



**The Government Business Support Services through Development
Banks in Malaysia –view from Malay Entrepreneurs**

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1. Background of the study

The establishment of business entities among Bumiputra (sons of soil) especially Malays experience rapid development since Malaysia has gained independence from the British colonial in 1957. The government focuses on Malays entrepreneurs as one of the tools to redistribute and stabilize the distribution of wealth among ethnics. The great impact on inequitable distribution of wealth witnessed a tragic incidence in 1969 where the country has to pay very high price when ethnic riot occurs. As a turning point, the government has come out with a bold and well structured 20 years economic planned (1970-1990) which was called The New Economic Policy which the two-pronged objective was to eradicate poverty and redistribution of wealth among ethnics (Malaysia, 1971). Achieving the said the objective required overwhelming involvement of Malays in entrepreneurship. The government not only encouraged Malays to venture into entrepreneurship activities but at the same time provided various mechanisms to help Malays in business including financial assistances and incentives. The government recognized and believed that entrepreneurship is one of the effective tools to achieve the objectives outlined in the New Economic Policy.

During the NEP period (1970-1990) a number of government agencies including development banks were established to provide business supports for Malays. It is important to note that, the NEP targeted that by the end of NEP period, at least 30% of national wealth goes to Bumiputera (Malaysia, 1971). Since the starting of the NEP the government spent huge sums of money, providing supports to Malay entrepreneurs. Beginning with business start up to business expansion and as well as to internationalization. However, at the end of the period, the targeted figure was far yet achieved. The underlying reasons of the failure were many and closely intertwined and interrelated with each other. It is believed that the unsatisfactory achievement ha also to do with ineffective roles of business support services by development banks. Previous study shows that a significant numbers of Malay SMEs did not utilise the services. However, no indepth and thorough investigation have been done to unearth the problems. So, this study aims to investigate the factors that hinders SMEs from using the services and to assess SMEs perception on their performance in the absence of the government business support services.

2. Literature review

This section presents the concept of effectiveness of the business support services including measurement of the services. Further discussion is on the findings of previous studies on the impacts of the external business support services on SMEs firms performance.

2.1 The effectiveness of the external business support services

In the study of the business supports, the effectiveness of the services is measured at two different stages. First, the measurement made on the frequency of usage of the services as the Resource-based Theory suggested, where the frequency of the usage has positive impact on the firms performance. Second, the effectiveness is measured based on the direct impact on firms performance.

2.1.1 Frequency of usage

The measurement is based on the how frequent SMEs seek for advice from the service of development banks and or service agencies pertaining to SMEs. In the study conducted by Berry, Sweeting and Goto (2006) in the UK, the study used scale of “always use” to “never use” in measuring the effectiveness of the services provided by a ranges of services suppliers. In other study, Boter and Lundstrom (2006) exploited scale of “use regularly” to “never use” to measure the usage of the services. The services is consider effective and ‘working’ when the utilisation rate is satisfactory. Generally, the studies on the government backed-up business support found that the services were not popular among SMEs (Dyer & Ross, 2008; Hakimin, 2010; Lewis, Massey, Ashby, Coetzer, & Harris, 2007). In turn, the services experienced low utilisation rate and perceived gave less impacts on firm performance.

2.1.2 Impact on firms performance

Secondly, the efectiveness of the services is measured on the direct impact of the usage of the services to the firms performance. Robson and Bennet (2000) used growth to measure the impact of the external business support. On the other hand, Wren and Storey (2002) applied sales and number of employess in addition to firms growth in measuring the firms performance.

2.2 The impacts of the external business support

The studies of the impact of the external intervention which refers to business support services to SMEs firms performance have come out with mixed results. Berry, Sweeting and Gotu (2006) found that the support services had positive impacts on firms performance. The study was supported by Wiklund and Shepherd (2005) who argued that regular contacts with support agencies provided favorable impacts on firm's growth. In another study by Boter and Lundstrom (2006) also shared the same view. However, Curran and Blackburn (2000) questioned the government involvement in SMEs activities and claimed that the government intervention only act as a political tools to gain political support, leaving the programs as white elephants. This is consistent with the study by Westhead and Birley (1995) who posited that the government backed-up support services did not give significant impact on firms performance. These findings were further confirmed by Robson and Bennet (2000) who concluded that the effect of the services is in doubt.

Previous study on the government sponsored business support conducted in other regions found that the services are not popular among SMEs for a number of reasons (Berry, et al., 2006; Josee & Etienne, 2007). Among others are bureaucracy and incompetence of advisors. Most of the SMEs are more willing to utilise the services provided by private agencies which are faster, in line with their needs and competence staff (Ian. Chaston & Sue, 1998).

2.3 Local scenario - Malaysia

Theoretically, the government support services are provided especially to assist Malays where the entrepreneurs activities are far behind other ethnics. As this group of ethnic is so called novice entrepreneur, without government intervention it is quite difficult for them to compete with other players. A new set up business entity is known to have difficulties to acquire facilities and support from private institutions which is operated on profit-making basis (Brown, Earle, & Lup, 2005). With a wide range of services provided, supposedly the Malays SMEs should utilise them and enjoy the benefits. Surprisingly, studies show that the services are under utilised. According to Abdul Aziz and Faoziah (2009), to obtain financial support SMEs prefer to deal with commercial bank over the development banks.

Khairudin *et al*, (2009) in their study found that that only 10.1% of the respondents were aware of the services provided by one of the credit guarantees in Malaysia. It is also found that most of the SMEs were unaware of the existence of the credit guarantee services sponsored by the government in their localities. This finding further supported by the study conducted by Oc and Tiesdell cited in Emslie and Bent, 2007; Pilgrim and Meier, 1994 cited in Khairudin, *et al*, 2007, Foziah *et al*, 2006, which stated that lack of awareness of the existence of business assistance services provided by the government agencies is among the reasons on the poor take up rate. As the consequences, the government sponsored programs are not fully utilised by SMEs and poor take up rate (Boter and Lundstrom, 2005; Berry and Sweeting, 2006; Ramsden & Bennet, 2005; Matton, 1999 cited in Devin *et al*, 2005). It is recognised that lack of awareness is one of the factors of poor utilisation of government sponsored business assistance.

3. Methodology

This study used closed ended questionnaires to get the information about the usage of the governmental development bank services among Malays SMEs and factors that lie behind the usage or non usage on the services offered. The questionnaire was developed based on previous literature. Altogether 3,832 questionnaires were distributed via mail to all the owners of Malays SMEs in Malaysia in June 2012 together with a stamped returned enveloped.

The questionnaire was divided into 4 sections. Section I asking respondents either they use or do not use the government business support services. Section II comprises of 12 statements pertaining to the reasons for not using the services. The respondents needed to mark any chosen reason and they could mark more than one reason. Section III is the measurement for respondents firms' performance. There were 5 items using 5 point Likert Scale which 1 represent strongly disagree and 5-strongly agree. Respondents were required to give their assessments on the statement based on comparison with competitors firm. For instance, statement in item 1: Compare to our competitors our business has better market position. Finally, Section IV comprises of questions on demographic information which respondents needed to mark the choices given. The survey questionnaires were adapted from previous literatures .

By late October 2012, 728 questionnaires were returned and went through preliminary data analysis. Out of 728 questionnaires returned, 58 questionnaires were dropped due to (1) 21 set of the questionnaire were not completed more than 10% and (2) 37 set of questionnaires were not answered by owner of the firms. The requirement for the owners to attempt the questionnaires is to get the respond from persons who were heading the top management. The total number responds gave response rate of 17.48%. This response rate is in line with other studies conducted locally with able to obtain a response between 15%-25%. From 670 set of questionnaires returned, 333 (49.7%) respondents are not utilise the government business support services. The data then were analysed using SPSS 19.0.

4. Findings

Table 1: List of respondents by states

State	N	%
Kedah	32	9.6
Kelantan	28	8.4
Perlis	5	1.5
Penang	21	6.3
Perak	20	6.0
Federal Territory	29	8.7
Sabah	15	4.5
Sarawak	28	8.4
Pahang	9	2.7
Selangor	39	11.7
Melaka	20	6.0
N. Sembilan	11	3.3
Johor	30	9.0
Terengganu	46	13.8
Total	333	100.0

The respondents are equally distributed among 14 states with the highest respondents from State of Terengganu followed by Selangor. The lowest responds is from Perlis which is the smallest state in Malaysia. Perlis also have the least number of Malays SMEs in the country. The population size may justify the low responses from Perlis.

Table 2: Respondents/Owners Profile

	N	%
Age		
<25	22	6.6
26-35	83	24.9
36-45	92	27.6
46-55	104	31.2
56-65	29	8.7
>65	3	.9
Gender		
Male	228	68.5
Female	105	31.5
Level of Education		

Lower Certificate of Education	32	9.6
Malaysia Certificate of Education	108	32.4
Certificate	33	9.9
Diploma	95	28.5
First Degree	47	14.1
Master Degree	13	3.9
Phd	5	1.5
Designation		
Owner	285	85.6
CEO	44	13.2
General Manager	4	1.2

Majority of the respondents are male (68.5%) and 60% of respondents are below 45 years old. About 60% respondents possess higher education with 28.5% obtained diploma, 14.1% first degree, 3.9% master degree and 1.5% Phd.

Table 3: Firms profile

	N	%
Number of employees		
1-5 y	207	62.2
6-20 y	91	27.3
21-35 y	23	6.9
36-50 y	7	2.1
>50 y	5	1.5
Age of firms		
<1	28	8.4
1-5 y	105	31.5
6-10 y	87	26.1
11-15 y	53	15.9
16-20 y	24	7.2
>20 y	36	10.8
State		
Kedah	32	9.6
Kelantan	28	8.4
Perlis	5	1.5
Penang	21	6.3
Perak	20	6.0
Fed Territory	29	8.7
Sabah	15	4.5
Sarawak	28	8.4
Pahang	9	2.7
Selangor	39	11.7
Melaka	20	6.0
N. Sembilan	11	3.3
Johor	30	9.0

Terengganu	46	13.8
Location		
Urban	226	67.9
Rural	107	32.1
Sector		
Manufacturing	50	15.0
Sericu	216	64.9
Agriculture	16	4.8
Construction	51	15.3

Out of 333 respondents, majority (64.9%) involves in services activities. Manufacturing represent 15% of respondents and the rest are SMEs which running agriculture based activities (4.8%) and construction (15.3%). In term of size, 62% respondents is categorised as micro-scale firms with 5 and less of full time employees and 37% categorised as small-scale firms with number of employees between 5 to 50. The balance of 1.5% is medium size firms with number of employees more than 50. Majority of respondents run the business in urban area and 60% of the respondents have more than 5 years in business.

Table 4: List of factor for not using the developmental bank services

Reason	Frequency	%*
Insufficient resources	83	24.92
Not aware of the services	76	22.82
Services only for nascent business	46	13.81
Did not know about the servives	53	15.92
Did not confident with the service offered	46	13.81
Poor fit between the business need and services available	52	15.62
Did not know to apply for the servives	115	34.53
Concern about possibility of information leakage	37	11.11
Procedure are complicated	245	73.57
Did not understand about the product	51	15.32
Service quality is poor	42	12.61
High charges imposed for the servives	54	16.22
Others	20	6.01

*Percentage out of total respondents of 333

Of 333 respondents 73.57% agreed that long process and complicated procedure to obtain the services is the most popular reason why SMEs are not utilise the servies. The second is they did not know how to apply. This is related to the former and it is believed due to long and complicated procedure. The third reason is insufficient resources where the fund is insufficient and need to wait for new allocation from the government. Based on researcher's experience with one of the participants in a particular training session, the participant claimed that the fund is exhausted when he submitted his application. Surprisingly 22.82% respondents are not aware about the services provided by the government. This factor becomes the forth reason for not utilise the services.

Table 5: Non-users perception on firms' performance

	Better market position		Larger market share		Higher sales growth		Higher employment growth		Better financial result	
	N	%	N	%	N	%	N	%	N	%
Strongly Disagree	6	1.8	4	1.2	5	1.5	3	.9	4	1.2
Disagree	18	5.4	33	9.9	16	4.8	36	10.8	15	4.5
Neutral	139	41.7	139	41.7	146	43.8	152	45.6	129	38.7
Agree	148	44.4	130	39.0	140	42.0	117	35.1	161	48.3
Strongly Agree	22	6.6	27	8.1	26	7.8	25	7.5	24	7.2
Total	333	100.0	333	100.0	333	100.0	333	100.0	333	100.0
Mean	3.49		3.43		3.50		3.38		3.56	
SD	.77		.82		.77		.81		.74	

To assess the firm's performance, respondents were asked to rate the five items used in performance constructs. The measurement using 5 point Likert-scale which scale of strongly disagree (1) to strongly agree (5). Respondents were required to give assessment based on the comparison between respondents firms and competitors firms. The results show that 44.4% respondents agree that their firms have better market position compares with competitors. Only 6.6% strongly agree that they have better market position. In terms of market share, 39.0% agree that their market share are larger than competitors whereas 11% disagree to this statement. Respondents also agree that their firms experienced higher sales and employment growth which response of 42% and 35.1% respectively. Finally, in terms of financial position, 48.3% of respondents agree that they recorded better financial position compare to competitors. Overall, the mean for items in performance construct is between 3.38 to 3.56 which can be concluded that respondents are agree that their firms, performance is fairly better than competitors.

5. Discussion and Suggestions

The study found that about 49.7% of the respondents did not utilise the services provided by the government. Majority of the respondents failed to benefit from various programs due to complicated procedure imposed by the agencies in obtaining the facilities. Another reason is that they do not know about the services and did not aware that there are available support programs from the government. This factors is quite alarming where 22% claimed they did not use because of unaware about the services. However, a lot more should be done as the result of this study indicates that the message did not reach certain group of SMEs and the number is quite high (22%). The result suggests that the awareness programs did not work well to certain groups of Malays SMEs.

The issue of complicated procedure is remain dominate the factor for failure to use the services. Salleh and Ndubisi (2006) reported that the bureaucracy is one of the challenges that facing the agencies to dessiminate efficient services to SMEs. This is a long and overdue issue that remain unsolved. There are a lot of debates in bureaucracies, some authors argue that the long and complicated process in obtaining services from the government is related to the accountability and good governance in public sector. The government is responsible and answerable to the public in particular on the money spent and activities held. In turn, the agencies must carefully act by keeping a comprehensive and detail record. This practices lead to lengthy process and a lot of forms need to be filled up. Bereaucracy lead to a rigid procedures and takes longer time to complete a process. This become problems to SMEs as long waiting time affected their daily operations.

There are also a debate that complicated procedure on obtaining financial aid. The government sponsored programs are managed by government-link corporations which run as a profit oriented organisation. As a corporate body with focus on profit making activities, giving out loan to SMEs is a risky activity in

particular to micro and small size SMEs. So, to mitigate the risk, the corporation involved needs a lot of information which sometimes is not readily available from applicants (SMEs). SMEs need to work out with other parties in order to produce the information. For instance, it is a normal practice by the financial institutions to ask for 3 years audited financial statements for corporations or endorsed by Public Accountant in the case of unincorporated business entity. Obviously, most of the micro and small sized SMEs incapable to employ qualified employee as an accountant as salary is high and did not commensurate with their earnings. By imposing such conditions they need to engage private party. Then, the issue now by engaging private party SMEs need to spent money. Furthermore, it takes sometimes to prepare the documents. At the same time, the lodgement of the documents after spending much money and time did not give any guarantee for loan approval. This is the dilemma facing the SMEs. They are in dire need for the services which should come with no cost upon application but turn to be a very high prices. Consequently, these factors become distraction factor for SMEs in using the support services provided by the government.

Non-users SMEs assess their performance at better position compares with their competitors. Thus, the findings reflect that the business support services offered by the government available in the market did not attractive to this group. Simply, the this group of Malay SMEs believed their operation do not need intervention from the government.

6. Conclusions

Non-users of the government business support services were satisfied with their firm performance and believed in the absence of the support services by the developmental bank, the firms perform better than competitors. Majority of the respondents did not use the services on the reason of failure to comply with lengthy procedure and bureaucracy. Surprisingly, the awareness issues still exist besides various programs conducted to overcome the problems. There are number of factors that can be overcome if the service providers really understand the nature of SMEs and their requirements. The problems of bureaucracy, complicated procedure and awareness, are long overdue and need serious attention from the government. Non users rate is consider high when about half of the total Malays SMEs population are not benefited from the programs. It is suggested that the government agencies to review the terms and conditions stipulated in the services in order to cut-off a lengthy procedures. For financial support, the government backed-up financial institution for SMEs is suggested to review the whole procedure by considering not to apply normal credit practices in particular when assessing loan application from micro and small sized SMEs. Imposing normal credit practices on nascent micro and small sized SMEs will discourage as they are not capable to comply. For instance, recently, the a new financial support services scheme dedicated to youth below 30 years old was launched. It was announced that the support is come in form of soft loan where the extension of financial aid to SMEs without third party guarantee. The fund is managed by one the development institution. However, in practice the facilities offered without guarantee but SMEs need to put cash collateral which is equivalent to 10% of loan amount. It is foresee that the cash collateral imposed create difficulties for nascent Malay entrepreneur and again discourage them from using the facilities. Consequently, its spoilt the government objective to provide services render from the new financial support schemes.

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