



TOGETHER
for a sustainable future

OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.



TOGETHER
for a sustainable future

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org

16058

Anuwar Ali

SMALL SCALE INDUSTRIAL DEVELOPMENT IN MALAYSIA: THE CASE OF
THE 'NURSERY FACTORY SCHEME' IN PENKALAN CHEPA, KELANTAN

by

Anuwar Ali & Ismail M. Salleh
National University of Malaysia
Bangi, Selangor
Malaysia

A Report Prepared For

The United Nations Industrial Development Organisation

Vienna, Austria

December 1986

760

SMALL SCALE INDUSTRIAL DEVELOPMENT IN MALAYSIA:
THE CASE OF THE 'NURSERY FACTORY SCHEME' IN PENKALAN CHEPA,
KELANTAN

I. INTRODUCTION

One of the major obstacles in achieving a reasonably high and sustained rate of industrial growth in developing countries is the absence of a well-developed or modernised small scale sector. With the exception of very few countries, most developing countries do not have a co-ordinated plan for the development of this sector. However, substantial evidence through the experience of many countries has clearly shown that small-scale industries (SSIs) are crucial for industrial expansion as they provide the base for entrepreneurial development, employment absorption and enhancing human skills and domestic technology apart from providing inter-industry linkages with the larger industries.

Although the Malaysian Government has recognised the important role of the SSIs and their potential contribution to industrial development, this sector has not been modernised and rationalised in the manner that it has been done in countries like Japan, South Korea and Taiwan where inter-industry linkages within the manufacturing sector is significantly widespread. This could be associated with Malaysia's formulation of industrial policies and incentive schemes which seem to be biased

against the SSIs.

However, industrial expansion that is dependent on large scale industries especially in the context of developing countries like Malaysia could soon face a number of constraints, such as the inability to generate more employment opportunities per unit of capital investment, monopolistic market structures, and unbalanced bias in the industrial structure. On the other hand, within a conducive industrial environment, the SSIs could not only be more flexible and innovative but also complement their larger counterparts in providing industrial inputs or components to the latter.

The presence of the SSIs in any industry group provides the competitive atmosphere for the large industries which would then be more responsive to market situations than they would otherwise be without outside competition. The need to minimise the dominance of large-scale enterprises in many industry groups and the desire to enhance domestic industrial capability suggest that it would be most essential for Malaysia to strengthen its efforts to develop and modernise the SSIs if the industrial impetus is to be sustained in the future. This factor is crucial given the fact that almost all the SSIs are owned or managed by Malaysians, while the large scale enterprises are mainly owned or controlled by foreign interests.

The need to enhance Bumiputra (indigenous) participation in

industrial activities as enunciated when the New Economic Policy (NEP) was introduced in 1971 makes the promotion of efficient SSIs an even more attractive policy instrument. In line with this overall policy (also reiterated by the Malaysian Government in the recently announced Industrial Master Plan 1986 - 1995), the 'Nursery Factory Scheme' for SSIs was initiated by Bank Pembangunan Malaysia Berhad (BPMB), with the active support of the Small Enterprise Division (SED) of the Ministry of Trade and Industry. A pilot project was started in early 1985 at the Pengkalan Chepa Industrial Estate, in the state of Kelantan, one of the less developed states situated in the east coast of Peninsula Malaysia.

1.2 Purpose of Study

This study aims to provide an analysis of the 'nursery factory scheme' at Pengkalan Chepa with the view to assess the impact of the scheme on current government policies on the SSIs. In this respect, the following shall be examined:-

- (i) the general performance of the entrepreneurs or manufacturing enterprises established in the scheme;
- (ii) the role of BPMB as the initiator and implementor of the scheme; and
- (iii) the importance of related government agencies in the implementation of the scheme.

Secondly, the report will examine, the relevance of the 'nursery factory scheme' concept in the context of the future development

of the SSIs and in the overall industrial development of Malaysia. Lastly, the report shall submit appropriate policy recommendations regarding the overall development of such schemes in the future.

II. ROLE OF THE SSIs IN ECONOMIC AND INDUSTRIAL DEVELOPMENT

A central theme of development planning in Malaysia since the adoption of the New Economic Policy (NEP) in 1971 has been the reduction of poverty and the restructuring of the Malaysian society through direct efforts to increase the incomes of the economically disadvantaged Bumiputras and their absorption into higher income employment in the industrial sector. Thus according to the Second Malaysia Plan (1971-75), the NEP aims to accelerate the;

process of restructuring Malaysian society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic functions. Programmes for this purpose include the modernization of rural life, the rapid and balanced development of urban activities, the establishment of new growth centres and the creation of a Malay commercial and industrial community in all categories and at all levels of operation. The objective is to ensure that Malays and other indigenous people will become full partners in all aspects of the economic life of the nation, " (Malaysia, 1973; p.1).

The Fifth Malaysia Plan (1986 - 90) further emphasises governmental efforts such as management training and consultancy services to foster greater participation of Bumiputras in the small-scale sector, which corresponds to the NEP objectives.

The policy of industrial dispersal to less developed areas is accorded priority in the Plan for the same reason. Although the main thrust of industrial development will be left in the hands of the private sector, concerted efforts will be made to assist the SSIs by existing government agencies including the SED of the Ministry of Trade and Industry.

In terms of SSI development, the basic objectives pursued by the government seem to be:-

- (i) the development of Bumiputra entrepreneurship;
- (ii) increasing productive employment and ensuring higher incomes for the largest and poorest segment of the population ; and
- (iii) achieving regional dispersal of industrial activities to ensure better utilization of human and other resources and a more satisfactory balance between rural and urban sectors.

The relatively remarkable growth of the manufacturing sector during the 60s and 70s based on import-substitution and export promotion has greatly enhanced government's policies using the sector as a vehicle to achieve the NEP objectives. The main rationale for SSI support programmes lies in their capability to achieve a number of benefits which are pertinent to the Malaysian circumstances. The SSIs should be able to provide productive outlets for the talents and energies of enterprising

individuals, many of whom would not fulfil their potential in large organizations.

This is particularly important in the Malaysian context in view of its nascent industrialization which should increase the involvement of small enterprises and business-oriented individuals away from traditional activities such as commerce and trading.

Small enterprises often flourish by serving limited or specialized markets that are not attractive to large firms. They provide a breeding ground for entrepreneurial talent and a testing place for new industries. The development of entrepreneurship is an important element in the process of industrialization. In this respect, the SSIs would be able to provide the boost needed for further industrial expansion. The managerial experience obtained through the SSIs is an essential ingredient in the development of the entrepreneur so as to enable him to expand his enterprise or to branch out into more modernised methods of production.

The SSIs are also an important avenue for the training of industrial skills apart from increasing managerial capability. They provide the facility for work experience to individuals who have great difficulty in obtaining technical training in formal educational institutions. The technical training and experience thus obtained in many cases could be very useful for increasing their occupational and geographical mobility, which ultimately

makes them accessible to better-paid jobs.

The SSIs should stimulate personal saving (especially by prospective small-scale manufacturers) and promote agro-industrial linkages paving the way for better living conditions in the rural sector. In many countries, the SSIs furnish parts or components and subcontracts to larger enterprises at considerable lower unit cost than if the latter were to produce these products themselves.

There is also ample evidence to indicate that the SSIs create significant employment opportunities in view of the fact that they are inherently labour-intensive. As a developing country where capital resources are relatively scarce and where there is a need to utilise its manpower more effectively, it is thus important that the role of the SSIs be emphasised.

In the Malaysian case, these benefits have not been realised in a substantial way in view of the many constraints faced by the SSIs. Although substantial progress has been made in developing entrepreneurial skills, these are only predominant in commerce and services. However, if appropriate policies and programmes are formulated and efficiently implemented, these entrepreneurial skills and experience can be fully channeled into manufacturing activities.

As indicated above, the capability of the SSIs is limited by many

constraints, some of which are inherent in the smallness of size itself, while others may be largely due to existing government policies and incentives that have tended to favour large scale industries, because incentives are generally tied to the size of capital investment and employment .

These constraints reflect SSI's inability to raise enough equity capital, limited access to institutional credit, inability to attract and retain highly skilled labour, limited access to improved production technology, inability to acquire factory premises, inadequate knowledge of markets and inadequate knowledge or experience in management and accounting methods.

In the light of the above, government policies should reflect an integrated and well-balanced approach to support SSIs through:-

- (i) improving the policy environment and administrative procedures so that they are neutral and not discriminatory towards SSIs;
- (ii) strengthening its financial assistance programmes so that funds are effectively utilised; and
- (iii) streamlining and rationalizing the technical assistance extension programme so that the problems of marketing, production technology and management can be overcome by SSIs more effectively.

Thus, in line with the recently announced Industrial Master Plan, the government clearly states that:

"the role of SSIs will be further enhanced during the Fifth Malaysia Plan period to ensure the development of a sound industrial structure for long term sustained growth. The Government has undertaken and will continue to undertake several measures to actively encourage SSIs to expand, upgrade and modernise their activities. In this regard, the Government, with the cooperation of the World Bank, has designed a Special Programme for the Development of SSIs which became operational since early 1985 and which will continue until 1988. The programme, which involves a total financial assistance of about \$234 million, will benefit small-scale entrepreneurs in various sectors except agriculture. Bumiputra entrepreneurs, in particular, will be given credit facilities and technical assistance through BPMB. Through the four year period, the programme is expected to benefit a total of about 1,100 small-scale entrepreneurs," (Malaysia, 1986: p 357 - 358).

BPMB is one of the government agencies that have been established since the NEP to achieve its developmental objectives. BPMB was incorporated in 1974 as a limited liability company under the Companies Act (with an authorised share capital of \$100 million of which \$64.4 million is paid-up), almost all of which is held by the Government. The supervision authority is vested in the Ministry of Public Enterprises.

More significantly it was established as one of the special

institutional vehicles to help achieve greater participation of target group entrepreneurs in business and industry. This mandate calls for BPMB to provide services beyond the scope of conventional development banks, and BPMB has been encouraged in this endeavour by the Malaysian Government.

To achieve this developmental objective, promotional orientation is essential and as such its operations are by nature costly. However, to ensure its financial viability, the Government has provided BPMB with the necessary resources at subsidised interest rates. Since 1983, BPMB has been requested by the Government to focus on the financing of manufacturing enterprises. It has, consequently, targeted an increasing share of its lending for manufacturing activities, expected to increase from the 1983 level of about 46 to the level of approximately 70 of new commitments from 1986 onward.

The operating policies of BPMB with regard to SSI development is supplemented by its 'entrepreneur development programme' formulated specifically to overcome the shortage of suitable project sponsors in manufacturing. Under this programme, BPMB will identify and train potential candidates, provide pre-investment assistance, eventually finance their projects wherever feasible, and provide post-investment extension services. This assistance is interrelated with the 'nursery factory programme'.

III. THE 'NURSERY FACTORY SCHEME' FOR SMALL-SCALE INDUSTRIES

3.1. Concept of the Scheme

Under the scheme, a number of suitably designed factory premises are built within an area with the provision of an integrated system of financial, advisory and technical support to assist participating small-scale Bumiputra enterprises or entrepreneurs. BPMB takes the responsibility of providing these factory premises and co-ordinate the provision of other basic utilities such as electricity, water and telephone facilities. On completion of these factory units (numbering between 15 to 30), they shall be rented at subsidised rates to local entrepreneurs.

BPMB shall also extend supportive services such as in training, management, finance and technical know-how to the entrepreneurs. To ensure the effectiveness of BPMB's role in implementing the scheme, a scheme manager will be placed by the bank at the site. The scheme manager keeps a close supervision on the progress of every entrepreneur.

When an entrepreneur is found to be successful, the subsidy element granted by the bank will be gradually withdrawn so that eventually he will be requested to relocate his manufacturing activity outside of the scheme once BPMB is satisfied that he can survive without substantive assistance from the bank itself and other related government agencies. The factory unit so vacated will then be allocated to a new entrepreneur. This is in fact the

essence of the 'nursery factory scheme' which allows a potentially good entrepreneur to utilise every possible assistance given by the bank and government agencies during his 'infancy' stage.

The scheme thus provides the enterprising Bumiputra individual the opportunity to use the infrastructure and advisory assistance from BPMB and other government agencies to expand his manufacturing operations and upgrade his technical capabilities.

3.2. Rationale for Supporting the SSIs via the Scheme

The fact that BPMB is a wholly-owned government bank indicates that the establishment of the scheme is indeed an extension of the Malaysian Government's desire to 'modernise and rationalise' the SSIs to complement other strategies that have been adopted. The increasing dominance of medium and large scale manufacturing enterprises tend to put the SSIs at a great disadvantage in terms of their capacity expansion, market shares and access to credit facilities as well as government incentives.

The scheme is thus expected to negate or minimise these disadvantages and provide the necessary impetus for SSI modernization and rationalization. The image of the SSI as being disorganised and inefficient could then be erased so that ultimately their role as provider of 'linkages' to the large-

scale industries could be enhanced. The establishment of these linkages is indeed an important aspect of future industrial development as emphasised in the Industrial Master Plan (1986-1995).

More specifically, the scheme is expected to provide the catalyst for the development of Bumiputra entrepreneurs in manufacturing activities. This scheme, being small in terms of the number of entrepreneurs involved, at the initial stage, will nevertheless complement other existing policies to assist the Bumiputra community to involve itself in the ownership and management of industrial ventures.

If the first scheme proves to be successful after considering the element of 'social costs', more of such schemes could be planned especially if existing problems could be identified and solved. After all this is part of the 'learning process' which would have a greater impact on Bumiputra entrepreneurs than it would have been if such a scheme is not initiated at all by any government agency.

The 'learning process' may also be ideally enhanced by grouping together a number of small enterprises whose managers will interact positively and exchange experiences on matters relating to management, production know-how, marketing, servicing of machinery, dealings with suppliers etc. These are important areas that have to be learnt or experienced by each entrepreneur, since in most small manufacturing establishments, he is not only

the sole owner of the enterprise and the major source of production know-how but he is also required to attend to all matters relating to the 'running' of the enterprise.

Given that the Bumiputra community has traditionally lagged behind the other communities and is currently disadvantaged in the commercial and industrial sectors, the establishment of the scheme is one of the many existing programmes initiated by government agencies to alleviate some of the main constraints that confront the Bumiputra business community. These include:-

- (i) the shortage of well-designed and aptly located small factory premises. Those currently available are generally overpriced and the rental rates are normally prohibitive as far as the small-scale enterprises (SSEs) are concerned;
- (ii) the lack of managerial expertise and technical know-how. The absence of a Bumiputra entrepreneurial class is indeed conspicuous;
- (iii) the lack of marketing expertise, contacts and outlets; and
- (iv) the lack of business guidance and integrated financial assistance.

IV. THE SCHEME IN PENGKALAN CHEPA

4.1 The Choice of Pengkalan Chepa

A number of reasons may be attributed to the choice of Pengkalan Chepa in the state of Kelantan as the site for launching the 'nursery factory scheme'. Firstly, there is already an existing industrial estate in Pengkalan Chepa catering for the developmental needs of Kota Bharu, the state capital of Kelantan. The infrastructure facilities are relatively established, including the accessibility to the airport facilities nearby.

Existing manufacturing firms that have already been established may provide the necessary linkages to the proposed factory units in the scheme. The latter could be realised if proper planning could be done as regards the type of industries established in the scheme. This may take the form of supplying inputs needed by the established factories or purchasing the latter's output for further processing or manufacturing within the scheme.

Secondly, and perhaps more importantly, the state of Kelantan has been known to be a relatively active breeding ground for Bumiputra entrepreneurship in areas such as batik making, silvercraft, food processing and retail trade. It is therefore imperative for the government to nurture this entrepreneur spirit away from these relatively traditional activities into manufacturing, thus aligning such a target to the objectives of

the NEP. Related to this factor is the fact that Kelantan has a high percentage of Bumiputra population that could provide the market for the products of the 'nursery factory scheme'.

Thirdly, the choice of the present site for the pilot project could also be related to the need for Kota Bharu in particular (and Kelantan in general) to provide the catalyst for further industrial growth given that inter-regional disparities between the less developed states in Peninsula Malaysia (i.e. particularly the east coast states of Kelantan and Terengganu) and the more developed states in the west coast have become very apparent.

Being sited near to the most populous urban centre in Kelantan, the success of Pengkalan Chepa in general as an industrial estate would certainly enhance employment opportunities in the area. The 'nursery factory scheme', despite being relatively small in the number of enterprises promoted, at the initial stage, will nevertheless be an important element in the industrial development of Kelantan.

4.2 Facilities in the Scheme

The 'nursery factory scheme' is sited on a land area of 2.6 acres owned by BPMB in Phase II of the Pengkalan Chepa industrial estate. The scheme consists of 28 factory units with 3 types of building structures designed to cater the varied needs of

different classes of entrepreneurs. The size of each type are as follows:-

Type A : 30' x 60' (Terrace, 1 1/2 Floors) - 7 units.

Type B : 25' x 40' (Terrace, 1 floor) - 13 units.

Type C : 20' x 40' (Cluster, 1 Floor) - 8 units.

Type A factory is supposed to cater the needs of entrepreneurs who are already in business operating in 'backyard factories' but needing more floor space. Type B factory caters for the small entrepreneurs needing a medium-sized factory, while Type C factory caters for new entrepreneurs who are starting in a small way.

Each factory unit is provided with basic utilities such as electricity, water and telephones. The latter facility has not been installed at this stage, although according to most entrepreneurs interviewed this facility is extremely essential. It was originally proposed that 2 to 3 factory units will be installed with appropriate machinery for common usage within the scheme, but this has not been implemented yet. (One unit is being utilised by the Scheme Manager and his staff for administrative purposes).

4.3 Type of Industries Established

Although it was originally planned that the scheme in Pengkalan Chapa should cater for the establishment of food processing,

industries (including curry powder, soya sauce, chili and tomato sauce, beverages and refreshments, bakery, icecream, and biscuit making), at the implementation stage other types of manufacturing activities are also included.

Among the latter are the making of plastic bottles, leather & canvas shoe uppers, soap powder packaging, wood carving, wooden furniture, batik dye, PVC and leather goods, cleansing detergents, welding, aluminium and glass products. However, currently the majority of the enterprises in the scheme are involved in food processing. Out of the fourteen who are still in production during the interview period, ten enterprises (i.e. 71%) are related to the food processing industry.

4.4 Selection of Participants and Projects

A Selection Committee was formed within BPMB (with a representative of the Small Enterprise Division of the Ministry of Trade & Industry) to select potential entrepreneurs wishing to participate in the scheme. Entrepreneurs or enterprises are selected on the basis of their previous experience in manufacturing activities (mostly involved in food processing via the backyard type of industry activity) or that they have just started small businesses. The first category of entrepreneurs are selected not only on the basis of their 'technical' background but also on the grounds that they can provide a 'demonstration effect' on those newly established enterprises which are in need of management or marketing experience.

Preference is given to entrepreneurs who are able to contribute at least 10% of the project cost (excluding land and building). For new projects the contribution must be in cash and for existing businesses entering the scheme it can either be in cash or in any other form acceptable to the Selection Committee.

In the case of the pilot project in Pengkalan Chepa, this is in fact a condition that has been imposed on all the scheme participants. The rationale in imposing this condition is that it will elicit a firm commitment from every scheme participant. In line with this, he must be prepared to run the business on a full-time basis without involving himself in other ventures outside the scheme.

Projects are chosen on the following criteria:-

- (i) must be technically feasible, financially sound and economically viable in the context of the 'nursery factory scheme';
- (ii) total net assets or shareholders' funds must not exceed \$250,000; and
- (iii) total full-time paid employees must not exceed 25 persons.

In the case of criteria (i), it has largely become the responsibility of BPMB to evaluate meticulously each of the participant's proposal in view of the latter's lack of financial

knowledge or experience in running a relatively modern type of business venture.

4.5. Management of the Scheme

BPMP is responsible for the implementation and overall management of the scheme. This is the most crucial aspect of the scheme in view of it being a 'pilot project' and as such every aspect of its implementation has to be scrutinised by the implementing body. Hence, for planning and policy formulation, a Management Committee was formed with the Deputy Chairman of BPMB, heading the committee comprising all departmental heads of the Bank and a representative of the SED of the Ministry of Trade and Industry.

The major functions of the management committee are as follows:-

- (i) to formulate policies relating to the scheme;
- (ii) to approve:-
 - the establishment of new schemes
 - the appointment of the Scheme Manager
 - the selection of scheme participants
 - the reallocation of successful enterprises; and
- (iii) to ensure that each scheme functions according to the prescribed concept and policies. This requires a continuous assessment of each scheme's performance.

As far as the Pengkalan Chepa project is concerned, item (iii)

seems to be the most important function given that it is a 'pilot project' and its success or otherwise will directly determine the future role of the 'nursery factory scheme'. It is in this sense that the committee has to assess the general performance of every participant in the scheme. This requires substantial 'information feedback'; which is a cost to BPMB in terms of the need to station a scheme manager and his staff to fulfil this role.

To ensure effective planning and monitoring of the scheme, four internal departments of BPMB are directly involved in the implementation of the scheme. This also reflects the multifarious needs of the scheme participants arising from their own disadvantages. While the Research & Development Division is responsible for the overall implementation and general administration of the scheme, the Research Department has the following responsibilities:-

- to conduct studies to identify suitable locations, industries/projects and entrepreneurs/participants;
- to seek new market outlets in cooperation with Besta Distributors Sdn. Berhad (the marketing arm of BPMB) and other government agencies;
- to co-ordinate the activities of the various departments involved in the implementation of the scheme; and
- to carry out general administration of the scheme.

The responsibilities of the Entrepreneurial Development Department are as follows:-

- to conduct business courses and arrange for on-the-job training for participants; and
- to evaluate loan applications under the scheme;

The Property Unit has the following responsibilities:-

- to acquire land and obtain all necessary approvals;
- to liaise with architects on factory designs;
- to appoint and supervise building contractors;
- to install electricity, water supply and telephones;
and
- to maintain and upkeep the premises.

Lastly, the Technical and Engineering Department has the following responsibilities:-

- to assist in the selection of technology, machinery and equipment;
- to advise on plant layout;
- to assist in product development activities; and
- to offer other technical and engineering services such as assistance in quality control, process improvement etc., to participants.

The Scheme Manager who is responsible to the Senior Manager of the

Research and Development Division is entrusted with the supervisory responsibility over all the scheme participants, ensuring that each of their manufacturing activity progresses in the right direction. Among his responsibilities are:-

- (i) The general administration of the scheme, ensuring that all the facilities provided by BPMB are properly and efficiently utilized. He is also responsible for collection of monthly rentals for the factory premises;
- (ii) To identify problems faced by scheme participants and the nature of assistance they need; and to provide the link with all the departments in BPMB to ensure effective 'back-up' services;
- (iii) To assist scheme participants in obtaining licences, permits and other necessary approvals. Close working relationships with government agencies such as SIRIM, NPC, MARA, MARDI etc are to be fostered so that each scheme participant will obtain maximum assistance from such agencies;
- (iv) To advise scheme participants on various aspects of business management and to ensure that they have a good sense of book-keeping;
- (v) To assist in the marketing of goods produced in the scheme. To this effect, the assistance of Besta Distributors Sdn. Berhad may be secured to assist

scheme participants to obtain government contracts; and

- (vi) To initiate co-operation among the scheme participants in terms of collective endeavours including bulk purchases of raw materials, sharing of production and marketing facilities, collective marketing programmes.

V. THE PERFORMANCE OF EXISTING ENTERPRISES IN THE SCHEME

This section will analyse the findings of the survey and observations made during the survey period on the enterprises (and entrepreneurs) that were in operation in the scheme. The objectives of the survey were: first, to provide an overview of the status of these entrepreneurs; second, to identify the constraints or problems faced by entrepreneurs managing these enterprises; and third, to formulate policy recommendations to enhance the importance of such a scheme to assist the SSIs.

5.1 General Observations

The principal characteristics of the enterprises in the nursery scheme are shown in Table 5.1. There were 17 enterprises either fully or partially operational as of August 1986, of which 11 or 65% were involved in the food and food processing sector while the remainder were in the non-food subsectors.

In terms of employment generation, these enterprises provided a total of 151 jobs with the total sales value of \$200,000 for the month of August. About 62% of the jobs created were in the food processing sector and they accounted for 69% of the total sales value. The non-food subsectors constituted 38% of total employment within the scheme and 31% of the total sales value. 35.3% of the enterprises recorded sales value exceeding \$10,000, 17.6% having sales value between \$5,000 and \$10,000, and 47.1% below \$5,000. In terms of employment per establishment, each

enterprise employed an average of 9 employees.

During the survey period, 3 enterprises were not in operation while 5 had either been inoperational or phased out of the scheme. Thus in the 20-month period since the scheme was launched in Pengkalan Chepa, the scheme suffered a mortality rate of 20%. Disagreement among business partners, financial mismanagement, lack of cost control resulting in the dwindling of working capital, and inability to expand their product markets were among the major factors causing some of these enterprises to become inactive.

Approximately 66.67% of the entrepreneurs surveyed have not undergone any formal training in business. The percentage for this group of entrepreneurs is higher in the non-food subsectors compared to that of the food processing sector. Most of the entrepreneurs operated their enterprises on the basis of accumulated business experience and personal observations.

Slightly more than 66% of the entrepreneurs considered previous business experience as being the main reason for selecting specific product lines, while 27.7% felt that better income, encouragement by family members, and aspiration to become entrepreneurs seemed to be the motivating factors (See Table 5.2). Nearly all the entrepreneurs have been directly involved in some form of planning before entering the scheme.

5.2 Labour Profile

The workforce of all enterprises in the scheme could be principally categorised as unskilled labour, comprising mainly of general workers, machine operators, drivers etc. (See Table 5.3). This is to be expected given that the industries established in the scheme, being small enterprises, are neither technologically sophisticated nor do they require highly skilled manpower. Nearly all the workers came from the surrounding areas of Pengkalan Chepa and Kota Bharu.

Generally, the entrepreneurs did not have any difficulty in getting workers for all the simpler production processes given the relatively high levels of unemployment in the vicinity and the preponderance of young school leavers. However, obtaining skilled labour was considered to be a more difficult problem since such labour tended to work in established and larger enterprises which provide superior wage structures and other social benefits.

Rewards and compensation schemes for the workers in the scheme roughly reflected the opportunity costs of labour in the surrounding areas. However, these schemes seem to lack the incentive and attraction needed to minimise labour turnover. Extra benefits and incentives were only provided by a small number of enterprises; i.e., less than 10.

Although two entrepreneurs expressed the wish to train their workers, the majority considered employee training unnecessary and a waste of scarce resources and felt that whatever skills are required could be obtained through on-the-job training. This again arises from the fact that most of the enterprises in the scheme, especially during the initial stages of production, did not really require a highly trained workforce.

5.3 Sources of Inputs

The majority of the entrepreneurs, i.e., 60%, obtained their raw materials from Kota Bharu (See Table 5.4). 53% of the entrepreneurs depended on local distributors for the supply of raw materials and purchases were normally done on a cash basis. Very few contractual arrangements were used in the procurement of raw materials. Some of the entrepreneurs had difficulties in getting supplies of raw materials. This is particularly observable in cases where such supplies were obtainable on a cash basis.

If supplies were readily available, particularly for the food processing enterprises, the small size of their enterprises seemed to be a constraint as this could certainly limit their capacity to take advantage of bulk purchasing. Consequently, procuring raw materials on this basis meant that each enterprise would have to bear the high costs per unit of raw material purchased.

The absence of joint procurement arrangements among the entrepreneurs in the scheme also prevented them from bulk purchasing. The major problems faced by the entrepreneurs in terms of raw material procurement were:-

- i) Inavailability of credit.
- ii) The supplies of raw materials were not available when needed.
- iii) Distance from suppliers, especially for inputs required from outside the state of Kelantan (See Table 5.5).

5.4 Marketing

A major proportion of the products processed or manufactured in the scheme were sold within the surrounding areas, mainly in the Kota Bharu district (See Table 5.6). Some of the products also found their way to other districts and neighbouring states, but the percentage was relatively small. In addition the government sector absorbed about 31% of the sale value for the month of August. The majority of the enterprises provided their own means of transport to market their products, although according to most of the entrepreneurs interviewed, this seemed to be a waste of resources that could be collectively utilised.

Product promotion was done by "personal contact" between individual entrepreneurs and buyers, hiring of salesmen, and by appointing sales agents, in that order of importance. Those

enterprises with marketing problems indicated that intense competition, (i.e. 33.3% of them) and lack of product exposure (20.0%) were the most serious constraints in expanding their market shares (See Table 5.7).

Competition in the sale of food products such as chili and tomato sauce, bakery products and spices was considered stiff, indicating that the market for these products are almost saturated. A major problem faced by most entrepreneurs was related to the distribution line of their products to the final consumers. However, those enterprises which had secured government's contracts had an advantage in this respect.

Those enterprises which had to sell their products in the open market have to rely on the small number of wholesalers and retailers to expose their products. Many of these retailers, however, operate on a small scale and in less strategic areas to allow for vigorous product turnover. The over-dependence of the entrepreneurs on the small number of local retailers could thus limit their capacity to expand in the future.

5.5 Financial Aspect

5.5.1 Owner's Equity

Thirty -three percent of the entrepreneurs recorded owner's equity below \$100,000 at the start of their activities in the scheme, while 40% of the entrepreneurs registered owner's equity

above \$25,000. These entrepreneurs were selected by BPMB to participate in the scheme chiefly because of their past experience in processing or manufacturing activities and thus were encouraged to relocate their production facilities (previously considered as backyard factories) in the scheme, thus capitalizing assets which they previously owned.

At the same time, BPMB required that entrepreneurs contribute at least 10% of the initial capital. The majority or 66.7% of the enterprises were set up with an initial capital of under \$50,000 when they started in the scheme (See Table 5.8). These were mainly loans from BPMB. However, 23% of the entrepreneurs were unable to obtain the bank's approval for the total amount of loans applied, and this, according to them, had directly influenced their choice of machinery and equipment purchased for their respective production facilities.

5.5.2 Working Capital

The majority of the entrepreneurs, (i.e 70% of them) relied almost exclusively on BPMB for their source of working capital. Inadequate working capital seemed to be a major problem, particularly prevalent in the food processing enterprises. Among the main factors attributed to this problem were:

- i. Limited market, thus resulting in either low or negative profits being ploughed back as working capital;
- ii. Inadequate financial management, thus resulting

in cost escalation;

iii. Entrepreneurs had little savings of their own and could not rely on other informal sources of savings; and

iv. High credit exposure. High proportion of the sales was done on credit terms, thus tying down working capital.

5.5.3 Terms and Conditions of BPMB Loans

The average size of loans for initial capital obtained from BPMB by each entrepreneur was \$39,000 and 8.31% of the entrepreneurs took up loans of more than \$100,000. In most cases, BPMB required that the loan be secured by collateral, normally a piece of land. In addition, all machinery or capital equipment acquired through the loan were charged to BPMB. The repayment period on the loan was five years with a one-year grace period. The interest rates charged to the entrepreneurs were slightly below the market rate, that is, between 8-9%. An 8% rate was imposed on those entrepreneurs joining the scheme before it was funded by loans from the World Bank.

5.6 Production and Technical Aspects

Several production and technical inadequacies were identified and these were mainly problems related to the scale of the operation. Since these enterprises were by definition small in terms of their production capacity and capital utilization, such enterprises did not have the capacity to maximise economies of

scale in areas such as the procurement of raw materials, production levels and distribution of their products. Although joint procurement and marketing arrangements can alleviate the problems associated with the small scale of operations, such arrangements were almost absent or poorly organised among the entrepreneurs in the scheme.

Most of the entrepreneurs seemed to be aware of the need to have quality control since this was considered an important determinant in influencing their market shares or competitiveness in the market place. However, proper quality control practices were sometimes hampered by the general lack of technical knowledge. Lack of quality control was observed to be more prevalent among the food processing enterprises as reflected by the high percentage of products being returned.

A more serious problem faced by most entrepreneurs in production was inadequate technical knowledge, particularly in the process of selecting the major parts of machinery or equipment used in their factory sites. In most cases, both MARDI (Malaysian Agricultural Research and Development Institute) and SIRIM (The Standards and Industrial Research Institute of Malaysia) were consulted only after the equipment or machinery were purchased.

Sixty percent of the entrepreneurs indicated that technical problems associated with the purchase and usage of machinery were the major problems constraining their production (See Table 5.9).

In addition, the lack of technical knowledge and knowhow about their equipment and machinery in general reduced their ability to detect slight defects in time before major breakdowns occur.

The latter had, in most cases, made production stoppages more frequent and thus prolonging the learning period by which entrepreneurs could achieve a minimum level of efficiency under modern factory conditions. The absence of a reliable engineering facility within the Pengkalan Chepa industrial estate and Kota Bharu area to cater the needs of the scheme participants was an additional constraint in this respect.

Almost a third of the entrepreneurs indicated that the lack of technical support by government agencies was a major problem faced in terms of achieving production efficiency. The inavailability of skilled labour and high input costs were also mentioned by some entrepreneurs as significant factors affecting their production. However, these latter problems were not considered too serious and were thought to be within control.

5.7 Infrastructure Facilities

In general, infrastructure facilities such as the road system, water supply, electricity and factory space were adequately provided for within the scheme. Although some entrepreneurs, (36 of them) would like the rental fees of the factories to be lowered, the rates were relatively lower compared to rentals of shop, space or factory space within the surrounding area.

Telephone facilities were as yet to be installed in every factory unit, although this facility was made available at the Scheme Manager's office. Without exception, all the entrepreneurs considered the telephone to be essential in the operation of their businesses.

VI. POLICY RECOMMENDATIONS

The Nursery Factory Scheme in Pengkalan Chepa provides an important element in the government's overall strategy to develop Bumiputra entrepreneurship and to increase productive employment and incomes of poor households together with regional industrial dispersal to achieve a better utilization of the country's resources.

Although the small-scale entrepreneurs selected to participate in this scheme are presently provided with a number of support services mainly through BPMB and other government agencies, the survey findings indicate that there are numerous areas which could be strengthened and improved in the implementation of the present nursery scheme as well as in the context of other similar schemes in the near future. More importantly, appropriate conditions and a better business environment could be provided so as to enable them to compete successfully within their chosen manufacturing activity.

Having identified the major constraints and general problems faced by the entrepreneurs in this 'pilot scheme', it is crucial that the effectiveness of the support services be further enhanced and some form of co-operative efforts among the entrepreneurs be fostered to improve their future performance. Areas requiring immediate attention are marketing, raw material procurement, financial and technical services.

6.1 Marketing

Entrepreneurs in the scheme relied primarily on three market outlets: Government and semi-government sectors, the BETA distribution network (i.e. a marketing company established by BPMB) and the local open market. Although a number of entrepreneurs managed to secure contractual arrangements with semi-government organizations such as PERNAS, FELDA NIAGA, KULITKRAF etc., to sell their products, the potential of this market is still not fully taken advantage of by the entrepreneurs. Most of the entrepreneurs were unhappy with the varied and cumbersome procedures relating to government procurement.

Although preferences were generally given to Bumiputra suppliers, it was difficult for some entrepreneurs in the scheme to bid for government contracts particularly when the larger and more established Bumiputra companies were also bidding for similar contracts. In cases where the larger enterprises outside the scheme were successful in getting government contracts, it is certainly beneficial to institute a mechanism so that special linkages could be established between these enterprises and the smaller ones in the scheme; and this is crucial for sub-contracting arrangements.

With respect to marketing, it is therefore recommended that:-

- i. The Scheme Manager must enhance his information gathering

network on potential contractual arrangements between the entrepreneurs and government or semi-government institutions. This means that the scheme manager must increase his staff especially those professionally trained in this area.

At the same time such information must be effectively disseminated to the entrepreneurs through constant training, workshops or advisory service. These training schemes or workshops should also include updated information in areas such as contract procedures, the tender system, sources of information etc.

- ii. Some form of fiscal incentives should be formulated particularly to encourage the larger manufacturing firms to seek links with the economically viable small enterprises in the scheme either in supplying certain semi-processed materials needed by the latter or in getting certain component parts from them to be used in the larger firms' products.

In fact the success of this form of sub-contracting between the SSIs and their larger counterparts in Japan has been well documented. A good example of this in the scheme is a relatively successful firm producing leather and canvass shoe uppers to supply the larger shoe manufacturers outside the scheme.

- iii. The government should review its present tender system so that more weightage could be given to small scale Bumiputra.

enterprises. This would negate the numerous disadvantages that such enterprises have to overcome during the initial stages of their operations.

Another marketing channel that the food-based enterprises should explore are the large restaurants, hotels and supermarket chains. However, better quality control is most crucial if their products were to penetrate these potentially vast markets. With respect to quality control in general, it is recommended that:-

- i. The services of MARDI and SIRIM must be enhanced to assist the entrepreneurs to improve the quality of their products while at the same time achieving some degree of product standardization.
- ii. Vigorous promotion efforts should also be undertaken on a collective basis with the support of all enterprises in the scheme and encouragement from the scheme manager. In this respect, BPMB should provide some form of subsidy to help pay the cost of promotion and the balance could be collected from the entrepreneurs. Promotional activities should include advertisements in the mass media as well as improvement in the packaging of the products to suit consumers' tastes.
- iii. BPMB through its distribution network, BE STA, should gather market information, and if necessary, carry out market studies to help expand the market, especially for the food producing enterprises where there is intense

competition.

- iv. Another potential area for market expansion which has not been fully explored by enterprises in the scheme is overseas markets. The majority of the enterprises are presently not in a position to do so given their difficulties even in penetrating the domestic market. However, in the long term, the assistance of BESTA could be sought in this respect, with special attention given to neighbouring Asean countries and the Middle East.

6.2 Procurement of Raw Materials

The problems faced by entrepreneurs in terms of raw material procurement are the lack of credit facilities, high input costs and irregular delivery. In this regard, it is recommended that:

- i. The entrepreneurs should improve their relationships with their existing suppliers and at the same time find alternative sources of supplies in order to reduce their dependency on any particular supplier. The entrepreneurs should also be encouraged to make prior arrangements with the suppliers to ensure the availability of raw materials when needed.
- ii. The scheme manager should encourage and facilitate co-operative efforts among entrepreneurs in the scheme in terms of joint procurement of raw materials so that they may enjoy the advantage of bulk purchasing. This will

also maximise the utilization of transport facilities that are available among the entrepreneurs while reducing the probability of each entrepreneur buying his own transport.

iii. BPMB should negotiate with government agencies supplying raw materials such as PERNAS to provide the entrepreneurs with credit facilities, especially for those who have to rely on the open market for their sales.

6.3 Financial Aspect

The survey observed that more than 50% of the entrepreneurs in the scheme had difficulties in servicing their loans and had inadequate working capital. These entrepreneurs experienced cash-flow problems because of poor performance in terms of sales in the early stages coupled with high credit exposure. In most cases the entrepreneurs had to procure their raw materials on a cash basis while their products were distributed or sold on credit. It was not unusual for some entrepreneurs having to wait two to three months for their cash, hence tying up their working capital.

To minimise this problem, BPMB recently introduced the use of revolving funds and factoring facilities. Although the revolving funds had been effectively utilized by the entrepreneurs, many found the amount to be inadequate. In the case of the factoring,

facility, its use was only limited to a small number of entrepreneurs and this facility is presently under review as there were delays in payments on the bills.

To help alleviate the financial constraints faced by the entrepreneurs, it is recommended that BPMB should consider relaxing the terms and conditions of the loans:

- i. Lengthening of the grace period. The bank should consider lengthening the grace period from the present one year to a period of three years before the entrepreneurs are required to pay their loans. Since grace periods are generally given to large firms, smaller firms would need the grace periods even more. This will also give the entrepreneurs sufficient time to adjust to their new environment and to overcome other pressing operational problems.
- ii. Gradually progressive interest rate structure. The bank should consider levying a gradually progressive interest rate structure instead of the existing flat rate. The rate should start at 6 and gradually increase over the years. This will help ease the financial constraints faced by the entrepreneurs especially during the initial years when relatively more capital is needed to promote their products and open up new markets.
- iii. Services of an accounts clerk. Despite the frequent training on book-keeping and general aspects of financial

management provided by BPMB most of the entrepreneurs did not keep proper records and accounts of their businesses. Even if they are available, in most cases these records and accounts were not utilized for efficient management of the enterprises.

It is recommended that in addition to providing training in book-keeping, financial management and basic accounting, BPMB should employ a full-time accounts clerk for the scheme. He is to work closely with all the entrepreneurs, examining their daily accounts and other financial records. This service should be made available to the entrepreneurs for a period of between five to six months so as to inculcate among the entrepreneurs the importance and usefulness of keeping good financial records.

6.4 Technical and Training Aspects

The choice of appropriate equipment and machinery in an enterprise, particularly so in the case of the SSIs, can have a great influence on its potential performance and viability. This aspect should be given urgent consideration, especially during the planning stages of any similar scheme in the future.

It is recommended that:

- i. A technical committee comprising representatives from BPMB, SIRIM, MARDI and FPIM (Forestry Research Institute, of Malaysia) should be set up to assist the entrepreneurs

in selecting the appropriate machinery and the equipment.

- ii. A Technical Adviser should be placed at the scheme for a period of between six to twelve months; and his functions ^{would be} are to provide technical advice and knowhow to entrepreneurs and to familiarise them with the technical aspects of the machinery and the production processes. The Technical Adviser should also ensure that the machinery is properly installed, and supervise trial-runs so that any technical defects can quickly be identified.
- iii. Close liaison should be maintained with MARDI, SIRIM, and FRIM to ensure that the entrepreneurs keep proper scheduling and maintenance works on their equipment and machinery. Regular visits by representatives from these agencies are necessary.
- iv. The entrepreneurs should be made aware of the importance of quality control. The scheme manager with the assistance of MARDI, SIRIM, and FRIM can play an important role in this respect. Workshop and training programmes emphasising the various aspects of quality control should be regularly organised for the entrepreneurs in the scheme.
- v. Since most entrepreneurs found it uneconomic to send their employees for training on an individual basis, the scheme manager should organise training programmes for the different categories of the labour force such as

supervisors, machine operators, etc., and a minimum charge could be imposed on the entrepreneurs.

6.4 Potential Application of the Nursery Factory Scheme To Enhance the SSIs

The experience gained from the existing nursery scheme in Pengkalan Chepa can be utilised by policymakers (particularly BP'8 and related government agencies) to upgrade the efficiency of the scheme in areas such as the administrative machinery within the scheme, the organisational or institutional set-up and the supportive services needed by the participating entrepreneurs. This is to ensure that the desired objectives of establishing the scheme are effectively achieved as this is particularly significant should a similar scheme is planned in other areas.

In view of the unorganised nature and the limited scale of operations, the SSIs are usually unable to enjoy the economies of scale in terms of production, raw material procurement, marketing and supportive services. The establishment of any integrated and systematic mini-industrial estate for the SSIs similar to the scheme at Pengkalan Chepa can therefore enhance the contribution made by such enterprises especially in terms of the country's industrial development as envisaged by the Industrial Master Plan.

Although this particular scheme for small-scale enterprises can greatly enhance the integrated development of these enterprises, certain conditions and organisational arrangements should first be established if it is to achieve the desired results.

These conditions and organisational arrangements are highlighted as follows:-

- i. Each scheme should be managed by a service delivery agency which will be responsible in providing advisory services, management know-how, training, financing and even marketing functions. The agency should work in collaboration with other government agencies to enhance the role of the SSIs.
- ii. Common facilities such as storage facilities, showrooms, recreational space or social amenities, canteens, etc. should be made available within the scheme. These facilities will not only help economise space, but it can also help foster cooperative attitudes among the labour force and management alike. In addition, other basic facilities such as water supply, electricity and telephone should also be made available.
- iii. Wherever feasible, raw material procurement and common marketing strategies should be established on a collective basis among the scheme participants. In addition, joint-product promotion should be carried out and this is to be financed partly by the entrepreneurs.

and partly by the service delivering agency.

- iv. A Technical Adviser should be placed at the scheme at least during the first year of its operation.
- v. Management and entrepreneurial development training provided to the scheme participants should be supplemented with practical on-the-job assignments so as to ensure that whatever is taught will be put into practice in their manufacturing activities.
- vi. Regular meetings between the scheme manager and the entrepreneurs should be conducted to solve whatever problems that may arise and to help foster closer working relationships among the entrepreneurs.
- vii. Adequate revolving fund and factoring facilities should be made available to alleviate cashflow problems normally faced by the SSIs especially during the initial years of their operations.
- viii. Government purchases are potentially vast marketing outlets for the SSIs involved in the scheme. This is because of government direct involvement in the scheme through the role of BPMB whose links with other government agencies are relatively easier to develop. In this respect, substantial efforts have been taken to expand their markets in the government sector. However, gradual phasing out of the government contracts should be

done until such time when the SSIs in the scheme can compete comfortably in the open market.

- ix. In cases where a similar scheme is to encourage the establishment of food processing SSIs, it is recommended that not more than two food enterprises producing similar food products should be sited within the same scheme. This is to avoid unnecessary competition among the participants.

6.6 Increasing Links between the SSIs and Larger Manufacturers

The experience of SSIs in the Pengkalan Chepa nursery scheme revealed that sub-contracting, which provides links between small and large enterprises within the manufacturing industry, was almost absent. A number of factors could be attributed to this situation:-

- i. there was an absence of useful information made available to the entrepreneurs in the scheme on the prospects of sub-contracting;
- ii. lack of fiscal incentives that would encourage large firms to seek links with smaller enterprises; and
- iii. inavailability of institutions that undertakes the promotion of sub-contracting.

Furthermore, given the background of most entrepreneurs involved

in the scheme, their experience in manufacturing before entering the scheme had generally been based on direct dealings with suppliers or middlemen in terms of raw material procurement and with consumers directly rather than through supplying their processed products to other larger manufacturing enterprises.

The concept of 'sub-contracting' is inevitably absent in their day-to-day business planning. An additional factor is the fact that Kota Bharu is yet to become an industrial centre as in the case of the Kelang Valley, Ipoh or Penang in the west coast states which could provide the necessary environment for increased sub-contracting or inter-industry linkages.

However, sub-contracting can provide a new and important dimension for the planning strategies of small-scale industries. The strategies to be formulated should therefore encompass the need for increasing the role of the small-scale industries in the country's industrial development rather than narrowly confining them to the needs of the scheme participants only.

It is thus recommended that:

- i. An effective and efficient information system must be instituted as a prerequisite to enhance sub-contracting work among the SSIs. An establishment of a sub-contracting clearing house should be given high priority in government industrial planning. Among others, the function of the clearing house should be:

- a. to collect information relating to the nature of the processed or manufactured products, production capacity, marketing network and the financial conditions of the selected sub-contractors;
 - b. to disseminate the information to all prospective clients locally and overseas;
 - c. to provide limited advisory services;
 - d. to provide a one-stop agency for prospective investors on the availability of locally manufactured component parts.
- ii. Fiscal incentives to encourage medium and large firms to seek links with the SSIs. To accelerate inter-industry linkages, particularly through sub-contracting, appropriate tax incentives should be formulated. One possible tax-incentive is to allow a certain percentage of tax rebate, e.g. 5 per cent on the minimum value of sub-contracting of inputs procured from the SSIs. This incentives should be implemented in tandem with the incentives for local-content program.
- iii. A joint working committee consisting of representatives from MIDA, Small Enterprise Division of the Ministry of Trade and Industry, the service delivering agencies such as MARA, BPMB etc. and the representatives from the manufacturers should be established.
- The functions of this committee includes;

- a. to identify problems faced by the main contractors and the sub-contractors;
- b. to recommend to the government any changes in policies which could promote the development of sub-contracting arrangements between the large manufacturers and the SSIs.
- c. to determine the potential markets for the component parts both locally and overseas; and
- d. to strengthen the existing local-content programme.

6.7 Concluding Remarks

That the 'nursery factory scheme' was initiated at all as a pilot project in Pengkalan Chepa by the Malaysian Government through BPMB is commendable reflecting the government's desire to modernise the small-scale sector of industry as well as to increase Bumiputra direct participation in the manufacturing sector.

As a pilot project, the findings of this survey seems to indicate that there are areas, administrative and logistic, which could be rectified and improved as set out in the above recommendations. With proper and detailed planning, (which is a necessity given the enormous capital outlays that are involved in such a scheme) in areas such as marketing, raw material procurement, financial management, technical knowhow and advice, and sub-contracting by BPMB and related government agencies, especially during the

initial years, individual entrepreneurs participating in the scheme would be able to "take-off" more smoothly.

The prospects of emulating the pilot project in Pengkalan Chepa to increase the role of the small-scale enterprises in manufacturing and to enhance Bumiputra participation in business and industry are potentially viable given the present commitment of BPMB and related government agencies to upgrade the performance of this scheme.

TABLE 5.1

PRINCIPAL CHARACTERISTIC OF THE ENTERPRISE WITHIN THE SCHEME

Characteristic	Food Enterprises		Non-food Enterprises		Total	
	Number	%	Number	%	Number	%
Number of Establishment	11	64.7	6	35.3	17	
Monthly Sales Value	\$139,500	69.25	\$61,500	30.75	\$200,000	100
Number of Employment	57	37.75	94	62.25	151	
Monthly Sale per Establishment	\$ 12,681	-	\$10,250		\$ 11,764	
Employment per Establishment	5.18		15.6		8.88	
Monthly Sales value exceeding \$10,000	4	23.5	2	11.8	6	35.3
Sales Value between \$5,000-\$10,000	3	17.6	0		3	17.6
Sales Value less than \$5,000	4	23.5	4	23.5	8	47.1
Number of Entrepreneur receiving formal business training	5	45.5	0		5	33.33

TABLE 5.2

REASON FOR SELECTING SPECIFIC PRODUCT LINE

Reason	Percentage
Previous Business Experience	66.7
Better Income	13.2
Aspiration to become an Entrepreneur	6.7
Encouragement by family members	6.7
Others	6.7

TABLE 5.3

LABOUR PROFILE

Occupational categories and skills	Percentage
Managerial	10.90
Clerical	5.07
Skills Worker	17.39
Un-skilled	55.80
Others	10.84

TABLE 5.4

SOURCES OF INPUT

Sources	Percentage * Enterprises
1. Kota Bharu	60.0
2. Other districts in Kelantan	26.6
3. Other states	40.0
4. Import	6.7

* Per cent does not round up 100 because Entrepreneurs obtain their input from several sources

TABLE 5.5

PROBLEM RELATING TO RAW-MATERIAL SUPPLY

Types of problem	Percentages
1. Distance from the supplier	13.34
2. Unavailability of credit	13.34
3. Irregular delivery	6.67
4. Others	33.30
5. Not facing any problem	33.35

TABLE 5.6

SALES DISTRIBUTION

Sales Destination	Percentage of Sales
1. Kota Bharu	36.26
2. Other districts in Kelantan	31.28
3. Other states	1.58
4. Government sector	30.88

TABLE 5.7

PROBLEMS RELATING TO MARKETING OF PRODUCT

Type of problem	Percentage of Entrepreneurs
1. Product of lower quality	6.70
2. Intensified competition	33.33
3. Prices regarded too high by the consumer	6.70
4. Lack of promotion and product exposure	20.00
5. Shortage of salesmen	13.33
6. Do not facing any problem	20.00

TABLE 5.8

SIZE OF FIXED AND WORKING CAPITAL

Size of loan for initial capital	Percentage of Enterprises
Less \$25,000	29.20
\$25,000 to \$50,000	37.50
\$50,000 to \$100,000	25.00
\$100,000 and above	8.31
Means \$38,975	
Size of loan for working capital	
Less \$25,000	44.44
\$25,000 - \$50,000	55.56
Means \$23,027	
Owner's equity	
Size of equity	
Below \$10,000	33.33
\$10,000 - \$25,000	26.67
\$25,000 - \$50,000	26.67
Above \$50,000	13.33

TABLE 5.9

PROBLEMS RELATING TO PRODUCTION

Types of problems	Percentage of Entrepreneurs
High cost of input	6.7
Unsuitable of machinery	60.0
Shortage of skill labour	20.0
Lack of technical support from the government agencies	26.7
Poor maintenance and repair service on machinery	13.3
Other	6.6

Reference

- Malaysia, Mid-Term Review of the Second Malaysia Plan 1971-75,
The Government Press, Kuala Lumpur, 1973.
- Fifth Malaysia Plan 1986-1990, National Printing
Department, Kuala Lumpur, 1986.