

A Comparative Study on Development of Small and Medium Enterprises (SMEs) in Japan and Malaysia

C. Hironaka^{1*}, M. A. Zariyawati², F. Diana-Rose³

¹Faculty of Economics, Shiga University, Hikone, Japan

^{2,3}Faculty of Economics and Management, Universiti Putra Malaysia, Selangor, Malaysia

*Corresponding Author:

C. Hironaka

Email: chikako@biwako.shiga-u.ac.jp

Abstract: The purpose of this paper is to explore the best practice of small medium enterprises (SMEs) from Japan. Japan has been proven to be successful lesson to be followed by Malaysia. Japan's SMEs began after World War II in 1945. Thus, it has shown that the development process has intricacies and can be studied by Malaysian SMEs, which began in the 1970s due to the revolution of new economic policies. This paper provides the understanding of the development of SMEs between Japan and Malaysia. Further, we identify a gap between SMEs in Malaysia and SMEs in Japan as best practice. The challenges SMEs face might be different in their respective countries—it might be from the perspective of cultural aspects, market environments, and more, but with the initiative measures, pro and cons of both countries' SMEs can enhance their duty as the backbone of a country's economy.

Keywords: Business Support, Economy, Japan, Malaysia, Small and Medium Enterprises (SMEs)

INTRODUCTION

Small and medium enterprises (SMEs) indicate the contribution to gross domestic product (GDP), which constitutes the backbone of an economy in high-income countries and is typically less developed in low-income countries. SMEs also had significance in creating employment opportunities. As describe by a previous researcher, job creation is important for survival, especially in third-world countries. Hence, SMEs makes a critical contribution to GDP and employment [1-3].

The term "SME" encompasses a broad definition. Different organizations and countries set their own guidelines for defining SMEs businesses, often based on employee, sales, or assets. For instance, the World Bank defines SMEs based on total employees, annual revenue, and assets. The European Union (EU) is defined by total employees, annual turnover, and/or annual balance sheets. However, Egypt and Vietnam only are defined based on total employees. Different countries usually have given their own definitions based on the category of business.

Though definitions of SMEs vary, they have similar duties. SMEs play a crucial role in stimulating economic growth, generating employment, and contributing to a country's income. However, not all SMEs succeed in performing their roles for income generation. On the other hand, there are also SMEs in countries that are a best practice as in Japan. Thus, this

study discusses a comparative study on development of small and medium enterprises (SMEs) in Japan and Malaysia. Mainly, it is based on difference functions of SMEs implemented in both countries, where Japan has experienced a lesson for Malaysia. Specifically, to compare SMEs in Japan's counterparts in Malaysia and what lessons can be drawn for Malaysian in which to enhance the contribution of the sector and industry. Perhaps this study also would be a guideline and assist government agencies, small business, consultants, and policy planners that need to gain a better understanding into the main challenges facing SMEs in these countries.

OVERVIEW OF SMES IN MALAYSIA

The definition of small medium enterprises (SME) varies in all countries. The policymakers of each country use several criteria in categorizing SMEs. Most countries use two criteria for separating and defining SMEs into several categories, such as number of employees, annual sales, total capital, and fixed assets. In Malaysian, SMEs are defined based on two criteria, which are total sales turnover and number of employees. SMEs in Malaysia are classified into three size categories:

- i) Micro
- ii) Small
- iii) Medium

Further, SMEs fall into five industry sectors under each size categories, as simplified in Table 1:

Table 1: Definition of SME by Sector Category

Category	Micro	Small	Medium
Manufacturing	Sales turnover of less than RM300,000 <i>OR</i> Employees of less than 5	Sales turnover from RM300,000 to less than RM15mil <i>OR</i> Employees from 5 to less than 75	Sales turnover from RM15mil not exceeding RM50mil <i>OR</i> Employees from 75 to not exceeding 200
Services, Construction, Agriculture, Mining and Quarrying	Sales turnover of less than RM300,000 <i>OR</i> Employees of less than 5	Sales turnover from RM300,000 to less than RM3 mil <i>OR</i> Employees from 5 to less than 30	Sales turnover from RM3mil to not exceeding RM20mil <i>OR</i> Employees from 30 to not exceeding 75

Source: *SME Annual Report 2014* [4]

As acknowledged by the National SME Development Council (NSDC), many challenges occur in developing economies such as price inflation, structural changes, and change in business trends. Due to these matters, the Malaysian government has reviewed and endorsed a new definition of SMEs in 2014, as proposed by the Ministry of International Trade and Industry Malaysia (MITI). The government has endorsed a new definition because it is more appropriate for SMEs to meet new business challenges in the competitive global business meets [5]. The new definition also highlighted that all SMEs must be entities registered with the Companies Commission of Malaysia (SSM) or other equivalent bodies.

However, it excludes

- i. Entities that are public listed on the main board
- ii. Subsidiaries of
 - Multinational corporations (MNCs)

- Government-linked companies (GLCs)
- *Syarikat Menteri Kewangan Diperbadankan* (MKDs)
- State-owned enterprises

Based on the [6], there were about 645,136 total SMEs operating their businesses in Malaysia, representing 97.3%. The highest establishment category is micro size at 77%, small size at 20%, and medium at 3%. Table 2 shows the total numbers of SMEs in the country based on industry sector. About 580,985 SMEs are established in the service sector, which is the highest industry sector of Malaysia, followed by the manufacturing sector (37,861), construction (19,283), and agriculture (6,708), and the least involvement of SMEs is in the mining and quarrying sector, in which only 299 SMEs are established.

Table 2: Number of Establishments by Sector and Percentage Share to Total SMEs and Establishments

Sector	Total Establishments (a)	Total SMEs (b)	Percentage (%) of SMEs over Total Establishments (b)/(a)*100	Total employment by SMEs
Overall Total	662,939	645,136	97.3	3,669,259
Services	591,883	580,985	98.1	2,610,373
Manufacturing	39,669	37,861	95.4	698,713
Agriculture	8,829	6,708	76.0	78,777
Construction	22,140	19,283	87.1	275,631
Mining and Quarrying	418	299	71.5	5,765

Source: *Census Report SMEs 2011*

Figure 1 shows a list of all subsectors in the services sector. This clearly states that the wholesale and retail trade, restaurants, and accommodation have the highest concentration on SMEs, with a total of 75% (435,336 establishments), followed by the second

highest in the service sector, which is finance, insurance, real estate, and business services at 15% (88,960 SME establishments), and the third highest concentration is transport and storage and communication at 7% (41,905 SME establishments).

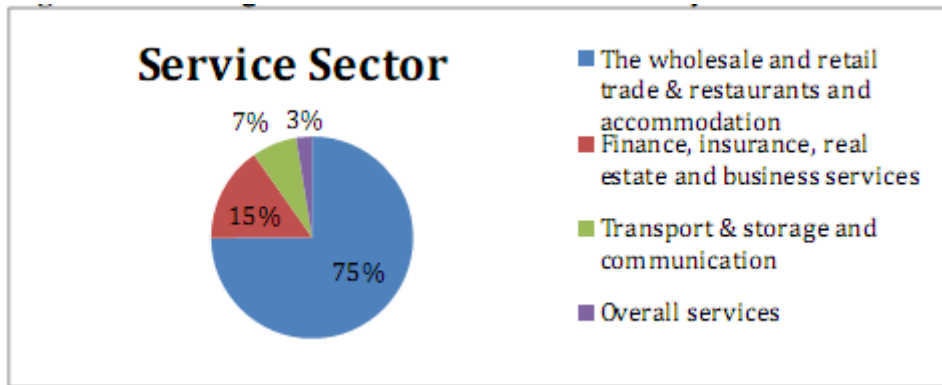


Fig-1: Percentage of SMEs in the Service Sector by Sub-Sectors
 Source: Census Report SMEs 2011

The manufacturing sector consists of five subsectors, which consist of textile and wearing apparel, non-metallic mineral products, basic metal, and fabricated metal products, food, beverages and tobacco, petroleum, chemical, rubber and plastics products, and overall manufacturing. Figure 2 exhibits that the overall manufacturing subsector is the largest (33%; 11785)

SME under manufacturing sectors. This establishment is followed by textile and wearing apparel (27%; 10047), nonmetallic mineral products, basic metal and fabricated metal products (17%; 6,414), food, beverages, and tobacco (16%; 6176), and the least subsector is petroleum, chemical, rubber, and plastics products (7%; 2780).

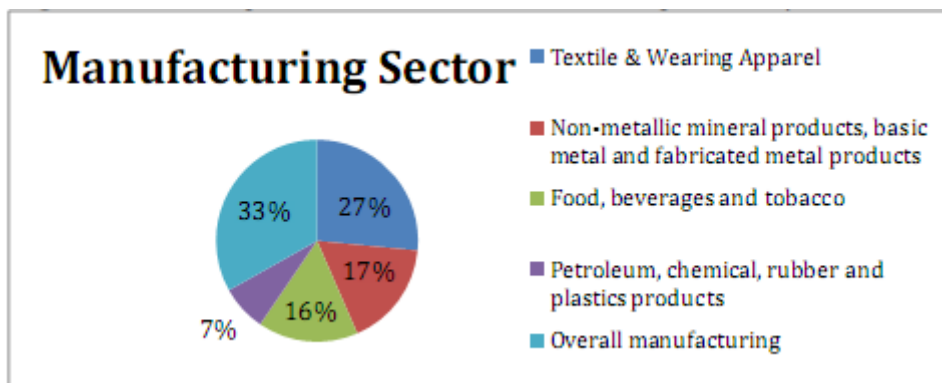


Fig-2: Percentage of SMEs in the Manufacturing Sector by Sub-Sectors
 Source: Economic Census SMEs 2011

Figure 3 shows a list of subsectors in agriculture. The highest total establishment of SMEs is crops at 70% (4,725), followed by the livestock at 13%

(900 SME establishments), fisheries at 12% (781 SME establishments), and forestry and logging at 5% (302 SME establishments).

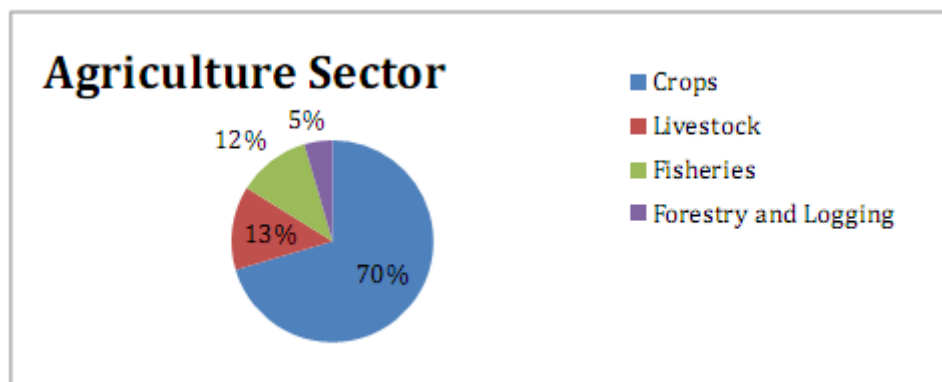


Fig-3: Percentage of SMEs in the Agriculture Sector by Sub-Sectors
 Source: Economic Census SMEs 2011

The constructions sector has four subsectors that consist of nonresidential buildings, civil engineering, special trades, and residential buildings. Figure 4 exhibits the highest distribution of SME

establishments, which are special trades at 40% (7,747), followed by nonresidential buildings at 22% (4,149); civil engineering at 21% (4,050), and residential buildings at 17% (3,337).

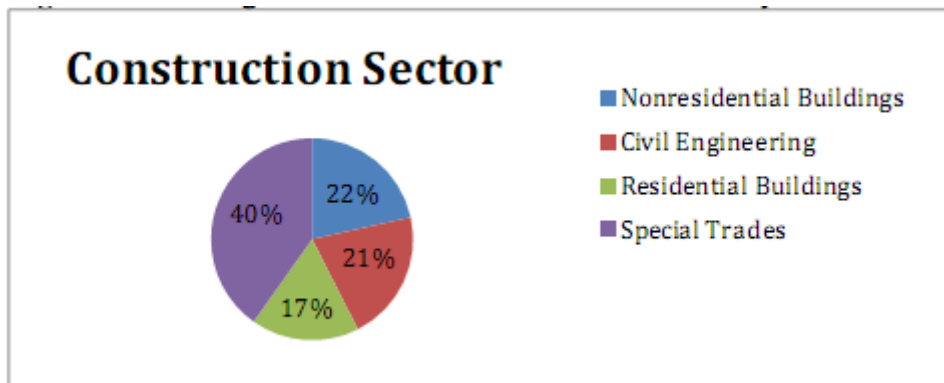


Fig-4: Percentage of SMEs in the Construction Sector by Sub-Sectors
 Source: Economic Census SMEs 2011

Last, Figure 5 displays two subsectors in mining and quarrying. The highest concentration is

stone and quarrying at 84% (250 SME establishments) and mineral mining at 16% (49 SME establishments).

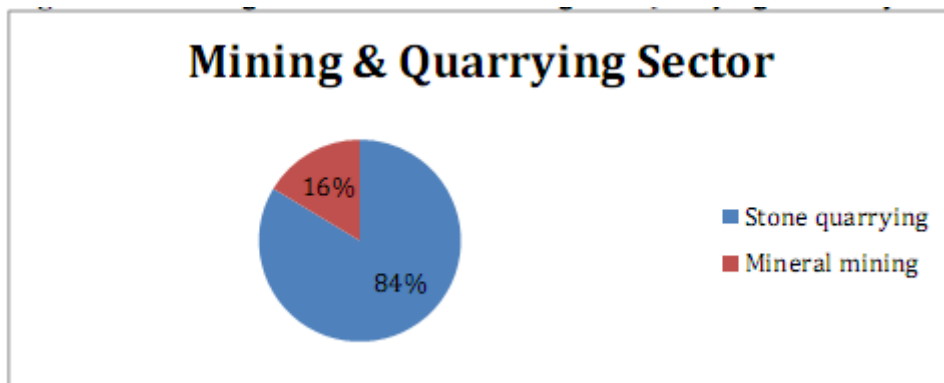


Fig-5: Percentage of SMEs in the Mining and Quarrying Sector by Sub-Sectors
 Source: Economic Census SMEs 2011

Contribution to Economic Development

Consistent with other countries, Malaysia’s SMEs also play a vibrant component in economic development. Despite the gross domestic product (GDP) growth; contribution of SMEs to employment, export, and productivity is essential for economic development [7, 8]. According to the SME annual report 2014/2015, SMEs contribute to 35.9% to

Malaysia’s GDP. This value has increased from 32.2% in 2010. In addition, Figure 6 shows SME GDP growth in all sectors. Meanwhile, Figure 7 shows value-added growth of SMEs across all economic sectors. The growth of value added in each sector in SMEs is higher compared with the overall value-added GDP growth in all sectors, excluding mining and quarrying.

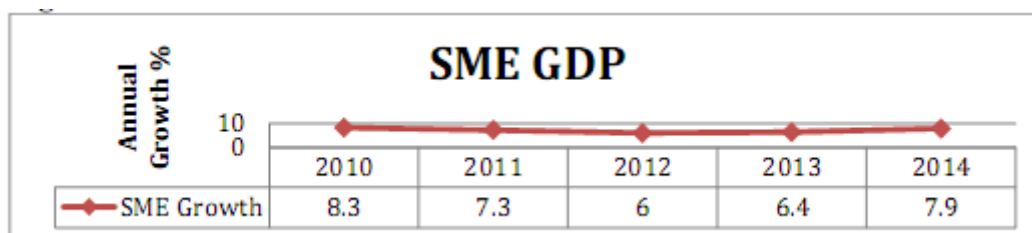


Fig-6: SME GDP Growth
 Source: SME Annual Report 2014/2015

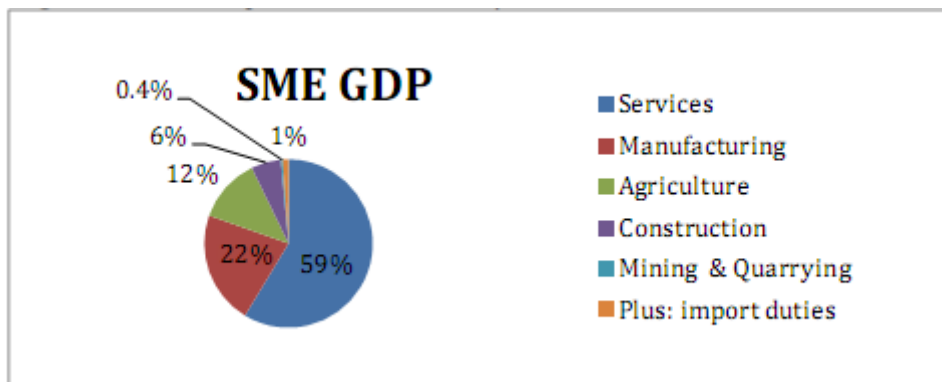


Fig-7: Percentage of SME GDP in year 2014
 Source: SME Annual Report 2014/2015

Table 3 shows total SME growth in employment, exports, and productivity. SMEs also contributed to about 65% of total employment in 2014. The categories of workers in Malaysia are classified as full-time employees, working proprietors, active

business partners, unpaid family workers, and part-time employees. Furthermore, SMEs contribute to Malaysian exports at 17.8% of total exports in 2014. However, the productivity of SMEs slightly decreases from previous years at RM62,327 in 2013 to RM58,213 in 2014.

Table 3: Total SME Growth in Employment, Export and Productivity

Year	2010	2011	2012	2013	2014
Share of SME Employment of Overall Employment	57.1	57.3	57.2	57.5	65.0
SME Employment Growth	-	3.9	5.9	6.3	21.6
Share of SME Export of Overall Export	16.4	16.9	15.5	17.8	17.8
SME Export Growth	-	12.2	2.8	1.6	6.2
SME Productivity (RM)	60,241	62,179	62,277	62,327	58,213
SME Productivity Growth	-	3.2	0.2	0.1	-6.6

Source: Department of Statistics Malaysia (DOSM)

Responsible Agency

The Ministry of International Trade and Industry Malaysia (MITI) plays an important role in ensuring the development of SMEs. It coordinates SMEs by formulating all policies and strategies for growth through SME Corporation Malaysia (SME Corp.), previously known as the Small and Medium Industries Development Corporation (SMIDEC). SME Corp. is a central agency under MITI, established on May 2, 1996, to spur SMEs by providing infrastructure facilities, financial assistance, advisory services, market access, and other support programs.

To ensure the role of SME Corp. is achieved, they established the highest policy-making body in 2004: the National SME Development Council (NSDC). Part of the NSDC task is to formulate strategies for SME development across all economic sectors. However, in 2007, the NSDC decided to appoint a single dedicated agency to formulate overall policies and strategies for SMEs and to coordinate programs across all related ministries and agencies. Due

to this reason, SMIDEC was officially transformed into the SME Corp. in 2009 as the central point of reference information and advisory services for all SMEs in Malaysia. It is called the nation’s premier organization for the development of progressive SMEs in Malaysia to achieve the 2020 master plan.

In achieving the 2020 master plan, a central point (SME Corp.) under MITI will not be sufficient to handle countless SMEs. Thus SMEs in Malaysia require a variety of agencies from different ministries in order to provide special functions and funds. For instance, the Business Development Division (BPP) was established in 2002 under the Ministry of Domestic Trade, Co-operatives and Consumerism (KPDNKK) to elevate the SMEs’ agenda by promoting them in domestic and international levels. Parts of BPP activities are to increase and enhance the participation of Bumiputera’s SMEs in the distributive trade sector. In addition, several ministries had established a statutory body, which has been approved by an act of parliament. Table 4 shows functions of some statutory bodies in Malaysia.

Table 4: List of Related Ministry, Statutory Body and Functions

Related Ministries	Statutory Body	Functions
¹ Ministry of Science Technology and Innovation	SIRIM	To develop and enhance local M&E industries capabilities in technologies. Specifically promote development in the local machinery and equipment.
² Ministry of Agriculture and Agro Based Industry Malaysia	Federal Agricultural Marketing Authority (FAMA)	To improve the efficiency and effectiveness of agriculture products among entrepreneurs in marketing and remain competitive.
³ Ministry of Rural and Regional Development	Majlis Amanah Rakyat (MARA)	Developing, encouraging, facilitating and fostering the viable entrepreneurs in the federation and particularly in rural areas.

Source: ¹ Website: <http://www.sirim.my>

² <http://www.fama.gov.my/en/>

³ <http://www.mara.gov.my/en/>

Furthermore, the SME Corp. forges close partnerships with state governments. It collaborates with industry associations and partners from public and private sectors. The collaboration functions are to support and promote the development of SMEs in each state of Malaysia. Each state has its own agency such as PERDA (Pulau Pinang), KuGerak (Kedah), Bahagian Pembangunan (Pahang), and many more. Even though many agencies are involved in the development of SMEs by implementing programs such as market

access, human capital development, access to finance, innovation, and technology adoption, and infrastructure, all the activities are coordinated by the SME Corp.

Figure 8 exhibits the overall responsible agency operating under MITI, which is responsible for formulating SMEs and is involved in the main specialized organization functions: SME Integrated Plan of Action (SMEIPA), National SME Development Council (NSDC), and One Referral Centre (ORC).

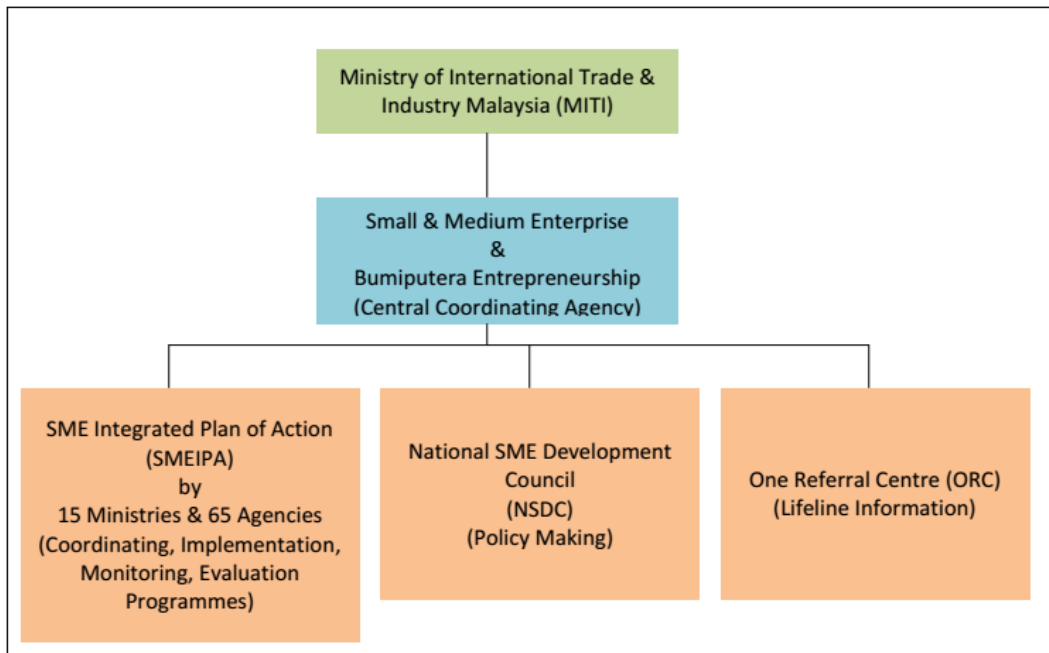


Fig-8: SMEs Support System in Malaysia

Source: ¹ Website: <http://www.smeCorp.gov.my>

Business Support

The growth of SMEs affects its contribution to the national economy. Hence, the government has introduced development programs to enhance SME growth as well as increase productivity and encourage new entries. The programs are as mentioned earlier and consist of five focus areas: market access, human

capital development, access to financing, innovation and technology adoption, and infrastructure. These programs have received a total allocation of RM4.84 billion and benefit more than 468,500 SMEs. In addition, a total of 139 programs were implemented in these five areas. Figure 9 shows a percentage of financial allocates in development programs.

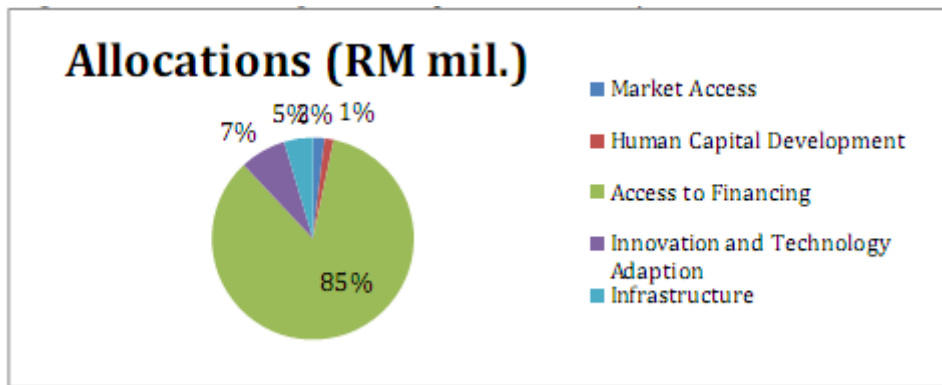


Fig-9: SME Development Programs in 2015 by Focus Areas

Source: SME annual report 2014/2015

Figure 9 also shows that the government has allocated RM89.7 million for 36 programs through various ministries and agencies in promoting access to markets that are expected to benefit some 18,842 SMEs. This is to motivate SMEs to take part in innovation, diversifying their products/services, and expanding their limits to adhere to higher standards. Meanwhile, in human capital development, the government has lined up 36 programs to train and upgrade the skills of SMEs employees. In total, RM70.7 million has been allocated, which has to assist almost 20,000 SMEs.

Next, the government has earmarked RM357.3 million in innovation and technology adoption. Figure 9 shows that about 7,000 total establishments of SMEs received the programs such as receiving new technology, technical improvements, and innovation for business grow. This represents or has shifted the products/services with licensing intellectual property (IP) onto the next level. Other than that, the government has encouraged all businesses to implement ICT adoption in their operations. Besides, aside from functioning operations, the government has provided programs such as infrastructure facilities. This benefit has been given to 228 establishments of SMEs with RM224 million implemented for 15 programs. The reasons are to enhance the organization’s reputation and the ability to attract good quality clients and talent. It is

clearly seen that access to financing accounts as the main contributor to the development of the SME establishment. The benefit is expected to assist almost 422,838 SMEs with a total amount allocated at 4,102.9 million, thus bringing a total of 29 programs implemented by the government.

This reveals that SME financing is one of the primary facilities provided by the ministries and agencies related to development of SMEs. Figure 10 exhibits the financial landscape for SMEs in Malaysia. Financial institutions comprise of banking institutions (BIs) and the development financial institutions (DFIs) serve as the main source of financing to SMEs. In Malaysia, SMEs can depend on financial institutions owned by government funding and the private sector to finance business operations. Prior to year 2000, only government agencies, including DFIs (such as BSN Bank, TEKUN, MARA, Agro Bank, and YUM), are the main providers of financing facilities to SMEs. Private sector agencies such as commercial banks typically refuse to be involved in providing financial aid to SMEs due to repayment problems [9]. In addition, many SMEs, especially from the service sector, do not own land and equipment; as a result, it is difficult to provide any form of security or collateral to financial institutions when applying loans [10].



Fig-10: Financial Landscape for SMEs

However, after year 2000, the number of private sector agencies get involved in providing financial aid to SMEs increased due to government influence. For example, commercial banks that provide financing facilities to SMEs are Maybank, Public Bank, and CIMB. The main financing facilities provided by the private sector to SMEs are various types of loans

such working capital loans and hire purchase loans. Despite soft loans, government agencies also provide different types of financing facilities such as grants, equity financing, venture capital, guarantee schemes, and tax incentives. A list of special funds and guarantee schemes by the government sector is shown in Table 5.

Table 5: Types of Special funds and Guarantee Scheme by BNM

Types of fund/scheme	Allocations (RM million)	Utilization Rate (%)
Fund for Food	300	92.7
New Entrepreneurs Fund 2	2,555.0	36.0
Fund for Small and Medium Industries 2	6,300.0	82.7
Micro Enterprise Fund	200.0	73.3
Bumiputera Entrepreneurs Project Fund- Islamic	300.0	25.6
Total	9,650	68.7

Source: SME Annual Report 2014

Other than BIs and DFIs, the financial landscape for SMEs also includes other sources of financing such as venture capital companies, leasing and factoring, Ar-Rahnu and pawn broking (Shariah-compliant financing), and microfinance institutions.

OVERVIEW OF SMES IN JAPAN

Japanese SMEs are classified according to the stated capital and number of employees. SMEs must meet one or more of these conditions. SMEs in Japan are also classified into two sizes as below:

- iii. Micro
- iv. Small and Medium

A breakdown of the SME definition is displayed in Table 6. These are defined under Article 2

of the Small and Medium-size Enterprise Basic Act as well.

They are categorized into four types of industries:

- 1) Manufacturing, construction, transportation, etc. (excluding 2-4)
- 2) Services (e.g., educational, medical, real estate, etc.)
- 3) Wholesale (wholesale for textiles, food, building materials, and machinery, etc.)
- 4) Retail (food, machinery, restaurants, and accommodation, etc.)

*Agricultural industry is excluded from SME, because they are not incorporated legally.

Table 6: Definition of SME in Japan

Category	SMEs	Of which Micro Enterprises
Manufacturing	Stated capital; 300 million JPY or less <i>OR</i> Employees: 300 or fewer	Employees; 20 or fewer
Wholesale	Stated capital; 100 million JPY or less <i>OR</i> Employees: 100 or fewer	Employees; 5 or fewer
Service	Stated capital; 50 million JPY or less <i>OR</i> Employees: 100 or fewer	Employees; 5 or fewer
Retail	Stated capital; 50 million JPY or less <i>OR</i> Employees: 50 or fewer	Employees; 5 or fewer

Source: Small and Medium-sized Enterprise Basic Act, Article 2, 1966 (Amended in 1999)

Contribution of Japan’s SMEs

There are two fundamental reasons why SMEs are important in Japan. First, every company begins as an SME. Well-known, established companies, such as Honda and Sony, started business as small factories. Thus, SMEs are the golden eggs of future major and excellent companies. Second, the revitalization of

SMEs can promote competition in the marketplace, thus creating new industries. SMEs are a powerful driving force for boosting the economy. The Japanese automotive and electronics industries are globally competitive. However, even large companies cannot manufacture finished products by themselves. The majority of automotive and electronics components in

Japan are made by SMEs, and major companies assemble these components. In a sense, SMEs are a source of competitive advantage for major Japanese companies.

Figure 11 illustrates how the productivity of Japanese SMEs improved until the end of the 1980s. After the 1990s, the growth rate stabilized but has

remained above 5 percent. Figure 12 shows the capital equipment ratio of Japanese SMEs, which rose sharply until 1990. During the 1990s, this ratio increased gradually and has remained above 6.0 percent. This indicates the improved performance and continuous growth of Japanese SMEs; thus, SMEs are a source of dynamism and economic growth.

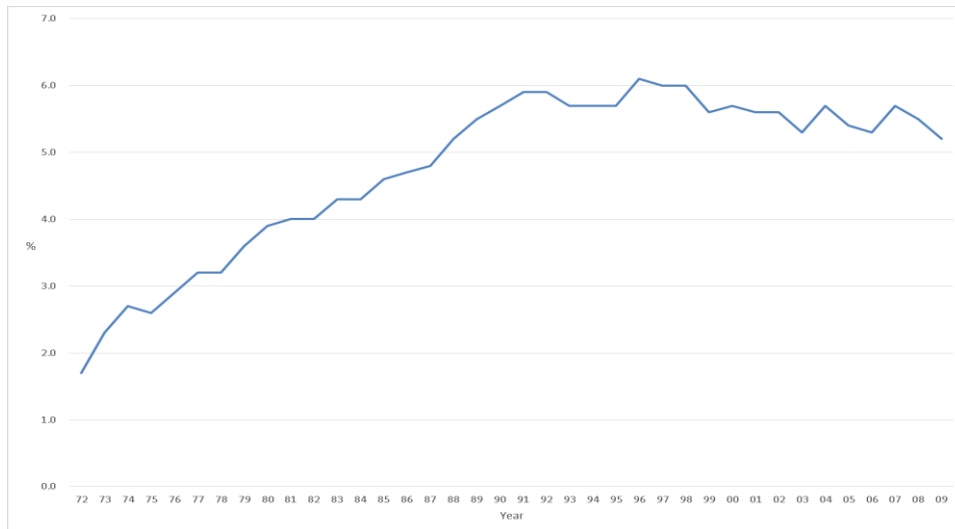


Fig-11: Japanese SME Labour Productivity 1972–2009 (Manufacturing)

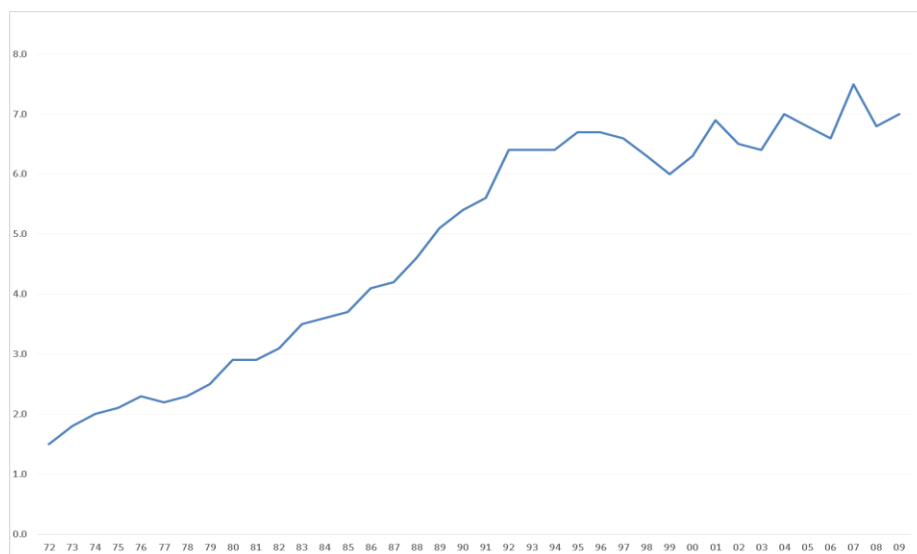


Fig-12: Japanese SME Capital Equipment Ratio 1972–2009 (Manufacturing)

Table 7 illustrates the number of business establishments by industry based on white papers on small and medium enterprises in Japan, 2015. There are 5.369 million SMEs in Japan. In total, 99.0% of business establishments are SMEs in Japan, of which, 73.7% are microenterprises. It means SMEs are the backbone of the Japanese economy. SMEs industrial categorization (Table 6) and industrial classification in general statistics (Table 7 and Table 8) are different in Japan. To examine SMEs from more subdivided point of view, we examine SMEs based on general statics classification.

According to Table 7, more than 99% of establishments are SMEs in all sectors. However, from the microenterprises' viewpoint, the ratio is different depending on industry. Microenterprises constitute a greater portion (more than 80.0%) in the following industries:

- Mining and quarrying of stone and gravel
- Construction
- Manufacturing
- Finance and insurance

- Real estate, goods rental and leasing
 - Life-related, entertainment and recreation Service
- On the other hand, microenterprises shares are relatively lower (less than 60%) in the following industries:

- Information and communication
- Wholesale Trade
- Medical, health care and welfare
- Compound services

Table 7: Number of Establishments by Industry and Percentage Share to Total SMEs and Micro Enterprises Establishments by Size

Industry	Small and medium business establishments		Of which micro business establishments		Large business establishments		Total
	No	% of Total	No	% of Total	No	% of Total	
Mining and quarrying of stone and gravel	2,284	99.9	2,085	91.2	2	0.1	2,286
Construction	525,186	99.9	495,193	94.2	271	0.1	525,457
Manufacturing	490,081	99.3	413,942	83.9	3,299	0.7	493,380
Electricity, gas, heat supply and water	3,846	97.7	2,337	59.4	89	2.3	3,935
Information and communication	66,181	98.5	40,033	59.6	1,023	1.5	67,204
Transportation and Postal services	134,704	99.4	96,363	71.1	774	0.6	135,478
Wholesale Trade	368,356	99.1	214,075	57.6	3,297	0.9	371,653
Retail Trade	1,015,571	98.3	711,788	68.9	17,787	1.7	1,033,358
Finance and Insurance	88,461	99.6	71,088	80.0	370	0.4	88,831
Real estate, goods rental and leasing	379,412	99.9	359,462	94.7	307	0.1	379,719
Scientific research, Professional and Technical services	217,924	99.3	163,145	74.3	1,546	0.7	219,470
Accommodations and food services	704,955	99.0	482,083	67.7	6,778	1.0	711,733
Life-related, entertainment and recreation Services	479,254	99.7	418,948	87.2	1,363	0.3	480,617
Education and Learning support	159,377	98.8	111,764	69.3	1,910	1.2	161,287
Medical, health care and welfare	350,522	97.6	152,104	42.4	8,475	2.4	358,997
Compound services	33,065	99.1	7,218	51.6	292	0.9	33,357
Services (not otherwise classified)	348,520	97.9	245,486	68.9	7,636	2.1	356,156
<i>Non Primary Industry Total</i>	<i>5,367,699</i>	<i>99.0</i>	<i>3,997,114</i>	<i>73.7</i>	<i>55,219</i>	<i>1.0</i>	<i>5,422,918</i>

Source: White Paper on Small and Medium Enterprises in Japan, 2015 [11]

There are 42,065 million employees working for SMEs in Japan. SMEs employ a majority of the workforce in Japan. Totally, 75.8% of employment are by SMEs, of which, 24.1% are microenterprises. According to Table 8, the ratio of SMEs employment varies depending on industries. SMEs constitute a greater portion (more than 80.0%) in the following industries:

- Mining and quarrying of stone and gravel
- Construction
- Transportation and Postal services
- Finance and insurance

- Real estate, goods rental and leasing
- Life-related, entertainment and recreation Service
- Accommodations and food services

On the other hand, SMEs shares are relatively lower (less than 60%) in the service, which is not otherwise classified. In terms of microenterprises, it constitutes a greater portion (more than 60.0%) in the following industries:

- Mining and quarrying of stone and gravel
- Construction
- Real estate, goods rental and leasing

In contrast, microenterprises' shares are relatively lower (less than 20.0%) in the following industries:

- Electricity, gas, heat supply and water
- Information and communication
- Wholesale Trade
- Education and Learning support
- Medical, health care and welfare
- Compound services
- Services (not otherwise classified)

Table 8: Number of Employees by Industry and Percentage Share to Total SMEs and Micro Enterprises Establishments by Size

Industry	Small and medium business establishments				Large business establishments		Total
	No	% of Total	Of which micro business		No	% of Total	
Mining and quarrying of stone and gravel	20,711	96.7	13,175	61.5	716	3.3	21,427
Construction	3,706,397	95.6	2,460,939	63.5	170,224	4.4	3,876,621
Manufacturing	6,708,812	72.5	2,257,215	24.4	2,538,905	27.5	9,247,717
Electricity, gas, heat supply and water	138,285	68.7	17,329	8.6	63,141	31.3	201,426
Information and communication	1,023,967	62.9	138,879	8.5	603,343	37.1	1,627,310
Transportation and Postal services	2,865,455	86.8	669,513	20.3	436,603	13.2	3,302,058
Wholesale Trade	3,044,044	77.8	596,360	15.2	870,836	22.2	3,914,880
Retail Trade	5,894,020	75.3	1,781,846	22.8	1,937,192	24.7	7,831,212
Finance and Insurance	1,259,889	79.3	494,355	31.1	329,560	20.7	1,589,449
Real estate, goods rental and leasing	1,351,460	91.7	908,983	61.7	122,380	8.3	1,473,840
Scientific research, Professional and Technical services	1,195,466	71.9	394,785	23.7	468,324	28.1	1,663,790
Accommodations and food services	4,656,524	85.9	1,335,454	24.6	764,308	14.1	5,420,832
Life-related, entertainment and recreation services	2,205,532	86.6	1,061,581	41.7	340,265	13.4	2,545,797
Education and Learning support	1,084,353	63.0	212,947	12.4	637,206	37.0	1,721,559
Medical, health care and welfare	4,064,417	65.8	420,569	6.8	2,114,521	34.2	6,178,938
Compound services	281,806	82.3	58,109	17.0	60,620	17.7	342,426
Services (not otherwise classified)	2,563,829	56.7	555,508	12.3	1,957,926	43.3	4,521,755
Non Primary Industry Total	42,064,967	75.8	13,377,547	24.1	13,416,070	24.2	55,481,037

Source: White Paper on Small and Medium Enterprises in Japan, 2015

SMEs play an important role in every area of the economy. As illustrated in Table 9, SMEs have produced approximately 50% of total manufacturing value of shipments, and more than 50% for these 35

years. Table 10 indicates that SMEs shares in wholesaling have been from 53% to 60%. In retailing, SMEs shares are larger than that of wholesaling (Table 11) from 62% to 65%.

Table 9: SMEs Shares for Value of Shipments and Value added (Manufacturing Industry)

Year	1978	1985	1990	1995	2000	2009	2010	2011	2012	2013
SMEs shares of Value of Shipments	53.3	50.5	51.8	51.3	51.1	49.8	46.7	49.1	48.6	47.9
SMEs shares of Value added	58.0	54.7	55.5	55.6	56.7	57.9	53.3	56.3	55.0	54.0

Source: METI, Census of Manufactures; MIC, METI, 2012 Economic Census for Business Activity.

Table 10: SMEs' sales shares in Wholesaling

Year	1988	1991	1994	1997	1999	2002	2004	2007	2011
SMEs shares	62.1	62.1	64.1	64.2	62.3	63.2	64.7	64.4	64.6

Source: METI, Census of Commerce; MIC, METI, 2012 Economic Census for Business Activity.

Table 11: SMEs' sales shares in Retailing

Year	1988	1991	1994	1997	1999	2002	2004	2007	2011
SMEs shares	78.5	78.0	76.8	75.7	73.3	71.7	70.4	70.9	67.6

Source: METI, Census of Commerce; MIC, METI, 2012 Economic Census for Business Activity.

Responsible Agency

In Japan, the Small and Medium Enterprises Agency operates under the Ministry of Economy, Trade and Industry. The SME Agency is responsible for the formulation of SME policy and comprises three specialized organizations (Figure 13). At the national level, there are two organizations to implement SME policy. The “Organization for Small and Medium Enterprises and Regional Innovation, Japan (SMRJ)” is

in charge of domestic support aspects, including regional development. The “Japan External Trade Organization (JETRO)” provides mainly overseas support, such as international market expansion, establishment of overseas branches, and so on. SME Support Centers are established in each prefecture (local government) that plan and implement local support for SMEs.

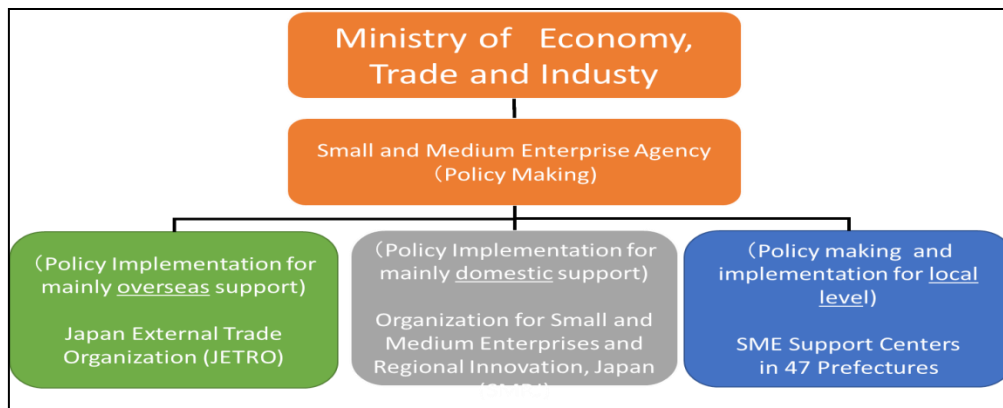


Fig-13: SME Support System in Japan

SME policy in Japan

The SME Basic Act was legislated in 1963 to upgrade the industrial structure and strengthen competitiveness. At that time, the main issue was the gap between large enterprises and SMEs in terms of finance, technology, and human resources. SMEs were regarded as vulnerable; therefore, the government took action to rectify disparities between SMEs and large enterprises. Under this Act, four primary measures were implemented:

- i) Improving the productivity of SMEs by renewing capital equipment and promoting alliances among SMEs.
- ii) Correcting disadvantages of SMEs by protecting subcontracting SMEs and requiring

- government and government-linked organizations to purchase from SMEs.
- iii) Upgrading management skills by introducing management consultant certificates and retirement plans.
- iv) Strengthening proprietary capital by establishing the Small Business Investment Company (GLC).

In 1999, the SME Basic Act was amended in the so-called “SME Diet.” The objective of the amended Act was to promote diverse and vigorous growth as the next phase following gap reduction. Proceeding to the next phase, the government encouraged SMEs to be independent. This means that the SME policy focuses more on assistance to highly

committed and motivated SMEs than on protecting all SMEs equally.

To accomplish that goal, the government introduced a comprehensive package, including 1) support for start-ups; 2) support for SME growth and development; 3) fiscal and financial support; and 4) commerce and regional support. Both new start-ups and existing SMEs play important roles in boosting the economy. Therefore, the support should also be balanced and attention should be paid to microenterprises as well. Government support is not limited to the financial realm since financial assistance has only a limited effect and the objective is to promote SMEs to be independent. That is why numerous measures for management support are initiated. The government also has the ambition to connect SME growth with regional revitalization. As a result of depopulation, local economies are becoming depressed. To revitalize the local economy, SMEs, especially microenterprises, could play an important role. For these reasons, policies are developed as a “comprehensive” package.

i) Support for start-ups

To gain new start-ups, the government assists those planning to start a business not only through financing, in the form of loans and investment but also by providing consultation services and connections as well.

ii) Support for SME growth and development

For existing SMEs, there are a number of packages available: support for internationalization, human resource development (SME–University), innovation and intellectual property management, environment/safety measures, support to improve the attractiveness of SME merchants and shopping zones, and support for smooth business succession. What we would like to emphasize are two policies. The first is support for internationalization. Due to an aging society and limited domestic market, the Japanese government encourages SMEs to enter international markets. The government supports not only exporters but also the establishment of overseas subsidiaries. As described in Figure 14, the SMEs’ overseas subsidiaries are being increased gradually.

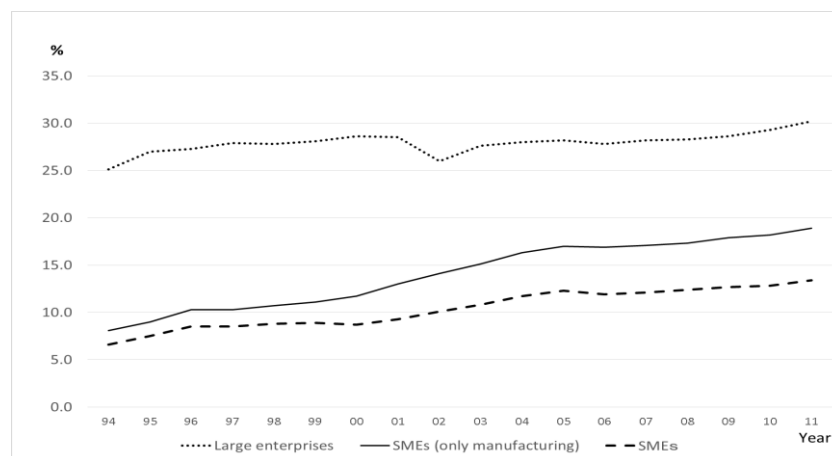


Fig-14: Proportion of Enterprises that Own Overseas Subsidiaries

Source: *White Paper on Small and Medium Enterprises in Japan, 2014 (Recompiled from METI, Basic Survey of Japanese Business Structure and Activities)* [12]

Second, the government also promotes to develop eco-friendly SMEs. All companies, including SMEs, must be eco-conscious to realize a sustainable world. The experts provide advice to SMEs on environmental issues, such as environment-related laws and systems, energy saving, and recycling.

iii) Fiscal and financial support

Public banks (Shoko Chukin Bank, Japan Finance Corporation) supply loans to SMEs, which include policy target loans (i.e., support for overseas expansion) and safety net loans to companies suffering a temporary downturn due to economic trends,

natural disasters, etc. To facilitate the supply of finance from private banks to SMEs, credit guarantee corporations (GLCs) provide guarantees for SME debt obligations. Tax burdens are also eliminated for SMEs to promote their investment.

iv) Regional support

To revitalize industries in rural areas, the government offers loans to local businesses and traditional industries at low interest rates. The government also promotes alliances between SMEs, agriculture, forestry, fisheries, and other industries to maximize their potential.

Business Support for Japan's SMEs

In this section, we outline the government subsidies and financial measures for SMEs. In

accordance with SMEs policy, in The Budget Japan for FY2016, 420.1 billion yen is prepared for SMEs. Table 12 show the breakdown.

Table 12: Budget FY2016 for SMEs subsidies in Japan

Budget Expenditure	Allocations (JPY billion)	Of which loans
Support for SMEs in disaster affected areas	48.10	
Support for productivity improvement	162.71	
Support for overseas business expansion	16.39	
Support for Micro Enterprises	19.16	4.00
Support for SMEs to promote regional revitalization	19.55	
Improvement for SMEs' business environment	216.41	96.62

* Numbers don't equal the total due to duplicating.

There are six types of policy target budgets

[13]:

- i) Support for SMEs in disaster-affected areas; it is to assist SMEs with recovery from natural disasters such as earthquakes, tsunamis, typhoons, etc.
- ii) Support for productivity improvement; it is to increase SMEs' productivity by promoting capital investment, enhancing SMEs' collaboration with major companies and universities, gaining bargaining power, etc.
- iii) Support for overseas business expansion; it is to stimulate SMEs internationalization. The government helps SMEs to create overseas business plans, and find overseas market, protect international intellectual property.
- iv) Support for microenterprises; it is to promote microenterprises' sustainability, developing domestic and overseas market, and upgrading strategy, etc.
- v) Support for SMEs to promote regional revitalization; it is to assist SMEs to contribute local development. The government develops local human resources, encourages start-ups, especially in the social welfare field and ensures smooth succession.
- vi) Improvement for SMEs' business environment; this is to protect SMEs from the radical change of business environment and support SMEs that are growth-oriented.

Subsidies and loans are efficiently combined to enhance SMEs' independence and self-sustainability. When SMEs are subsidized in Japan, the government provides useful information and offers technical consultation [14]. This leads the government to spend its budget effectively. It would be harmful to simply give subsidies and let them be. The most effective

method is to help SMEs grow and develop by themselves. In terms of loans, the government provides 4 billion JPY special loans exclusively for microenterprises. In addition, the loan for business environment improvement is allocated to secure SMEs financially. As previously mentioned, there are several government-affiliated organizations to assist SMEs financially. They support SMEs comprehensively from three aspects: loan, credit guarantee, and investment.

- i) Shoko Chukin and Japan Finance Corporation are public banks for SMEs. They provide a variety of loans to financially support SMEs and start-ups such as loans for capital investment and long- and short-term working capital. They also offer safety net loans to SMEs that are suffering a temporary downturn in business conditions or which have been affected by a disaster such as earthquakes, typhoons, etc. These banks are also supportive in innovating technology and expanding their overseas businesses.
- ii) Credit Guarantee Corporations are established to support SMEs by serving as guarantors to make it easier for them to borrow funds from financial institutions. They are situated in each 47 prefecture and four cities. Proximity increases accessibility for SMEs.
- iii) Small and medium business investment and consultation companies are venture capital firms for SMEs. Those are located in major cities in Japan, e.g., Tokyo, Osaka, Nagoya. They accept stocks, new stocks, reservation rights for new stocks, and bonds for reservation rights for new stocks that are issued at the time of establishment, or capital expansion.

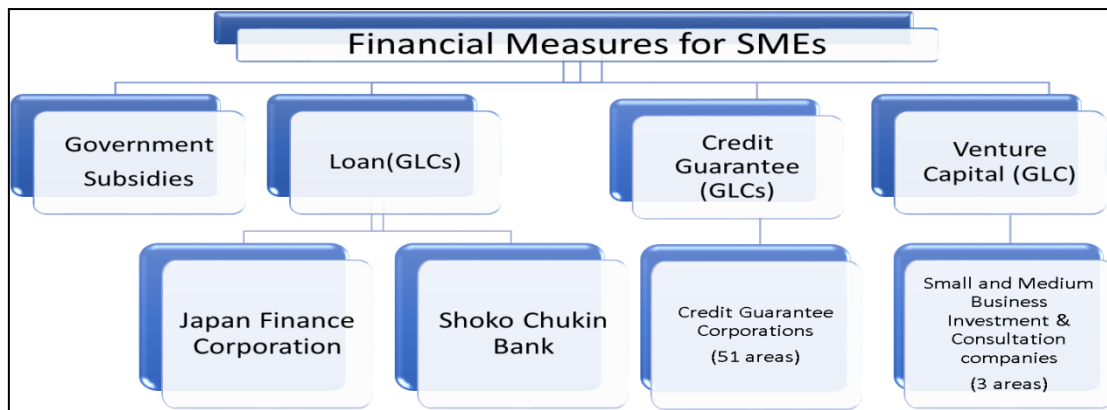


Fig-15: SME Financial Support Organizations in Japan

COMPARATIVE STUDY AND RECOMMENDATION

Malaysia’s goal (Vision 2020) is to reach high-income status through the Masterplan (2012–2020). The government has aimed to achieve SME contribution at least at 41% of the GDP, 62% of employment, and 25% of exports. In Malaysia, SMEs outperformed the GDP compared with the overall economy. For this reason, SMEs play an important role in fostering growth, employment, and income, which are believed to be integral to the economic transformation process.

Figure 16 shows that SMEs’ Malaysia contributions are lagging compared with Japan’s. SME Japan has contributed 50% and even more for the shares in country employment, GDP, and export. In addition, the contribution of SMEs’ Malaysia (19%) to total exports lags far behind Japan (53.8%). Malaysia, which currently is in the middle-income economy, where it should have benchmarks high-income countries as best practice countries for achieving its goals. One of the best practices is Japan, which is known as a successful high-income economy in Asia [15].

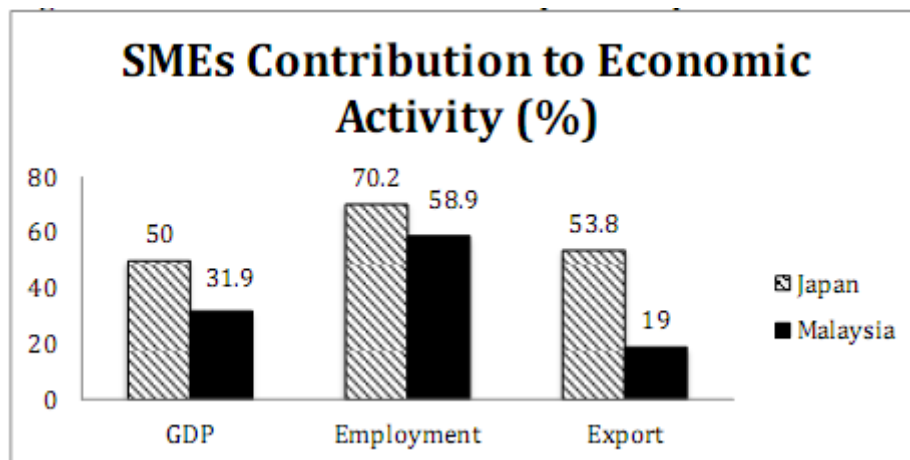


Fig-16: SMEs Contributions to Country Economy

Development of Supply Chain Network

One of the major differences in industrial organization between Malaysia and Japan is the supply chain network contributed by SMEs [16]. The supply chain network design is a powerful modeling approach proven to deliver significant reduction in supply chain costs and improvements in service levels by better aligning supply chain strategies. It incorporates end-to-end supply chain cost, including purchasing, production, warehousing, inventory, and transportation. Due to limited supply of materials and labor force after World War II, Japan’s large companies could not manufacture products by themselves and had to rely on SMEs. It was a catalyst for SME development in Japan.

Japan used the concept of a production network, where the second- and third-tier SME supplier produced a product for the first-tier suppliers who serve directly to the anchor companies in the value chain, namely, large companies and multinational companies. In believing in the successful concept of SMEs, Japan networking clearly focuses on supporting and making home-grown businesses champions, thus Malaysian SMEs have recently followed in Japan’s footsteps. In addition, this concept for SMEs, especially microenterprises, also can strengthen the relationship with large companies. This production network also clearly advocates strength between large enterprises and

SMEs partnerships. We suggest that the Malaysian government should develop supply chain networks and bridge a chasm between large companies and SMEs.

In line with other countries, SMEs in Japan are also valued as the backbone in driving sources to their economy. Small firms or SMEs as a foundation of power businesses to large firms. When this happens continuously, it results in small firms becoming established firms. Honda and Sony are examples of large and established firms that begin with SMEs and become a large firm with their success. Currently, they also depend on production networks with SMEs' Japan in their operation. Hence, the growth of SMEs of Japan is parallel with the growth of large firms in Japan.

SMEs Life Span and Comprehensive Support Package

SMEs in Malaysia are slow-moving in growth. They are negatively correlated with the age of the firm. Most of SMEs' Malaysia are young and have operated for less than 5 years. Only 12% of the SMEs have been operating more than 20 years. The distribution differs with large firms in Malaysia, whereby 60% of the companies have operated longer than 10 years. In Japan, SMEs' average age is 36.7 years, and 91.7% of SMEs exist for more than 10 years [17].

This indicates that SMEs in Malaysia that become large firms are relatively low compared with the number of established microenterprises that keep increasing year to year. Failure rates are high among new firms, which tend to be microenterprises. Many studies on SMEs indicate that growth and key success factors contribute to venture growth, yet only 10% of these microenterprises have survived beyond the 10-year mark. The reason for SME failure in Malaysia is that they were unable to cope with the transition from an entrepreneurial style of management to an organized, professionally managed workforce and, as a result, not being able to capitalize on further market opportunities [18]. For example, microenterprises have limited sources of financing. Hence, it is difficult for them to compete with other established SMEs. Even though they can get loans or external financing but not utilize their loans in proper ways resulting in the failure of their business. This happens when microenterprises lack basic business skills.

Studies also have revealed that more than 90% of new start-up businesses have failed within five years of their operations. Due to this, the Malaysian government has encouraged more government-linked agencies to be involved in assisting the development of new microenterprise, especially among fresh graduates. This is because the government believes education background is important for the entrepreneur. The Malaysian government encourages fresh graduates involved with business. They reform and provide the support programs for fresh graduates to have businesses

and be owners of SMEs. In addition, the government, with assistance of some agencies, implemented several programs, which have benefited entrepreneurs and fresh graduates in Malaysia. For example, SMEs compete among universities where students act as consultants for microenterprises and help them to improve their business. Participants or student who won this competition will get grant to start their business once graduating. Additionally, the microenterprise involved with this program will get the chance to continue expanding its business after the improvement.

To extend SMEs life span, financial measures should be carefully implemented. They would have only limited effects unless SMEs understand how to maximize them. Most SMEs, especially start-ups, lack necessary business skills. As mentioned in Section 3.3, the Japanese government always provides useful information and technical consultation to subsidized SMEs [19]. Additionally, the government monitors subsidized SMEs all the time to check their improvement. If SMEs fails to prove improvement, then they do not deserve a second chance. This system leads a Japanese SME to upgrade its skills. We also suggest that the Malaysian government should not too much focus on financial assistance. As described in Figure 9, 85% of development programs in Malaysia are provided for access to finance. A comprehensive support package would be more effective. For example, assistance for human resource development, innovation, and market access must be highlighted. The Japanese government provides funds significantly for these areas as discussed in Section 3.2.1. Human resource development is the most powerful engine to make SMEs grow. Educated owners and employees would lead SMEs to a higher stage. Assistance for innovation and market access also would be driving forces. The more innovation and market access SMEs have, the higher growth potential SMEs would have.

Responsible Agency and Program Duplication

In Japan, the Ministry of Economy, Trade and Industry (METI) has been responsible to manage and develop SMEs. METI has been responsible for the formulation of SMEs policies and sustaining the three specialized organizations. This includes providing activities and programs through involvement in a specialized agency. METI is the only ministry in charge of SMEs and is responsible to support them in terms of financial and nonfinancial endeavors. Hence, this makes the ministry extensively focus on SMEs needs. This is contrast with the responsible authority for SMEs in Malaysia. The Malaysian government acts as facilitator and catalyst. This government formulates and implements laws and regulations that support the activities of SMEs under the Ministry of International Trade and Industry Malaysia (MITI). In addition, this government will devote itself to various ministries and agencies to get involved with SME support programs. Recently, 15 ministries and 60 agencies have been

involved in creating and implementing programs to assist in SME development.

There is no doubt that all programs from various ministries and agencies do assist SMEs, which are also designed to promote growth and create employment in the Malaysian economy. However, all programs were introduced independently, which often results in program duplications and overlaps. This leads to excess in national spending budget where it could be possible to use the budget to finance SMEs. Some of these programs are not reachable for SMEs in rural areas. Hence, the quality of the programs is less effective in underlying the excessive cost for programs that benefit SMEs. Therefore, the spending on the redundant programs should be countered and devoted to the cost of capital with extra privileges to microenterprises, which are believed to represent 70% of establishments in Malaysia. Further, Malaysian SMEs have become ever more productive and shift the SMEs in competitive advantage.

Beyond Difference in the Definition

The Malaysian government needs to put more effort into ensuring SMEs remain in line with Japan's SMEs. There is still more room for improvement for Malaysia SMEs, so they can establish and develop like Japan's SMEs and contribute more to the country's economy. However, the comparison of SMEs between Japan and Malaysia could be misleading because both countries use different SME definitions, where it leads to a huge gap between SME contributions in both countries. Even though Japan and Malaysia are defined as SMEs based on the two criteria (namely, annual sales turnover and number of full-time employees) both SMEs may operate in different market environments. Thus, their industry components follow the environment in each respective country. For example, Malaysia consists of five industries: manufacturing, services, construction, agriculture, and mining and quarrying. Meanwhile, only four industries—manufacturing, wholesale, service, and retail—are in Japan. Both of these SMEs businesses are legally structured with their own entities registered under their own acts and regulations. Thus, we should be careful with comparison and avoid oversimplification.

The biggest difference in definition between Japan and Malaysia is the consideration of multinational firms. Japan considers that all firms that fulfill SMEs definition (based on annual sales turnover and number of full-time employees) are categorized as SMEs, although the firms are multinational. This point would be helpful for SME policies in Malaysia. The population of Malaysia is around 30 million, which implies that its domestic market is limited. The Malaysian government does encourage SMEs to go global. However, once they do go global, and SMEs manage their business in other countries, they will lose their title as SMEs. This is because they are

automatically categorized as multinational firms. Once they become multinational firms, they will no longer receive the full support or special treatment as previously when they are categorized as SMEs. This could be one of the reasons why Malaysia SMEs do not go global. Unlike Japan, exports would be one of the attractive strategies for going global. Recent research in Japan has revealed that headquarters of multinational SMEs would boost domestic sales as well as international sales [20-22]. For example, multinational SMEs find new customers, and most of them are from overseas, which further places an order to headquarters in Japan. Hence, being multinationals has a significant meaning for SMEs to grow.

CONCLUSION

Generally, SMEs play an important role in the economics in Japan and Malaysia. This study sought to comparatively examine the differences between SMEs in Japan and Malaysia. Focusing on four points of SMEs practice, the wide gap contribution between SMEs in Japan and Malaysia can be narrowed down when both of the countries use the same definition of SMEs. SMEs in Japan, as one of the best practices, has consistently been ranked among those to be followed. Thus, the practice had been implemented by Japan SMEs that contribute to their success and can be emulated in Malaysia. Additionally, SMEs in Japan have been developed for the last 50 years, earlier than SMEs in Malaysia, which were started in the 1970s as a revolution of new economic policies. This means there is more hope for Malaysian SMEs to develop further in the future.

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