FACTORS AFFECTING SMEs’ ACCESS TO FINANCIAL FACILITIES OF BANKING INSTITUTION IN SARAWAK - SMEs’ PERSPECTIVE

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A dissertation submitted in partial fulfillment of the requirements for the degree of Corporate Master in Business Administration

Faculty of Economics and Business
UNIVERSITI MALAYSIA SARAWAK
2010
I certify that I have supervised and read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a research paper for the degree of Corporate Master in Business Administration.

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DECLARATION AND COPYRIGHT

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I hereby declare that this research is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by footnotes giving explicit references and a bibliography is appended.

Signature ..........................................
Date : ..........................................

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Abstract

FACTORS AFFECTING SMEs' ACCESS TO FINANCIAL FACILITIES OF BANKING INSTITUTION IN SARAWAK – SMEs' PERSPECTIVE

By

CHONG CHAW BOON

Small and Medium Enterprises (SMEs) play an important role in Malaysian Socio-economic growth. They represented 99.2% of total business establishments and provided over 5.6 million employments. Numerous studies discovered that access to financial facilities is an important aspect in the survival of SMEs' operation. Hence, Malaysian Government has, through various financial schemes, provided assistance to SMEs who are desperately searching for financial facilities to meet their businesses need. Conventionally, access to financing was evaluated using 5Cs of Credit, namely character, capacity, capital, collateral and condition. But, recently researchers and academicians also perceived that connection is another important factor which may enhance the access of SMEs' to various financial facilities.

This study adopted a quantitative research method, of which primary data are collected from major towns of Sarawak using self-administrative questionnaire. The findings from 168 respondents, which reveal a consistence result with prior literature, are their perceptions that capacity, collateral, condition of businesses and capital are importance to their access of financial facilities. But, they ignored character and connection during their financing applications are contradicting to the findings of previous studies. Further analysis indicated that there is no significant perception
difference on the 6Cs of credit among various demographic of respondents, and their demographic variables have no significant relationship with their perception on 6Cs of credit. Furthermore, as a whole none of the demographic variables are predictors to the level of their perception on the 6Cs of credit.

Through these findings, various parties concerned can establish their respective strategies to address the SMEs’ weaknesses to enhance SMEs’ access to financial facilities. Furthermore, this study hopes to enrich literature in academic world, especially on the impact of SMEs’ demographic variables on their perception on 6Cs of Credit which are seldom being discussed in the prior literature.

Theoretically and logically, Demographic Variables will have a certain degree of influence on the respondents’ perception on 6Cs of Credit. But the research findings show otherwise is because of the regression model adopted consists of too many dummy variables.
Abstrak

Faktor-faktor Yang Mempengaruhi Akses Perusahaan Kecil dan Sederhana Terhadap Kemudahan Kewangan Daripada Institusi Perbankan Di Negeri Sarawak – Perspektif Perusahaan Kecil dan Sederhana

Oleh
CHONG CHAW BOON

Perusahaan Kecil dan Sederhana memainkan peranan penting dalam pertumbuhan social-ekonomi Malaysia. Mereka mencatatkan 99.2% daripada jumlah keseluruhan perusahaan dan menawarkan lebih daripada 5.6 juta peluang pekerjaan. Melalui kajian-kajian yang dijalankan didapati bahawa akses kepada kemudahan kewangan merupakan aspek penting dalam operasi kelangsungan hidup perusahaan kecil dan sederhana. Oleh sebab itu, Kerajaan Malaysia, melalui pelbagai program pembiayaan, memberikan bantuan kepada Perusahaan Kecil dan Sederhana yang terdesak mencari kemudahan kewangan untuk memenuhi keperluan perniagaan mereka. Dulu, akses terhadap pembiayaan telah dinilai dengan '5Cs kredit', iaitu watak, kapasiti, modal, jaminan dan keadaan. Tetapi, baru-baru ini penyelidik dan ahli akademi juga menganggap bahawa perhubungan merupakan factor penting yang dapat meningkatkan akses terhadap Perusahaan Kecil dan Sederhana untuk pelbagai kemudahan kewangan.

Penelitian ini menggunakan kaedah kajian kuantitatif yang mengumpulkan data primer dari bandar-bandar besar Negeri Sarawak dengan menggunakan soal-selidik pentadbiran diri. Penemuan daripade 168 responden menunjukkan hasil konsisten...
dengan kesusasteraan dahulu. Mereka menganggap kapasiti, jaminan dan keadaan perniagaan penting untuk mengakses kemudahan kewangan mereka. Tetapi, pengabaian mereka terdapat watak, modal dan perhubungan apabila mereka memohon pembiayaan kewangan bercanggah dengan penemuan kajian dahulu. Analisis yang dijalankan lebih banyak menunjukkan bahawa tiada perbezaan persepsi yang signifikan terhadap '6Cs kerdit' di antara pelbagai demografi responden. Lebih lebih lagi, pembolehubah demografi mereka tidak mempunyai hubungan yang signifikan dengan persepsi mereka terhadap '6Cs kerdit'. Selain itu, keseluruhan pembolehubah demografi dijangka tidak dapat meramalkan tahap persepsi responden terhadap '6Cs kerdit'.

Melalui penemuan ini, pelbagai pihak yang berkaitan boleh mencorak langkah langkah strategik masing-masing bagi mengatasi kelemahan Perusahaan Kecil dan Sederhana supaya akses mereka terhadap kemudahan kewangan dapat dipertingkatkan. Tambahan pula, kajian ini diharap akan dapat memperkayakan kesusasteraan tertentu dalam bidangan akademik, terutamanya pada kesan pembolehubah demografi Perusahaan Kecil dan Sederhana terhadap persepsi mereka atas '6Cs kredit' yang jarang dibincangkan dalam sastera dahulu.
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1.1 Introduction

Malaysia is a middle-income country which has transformed itself since the 1970s from a producer of raw materials into an emerging multi-sector economy. The ‘New Economic Policy’ which was introduced in 1971, the Second Industrial Master Plan (IMP2) which ended in 2005 and the Third Industrial Master Plan (IMP3) implemented between 2006 – 2020 which coincide with the country’s vision for 2020 (MITI 2005), were Malaysian government’s commitment to change the country into a developed nation. Small and Medium Enterprises (SMEs), therefore play an important role in sustaining the economic growth of Malaysia and ensure the achievement of the country vision 2020.

According to a report in SME Annual Report 2008, which was launched by YAB Prime Minister Dato’ Sri Najib Tun Razak on 4 November 2009, SMEs represented 99.2% of total business establishments and provided over 5.6 million employments. But, SMEs only contributed to 32% of overall Malaysian gross domestic product (GDP) as compared with developed countries like Australia, Japan and Germany of between 50% and 60%. Thus the potential for SMEs in Malaysia to grow is still very high (Lee, 2009). For this reason, the Malaysian Government has introduced various strategies to enhance the development of SMEs, one of which was SMEs funds.
The National SME Development Council, on 9 June 2005, approved the common definitions of SMEs across all economic sectors, for adoption by all Malaysian Government Ministries and Agencies involved in SME development, as well as financial institutions. Generally, SMEs are classified in two broad categories. In summary, detailed definitions of SMEs by size are shown in Table 1.1.

Table 1.1 – Definition of SMEs

<table>
<thead>
<tr>
<th>Category</th>
<th>Micro Enterprise</th>
<th>Small Enterprise</th>
<th>Medium Enterprise</th>
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<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing, Manufacturing-Related Services and Agro-based Industries</td>
<td>Sales turnover of less than RM250,000 OR full-time employees less than 5</td>
<td>Sales turnover between RM250,000 and less than RM10 million OR full-time employees between 5 and 50</td>
<td>Sales turnover between RM10 million and less than RM25 million OR full-time employees between 51 and 150</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services, Primary Agriculture and Information &amp; Communication Technology</td>
<td>Sales turnover of less than RM200,000 OR full-time employees less than 5</td>
<td>Sales turnover between RM200,000 and less than RM1 million OR full-time employees between 5 and 19.</td>
<td>Sales turnover between RM1 million and less than RM5 million OR full-time employees between 20 and 50.</td>
</tr>
</tbody>
</table>

(Source: 2007 Report, Bank Negara Malaysia)

The access to finance has been identified as the element for SMEs to be successful in the development of a competitive, innovative and technologically strong entity that is able to contribute to the domestic economy and compete globally. Ricupero (2002) cited in his research paper that ‘finance has been identified in many business surveys as the most important factor determining the survival and growth of small and medium sized enterprises in both developing and developed countries. Access to finance allows SMEs to undertake productive investments to expand their businesses and to acquire the latest technologies, thus ensuring their competitiveness and that of the nation as a whole’.
Research conducted by Sanlam (2007) also showed a real need for financial assistance in the small and medium business sector. Thus, the major obstacle experienced by SMEs in sustaining their business growth is often their ability to obtain sufficient financial assistance from banking institution. Bank Negara Malaysia’s governor, Tan Seri Dr Zeti Akhtar Aziz, urged banking institutions to proactively seek out and extend advisory services to SME customers that may be facing difficulties (in obtaining loans). She further pointed out that banking institution need to provide greater flexibility in structuring the financing facilities, within acceptable risk levels, to meet the requirements of viable SME customers (Bank Negara Urges Banks to Seek Out SME Customers in Difficulties, Bernama. 2008).

Although Malaysian Government had put in much effort to promote SMEs funding through numerous banking institution, such as the setting up of SME Bank in 2005, but the result seem to be far from satisfactory. Tan Seri Dr Zeti mentioned that share of SMEs financing by banking institutions had increased to 44 percent as at end-May 2008 from 30 percent in 1999 (Bank Negara Urges Banks to Seek Out SME Customers in Difficulties, Bernama, 2008). The annual growth rate of 5% is considered to be insignificance in enhancing the growth of SMEs in Malaysia as compared with those in Japan and China. Navaratnam (2001) pointed out that most of the financial institutions had been indifferent to lending to the SMEs. The government was willing to help but the banks often not helpful.

By nature SMEs tend to face a higher resistance in securing financing to fund their business as compared with publicly listed firms. The publicly listed firms engaged
pools of management experts providing the necessary confidence for the lending institution to extend the required financial aid to them for business investments. Thus, Ricupero (2002) cited that commercial banks are generally biased toward large corporate borrowers. When banks do lend to SMEs, they tend to charge them a commission for assuming risk and apply tougher screening measures, which drives up costs on all sides.

Vos, Yeh, Carter, Tagg (2005) concluded their study with a difference view. Their research discovered that, in U.K and U.S market SMEs are not subjected to severe financial constraints. They normally can get what they required. SMEs are found to be able to finance new projects from a sufficient number of external sources. This difference in finding indicated that SMEs access to financial facilities may be affected by factors of which SMEs in U.K and U.S have control over these factors when securing the required funding. Therefore, it is important to identify the affecting factors to ensure that the financial system works well for SMEs, and that SMEs are contented with their access to financing.

1.2 Research Background

Access to financial facilities is an important aspect in the survival of SMEs’ operations. With the great focus accorded to SMEs development in Malaysia, financial institutions have prioritized provision of finance to SMEs. Initiatives are being taken to improve SMEs access to financial facilities at various stages of their business life cycle.