



WORLDREPORT

## **SME Corporation**

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An exclusive report to be distributed with ***THE INDEPENDENT***

Transcript of the interview with:

**Dato' Hafsah Hashim**

Chief Executive Officer (CEO)

(Interview date: 28 October 2009)

**WORLD REPORT (WR):** As an introduction, how would you rate the Malaysian corporate structure in terms of openness to investment? Furthermore, is enough being done to promote it or should there be more say and encouragement from the public sector in Malaysia?

**DATO' HAFSAH HASHIM (HH):** Initially, we were quite protective of the local companies and SMEs. However, realising the huge potential that foreign investments could bring to the local industries, the policy has changed to welcome more foreign direct investment (FDI). The government has thus put in place various incentives to attract foreign investments, particularly to encourage strategic partnerships between foreign and local companies. The FDI flows have been favourable until the global economic and financial crisis in 2008.

You must remember that it was in 2007 when we began to liberalise, in preparation for the ASEAN Free Trade Area (AFTA). Under AFTA, ASEAN will be a single market as the countries within ASEAN become fully liberalised. Henceforth, to prepare our SMEs towards liberalisation, we gave them a seven-year term. The ministry made it clear from the outset that we would not protect

the companies, but rather would, however, facilitate the process. That was back in 2007 and now these companies are still in business, which is a good sign. That means they are efficient and able to compete after opening up.

When the new Prime Minister assumed his office this year, the first thing he did was to liberalise the services sector. We have actually been working on that for quite some time, and have been in consultation with both the public and private sectors. We then identified 27 sub-sectors to be liberalised and one particular reason for this is that we have minimal local expertise in these areas. So let's open up our market and bring foreign investment into the services sector. Malaysia continues to remain an attractive investment destination due to our strong fundamentals and relatively matured industrial base. We are now focusing on spurring investments in the creative industries and for innovation to take place. Competition comes in automatically when you are driven, and you can be creative and innovative.

**(WR): You have been very creative and innovative as a whole here in Malaysia. Nonetheless you mentioned that there is strong competition from Singapore and Vietnam, which are now emerging. Yet investment keeps flowing into Malaysia and you keep attracting FDI. There must be something about Malaysia that forces potential investor to take note - what do you think that is?**

**(HH):** I believe Malaysia stands out from other countries in the region for many reasons. First of all, it is strategically located in the heart of South East Asia, and is supported by a market-oriented economy. Malaysia has political stability, which is a critical factor that investors take into consideration. This is not the case in many other Asian countries, and we pride ourselves in having had stability since independence. Besides that, Malaysia also offers investors a dynamic and conducive business environment, which is the ideal prerequisite for growth and profits. We have well-developed infrastructure and a productive workforce.

Another important strength is Malaysia's liveability. Investors can settle down in Malaysia and enjoy a high standard of living, including safety and avail themselves of quality goods and services that they may need. Also, prices in Malaysia are still relatively cheap, when compared to other potential destinations.

**(WR): Let's now focus on the organisation you are leading. SME Corporation was previously known as SMIDEC, which is in fact known internationally. Please give us an introduction to SME Corp and to the role this new institution is currently playing.**

**(HH):** SMIDEC was established in 1996 as a specialised agency to spur the growth of SMEs and develop capable and resilient Malaysian SMEs that could compete in the global market. Subsequently, the National SME Development Council (NSDC) was established in 2004 as the highest policy-making body to formulate strategies for SME development across all economic sectors, coordinate the tasks of related Ministries and Agencies, encourage partnerships with the private sector, and ensure effective implementation of the overall SME development programmes in Malaysia. In 2007, the Council decided to appoint a single agency to formulate overall policies and strategies for SMEs, and coordinate programmes across all related Ministries and Agencies. SMIDEC was then transformed to undertake this role and was rebranded as SME Corporation Malaysia (SME Corp Malaysia), which officially commenced its activities on 2 October 2009.

SME Corp Malaysia is now the central point of reference for information and advisory services for all SMEs in Malaysia. It has been given the huge responsibility to coordinate, monitor and evaluate the implementation of policies, strategies and development programmes for SMEs. SME Corp Malaysia will also serve as the One Referral Centre for SMEs to obtain information about development programmes and other forms of assistance that are available to them provided by various ministries and government agencies across all economic sectors. Altogether, there are fourteen ministries and more than sixty government agencies involved. SME Corp Malaysia also undertakes

close economic surveillance to assess and analyse the performance of SMEs, as their development is a critical component for Malaysia to achieve the strong economic growth it needs to become a developed nation by 2020.

**(WR): This brings me to my next question. How is SME Corp acting to strengthen the competitiveness of its SMEs and the competitiveness of Malaysian industries?**

**(HH):** SMEs currently represent 99.2% of total business establishments in Malaysia and provide employment for about 56% of our workforce. SMEs also contribute about 32% of GDP and 19% of the country's exports. As SMEs are an important agent of economic growth, SME development has been recognised as a priority on the national agenda and many development programmes have been put in place to transform SMEs into competitive, resilient and value-creating entities.

At SME Corp Malaysia, we want to make sure that Malaysian SMEs are able to compete in the global arena, which is why SME Corp Malaysia has created a diagnostic tool to evaluate and rate SMEs at the firm level. The tool, which was launched in 2007, is known as the SME Competitiveness Rating for Enhancement (SCORE). By using SCORE, we are able to identify the strengths and weaknesses of SMEs based on comprehensive set of parameters like business performance, management and financial capabilities, production capacity, quality system, technical capability and so on. Through visits to these companies and interviews with the business owners, we will collate and analyse the relevant data to assess their strengths and weaknesses. By doing this, we are then able to determine the kind of assistance needed, and recommend an action plan for improvement.

SMEs that score three stars and above are deemed ready to enter the export market, and these companies will be passed on to the Malaysian External Trade Development Corporation (MATRADE) to pursue an export development programme. However, those that score three stars and below will be given integrated, 'handholding assistance' to facilitate their businesses growth.

Seven parameters are used in SCORE's evaluation and these differ across the various economic sectors. As an example, business performance, financial capabilities, technical capabilities, production capacity, innovation, quality systems and managerial capabilities are used in evaluating SMEs in the manufacturing and manufacturing related services. Nevertheless, due to the success of this evaluation system and popular demand, six models have been developed and adapted to different sectors. SME Corp Malaysia will continue to form other models tailored to the specific needs of the sectors.

**(WR): With regard to the levels of human capital development and R&D in Malaysia, what programmes are in place to facilitate access to higher education?**

**(HH):** Various programmes have been implemented by the government to build capacity and capability of SMEs, in line with our aspiration to move SMEs up the value chain. Out of a total of 202 programmes implemented in 2008, 72% (an expenditure of RM617.1 million) were focused on building capacity and capability of SMEs. In 2009, a total of 129 programmes were planned for capacity and capability building with a financial commitment of RM542.5 million. These programmes focused on core areas such as entrepreneurship development, marketing and promotion, human capital development, product development and technology enhancement, among others. For example, in 2008, SME Corp Malaysia introduced the "SME-University Internship Programme" in collaboration with the Ministry of Higher Education not only to train and develop budding entrepreneurs among graduates, but also to enhance synergies between the industry and academia. Another example is the Human Resource Development Fund (HRDF) under Pembangunan Sumber Manusia Berhad (PSMB), which aims to increase knowledge and skill intensity, and equip our workforce with specialised and up-to-date skills, that meet market needs. SME Corp Malaysia also conducts a "Skill Upgrading Programme" to enhance skills and capabilities of employees in the technical and managerial level, particularly in E&E, ICT, industrial design and engineering fields. Since June 2008, grant recipients of SME Corp Malaysia are required to undergo a

mandatory course in financial management to enhance their management capability.

**(WR): Dato' Hafsa Hashim, as the head of SME Corp, and bearing in mind your professional trajectory thus far, you are without a doubt a role model to Malaysian women. What programmes are being implemented to motivate Malaysian women to play a stronger role in the economy?**

**(HH):** To begin, I would like to point out that Malaysia is the only country that has a ministry to oversee the welfare of women. The ministry safeguards our rights to ensure equal opportunity in the job market and fights discrimination, at home, in the office and in other places. Furthermore, 16% of business establishments are currently owned by women, and this number is growing. We have developed many programmes to further boost participation of women in business, ranging from facilitating start-ups, technology acquisition, market access, export promotion and adoption of information, communications and technology. Malaysia has, in its development plans, identified specific programmes to enhance the development of women entrepreneurs and their participation in business, as well as promote entrepreneurial activities. I would also like to mention that the country and we at SME Corp Malaysia have a plethora of awards and incentives, like the National Women Entrepreneur Awards, the Platinum Awards and many others. They are intended to encourage women to explore the possibilities out there, to capitalise on the opportunities and to really take advantage of what Malaysia can offer them. Much remains to be done for women but we have made great progress, especially when compared to other countries in the region, and even globally.

**(WR): Do you have a final message for the British and European readership of *The Independent*?**

**(HH):** SMEs are set to perform better next year, thanks to the government's pump-priming initiatives and special incentives. There will be more prospects for SMEs to grow next year following positive indicators of global economic recovery, and with the domestic economy expected to do fairly better than this

year. Do not overlook the investment potential in Malaysia, particularly in the SME sector. SMEs are the driving force behind our economy, and offer many opportunities for international investors and partners.