanjong Malim (in the state of Perak), Sabak Bernam and Kajang (in Selangor) and Nilam and Serembam (Negeri Sembilan). One sample firm had ‘putting out’ partners in both in the study area as well as in other cities. It may be postulated that their ‘putting out’ partners were friends and/or relatives whom they felt they could trust to carry out the jobs.

Table 7.11: The Distribution of Small Firms by Putting Out Partner and Their Location

<table>
<thead>
<tr>
<th>Partner Engaged in the Putting out</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small contractor</td>
<td>1</td>
<td>14.3</td>
</tr>
<tr>
<td>Individuals/households</td>
<td>4</td>
<td>57.1</td>
</tr>
<tr>
<td>Both parties</td>
<td>2</td>
<td>28.6</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>7</td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Location of Partner</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the study area</td>
<td>2</td>
<td>28.8</td>
</tr>
<tr>
<td>Other cities/towns</td>
<td>4</td>
<td>57.1</td>
</tr>
<tr>
<td>In the study area and other cities/towns</td>
<td>1</td>
<td>14.3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>7</td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Many reasons were cited for practising a putting-out system. The prime reason given was that it could increase and speed up the production of goods. The next most commonly cited reason was that this practise could overcome the labour shortage frequently experienced by the firm. They also stated that the practice resulted in lower costs of production and less managerial responsibility for the small firms given that the security and management of the partner (or worker) is seen as being beyond the firm’s responsibility. They also acknowledged that they pay piece rate and not daily or monthly payment, as with some of the employees in their own premise (see Chapter Five which showed that some of the employees in sampled firms were paid on a piece rate basis).

Those firms that did not practice putting-out cited several reasons why they were
not engaged in this system. The most common one was that they did not need such arrangements as the whole line of production as well as the workers for the job were available in the firm. Another frequent reason was that they did not want to lose control over management which may affect the quality of products.

Figures 7.17 and 7.18 show the association between the extent of putting-out work and the success of sampled firms. It is observed that 36.4 percent of the sampled firms who do not engage in the system are found in the more successful category of profit. This proportion is slightly lower than 50 percent of those who have putting-out work for 26 to 50 percent of their total value products. It is observed that with an increase in the percentage of total value outputs being put out, there is an increase in the percentage of profit. A similar pattern is observed in the capital and employment indicators.

Our findings suggest that there is a possibility that putting-out work increases the relative success of the sampled firms. This is further supported by the Pearson correlation coefficient results. In the test, all correlations with the three performance indicators are positive. Nonetheless, they are rather weak. This implies that there is more than a 5 percent chance that with an increase in the percentage of putting-out work, a decrease in the percentage of the firms in the less successful category would occur. Thus, this relationship is statistically insignificant.

Several interpretations are possible regarding this finding. First, the proportion of products produced by firms having the putting-out system was indeed very small compared to the total products manufactured (i.e. less than 50 percent with the majority less than 25 percent). If the proportion of the total outputs being produced under the putting-out system were to increase, it may show a much closer association with the more successful indicators. Secondly, it is possible that sampled firms which have engaged in the putting-out system may already be better-off and better-established firms, requiring further expansion in their operation. Hence, the relative success of these firms was not due to the putting-out system, but inversely, the relative success in their operations required them to engage in the putting-out system.
Figure 7.17: Percentage of the Putting-out Work and the Less Successful Sampled Firms

Figure 7.18: Percentage of the Putting-Out Work and the More Successful Sampled Firms

Pearson Correlation Coefficient Test:

i) Profit r = .0555, P = .350, NS, p > .05
ii) Capital r = .1617, P = .128, NS, p > .05
iii) Employment r = .1051, P = .231, NS, p > .05
Thirdly, our result is also possibly correlated to the reason why the putting-out system is carried out, as described earlier. Firms practising this system wanted to overcome the problem of labour shortage in the premises and avoid paying workers on a full-time basis that could secure their income and a higher turnover. Another possible explanation is that, there may be lower operating cost for the product manufactured under this system, since they would have to pay only on the basis of the work done. There is an economy of scale by putting-out the work and increasing production rather than producing on the premise. The result has very important implications for the operation of small firms which have limited financial resources and a small turnover. Hence, if they can manage this without losing their cost competitiveness, inevitably many of their operational difficulties and financial constraints can be minimised, if not totally eliminated. Lastly, it is possible that the putting-out system, though, it appears to be related to the success of a small number of firms, is not one of the most influential factors in determining the success of the small firms in Kuala Lumpur.

7.7: Conclusion

This chapter has presented the characteristics of the linkages between small and large firms. We found that the inter-firm vertical integration in the textile and clothing industry in Kuala Lumpur and its satellite town, Petaling Jaya is exceptionally significant. The degree and magnitude of the relationship between small and large firms in forms of supply of raw materials, supply of machinery as well as marketing of outputs in regular economic activities is disproportionately high. In addition to that, our findings show that a large number of the sampled firms are involved in many other forms of inter-firm linkages including contract arrangements for the supply of raw materials and the marketing of outputs, sub-contracting and putting-out works.

The findings indicate that a substantial number of the small firms use local raw materials and local machinery. While these findings clearly reflect the local availability of the appropriate raw materials and local machinery, it may also be affected by the Custom Act 1967. In addition, the disproportionate number of small firms using first-hand machinery challenges the findings in ILO reports (1972) and has contradicted the earlier findings of Schmitz (1982) which both had evidence of the high proportion of second-
hand machinery used by small firms in other countries. To some extent, the study suggests that this variability of outcomes is a reflection of different time periods, different countries, different sub-industries and different definition adopted and covered by the studies. This closely correlates to one of the main arguments postulated by flexible specialisation analysts who clearly emphasise the need of analysing small firms within the specific condition of a given economic activity.

Regarding the relationship between the variables analysed and the relative success of the small firms, two sets of conclusion may be summarised. The first is the use of local raw materials, local machines and first-hand machinery. The use of local raw materials has no clear impact on the success of the sampled firms. We also found that utilisation of local and first-hand machineries appeared to have positive relationship with the success of the small firms, however, the association is statistically insignificant. The study, therefore, concludes that there is no significant relationship between local raw materials and local and first-hand machineries with the success of the small firms.

The second set of conclusion deals with the direct linkages and contractual arrangement between small and large firms. Six forms of linkages and their relationship to the success of the sampled firms may be summarised. From these we found that two of them, i.e. large firms as source of supply of raw materials and having a specific contractual arrangement with large firms for raw materials do not show either a positive or negative effect on the success of the sampled firms. The effects of the other two factors, i.e. a sub-contracting work and the putting-out work are found to be positive and beneficial for the success of the small firms. However, not all of them tested at a statistically significant level of 5 percent. The effects of the remaining two factors, i.e. large firms as source of buyer for products and a contract arrangement with large firms for products, appear to have a positive relationship with the success of the small firms. These factors when tested for their association with the dependent variables, are statistically significant.

The findings have illustrated the complexity of the wider economic activity, challenging those who regarded the activities of small firms as independent and
overlooked the inextricably important linkage between small and large firms. The absence of links to large firms noted by ILO Kenya Mission (ILO 1972:5-6), the none-existence of linkages recorded by Chana and Morrison (1975:130), insignificant direct linkages commented on by Sethuraman (1977:201), the insufficient number and untypical practise of inter-firm linkage in developing countries concluded by Katz (1987) and several others among the Dualist 'school' (Hart 1973, Nihan and Jourdan 1978) are simply not borne out by the small textile and clothing firms in Kuala Lumpur. Inversely, our evidence appears to be strongly in support of those who recognised the importance of the relationship between small and large firms within a broader economic system, as postulated by many of the petty commodity production analysts (Scott 1979, Gerry 1979, Schmitz 1982, Moser 1982 and 1984, Basok 1989 etc.). The evidence is also in line with arguments of flexible specialisation scholars who recognise the importance of various levels of inter-firms linkages within a specific context of sub-industry in a given economic activity (Schmitz 1989 and 1990, Lyberaki 1989, Kaplinsky 1991, Rasmussen, Schmitz and Dijk 1992, Dawson 1992, Sverrisson 1992, Aroe 1992).

The overall findings, therefore, imply that some inter-firm linkages between small and large firms do affect the success and development of the small firms confirming one of our major hypotheses formed in Chapter Three. On the basis of our evidence, one may infer several points relating to the theoretical implications. It suggests that the view that the relationship with large firms would have a unfavourable effect on the development of small firms as suggested by scholars such as Leys (1973:426), Bose (1974:4 and 17), Davies (1979:93), Gerry (1979:247), Breman 1985:17-55), (Portes 1985:269) may not be relevant in all contexts. The research does show that small firms are a part of the activities of the socio-economic system as postulated by many of the petty commodity production analysts. Nonetheless, their assumption that linkages between small and large firms are not benign for small firms but a form of exploitation by large firms is not fully manifested in Kuala Lumpur. It is important to establish at this juncture that, in reality small firms do operate within a complex system of interdependent relationships and whether they are subordinate to the needs of large firms or not, their participation in economic growth is favourable. Though it may be that there are phenomenal constraints and pressures within the general capitalist environment on the small firms in their relationship with large firms,
they are also opportunities to respond to adverse conditions and these opportunities have
given them an important growth potential and significant success. This closely relates to
the argument postulated by many of the flexible specialisation analysts who emphasise the
significant of internal adjustments of small firms including in time of crisis in a given
economic and socio-cultural environment.

We also found that the relationships between each independent variable analysed
and three dependent variables of profit, capital and employment in most cases are parallel
and similar, i.e. if the relationship between an independent variable and one of the
dependent variables is insignificant, it is likely to be similar for the other two dependent
variables and vice-versa. However, the effects of some independent variables on the three
dependent variables was not always at the same level of significance. In the case of the
use of first-hand machinery, it was found that it was insignificant for the profit and
employment indicators, whereas it was statistically significant for the capital indicator.
This infers that although the sampled firms bought new machines (which may require
additional capital), substantial saving in capital spending may be made as compared to the
use of second-hand machines, which may require additional cost in maintaining the
efficiency and speed of production. Therefore, by investing in new machinery the amount
of capital saving may result in greater returns (reaching a significant level at 5 percent)
than the relative increase in the profit and employment indicators.

Difference in impact on the three indicators was also found with respect to sub­
contracting work. The success of the small firms was generally less significant with
respect to financial returns (profit and capital indicators) and more significant for the
employment indicator. Corresponding to this, the research acknowledges that the
capability of the small firms to create their own ‘destiny’ with respect to financial returns
is indeed obstructed by their relationship with large firms. This, however, does not seem
to affect employment generation since the essence of sub-contracting work practised by
large firms is, among other things, to overcome their labour shortage within acceptable
minimum costs of production, as discussed in Chapter Two. Hence, by sub-contracting the
production lines of large firms, related works and additional employees are generated in
the small firms.
In terms of policy implications, the positive effects of inter-firm linkages on the development of the small firms generally shown in our finding could indeed provide very useful information for policy makers and those who are involved in the promotion of small firms in the country. Further support programmes for a more integrated linkages should be strengthened and enhanced, not merely in the textile and clothing industry, but also in other industries and across sectors. Thus, potential backward and forward linkages should be recognised, especially when similar evidence exists elsewhere in developed countries such as Japan (Watanabe 1975) and NICs such as Hong Kong and Singapore (Ganesan 1982), Taiwan (Tsai 1991) and South Korea (Yoon 1991). In proposing the support programmes on inter-firms linkages, several areas have to be considered including: greater cooperation in terms of inputs and outputs, sub-contracting works and putting-out systems. The government could also purchase more products from large firms conditional upon 'sub-contracting' with small firms. It is also relevant to point out that the role of Subcontracting Exchange Scheme (SCX) which brings large firms into contact with potential suppliers of inputs, components as well as outputs of small firms should be further strengthened and expanded with adequate financial resources and staffing.

It is also worth noting that from the overall analysis of inter-firm linkages in this chapter, one variable, i.e. the value of output produced by the sampled firms sold to large firms through the contractual-arrangement, appeared to be the most significant factor in determining the success of the sampled firms. It was found that 31 sampled firms (i.e. 60.8 percent of the total) sold their products through this arrangement for more than 50 percent of the total value of output produced. From these 31 firms, 16 out of them are found in the more successful category of the profit indicator. Meanwhile, 21 and 14 out of these 31 sampled firms are found in the more successful category of the capital and employment indicators respectively. From 16 sampled firms who were in the more successful category of the profit indicator, none of them had received any government support. Moreover, only two out of 21 these sampled firms who were in the more successful category of the capital indicator were the recipients of the government assistance. For those in the more successful category of the employment indicator, only one of them had received government support. On the basis of this substantiated evidence, it can be further emphasised that small firms who do not receive assistance from the
government are those who are relatively well-established firms and that they do need such assistance, confirming the earlier explanation made in Chapter Six.
CHAPTER EIGHT

8.0: ENTREPRENEUR CHARACTERISTICS, MANAGEMENT PRACTICES AND THE SUCCESS OF THE SMALL FIRMS

8.1: Introduction

The review of available literature undertaken in Chapter Two appeared to suggest that the personal characteristics of entrepreneurs and management practices are among the significant factors in the development of individual small firms. Little emphasis was given to these factors by the petty commodity production analysts while no mention of them was made by the supporters of liberal neo-classical approach. The importance of these factors with respect to the success of individual small firms are, however, clearly stated by the flexible specialisation analysts. The main objective of this chapter is, therefore, to examine to what extent the personal characteristics of entrepreneurs and their management practises have an impact on the success of the firms in the sample.

In relation to this, the information on the personal characteristics of entrepreneurs described in Chapter Five will be referred to in order to analyse their association with the relative degree of success of the firms in the sample. This will be carried out in section 8.2. The analysis of the management practices and their associations with the success of the sampled firms will be presented in section 8.3. The last section of the chapter will sum up the findings of the whole analysis.

8.2: The Personal Characteristics of the Owner/Manager of the Small Firms

The discussion in Chapter Two of the study identified six personal attributes of the owner/managers which will be analysed here. These are: i) the employment status of the managers, ii) their age, iii) their sex, iv) their ethnic group, v) their educational attainment and, vi) their past and present business experience. The possible effects of these issues on the success of the small firms are presented subsequently in the following six sub-sections.

8.2.1: Employment Status of the Manager and Its Association with the Success of the Small Firms

Employment status of the manager is thought to be an important factor affecting the success of small firms. The available literature has shown that for some owners,
'financial ambition' equated to the personal goal of earning more money to secure a 'satisfactory' lifestyle (see for instance, Curran and Stanworth 1973) has a greater impact on the success of the firms under their management, as compared to firms under an appointed manager (Blackburn 1987:225-228, Foley 1987). Can a similar relationship between the employment status of the managers and the success of the small firms be shown for the textile and clothing industry in Kuala Lumpur and its satellite town, Petaling Jaya?

Table 5.14 in Chapter Five indicates that 68.6 percent of the total owners/managers in the sampled firms are owners. The relationships between owners and other persons as the managers of the small firms respectively and the relative degree of success of the firms are shown in Figures 8.1 and 8.2. No distinctive relationship emerges. A slightly better success is observed for firms run by their owners and non-relative managers. For example, where owners are managers, 44 percent of the sampled firms are represented in the more successful profit indicator, while they are 50 and 35.3 percent respectively for the capital and employment indicators. Meanwhile, the non-relative managers represent about 50 percent in the more successful category of profit and capital indicators respectively, and 25 percent for the employment indicator. Both these status of managers (the owners as managers and the non-relative managers) are observed to be at a comparatively higher level in the more successful category generally, as compared to other managers such as son/daughter, brother/sister, niece/nephew and other-relatives of the owner.

The finding reflects a marginally positive relationship between the success of the firm and whether they are run by their owners or 'independent managers', as compared to those run by relatives of the owner. As relevant literature in developing countries has not been found, a 'reluctant' reference to an earlier study conducted by Stanworth and Curan (1978) in North England is mentioned here. They found that businesses controlled by their owners had a growth rate twice as high as those controlled by other status of managers. A similar finding also comes of the study of small firms in Dorset (Blackburn 1987). Our data, thus, lends limited support to the assumption that because the success of a business has a direct effect on the financial condition of the owner/manager, they are
Figure 8.1: The Status of the Managers and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Status of Manager</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Owner</td>
<td>66.9</td>
<td>60</td>
<td>64.7</td>
</tr>
<tr>
<td>Son/Daughter</td>
<td>83.3</td>
<td>50</td>
<td>83.3</td>
</tr>
<tr>
<td>Brother/Sister</td>
<td>76</td>
<td>76</td>
<td>76</td>
</tr>
<tr>
<td>Nephew/Niece</td>
<td>100</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Other-relative</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>None-relative</td>
<td>50</td>
<td>50</td>
<td>75</td>
</tr>
</tbody>
</table>

The Indicators of Success (percent)

Figure 8.2: The Status of the Managers and the More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Status of Manager</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Owner</td>
<td>44.1</td>
<td>50</td>
<td>36.3</td>
</tr>
<tr>
<td>Son/Daughter</td>
<td>16.7</td>
<td>50</td>
<td>16.7</td>
</tr>
<tr>
<td>Brother/Sister</td>
<td>26</td>
<td>26</td>
<td>25</td>
</tr>
<tr>
<td>Nephew/Niece</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Other-relative</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>None-relative</td>
<td>50</td>
<td>50</td>
<td>25</td>
</tr>
</tbody>
</table>

The Indicators of Success (percent)
likely to be more successful than small firms run by non-owner manager. However, the fact that independent managers do not necessarily show a poor success, requires further clarification regarding managers with other status. The findings imply that it may be important to establish whether non-owner managers are relatives of the owners, as the latter tend to operate in the least successful firms.

As for the relatively better performance shown in the small firms run by an independent manager, two explanations may be extended. Firstly, it can be assumed that an appointed manager who is outside the family is often selected on the basis of merit (experience and/or qualification) and this could account for the main difference as compared to a less rigorously selected family-relative as manager. Indeed, all these independent managers are found to be in the private limited firms which usually appoint someone who is thought to be suitable for the job. Secondly, it could also be assumed that an independent manager is also motivated to ensure a good performance of the firms in which they work, since his/her personal income well depend on the progress of the firm. An assumption of low motivation and interest among manager who are relatives of owners needs to be more carefully investigated in the future.

8.2.2: Age of Owner/Manager and Its Association with the Success of the Small Firms

The age of the owners/managers has been regarded as an important element contributing to the success of small firms, though the available literature reflects two contradictory views on the trend of relationship. One side advocates that the older the person controlling the firm, the more the knowledge they have about markets, suppliers, and business skills, increasing the firm's ability to compete with other firms in the same industry that, in turn, increases the profitability for a better performance (Aziz 1981:130 and Lai 1987:110). On the other hand, a few scholars point out that motivation often declines with age (see Mc Kenna and Orritt 1980, Storey 1983, Foley 1987 and Blackburn 1987). The age of the owner/managers and its association with the success of the small firms is reflected in Figures 8.3 and 8.4.

It may be remembered from Chapter Five that the largest proportion, i.e. 33.3 percent of the owner/managers were between 36 and 40 years old. The figures reflect an
Figure 8.3: The Age of the Owners/Managers and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Age of the Managers</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>26 to 30 years</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>31 to 35 years</td>
<td>42.9</td>
<td>28.6</td>
<td>42.9</td>
</tr>
<tr>
<td>36 to 40 years</td>
<td>64.7</td>
<td>47.1</td>
<td>64.7</td>
</tr>
<tr>
<td>41 to 45 years</td>
<td>64.3</td>
<td>71.4</td>
<td>85.7</td>
</tr>
<tr>
<td>46 to 60 years</td>
<td>70</td>
<td>60</td>
<td>70</td>
</tr>
<tr>
<td>Above 50 years</td>
<td>100</td>
<td>100</td>
<td>50</td>
</tr>
</tbody>
</table>

The Pearson Correlation Coefficient Tests with=

i) Profit $r = -0.2368, P = 0.047, S.p<0.05$
ii) Capital $r = -0.3155, P = 0.012, S.p<0.05$
iii) Employment $r = -0.1027, P = 0.237, NS.p>0.05$

Figure 8.4: The Age of the Owners/Managers and the More Successful Sampled Firms
inverse relationship, indicating that the older the age of the owner/manager, the less the percentage of representation in the more successful category of the indicators. For example, all of the owners/managers who are in the age between 26 and 30 years are found to be in the more successful category of profit and capital as compared to none for those who are in the age group above 50 years. Although a small fluctuation emerges in the relationship with the employment indicator, the overall pattern is clearly in favour of relatively younger owner/managers.

Similar results are observed in the statistical test. The associations are negative. Two of them, i.e. the associations with profit and capital indices are found to be very strong and statistically significant at 5 percent level. This confirms that there is less than a 5 percent chance that every increase in the age of the owner/manager would be followed by an increase in the percentage in the more successful category.

Three explanations to account for the findings above are possible. A high level of enthusiasm and motivation among young owner/managers to achieve more success for the sake of future financial security etc. may be relevant to our result (see Foley 1987 etc.). Secondly, this motivation may decrease with age. The older owners/managers may have been with their firms for a long time and rewarded sufficient renumeration and/or the personal financial goals (over 40 years). Such a position may 'entice' them to accept the current level of their firms' success. Third and more importantly, the younger owner/managers (below 40 years) may not necessarily have less experience than the older owner/managers. It is often the case that an owner/manager startes work in the family firm from a very early age as an apprentice before establishing their own firms. This explanation is linked to the importance of the 'childhood' experience described by Lai (1987:85-91) as a factor determining the better success of the small firms, even among young owner/managers. This is also closely associated with the nature of small firms in the country which are predominantly family business operations as indicated in the earlier section. Hence, the possibility of early experience coupled with high level of motivation, new ideas and more creativity among the younger owner/managers may have resulted in more success as compared to the older owner/managers.
8.2.3: Sex of the Owner/Manager and Its Association with the Success of the Small Firms

The analysis of the sex of the owners/managers of small firms in developing countries has not been a major focus in the literature. The following section of the research study correlates the possible implications of the sex of the owner/managers in relation to the success of the small firms.

The data presented in Chapter Five (Table 5.16) showed that men were disproportionately represented in the owner/managers of the sampled firms (84.3 percent). Figures 8.5 and 8.6 show that both men and women owner/managers are found to be a similar proportion in the more successful profit category (i.e. 37 percent). Despite the fact that the female owners/managers are found to be much higher in the more successful category of capital, their representation in the more successful category of the employment indicator are found to be much lower as compared to their male counterparts.

The finding, thus, suggests that the sex of the owner/manager does not reflect marked differences in the success of small firms. The data appears to illustrate that both men and women owner/managers have the ability to run business experiencing the same performance levels. This finding challenges traditional stereotypes about gender roles in industry, though the data indicates that the textile and clothing industry is still dominated by their male owner/managers. Since six out of eight of the women were the actual owners of the small firms, and seven out of eight women were under 41 years old, it may be concluded based on the analysis in sections 8.2.1 and 8.2.2 that factors other than sex are important in influencing the success of small firms in Kuala Lumpur and Petaling Jaya. However, it would be interesting to find out whether these men and women perceived that they suffered any particular constraints in performing their job.

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41It is imperative to note at this juncture that since sex is a nominal (or dichotomous) variable (and any other variable which will be analysed in this chapter) a specific statistical test could not be applied. The reasons for this were clearly presented in section 3.7 of Chapter Three.
Figure 8.5: Sex of the Owners/Managers and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Sex of Manager</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>62.8%</td>
<td>65.8%</td>
<td>67.4%</td>
</tr>
<tr>
<td>Female</td>
<td>62.5%</td>
<td>50%</td>
<td>75%</td>
</tr>
</tbody>
</table>

The indicators of success (percent)

Figure 8.6: Sex of the Owners/Managers and the More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Sex of Manager</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>37.2%</td>
<td>44.2%</td>
<td>32.6%</td>
</tr>
<tr>
<td>Female</td>
<td>37.5%</td>
<td>50%</td>
<td>25%</td>
</tr>
</tbody>
</table>

The indicators of success (percent)
8.2.4: Ethnic Group of the Owner/Managers and Its Association with the Success of the Sampled Firms

This research study has advanced some reasons as to why it has chosen the ethnic group of the owner/managers of the small firms as one of the variables to be investigated, despite the fact that the available literature elsewhere in developing countries does not pay much attention to the issue. The issue of ethnic group as part of a socio-cultural dimension is alluded to by flexible specialisation analysts in their overall explanation of flexibility and 'internal adjustments' of firms, and the way in which these may influence the development prospects of individual small firms (Rasmussen, Schmitz and Dijk 1992:4). More importantly, in Malaysia, there have been claims that the Chinese entrepreneurs generally run business activity far better than other ethnic groups because of family succession, and their traditionally predominant involvement in the business and commercial sector of the country.

Malay entrepreneurs are supposed to be less successful entrepreneurs for several reasons. They are said to be inexperienced, with less business exposure, less innovativeness and creativeness, generally, as compared to other ethnic groups, notably the Chinese (see Popenoe 1970: 344-346). They were also noted to be low on individualism, activism, trust and risk-taking and high on conservatism. Therefore, Malay businessmen were seen to be less effective at delegating functions, affecting their overall performance as compared to the Chinese entrepreneurs (Charlesworth 1974:17). Simultaneously, however, a subsequent comparative study discovered that there were no significant differences in the socio-cultural values and management practises or distinctive business performances between Malays and Chinese entrepreneurs (see Aziz 1981:47). What does this study show with respect to this controversial issue?

The predominantly Chinese involvement in the small firms both as the owner/managers as well as employees are clearly shown in Chapter Five. Figures 8.7 and 8.8 indicate that there are no sharp differences between the Chinese and Indians owner/managers, and the success of the sampled firms. For example, 39.1 percent of Chinese owner/managers were found to be in the more successful category of profit, slightly higher than Indian owner/managers who accounted for 33.3 percent. However, that a higher proportion, 66.7 percent, of Indian owner/managers can be found in the more successful category of capital indicator, as compared to 43.5 percent of Chinese owner/managers. Having said this, most Malay entrepreneurs seem to be in the less successful categories of performance except with respect to capital where 50 percent of them are represented.

While this evidence, therefore, lends itself to the previous studies that Malay entrepreneurs are less successful as compared to Chinese entrepreneurs (Popenoe 1970 and Charlesworth 1974), it must be treated with caution. Firstly, the numbers of Malay and Indian entrepreneurs in the sample was very small (two and three respectively). Having acknowledged this, however, a systematic method for a comparative study of business success between the three ethnic groups as conducted by Aziz (1981:44-59) found that the owner/managers of the three main ethnic groups did not show distinctive capacities for success.

Secondly, further investigation of the sample reveals that all the Malay owner/managers in the sample manufactured ‘batik’ products, while two Indian owners/managers (of the three in the sample) produced ‘sarung and sari’ products. These two types of sub-industries are indeed the predominantly traditional activities of the typical Malay and Indian family business. This is comparable to the predominantly Chinese involvement in the production of other types of textile and clothing products, so it may be expected that business knowledge and exposure through family succession is not different for these three ethnic groups, and this may affect the study’s outcome.
Figure 8.7: The Ethnic Group of the Owners/Managers and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Ethnic Group</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malays</td>
<td>100</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>Chinese</td>
<td>60.9</td>
<td>56.6</td>
<td>65.2</td>
</tr>
<tr>
<td>Indians</td>
<td>66.7</td>
<td>33.3</td>
<td>100</td>
</tr>
</tbody>
</table>

Figure 8.8: The Ethnic Group of the Owners/Managers and the More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Ethnic Group</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malays</td>
<td>0</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Chinese</td>
<td>39.1</td>
<td>43.5</td>
<td>34.8</td>
</tr>
<tr>
<td>Indians</td>
<td>33.3</td>
<td>66.7</td>
<td>0</td>
</tr>
</tbody>
</table>
8.2.5: Educational Level of Owner/Managers and Its Association with the Success of the Small Firms

Past studies appeared to show a positive causal relationship between the owner/managers' formal education and the success of the small firms (Larson and Clute 1979:35-44). Some scholars have noted that the formal education of the owner/manager is essential in determining the success of small firms. For instance, Caroll (1965:106,110-111) found that the higher the level of education, the higher the success of small firms in developed countries. In Malaysia, a similar result was recorded by Popenoe (1970:75) and Aziz (1981:99). This has also been concluded by Lai (1987:78) who reported that the higher educational attainment of owner/managers tended to suggest higher profit performance in small firms.

Reasons which have been given are obvious. An owner/manager of a small firm who has a higher level of education could be expected to understand the business system more easily and faster, and possess greater knowledge to make decisions such as requirements of raw materials, relevant employees, markets, customers etc. The verbal skills of the better educated person would also assist him/her to acquire new ideas and methods, to correspond and converse in business relationships and to understand instruction manuals and other routine written information. The mathematical ability of the entrepreneur with more education should facilitate the computation of transactions and the use of records as an instrument in the analysis of the firm. Thus, studies indicate that one can expect that owner/managers who possess higher educational levels, would have more success than those with lower educational levels, although a few other studies tended to show a contradictory outcome (Nafziger 1977, Roberts 1982:193-205 and Lam 1989: 50-51).

In Chapter Five, it was shown that more than half of the total owner/managers in the sample have obtained the Medium Certificate of Education (MCE) (see Table 5.18). Figures 8.9 and 8.10 illustrate the relationship of different formal educational levels with the success of the small firms. It shows that there is no sharp difference between those

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E. Nafziger 1977, African Capitalism, Hoover Institute Press: California, for instance, found that the owner/manager's education was negatively correlated with the profit rate of the small firm.
Figure 8.9: Educational Attainment of the Owners/Managers and the Less Successful Sampled Firms

Educational Level  | Profit (%) | Capital (%) | Employment (%) |
-------------------|------------|-------------|----------------|
Primary            | 33.3       | 35.3        | 33.3           |
Low Certificate    | 90.9       | 63.6        | 63.6           |
Medium Certificate | 59.3       | 55.6        | 70.4           |
Upper Certificate  | 57.1       | 57.1        | 85.7           |
The Degree         | 66.7       | 33.3        | 66.7           |

The indicators of success (percent)

Figure 8.10: Educational Attainment of the Owners/Managers and the More Successful Sampled Firms

Educational Level  | Profit (%) | Capital (%) | Employment (%) |
-------------------|------------|-------------|----------------|
Primary            | 66.7       | 66.7        | 66.7           |
Low Certificate    | 9.1        | 36.4        | 36.4           |
Medium Certificate | 40.9       | 44.4        | 29.6           |
Upper Certificate  | 42.9       | 42.9        | 14.3           |
The Degree         | 33.3       | 66.7        | 33.3           |

The indicators of success (percent)
who have obtained different levels of formal education. Besides, a fluctuation in the data tends to occur. For example, of the owners/managers who have obtained a primary certificate, 66.7 percent of them are in the more successful category of all indicators, much higher as compared to those who obtained much higher certificates such as LCE, MCE and HSE, and who generally constituted less than 50 percent in the more successful category. Although the owners/managers who attained a degree certificate comprise 66.7 percent of the more successful category of capital, their representation in the more successful profit and employment indicators are found to be the same at 33.3 percent respectively.

The above evidence implies that there is no clear linear relationship between different levels of educational attainment obtained by the owner/manager and the success of the small firms. This unexpected finding does not support the assumption that owner/managers who have attained higher education are more successful because they have a better understanding of production, marketing and administration skills. Thus, the analytical and verbal skills of the better educated person, as described by a few scholars earlier (Popenoe 1970, Aziz 1981 and Lai 1987), would not necessarily be applicable to the small textile and clothing industry in Kuala Lumpur and Petaling Jaya. At the same time, the finding does not imply that the formal educational level obtained by the owner/manager has a negative correlation with the success of the small firms (Nafziger, 1977). Thus, it maintains the argument that educational level is not among the main factors that affect the development of small firms (Roberts 1982 and Lam 1989).

The finding has not confirmed our hypothesis and is indeed hard to explain. However, two essential points ought to be mentioned. It simply reflects that the existing educational programme at the primary, LCE, MCE and HSE levels does not much correlate to developing specific management skills required by the business sector of the country. This is understandable since the content and syllabus of education at these levels are very broad and general, and are not specifically for business purposes. Unless the owner/manager of the small firm attended a specific training course or received technical assistance, extension and advisory services from government agencies and/or private consultant firms, a direct knowledge about specific aspects of business operation would
not be available to them. Lastly, the finding indicates that there are other factors that are far more influential than formal educational attainment, in the success of small textile and clothing firms in Kuala Lumpur.

8.2.6: The Experience of Owners/Managers and Its Association with the Success of the Small Firms

The experience of the owners/managers has been widely considered in the available literature as the major driving force behind the success of small firms. Many researchers agree that more experience is closely related with greater success. This is shown in the studies conducted in developed countries (Stanworth 1982, Foley 1987 and Blackburn 1988 etc.) as well as in developing countries (Copper 1982, Apibunyopas 1982, Lai 1987, Andersson 1987 and Lam 1987). They have generally found that entrepreneurs who have more years of experience, more diversified experience or prior experience as an owner tend to correlate with greater success (see for instance, Copper 1982:201, Andersson 1987:221-224). Managerial and even non-managerial experience in the same industry were found to be equally beneficial to the development of the firm.

Looking at the significance of the experience obtained by the owners/managers for the firms' success, the research study has identified three variables, as discussed in Chapter Five, for the analysis in this sub-section. These are: i) the number of years of experience of owner/managers in general business before joining and/or establishing the present firm, ii) the number of years of experience of the owner/managers in the textile and clothing industry, and iii) the length of the owner/managers experience with the present firms. The analyses of the relationships of these variables with the success of the small firms are presented in the following paragraphs.

The research has shown (earlier in Chapter Five) that over the half (i.e. 54.9 percent) of the owner/managers in the sampled firms had previous general business experience before they joined or established their present firm. The association between the number of years of previous general business experience obtained by the owners/managers and the success of the sampled firms is presented in Figures 8.11 and 8.12. It is observed that the owner/managers who had more previous experience tend to
Figure 8.11: Previous General Business Experience of the Owner/Managers and the Less Successful Sampled Firms

Figure 8.12: Previous General Business Experience of the Owner/Managers and the More Successful Sampled Firms

The Pearson Correlation Coefficient Tests:

1) Profit $r = .5731$, $P = .000$, S,p<.05
2) Capital $r = .4607$, $P = .000$, S,p<.05
3) Employment $r = .4636$, $P = .000$, S,p<.05
comprise a much higher percentage in the more successful category of the profit, capital and employment indicators. Only 8.7 percent of the owners/managers who had no previous experience are found to be in the more successful category of the profit indicator, far lower than the 100 percent of those who had more than 9 years experience. The remaining data seems to reflect a fairly similar trend.

The finding above is suggested by the results of the statistical test. The relationships between the number of years of the previous business experience of the owner/manager and the success of their firms as measured by all three indicators are positive, reflecting a very strong association and reaching a significant level of 5 percent.

The finding illustrates that the knowledge, skills and exposure to general business obtained by the owners/managers are beneficial in helping the small firms’ performance, confirming our second main hypothesis formulated earlier in Chapter Three. A possible reason for this is that although they may have worked in different sub-industries, they have gained experience of similar technique, contacts and knowledge of where to obtain raw materials, the right time to buy, the best method to buy etc. The owner/managers also face a familiar routine of production, cash flow, labour and capital utilisation, raw material requirements as well as a similar market environment. All this has helped them to be more successful in their current businesses.

The mean of years experience of the owner/managers in the sample in the textile and clothing industry was previously recorded at 2.1 years, with 60.8 percent of them with this previous experience. The Figures 8.13 and 8.14 show the pattern of the association between the years of previous experience obtained by the owners/managers in the textile and clothing industry and the success of the small firms. It can be seen that the owner/managers who did not have previous business experience generally represent less than 23 percent of the total in the more successful category of all three indicators. This is different from those who had obtained previous experience of various lengths, and were generally represented by more than 50 percent in the more successful category for profit, capital and employment indicators.
The Pearson Correlation Coefficient Tests:

i) Profit: $r = .6472$, $P = .000$, $S_p < .05$

ii) Capital: $r = .5808$, $P = .000$, $S_p < .05$

iii) Employment: $r = .5442$, $P = .000$, $S_p < .05$
The evidence above is supplemented by the results of statistical test. It shows that the correlation with all three indices are positive and statistically significant (p.<0.05). This implies that there is less than a 5 percent chance that every increase in the year of previous experience of the owners/managers in the textile and clothing industry would be followed up by a decrease in the percentage of the more successful category of profit, capital and employment indicators.

The result thus suggests that previous experience in the same line of business has affected the success of the small firms. The finding, as expected, corroborates the previous empirical findings of many, including Akeredolu-Ale 1975 (1975:41), Aziz (1981:154-156) Kene, Sexton and Vesper (1982:193-205), Apibunyopas (1983:104), Lam (1989:54-56) etc. The finding lends itself to the view that an experienced owner/manager is not merely more familiar with the suppliers, clients, market deals and the operation of his/her business, but is also capable of helping the firm to take off faster due to his/her market contacts, and the ability to perform key tasks when required, responding to common problems as they arise. It is also observed that the positive association between previous business experience in the same line of business and the success of the firm is applicable to both women and men owners/managers. All three women owners/managers who had previous business experience in this industry are found to be in the more successful category of all indicators. While double-checks on men owners/managers indicate that 15 out of 17 owner/managers who had previous business experience in the same industry are represented in the more successful category of all indicators.

Another issue relating to experience is the number of years the owners/managers in the sample has been with the present firms. The length of time was measured and the distribution of the owners/managers by experience in the existing firms have already described in Chapter Five (see Table 5.21). The number of years the owners/managers has been with the sampled firms and its relationship with their success are presented in Figures 8.15 and 8.16. It can be observed that there is no clear pattern between the various groups of length of experience of the owners/managers with the present firms and their successful performance. Rather the figures tend to be fluctuating.
The Pearson Correlation Coefficient Tests with:

i) Profit $r = .0824$, $P = .283$, $NS, p > .05$

ii) Capital $r = .0422$, $P = .384$, $NS, p > .05$

iii) Employment $r = -.0031$, $P = .491$, $NS, p > .05$
The above fluctuating figures are also shown in results of statistical tests. The association with the profit and capital indicators are found to be positive, while that of employment is negative. However, neither positive or negative associations attain the significant level required.

Several useful explanations can be advanced concerning this result. It is possible that the motivation of an owner/manager decreases with age and that this can not be compensated by the greater experience obtained as they get older. It appears that the older owners/managers who have been with their firms for a long time rarely possess the same level of motivation and hence, stagnate a firm’s ability to compete in the market. This is due to one possible reason. It can be postulated that the owner/managers have received sufficient renumeration to enable them to live well, therefore, their financial goals and their firms’ have been achieved. Such a position, ‘allures’ them to accept the current level of their firms’ success and performance on which they can live quite happily (see for instance, McKenna and Oritt, 1980)\(^6\). This explanation is also correlated to discussion of less impressive result of educational level of owner/managers analysed in earlier section.

However, the above findings should not be confused with the earlier finding that previous experience in the same line of business before the owner/manager joined the present firm proved to have a positive correlation with the success of the small firms. There are two possible reason why this apparent contradiction might exist. Firstly, previous experience of the owner/managers in a similar business before they joined or established the present firms was not their final destination or goal. They may have been working for someone else in order to pursue their own financial goals and satisfaction corresponding to the impressive performance showed by the owner/managers who had previous general business experience. Hence, when they established or joined the firm, and then have been with the firm for some period through which some goals and objectives may have been achieved, they may just consistently maintain the same level of determination and/or could not take off faster than other firms in the changing and

\(^6\)see in Blackburn (1987:225-227).
Secondly, besides previous experience in the textile and clothing firms obtained by them was very short (i.e. mean of 2.1 years), these owner/managers might not have worked as managers, rather as apprentices in the hope to establish their own firms and/or replace their father and/or relative as the manager. Therefore, the business knowledge from the previous experience in the textile and clothing industry were more determinant to the success of the small firms in the early years under his/her management, but could not be maintained and sustained for a longer period due to the changes in the new business environment and competitiveness in the market as well as their growing age. It would be highly beneficial, if a specific investigation on the issues is carried out in the future.

8.3: Management Practices of Owner/Managers in the Small Firms

The management practices of the owner/managers could be defined in many ways. The study recognises that the complete ‘area’ of management practices would involve an infinite range of variables, many of which are too amorphous or immeasurable to be used in the analysis. For the purposes of this study, four variables were defined for further exploration. In addition to difficulties in measuring a range of variables for use in the analysis, the selection of these variables also correlates to the pivotal focus of the research study which has concentrated more on government policy support programmes and inter-firm linkages. The four variables are as follows: i) number of regular hours spent (working) by the owner/managers, ii) the number of hours spent on selected business functions by the owner/managers, iii) the use of a regularly written and practise business plan, iv) the ‘innovativeness’ of the firms. Characteristics of these variables and their associations with the success of the sampled firms are presented in the following four subsections.

8.3.1: Regular Hours Spent by the Owner/Manager in the Business and Its Association with the Success of the Small Firms

It may be posited that, if an owner/manager was to spend more time daily on his/her firm, he/she would have better control over the business, be better able to respond
quickly and effectively to problems and therefore have more success. This assumption is examined in this sub-section. The number of regular hours spent by the owner/managers in the sampled firms was measured based on the six normal working days in the country (Monday to Saturday).

This is shown in Table 8.1. A diverse pattern seems to emerge. It is learnt that the largest proportion, i.e. 64.7 percent of all the owner/managers spend from 7 to 9 hours daily in their firms. This is followed by 15.7 percent of those who spend between 10 to 12 hours. The mean of a number of regular hour spent by the owners/managers in the firm is 8.1 hours.

<table>
<thead>
<tr>
<th>Number of Hours</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 3</td>
<td>2</td>
<td>3.9</td>
</tr>
<tr>
<td>4 to 6</td>
<td>6</td>
<td>11.8</td>
</tr>
<tr>
<td>7 to 9</td>
<td>33</td>
<td>64.7</td>
</tr>
<tr>
<td>10 to 12</td>
<td>8</td>
<td>15.7</td>
</tr>
<tr>
<td>13 to 15</td>
<td>2</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The data above reflects that the owner/managers of the small firms have relatively longer working hours than the normal working days of those who work in the public sector and managers in the large companies, that is 8 hours per day from Monday to Friday and 5 hours every Saturday. The main difference is that not only do many owner/managers in the sample spend full time on Saturdays (8 hours and more), but also that a majority of them tend to allocate more than 8 hours to their firms from Monday to Friday.

One simple reason may well be linked to the nature of the small operation of the firms which are mainly family businesses upon which families may depend for their financial survival. As it was shown in Section 8.2.1, many managers are owners. Thus, any change and progress would directly affect their financial condition as well as their
way of living. Extra and irregular working hours are also unavoidably practised in small firms especially when a considerable number of them are located in the same place where owner/managers live (see locational status of the sampled firms in the next chapter).

Figures 8.17 and 8.18 are drawn to illustrate the association between the number of hours per day spent at the firm by the owners/managers and the success of the small firms. Fluctuating data emerges. For instance, 100 percent of owner/managers who spend only 1 to 3 hours daily are found in the more successful category of profit and capital indices, much higher as compared to 50 percent of the total owners/managers who spend between 13 and 15 hours. However, any assumption that the less the number of the hours spent by the owners/managers in the firm, the more successful, the firm may not be convincing since these owners/managers are not found to be represented consistently in the more successful categories of the profit, capital and employment indicators, as compared to those who spent more hours per working day.

This is clearly shown in the statistical tests. The association between the number of hours spent by owner/managers in the firm with the profit and employment indices is an inverse relationship, while that for capital is in a positive direction. However, all of them are extremely weak and do not reach the significant level required.

The finding suggests that those who spent more hours in their firms do not necessarily have more success. It is a finding that provides a counter example to the general assumption that if one were to spend more time on his/her business, one would have better success. One possibility is that the finding reflects that the more successful firms may not need much attention comparatively, hence, less time is wisely given by their owner/managers. Another plausible explanation for this is that an owner/manager who spends less time on the existing business may tend to spend more time in socialising outside. This could help the firm in establishing and developing more contacts and improve customer relations, subsequently assisting their firm to perform better.
Figure 8.17: Daily Hour Spent by the Owners/Managers and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Daily Hour Spent</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 3 hours</td>
<td>0</td>
<td>0</td>
<td>50</td>
</tr>
<tr>
<td>4 to 6 hours</td>
<td>66.7</td>
<td>83.3</td>
<td>83.3</td>
</tr>
<tr>
<td>7 to 9 hours</td>
<td>63.6</td>
<td>54.5</td>
<td>60.6</td>
</tr>
<tr>
<td>10 to 12 hours</td>
<td>75</td>
<td>50</td>
<td>67.5</td>
</tr>
<tr>
<td>13 to 15 hours</td>
<td>50</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

The Pearson Correlation Coefficient Tests with-

i) Profit $r = -0.1453$, $P = 0.154$, NS, $p > 0.05$
ii) Capital $r = 0.0050$, $P = 0.486$, NS, $p > 0.05$
iii) Employment $r = -0.1450$, $P = 0.155$, NS, $p > 0.05$
8.3.2: Time Spent on Selected Business Functions and Its Association with the Success of the Small Firms

A specific question was formulated in the questionnaire in order to examine whether time spent by owner/managers on particular business function has an impact on the relative success of the small firms. They were asked to state the three main business functions on which they spent most time in their daily business operation. Their responses are illustrated in Table 8.2.

Table 8.2: Distribution of the Sampled Firms by Business on which the Owner/Managers Spent Most Time

<table>
<thead>
<tr>
<th>Business Function Spent by the Owners/Managers</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Single Function</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production only</td>
<td>3</td>
<td>5.9</td>
</tr>
<tr>
<td>ii) Two Functions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production and Marketing</td>
<td>9</td>
<td>17.6</td>
</tr>
<tr>
<td>Marketing and Accounting</td>
<td>5</td>
<td>9.8</td>
</tr>
<tr>
<td>iii) Three Functions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production, Marketing and Accounting</td>
<td>18</td>
<td>35.3</td>
</tr>
<tr>
<td>Production, Marketing and Personnel</td>
<td>16</td>
<td>31.4</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

It was found that 33.3 percent of the owner/managers concentrated on one or two business functions only. 35.3 percent of the owner/managers, the largest proportion, spent most of the time on the three functions of production, marketing and accounting. While 31.4 percent spent most of their time on the three functions of the production, marketing and personnel.

The Table illustrates that many spent most of their time on only the limited and basic functions of operation such as production, marketing, accounting and/or personnel. Not suprisingly, this reflects that these areas are the most needed functions in the operation of the small firms. However, no owner/manager spent any time on a daily basis on other operational activities such as store and distribution, research and development. This is possibly related to the nature of small operations, wherein other functions such as research and development are beyond their capacity, ability and economies of scale, given
Figure 8.19: Business Functions that The Owners/Managers Spent the most Time and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Function</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Function 1</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Function 2</td>
<td>66.7</td>
<td>66.7</td>
<td>77.8</td>
</tr>
<tr>
<td>Function 3</td>
<td>80</td>
<td>60</td>
<td>80</td>
</tr>
<tr>
<td>Function 4</td>
<td>80.6</td>
<td>60</td>
<td>68.8</td>
</tr>
<tr>
<td>Function 5</td>
<td>56.3</td>
<td>43.8</td>
<td>66.8</td>
</tr>
</tbody>
</table>

The indicators of success (percent)

Figure 8.20: Business Functions that the Owners/Managers Spent the most Time and the More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Function</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Function 1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Function 2</td>
<td>33.3</td>
<td>33.3</td>
<td>22.2</td>
</tr>
<tr>
<td>Function 3</td>
<td>20</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>Function 4</td>
<td>44.4</td>
<td>50</td>
<td>44.4</td>
</tr>
<tr>
<td>Function 5</td>
<td>43.8</td>
<td>56.3</td>
<td>31.3</td>
</tr>
</tbody>
</table>

The indicators of success (percent)

Indicators=
Function 1 = Production
Function 2 = Marketing and Accounting
Function 3 = Production and Marketing
Function 4 = Production, Marketing and Accounting
Function 5 = Production, Marketing and Personnel
their limited resources.

The data in Figures 8.19 and 8.20 shows that there is no sharp difference between various business functions conducted by the owner/managers and the success of their firms. However, there is a slight distinction between the owners/managers who spent time on only one business function and those who spent time on two or three business functions. For instance, it is found that owner/managers who spent time on production activities only are not represented in the more successful category of profit as compared to 33.3 percent of those who spent time on the two business functions of marketing and accounting, and 44.4 percent of the total owner/managers who spent most of their time on production, marketing and accounting. Similar results are also observed in the capital and employment indicators.

Based upon the findings above, it is possible to note that the owner/managers who spent most of their time on two or three types of business functions tended to perform relatively better. This indicates that the basic operation of the small firms is made up of a few 'core' functions which tend to be performed by the owner/managers. Besides maintaining the proper functioning of production, on which the majority of the owner/managers have focused, aspects of marketing such as distribution, promotion, sale and pricing policies are also essential. Moreover, accounting and administration are also bound to be crucial in overall business functions to be spent time on as a 'collective task'. These formed the prime functions that maintain the efficiency and productivity of the firm.

8.3.3: The Use of a Written Business Plan and Its Association with the Success of the Small Firms

Small firms have often been advised to do more extensive and formalised planning as these enterprises have limited reserves of capital and manpower (Naumes 1978:90-95, Salleh 1985:23). Because of limited resources, small businesses cannot afford to have 'slack' periods which are typically found in business operations. While there is strong support for small firms to develop a regular plan or a structured mechanism to circumnavigate unexpected hazards (Drucker 1974), there are contradictory views in the
literature. Some experts maintain that extensive planning might not help the owner/manager of small firms to make better decisions because they cannot foresee or recognise the relevant changes in the environment. In view of these contradictory ideas, it is useful to examine the issue of how the existence of a written business plan in the sampled firms correlates with their relative success.

Before we present the issue, it is appropriate at this stage to clarify the definition adopted in the research. There is a growing body of professionals providing small enterprises with written business plans. There could, therefore, be two different types of written business plans: one formulated by the owners/managers of the firms, the other purchased from someone who professionally prepares them. The latter type of plan were excluded from the study. Every measure was taken to ensure that the regular annual written business plan of the sampled firms was not from other sources but generated from within the firms.

The use and type of written business plan among the small firms in the sample are presented in Table 8.3. It reveals quite a diverse pattern ranging from firms which make no use of business plans to those who have prepared up to seven different types of plans relating to their future business operation. The most commonly prepared plans are a combination of three types of production, marketing and cash flow/capital plans, undertaken by 37.3 percent of the firms. This is followed by those who prepared only one type of business plan, i.e. dealing with production, comprising 17.6 percent. This Table also complements the information in the previous section, that is, over a third of the sample spent time on production, marketing and accounting, a similar proportion for those firms preparing production, marketing and cash flow/capital plans. It also supports the evidence that few firms spend time on other than the ‘core activities’, for example on research and development.

---

Table 8.3: Distribution of the Small firms by Regular Written Business Plan

<table>
<thead>
<tr>
<th>Type of Business Plan</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>4</td>
<td>7.8</td>
</tr>
<tr>
<td>i) Single Types</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production only</td>
<td>9</td>
<td>17.6</td>
</tr>
<tr>
<td>Marketing only</td>
<td>5</td>
<td>9.8</td>
</tr>
<tr>
<td>ii) Two Types</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production and Marketing</td>
<td>8</td>
<td>15.7</td>
</tr>
<tr>
<td>Production and Cash Flow/Capital</td>
<td>1</td>
<td>2.0</td>
</tr>
<tr>
<td>iii) Three and more Types</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production, Marketing and Cash Flow/Capital</td>
<td>19</td>
<td>37.3</td>
</tr>
<tr>
<td>Production, Marketing, Capital, Material and Manpower Requirement Plans</td>
<td>3</td>
<td>5.9</td>
</tr>
<tr>
<td>Production, Marketing, Capital, Material and Manpower Requirement Plans and New Product/Design Development</td>
<td>2</td>
<td>3.9</td>
</tr>
</tbody>
</table>

| Total                                                     | 51     | 100     |

The association of the existence of a written business plan with the relative success of the sampled firms may be observed in Figures 8.21 and 8.22. It can be seen that there is a tendency for the sampled firms who have a written business plan for four or more types of business functions to perform relatively more successfully. Half or more of them are found to be in the more successful category for all three indicators. The exception is the sampled firms who have a planning effort in production and cash flow analysis, 100 percent of which are in the more successful category of all three indicators.

Several interesting features are observed from the data. Firstly, there is no difference in the relative success between the sampled firms who have written planning for fewer than four types of business function and those who did not have any written business plan at all. This finding seems to contradict the empirical evidence of Robinson and Pearce (1983:197-206) who found that small firms without formalised planning performed just as well as their counterparts with formalised planning. One point could possibly be raised regarding this difference in our finding, that is, the intensity of planning among the small firms is varied, depending on how many business functions a planning effort covers. It is likely that there is no difference in terms of success between a firm
Figure 8.21: A Regular Written Business Plan and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Type of Plan</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>75</td>
<td>50</td>
<td>75</td>
</tr>
<tr>
<td>Plan 1</td>
<td>66.7</td>
<td>55.6</td>
<td>77.8</td>
</tr>
<tr>
<td>Plan 2</td>
<td>80</td>
<td>40</td>
<td>80</td>
</tr>
<tr>
<td>Plan 3</td>
<td>75</td>
<td>62.5</td>
<td>75</td>
</tr>
<tr>
<td>Plan 4</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Plan 5</td>
<td>57.9</td>
<td>68.4</td>
<td>68.4</td>
</tr>
<tr>
<td>Plan 6</td>
<td>33.3</td>
<td>33.3</td>
<td>33.3</td>
</tr>
<tr>
<td>Plan 7</td>
<td>50</td>
<td>0</td>
<td>50</td>
</tr>
</tbody>
</table>

The Indicators of Success (percent)

Figure 8.22: A Regular Written Business Plan and the More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Type of Plan</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>25</td>
<td>60</td>
<td>26</td>
</tr>
<tr>
<td>Plan 1</td>
<td>33.3</td>
<td>44.4</td>
<td>22.2</td>
</tr>
<tr>
<td>Plan 2</td>
<td>20</td>
<td>60</td>
<td>20</td>
</tr>
<tr>
<td>Plan 3</td>
<td>25</td>
<td>37.5</td>
<td>25</td>
</tr>
<tr>
<td>Plan 4</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Plan 5</td>
<td>42.1</td>
<td>31.6</td>
<td>31.6</td>
</tr>
<tr>
<td>Plan 6</td>
<td>66.7</td>
<td>66.7</td>
<td>66.7</td>
</tr>
<tr>
<td>Plan 7</td>
<td>50</td>
<td>100</td>
<td>50</td>
</tr>
</tbody>
</table>

The Indicators of Success (percent)

Indicators=
None= No formal planning available
Plan 1 = Production only
Plan 2 = Marketing only
Plan 3 = Production and Marketing only
Plan 4 = Production and Cash Flow/Capital only
Plan 5 = Production, Marketing and Capital Requirement Plans
Plan 6 = Production, Marketing, Capital, Materials and Manpower Requirement Plans
Plan 7 = Production, Marketing, Capital, Materials, Manpower Requirement Plans and a Product Development Plan
which did not prepare a business plan at all and those who prepared a plan for only one or two aspects of business operation. If further clarification on the type of planning effort put in by the small firms is obtained (such as production, marketing, cash flow etc.), a different outcome would probably be seen.

Secondly, this evidence implies that the more successful firms have relatively more extensive planning. This is due to availability of more resources and much better methods and better access to information required for such planning in order to encounter the obstacles and constraints that lie ahead. Therefore, the finding suggests that it is not the usefulness of systematic planning for small firms that is in question, but the type of planning methods. Poor information systems in preparing a plan for the small firm’s future operation are the most relevant factors observed in the small textile and clothing industry. It is a finding that verifies the views that there is a need for more extensive planning in small firm (Drucker 1974, Naumes 1978, Salleh 1985 etc.). Given limited reserves of capital and manpower of the typically small nature of the operation, it is beneficial to anticipate the relevant problems and changes in the business environment, so that they will not only be predicted, but also overcome in a way that is compatible with the known resources, capability and limitations of the small firm.

8.3.4: Product Modification and Development and Its Association with the Success of the Small Firms

The available literature in developed countries has indicated that one of the key factors in the survival of small businesses is the ‘innovative capacity’ of the firm, that is, introducing a new product or changing and modifying the design of existing products (see Oakey 1984, Keeble and Kelly 1986, Andersson 1987). The issue has not been widely discussed in the literature of urban small firms in developing countries and it is interesting to examine the issue in the context of our research to see if it has any association with the success of the small firms.

The most obvious reason for the limited empirical investigation of the issue of innovative capacity is the problem of conceptual and operational definitions. A similar problem was faced in our research. Since the textile and clothing industry in the country,
and possibly in the world, began deciding exactly what constitutes the development of a new product and what constitutes changing or modifying the design of existing products, this has resulted in 'patent officers' generating guidelines which have hundreds of pages concerning products. Besides the doubtful reliability of records, the use of these guidelines would not have been appropriate in this research project since there was the necessity to obtain answers relatively quickly and where necessary, ask subsidiary questions.

The question, therefore, did not go to the 'patent office' for details, but it was operational and made the respondents think and respond. The definition adopted in the study was the introduction of a frequently changed/modified design of existing products and/or the development of a new product initiated by the sampled firms and sold to the market. This definition is obviously open to the author's subjective view of what constitutes a change/modification to existing product or a new product development, as well as the interviewees assessment of existing products and the 'changing or newness' of his/her product since it was first brought to the market. However, the possibility of different interpretation on a nominal variable does not mean that the conceptualisation process is wrong.88

Table 8.4: Distribution of the Small Firms by Frequency of Changing/Modifying Existing Products and/or Developing New Product

<table>
<thead>
<tr>
<th>Frequency of Product Modification and/or Development of New Products</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Every year</td>
<td>21</td>
<td>41.2</td>
</tr>
<tr>
<td>Every 2 years</td>
<td>16</td>
<td>31.4</td>
</tr>
<tr>
<td>Every 3 years</td>
<td>4</td>
<td>7.8</td>
</tr>
<tr>
<td>Every 4 years</td>
<td>1</td>
<td>2.0</td>
</tr>
<tr>
<td>Every 5 years</td>
<td>2</td>
<td>3.9</td>
</tr>
<tr>
<td>None</td>
<td>7</td>
<td>13.7</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

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88 See Nachmias C and Nachmias D 1981, Research Methods in the Social Sciences, Edward Arnold: London. They stated that there is no point in criticising a conceptual definition for not being accurate and/or true if it is used/formulated consistently throughout a research study. In most cases, all that has been lost in the analysis is the opportunity to investigate the concept more closely and the possibility of extracting variables which make an even greater contribution to explaining causality in the phenomena being studied.
Based upon the research’s operational definition of the variable, Table 8.4 above was compiled from the respondents. It reveals that 41.2 percent of the sampled firms have made a different product every year. This is followed by those who have done it every two years, comprising 31.4 percent of the firms. About 13.7 percent of the total sampled firms did not change or modify their existing products or develop a new product at all since their establishment.

The findings suggest that product modification and/or the development of a new product among the sampled firms is quite extensive. This may well be related to the nature of the textile and clothing industry. Those clothing firms who change or modify their designs are dealing with the demands of the fashion clothing industry. Therefore, to be competitive, these firms frequently have to change or modify their existing products and/or develop a new product. However, it was observed that those sampled firms who did not do follow a similar practice were the textile firms.

The relationship of this variable with the success of the sampled firms may be observed in the Figures 8.23 and 8.24. The sampled firms who did not make any change in their existing products or develop new products comprise 71.4 percent of the more successful category of profit indicator, much higher as compared to 42.9 percent of those who did it every year. However, the sampled firms who made frequent changes in the design of existing products and/or the developed a new product every year are more successful than those who did it every two and three years which accounted for 42.9 percent and 25 percent respectively of the more successful category of profit. Similarly fluctuating data is also found in the capital and employment indicators.

The above data is clearly supported by the results of the statistical test. The variable association with the profit and capital indicators is positive, while that of employment indicator is negative. However, all of them have a very weak association and do not reach the significant level required.

The finding above unexpectedly rejects the common belief that innovative capacity
The Pearson Correlation Coefficient Tests with:

i) Profit $r = .1861$, $P = .095$, $NS, p > .05$

ii) Capital $r = .0555$, $P = .349$, $NS, p > .05$

iii) Employment $r = -.1704$, $P = .116$, $NS, p > .05$
is one of the essential elements for the success of small firms. It is difficult to describe with precision why such a negative relationship has emerged in our findings. Nevertheless, four points may be relevant.

Firstly, the innovative capacity in our sample is not reflected only in the development of completely new products. This very much correlates to the typical clothing and fashion industry that has had to change existing designs and patterns frequently to catch up with the trends of the changing market. The 'innovative capacity', though it looks frequent, is not a completely new innovation which may have greater impact on the success.

Secondly, the firms which did not frequently change/modify the existing products and/or develop a new product are the textile firms. These firms are not in the fashion businesses and do not have to change their products as frequently as those in the fashion products. A review of the available data in Chapter Four also indicated that the textile firms are relatively bigger in size than clothing firms, they are more connected to multinational firms and hence, could be expected to perform more successfully. This issue will further discussed in Chapter Nine.

Thirdly, some of the firms who did not make product modifications were among the relative younger firms. Hence, one would expect that there is less frequent change in these firms, but that does not mean they are less successful. Last but not least, six out the seven sampled firms who did not make any changes are found to have sold their products through a specific contractual-arrangement with large firms. As shown in Chapter Seven, these firms are relatively more successful than the sampled firms who did not have any specific contracted-arrangement for their products. The data may imply that these firms may not need to change or modify their products as they were not asked to do so by their large-firm partners.
8.4: Conclusion

This chapter has examined the associations between the personal characteristics of entrepreneur and management practices in the small firms, and the relative success of the small textile and clothing firms in Kuala Lumpur.

Four main points can also be summarised corresponding to the effects of personal characteristics of the owners/managers on the success of the small firms. Out of the eight variables examined, at least four variables at varying degree have indicated a favourable association with the success of the sampled firms. These are: the ethnic group of the owner/managers, their employment status, their previous experience in other lines of business, and their previous experience in textile and clothing industry. In the small textile and clothing industry, Malay entrepreneurs are found to be less successful than their Chinese and Indian counterparts. The study concludes that less innovativeness, low on individualism, activism, risk-taking and high on conservatism of Malay entrepreneurs are the possible reasons (as claimed by Poponoe 1970 and Chalesworth 1972).

In relation to employment status of owner/managers, the small textile and clothing firms' have also indicated that the owner as a manager and an appointed manager from non-relative to the owner (or the 'independent manager'), are associated with marginally better performing firms than managers who are relatives of the owners. The study, thus, compliments the idea that financial ambition coincides with the personal goal of earning more money to secure a 'satisfactory lifestyles' (Stanworth and Curran 1973, Blackburn 1987:225-228) among the owners/managers in Kuala Lumpur. Moreover, based upon the modest performance shown by the 'independent managers' of the small firms, the study suggests that a more qualified person (experience and qualification) may be preferred for appointment as an independent manager as compared to relatives of the family.

The association between the experience of the owners/managers in other lines of business and the three dependent variables of the small firms' success also illustrated a positive relationship. In addition, the previous experience of the owner/managers in the textile and clothing was also found to be positively associated with the success of the small firms. These two factors as tested for their associations with the dependent variables
are statistically significant. This reflects that the advocates of the significance of business experience among the owners/managers of small firms in the available literature (see Copper 1982, Apibunyopas 1982, Stanworth 1982, Blackburn 1987 etc.) are indeed relevant to our finding.

The age of the owners/managers seemed to have an inverse impact on the success of the small firms. With relatively younger owners/managers showing more success than their older counterparts, the finding supports to the notion that motivation declines gradually with age (Mc Kenna and Orritt 1980, Storey 1983, Foley 1987). The three variables, i.e. sex composition, educational level and the experience of the owners/managers the with the present firms were found to have neither a favourable nor unfavourable effect on the success of the small firms.

A number of interesting finding emerged with respect to management practises in the sampled firms. The research study found that the owners/managers appear to spend more hours per day on the job than the typical manager in a big company or those who work in the public sector in the country. However, the owners/managers of the small textile and clothing firms do not seem to spend time on the full range of ‘core business functions’ such as production, marketing, accounting and administration. They also appear not to have focused on broader business areas such as stores and distribution, research and development.

Regarding the relationships between the variables of management practises examined and the relative success, two distinctive outcomes are accountable. The first is that the data on the small firms in Kuala Lumpur indicates that a collective concentration on two or three basic business functions of production, marketing, administration and/or accounting adopted by the owners/managers appear to have resulted in a more favourable effect as compared to those who merely focused on one business function. Since this variable verifies the view of a few previous scholars (Drucker 1974, Naumes 1978 and Salleh 1985), the study concludes that a regularly written business plan and projection is essential for the future growth-performance and development of the small firms.
The second is that the number of hours spent by the owners/managers on their firms and the ‘innovative capacity’ of the small firms has no clear impact on the success. These factors are tested to be statistically insignificant at 5 percent level. The study, therefore, concludes that there is no significant relationships between these two variables and the success of the small firms in Kuala Lumpur. In particular, our evidence clearly does not corroborate the general belief that innovation is one of the main factors in the survival of the small firms (see Oakey 1984, Keeble and Kelly 1986, Foley 1987 etc.). The research study suggests that the frequent change/modification in the design of existing products of the small firms in the sample may be closely related to the nature of the clothing industry rather than any genius capacity for innovation. The finding implies that the innovative capacity is required by the small firms only in certain sub-industries, and the small textile firms did not require it so frequently.

In most cases, the relationship between each independent variable analysed and the three dependent variables (indicators) are found to be generally synonymous, i.e. if there is a significantly positive (and/or negative) relationship of one independent variable with profit and capital indicators, there is also a significantly positive (and/or negative) relationship with the employment indicator and vice-versa. There, however, appears to be an exception in the case of the age of the owner/managers. While there is a significantly negative association of the age of the owner/manager with the profit and capital indicators, it is observed that it has an inverse association with the employment indicator. The study infers that the older the owner/manager, the less the motivation to achieve more success especially in financial returns (profit and capital) and not in terms of employment generation.

Overall the findings in the chapter have important implications for the theoretical debates and the study of the development of urban small firms in developing countries. The development and performance of small firms is not merely related to the external factors of government policy support programmes and inter-firm linkages but also to the internal dynamism of small firms themselves. Since the findings verify many empirical studies carried out in developed countries (Storey 1992, Cooper 1982, Blackburn 1987 etc.) as well as some recognition of these internal factors within the wider context of
economic activity by some petty commodity analysts, they are important to have a place in the theoretical debate. This recognition is clearly made by the latest approach of flexible specialisation analysts who propose the analysis of internal factors such as personal characteristics and management practices within a specific context of economic and social-cultural environment of a given society (see Schmitz 1989 and 1990, Rasmussen 1992, Wilson 1992 etc.). It is hoped that from this emerging recognition of the important internal factors for the success of small firms that a much more empirical studies will be carried out elsewhere in developing countries.

Our findings regarding the personal characteristics and management practices of the owner/managers are also useful with respect to defining appropriate government policy support programmes. These programmes have to be selective in nature due to limited resources and the nature of small firms which are numerous, geographically diverse, divided between a variety of different economic activities and heterogenous in terms of their age, sex structure and social composition (see Bromley 1985). Indeed, it cannot be denied that this is a difficult issue when often in the wider interest of political influence, and those who are responsible for the development of small firms, policy supports are tied to biological characteristics such as age, sex and ethnicity. To exclude people from public supports on these biological grounds poses a clear direction of discrimination. In this respect, the basic choice and objective of the government policy support for small firms in the country should be explicitly directional, either to support and encourage successful firms or those which have the potential characteristics for success, or to support firms which are not doing so well or have ‘potentially’ disadvantageous characteristics.

Observing the trend of current government support programmes, i.e. since the 1970s when the significance of promoting the development of small industry was stated under the New Economic Policy (1970-1990), the focus has been predominantly on the development of new Bumiputra enterprises most of which are small-scale operations and domestic-orientated businesses in industries such as food processing and handicrafts which are most saturated (see Chapter Four). Competition is strong in the domestic market for the sale of products which these firms seek to produce. Moreover, the profit margins of these small firms is low and their mortality rates are high. Therefore, the choice of
government policy programmes is quite clear, that is, to support firms which are not
doing so well or have potentially disadvantageous characteristics. The implication of such
supports may be that the net benefit to society of these new and small-scale enterprises
is low because as new firms enter the market, other less efficient or less subsidized firms
are forced out. Those who fail often lose their land or the few assets they possess in the
process. The creation of further new businesses in such low technology, easy entry
activities such as food processing and handicraft production generally does not lead to a
net increase in employment because demand for their products is income inelastic and
grows slowly.

However, the implication of government policy programmes on the development
of small firms may be different if a re-direction of support resources and services to new
business venture concentrating on areas with growth potential in the manufacturing sector.
At present, there are a few of the ‘on-going’ government programmes which concentrate
on nurturing and developing such relatively successful small-scale firms so that they may
move up the ladder into the next firm-size category under the new Development Policy

Based on our findings and in view of the need for government support for
successful small firm or those which have potential characteristics for success, aspects of
sex and educational level of the owners/managers should not be considered as priorities
in assisting small firms since our research has proven that they have no influence on the
success of the individual small firms. Nevertheless, some consideration should be given
to the age and experience of the owners/managers and the firms which practice a regularly
written business plan. In particular, the relatively younger owner/managers, but with more
experience either in general business or in the same industry as well as the use of a
regularly written business plan in their operations may be accountable for such
consideration. This is due to the fact that small firms are likely to have the technical and
managerial capacity to produce and market products that cannot be expected to come from
the relatively inexperienced entrepreneurs but from those with sound business experience,
technical skills as well as the requisite access to capital resources with a greater vision for
international markets.
In view of government support for successful small firms or those which have potential characteristics of success, the focus predominantly on the development of new Bumiputra enterprises has to be re-considered with respect to other entrepreneurs as well. In this respects, one may argue that the Chinese owner/managers have shown relatively better success as compared to their Malay and Indian counterparts, they are deserved to be given ‘a priori’ attention by support programmes. This is due to the net benefit and scale of economies in terms of the broader utilisation of public resources that may form the basic progress in the overall development of small firms in the country. However, there may be reasons as to why Chinese owner/managers are more successful than their Malay and Indian counterparts. Besides business exposure and traditionally wider business-connections among Chinese business community in Malaysia as well as in the Southeast Asia, they are also able to raise their capital investments much higher to start off their business as compared to Malay and Indian entrepreneurs (this will be discussed in Chapter Nine). Moreover, low individualism, activism, trust and risk-taking, and high on conservativism among Malay entrepreneurs are also among the reasons why Malay entrepreneurs are less successful. Having noted brief advantage and disadvantage positions of the owner/managers among the three main ethnic groups, consideration for policy supports may be more relevant if it is implemented within the wider context of the existing social composition (of the Malaysian society) and the country’s essential need for the racial harmony in order to maintain and sustain its economic development and industrial progress. In this regard, the selection of support programmes for the owner/manager from one ethnic group should not necessarily deny access of others for the sake of the contribution of the existing ‘harmony-atmosphere’ of the country in which the implementation of support programmes for small firms may play its part in her rapid industrialisation process.
CHAPTER NINE

9.0: OTHER FACTORS AFFECTING THE SUCCESS OF THE SAMPLED FIRMS AND THE APPLICATION OF THE MULTIPLE REGRESSION ANALYSIS

9.1: Introduction

This chapter is divided into two parts. The first will explore the possible effects of other selected factors in the research study on the success of the sampled firms. The examination of these other variables that are considered to be important in influencing the success of the small firms marks the completion of the univariate techniques of analysis for all variables investigated in the research study. The second part of the chapter will analyse all variables discussed in Chapters 6, 7, 8 and the first part of this chapter using the multiple regression technique. This analysis is used to assess the relative strength of the effects of each factor on the success of the sampled firms. A summary of the whole findings will be made in the last section of this chapter.

9.2: Other Factors Considered Important in Determining the Success of the Sampled Firms

Five additional variables have been selected as factors potentially affecting the success of the small firms. These are: i) type of products produced by the sampled firms, ii) the legal status of the firms, iii) the locational site of the firms, iv) the size of the firms, and v) the age of the firms. As all the operational definitions of these variables have already been described in Chapter Five, the analysis of their possible associations with the success of the small firms are presented in the following five sub-sections below.

9.2.1: Type of Products and Its Association with the Relative Success of the Sampled Firms

The description of the different types of products produced by the small textile and clothing firms described in Chapter Five has shown that the majority (i.e. 68.6 percent) of the firms produce typical clothing/garment goods. Only 27.5 percent produce textile and other wearing apparels.

The relationship between these different products and the success of the small firms may be observed in Figures 9.1 and 9.2. A higher proportion of the small textile
Figure 9.1: Type of Products Produced and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Type of Product</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type 1</td>
<td>28.6</td>
<td>28.6</td>
<td>42.9</td>
</tr>
<tr>
<td>Type 2</td>
<td>75</td>
<td>25</td>
<td>60</td>
</tr>
<tr>
<td>Type 3</td>
<td>26</td>
<td>26</td>
<td>71.4</td>
</tr>
<tr>
<td>Type 4</td>
<td>75</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td>Type 5</td>
<td>26</td>
<td>0</td>
<td>100</td>
</tr>
</tbody>
</table>

The indicators of success (percent)

Figure 9.2: Type of Product Produced and the More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Type of Product</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type 1</td>
<td>71.4</td>
<td>71.4</td>
<td>57.1</td>
</tr>
<tr>
<td>Type 2</td>
<td>75</td>
<td>75</td>
<td>50</td>
</tr>
<tr>
<td>Type 3</td>
<td>25.7</td>
<td>31.4</td>
<td>28.6</td>
</tr>
<tr>
<td>Type 4</td>
<td>26</td>
<td>75</td>
<td>0</td>
</tr>
<tr>
<td>Type 5</td>
<td>100</td>
<td>100</td>
<td>0</td>
</tr>
</tbody>
</table>

The indicators of success (percent)

Indicators
Type 1 = Upstream textile products
Type 2 = Downstream textile products
Type 3 = Typical garment/clothing products
Type 4 = Batik, sari, sarung and silk garment
Type 5 = Other wearing apparels
firms and a lower proportion of the small clothing firms are found in the more successful category. The firms which produce both ‘upstream’ and ‘downstream’ textile goods generally represent 50 percent or more in the more successful category of profit, capital and employment indicators, much higher as compared to less than 30 percent of those who produced typical clothing/garment products. With the exclusion of one sample firm which produced other wearing apparels, the data clearly points out the greater success of the small textile firms.

The finding, as expected, provides some useful information. Firstly, the small number of textile firms is likely to provide a favourable environment in terms of competition in the general market. They have the potential of gaining more customers and making use of this advantage to take off faster compared with small clothing/garment firms, which are in much greater numbers, and therefore predictably face much stiffer competition. Secondly, since this finding relates to a previous finding in section 7.2.1 in Chapter Seven, the same reason can be re-emphasised, i.e. the cost of local raw materials which are used by the small clothing/garment firms is higher relative to the cost of raw materials for textile firms which use imported ones. This could well be because of the Custom Act 1967 that was introduced to protect local producers. Since these domestic producers do not have to compete with the global market internationally, the level of competitiveness is presumably limited and hence, affects the price at which the local raw materials are produced. This situation, however, is different for small textile producers who were given imported license since the raw materials for this sub-activity are not easily available locally, (see ASEAN Federation of Textile Industry 1990 and MTMA 1991).

Thirdly, the result has also substantiated the earlier finding in section 8.3.5 of Chapter Eight that ‘innovative capacity’ is limited in the small textile firms as compared to those in the small clothing/garment firms. The ‘innovative capacity’, though it appears to occur more frequently in the small clothing and garment firms, is still not a more important factor than the greater market accessibility available to small textile firms.
9.2.2: Legal Status and Its Association with the Success of the Sampled Firms

The available literature seems to suggest that small firms with the legal status of sole operator firm typically run by the owner as the manager show better success than firms with other types of legal status (see Curran and Stanworth 1973, Foley 1987 etc.). The most common reason suggested for this is the greater motivation of the owner/manager to earn more money to secure a 'satisfactory' lifestyle. Nevertheless, as our evidence in section 8.2.1 of Chapter Eight has shown, since as many as 23 percent of the sampled firms are run by those who have a family-connection to the owners, the sole operator status of the small firm may not necessarily imply that it is run by the owner and this could possibly suggest different performance levels. Therefore, it is desirable to scrutinise the issue in more detail.

Sole operator status (i.e. comprises 72.5 percent) is the most common type of firm in the sample, as shown previously. The association of legal status with the success of the sampled firms is presented in Figures 9.3 and 9.4. A slightly better success may be observed among private limited firms. For example, these firms represent about 66.7 percent in the more successful category of profit and capital indices respectively. This is higher than the proportion of the private partnership firms which are found to be 27.3 percent of the same two indices. Private limited firms are also found to comprise a higher proportion than the sole operator firms in the more successful profit and capital indicators (i.e 66.7 percent for two indices). Fluctuating data is, however, found with respect to the employment indicator.

Though it is a small difference, the finding infers that private limited firms are in a more favourable position than either sole operator or private partnerships, and to some extent, this disagrees with the views of Curran and Stanworth (1973) and Foley (1987). Two explanations are possible. Firstly, it could be argued that the better performance displayed by the private limited firms is probable because of the relatively larger scale of operation in terms of resources (capital as well as the number of employees) found in these firms. This predictably enabled them to utilise the available resources to engage many more qualified personnel and to produce outputs in larger quantity than the smaller sole operator units of production. Further discussion concerning the size of the firms will
Figure 9.3: Legal Status and The Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Type of Legal Status</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Operator</td>
<td>62.2</td>
<td>51.4</td>
<td>64.9</td>
</tr>
<tr>
<td>Private Partnership</td>
<td>72.7</td>
<td>72.7</td>
<td>81.3</td>
</tr>
<tr>
<td>Private Limited</td>
<td>33.3</td>
<td>33.3</td>
<td>66.7</td>
</tr>
</tbody>
</table>

The indicators of success (percent)

Figure 9.4: Legal Status and the More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Type of Legal Status</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Operator</td>
<td>37.8</td>
<td>48.6</td>
<td>35.1</td>
</tr>
<tr>
<td>Private Partnership</td>
<td>27.3</td>
<td>27.3</td>
<td>18.2</td>
</tr>
<tr>
<td>Private Limited</td>
<td>66.7</td>
<td>66.7</td>
<td>33.3</td>
</tr>
</tbody>
</table>

The indicators of success (percent)
be pursued in section 9.2.4. Secondly, one could expect that in contrast to sole operator and private partnership firms, the manager of the private limited firm is an appointed manager who is in most case from outside the family circle, as compared to the sole operator and private partnership firms. As the selection of this manager as usually based on merit (experience and/or qualification), it could be the main reason for the better performance of firms with this legal status. This is related to the finding of better performance shown by the firms run by independent manager revealed in Chapter Eight.

9.2.3: Locational Site and Its Association with the Success of the Small Firms

The majority of the sampled firms were found to be located in shop-house or concrete buildings. Based upon the attributes of different locational sites presented in Chapter Five, Figures 9.5 and 9.6 are drawn to examine their possible association with the relative degree of success of the sampled firms. It shows that the sampled firms who were located in industrial site are found to be more successful as compared to firms in other types of premises. The possible reasons for this have already been discussed in section 6.10 of Chapter Six. In addition, it is interesting to note that there is no significant difference among the other three types of locational site, i.e. sampled firms who were located on shop-building, house and backyard.

Hence, the sampled firms who were located in shop-buildings are not found to be more successful than those who operate on illegal land. It is indeed hard to explain. One possibility is that the small firms which were located on the illegal land may not have to pay rental for their premises. The cost of electricity, telecommunication and water supplies in these areas are also considered on the basis of household consumption rather than the more expensive commercial rates. In some areas, water supply to illegal land is provided without charge. These combinations should give some cost advantages to these firms as compared to those in shop-buildings.

9.2.4: Size of the Sampled Firm and Its Association with Success

The size of the sampled firms was measured by the number of full-time employees and the amount of fixed capital (or fixed assets) as described in Chapter Five. The association between the number of employees and the success of the small firms is
Figure 9.6: Locational Site and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Type of Locational Site</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shopbuilding</td>
<td>64.3</td>
<td>60.7</td>
<td>67.9</td>
</tr>
<tr>
<td>In the House</td>
<td>66.7</td>
<td>50</td>
<td>75</td>
</tr>
<tr>
<td>In the Backyard</td>
<td>66.7</td>
<td>55.6</td>
<td>66.7</td>
</tr>
<tr>
<td>Industrial Site</td>
<td>0</td>
<td>0</td>
<td>50</td>
</tr>
</tbody>
</table>

The indicator of success (percent)

Figure 9.6: Locational Site and the More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Type of Locational Site</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shopbuilding</td>
<td>35.7</td>
<td>39.3</td>
<td>32.1</td>
</tr>
<tr>
<td>In the House</td>
<td>33.3</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>In the Backyard</td>
<td>33.3</td>
<td>44.4</td>
<td>33.3</td>
</tr>
<tr>
<td>Industrial Site</td>
<td>100</td>
<td>100</td>
<td>50</td>
</tr>
</tbody>
</table>

The indicator of success (percent)
presented in Figures 9.7 and 9.8, while that for the amount of fixed capital in Figures 9.9 and 9.10.

Figures 9.7 and 9.8 indicate that the bigger the number of employees, the larger their proportion in the more successful categories of the indicators. For instance, the sampled firms who have employed below 10 workers comprise about 25 percent of the more successful category of profit and capital respectively, and 15 percent in the employment. These figures are clearly lower compared to the sampled firms who have 40 to 49 employees. These firms are found to comprise 55.6 percent of the more successful category of profit and for the capital and employment indicators, they are represented at 66.7 percent respectively.

The data above is supplemented by the results of the statistical test. The correlation with all three dependent variables is strongly positive and attains a significant level of 5 percent. This implies that there is less than 5 percent chance that with every increase in the number of full-time employees, this would be followed by a decrease the percentage in the more successful category of profit, capital and employment indices.

A similar trend is also shown in Figures 9.9 and 9.10. It is observed that the higher the amount of fixed capital of the sampled firms, the higher their representation in the more successful category of profit, capital and employment indicators. This data is supported by the results of statistical tests which illustrates that the association of the amount of fixed capital is significantly positive (at 5 percent level) with all dependent variables.

The results clearly reflect that the firms with larger numbers of employees and higher amounts of fixed capital have more success as compared to the lower employment and capital levels in smaller firms. This appears to corroborate with the argument of the importance of adequate capital or finance for small firms and hence, adequate work force, as one of suggested forces behind business success. Its importance is indicated in the
Figure 9.7: Number of Employees and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Employee</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 10</td>
<td>75</td>
<td>75</td>
<td>85</td>
</tr>
<tr>
<td>10 to 19</td>
<td>56.7</td>
<td>41.7</td>
<td>75</td>
</tr>
<tr>
<td>20 to 29</td>
<td>50</td>
<td>50</td>
<td>66.7</td>
</tr>
<tr>
<td>30 to 39</td>
<td>50</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>40 to 49</td>
<td>44.4</td>
<td>33.3</td>
<td>33.3</td>
</tr>
</tbody>
</table>

Th* Indicators of Success (percent)

Figure 9.8: Number of Employees and the More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Employee</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 10</td>
<td>25</td>
<td>25</td>
<td>15</td>
</tr>
<tr>
<td>10 to 19</td>
<td>33.3</td>
<td>58.3</td>
<td>25</td>
</tr>
<tr>
<td>20 to 29</td>
<td>50</td>
<td>50</td>
<td>33.3</td>
</tr>
<tr>
<td>30 to 39</td>
<td>60</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>40 to 49</td>
<td>66.6</td>
<td>66.7</td>
<td>66.7</td>
</tr>
</tbody>
</table>

The Indicators of Success (percent)

Pearson Correlation Coefficient with:

i) Profit $r = .2485$, $P = .039$, $S.p<.05$

ii) Capital $r = .2771$, $P = .025$, $S.p<.05$

iii) Employment $r = .4067$, $P = .002$, $S.p<.05$
Figure 9.9: Fixed Capital and the Less Successful Sampled Firms

<table>
<thead>
<tr>
<th>Fixed Capital</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below $20,000</td>
<td>66.7</td>
<td>66.7</td>
<td>66.7</td>
</tr>
<tr>
<td>$20,000 to $39,999</td>
<td>0</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>$40,000 to $59,999</td>
<td>91.3</td>
<td>73.9</td>
<td>91.3</td>
</tr>
<tr>
<td>$60,000 to $79,999</td>
<td>33.3</td>
<td>33.3</td>
<td>44.4</td>
</tr>
<tr>
<td>$80,000 to $99,999</td>
<td>40</td>
<td>33.3</td>
<td>46.7</td>
</tr>
</tbody>
</table>

The indicators of success (percent)

Figure 9.10: Fixed Capital and the More Successful Sampled Firms

<table>
<thead>
<tr>
<th>Fixed Capital</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below $20,000</td>
<td>33.3</td>
<td>33.3</td>
<td>33.3</td>
</tr>
<tr>
<td>$20,000 to $39,999</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$40,000 to $59,999</td>
<td>6.7</td>
<td>26.1</td>
<td>6.7</td>
</tr>
<tr>
<td>$60,000 to $79,999</td>
<td>66.7</td>
<td>66.7</td>
<td>65.6</td>
</tr>
<tr>
<td>$80,000 to $99,999</td>
<td>30</td>
<td>66.7</td>
<td>53.3</td>
</tr>
</tbody>
</table>

The indicators of success (percent)

Pearson Correlation Coefficient Test:

i) Profit $r = .3341$, $P = .008$, $S, p < .05$

ii) Capital $r = .3422$, $P = .007$, $S, p < .05$

iii) Employment $r = .3436$, $P = .007$, $S, p < .05$
study of Roberts (1972) who found that a firm's success was related to the amount of initial capital, i.e. firms with higher capital tend to be more successful than those with lower initial capital. One possible explanation for this is that high amounts of fixed capital may (among others) allow small firms to increase investment in machinery and employ more workers which may enhance the production and profitability of the firm. This finding relates to the relatively more successful performance shown by private limited firms analysed in section 9.2.2 earlier.

9.2.5: Age of the Sampled Firms and Its Association with Success

The age of the firms is said to be essential in influencing the success of business operations. The available literature, however, reflects contradictory views. On the one hand, some scholars acknowledge that old enterprises go through a similar process of growth and therefore, a progressive increase in employment and profitability of small firms with age is eminent (Aryee 1981 and Lai 1987). More specifically, Aryee found that small enterprises in Ghana tend to accumulate more capital as their duration in business increases (Aryee 1981:99). On the other hand, it has also been found that established firms not only tended to remain consistent with respect to the number of workers employed, but a significant proportion of them have tended to show a decline in employment levels, displaying a situation of inertia in terms of employment generation (Blackburn 1987:188). This finding suggests a substantial growth in employment after its first five year, but only within the first decade of its life, and a slow down after ten years. In the light of this contradictory evidence, it is interesting to examine the data in our research study. The time period for the age of the sampled firm was measured from the foundation or establishment of the firms up to January 1991.

The characteristics of the age of the firms have already been described in Chapter Five. To examine their associations with the success of the small firms, Figures 9.11 and 9.12 are drawn. Some important features can be seen. With the exception of the sampled firms who have been in the operation for 1 to 3 years, the data generally shows that the younger firms have more success than older firms. For instance, the sampled firms who

**see in A Cooper (1982:201)**
Figure 9.11: The Age and the Less Successful Sampled Firms

![Bar chart showing the percentage of less successful firms by age category.](image)

<table>
<thead>
<tr>
<th>Age of the Firm</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 3 years</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>4 to 6 years</td>
<td>33.3</td>
<td>0</td>
<td>33.3</td>
</tr>
<tr>
<td>7 to 9 years</td>
<td>41.7</td>
<td>29.2</td>
<td>58.3</td>
</tr>
<tr>
<td>10 to 12 years</td>
<td>88.9</td>
<td>88.9</td>
<td>88.9</td>
</tr>
<tr>
<td>13 to 15 years</td>
<td>75</td>
<td>75</td>
<td>76</td>
</tr>
<tr>
<td>15 and above</td>
<td>88.9</td>
<td>88.9</td>
<td>77.8</td>
</tr>
</tbody>
</table>

Figure 9.12: The Age and the More Successful Sampled Firms

![Bar chart showing the percentage of more successful firms by age category.](image)

<table>
<thead>
<tr>
<th>Age of the Firm</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 3 years</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4 to 6 years</td>
<td>66.7</td>
<td>100</td>
<td>66.7</td>
</tr>
<tr>
<td>7 to 9 years</td>
<td>66.3</td>
<td>70.8</td>
<td>41.7</td>
</tr>
<tr>
<td>10 to 12 years</td>
<td>11.1</td>
<td>11.1</td>
<td>11.1</td>
</tr>
<tr>
<td>13 to 15 years</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>15 and above</td>
<td>11.1</td>
<td>11.1</td>
<td>22.2</td>
</tr>
</tbody>
</table>

Pearson Correlation Coefficient with:

i) Profit $r = -0.2984$, $P = 0.017$, $S,p < 0.05$

ii) Capital $r = -0.4056$, $P = 0.002$, $S,p < 0.05$

iii) Employment $r = -0.1464$, $P = 0.153$, $NS,p > 0.05$
have been established for between 4 to 6 years are found to be 66.7 percent of the total in the more successful category of profit and employment respectively, much higher as compared to only 11 percent of those who have been operating for 15 years. A similar tendency is also found in the sampled firms who have been in business from 7 to 9 years. These firms comprise a higher percentage in the more successful category of all indices as compared to the sampled firms which are between 13 and 15 years of age.

The data above is supported by the results of the statistical test. It shows a strong negative association. The age of the firms' association with the profit and capital indices is statistically significant at 5 percent level. This implies that there is a less than 5 percent chance that with every increase in the year of the firm's operation, it would be followed by an increase in the percentage of the more successful category of profit and capital indicators. Although the negative association between the age of the firms and the employment indicator does not reach a significant level, the overall tendency is that the relatively younger firms (from 4 to 9 years) tend to indicate much better success than the old firms (10 years and more).

The findings thus contradict the evidence of Aryee (1981) and Lam (1989), while compliment the notion of a life-cycle in the success of the small firm which lends its support to the evidence of Blackburn (1987). Our findings may indeed be explained in terms of the dynamism of younger firms as compared to the stagnation of the established firms. A high level of enthusiasm and motivation in the early years of the small firms directed at the future financial security of the owner/managers and their firms, may be an important reason why young firms show higher levels of success. This level of activity, however, may not be possible to maintain after ten years. In addition, new challenging market environments and levels of competitiveness may also change through the life of a firm which could all form as collective reasons for their success. The owner/managers get older, new ideas and hence, creativity within the firms declines. This tends to relate to the earlier findings and explanations of the age of the owner/managers and the years of the experience with the present firms as described in sections 8.2.2 and 8.3.1 of Chapter Eight.
9.3: The Multiple Regression Analysis: The Logic of Its Use in the Study

Chapters 6, 7, 8 and earlier sections of this chapter have examined the factors behind the success of small firms using essentially univariate techniques of analysis. Whilst the advantage of this has been its level of detail, one possible 'drawback' has been the inability to systematically control the effects of other variables as well as access the relative strength of each quantifiable factor.

This section will bring together all the independent variables investigated in the study, which 'a priori' are expected to have influenced the indicators of success, in a regression analysis. The advantages of this are the technique's capacity to measure and ascertain which independent variables have the greatest correlation with the indicators of success, complementing and 'fine turning' the previous analysis. This will involve the use of the stepwise linear regression.

Up to now few studies have used multivariate methods for the analysis of the small firms' success in developed (Foley 1987 and Blackburn 1987) and developing countries (Apibunyopas 1982). Probably the major reason for this is the difficulty in quantifying some of the variables that determine a firm's development, coupled with the problem of collecting enough data to analyse sub-populations in a sample. This difficulty has led some researchers to be sceptical about the use of multiple technique for such an analysis.\(^9\)

Nevertheless, the prime thrust of some researchers is to attempt to identify the key factors that play relative to other factors the most significant role in the development and growth-performance of small firms (Storey and Johnson 1987). This is based upon the assumption that in any one sample of firms, only a few factors will contribute to a large proportion of the share of small firms success (see for instance, Foley 1987). This analysis, thus, has two paramount purposes: i) to compliment and supplement the analysis

\(^9\)Bink and Vale (1984:15), for example, have argued that 'the extent to which sophisticated statistical techniques can be employed to reveal multiple inter-relationships is ... severely limited in a survey of this kind. Any attempt to do so may generate interesting but potentially spurious conclusions'.
in chapters 6, 7, 8 and earlier sections of this chapter, and ii) to contribute to a more systematic understanding and interpretation of the main features behind the greater success of same firms.

9.3.1: The Main Steps in the Analysis

There are three main stages in the analysis, culminating in a model to indicate the major independent variables in relation to the success of the small firms.

Firstly, it involves the selection of those variables for their inclusion in a regression analysis. The decision of which variables to enter in this model is very much open to criticism (Achen 1982:66). For example, although certain variables may show a strong relationship with the dependent variables in the earlier univariate analysis, if they have no 'a priori' rationale for inclusion then they should be omitted. A critical point to remember in selecting the variables is that our main focus relating to the government policy support programmes is impossible to include. This is because our hypothesis that there is a positive relationship between the government policy supports used by the small firms and the degree of success they attain, is not confirmed by this research study. The recipient firms were found to be even worse off than non-recipient firms. With the exception of two sampled firms which have received the industrial site provision, all other variables relating to government policy supports have to be unavoidably excluded, as the selection of variables at this stage is based on those factors which appear to have some explanatory power in Chapters 6, 7, 8 and earlier parts of this chapter.

From these chapters, at least 32 independent variables were examined, consisting of interval (and/or continuous) variables as well as nominal (and/or dichotomous) variables. The interval variables which were significantly (p<0.05) associated at least with either two of the three indicators of success (the dependent variables), were selected for

---

91 see in Blackburn (1987: 266-268).

92 This is the case with the size of firm (measured according to a number of employees and fixed capital) in our sample which, in spite of having a strong relationship with the dependent variables, was considered to be an outcome of the high amount of fixed capital and hence, employment generation (capital and employment indicators). Thus, the study decided to exclude these two variables in the analysis (see for instance procedures of selecting variables in the analysis in Bryman and Cramer 1990:235-246).
inclusion in the regression analysis.

Based upon this the following interval variables were selected.

i) the previous experience of the owners/managers in the same industry (expmg),
ii) the previous experience of the owners/managers in other lines of business (yrexpbss),
iii) evidence of a specific contract for selling outputs produced (ctpdt),
iv) percentage of the total value of products sold to large firms (buypct),
v) percentage of the total value of local raw materials used (locamade),
vi) age of the owners/managers (agemg), and
vii) age of the firms (festbld).

Thus, the interval variables having relatively the weakest and statistically less significant relatively with the success of the firms were dropped from the analysis.

It was not possible to adopt a systematic procedure for the selection of the nominal variables since the application of the Chi-square was not applied in the research (because almost all of these variables have an expected frequency of less than 5, see Bryman and Cramer 1990: Chapter Eight). Hence, the selection of the nominal variable for inclusion in the regression analysis was considered on the basis of the explanatory power of the observations in the previous three chapters. Those factors that showed a close relationship with the dependent variables were chosen. These variables include:

i) legal status of the firms (lestatus),
ii) type of products manufactured (fiprod),
iii) ethnic group of the owners/managers (ethmg),
iv) time spent on business function by the owner/managers (bssspd),
v) evidence of a regularly written business plan (bssplan).

It is relevant to note at this juncture that these nominal variables, because of their dichotomous nature cannot be used in the multiple regression analysis without the creation of dummy variables. Therefore, they were recorded from their original code and represented by dummy (dichotomous) variables before they were loaded in SPSS.

93The words in brackets are the summarised-name for respective variable used in the SPSS.

94For example, legal status of the firms (lestatus) which was measured on a nominal scale with three categories is recorded and represented by a nominal scale with two dummy variables. The best example of the creation of dummy variables for their use in SPSS can be seen in Bryman and Cramer (1990: 240-241, 246).
The second stage of the multiple regression analysis involves the use of the partial correlation coefficient (Pr^2), i.e. one of the major methods by which the multiple analysis of relationship is calculated. This test allows the researcher to know the strength of the independent variable in relation to each dependent variable when the linear effects of other independent variables have been removed or kept constant. All twelve variables described above were included.

The last stage, therefore, involves the use of the stepwise linear regression technique using all variables selected as described above. The stepwise regression is a procedure which enters each independent variable according to the strength of its relationship with the dependent variable and stops entering variables if the probability associated with the F test (see the use of F ratio in the Footnote 98) for entering the additional variable is greater than 0.05 (i.e., it must be p<.05). As this research study adopted three dependent variables as the indicators for the firm's success, three analogous equations of the regression model must be calculated and they may be seen in Appendix VI.

9.3.2: Results of the Multiple Regression Analysis

The relative importance of the twelve independent variables is determined by their partial coefficient of correlation (Pr^2). The independent variable that has the highest absolute Pr^2 is considered to be the most important variable in explaining the success of the small firms (the dependent variables). A positive value for Pr^2 implies that the independent variable is positively related with the dependent variable and vice-versa. The partial coefficients of correlation (Pr^2) for the twelve independent variables that are used in the multiple regression analysis and their relative important of correlation with the respective dependent variables are shown in Table 9.1.

---

55Further explanation about the use and purposes of this test may be seen in Bryman and Cramer (1990:230-235).

The Table raises several issues. Firstly, there are slight differences in the significant variables which contribute most to each of the three indicators of success. For example, the five most important contributors to the profit indicator are:

i) previous experience of the owner/manager in the same industry,

ii) the general experience of the owner/manager in general business,

iii) a specific contracted-arrangement for selling products to large firms,

iv) the age of the firms and,

v) the percentage value total value of local raw materials used.

The five most determinant variables to the capital indicator are:

i) a specific contracted-arrangement for selling the outputs to large firms,

ii) the previous experience of the owner/manager in the same industry,

iii) the age of the firms,

iv) the age of the owner/manager and,

v) the previous experience of the owners/managers in the general business.

Meanwhile, the variables which are the most critical factors determining the employment indicator include:

i) previous experience of the owner/manager in the same industry,

ii) the previous experience of the owner/manager in general business,

iii) the percentage value of raw materials used,

iv) a specific contracted-arrangement for selling products to large firms and,

v) the percentage value of the total value outputs sold to large firms (to the total value of outputs sold).

Therefore, the highly significant variables affecting each of the three indicators of the success of the small firms as indicated in the partial coefficient of correlation ($Pr^2$) are: i) the previous experience of the owner/manager in the same industry

ii) the previous experience of the owner/manager in general business

iii) a specific contracted-arrangement for selling products to large firms

iv) the age of the firms,

v) the percentage value of the local raw materials used, and
Table 9.1: The Partial Correlation Coefficient (Pr²) between Independent Variables and Dependent Variables.

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>-The previous experience of the owner/manager in the same industry (expmg)</td>
<td>.49929</td>
<td>.48270</td>
<td>.43091</td>
</tr>
<tr>
<td>-The previous experience of the owner/manager in the general business (yrexpbss)</td>
<td>.48388</td>
<td>-.35384</td>
<td>.34642</td>
</tr>
<tr>
<td>-A specific contracted-arrangement for selling products to large firms (ctpd1)</td>
<td>.36178</td>
<td>.49609</td>
<td>.27632</td>
</tr>
<tr>
<td>-The Age of the Firms (festbld)</td>
<td>-.30216</td>
<td>.39978</td>
<td>-.10559</td>
</tr>
<tr>
<td>-The Percentage value of local raw materials used (of the total value-locamade)</td>
<td>-.18210</td>
<td>-.15217</td>
<td>-.30571</td>
</tr>
<tr>
<td>-Legal status of the firms (lestatus)</td>
<td>.17210</td>
<td>.05342</td>
<td>-.03156</td>
</tr>
<tr>
<td>-The Percentage value of products sold to large firms (of the total value-buyertp)</td>
<td>.16188</td>
<td>.06520</td>
<td>.21339</td>
</tr>
<tr>
<td>-The age of the owner/manager (agemg)</td>
<td>.15350</td>
<td>-.39746</td>
<td>-.00025</td>
</tr>
<tr>
<td>-Types of product produced by the firms (fiprod)</td>
<td>-.10876</td>
<td>-.05806</td>
<td>-.19216</td>
</tr>
<tr>
<td>-The use of a regularly written business plan (bssplan)</td>
<td>.08087</td>
<td>-.13965</td>
<td>.08760</td>
</tr>
<tr>
<td>-The number of hours spent on business functions (bssspd)</td>
<td>.04467</td>
<td>.21700</td>
<td>.03482</td>
</tr>
<tr>
<td>-Ethnic group the owner/manager (ethmg)</td>
<td>-.04310</td>
<td>.02424</td>
<td>-.16720</td>
</tr>
</tbody>
</table>
vi) the percentage value of the products sold to large firms.

It is the combination of these six variables that have affected the large ‘variance’ in the success of the small textile and clothing firms in Kuala Lumpur. The results of the partial coefficient correlation indeed further supplements and reinforces the validity of many discussions and explanations presented in Chapters 6, 7, 8 and earlier sections of this chapter.

It is pertinent to note at this stage that among the twelve variables selected in the analysis, the least significant variables are the ethnic group of the owner/managers, time spent on selected business functions and the use of a regularly written business plan.

The results of the stepwise linear regression analysis of the important independent variables with the three indicators of success are presented in Tables 9.2, 9.3 and 9.4. From the Tables, five independent variables, i.e. the following:

i) the previous experience of the owner/manager in the same industry
ii) the previous experience of the owner/manager in the general business
iii) having a specific contractual-arrangement for selling their products to large firms
iv) the age of the firms, and
v) the percentage value of total local raw materials used,

appear to offer the best explanation of either profit, capital or employment performance. Moreover, the Adjusted $R^2$ for the profit indicator is 0.5811097. This reflects that the linear relationship between the profit indicator and the twelve independent variables used in the analysis explains about 58 percent of the variance of the profit indicator. That of capital and employment indicators are about 55 percent and 40 percent respectively. The

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97 The Adjusted $R^2$ is the adjusted version of coefficient of determination (or $R^2$ - Bryman and Cramer 1990:238 - for instance note that $R^2$ is used to measure ‘how well the line of best fit represents the relationship between the independent variables and dependent variable. The value shown is a result of computation for the collective effects of all of the independent variables used in the model’). Therefore, the Adjusted $R^2$ is thought to provide a more conservative estimate than the ordinary $R^2$ of the amount of variance in the dependent variable that is explained by independent variables. In this circumstance, the Adjusted $R^2$ considers the number of independent variables involved, because as Bryman and Cramer further describe, ‘the magnitude of $R^2$ is bound to be inflated by the number of independent variables associated with the regression equation. The Adjusted $R^2$ corrects for this by adjusting the level of $R^2$ to take account of the number of independent variables’, (1990:239).
Table 9.2: The Stepwise Linear Regression Results of Important Independent Variable with the Profit Indicator

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>B</th>
<th>SE B</th>
<th>Beta</th>
<th>T Statistic</th>
<th>Sig. T</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) The experience in the same industry (expgm)</td>
<td>.18418</td>
<td>.04415</td>
<td>.42921</td>
<td>4.171</td>
<td>.0001</td>
</tr>
<tr>
<td>ii) The experience in general business (yrexpbss)</td>
<td>.13357</td>
<td>.03664</td>
<td>.35998</td>
<td>3.645</td>
<td>.0007</td>
</tr>
<tr>
<td>iii) A contracted-arrangement for products (ctpdt)</td>
<td>.09760</td>
<td>.03944</td>
<td>.24631</td>
<td>2.475</td>
<td>.0170</td>
</tr>
</tbody>
</table>

Multiple R = .77861, $R^2 = .60624$, Adjusted $R^2 = .58110$, Standard Error = .31604, $F = 24.12030$, Significance $F = .0000$

Table 9.3: The Stepwise Linear Regression Results of Important Independent Variable with the Profit Indicator

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>B</th>
<th>SE B</th>
<th>Beta</th>
<th>T Statistic</th>
<th>Sig. T</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) A contracted-arrangement for products (ctpdt)</td>
<td>.15650</td>
<td>.04232</td>
<td>.38381</td>
<td>3.699</td>
<td>.0006</td>
</tr>
<tr>
<td>ii) The experience in the same industry (expgm)</td>
<td>.18047</td>
<td>.04502</td>
<td>.40865</td>
<td>4.009</td>
<td>.0002</td>
</tr>
<tr>
<td>iii) The age of the firm (festbld)</td>
<td>-.10452</td>
<td>.03628</td>
<td>-.27929</td>
<td>-2.881</td>
<td>.0060</td>
</tr>
</tbody>
</table>

Multiple R = .76100, $R^2 = .57912$, Adjusted $R^2 = .55225$, Standard Error = .33627, $F = 21.55653$, Significance $F = .0000$

Table 9.4: The Stepwise Linear Regression Results of Important Independent Variable with the Profit Indicator

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>B</th>
<th>SE B</th>
<th>Beta</th>
<th>T Statistic</th>
<th>Sig. T</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) The experience in the same industry (expgm)</td>
<td>.15650</td>
<td>.04925</td>
<td>.38002</td>
<td>3.178</td>
<td>.0026</td>
</tr>
<tr>
<td>ii) The experience in general business (yrexpbss)</td>
<td>.10471</td>
<td>.04171</td>
<td>.29403</td>
<td>2.510</td>
<td>.0156</td>
</tr>
<tr>
<td>iii) Percentage of local raw materials (locamade)</td>
<td>-.15253</td>
<td>.07006</td>
<td>-.24629</td>
<td>-2.177</td>
<td>.0345</td>
</tr>
</tbody>
</table>

Multiple R = .66132, $R^2 = .43735$, Adjusted $R^2 = .40143$, Standard Error = .36256, $F = 12.17770$, Significance $F = .0000$
results are thought to be satisfactory as compared to the Adjusted $R^2$ of 0.19 and 0.35 obtained by Apibunyopas (1982) and Blackburn (1987) respectively and 0.38 obtained by Foley (1987). Our result is also considered to be satisfactory for three paramount reasons.

The first is that a complete list of all the factors determining the success of the small firms is indeed long, numerous and many of them are non-quantifiable and behavioural factors which cannot easily be translated into numerical form for such an analysis (see Foley 1987, Blackburn 1987, Storey and Johnson 1987, etc.). Secondly, the variables selected are nevertheless considered to be important and significant with respect to the study’s main focus, since as the univariate analysis in Chapter 6, 7, 8 and part of Chapter Nine show, they exhibit a strong positive association with the success of the small firms.

Lastly, at least 20 other variables investigated in the research study were not included in the regression model because of the ‘a priori rationale’ for inclusion of variables. As a result, those variables with a relatively less significant association with either two of the three dependent variables were excluded. If those variables which showed a positive but not significant association with the success of the small firm were included, it is likely that a much larger proportion of the variance of the indicators would have been explained. These variables include: infrastructural supports, the practice of sub-contracting work, the practice of putting-out work, the percentage value of the total first-hand machinery used and the status and educational level of the owner/managers.

The results from Tables 9.2, 9.3 and 9.4 also indicate that the $F$ ratios\(^8\) are 24.1 and 21.6 for the profit and capital indicators respectively and 12.2 for employment. The significant $F$ for each indicator is 0.0000. This implies that it is extremely improbable ($p<.00005$) that $R$ (correlation of determination) in our sample population is zero (or null).

---

\(^8\)F ratio is a useful statistical test that is related to the $R^2$. The $F$ ratio test generated in SPSS is based upon the multiple correlation ($R$) for the analysis. The multiple correlation (i.e. the square root of the multiple coefficient of determination), expresses the correlation between the dependent variable and all of the independent variables collectively (twelve variables). The $F$ ratio test, hence, allows the researcher to test the null hypothesis that the multiple correlation is zero in the population from which the sample was taken (Bryman and Cramer 1990:240).
<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Profit</th>
<th>Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>-The previous experience of the owner/manager in the same industry (expmg)</td>
<td>.86784</td>
<td>.86268</td>
<td>.86784</td>
</tr>
<tr>
<td>-The previous experience of the owner/manager in the general business (yrexpbss)</td>
<td>.87612</td>
<td>.87662</td>
<td>.87612</td>
</tr>
<tr>
<td>-A specific contracted-arrangement for selling products to large firms (ctpdt)</td>
<td>.86268</td>
<td>.86543</td>
<td>.86268</td>
</tr>
<tr>
<td>-The Age of the Firms (festbld)</td>
<td>.98849</td>
<td>.95379</td>
<td>.98849</td>
</tr>
<tr>
<td>-The Percentage value of local raw materials used (of the total value-locamade)</td>
<td>.93929</td>
<td>.98643</td>
<td>.93929</td>
</tr>
<tr>
<td>-Legal status of the firms (lestatus)</td>
<td>.98327</td>
<td>.97839</td>
<td>.98327</td>
</tr>
<tr>
<td>-The Percentage value of products sold to large firms (of the total value-buyertp)</td>
<td>.89599</td>
<td>.88844</td>
<td>.89599</td>
</tr>
<tr>
<td>-The age of the owner/manager (agemg)</td>
<td>.96454</td>
<td>.99996</td>
<td>.96454</td>
</tr>
<tr>
<td>-Types of product produced by the firms (fiprodt)</td>
<td>.91993</td>
<td>.98490</td>
<td>.91993</td>
</tr>
<tr>
<td>-The use of a regularly written business plan (bssplan)</td>
<td>.96243</td>
<td>.95915</td>
<td>.96243</td>
</tr>
<tr>
<td>-The number of hours spent on business functions (bssspd)</td>
<td>.99608</td>
<td>.99913</td>
<td>.99608</td>
</tr>
<tr>
<td>-Ethnic group the owner/manager (ethmg)</td>
<td>.96909</td>
<td>.99300</td>
<td>.96909</td>
</tr>
</tbody>
</table>
Table 9.6: Multiple Regression Correlation Matrix Between Variables Used in the Analysis

<table>
<thead>
<tr>
<th>Correlation Matrix</th>
<th>Expmg</th>
<th>Yrexpbss</th>
<th>Ctpdt</th>
<th>Buypertp</th>
<th>Locamade</th>
<th>Agemg</th>
<th>Festbld</th>
<th>Lestatus</th>
<th>Fiprodt</th>
<th>Bssspd</th>
<th>Bssplan</th>
<th>Ethmg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expmg</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yrexpbss</td>
<td>.352</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ctpdt</td>
<td>.371</td>
<td>.252</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buypertp</td>
<td>.323</td>
<td>-.129</td>
<td>.334</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Locamade</td>
<td>-.246</td>
<td>-.145</td>
<td>-.117</td>
<td>-.013</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agemg</td>
<td>-.188</td>
<td>-.230</td>
<td>.006</td>
<td>.171</td>
<td>.116</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Festbld</td>
<td>-.107</td>
<td>-.372</td>
<td>-.215</td>
<td>.175</td>
<td>.053</td>
<td>.467</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lestatus</td>
<td>-.129</td>
<td>-.103</td>
<td>-.147</td>
<td>.065</td>
<td>.030</td>
<td>.050</td>
<td>.118</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiprodt</td>
<td>-.283</td>
<td>-.220</td>
<td>-.123</td>
<td>-.094</td>
<td>.141</td>
<td>.088</td>
<td>.057</td>
<td>.197</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bssspd</td>
<td>.063</td>
<td>-.222</td>
<td>.030</td>
<td>.240</td>
<td>-.254</td>
<td>.005</td>
<td>.043</td>
<td>.141</td>
<td>-.253</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bssplan</td>
<td>.194</td>
<td>-.016</td>
<td>.202</td>
<td>.241</td>
<td>-.255</td>
<td>.343</td>
<td>.241</td>
<td>.017</td>
<td>-.333</td>
<td>.241</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Ethmg</td>
<td>.176</td>
<td>-.110</td>
<td>.084</td>
<td>.191</td>
<td>.038</td>
<td>-.146</td>
<td>-.034</td>
<td>-.036</td>
<td>.017</td>
<td>.169</td>
<td>-.076</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Note: Expmg = the previous experience of the owner/manager in the same industry
Yrexpbss = the previous experience of the owner/manager in general business
Ctpdt = a specific contracted arrangement for selling outputs to large firms
Buypertp = percentage value of outputs sold to large firms (of the total value)
Locamade = percentage value of local raw materials used (of the total value)
Agemg = the age of the owner/manager
Festbld = the age of the firms
Lestatus = legal status of the firms
Fiprodt = types of products produced by the firms
Bssspd = the number of hours spent on business functions
Bssplan = use of a regularly written business plan
Ethmg = ethnic group of the owner/manager
Furthermore, the above regression solution does not seem to suffer from the problem of multicollinearity. This is indicated by the high level of tolerance among these variables shown in Table 9.5 and the generally less than 0.45 correlation between the independent variables in the multiple regression correlation illustrated in Table 9.6.

9.4: Conclusion

This chapter has discussed five additional variables that were thought to be important in determining the small textile and clothing firms and analysed some of the most important variables investigated in the research study in relation to the success of the small firms using the multiple regression technique.

There were some interesting findings concerning the association of the five variables investigated on the success of the small firms. Those small firms which produce textile goods are more successful than the small clothing/garment firms. The less competition in the general market among small textile firms as compared to small clothing/garment firms is the main reason for this advance in the study. Furthermore, we found that the private limited firms performed much better than the sole operator and private partnership firms. Though it was a small distinction, the study suggests that the relatively larger scale of operation among the private limited firms as compared to firms with other status, have given them advantages in many aspects, enabling them to take off faster.

In relation to the age of the small firms, our evidence lends itself to the notion of life-cycle contribution of the firms. With the relatively younger firms are found to be more successful. The possible stagnation of the established firms are likely the most important reasons. It is also the finding that disagrees with the earlier studies of Aryee (1981 and Lam 1989), while corroborating with the earlier finding of Blackburn (1987).

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"It is widely accepted that the Pearson's r between each pair of independent variables should not exceed 0.80, otherwise they are likely to exhibit multicollinearity. Multicollinearity is regarded as a problem in the analysis because it was argued that the regression coefficients could not be unstable. This suggests that when two variables are very highly correlated, there seems little point in analysing them as separate entities (or variables)."
The study of small textile and clothing industry in Kuala Lumpur found that most independent variables analysed in this chapter tend to have generally affected the three dependent variables to an equal degree, i.e. the significantly positive (and/or negative) association with the profit and capital indicators is likely to be generally followed by a similar result for employment indicator. However, a sharp distinction is found for the age of the firms. This variable is observed to be significantly negative association with the profit and capital indicators, while that of employment indicator does not reach a significant level of 5 percent. Since the overall finding of the age of the firms is closely linked to the result of the age of the owners/managers, a similar explanation for this may be appropriately referred to the concluding section of Chapter Eight.

At a theoretical level, it can be postulated that the emphasis of other variables such different products which may have different market environments, and the age of the firm which may have different levels of motivation (both of which affected the performance of the firms in the sample), should have a place within a broader theoretical explanation.

Such emphasis is also relevant from the policy point of view. Consideration for a policy support should also be intensified for small textile firms relatively as compared to small clothing/garment firms. It has not merely proven that the small textile are more successful but also a relatively limited number of small operators in this sub-industry is desirable to be assisted. It is interesting to note that policy supports for small textile firms may be potentially implemented as a strategy to reduce the dependency on large foreign-based investments which predominantly control this sub-industry in the country. Such a move would also have the potential of deepening and widening Malaysia’s domestic industrial-structure since small textile activities are largely locally owned-business (see Chapter Four). Therefore, this initial step is one of the measures in the wake of achieving a more balanced growth under the country’s industrialisation process.

Consideration should also be given to subsidising space in industrial estates for small firms. The prolonged preference of continuing support programmes for large firms regarding this matter should at least be diverted to small firms’ need. This would be a programme that policy supports for small firms could be intensified in view of the current
evidence of high cost of developed industrial land (see ADB 1990:36). It also seems relevant to consider the policy supports for relatively new and young small firms. Since they are found to perform more successfully than the established firms, the benefit and efficiency of public resource’s allocation would at least be justified if not totally maximised.

The research study emphasises that the multiple regression analysis is applied as a method of supplementing and complementing the univariate techniques of analysis used largely in Chapters 6, 7, 8 and earlier parts of Chapter 9. It is essentially a part of the substantiating and explanatory techniques used in this research study, rather than solely the method upon which the research study is dependent.

Using the partial correlation coefficient, several variables were identified as the most essential in determining the success of the small firms. These are: the experience of the owner/manager in the same industry as well as in other lines of business, a specific contract with large firms for selling products, the percentage value of the total local raw materials used, the age of the owner/manager and the percentage value of total value outputs sold to large firm. Meanwhile the ethnic group of the owner/manager, time spent on business functions by the owner/manager and types of a written business plan are found to be the least significant among the twelve variables selected in the analysis.

Collectively, the twelve variables used in the stepwise regression analysis accounted for 58 percent and 55 percent (Adjusted $R^2$) of the variations in the profit and capital indicators and 40 percent of the employment indicator, in comparison to other similar studies, is considered to be satisfactory. The study suggested several reasons regarding this. Besides the fact that there is an infinite range of variables, many of which are immeasurable, and that the selected variables represent the strongest influence on the success of the small firms, several other variables investigated in the study, but were excluded from the regression analysis, also contribute to an explanation for the success of the sampled firms.

The stepwise regression model found that the following factors were the most
significant in the analysis: previous experience of the owner/manager in the same industry, previous experience of the owner/manager in general business, a contract for selling products, age of the firm and a percentage value of total local raw materials used. Therefore, the study concludes that these factors are the most important in the development and growth-performance of the small textile and clothing firms in Kuala Lumpur.
CHAPTER TEN

10.0: CONCLUDING REMARKS

There has been ample evidence from this study and other reports that the Malaysian industrial sector has, under an induced export-led strategy, experienced high and sustained rates of growth over the past two decades. However, concerns have been expressed on the potential vulnerability of the pattern of industrialisation which concentrates on electronics and electrical goods and an almost total reliance on transnational corporations (or multi-national companies-MNCs). The latter, which is dominated by foreign investors, engages in an 'enclave-type' development with high capital intensive/import incentive activities and contributes little to extending and deepening domestic technological capacity for a more diverse domestic industrial-base. It is reported that the backward linkages of these corporations with indigenous economic activities have been very weak (ADB 1990:i).

The study has stressed that, in recent years, the main preoccupation of policymakers in Malaysia has been to extend the input-output linkages in the national economy and re-direct externally-determined growth towards an indigenously-induced industrial development. The promotion of small firms, among other policies, has emerged as a complementary policy instrument envisaged to modify the existing structure of the industrial development in the country.

The policy reflects a recognition of the fact that small firms posses several socio-economic attributes and potentialities, and that they can be promoted to achieve a more balanced industrial development. The attributes listed are that: a) small firms could strengthen the country's industrial-base and are seen as a major outlet for the absorption of the unskilled, a large segment of the population, ii) they are one of the major networks through which the benefits of economic growth spread to the poor, leading to income redistribution, iii) they provide an excellent training ground for the development and upgrading of entrepreneurship skills, and serve as an important vehicle for promoting forward/backward linkages in geographically and economically diverse economic activities, iv) they use largely labour intensive technologies leading to employment generation and utilising mainly local resources.
The Malaysian government has, therefore, embarked upon the promotion of small firms in attempting to tap their potentialities within the overall industrial strategy. This can be seen clearly in the five-year national plans since the early 1970s, the Industrial Master Plan (1986-1995) and the efforts of various publicly-funded agencies. While there is no ambiguity about the requirement of such assistance, there are however, unresolved issues as to the extent, role and effects of these existing programmes on the development of urban small firms at the individual level.

These issues are indeed contentious at the conceptual level. Among the different theoretical approaches to the study of urban small firms in developing countries, the study found that the petty commodity approach and the flexible specialisation approach are more appropriate in guiding a conceptual framework for a more critical analysis, than the dualist approach. These two approaches (i.e. petty commodity production and flexible specialisation) appear to have a strong conceptual and analytical power in explaining various aspects and characteristics of small firms and to identify those factors which play a crucial part in contributing to the development prospects of small firms in developing countries. The cautious optimism of some petty commodity analysts about the possible positive affects of government support programmes for specific types of urban small-scale activities, while recognising the numerous constraints and obstacles, are highly relevant to this research. More importantly, so too are flexible specialisation analysts who recommend policy support for small firms, but, are aware that its effectiveness largely depends upon the particular conditions in the context of a specific economic sub-industry and in a given society.

Moreover, petty commodity production and flexible specialisation approaches are most relevant for their recognition and emphasis on inter-dependent relationships between small and large firms in the total economic system. Whether the position of small firms is subordinated to or exploited by large firms, whether their relations with large firms have favourable and complementary effects can only be ascertained by an empirical study located in a historically specific socio-economic context. To a large extent, flexible specialisation approach recognises the importance of organisational characteristics and the internal dynamism of small firms which generate the possibility for natural growth and
expansion -these factors are widely shown in developed countries (Storey 1983, Foley
1987, Babber, Metcalfe and Porteous 1989 etc.).

Having stated the required conceptual clarifications in Chapter Two and the
research's main hypotheses necessary for their assessment in Chapter Three, the study
focuses on the elaboration of the following objectives: firstly, the exploration of the
characteristics, sources and the extent of the existing support programmes that have
reached individual small firms and their possible association with the success these firms
attain; secondly, the examination of the nature and extent of inter-firm linkages between
small and large firms and the effects of these on the development of small firms; thirdly,
the investigation of the internal dynamics (such as personal characteristics and
management practices of the owner/managers) and their relationship with the success of
small firms; fourthly, the verification of other variables which may have the potential to
influence the development of small firms; fifthly, the determination of the relative
importance of all the factors in influencing the development of small firms; sixthly, to
place the experience of the sampled firms in Kuala Lumpur and its satellite town, Petaling
Jaya, within a wider theoretical context; and lastly but not least, an understanding of the
major weaknesses of policy support programmes in the context of one country, Malaysia,
and some possible considerations for strengthening efforts in promoting the development
of small firms. The first five objectives were addressed in the previous chapters of this
thesis. The last two objectives will form the basis for these concluding remarks.

10.1: Implications of the Findings

As the summaries of the findings of the study were clearly presented in the
conclusion of each chapter, the implications of the these findings are addressed in two
parts, i.e. theoretical and policy implications.

10.1.1: Theoretical Implications

The theoretical implications of the research findings can be briefly summed up in
the following points. The first and most significant refers to government policy support
programmes. While there was no question about the need of systematic and
comprehensive policy supports for small firms, realising the potential role they play in
overall economic development, the views that these supports would have automatic and straight-forward beneficial effects on the development of individual small firms as suggested by many scholars of the liberal neo-classical approach may be less accurate on the basis of our findings. In other words, policy supports have not always benefitted small firms and do not necessarily allow them to attain better success than those who are non-recipients. There are many other factors affecting the success of small firms that have to be considered and investigated in their development process. It was proven that the recognition of these other aspects as among the main driving forces behind the development of individual small firms was of utmost importance. The study concluded that their significance deserves to be perceived both at the theoretical level and explored empirically elsewhere in developing countries.

In addition, the diversity of economic activity across different places, various degrees of policy implementation and different financial and human resources all meant that replicability of programmes for small-scale enterprises is limited. The emphasis given by flexible specialisation analysts that generalising the effects of policy support for small firms should be replaced by an analysis of the specific context of a sub-industry in a given economic and socio-cultural environment, appear to be highly relevant. This indeed raises the need for a wider understanding of policy assistance, targeted group of assistance, types of economic activity, extent of implementation of assistance as well as the practise of the technical know-how and/or credit assistance by recipients as among the questions that have to be further scrutinised, rather than simply expressing optimism of positive and favourable outcomes.

The second theoretical implication of the findings of this research refers to the high degree of inter-firm relationships shown in our findings. Two aspects emerged as significant in this research. The high degree of inputs and outputs integration between the small firms and their counterpart large firms should indeed alarm those who regarded small firms as an independent activity and attempting to disregard the important linkage between small and large firms. The absence of links to large firms noted by ILO Kenya Mission (ILO 1972:5-6), the non-existence of linkages recorded by Chana and Morrison (1975:130), insignificant direct linkages commented on by Sethuraman (1977:201), the
insufficient number and untypical practise of inter-firm linkage in the developing countries concluded by Katz (1987) and several others in the dualists approach (Hart 1973, Nihan and Jourdan 1978), were simply not borne out by the small textile and clothing firms in Kuala Lumpur and Petaling Jaya. Inversely, our evidence appears to strongly support those who recognised the importance of the relationships between small and large firms within a broader economic system, as postulated by many of the petty commodity production analysts (Scott 1979, Gerry 1979, Schmitz 1982, Moser 1982 and 1984, Basok 1989 etc.), as well as the flexible specialisation scholars (Schmitz 1988, Lyberaki 1989, Kaplinsky 1991, Rasmussen 1992, Wilson 1992 etc.).

With respect to the effects of inter-firm linkages on the development of the small firms, the research suggests that the views that relationships with large firms would always have an unfavourable effect on the development of small firms as put forward by some scholars of the 'radical neo-marxist views' such as Leys (1973:426), Bose (1974:4 and 17), Davies (1979:93), Gerry (1979:247), Breman 1985:17-55), (Portes 1985:269), is also not relevant in the context of the textile and clothing industry in Malaysia. The research corroborates that the small firms are indeed a part of the wider activities of the socio-economic system as postulated by many of the petty commodity production and flexible specialisation analysts. Nonetheless, those who assume that linkages between small and large firms are not benign for small firms, but a form of exploitation by large firms, was not fully manifested in Kuala Lumpur. It is therefore, emphasised that, in reality, small firms operate within a complex system of inter-dependent relationships, and whether they are subordinate to the needs of large firms or not, in many cases their participation in economic growth is favourable. Although these large firms may predominantly control the overall development and operation of textile and clothing industry in the country through their 'giant-operational approach', this does not mean that their expansion was largely at the expense of small textile and clothing firms. Though it is likely that there are phenomenal constraints and pressures within the general capitalist environment on the small firms in their relationship with large firms, it has also provided opportunities to respond to adverse conditions and these opportunities

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100 Word used by Moser (1984) to refer to those-stated authors.
have provided them with an important growth potential and significant success. This explanation is indeed very much in line with the previous findings and/or arguments of Watanabe (1975) Harriss (1982), Chowdhury (1982), Cinar (1988), Schmitz (1989), Kaplinsky (1991) etc.

Thirdly, the overall findings of the importance of particular entrepreneurial characteristics and practices have also flashed a clear signal for the theoretical implications of the study of the development of urban small firms in developing countries. In the light of the significant contribution of several factors and/or aspects relating to the personal managerial characteristics and management practices, and to the development and growth-performance of the small firms in Kuala Lumpur, it is extremely pivotal to include these variables in the overall discussion as part of the wider theoretical explanation. This is one of the reasons why the flexible specialisation analysts integrate the internal dynamism and management adjustments of firms in a specific economic and socio-cultural environment as among the key elements in the development of individual small firms.

The research study, therefore, further suggested that the development and performance of individual level of small firms were not merely dependent upon the external factors of government policy support programmes and inter-firm linkages, but also on the internal dynamics of small firms themselves. The initial suggestion, which was made by some of the petty commodity analysts (Schmitz 1982, Scott 1986, Basok 1989 etc.) and wider recognition made by flexible specialisation scholars (Schmitz 1989, Rassmussen 1992, Wilson 1992 etc.) is indeed in need of a similar exploration at the empirical level elsewhere in developing countries to strengthen the information regarding the issue. The research study has also shown that other factors such as different products which may have different market environments, and the age of the firm which result in different levels of motivation (both of which affected the performance of the firms in the sample) should have a place within a broader theoretical context and explanation.
10.1.2: Policy Implications

The policy implications of the findings may be stated with reference to several aspects. These include: the research findings on the overall government support programmes; the fundamental weaknesses of the existing supports, and ways to improve existing programmes. Where possible, these aspects were summarised alongside the overall research findings.

The study's assessment was that many small enterprises in the country did not receive adequate assistance despite the existence of numerous policy-oriented supports and the involvement of a wide variety of agencies. This inference has given some credence to those who were earlier unable to conclude on the effectiveness of policy supports with respect to the small firms performance (Lim 1986, Salleh 1990 and 1991, and F. Ebert-Stiftung 1990). Furthermore, this inference lends its supports to other analysts in the country such as Chee (1979), IDRC (1988- at the National Agricultural University) and FMM (1988). The research indicated that the majority of the small firms did not have access to government support with some firms simply not even aware of the existence of the government policy supports. While small-firm oriented loan schemes have reached some targeted firms, many of them were still continuing to experience difficulty in raising finance and working capital reflected in their views about the credit advantages of contractual arrangements with large firms, and in the modernisation of their plants because of lack of collateral, while new firms could obviously not produce the qualifying track record that was required.

The study, therefore, stressed that although the government has stated its strong commitment and interest to the promotion of small firms, the intention has not been translated into effective action. In other words, the outreach and effectiveness of most of the public agencies involved at the level of individual small firms was indeed limited and fragmented. Based upon our findings, and indeed other reports, the research stated that lack of effectiveness is probably due to several fundamental reasons.

The first is that the stated support programmes for small firms represented merely a 'half-action' service. From 23 sampled firms who received government assistance, 11
of them have received one single category of support, while eight of out them have received only two categories of assistance. Interestingly, no sampled firm receive all categories of government assistance. In practice, it is clear that preference and priority in the incentives and programmes is primarily given to large industry. The research cited two examples of the support programmes that had been biased towards large firms, these were: i) the Investment Incentives Act 1968 which was originally introduced to promote large industry and its amendment the Promotion of Investment Act 1986 (PIA) which, although it was reported to have given more concessions to small and medium-sized firms, was found to be of little benefit to small firms (see for instance in MIDA 1988), and ii) the heavily subsidised industrial estates such as in Cheras, Kepong and elsewhere in the country which were found to have been allotted to large rather than small firms.

The second reason for the ineffectiveness of the support programmes is the allocation of resources for small firms which is indeed insufficient. This is compounded by inefficient ways in which the programmes are implemented. Besides a limited amount of credit given to the firms in the sample, it was also estimated in 1985 that small firms needed at least M$10,000 million in bank loans, but it was recorded that less than M$300 million was available (see for instance, Lim 1988:122 and 1989). Even then, this amount was reported not to have been properly distributed. Some of the loans went either to undeserving small firms or even to large enterprises (ADB 1990). Thirdly, the research noticed the existing government policy programmes focused predominantly on the development of new Bumiputra enterprises, most of which were domestic-orientated businesses and which were mostly ‘saturated’ such as food, furniture and handicraft industries. While, it is clear that the basic choice of government policy programmes on small firms rest on the wider interest of political judgement in a given specific socio-economic context of a country, continuing supports to these firms may be among the reasons for inefficiency in general terms of the net economic benefit to society (this issue will be discussed further in the next few paragraphs). This is because as new firms enter the market, other less efficient or less subsidised firms are forced out. Since competition was strong in the domestic market, the profit margin were expectedly low and their mortality rates were high.
Lastly, the research identified that the overall existing support programmes lack direction and organisational infrastructure in assisting small firms. It was found that before the Division of Small-Scale Enterprises (SSED - now located in the Ministry of International Trade and Industry) was set up in 1981, there was no agency exclusively concerned with coordinating the multi-faceted support programmes for small firms in the country. Though SSED was set up, the coordination of implementation among various government agencies was still rather ineffective namely because of two main factors: i) inadequate resources allocated to this division, and ii) its limited authority to coordinate numerous public agencies (discussed in Chapter Four) which have different priorities and responsibilities in assisting small firms.

It is observed that up to now no systematic step has been taken to coordinate the 13 Ministries and 30 public agencies engaged. Neither do these agencies plan the strategic development of such firms over a medium or long term period. Most assistance was based on short-term basis and little followed up assistance in one form or another was undertaken. Synonymous with this lack of effective planning, support programmes for small firms were rarely integrated with the development of other economic activities. The potential development of inter-firm linkages for small firm was not fully explored or realised.

In light of the above-mentioned weaknesses of the existing programmes in the country, the research study stressed several elements which could potentially be given some consideration in the promotion of small firms: Firstly, there is a need for more realistic objectives for the policy support programme over the medium and long term among the various government agencies, with adequate financial resources. The boundaries of responsibility, priorities and targets should be clearly defined.

Secondly, there is a need for the identification of potential areas of growth for small firms destined for the domestic market and for exports. It was emphasised that small firms in textile and clothing industry are among the sectors that should be given attention. Since the textile and clothing industry ranks second after electronic and electrical industry in terms of share of employment and manufacturing exports in the country, it is crucial
to maintain and expand the potential market for its products. Far more significant than its outstanding position was the predominance of the small-scale nature of activities within this industry. The need for the government to establish a Research and Development Centre for the industry, as has been done for others such as Metal Industry Development Centre, Plastic Technology Centre and Foundry Technology Centre, was further emphasised.

Our findings regarding the personal characteristics and management practices of the owner/managers are also useful with respect to defining appropriate government policy support programmes. Throughout this study, it has been emphasised that policy supports for small firms have to be selective in nature due to limited resources and the nature of small firms which are numerous, geographically diverse, divided between a variety of different economic activities and heterogenous in terms of their age, sex structure and social composition (see also in Bromley 1985). Indeed, it cannot be denied that this is a difficult issue when often in the wider interest of political influence, and those who are responsible for the development of small firms, policy supports are tied to biological characteristics such age, sex and ethnicity. To exclude people from public supports on these biological grounds poses a clear direction of discrimination. In this respect, the basic choice and objective of the government policy support for small firms in the country should be explicitly directional, either to support and encourage successful firms or those which have the potential characteristics for success, or to support firms which are not doing so well or have 'potentially' disadvantageous characteristics.

Observing the trend of government support programmes since the 1970s when the significance of promoting the development of small industry was re-stated under the New Economic Policy (1970-1990), the focus has been predominantly on the development of new Bumiputra enterprises most of which are small-scale operations and domestic-orientated businesses in industries such as food processing and handicrafts which are most saturated (see Chapter Four). Competition is strong in the domestic market for the sale of products which these firms seek to produce. Moreover, the profit margins of these small firms is low and their mortality rates are high. Therefore, the objective and focus of government policy programmes in the past two decades has been to support small firms
which were not doing so well or have potentially disadvantageous characteristics. The implication of such supports may be that the net benefit to society of these new and small-scale enterprises is low because as new firms enter the market, other less efficient or less subsidized firms are forced out. Those who fail often lose their land or the few assets they possess in the process. The creation of further new businesses in such low technology, easy entry activities such as food processing and handicraft production generally does not lead to a net increase in employment because demand for their products is income inelastic and grows slowly.

However, the implication of government policy programmes on the development of small firms may be different if a re-direction of support resources and services to new business venture concentrating on areas with growth potential in the manufacturing sector. At present, there are a few of the ‘on-going’ government programmes which concentrate on nurturing and developing such relatively successful small-scale firms so that they may move up the ladder into the next firm-size category under the new Development Policy for the year 1990-2020 (see for instance MITI 1990 and ADB 1990).

Based upon our findings and in view of the need for government support for successful small firms or those which have potential characteristics of success, the focus predominantly on the development of new Bumiputra enterprises has to be re-considered with respect to other entrepreneurs as well. In this respect, one may argue that the Chinese owner/managers who have shown relatively better success as compared to their Malay and Indian counterparts, are deserved to be given ‘a priori’ attention by support programmes. This is due to the net benefit and scale of economies in terms of the broader utilisation of public resources that may form the basic progress in the overall development of small firms in the country. However, there may be reasons as to why Chinese owner/managers are more successful than their Malay and Indian counterparts. Besides, business exposure and traditionally wider business-connections among Chinese business community in Malaysia as well as in the Southeast Asia, they are also able to raise their capital investments much higher to start off their businesses as compared to Malay and Indian entrepreneurs. This is linked to the previous analysis in Chapter Nine where it was shown that the higher the value of fixed capital of the sampled firms, the higher the sampled
firms representation in the more successful category of profit, capital and employment indicators. For example, further analysis on this issue shows that all 24 sampled firms which have the value of fixed capital of M$60,000 and above, are found to be managed by Chinese entrepreneurs. In particular, as noted in Chapter Eight, low individualism, activism, trust and risk-taking, and high on conservatism among Malay entrepreneurs (as noted by Charlesworth 1974:17) are also among the reasons why Malay entrepreneurs are less successful. Having noted the brief advantage and disadvantage positions of the owner/managers among the three main ethnic groups, consideration for policy supports may be more relevant if it is implemented within the wider context of the existing social composition (of the Malaysian society) and the country's need for the racial harmony in order to maintain and sustain its momentous economic development and progress. In this regard, the selection of support programmes for the owner/manager from one ethnic group should not necessarily deny access of others for the sake of the contribution of the existing 'harmony-atmosphere' of the country in which the implementation of support programmes for small firms may play its part in her rapid industrialisation process.

Specifically, based on our findings too, and if the choice of the government policy supports is to assist firms that have potential characteristics for success, aspects of sex and educational level of the owners/managers should not be considered as priorities in assisting small firms since our research has proven that they have no influence on the success of the individual small firms. Nevertheless, some consideration should be given to the age and experience of the owners/managers and the firms which practice a regularly written business plan. In particular, the relatively younger owner/managers, but with more experience either in general business or in the same industry as well as the use of a regularly written business plan in their operations may be accountable for such consideration. This is due to the fact that small firms are likely to have the technical and managerial capacity to produce and market products that cannot be expected to come from the relatively inexperienced entrepreneurs but from those with 'sound business experience', and technical skills as well as the requisite access to capital resources with a greater vision for international markets.

Fourthly, the study noted that the approach of private agencies and commercial
banks appear to be rather passive. Commercial banks for instance, practised the policy of waiting for clients to approach them with investment loan proposals. Thus, there is scope for these banks to adopt a marketing-orientated approach in dealing with small firms. This approach, for instance, would involve the Banks undertaking market research on selected growth industries and then directly approaching some of their existing clients. This would be desirable particularly for existing clients who have good business records to discuss financial expansion programmes related to production for domestic and/or overseas market niches. By initiating this, the commercial banks would, hence, actively play an important role in the development of small firms in the country. In this respect too, it is suggested that the cooperation of public and private agencies should also be further coordinated in terms of objectives, targets, types of small firms involved, types of assistance etc.

Fifthly, the study appears to suggest that the ancillary role of small firms to large firms in terms of inter-firm linkages could be further explored, not just within the same industry but across other industries and sectors of economic activity. The positive effects of inter-firm linkages on the development of the small firms generally shown in our findings have indeed provided very useful information for policy makers and those who are involved in the promotion of small firms in the country. Further support programmes for more integrated linkages should be strengthened and enhanced, not merely in the textile and clothing industry, but also in other industries and across sectors. Thus, potential backward and forward linkages should be fully realised especially when similar evidence has been proven elsewhere in developed countries such as Japan (Watanabe 1975) and NICs such as Hong Kong and Singapore (Ganesan 1982), Taiwan (Tsai 1991) and South Korea (Yoon 1991). In proposing support programmes for inter-firms linkages, several areas were suggested including: inputs and outputs, sub-contracting works and putting-out systems. It was also emphasised that the role of the Subcontracting Exchange Scheme (SCX) should be further strengthened and expanded with adequate financial resources and manpower.

Lastly, the study noted that consideration might also be given to subsidising space in industrial estates for small firms. As the small firms located in industrial sites were proven to be more successful (and the advantages of this was clearly described in Chapter
Six), many small firms scattered outside industrial estates deserved to have a subsidised space in industrial estates. The prolonged preference of continuing support programmes for large firms should at least partly be diverted to small firms’ need. Supports for small firms in this respect could be intensified in view of the current evidence of high cost of developed industrial land in the country (see ADB 1990:36).

To ensure the effective implementation of any policy support programme for small firms, it is noted that the consideration should be given either to re-vitalise the existing SSED at the Ministry of International Trade and Industry (MITI) or to establish a separate agency with the specific and more powerful task of promoting small firms. There are advantages of maintaining SSED to undertake the functions envisaged earlier. These include: the establishment of a new agency merely adds to the already large number of agencies involved in promoting small firms; a new agency would also take time to get off ‘the ground’ compared to SSED which would be able to function immediately; and SSED may be able to receive approval for its projects more quickly since it is under the MITI.

Nonetheless, the SSED’s weakness is that its operation may be limited since it is located under the ministry. In other words, we may expect SSED to emerge as the largest Division in the Ministry of International Trade and Industry (MITI) since small firms were not the MITI prime responsibility. Unless SSED expands beyond its present strength, it is difficult to see how the Division could function effectively. Putting this into perspective, the idea of establishing a new agency such as a Small Firm Authority (SFA) to be responsible exclusively for the development of small firms was highly recommended. Several arguments in favour of a SFA for Malaysia can be summed up. The most obvious argument is that the establishment of SFA would help to reduce the coordination problem and solve the problem of the duplication of small firms support programmes and would help consolidate programmes.

The second is that substantial public expenditure would be saved as programmes could be conducted and implemented under ‘one roof’. Thirdly, our findings show that the recipient firms which received a fuller range of government assistance tend to be more successful than those who received one single type or two types of support programmes.
The study, therefore, saw that there was a need to provide an integrated package of assistance for small firms. It is also desirable when so frequently small firms were reported to have faced various obstacles (see Chapter Four) and these were impossible to be solved on an ‘ad hoc’ and short-term basis. Realising this, the establishment of one specific authority such as a SFA has many advantages.

The last point is that there is a need to set up a strong authority with more legislative power and financial resources which is exclusively concerned with the development of small firms at the national level and fully coordinated in a country like Malaysia. This need relates to the systematic compilation of lists, collection of basic data of small firms etc., in order to review and formulate more effective, equitable policies for small firms especially with the collaboration of different agencies which have very different sets of priorities.

To conclude, although government policy supports were largely ineffective, a vast majority of small firms (in terms of establishments) in Malaysia demonstrated their ability to go into business and to survive without government support. This is clearly linked to the earlier finding that the government support programmes were not currently a major factor determining the development of small firms. Instead other aspects emerged as more critical. Nevertheless, it is possible to argue that survival is not sufficient especially for the country which is now poised to enter the ranks of the New Industrialised Country (NICs). This transitional period to NICs can be considerably distorted if inadequate attention is paid to the development of small firms. What seems to be most important is growth and development of small firms at the individual level which would form the base for widening and strengthening the domestic industrial-structure. There is indeed scope and ample evidence that many small firms can increase their productivity and rate of growth substantially and new enterprises can be established in a number of product lines and sub-industries in the wake of the rapid industrialisation process in the country. If government policies were more favourable and if adequate financing, technical assistance, extension and advisory services as well as infrastructure supports were made readily and cheaply available, a more prosperous growth and development of individual small firms could be achieved.
10.2: Suggested Avenues for Future Research

The research is only confined to the Kuala Lumpur and its satellite town, Petaling Jaya. The selected sample does not reflect inter-urban differences in infra-structure, government support services, quality and quantity of labour supply, raw materials, price of outputs, inter-firm linkages and the like. In view of these considerations, it is proposed that similar studies in future should use a national sample covering all urban areas in West and East Malaysia.

The size of the sample survey could also be enlarged in the future studies. Since the study covers only Kuala Lumpur and Petaling Jaya areas, a limited number of small textile and clothing firms was investigated, essentially those who agreed to cooperate. Thus, systematic sampling methods such as probability, random sampling etc. was not applied. Therefore, probability or random surveys would be desirable to consider in the future studies.

Thirdly, similar studies should also consider the possibility of investigating specific industries in the manufacturing sector as well as inter-sectoral industries across economic activities of the country to obtain a much broader idea regarding the issues concerned. These include: the extent of policy programmes across different sectoral-levels, inter-firm linkages not merely in one sector but inter-sectoral activities etc.

Throughout this research, the difficulty of quantifying and measuring potential factors or variables affecting the development of small firms among the major obstacles has been emphasised. Thus, it would be interesting to explore ways of defining and measuring these factors in future studies. Among these factors are: relative labour and capital costs, labour/capital efficiency, rate of reinvestment, product quality, export intensity, record keeping, usage of private professional services, usage of business information etc. Many of these factors are seen to relate to the management practices of small firms. Therefore, future studies should endeavour to concentrate more on these management issues which have proven so effective in large firms and which might be effective in small firms as well.
Lastly, the research has used three specific indicators of profit, capital and employment in the analysis of success. Hence, consideration should be given to other aspects of success like turnover, value of outputs, export performance, market share etc.

1) Geographic analysis
2) Specific industry analysis
3) Measurement methods (but many exist)
4) Indicators
APPENDIX I

PART I: QUESTIONNAIRE FOR PRELIMINARY SURVEY (ENGLISH VERSION)

Name of the Firm __________________________________
Address ____________________________________________
Name of interviewee ____________________ Tel _____________
Designation ____________________ Tel ____________________
Date ____________________ Time ____________________
Name of Interviewer ____________________

Please be advised that this questionnaire is merely an academic exercise and its nothing to do with government involvements what-so-ever. Your answer are strictly confidential and under no circumstances will be disclosed to anyone.

1. What does the firm produce ?
________________________________________________________

2. When the firm was established ?
   ___ 1 to 3 years ago
   ___ 4 to 6 years ago
   ___ 7 to 9 years ago
   ___ 10 to 12 years ago
   ___ 13 to 15 years ago
   ___ 16 years and above

3. What is the legal status of ownership of the firm ?
   ___ Sole operator/proprietorship
   ___ Private Partnership
   ___ Private Limited
   ___ Public Limited
   ___ Other, specify ____________________

4. How many full-time worker are employed at present ?
   Number of employees
   ___ Below 10
   ___ 10 to 19
   ___ 20 to 29
   ___ 30 to 39
   ___ 40 to 49
   ___ 50 and above

5. What is the fixed assets (or fixed capital) at present ?
   ___ Below M$20,000
   ___ M$20,000 to 39,000
   ___ M$40,000 to 59,999
   ___ M$60,000 to 79,999
   ___ M$80,000 to 99,000
   ___ M$100,000 and above

6. Has the firm ever received any government policy support programmes since it was established ?
   ___ Yes
   ___ No
7. If Yes, which of the following policy support programmes has the firm received? Tick where appropriate
   ___ Forms of financial assistance
   ___ Training and technical assistance
   ___ Extension and advisory services
   ___ Infrastructure supports
   ___ Others, specify ____________________________

8. On an average, how many hours per day the firm usually operate?
   ___ Below 6 hours
   ___ 7 to 9 hours
   ___ 10 to 12 hours
   ___ 13 to 15 hours
   ___ 16 to 18 hours
   ___ 19 to 21 hours
   ___ 22 to 24 hours

9. What is the type of location/building the firm is located?
   ___ Industrial site
   ___ Shophouse/shop-building
   ___ In the house
   ___ Illegal land
   ___ Others, specify ____________________________

10. Would you be willing to answer more questions later?
    ___ Yes
        ___ No
PART II: QUESTIONNAIRE FOR THE DESCRIPTION OF VARIABLES
(ENGLISH VERSION)

Name of the firm __________________________________________
Name of interviewee ________________________________________
Name of interviewer _______________________________________
Date ___________________ Time _____________________________

Section A: Government Assistance

1. If the firm has received some assistance from any government agencies, how did it come about ?
   ___ The owner/manager seek for it
   ___ The firms being approached by government agencies
   ___ The firm being told/asked by friend
   ___ From government written sources
   ___ Others, specify _________________________________

2. When did the firm receive the assistance from any government agencies for the first time ?
   ___ Less than a year
   ___ 1 to 2 years ago
   ___ 3 to 5 years ago
   ___ 6 to 9 years ago
   ___ 10 and above

3. In your view, which of the following government support programmes is the most importance for the development of
   your firm ?
   ___ Financial assistance
   ___ Training and technical assistance
   ___ Extension and advisory services
   ___ Infrastructure supports
   ___ Other, specify _________________________________

4. If the firms has received the financial assistance, what is specification of the following items ?
   Amount of Credit _______________________________________
   Source of Credit _______________________________________
   Period of Repayment _________________________________
   Interest Rate _______________________________________
   Condition attached ___________________________________
   Others, specify _______________________________________

5. If the firm has received technical and training assistance, what is specification of the following items ?
   Types of training assistance ___________________________
   Source of Training ___________________________________
6. If the firm has received extension and advisory services, what is specification of the following items?
   Types of services ___________________________________
   Source of services ___________________________________
   Period of services ___________________________________
   Condition attached ___________________________________
   Others, specify _____________________________________

7. If the firm has received infrastructure supports, what is specification of the following items?
   Types of support _____________________________________
   Source of Support ____________________________________
   Period of support ____________________________________
   Condition of Support _________________________________
   Other, specify _____________________________________

8. What are the reason for not using the government policy support programmes? (for firms which have not received government assistance)
   ___ Assistance given is not useful
   ___ Assistance provided is too bias towards particular group of entrepreneur (specify, ________________)
   ___ Application procedures are too tedious
   ___ Does not know how to apply for it
   ___ Does not aware of such assistance
   ___ No time to work out the problem with the government officers
   ___ Worry of 'trade secret' being leaked out
   ___ No such need
   Others, specify ___________________________________
10. What percentage does the firm get its raw materials from large firms?

<table>
<thead>
<tr>
<th>Raw material supplier (%)</th>
<th>None</th>
<th>1 to 25 percent</th>
<th>26 to 50 percent</th>
<th>51 to 75 percent</th>
<th>76 to 100 percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. What percentage does the firm get its raw materials from large firms?</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Raw material supplier (%)</td>
<td>None</td>
<td>1 to 25 percent</td>
<td>26 to 50 percent</td>
<td>51 to 75 percent</td>
<td>76 to 100 percent</td>
</tr>
<tr>
<td>Individual/household</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small firm</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others, specify</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11. Other suppliers (if any), and percentage?

| Individual/household |       |
| Small firm |       |
| Government |       |
| Others, specify |       |

12. Does the firm have a specific contractual arrangement with large-firm supplier for getting its raw materials?

| Yes | No |

13. If yes, what percentage of the total value raw materials used? Please specify

<table>
<thead>
<tr>
<th>Contractual arrangement for raw materials only (%)</th>
<th>None</th>
<th>1 to 25 percent</th>
<th>26 to 50 percent</th>
<th>51 to 75 percent</th>
<th>76 to 100 percent</th>
</tr>
</thead>
</table>

14. Why does the firm have or does not have a contract for its raw materials?

| Reasons for having such a contract |       |
| Reasons for not having such as contract |       |

15. What percentage of machinery used (of the total value) for manufacturing the firm's products is made locally?

<table>
<thead>
<tr>
<th>Local machinery and/or equipments (%)</th>
<th>None</th>
<th>1 to 25 percent</th>
<th>26 to 50 percent</th>
<th>51 to 75 percent</th>
<th>76 to 100 percent</th>
</tr>
</thead>
</table>

16. What percentage of machinery used (of the total value) is the first-hand? Please specify

<table>
<thead>
<tr>
<th>First-hand machinery and/or equipment (%)</th>
<th>None</th>
<th>1 to 25</th>
<th>26 to 50</th>
</tr>
</thead>
</table>
17. What percentage does the firm obtain machinery used (of the total value) from large firm? Please specify
Machinery and/or equipment supplier (%)
____ None
____ 1 to 25
____ 26 to 50
____ 51 to 75
____ 76 to 100 percent

18. What percentage of the firm’s products (of the total value) are sold to large firms? Please specify
Outputs buyers (%)
____ None
____ 1 to 25
____ 26 to 50
____ 51 to 75
____ 76 to 100 percent

19. Does the firm have a specific contractual arrangement with large-firm buyers for selling its products?
____ Yes
____ No

20. If yes, what percentage of the total value of outputs sold are accounted by a contractual arrangement?
Please specify
Contractual arrangement for products only (%)
____ None
____ 1 to 25
____ 26 to 50
____ 51 to 75
____ 76 to 100 percent

21. Why the firm has or does not have a contractual arrangement for its products?
Reason for having such a contract ________________________________
______________________________________________________________
______________________________________________________________

Reason for not having such a contract ______________________________
______________________________________________________________
______________________________________________________________

22. Does the firm do any sub-contracting work for large firms?
____ Yes
____ No

23. If yes, what percentage of the total value of outputs are accounted by sub-contracting work? Please specify
Sub-contracting work (%)
____ None
____ 1 to 25
24. Why the firm does or does not involve in sub-contracting work for large firm?
Reason for involving in sub-contracting work

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

Reason for not involving in sub-contracting work

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

25. Does the firms practice the 'putting-out' the work to other units of producer?
   ____ Yes
   ____ No

26. If yes, what percentage of the total value of outputs are accounted by the 'putting-out work'? Please specify
Puttig-out work (%)
   ____ None
   ____ 1 to 25
   ____ 26 to 50
   ____ 51 to 75
   ____ 76 to 100 percent

27. To whom the 'putting-out work' is given?
   ____ Individuals/household
   ____ Small-contractors/firms
   ____ Both parties
   Others, specify ____________________________

28. Where it is being carried out?
   ____ In the study area
   ____ Other cities/towns
   ____ Both
   Others, specify ____________________________

29. What is the condition for such 'putting-out work'?

__________________________________________________________________________
__________________________________________________________________________

30. Why the firm does or does not practice the 'putting-out' work?
   Reason for practising putting-out work
   _______________________________________________________________________
   _______________________________________________________________________

   Reason for not practising putting-out work
   _______________________________________________________________________
Section C: Managerial Personal and Practices

31. Are you the owner/manager of the firm?
   ___ Yes
   ___ No

32. If no, do you have family-connection (relative) with the owner?
   ___ No
   ___ Son/daughter
   ___ Brother/sister
   ___ Niece/Nephew
   ___ Other relative

33. Sex of the owner/manager
   ___ Male
   ___ Female

34. Ethnic group of the owner/manager
   ___ Malay
   ___ Chinese
   ___ Indian

35. Age of the owner/manager
   ___ Below 21 years
   ___ 21 to 25 years
   ___ 26 to 30 years
   ___ 31 to 35 years
   ___ 36 to 40 years
   ___ 41 to 45 years
   ___ 46 to 50 years
   ___ 51 years and more

36. Educational Level of the owner/manager
   ___ No formal education
   ___ Primary school
   ___ Lower Certificate of Education (LCE)
   ___ Medium Certificate of Education (MCE)
   ___ Higher Certificate of Education (HCE)
   ___ The Degree
   ___ Others, specify ______________

37. Any previous experience in general business before joining/establishing the firm?
   ___ Yes
   ___ No

38. If yes, years of business experience
   ___ None
   ___ 1 to 3 years
   ___ 4 to 6 years
   ___ 7 to 9 years
   ___ 10 to 12 years
39. Any previous business experience in the textile and clothing industry?
   - Yes
   - No

40. If yes, years of business experience in the industry
   - 1 to 3 years
   - 4 to 6 years
   - 7 to 9 years
   - 10 to 12 years
   - 13 to 15 years
   - 16 years and more

41. Years with the present firm
   - 1 to 3 years
   - 4 to 6 years
   - 7 to 9 years
   - 10 to 12 years
   - 13 to 15 years
   - 16 years and more

42. On an average, how many hours a day do you spend on this business?
   - 1 to 3 hours
   - 4 to 6 hours
   - 7 to 9 hours
   - 10 to 12 hours
   - 13 to 15 hours

43. What are the 3 business functions that you spend the most time?
   - Marketing
   - Production
   - Accounting/finance
   - Personnel/administration
   - Research and development
   - Others, specify ________________________

44. On an average, how often does the firm modify existing products or develop a new product?
   - Every year
   - Every two year
   - Every three year
   - Every four year
   - Every five year
   - More than every 5 year
   - None

45. What are the business plans the firm prepares and uses annually (at least)? Please tick where appropriate
   - None
   - Production plan
46. What are the reasons for not planning extensively?
   Please tick where appropriate
   ___ No time
   ___ Not necessary to have so many planning
   ___ Not enough of planning experience
   ___ No qualified personnel to do planning
   ___ Lack of required information
   ___ Others, specify __________________________

Section D: Some Indicators of the Firm

47. What was the 'book value' of fixed assets (fixed capital)
    of the firm from 1986 to 1990? Please specify
   Fixed assets from 1986 to 1990 (M$)
   1986 __________________________
   1987 __________________________
   1988 __________________________
   1989 __________________________
   1990 __________________________

48. What was the paid up capital of the firm from
    1986 to 1990? Please specify
   Paid up capital from 1986 to 1990 (M$)
   1986 __________________________
   1987 __________________________
   1988 __________________________
   1989 __________________________
   1990 __________________________

49. What was the annual sales turnover of the firm from
    1986 to 1990? Please specify
   Annual sales turnover M$
   1986 __________________________
   1987 __________________________
   1988 __________________________
   1989 __________________________
   1990 __________________________

50. What was the annual net profit before tax of the firm
    from 1986 to 1990? Please specify
   Annual net profit from 1986 to 1990 (M$)
   1986 __________________________
   1987 __________________________
   1988 __________________________
   1989 __________________________

---

Marketing Plan
Cash Flow analysis
Capital Budgeting
Material requirement plan
Machinery/Equipment requirement plan
Manpower requirement plan
Modify existing products/New product development
Distribution plan
Sale forecast
Others, specify __________________________
51. What was the number of workers the firms employed between 1986 and 1990? Please specify.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td></td>
</tr>
</tbody>
</table>
PART III: QUESTIONNAIRE FOR WORKERS (ENGLISH VERSION)

Name of firm ____________________________
Name of Interviewee ______________________
Name of interviewer _______________________
Date of interview ___________ Time_________

This questionnaire only refers to full-time employees

1. How many workers are accounted by sex ?
   Sex composition of workers
   ___ Male
   ___ Female

2. How many workers have the following age group ?
   Age of workers
   ___ Below 16 years old
   ___ 16 to 20 years
   ___ 21 to 25 years
   ___ 26 to 30 years
   ___ 31 to 35 years
   ___ 36 to 40 years
   ___ 41 to 45 years
   ___ 46 to 50 years
   ___ 51 years and more

3. How many workers are accounted by the following ethnic group ?
   Ethnic group of workers
   ___ Malays
   ___ Chinese
   ___ Indian
   Others, specify; _______________________

4. How many workers are accounted by the following marital status ?
   Marital status of workers
   ___ Unmarried
   ___ Married
   ___ Widow
   ___ Divorced
   ___ Other, specify; ___________________

5. How many workers are accounted by the following educational level ?
   Educational level of workers
   ___ No formal education
   ___ Primary education
   ___ Lower Certificate of Education (LCE)
   ___ Medium Certificate of Education (MCE)
   ___ Higher Certificate of Education (HCE)
   ___ Tertiary
   ___ Others, specify ___________________

6. How many workers are accounted by the following methods of wage payment ?
   Method of Wage Payment | Male | Female
   Monthly                |      |
   Daily                  |      |
   Piece rate             |      |
7. How many workers are accounted by the following income group

<table>
<thead>
<tr>
<th>Income of workers (M$)</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$200 to 299</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$300 to 399</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$400 to 499</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$500 to 599</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$600 to 699</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$700 and more</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix II

LIST OF PERSONALS

1. Mr. Zulkifli Rauf, Officer at Small-scale Enterprise Division (SSED), Ministry of International Trade and Industry

2. Mr. Gunalam Jayanathan, Director of Building Material, Textile and Miscellaneous Industries Division, Malaysian Industrial Development Authority (MIDA)

3. Mr. Borhanuddin Ramli, Assistant Director, Industrial Development, Ministry of International Trade and Industry

4. Asso. Prof. Dr. Ismail Salleh, Assistant Director-General, Institute of Strategic and International Studies Malaysia (ISIS)


6. Dr. Mohd Yusuf Ismail, Deputy-Director, Socio Economic Research Unit (SERU)

7. Mr. Vijayakumari Kanapathy, Researcher at Institute of Strategic and International Studies (ISIS)

8. Asso. Prof. Dr. Mohd Fauzi Yakoob, Department of Sociology, University of Malaya

9. Mr. Dannes Wong, Assistant Manager, Top-Ten Fashion (M'sia) Sdn Bhd.

10. Mrs. Ching Chabo, Assistant Secretary (Research), Malaysian Trades Union Congress (MTUC)

11. Assoc. Prof. Dr. Ghazali Mohayidin, Faculty of Economics and Administration, University of Malaya

12. Mr. Soong Siew Hong, Council Member and Chairman of the Special Committee for Small and Medium Industries, Federation of Malaysian Manufacturers (FMM)
APPENDIX III

MEASURING THE INDICATORS OF SUCCESS, RESULTANT COMPUTATION, INFORMATION ON THE INFLATION RATE IN MALAYSIA AND THE CORRELATION MATRIX BETWEEN THE THREE INDICATORS OF SUCCESS

A) An Example of Measuring the Indicators of the Success for FIRM 1

a) The change in the annual index of the net profit before tax for the Firm I is:

<table>
<thead>
<tr>
<th>Year</th>
<th>Deflated Value of Net Profit</th>
<th>Index</th>
<th>Cumulative Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>4,777.13</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>1987</td>
<td>17,734.56</td>
<td>371.2</td>
<td>271.2</td>
</tr>
<tr>
<td>1988</td>
<td>25,938.31</td>
<td>146.3</td>
<td>46.3</td>
</tr>
<tr>
<td>1989</td>
<td>30,832.64</td>
<td>118.9</td>
<td>18.9</td>
</tr>
<tr>
<td>1990</td>
<td>48,268.98</td>
<td>156.6</td>
<td>56.6</td>
</tr>
</tbody>
</table>

Therefore, the average change in the annual index of the net profit before tax is 78.6 percent (393.0 divided by 5).

Procedure Used to Calculate Net Profit Before Tax

Net profit before tax is calculated using the annual operating profit, i.e. the year’s total sales (income/revenue) minus the year’s total costs (the year’s cost of raw materials and services used, wages, depreciation and interest foregone).

Services included electricity, water, transportation, rent for hired equipments, premises etc. (if any), cost of necessary repair, advertisement etc.

Wages include the year’s total salary paid to the owner/manager and all employees involved in the establishment.

Depreciation is computed on the basis of a remaining economic life expectancy (Malaysian Standard) of five years for machinery, equipments, vehicles, furniture, fixture etc. and 20 years for building and plants.

Interest rate is measured on the basis of individual firm’s borrowing from particular bank/financial institutions that charges differently, according to the amount of lending as detailed in Chapter Four.

The reasons for using the annual operating profit as a basis for the operational definition

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in the present research are due to several factors as follows: i) it may monitor more precisely the progress of individual firms annually, ii) it is a much more practical way to measure profit when this calculation is made at a single point in time, and iii) it is made with the sole objective of comparability with the balance-sheets of some sampled firms that had been using private consultants for their financial reports (especially in auditing). It is essential to note that all the values (of fixed assets, paid up capital and net profit before tax) are at 1980 prices, used as the based year. This is done by applying the official consumer price index and deflating current prices so as to make them comparable to the based-year price. (Annual growth rate of the country's consumer prices and/or consumer price index from 1980 to 1990 as well as deflator value are shown in this Appendix below).

b) The change in the rate of return on paid up capital for Firm I:

<table>
<thead>
<tr>
<th>Year</th>
<th>Deflated Value of Paid up Capital</th>
<th>Rate of Return</th>
<th>Cumulative Rate of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>59,194.95</td>
<td>7.5</td>
<td>-</td>
</tr>
<tr>
<td>1987</td>
<td>58,049.54</td>
<td>30.0</td>
<td>22.5</td>
</tr>
<tr>
<td>1988</td>
<td>70,046.44</td>
<td>37.0</td>
<td>29.5</td>
</tr>
<tr>
<td>1989</td>
<td>67,942.94</td>
<td>45.4</td>
<td>37.9</td>
</tr>
<tr>
<td>1990</td>
<td>66,058.39</td>
<td>52.7</td>
<td>45.2</td>
</tr>
</tbody>
</table>

Therefore, the average change in the rate of return on paid up capital is 27.0 percent.

Procedure Used to Calculate the Annual Rate of Return

The annual rate of return on paid up capital is calculated using a common accounting procedure, i.e.:

\[ \text{Rate of Return} = \frac{\text{P} - \text{K}}{100} \]

where, \( \text{Rt} = \text{Rate of Return} \)
\( \text{K} \)
\( \text{P} = \text{The Value of Net Profit Before Tax} \)
\( \text{K} = \text{The Value of Total Paid up Capital} \)

Paid up Capital in the study is considered on a yearly continuing basis in the firm's activities. These include: i) intangible assets - development and management costs, concessions, licenses, and any payment on account for intangible assets, ii) tangible assets - land and buildings, plant and machinery, fixtures, fittings, tools and equipments, assets in course of construction and any payment on account for tangible assets, and iii) investments - shares in and loans to other banks or finance institutions or companies.
c) The change in the annual index of the number of full-time employees for Firm I:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Employee</th>
<th>Index</th>
<th>Cumulative Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>9</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>1987</td>
<td>11</td>
<td>122.2</td>
<td>22.2</td>
</tr>
<tr>
<td>1988</td>
<td>11</td>
<td>122.2</td>
<td>22.2</td>
</tr>
<tr>
<td>1989</td>
<td>13</td>
<td>144.4</td>
<td>44.4</td>
</tr>
<tr>
<td>1990</td>
<td>16</td>
<td>177.8</td>
<td>77.8</td>
</tr>
</tbody>
</table>

The average change in annual index of the number of full-time employee is **33.3 percent**
B) Some Information on Annual Inflation Rate, Consumer Price Index, Deflator Value and the Method of Measurement of the Change in the Annual Index of the Net Profit Before Tax and the Annual Rate of Return on Paid up Capital.

Table 1: Annual Inflation Rate in Malaysia From 1956 to 1980

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate of Inflation</th>
<th>Year</th>
<th>Rate of Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>1.0</td>
<td>1969</td>
<td>-0.4</td>
</tr>
<tr>
<td>1957</td>
<td>5.0</td>
<td>1970</td>
<td>1.9</td>
</tr>
<tr>
<td>1958</td>
<td>1.0</td>
<td>1971</td>
<td>1.6</td>
</tr>
<tr>
<td>1959</td>
<td>-2.9</td>
<td>1972</td>
<td>3.2</td>
</tr>
<tr>
<td>1960</td>
<td>-2.0</td>
<td>1973</td>
<td>10.5</td>
</tr>
<tr>
<td>1961</td>
<td>0.2</td>
<td>1974</td>
<td>17.4</td>
</tr>
<tr>
<td>1962</td>
<td>0.1</td>
<td>1975</td>
<td>4.5</td>
</tr>
<tr>
<td>1963</td>
<td>3.1</td>
<td>1976</td>
<td>2.6</td>
</tr>
<tr>
<td>1964</td>
<td>-0.4</td>
<td>1977</td>
<td>4.7</td>
</tr>
<tr>
<td>1965</td>
<td>-0.1</td>
<td>1978</td>
<td>5.8</td>
</tr>
<tr>
<td>1966</td>
<td>1.4</td>
<td>1979</td>
<td>6.0</td>
</tr>
<tr>
<td>1967</td>
<td>4.1</td>
<td>1980</td>
<td>7.0</td>
</tr>
<tr>
<td>1968</td>
<td>0.2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Table 2: Consumer Price Index and Deflator Value from 1980 to 1990

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumer Price Index</th>
<th>Deflator Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>100</td>
<td>1.0</td>
</tr>
<tr>
<td>1981</td>
<td>109.6</td>
<td>1.091</td>
</tr>
<tr>
<td>1982</td>
<td>115.4</td>
<td>1.154</td>
</tr>
<tr>
<td>1983</td>
<td>120.7</td>
<td>1.207</td>
</tr>
<tr>
<td>1984</td>
<td>124.6</td>
<td>1.246</td>
</tr>
<tr>
<td>1985</td>
<td>124.9</td>
<td>1.249</td>
</tr>
<tr>
<td>1986</td>
<td>125.6</td>
<td>1.256</td>
</tr>
<tr>
<td>1987</td>
<td>126.7</td>
<td>1.267</td>
</tr>
<tr>
<td>1988</td>
<td>129.2</td>
<td>1.292</td>
</tr>
<tr>
<td>1989</td>
<td>133.2</td>
<td>1.332</td>
</tr>
<tr>
<td>1990</td>
<td>137.0</td>
<td>1.370</td>
</tr>
</tbody>
</table>


C) The Resultant Computation of Individual Firms for the Three Indicators

Table 3: The Distribution of Firms by the Average Change in the Annual Cumulative Index of Net Profit Before Tax Between 1986 and 1990

<table>
<thead>
<tr>
<th>The Average Change of Index</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>-5.0 to less than 0.0 percent</td>
<td>2.0</td>
</tr>
<tr>
<td>0.0 to less than 5.0 percent</td>
<td>25.5</td>
</tr>
<tr>
<td>5.0 to less than 10.0 percent</td>
<td>35.3</td>
</tr>
<tr>
<td>10.0 to less than 15.0 percent</td>
<td>9.8</td>
</tr>
<tr>
<td>15.0 to less than 20.0 percent</td>
<td>9.8</td>
</tr>
<tr>
<td>20.0 to less than 25.0 percent</td>
<td>7.8</td>
</tr>
<tr>
<td>25.0 percent and above</td>
<td>9.8</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100(51)</strong></td>
</tr>
</tbody>
</table>

Table 4: The Distribution of Firms by the Average Change in the Annual Cumulative Rate of Return on Paid up Capital Between 1986 and 1990

<table>
<thead>
<tr>
<th>The Average Change of Rate</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>-5.0 to less than 0.0 percent</td>
<td>2.0</td>
</tr>
<tr>
<td>0.0 to less than 5.0 percent</td>
<td>35.3</td>
</tr>
<tr>
<td>5.0 to less than 10.0 percent</td>
<td>13.7</td>
</tr>
<tr>
<td>10.0 to less than 15.0 percent</td>
<td>3.9</td>
</tr>
<tr>
<td>15.0 to less than 20.0 percent</td>
<td>11.8</td>
</tr>
<tr>
<td>20.0 to less than 25.0 percent</td>
<td>9.8</td>
</tr>
<tr>
<td>25.0 percent and above</td>
<td>23.5</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100(51)</strong></td>
</tr>
</tbody>
</table>

Table 5: The Distribution of Firms by the Average Change in the Annual Cumulative Index of the Number of Employees Between 1986 and 1990

<table>
<thead>
<tr>
<th>The Average Change of Index</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>-0.5 to less than 0.0 percent</td>
<td>7.8</td>
</tr>
<tr>
<td>0.0 to less than 5.0 percent</td>
<td>60.8</td>
</tr>
<tr>
<td>5.0 to less than 10.0 percent</td>
<td>19.6</td>
</tr>
<tr>
<td>10.0 to less than 15.0 percent</td>
<td>3.9</td>
</tr>
<tr>
<td>15.0 to less than 20.0 percent</td>
<td>5.9</td>
</tr>
<tr>
<td>20.0 to less than 25.0 percent</td>
<td>2.0</td>
</tr>
<tr>
<td>25.0 percent and above</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100(51)</strong></td>
</tr>
</tbody>
</table>
D) Correlation Matrix Between the Three Indicators of Success

Based on a full computation of the indicators for FIRM I as an example of the method of calculation above, together with the resultant computation the three indicators for individual firms, these three indicators were initially analysed using a correlation matrix (part of statistical option in SPSS) to examine whether there is any positive relationship among them. The findings are shown in Table 6.

Table 6: Correlation Matrix Between the Three Indicators of Success

<table>
<thead>
<tr>
<th>Correlation Matrix of the Indicators</th>
<th>Net Profit</th>
<th>Paid up Capital</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit</td>
<td>1.00000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paid up capital</td>
<td>.68719</td>
<td>1.00000</td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>.61525</td>
<td>.57615</td>
<td>1.00000</td>
</tr>
</tbody>
</table>

Notes:
Profit = The average change in the annual index of the net profit before tax
Capital = The average change in the annual rate of return on paid up capital
Employment = The average change in the annual index of number of employees

It is observed that the pairwise coefficient correlation matrix between them are indeed very high, comprising more than 0.5000, particularly between the profit and capital indicators which accounted for 0.68719. It strongly suggests that the three indicators have a close association implying that an increase in the profit and capital indexes are also likely to be associated with an increase in the employment index. In addition, Table 7 shows a final statistical matrix of approximately 75.1 percent of the total variance of the three indicators, illustrating further validation of a strong relationship among them.

Table 7: Final Statistics of the Factor Analysis for the Total Percentage Variance in the Matrix Solution

<table>
<thead>
<tr>
<th>Variable</th>
<th>Communality</th>
<th>Factor</th>
<th>Eigenvalue</th>
<th>Percentage of Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>.79092</td>
<td>1</td>
<td>2.25354</td>
<td>75.1</td>
</tr>
<tr>
<td>Capital</td>
<td>.87247</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>.83750</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes:
Profit = The average change in the annual index of the net profit before tax
Capital = The average change in the annual rate of return on paid up capital
Employment = The average change in the annual index of number of employees
APPENDIX IV

THE DEGREE OF SUCCESS OF THE SAMPLED FIRMS

The main problem in categorising the degree of success of small firms is that there has been no standard procedure to quantify the concept of business success. There has been no consensus on what the dividing line is by which small firms should be categorised as less successful and more successful (Foley 1987, Blackburn 1987, Andersson 1987 etc.). It is a subjective issue that is often open to criticism. In view of this difficulty, it is not surprising that many of the research methodological texts tend to indicate that a conceptual and/or operational definition of variable, though it is very essential part, it does not necessarily accurate/true¹. This is clearly illustrated by Judd, Smith and Kidden as:

"Operational definition are never completely adequate. They are necessary but rarely seem sufficient to capture the rich and complex ideas contained in a theoretical construction. The beauty of an operational definition is that it specifies precisely how to measure a variable on such a concrete and specific manner..." (1991:43).

This may be among the reasons why many researchers measure a variable in different ways such as rating scales etc. for quantifying judgments especially in psychology, sociology and economics (Howard and Sharp 1983:99-120). However, it is important to be aware that the above views are reliant upon the use of precise and concrete measurement, appropriately conceptualised and based on evidence elsewhere (if any). As there has been no consensus on the degree of success that should be applied, it may be useful to observe some evidence with respect to studies on small firms.

In describing the profitability rate averaged over a four-year period (from 1975/76 to 1978/79), Storey, Keasey, Watson and Wynarczyk (1987: 28-30) note that the 590 firms under the Industrial and Commercial Finance Corporation (ICFC) have a relatively better performance with an overall profitability mean of 15.9 percent as compared to 8.5 percent for 373 Northern independent manufacturers over the same period. However, they did not categorically mention the border line of what is defined as a more or less successful category for the individual performance of firms.

From an extensive search of the literature of small firms, it is found that there are some studies previously conducted in Malaysia. In a study of small and medium-sized businesses in the Malaysian manufacturing sector, Lam (1989:45-49), for example, used

¹Nachmias and Nachmias 1981, Research Methods in the Social Sciences, Edward Arnold: London, state that there is no point in criticising a conceptual definition for not being accurate and/or less accurate if it is used consistently throughout a research study. A similar view is shared by Babbie (1992) who points out that it does not have to be agreed or even pretend to agree that a particular specification may be worth using in conceptualising the variable. See also in E. Babbie 1991, The Practice of Social Research, Wadsworth Publishing Company: California, (p.118).
a composite index to measure growth based on the performance of the business over a five-year period (1981-1985) in terms of increase in net profit, paid up capital and fixed assets. Any firm which had performed below than 10 percent performance index was categorised as a poor performance firm while 10 percent and/or above the performance index was classified as good performance. This is seen to have been similar to a measurement adopted by Aziz (1981) previously. Both studies, unfortunately, did not give any reason why a 10 percent performance index was used as a cut off point. The Survey Research Malaysia Ltd. (SRM -1991)² conducted a study of 13,992 small firms across Malaysia. This survey noted that firms which had increased their value added from 0 to 25 percent were classified as lower profit margin firms, while those which managed to achieve more than 25 percent of value added, as higher profit margin firm.

Perhaps the most useful information in considering the merit and demerit of the growth-performance of the firms in the sample is by observing official statistics (from the National Productivity Centre) relating to the overall performance of the same industry, i.e. textile and clothing industry in Malaysia over a decade or so³ (a detailed review is presented in Chapter Four). It is recorded that between 1980 and 1985, the textile and clothing industry achieved an annual average growth rate of real added value of about 10.5 percent. The figure increased to 20.9 percent during the period 1985-88⁴. This is found to be exceedingly higher than the overall figures for the manufacturing sector which is 4.7 percent during the same period (1985-88). In addition, the real value of gross output is also reported to be high. During the period 1980-1985, this industry experienced an annual rate of 8.9 percent which increased to 19.6 percent for the period 1985-88. Meanwhile, it is also recorded that the annual growth rate of the number of employees in this industry was 5.3 percent between 1985 and 1988.

Bearing this in mind and looking at Tables 3,4 and 5 in section C of the Appendix III, it is calculated that the mean for the profit and capital indicator is 10.7 percent and 12.9 percent per firm respectively. Meanwhile the mean of the increase in the index of the size of employment is 4.8 percent per firm. Observing evidence in the previous studies and the annual growth rate recorded in official statistics of the same industry in the country as well as considering the mean for each indicator, the study classified the sampled firms into two categories of success, i.e. the less successful and the more successful categories of the sampled firms.

²This study was commissioned by the Small-scale Enterprise Division at Ministry of International Trade and Industry which was conducted in 1989.
³see the National Productivity Centre (NPC) 1991, Seminar on Productivity Measurement and Improvement in the Textile and Wearing Apparel, Petaling Jaya: Selangor, (1st October 1991). All figures were calculated on the basis of 1991 prices.
⁴see NPC 1991 in Appendix B - 'Productivity indicators for textile and wearing apparel (clothing) industry for the period 1975-1988' (pp.1-3).
Table 1: The Distribution of the Firms by the Degree of Success in Terms of the Increase in the Annual Index of Net Profit Before Tax (1986-1990)

<table>
<thead>
<tr>
<th>The Average Increase in Annual Index of the Net Profit Before Tax</th>
<th>Percent</th>
<th>The Degree of Success</th>
</tr>
</thead>
<tbody>
<tr>
<td>-5.0 to less than 10.0 10.0 percent and above</td>
<td>62.7</td>
<td>Less Successful</td>
</tr>
<tr>
<td></td>
<td>37.3</td>
<td>More Successful</td>
</tr>
<tr>
<td>Total 100(51)</td>
<td></td>
<td>Two Categories</td>
</tr>
</tbody>
</table>

Table 2: The Distribution of the Firms by the Degree of Success in Terms of the Annual Increase in the Rate of Return on Paid Up Capital (1986-1990)

<table>
<thead>
<tr>
<th>The Average Increase in Annual Rate of Return on Paid up Capital</th>
<th>Percent</th>
<th>The Degree of Success</th>
</tr>
</thead>
<tbody>
<tr>
<td>-5.0 to less than 10.0 10.0 percent and above</td>
<td>54.9</td>
<td>Less Successful</td>
</tr>
<tr>
<td></td>
<td>45.1</td>
<td>More Successful</td>
</tr>
<tr>
<td>Total 100(51)</td>
<td></td>
<td>Two Categories</td>
</tr>
</tbody>
</table>

Table 3: The Distribution of the Firms by the Degree of Success in Terms of the Increase in the Annual Index of the Number of Employees (1986-1990)

<table>
<thead>
<tr>
<th>The Average Increase in the Number of Employees</th>
<th>Percent</th>
<th>The Degree of Success</th>
</tr>
</thead>
<tbody>
<tr>
<td>-5.0 to less than 5.0 5.0 percent and above</td>
<td>68.6</td>
<td>Less Successful</td>
</tr>
<tr>
<td></td>
<td>31.4</td>
<td>More Successful</td>
</tr>
<tr>
<td>Total 100(51)</td>
<td></td>
<td>Two Categories</td>
</tr>
</tbody>
</table>

Corresponding to the inconclusive discussion on the merit of categorising the degree of success of small firms, the research advanced some explanations as to why a cut off line of 10 percent is applied for profit and capital indicators and 5 percent for employment indicator. Firstly, the level of 10 percent is adopted for the profit and capital indicators recognising that the textile and clothing industry in Malaysia has generally shown a high average annual growth rate over the last decade or so, as compared to other industries in the manufacturing sector in the country (see Chapter Four). This coincides with the average annual increment index in our sample. These two indicators are also found to be very closely integrated (see Table 6 of section D in Appendix III) as compared to the employment indicator. Meanwhile, the level of 5 percent is applied for the employment indicator because of average growth rate of 5.3 percent of growth.
workers in the same sector in the country.

Secondly, it could be expected that the firms which have reached a 10 percent annual increase (of index) in profit and capital and 5 percent in employment, are likely to survive much longer in the future. In addition, evidence revealed by Storey, Keasey, Watson and Wynarczyk (1987:125-127), it is essentially based upon the assumption that even during the difficult years (recession of the country from 1985 to 1986) this industry had gained a steady and outstanding annual growth rates of gross (real) value outputs, added (real) value, number of workers etc. unlike other industries in manufacturing sector. Thirdly, it is also decided that the firms with 10 percent or more annual increase in profit and capital and 5 percent or more annual increase for employment are the more successful firms because these percentages are the closest to the mean per firm of each indicator which gives a more practical and balanced pattern of the distribution among the firms in our sample in the analysis.

Fourthly, it should be noted that a less successful firm is deemed such only in the context of comparison with the more successful firms in the sample. Lastly, this research study recognises that the percentage index above can be transformed into a more complex mathematical calculation for categorising a less and more successful firm. This is, however, less desirable in the study’s context which attempts to reduce 'arbitrary figures'.

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5They found that firms making positive levels of profit in the base year tended to be more persistent in terms of their profitability (p.125).

6It is recorded that Gross Domestic Products in 1985 was -1.0 percent, which the growth rate of manufacturing outputs was -3.8 percent before it was slightly recovered in 1987 (1.2 percent and 7.5 percent respectively, see i) Ministry of Finance 1986, Economic Reports 1986/87, Government Printer: Kuala Lumpur, ii) Ministry of Finance 1987, Economic Reports 1987/88, Government Printer: Kuala Lumpur.
APPENDIX V

GENERAL INCENTIVES FOR INVESTMENT FOR THE MANUFACTURING SECTOR

The principal incentives for the manufacturing sector are contained in the Promotion of Investment Act 1986 and the Income Tax Act 1967. These incentives generally are designed to grant relief from taxes in various forms. The taxes applied to companies in Malaysia are in the form of income tax of 40 percent and development tax of 5 percent. Companies given pioneer status incentive are exempted from the payment of these taxes. In the case of the other incentives, the benefits are in the form of allowances given.

A. General Incentives

i) Pioneer Status. The period of tax relief under this incentive is five years commencing from the production date as determined by the Minister of International Trade and Industry. To encourage expansion and reinvestment, pioneer companies are eligible for a further five-year tax relief period based upon certain additional requirements, include:
   - the company’s fixed assets (excluding land at the end of the initial five-year period reaching at least M$25 million or
   - employment level reaching 500 full-time Malaysian workers or
   - other requirements, which in the opinion of the Minister of International Trade and Industry, would contribute towards promoting and enhancing the economic or technological development of the country

ii) Investment Tax Allowance (TTA). A company granted the investment allowance may be given an allowance of up to 100 percent in respect of qualifying capital expenditure incurred within five years from the date of approval of the project. The grant of either Pioneer Status or Investment Tax Allowance will be determined according to priorities termed as promoted activities or promoted products as determined by the Minister of International Trade and Industry.

iii) An Abatement of 5 percent of the Adjusted Income for a minimum period of five years is granted to resident manufacturing companies located in designed ‘promoted industrial areas

iv) An Abatement of 5 percent of the Adjusted Income is granted to resident small scale manufacturing companies for a period of five consecutive years commencing from the year of commencement of business

v) An Abatement of 5 percent is granted to a manufacturing company which complies with the government’s policy on capital participation or employment on or after 1st Jan. 1988

vi) Accelerated Depreciation Allowance is granted to a company which incurs qualifying capital expenditure before 31st. Dec. 1988: this allowance is in the form of an initial allowance of 20 percent and an annual allowance of 40 percent
vii) Reinvestment Allowance (RA) is granted to companies engaged in manufacturing which incurs qualifying capital expenditure for the purpose of approved expansion before 31st Dec. 1990. The RA is in the form of an allowance of 40 percent capital expenditure on plant, machinery and factory building incurred on 1st Jan. 1988. (For companies which incurred qualifying capital expenditure for the purpose of approved expansion before 1st Jan. 1988, the previous RA rate of 25 percent will apply).

B: Incentives for Exports (in addition to general incentives)
   i) Export credit refinancing scheme (see chapter four)
   ii) An abatement of adjusted income for export
   iii) Export allowance
   iv) Double deduction of export credit insurance premium
   v) Double deduction for promotion of export
   vi) Industrial building allowance

C: Incentives for Research & Development
   i) Expenses of a revenue nature incurred by a person on scientific research related to his business and directly undertaken by him or on his behalf, is eligible for deduction. Revenue expenditure incurred for research approved by the Minister of Finance is eligible for double deduction

   ii) Industrial building allowance in the form of an initial allowance of 10 percent and an annual allowance of 2 percent is available for buildings used for purposes of approved research.

   iii) Plant and machinery used for purposes of approved research are eligible for capital allowances

D: Incentives for Training
   i) Industrial Building allowance
   ii) Double deduction of operational expenses

Appendix VI

Malaysia: Ministries and Agencies Involved in the Development of Small Firms and Their Functions
APPENDIX VII

The simple equations for twelve variables in the analysis of multiple regression model (in the SPSS) may be defined as the following:

a) \( Y_1(\text{prosucc}) = a + b_1 \expmg + b_2 \text{ctpdt} + b_3 \text{yrexpbss} + b_4 \text{buyertp} + b_5 \text{locamade} + b_6 \text{agemg} + b_7 \text{festbld} + b_8 \text{lestatus1} + b_9 \text{lestatus2} + b_{10} \text{ethmg1} + b_{11} \text{ethmg2} + b_{12} \text{fiprodt1} + b_{13} \text{fiprodt2} + b_{14} \text{fiprodt3} + b_{15} \text{fiprodt4} + b_{16} \text{bssspd1} + b_{17} \text{bssspd2} + b_{18} \text{bssspd3} + b_{19} \text{bssspd4} + b_{20} \text{bsplan1} + b_{21} \text{bsplan2} + b_{22} \text{bsplan3} + b_{23} \text{bsplan4} + b_{24} \text{bsplan5} + b_{25} \text{bsplan6} + b_{26} \text{bsplan7} + e = \ldots \) Equation (1)

b) \( Y_2(\text{capsucc}) = a + b_1 \expmg + b_2 \text{ctpdt} + b_3 \text{yrexpbss} + b_4 \text{buyertp} + b_5 \text{locamade} + b_6 \text{agemg} + b_7 \text{festbld} + b_8 \text{lestatus1} + b_9 \text{lestatus2} + b_{10} \text{ethmg1} + b_{11} \text{ethmg2} + b_{12} \text{fiprodt1} + b_{13} \text{fiprodt2} + b_{14} \text{fiprodt3} + b_{15} \text{fiprodt4} + b_{16} \text{bssspd1} + b_{17} \text{bssspd2} + b_{18} \text{bssspd3} + b_{19} \text{bssspd4} + b_{20} \text{bsplan1} + b_{21} \text{bsplan2} + b_{22} \text{bsplan3} + b_{23} \text{bsplan4} + b_{24} \text{bsplan5} + b_{25} \text{bsplan6} + b_{26} \text{bsplan7} + e = \ldots \) Equation (2)

c) \( Y_3(\text{empsucc}) = a + b_1 \expmg + b_2 \text{ctpdt} + b_3 \text{yrexpbss} + b_4 \text{buyertp} + b_5 \text{locamade} + b_6 \text{agemg} + b_7 \text{festbld} + b_8 \text{lestatus1} + b_9 \text{lestatus2} + b_{10} \text{ethmg1} + b_{11} \text{ethmg2} + b_{12} \text{fiprodt1} + b_{13} \text{fiprodt2} + b_{14} \text{fiprodt3} + b_{15} \text{fiprodt4} + b_{16} \text{bssspd1} + b_{17} \text{bssspd2} + b_{18} \text{bssspd3} + b_{19} \text{bssspd4} + b_{20} \text{bsplan1} + b_{21} \text{bsplan2} + b_{22} \text{bsplan3} + b_{23} \text{bsplan4} + b_{24} \text{bsplan5} + b_{25} \text{bsplan6} + b_{26} \text{bsplan7} + e = \ldots \) Equation (3),

where \( Y_1(\text{prosucc}), Y_2(\text{capsucc}) \) and \( Y_3(\text{empsucc}) \) are the three indicators of success (i.e., profit, capital and employment indices respectively), \( a \) is the intercept (i.e the point where the line intercepts the Y-axis is called the Y-intercept of the line, see for instance, Lindgren and Berry 1981:423), \( b_1, b_2, b_3 \ldots b_{24} \) are the regression coefficients for the respective eleven independent variables in each correspondent equation and \( e \) is an error term which points to the fact that a proportion of the variance in the respective dependent variable (i.e profit, capital and employment). The results of these equations can be seen in Table 9.2, 9.3 and 9.4 respectively in Chapter Nine.

Notes:
\( \expmg = \text{the previous experience of the owner/manager in the same industry} \)
\( \text{ctpdt} = \text{a specific contracted-arrangement for selling products to large firms} \)
yrexpbs = the previous experience of the owner/manager in the general business
buyertp = the percentage value of total products sold to large firms
locamade = the percentage value of total local raw material used
agemg = the age of the owner/manager
festbld = the age of the firm
lestatus = legal status of the firm
ethmg = ethnic group of the owner/manager
fiprod = types of the goods produced by the firm
bssspd = the number of time spent on the business functions
bssplan = the use of a written business plan.
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