

# JURNAL AKADEMIK

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# **ABSTRACT OF A STUDY OF SMALL AND MEDIUM INDUSTRIES IN SARAWAK**

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## **1. INTRODUCTION**

Since her independence some 27 years ago, Sarawak has always been keen to be on par (at the industrial level) with her Malaysian counterparts. Towards this direction, the State Government has provided various incentives and assistance especially to the small and medium scale industries due to their role in creating job opportunities and improving income distribution between the rural and urban areas in the State. Sarawak is also fortunate because she is well-endowed with rich natural resources. These must be properly tapped and utilized to provide growth and economic progress in the State. Hence, industrialization can help to complement the overall development of the State.

The study attempts to provide a clear scenario of the manufacturing establishments in terms of their profile, production, marketing, manpower and training. It also provides insight into the entrepreneurs profile, the impact of the stimulatory assistance or services and the problems faced by the Small and Medium Industries (SMIs).

## **2. DEFINITIONS**

There is no standard or legal definition of SMIs in Malaysia as a whole and different agencies adopt different definitions based on their specific programmes and objectives. For the purpose of the study, two definitions have been adopted based on existing paid-up capital and employment size. Firstly, the definition of Small Scale Industry (SSI) adopted is a group of manufacturing establishments which have share-holders fund or paid-up capital of M\$0.5 million or less each. The Medium Scale Industry is an industry which has share-holders fund or paid-up capital of more than \$0.5 million and below M\$2.5 million per establishment. Those establishments with paid-up capital of more than M\$2.5 million are classified as large. Secondly, in certain countries, employment size is used for the purpose of classification. Hence, the study has also attempted to classify the establishments according to the number of workers employed. In this case, those establishments which have less than 50 workers are considered small and those with 50 to 199 workers are classified as medium whereas those with 200 and above are large.

## **3. METHODOLOGY**

Two sets of questionnaires were used in this study. The first set of questionnaires known as "Form A" were directed to the government agencies, relevant private organisations and banks with the objective of critically examining and evaluating the

policies and programmes developed by these institutions in helping the SMIs. An attempt was also made to study the extent of coordination among the different institutions and agencies involved in the development of the SMIs. However, prior to that introductory visits were made to the larger agencies in Kuala Lumpur by the research team.

The second set of questionnaires known as "Form B" was designed to probe into the following aspects of the SMIs:-

- 3.1 Industrial Profile
- 3.2 Entrepreneurs' Profile
- 3.3 Production
- 3.4 Marketing
- 3.5 Manpower and Training
- 3.6 Awareness, Usage of Techniques, Agencies and Incentives

The team had to use the sampling frame of the manufacturing industries in Sarawak provided by the Statistics Department of Sarawak in Kuching. This included a list of 783 establishments. The personal interview method was adopted. Enumerators comprising ITMCS lecturers, government officers, retired Chinese school teachers, committee members of the Chinese Chamber of Commerce and unemployed graduates were recruited and training sessions were conducted in Kuching, Sibul, Bintulu and Miri.

#### **4. FINDINGS**

The 620 establishments which responded to the survey account for 79.2% of the sampling frame. The majority of the establishments are in Kuching (50.8%) and about one-third are located in the designated industrial estates in the state. A large majority of them belong to the SSI whether the establishments are classified according to their existing paid-up capital or by employment size. 81% of these manufacturing establishments have less than 50 workers per establishment. Most of the establishments (70%) have existing paid up capital of less than M\$500,000. Only about 7% have paid-up capital exceeding M\$2.5 million.

In terms of the ownership structure of these establishments, the majority (86%) are owned privately either as private limited companies, sole proprietorships or partnerships.

Eight main types of manufacturing industries have been considered of which the establishments in the Wood and Wood Products industry account for just over 25% of the total while slightly over a fifth are in the Food and Beverage industry.

The entrepreneurs are mainly Chinese Sarawakians with about 4% Malays and other Bumiputeras. Most of them started as apprentices as more than a quarter of them received only primary education while another one fifth have lower secondary education. Very few are graduates or professionals. Due to their low educational background, they tend to go for sole proprietorships, partnerships or private limited

companies. Most of the entrepreneurs choose to enter business because of the good prospects, the desire to be independent and the challenge of the business world. Some also inherited the businesses. Those with longer working experience are the ones who have worked their way up as apprentices.

More than half (56.4%) of the entrepreneurs use their own savings as the main source of finance and very few (about 4%) of them have used or borrowed from government agencies.

About 18% of the establishments export their products overseas. Almost all the exports are accounted for by the Wood and Wood Product industry, the Food and Beverage industry and the Non-metallic Mineral Products industry. For the 1987-88 financial year, 72% of the establishments registered profits before tax.

For the financial year 1987-88, the Wood and Wood Products industry records the highest gross sales followed by the Food and Beverage industry. Within the Food and Beverage industry, three major subsectors contribute the most in terms of gross sales. They are the oil mills subsector (21.53%), canning, preserving and processing of fish, crustaceans and similar food subsector (21.53%) and the prepared animal feeds subsector (21.25%). Within the Wood and Wood Products industry, the following subsectors contribute significantly towards the sales value of the industry. They are the sawmills subsector (62.16%) and the planing mills, window and door mills and joinery works subsector (17.04%). For the Non-metallic Mineral Products industry, the highest sales value is contributed by the structural clay product subsector (44.87%) followed by the hydraulic cement, lime and plasters subsectors (29.20%).

The opinion survey conducted on the existing designated industrial estates within the state shows that only 46% of the establishments in the survey assessed the industrial estates as suitable in general. About 10% of them feel that the availability of the work force and the growth potential are bad. 20% of the establishments complain that the industrial estates are located too far from financial institutions, banks, residential houses, schools and shops. In addition, most production machinery is old (that is above 5 years). About three-quarters of the establishments in the industrial estates have registered a growth in the past 10 years.

The manufacturing costs have been fairly stable over the past three financial years (1985-86 to 1987-88). For the 1987-88 financial year, the three highest overall median percentage cost are for raw materials or components (63%), direct labour (18%) and manufacturing overhead (11%). The overall high cost of raw materials are mainly due to the import duties, freight charges and inland transportation and distribution costs.

A large majority (90%) of the establishments are partially mechanised in their overall production whereas the remainder are either fully manual or fully mechanised. In production, the establishments encounter serious problems with the supply of raw materials. These include frequent shortages, low and inferior quality of the raw materials which affect the final output of the products. Moreover the unreliable delivery time of the raw materials may hinder production. Thus the establishments may not be able to produce quality products at the required deadline.

The poor quality of raw materials and the final output are related to the use of quality control techniques or measures. Slightly less than half of the establishments practise quality control and these are mainly in the medium and large industries. On the whole, there is very little quality assurance in terms of design/specification, appearance/colour

scheme, conformity to performance, conformity to safety and durability/serviceability. Slightly more than a quarter of the establishments are either average or below average in terms of these variables. As a result of the low quality control techniques, the manufacturing quality or quality of conformity to the design has deteriorated. Whichever it is, the product or service defects are significant be it minor, major or critical.

The overall picture is not very encouraging in terms of the capacity utilisation of the plants or machinery. For the 1987–88 financial year, about 25% of the establishments recorded over 90% capacity utilisation, slightly less than half between 80–100% and slightly more than a third of the establishments indicated between 60–80% capacity utilisation.

Only about one third of the establishments have marketing departments or marketing personnel. The market or segment on the whole is too small to be profitable. Most establishments have only a limited range of products or service lines. The majority of the establishments only produce single product or single product with variations. The demand pattern for the products is continuous and steady. Most products are in the growth or market acceptance stage (51.77%) and very few (3.55%) are at the entry or pioneer stage.

Most establishments adopt a flexible pricing policy taking into account various factors in their pricing. The most commonly adopted forms of advertising are in newspapers, trade journals and package display but their promotional efforts are very disappointing. The majority of the establishments (59.84%) prefer to advertise when the need arises rather than on a regular basis.

There is very limited integration or link between the suppliers of raw materials, the manufacturers and the distributors. They tend to operate independently of each other. The two most important cost items in distributions are transportation and finance.

Another point that needs to be noted is that most establishments consolidate their buying or purchase from two or three principal suppliers. As a result they are overly dependent on them for their supplies and this has adverse effects on their businesses.

The highest percentage of employment of manpower is the Wood and Wood Products industry which employs about 44.99% of the total work force of 24,225. Following close behind is the Food and Beverage industry. These two industries are labour intensive. The number of unpaid family workers are also higher in the Small-Scale industry. About a quarter of the establishments find difficulty in employing skilled workers. The employee turnover rate represents a high degree of labour mobility.

The majority (88.87%) of the establishments prefer to train their employees as this enables them to perform better. Thus, they are willing to send their employees for training either sponsored by the government or by the establishments themselves. They also indicated that the training courses should be more than 5 days if possible. The types of courses required by the manufacturing establishments are in the area of production techniques, quality control, management and marketing. These courses should be conducted fairly regularly to improve the overall performance of the establishments. Thus, efforts must be made to upgrade the technical or technological knowledge of the employees in order to instill quality-consciousness among them.

Most establishments use agencies/institutions that are local-based and the level of awareness and usage of federal agencies are fairly low. The usage of the incentives or

stimulatory services match the awareness pattern, that is, the establishments have a strong tendency to apply and use the incentives or stimulatory services only if they are aware of them. On the whole the usage of the agencies or incentives is not very encouraging. Hence, there is a need to further disseminate information on them in serving the needs of the manufacturing community in the State effectively.

The manufacturing establishments also face numerous problems. The main problems are limited access to funds or capital resources, shortages of raw materials or components, inferior quality of raw materials or components and the high cost of productions which are attributed to the high cost of raw materials or components, high electricity tariff and physical distribution costs. Moreover, the local products are not able to compete fairly with their counterparts from Peninsular Malaysia.

## **5. CONCLUDING REMARKS**

The Government has recognised the potential role of SMIs in the economic and social development of the State. Their importance is especially reflected by the large number of establishments existing in the State and their future role depends on their ability to develop. Thus, more funds at easy terms must be made available to the entrepreneurs to enable them to venture out. In addition, the various problems faced by them ought to be rectified immediately. Another way is for the entrepreneurs to make frequent trips outside the country in order to expose themselves to the latest technology used by highly industrialised countries like Japan and America.

It is also important to note that the support and stimulatory services provided by the agencies or institutions operating in the country especially in Sarawak provide fairly standardised or uniformed programmes or activities which are inconsistent with the needs of specific users. Thus there is a need to "custom-make" these services so that they are more specific for each type of industry. Most of these agencies or organisations are not Sarawak-based and may not be able to meet the requirements of the local manufacturers or business community in general. These agencies or organisations have their own organisational problems which may reduce their overall efficiency in assisting the development of SMIs.

A continuous study on certain or particular aspects of the manufacturing industry at more comprehensive level also needs to be carried out. The key areas for future studies are production and marketing management techniques and impact or effectiveness of government agencies or institutions especially in relation to SSI.