

Fostering A Sustainable Environment For Technopreneurship In Malaysia

**- Findings And Recommendations From
TeAM Industry Dialogues -**

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Abstract

In the third quarter of 2001, the Technopreneurs Association of Malaysia (“TeAM” or “the Association”) conducted a set of two Industry Dialogues aimed at providing technopreneurs with the opportunity to voice their concerns on the current state of the ICT sector. What has emerged from the discussions is of vital importance to the government in relation to issues of paramount concern faced small and medium-scale technology entrepreneurs. Some of the key findings are

- Malaysian companies need to find more affordable ways to market their products and services abroad;
- Local demand must be stimulated to support the local ICT industry. Perceptions that foreign-made products are superior to home-grown solutions must be addressed;
- Funding especially at the seed level is difficult with limited options. The various avenues for high-risk investors to exit must be extended in order for Malaysian ICT companies to attract local and foreign funds;
- Technopreneur development programmes should be introduced to sharpen business skills and marketing savvy;
- Although competition is healthy, it should be done on a level playing field. Policies that allow subsidiaries of government agencies to compete with technopreneurs should be reviewed as they may stifle the growth potential of startup companies; and
- The Multimedia Super Corridor should target local ICT companies instead of focusing on multi-nationals. In addition, assistance should be extended to other ICT companies that may not necessarily have MSC-status.

The forum was also used to define the roles and responsibilities of TeAM. In the following document, TeAM will highlight the main issues and hurdles faced by technopreneurs in the ICT industry and present them in a constructive manner.

About TeAM

TeAM was formed by a group of Malaysian Technopreneurs to further the interests of Technopreneurs and to assist in the development of the digital economy in Malaysia.

The objectives of the Association are

- Act as a Think Tank and provide an organized and unified voice to advance the interests and well-being of local Technopreneurs;
- Aid the professional development of members and the industry in general;
- Further Community Education and bridge the Digital Divide;
- Provide the means for addressing issues affecting Technopreneurs and to initiate, watch over, petition and take whatever action as may seem desirable in relation to legislative or other measures affecting Technopreneurs and the Digital Economy;
- Establish a liaison and co-operate with government departments, educational and other appropriate institutions or bodies, both national and otherwise, concerned with or interested in the development of Technopreneurs;
- Hold conferences and meetings for the reading of papers and delivery of lectures, and the acquisition and dissemination by other means of information connected with the profession of Technopreneurs; and
- Afford opportunities for social contact amongst members and other parties interested in the Digital Economy.

Presently, TeAM is in the process of formation and expects to be registered by end-November. For more information on TeAM, please refer to our website at www.team.net.my.

Background

On 26th August 2001, 22 members of the local IT community were invited to a meeting to help frame the issues that would form the nucleus of TEAM's agenda for the long term. The discussion focused on four key areas:

- a. Marketing Emerging Malaysian IT Companies;
- b. Funding;
- c. Technopreneur Development; and
- d. Multimedia Development Corporation ("MDC") and the Multimedia Super Corridor ("MSC").

The first Industry Dialogue went on to cover many of the major concerns faced by Malaysian technopreneurs as a whole and the steps required to address these issues. Far from simply being a referendum on what the government should do, many of the suggestions cut straight to the heart of what TeAM ought to spearhead in the immediate term and the issues to be pursued in tandem with other official bodies.

Having framed the issues for discussion, a second Industry Dialogue was held on 26th September 2001 to solicit feedback from technopreneurs and to come up with productive proposals to solve the shortcomings in the local Information and Communications Technology ("ICT") industry and its surrounding business environment. The second Industry Dialogue was opened to all Malaysian technopreneurs, representatives from government agencies, the media and other players in the industry to ensure that the views brought forward would be balanced and would address all of the relevant issues.

This white paper has been drafted based on the findings from the aforementioned Industry Dialogue sessions. The purpose of the white paper is to encapsulate the major concerns faced by technopreneurs in Malaysia and to present the issues to relevant government bodies and Ministers such as the National IT Council, Multimedia Development Corporation ("MDC"), Malaysian Communications And Multimedia Commission ("CMC"), Malaysian Industry-Government Group for High Technology ("MIGHT") and the Deputy Prime Minister. Our hope is for this process to be the start of continued dialogue between the technopreneur community and the government.

Findings

Indigenous ICT research and development remains relatively under-developed in Malaysia with a high percentage of imported products and services¹. As such, local technopreneurs find the support infrastructure to build local businesses as poor.

The government has the opportunity to redress the issue by instituting changes in policies and repositioning its existing agencies to better allocate resources. Based on the above four discussion areas, the following is a compilation of comments from the industry.

A. Marketing Emerging Malaysian Companies

Marketing and sales is the cornerstone of starting any business. Generating revenue is essential to maintaining cash flow and attracting investors as it increases the fundability of any company. In dealing with this topic, it is important to bear in mind two aspects: marketing locally and the issue of exporting products and services to foreign markets.

International Marketing

- Marketing and selling products and services abroad is an expensive and challenging process. Finding committed distributors, resellers and software representatives who will 'push' your product is difficult. In addition, margins will need to be allocated for each layer of marketing. Localizing Malaysian products for foreign markets have to be at a detailed level such as redesigning the shrink-wrapped packaging;
- Renting booths at international trade fairs is expensive. It is better to participate in exhibitions collaboratively where costs can be shared among several companies;
- It is difficult to compete with international companies that have vast resources, strong marketing muscle and large 'war chests'. Local companies simply do not have the economies of scale to market their products and compete on a level playing field; and
- Foreign buyers insist on a high level of after-sales service and support. However, providing product support in the US, Europe and Asia is expensive.

¹ "A New Creed: Educate, Emulate or Eliminate?" - Akauntan Nasional, November/December 2000.

Domestic Marketing

- Companies in Malaysia believe that foreign-made products and services are better than Malaysian-made. They would rather pay a premium for foreign solutions even if the local products were of a higher quality; and
- In the same way that the Ministry of International Trade and Industry (“MITI”) consults the Federation of Malaysian Manufacturers (“FMM”) for issues on the manufacturing sector, a high profile body is required to push the interests of Technopreneurs. It was suggested that once TeAM is formally registered that it could assist its members by actively lobbying government organizations.

B. Funding

Sourcing for funds in Malaysia particularly at the early stage is difficult with limited avenues. Given that the demographics of most technopreneurs is at the seed level, institutional and government-sponsored funds are largely inaccessible.

- Incubators established in Malaysia do not seem to flourish with many going out of business. This could be attributed to lack of experience or perhaps the fact that venture capitalist are unwilling to fund the next stage of the incubates;
- Most commercial banks do not fund ‘developmental work’ and entrepreneurs seeking loans have to offer matching personal guarantees or collateral. Development banks that have been specifically set up to assist entrepreneurs such as Bank Industri do not understand technology and hence do not fund ICT companies;
- Companies that match startup entrepreneurs with investors have successfully attracted foreign funds to invest in Malaysian companies. More should be done to promote Malaysian ventures to foreign financiers;
- Many technopreneurs are not aware of the types of grants available to them. Those who do apply for grants find the process lengthy and cumbersome. There is also the perception that grants are only available to large corporations that have a dedicated staff force for grant applications; and
- Lack of exit opportunities in Malaysia. MESDAQ and other initiatives to allow investors in high-growth companies to cash out have not been as successful or as liquid as anticipated. Both technopreneurs and investors need to have an exit to enjoy the fruits of their labour.

C. Technopreneur Development

- Government agencies are creating technology arms, which essentially compete with budding start-ups. Examples cited include Tourism Malaysia and MDC. In the case of MDC, a participant explained that MDC embarks on profit ventures as it is required by the government to be self-funded. Some participants believe that such policies should be reviewed;
- For small-sized technopreneurs, developing a business plan is prohibitively time-consuming and costly. They do not have the resources to draft business plans or training to sharpen presentation skills. Moreover, putting ideas to paper is also not the culture of most Malaysian technopreneurs;
- Entrepreneurship begins at home and in school, and nurtured by teachers and professors. There is a need to promote a more entrepreneurial spirit at all levels of society and at all levels of education;
- In bidding for contracts, some participants expressed concern that their ideas will be 'hijacked';
- The ICT market in Malaysia is small. In order to further develop a pool of technopreneurs and to develop local ICT expertise, there is a need to stimulate demand for ICT products and services; and
- The number of Internet users in Malaysia needs to increase significantly in order to obtain critical mass for e-commerce. Some reasons cited include poor Internet access, lack of public knowledge of e-commerce and the perception that conducting e-commerce is expensive. Moreover, the culture of doing business over the Internet has to be cultivated.

D. Multimedia Super Corridor

Many participants indicated that their companies have yet to benefit from the MSC. It was hoped that the upcoming Technopreneur Flagship application would address their needs.

- TeAM was given an insight by an MDC representative on the upcoming Technopreneur Flagship. MDC will award MSC-status to incubators nationwide to help create a critical mass of technopreneurs and talent in Malaysia. The focus will be on biotechnology and ICT. An advisory committee comprising representatives from ministries, associations, academics and individuals with recognized competencies will feedback comments from the industry. Eventually, the Flagship and MSC will be expanded nationwide with cybercities located around Malaysia;
- There is great anticipation and apprehension in the yet-to-be-announced Technopreneur Flagship. Many participants felt that the Flagship would be run in a bureaucratic manner and were concerned that their interests would not be properly represented;
- Following the McKinsey Report², MDC realizes that it is imperative to balance between supporting local companies as well as multi-nationals; and
- Broadband access and telecommunications are still poor outside the MSC. One participant related his experience with slow Internet access at his college which made e-Learning challenging. Another participant stated that there are more than 62,000 kms of fibre optics in Malaysia but little last-mile infrastructure.

² Please refer to <http://www.zdnetasia.com/news/dailynews/story/0,2000010021,21194067-2,00.htm> and <http://www.malaysia.cnet.com/news/ebusiness/story/0,2300027475,13031994,00.htm> for articles on the McKinsey Report.

Recommendations

A. Marketing

- Work together with existing development authorities in traditional sectors such as Malaysian Industrial Development Authority (“MIDA”), Malaysian External Trade Development Corporation (“MATRADE”) and Malaysian embassies abroad to collectively market local ICT companies. As ICT is an enabling technology that transcends various industries, it is important to develop marketing channels into Malaysia;
- Create a developmental organization (“TechTrade”) that is similar to MATRADE to promote the export of Malaysian intellectual capital and IT services. The organization will facilitate Malaysian IT exporters vis-à-vis finding distributors and resellers, provide market analysis and representing Malaysian products and services at major trade fairs. TechTrade should also act as a focal point for foreign importers to source for Malaysian-made IT products and services;
- Establish Malaysian-sponsored exhibition booths at major international trade fairs where local Technopreneurs can participate more affordably by sharing the costs. As current government-sponsored exhibits are not well publicized, ensure that these initiatives are communicated down to the technopreneurs;
- Provide government grants to assist Malaysian companies to create the necessary software support infrastructure in foreign markets that may be shared with other Malaysian companies on a pooled basis. As a start, regional markets that are closer to Malaysia may be targeted;
- Given that foreign competitors have better resources and marketing muscle, local technopreneurs need to find a niche that takes advantage of local expertise and products that have a local comparative advantage;
- Offer tax incentives, allowances and other enticements to companies in Malaysia that use local software and services;
- There needs to be a neutral, yet credible body to endorse Malaysian-made software and accredit local companies that have demonstrated a high level of quality. This will spur companies to strive for excellence as well as provide a certain level of comfort to potential purchasers; and
- TeAM to represent technopreneurs by acting as a unified voice in lobbying government agencies. This will raise the profile of technopreneurs and bring topical issues facing the industry to the fore

B. Funding

- Technopreneurs need to be more resourceful and exhaust all available sources of funds before seeking institutional funds. Friends and families are more likely to invest at the early stage. Technopreneurs will need to seek other organizations such as Credit Guarantee Corporation (“CGC”) and work with them;
- TeAM to work with development banks and other government agencies (eg: Bank Industri and CGC) by helping them to understand ICT, and thereafter to promote loans to the industry;
- Create a forum to match international financiers with Malaysian ICT companies. Establishing a virtual web forum to aggregate and promote Malaysian business to interested investors will enhance its impact. Malaysian companies should also leverage on existing investor matchmaking forums to source for funds;
- Create a one-stop agency that assist technopreneurs to apply for various grants and other government aid;
- Government to extend tax incentives that are currently only available to Venture Capital Companies (“VCC”) to angel investors³. It is imperative to support this class of investors who are more likely to fund at the seed level in comparison to existing VCs that generally focus on later-stage companies;
- Administrators of the various grant schemes need to be more attuned to the needs of technopreneurs and the industry. TeAM to assist by working closely with grant providers and facilitating the grant application and approval process;
- TeAM to publish a list of consultants and organizations together with their engagement terms and standard fees who can assist Technopreneurs to apply for funds and grants;
- Government needs to reinvigorate current exit mechanisms and/or develop new avenues for investors of high-growth companies to realize their investments; and
- Technopreneurs should not overemphasize Initial Public Offerings (“IPOs”) and selling out. Many Fortune 1000 companies are not listed.

³ Please refer to “Guidelines For The Annual Certification For Tax Incentives For The Venture Capital Industry” - Pursuant to the Income Tax (Exemption)(No.3) Order 2001 and the Income Tax (Deduction for Investment in a Venture Company) Rules 2001.

C. Technopreneur Development

- Malaysia needs to showcase locally-bred technopreneur winners. Aside from the publicity, it will highlight Malaysia as a viable ICT business environment to foreign investors;
- Introduce government-sponsored programmes on entrepreneur development that aim to sharpen technopreneurs' business skills, business plan writing and marketing savvy;
- Create a database of companies and their skill sets. This will facilitate buyers to source for expertise among technopreneurs;
- Some participants believe that the government should act as a catalyst and not a competitor. There should be a framework or roadmap to determine when the government should relinquish their interests and allow competition flourish; and
- Government should level the playing field by channeling the bidding of some government contracts to certain classes of startup companies while excluding more established companies.

D. MSC

- The Technopreneur Flagship should have private sector representatives on their committees such as entrepreneurs and market participants who are currently engaged in the ICT industry. This would go a long way to reassure Technopreneurs that their interests would be adequately represented. Private sector representation should also be extended to the other flagship applications and the CMC;
- The MSC does not exist in isolation and is co-dependent with other businesses outside the MSC for its success. Therefore, MDC and Telekom Malaysia Bhd. need to ensure that proper and adequate broadband access is available nationwide. Given that there is adequate dark fibre in Malaysia, the government should develop sufficient last-mile infrastructure at an affordable cost; and
- Allow ICT companies to enjoy pioneer status and tax incentives under the Promotion of Investments Act 1986 without the pre-requisite of first obtaining MSC-status.

Conclusion

This paper has raised many issues voiced by technopreneurs in Malaysia. In addition to calls for government assistance and changes in government policy, this paper has made recommendations to TeAM on how it can better represent its members, its role and responsibilities and, suggestions on how technopreneurs can enhance their own businesses.

While this white paper represents only a start and an avenue for technopreneurs to influence change in both the private sector and government, it is hoped that this process will lead to further discussions between technopreneurs and the government. The end objective is to raise Malaysia to a pre-eminent position in the technology world. To do that, we need to bridge the digital divide by making Malaysia a great place to start businesses, raise funds, build markets and conduct research and development.

Contact Us

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