MARA BUSINESS FINANCING
A CASE STUDY OF SMEs PERFORMANCE IN PERLIS (1994-2003)

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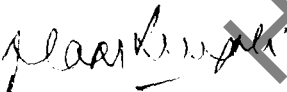Universiti Teknologi MARA
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Dear Sir / Madam,

SUBMISSION OF PROJECT PAPER (FIN 660)

Attached in the project paper titled " **MARA BUSINESS FINANCING – A CASE STUDY OF SMEs PERFORMANCE IN PERLIS (1993 – 2004)"** to fufill the requirement as needed by the Faculty of Business Management, Universiti Teknologi MARA.

Thank you,

Yours sincerely,

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ACKNOWLEDGEMENT

In the name of Allah, The most Gracious and The Most Merciful.

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Wan Razali bin Wan Abdullah
September, 2004
UiTM, Perlis.

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1. *MARA*
   Majlis Amanah Rakyat (Council of Trust for the Indigenous People). A government body which is responsible to Bumiputera entrepreneur.

2. *RIDA*
   Rural Industrial Development Authority.

3. *SMEs*
   Small and Medium Enterprises. It's referring to the business entity which is owned by bumiputera entrepreneur.

4. *SMIDEC*
   Small and Medium Industries Development Corporation

5. *MIDF*
   Malaysian Industrial Development Finance Berhad

6. *BIMB*
   Bank Industri Malaysia Berhad

7. *BPIMB*
   Bank Pembangunan dan Infrastruktur Malaysia Berhad

8. *NERP*
   National Economic Recovering Plan

DEFINITION OF TERMS

1. *Business Loan*
   Loan which is provided by MARA to Bumiputera Entrepreneur.

2. *Non-Performing Loans (NPLs)*
   Loans which are uncollected or in arrears over 6 months.

3. *Economic Growth (Gross Domestic Product)- GDP*
   Gross Domestic Product is one of the economic indicators. It is measured based on economic growth every year.

4. *Loan Disbursement*
   The sum of loan that is disbursement every year under Business Loan

5. *Loan Collection*
   Total loan which is collected for every year. It is used as an indicator to measure entrepreneur business performance.

6. *Bumiputera Entrepreneur*
   Refer to Malay entrepreneur which is engage in business.

7. *Revenue / Sale*
   Revenue gaining from business activities. It is used as one of the measurement of the business performance.

8. *Capital*
   Sources in terms of working capital which is used by enterprise to improve business performance.

9. *Business Problems*
   Refer to the problems which is facing by SMEs such as demand /market/ competition, economic recession, personal/health, weaknesses in management and natural calamity.

10. *Loan Utilization*
    Refer to purpose of loan usage by SMEs.

11. *Experience*
    How long entrepreneur involve in business.

ABSTRACT

Past records show that SMEs play an important role and have a deep impact on the economic development in this country. SMEs promote employment, increases in savings, increases in economic growth etc.

In Malaysia, there are many agencies which are responsible and are involved in the development of SMEs. Majlis Amanah Rakyat (MARA) is one of the agencies which are in charge totally with the development of SMEs (Bumiputera). Since it was established in 1969, MARA had contributed greatly in order to assist the performance of SMEs. One of the main activities related to SMEs is the MARA Business Financing scheme. Through this service, MARA provides financing for SMEs in order to improve their business performance in many sectors such as contract, manufacturing, commerce, services and transportation.

Even though MARA has provided a large amount of financing to SMEs, many records show that SMEs are still faced with problems and failures in the business. Therefore this study tries to find factors that contribute to the business performance. To examine the performance of SMEs, the researcher used primary (external) and secondary data (internal). The result of this study shows that working capital, business problems and experience were the important variables which influence SMEs performance. This study also found out that the main problems faced by SMEs in Perlis are low sales / market problems / competition and weakness in management. At the end of the finding, this study tries to relate the performance of loan repayment with business performance.

Chapter
1

OVERVIEW OF THE STUDY

- ***INTRODUCTION***

- ***LITERATURE REVIEW***

- ***THEORETICAL FRAMEWORK***

CHAPTER 1
OVERVIEW OF THE STUDY

1.1   <u>INTRODUCTION</u>

1.1.1 Background of the Study

The development of entrepreneurship, as both concept and activity, has been growing in importance in Malaysia. Hodgetts and Kuratko (1995) [1]suggest that small and medium businesses not only create employment but are the economic engines driving the global quality of life. Undoubtedly small firms and entrepreneurship do play a major role in the world economy (Bygrave, 1994)[2]. On the contribution of small firms toward the economy, it is generally recognized that small firms have played a significant role in the fields of income distribution, social mobility, capital investment and the development of entrepreneurs. Small firms serve as a training ground for developing the skills of industrialized workers and entrepreneurs. The low cost of setting up a firm enables an enterprising worker to not only provide himself a livelihood but also offer employment to others.

SMEs represent an important part of the Malaysian economy. They provide slightly more than one-third of total employment in Malaysia.

Table: 1

The Importance of SMEs in Malaysia

	Contribution (%)
Total Establishment	92.0
Total Employment	30.7

Source: Malaysian Economic Report, 2004

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[1] Hodgetts, R.M., Kuratko, D.F., 1995, *Effective Small Business Management*, 5th ed., Dryden, Fort Worth, TX.
[2] Bygrave, W.D., 1994, *The Portable MBA in Entrepreneurship*, John Wiley, New York, NY.

The perceived importance of entrepreneurship to the growth of Malaysia's economy is evidenced by the sheer amount and variety of supporting mechanisms and policies that exist for entrepreneurs, including funding, physical infrastructure and business advisory services. The establishment of a special ministry for entrepreneurs—the Ministry of Entrepreneur Development-in 1995, clearly highlights the importance of government places on the issues of entrepreneurship and entrepreneur development. The Ministry is supposed to act as the lead agency for the development of Bumiputera entrepreneurs as well as to co-ordinate entrepreneurship activities in general.

The Malaysian government has emphasized the importance of the SMEs sector in achieving fully industrialized status for the nation. The role of government in guiding the economy is very strong. The Malaysian policy has long been aimed for two important goals; economic growth to eradicate poverty and restructuring society through the redistribution income and wealth. SMEs represent important business activities in the country. This is because the development of the SMEs has contributed significantly to the economic development in terms of income, employment, mobilization of savings, growth in GDP and social development. From time to time, the government assists the development of SMEs and formulated many programs. Among the ongoing programs are the financial assistance, technical assistance, training programs and marketing programs. In Malaysia, there are many organizations that involved and participate to the development of SMEs such as SMIDEC, MARA, MIDF, CGC, BIMB, Ministry Of Entrepreneurship Development, BPIMB and others institution whether direct or indirectly involved in SMEs. Therefore as one of government agency that actively involved with Bumiputera entrepreneur (SMEs), MARA has been charged with the critical role in the progress. Over its lifetime,

MARA had assisted a large number of SMEs with providing Business Financing for Bumiputera entrepreneurs.

Although MARA has provided many facilities including business financing since it was established, SMEs (Bumiputera entrepreneur) are still faced with many problems. Many factors contributed to the problems business performance (SMEs) among Bumiputera entrepreneurs. Therefore, the researcher is interested to study on the various factors that contribute to the business performance of SMEs among Bumiputera entrepreneurs, which have obtained business financing from MARA. This study will only focus on the performance of MARA entrepreneurs in the State of Perlis and it will be evaluated on the factors that contribute to the Loan Performance (Loan Repayment) and Business Performance (Revenues / Sales).

1.1.2 Definition of Small and Medium Enterprise (SMEs)

The term "small firm" or small and medium enterprises (SMEs) mean different things to different people depending on the circumstances. Definitions used in the Irish context are related to the scale of activity and generally are based on numbers employed, Hynes (1992, p. 39)[3]: the choice of a definition depends on the purpose to which it is to be put so that different aspects of smallness may therefore be more appropriate for some purposes than for others.

According to Donald T. Savage (1997)[4], a "small business" is defined as having asset less than \$5 million, and a net worth less than \$2.5 million. However, economic

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[3] Hynes, B, 1992, *"Management development - an exploratory study of its role in the owner/managed firm"*, Thesis, Master of Business Studies, University of Limerick.
[4] Donald T. Savage, *Money and Banking*, A Wiley/Hamilton Publications (1997).

theory often tends to view firm size as a continuum (Storey, 1989)[5], whereas the most useful conceptual definition of a small or a large firm is perhaps best expressed in terms of the qualitative nature of the firm's decision-making processes. Definitions of firm size, which is based upon quantitative measures such as assets (capital), or turnover can vary substantially between industrial sectors, whereas a qualitative definition along the lines suggested can be applied consistently across a range of sectors.

In Malaysia, SMEs have been variously defined by different supporting agencies. These differences matter because the way an important concept such as SMEs is defined and interpreted has serious implications on the formulation as well as implementation of a particular policy. Mohd Khairudin (2000)[6] said that, it is advocated that general quantitative and qualitative characteristics to be taken into consideration by an agency when it is trying to identify, classify and define an enterprise as an SMEs.

As for MARA, there is also no specific definition of SMEs. All entrepreneurs who are entitled and obtained financial support ranging up to the maximum RM 1 million are considered SMEs.

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[5] Storey, D.J., 1989, *"Firm performance and size"*, Acs, Z.J., Audretsch, D.B., The Economics of Small Firms: A European Challenge, Klumer Academic Publishers, Dordrecht, NL, 43-50.
[6] Asian Academic of Mgt. Journal (Vol.5, No.1- Jan 2002),Mohd Khairuddin Hashim and Mat saad Abdullah. *A Proposed Framework for Redefining SMEs in Malaysia. One industry. One Definition.*

1.1.3 Economic and SMEs

Before the economic crisis, during the 1980s and early 1990s, the Malaysian economy had shown an outstanding performance. Our country enjoyed economic growth with an average of 8% per annum. This indication showed that economic and business enterprises in Malaysia were growing strongly. The significant role of SMEs in all sectors in the economy is demonstrated by their output, which was worth RM 4.3 billion, or about 20 percent of the Malaysian GDP in 1990 and was projected to be around 50 percent or RM 120 billion by the year 2020.[7] Lately, in 1997 when Asian countries were hit by economic crisis, Malaysia was among the affected countries and one of the reasons given was that its past investments had not been in productive areas. Many loans were faced with problems and caused NPLs and bad debts. NPLs, which was at 5% in January 1997, went up to 11.4% by the end of 1997. SMEs were one of the sectors that was affected by the financial turmoil. Through the 1997 crisis and its aftermath, the National Economic Recovery Plan (NERP) called for continuing the equity and socio-economic agenda, including promotion of Bumiputera equity ownership and entrepreneurship through support to SMEs. The six objectives of the recovery plan were:-

- Stabilizing the Ringgit

- Restoring market confidence

- Maintaining financial market stability

- Strengthening economic fundamentals

- Continuing the equity and socio-economic agenda

- Restoring adversely affected sectors.

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[7] Government of Malaysia (1996). Malaysia: *Seventh Malaysia Plan (1996-2000)*. Kuala Lumpur: Government Printer

1.1.4 SMEs and MARA Business Financing

Since it was established, MARA overall had provided about RM 1,672 million in business financing to Bumiputeras especially to SMEs. For MARA Perlis, total loan disbursed was RM 47.9 million and for the year 1994 to 2003 MARA State Office of Perlis had approved RM 25.67 million for financing about 918 Bumiputera entrepreneurs especially SMEs. The performance of collection (loan repayment) for MARA State Office of Perlis reveals that the amount collected has been increased from year to year. But at the same time the total of default payment (NPLs) is also increasing. Until 31 December, 2003, total default loans was accumulated to RM 3.4 million and according to observations and feedback, business performance is one of the factors that caused the NPLs.

1.1.5 Background of Majlis Amanah Rakyat (MARA)

In 1950, RIDA was established by the colonial government. The main thrust of RIDA was to look after rural development, emphasizing development schemes for basic infrastructures, providing loans, and training Malays for various projects. In the mid 1960s, RIDA was reorganized and converted into MARA (Majlis Amanah Rakyat, Council of Trust for the Indigenous People) with more financial support in response to the need for greater participation of Bumiputeras in the modern sector and greater ownership of companies.

Majlis Amanah Rakyat was incorporated as a statutory body under the Act of Parliament, 1966 with the aim to promote, motivate, facilitate as well as implement economic and social development activities particularly in rural areas. Since its establishment, MARA has structured and implemented its main programs and

activities in order to achieve the government aspiration in building successful and resilient Bumiputera entrepreneurs.

1.1.5.1 Objectives

To encourage, guide, train and assist Bumiputeras especially in rural areas to enable them to participate actively and progressively in both the commercial and industrial enterprise towards creating strong Bumiputeras entrepreneurs and a viable business community.

1.1.5.2 Strategies

- To create and increase the number of Bumiputera entrepreneurs and also upgrade their level of participation in the small and medium commercial and industrial enterprises, thereby creating a strong and viable business community.

- To participate actively in specific commercial and industrial enterprises through investments and management of companies as means of nurturing and promoting Bumiputera participation in commerce and industry.

- To increase the number of trained Bumiputera manpower at all levels and in various fields for the needs of the nation's commercial and industrial sectors.

- To provide other facilities and services where appropriate and to become a trustee in areas to help raise the social and economic standards of the Bumiputera community, directly or indirectly.

1.1.5.3 Vision

To be an excellence corporate organization,   autonomy and capability.

- As an equity trust holder
- As an active catalyst
- As a center for network in commercial and enterprise industry.
- As a center information, training, research and development.
- As a thinking organization

1.1.5.4 Principal Activities

MARA Principal Activities can be categorized into four (4) main divisions such as:-

1.1.5.4.1   Education

- Education Sponsorship
- Secondary Education
- Vocational Training
- Professional Education
- Resources Development
- Training Institution & Education

1.1.5.4.2   Entrepreneurs

- Entrepreneur Evaluation & Counseling
- Business Infrastructure Development
- Business Financing
- Credit Control
- MARA State & District
- Transportation

1.1.5.4.3   Services

- Financial
- Service and Personnel
- Corporate Planning
- Information Management

- Legal
- Asset, Supplies and Contract Management
- Corporate Affairs
- Internal Audit and Management
- Supervision

1.1.5.4.4 Management of Company
- MARA subsidiaries

1.1.6. MARA Business Financing

As mentioned earlier, the main objective of this government agency is to overcome the weaknesses of Bumiputera economic conditions specifically for Malays in the business and industrial sector.

One of the main functions is to create, help and establish small and medium entrepreneurs (SMEs) by providing Business Financing to them as an alternative to get credit facilities with a lower priced compared to the Banking Sector and other Financial Institutions. The Business Financing program provides financing facilities to assist Bumiputera entrepreneurs who wish to start up business or to expand their venture capital in order to improve their business as well as to upgrade their entrepreneurship level in commerce as well as in SMEs.

MARA had started giving credit facilities to the Bumiputera entrepreneurs since it was established in 1966, which was known as a Business Loan but in 1996 MARA had changed and converted its conventional loan to the Islamic Loan, which is known as Business Financing. The financing facilities provided under this program are based

on the Islamic Concepts, encompassing all types of manufacturing and industrial projects as well as trading, services, transportation and contracts.

1.1.6.1 Scope of Business Financing

1.1.6.1.1 Contract

Covering all construction work, supply and services such as building contracts, roads, renovation, electrical wiring etc.

1.1.6.1.2 Commerce

Covering all activities in commerce, which are involved selling and buying goods such as mini markets, groceries, marketing production of food and drinks, selling furniture, marketing of crop production, petrol stations etc.

1.1.6.1.3 Services

Covering all business activities in services, which are involved with selling and buying in services such as lawyer services, clinics, catering, restaurants, barber shops, sewing etc.

1.1.6.1.4 Manufacturing

Covering all business activities in manufacturing such as metal fabrication, electrical and electronic components, food and drink, plastic, textiles, leather, printing and publication, telecommunications etc.

1.1.6.1.5 Transportation

Financing for purchasing commercial transport such as buses, vans, lorries and motorboats.

1.1.6.2 Method of Financing

All business financing provided by MARA is based on Islamic concepts and are free from usury (interest free).

1.1.6.2.1 Al-Bai Bithaman Ajil

Means a sale of goods on a deferred payment basis with a profit margin. Can be used for purchasing fixed assets, working capital, overhead expenses and Bank Guarantees.

1.1.6.2.2 Al-Murabahah

The commodity exchanged for, is delivered immediately and the sale price comprisies cost plus profit margin. Can be used for purchase of raw materials, complete and incomplete products and spare parts components.

1.1.6.2.3 Al-Ijarah

A contract, under which MARA purchases and leases out equipment, machines, transport and other assets, which ere required by its clients for a rental fee.

1.1.6.2.4 Bai Ai-inah

Means sales goods with deferred payment to buyers. Specifically for the purpose of overhead expenses only.

1.1.6.3 Eligibility Requirement

- Malaysian citizens who are Malay and above 18 years old

- Can contribute at least 10% of the capital from the project cost.

- Must start the business in at least 6 months or must attend and entrepreneurship course if they don't have experience.

- Having experience / knowledge in the business involved or will be involved.

- Must concentrate and give full time commitment to the business

- Having a license / permit / letter of consent from the related agencies.

- Can provide collateral or a guarantor

1.1.6.4 Limit of Financing

Normally the limit of financing is between RM 1,000.00 to RM 1,000,000.00 depending on the loan scheme.

1.1.6.5 Payback Period

For financing below RM 10,000.00 (1-3 years), RM 10,001.00 to RM 50,000.00 (1-5 years), RM 50,001.00 and above (10 years) and for Contract Financing, the payback is based on the period of contract.

1.1.6.6 Rate of Profit

General Financing   - 5 % per annum

Contract Financing   - 6 % per annum

1.2   <u>LITERATURE REVIEW</u>

A survey conducted by the United Nations (1993)[8] has found that SMEs play a significant role in the economic and social structure of developed economies. The study also found that SMEs operate in almost all industries, and they differ greatly in their nature and importance from industry to industry and from country to country.

As small firms become a more increasingly important part of global economies, then more and more researchers are seeking to understand the practices and activities of these enterprises. This often reflects the interest of government, government agencies and particularly those that are charged with responsibility for enterprise development, (Jimmy Hill, 1999)[9].

Yet small business entrepreneurs have continued to complain of competitive disadvantages due to their inability to raise finances. Recently, Binks *et al.* (1990)[10] have confirmed a finance gap. They argue that the development of banking practices

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[8] United Nations (1993). *Small and medium-sized transnational corporation.* New York; United Nations.

[9] Jimmy Hill,P, 1999, *"Small Business and Enterprise Development"*, International Journal of Entrepreneurial Behaviour & Research,5, 5-18.

[10] Binks, M.R., Ennew, C.T., Reed, G.V., 1990, *"The Single Market: Finance for Small and Medium Sized Enterprises"*, The International Journal Banking Marketing,8,3.

has created finance gaps in the small and medium-sized enterprise (SME) market, particularly in terms of finance for growth and long-term investment projects.

Business loans can be the key to a company's success. Money is essential for making companies grow, and making investments, Business Loan.Org (2003)[11]. Nowadays most business credit (loans) are obtained through the capital markets and the banking system. However, small businesses' access to these sources of credit is often limited. A firm may be too small to have direct access to the capital markets and may not meet the credit standards of local banks.[12]

A small business should borrow money only when needed or when analysis proves it will be profitable to do so. Short-term financing is essential to a seasonal business. However, poor analysis turns short-term loans into long-term debt, putting the business in a precarious financial position. Incorrect use of short-term financing was a major problem for a number of the SMEs cases studied, (Terry R. Armstrong,1991)[13].

As put forward by many researchers, growth or performance of the business can be expressed in the conventional terms of revenue, profits, value of assets-total, fixed or net, number of employees, market share and equity of the firm.

Analysis of performance of small and medium firms reveals that the growth of SMEs is affected by internal factors, external factors, strategic management and the entrepreneurs themselves.

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[11]Business Loan. Org (2003*). Business Loan-All About Business Loans.*
[12] Donald T. Savage, *Money and Banking,* A Wiley/Hamilton Publications (1997), Pg. 374
[13] Terry R. Armstrong and Walter J. Wheatley, 1991, *Audit Checklist for the Growing Business,* U.S. Small Business Administration.

The internal environment is determined by forces operating within the firm and there are basically two factors: the managers and the workers (Hodgetts, R.M., 1985)[14]. As Drucker (1973)[15] puts it, a firm depends on managers, it is built by managers, directed and held together by managers, and is made to perform by managers. Good management is one of the factors that contribute to business performance. According to Small Business Resources, (2004), 90% of all small business failures can be traced to, poor management, lack of planning and under capitalization.[16] Poor management is cited most frequently as the reason businesses fail, and inadequate or ill-timed financing is a close second, United States Small Business Administration (2004)[17].

Woodward (1976) sees that bad management is usually the culprit of a small firm's failure identifying three principal weaknesses as growth of sales, seen as a solution; inadequate product-cost analysis, and gearing operations.[18] One of the functions of management is strategic planning which focuses largely on managing interaction with environmental forces, which include competitors, government, suppliers, customers, various interest groups and other factors that affect the business and its prospects, Scott R. Safranski (1991)[19]. Argenti (1976)[20] and Bibeault (1982)[21] are among others who agree that the prime cause of a firm 's failure is internally generated and the problem of financial control stands out as one of the many factors resulting in a firm's failure.

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[14] Hodgetts, R.M. (1985). Management. International Edition pp. 63-67. Florida: Academic Press
Hollander, E.D. et. a/. (1967). *The Future of Small Business.* pp 44 . New York: Praeger
[15] Drucker, P.F. (1973). *Management: Tasks, Responsibilities, Practices.* In: condensed version
by The World Executive Digest Library, 1989,9 .
[16] Small Business Resources (2004, Jun 21). *A major breakthrough in small business ideas and small business financing.*
[17] United State Small Business Administration. (2004, Jun 21). *Financing Basic.*
[18] Woodward, H.N. (1976). *Management Strategies for Small Companies.* Harvard Business Review, Jan/Feb 1976.
[19] Scott R. Safranski and Ik-Whan Kwon. (1991) , *Strategic Planning For The Growing Business.* U.S. Small Business Administration.
[20] Argenti, J. (1976). Corporate Collapse: *The Cause and Symptoms,* p. 122. New York: Wiley
[21] Bibeault, S.B (1982). *Corporate Turnaround How Managers Turn Losers into Winners.* pp.27-31. McGraw-Hill Book Company

If financial control is deemed an important variable for a firm to fail, likewise growth would also produce financial stress for the small firm.

Another internal factor is capital investment. In small and medium firms, ownership and control of capital are typically in the hands of one key decision maker who is able to exert a powerful influence on the way the firm pursues his or her objectives, (Keith Glancey,1998).[22] A larger amount of financial capital provides an entrepreneur with more flexibility to undertake a wider array of strategies, and therefore, would influence positively business performance (Duchesneau and Gartner, 1990; Cooper *et al.*, 1989).[23]

Ronald C. Anderson, Steven S. Byers, John C. Groth (2000) [24]said that, making capital investments that add value to the company, shareholders, and society rest on four important tasks:-

- Identifying potentially attractive projects.
- Determining the after-tax economic events that will transpire from pursuit of the project.
- Gauging the attractiveness of these economic events against the hurdle rate.
- Accepting and effectively managing attractive projects

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[22] Keith Glancy, 1998. *Determinants of growth and profitability in small entrepreneurial firms.* International Journal of Entrepreneurial Behaviour & Research. Volume 4 Number 1 1998 pp. 18-27
[23] Duchesneau, D.A., Gartner, W.B., 1990, "*A profile of new venture success and failure in an emerging industry*", Journal of Business Venturing, 5, 297-312.
[24] Ronald C. Anderson, Steven S. Byers, John C. Groth, 2000. *The cost of capital for projects: conceptual and practical issues. Management Decision* .Volume 38 Number 6 2000 pp. 384-393

According to Thomas W. Zimmerer and Norman M. Scarborough (1998),[25] factors that influence business performance / failure are:-

    i.   **Access to Capital**

           Normally SMEs are at a disadvantage in the competition for capital required for growth and experience.

    ii.   **Management Incompetence**

           According to the writer, 50% of the business failures are attributed to the incompetence of the owner / manager. Sometimes managers of SMEs lack leadership ability and knowledge necessary to make the business work.

    iii.   **Lack of Experience**

           SMEs managers / owners need to have experience in the field they want to enter. Prospective entrepreneurs should have adequate technical ability (a working knowledge of the physical operations of the business, and sufficient conceptual ability), the power to visualize, coordinate and integrate the various operations of the business into a synergistic whole, the skill to manage the people in the organization and motivate them to higher levels of performance.

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[25] Thomas W. Zimmerer and Norman M. Scarborough (1998). *Small Business Fundamentals*. Pp.20-21. Merril Publishing Company. US.

iv.   **Lack of Capital**

Many SMES owners make the mistake of beginning their business on a "shoestring" which is the fatal error leading to business failure. Entrepreneurs tend to be overly optimistic and as a result often misjudge the requirements of going into business.

Dun and Bradstreet (1997), suggested that the successful owner needs balanced experience in purchasing, production and products, attracting customers and handling finances.[26]

Evans (1987)[27] and Reid (1993)[28] investigate "quasi-stochastic" effects on firm performance, whereby managers learn from experience over time, so age becomes a more important determinant of performance than size. However, Reid (1993) argues that the stochastic approach lacks sufficient economic justification to inform an investigation of small firm performance.

According to Keith Glancey (1998)[29] size of business, age and location play an important factors that contribute to business performance:-

i.   **Size and profitability**

A positive relationship between size and profitability can be expected if larger firms benefit from economies of scale. On the other hand,

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[26] Dun and Bradstreet (1997). *The Pitfall of Managing a Small Business.* N. York. pp.3.

[27] Evans, D.S., 1987, *"Tests of alternative theories of firm growth"*, Journal of Political Economy, 95, 657-74.

[28] Reid, G.C., 1993, Small Business Enterprise: *An Economic Analysis*, Routledge, London

[29] Keith Glancy, 1998, *Determinants of growth and profitability in small entrepreneurial firms*, International Journal of Entrepreneurial Behaviour & Research, Volume 4 Number 1 1998 pp. 18-27

firms that grow at a rate faster than that which the entrepreneur can manage may experience diseconomies of scale, which reduce profitability. Larger firms may have become large because their entrepreneurs have in the past-pursued profits in order to provide finance for expansion, as well as personal income. Small firms may remain small if their entrepreneurs are motivated more by non-pecuniary returns, in which case smaller firms may be expected to display lower levels of profitability.

ii.   Age and profitability/ growth

A positive relationship between firm age and profitability or growth may be expected if older firms benefit from dynamic economies of scale by learning from experience. Older firms may also benefit from reputation effects, which allow them to earn a higher margin on sales. On the other hand, older firms may have developed routines that are out of touch with changes in market conditions, in which case an inverse relationship between age and profitability or growth could be observed.

iii.   Location and profitability/growth

Firms located in rural areas may be more profitable, and may experience higher growth rates than those in urban areas if the latter face higher costs due to higher factor prices due to greater competition for factors of production (especially land and labor). Urban firms may also experience space constraints, which limit the scope for expansion.

On the other hand, firms in urban locations could be better positioned (i.e. closer to their markets) to take advantage of changes in market conditions.

An external factor, that influences business performance is demand. Smallbone (1990), found that demand (market) deficiency was the most common problem for surviving firms and the important single reason for failure[30]. Demand deficiency may be caused by the competition. Porter (1980) says that a key aspect of environment influence is the industry in which firm competes. He describes that the forces of competition are from suppliers and customers, and the threat of entrants and substitutes, together with the rivalry between competitors within the industry.[31]

According to Reid (1993), small firm entrepreneurs operating in less than perfectly competitive conditions or in, relatively protected "niche" markets may also have a similar discretion to pursue profit-maximizing objectives.[32]

Environment also plays an important factor in influencing business performance. Bibeault (1982)[33], showed that environmental changes can take place slowly and predictably or with such shocking suddenness and severity, that no one can predict. Johnson and Scholes (1988)[34] further stress the importance of the environment on a firm in that environment changes throw up opportunities and threats, as perceived changes in the environment will signal possible changes in a firm's strategy.

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[30] Smallbone, D, 1990, *"Success and failure in new business start-ups"*, International Small Business Journal, 8, 2, 34-47.

[31] Porter, M.E. (1980). Competitive Strategy: *Techniques for Analyzing industries and Competitors.* p.4. Collier MacMillan Publishers.

[32] Reid, G.C., 1993, Small Business Enterprise: *An Economic Analysis*, Routledge, London.

[33] Bibeault, S.B (1982). ibid

[34] Johnson, G. and Scholes, K. (1988). *Exploring Corporate Strategy.* p. 55, 2nd Edition Prentice-Hall.

Although there are many factors that contribute to the performance / growth of SMEs, this study only focuses on selected variables; Working Capital, Experience, Business Problems and Loan Utilization, and to relate between business performance to Loan Repayment, this study will focus on internal sources; NPLs, Loan Disbursement and Economic Growth (GDP).

1.3 THEORETICAL FRAMEWORK

The following model will be used in the study and it is divided into two evaluations. First to be examined is from primary sources where the evaluation is based on Income as the Dependent Variable (DV) and Capital, Business Problems, Loan Utilization and Experience as the Independent Variables (IV).

The second examinination will be based on internal factors where the researcher is trying to relate the performance of SMEs with Loan Repayment. This trial will be evaluated based on Loan Repayment (DV) and NPLs, Loan Disbursement and GDP (IV).

<u>Dependent Variable</u>   <u>Independent Variables</u>

Evaluation on Primary Sources
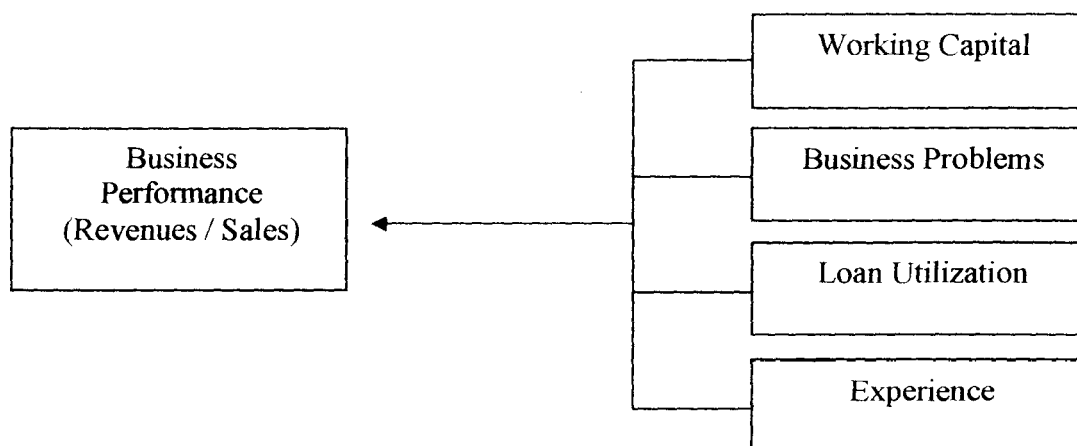
Evaluation on Secondary Sources

```
┌─────────────────────┐                          ┌─────────────────────┐
│                     │                          │       NPLs          │
│  Loan Performance   │ ◄────────────────┐       │    (> 6 months)     │
│    (Repayment)      │                  │       └─────────────────────┘
│                     │                  │       ┌─────────────────────┐
└─────────────────────┘                  ├───────│  Loan Disbursement  │
                                         │       └─────────────────────┘
                                         │       ┌─────────────────────┐
                                         │       │  Economic Growth    │
                                         └───────│       (GDP)         │
                                                 └─────────────────────┘
```
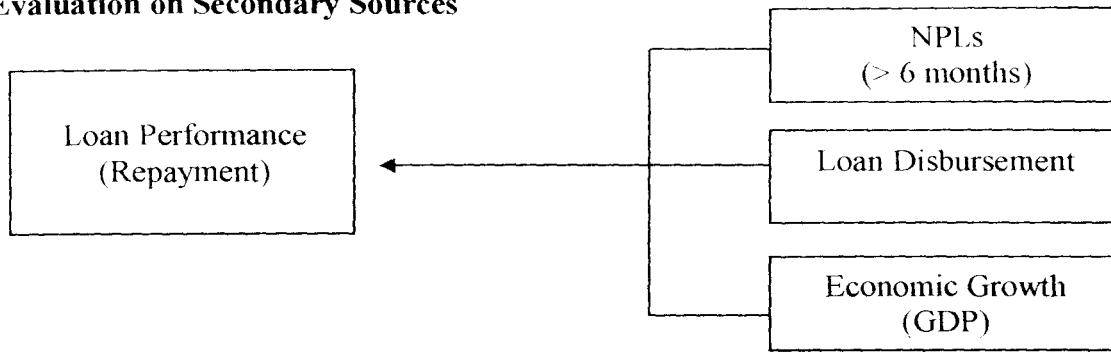
<u>Relationship between MARA Sources and SMEs Sources</u>

IV   **DV**

```
┌──────────────────────┐                    ┌──────────────────────┐
│ Business Performance │                    │  Loan Performance    │
│  (Revenue / Sales)   │───────────────────►│    (Repayment)       │
└──────────────────────┘                    └──────────────────────┘
```

PROBLEM STATEMENTS, OBJECTIVE AND SIGNIFICANCE OF THE STUDY

- **PROBLEM STATEMENTS**

- **OBJECTIVE OF THE STUDY**

- **SIGNIFICANCE OF THE STUDY**

CHAPTER 2
PROBLEM STATEMENTS, OBJECTIVE AND SIGNIFICANCE OF THE STUDY

2.1   **PROBLEM STATEMENTS**

Until now, MARA has disbursed RM 1,672 million in term of loans to Bumiputeras and according to MARA Chairman, Datuk Wira Abu Seman Yusop, less than 50% of borrowers have problems with loan-repayment.(2003, Sept. 14).[35] Even though MARA provides a large amount of financing capacity for the Bumiputera entrepreneurs (SMEs) to enable them to improve in their business performance, they are still faced with business problems and this causes repayment problems. Therefore, the issue is, what are the problems that are faced by SMEs and does MARA Business Financing really help SMEs to improve their business performance?

2.2   **OBJECTIVE OF THE STUDY**

2.2.1   To know what the factors are that affect business Performance among Bumiputera entrepreneurs (SMEs) in the State of Perlis.

2.2.2   To find out what factors cause problem loans.

2.2.3   To study whether there is a relationship between Economic Growth, Loan Disbursements, Loan Collections and NPLs.

2.2.4   To know whether MARA Business Financing can help and improve business performance.

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[35] *Masalah bayar balik Pinjaman MARA.*(2003, September 14).Utusan Malaysia

2.3 **SIGNIFICANCE OF THE STUDY**

From this study, it is hope that MARA and SMEs (MARA Borrowers) can use the information in the following ways:-

2.3.1   Through this study, MARA can identify what the main problems are that cause in business problems and NPLs. Therefore, MARA and SMEs can take and formulate certain actions in order to overcome the problems.

2.3.2   SMEs (MARA Borrowers) and MARA can see whether economic growth plays an important role in business performance. Therefore, both parties can take action when there downturns in economy.

2.3.3   MARA can evaluate whether SMEs really use their loans for business purposes and whether MARA Business Financing is effective or not in helping SMEs improve their performance. Some corrective action could be taken if there is a weakness on either side.

Chapter
3

RESEARCH DESIGN

- **SCOPE AND LIMITATIONS**

- **HYPHOTHESES**

- **DATA DESCRIPTION**

- **METHODOLOGY**

CHAPTER 3
RESEARCH DESIGN

3.1 SCOPE AND LIMITATIONS

3.1.1 Scope

The study concentrates on the performance of SMEs (MARA Borrowers) after getting Business Financing in State of Perlis. For the purpose of this study, the researcher has used sampling method. The period of this study is 10 years (1994 – 2003).

3.1.2 Limitations

The following are the limitations, which were faced by the researcher in order to complete this study:-

3.1.2.1 Limitations of data

The main problem in conducting this research comes from the limitation of data available due to the sensitivity of certain information that is classified as confidential and cannot be exposed to the public. This situation would affect the accuracy and reliability of the data.

3.1.2.2 Time Constraints

The period for the research is about three (3) months and it is not enough for the researcher. Due to the limited time, it will affect the process of constructing a solution to the problem.

3.1.2.3 Costs

In the process of gathering the data required, some expenses are involved in order to get as much data as possible. Due to limited expenses and financial support, some information needed cannot be obtained.

3.1.2.4 Accuracy of data

The source of the data is also from primary sources. Some of the data given may not be accurate based on the honesty and sincerity of the respondents.

3.1.2.5 Experience and Expertise

The researcher has little experience and limited expertise in handling and completing the research.

3.2   **HYPHOTHESES**

The study will be based on the following hypotheses:-

Main Hypotheses:

H_1 :   There is a significant relationship between Business Performance and Capital, Business Problems, Loan Utilization and Experience.

H_0 :   There is no significant relationship between Business Performance and Capital, Business Problems, Loan Utilization and Experience.

H_1 :   There is a significant relationship between Loan Performance (Loan Collection) and NPLs , Loan Disbursement and GDP.

H_0 :   There is no significant relationship between Loan Performance (Loan Collection) and NPLs , Loan Disbursement and GDP.

Sub Hypotheses:

Relationship between Loan Performance and Business Performance

H_1 :   There is a relationship between Loan Performance and Business Performance.

H_0 :   There is no relationship between Loan Performance and Business Performance.

3.3   DATA DESCRIPTIONS

Data for this study is taken from Primary and Secondary Data.

3.3.1 Primary Data

Primary Data is from a survey (Questionnaires) that had given to SME through 100 sampling. Each survey contains 30 questions related to finance and business problems. It is divided into 3 sections, Part A- Entrepreneur Background, Part B- Business Background and Part C- Details of MARA Loan. Samples were chosen from simple random sampling among 918 MARA Borrowers (1994 – 2003) in Perlis.

3.3.2 Secondary Data

Secondary data can be classified into 4 categories including Loan Collection, Loan Disbursement, NPLs and Economic Growth (GDP). Sources of the data are from:-

-      Internal Department (MARA Perlis)

-      Finance Department (MARA HQ)

-      Finance Department (MARA HQ)

-      Credit Controller Department (MARA HQ)

-      Bank Negara Report

-      MARA Annual Report

-      Ministry of Finance

3.4   METHODOLOGY

To examine the primary and secondary data, this study used the statistical computer package SPSS to test the relationship between the dependent and independent variables.

3.4.1 Data Analysis

3.4.1.1 Correlation Analysis

This analysis will examine the relationship of the individual variables.

3.4.1.2 Regression Analysis

This analysis technique tries to attempt and establish a functional relationship between the dependent and independent variables.

3.4.2 Data Interpretation

There are three important statistics to be considered in the estimating and interpretation of result, which are:-

3.4.2.1 Coefficient of Determination (R^2)

To test the goodness of fit. It used to determine how well the regression line fits the data.

3.4.2.2 The t-statistic (T-stat)

Used to determine if there is a significant relationship between the dependent variable and independent variables. To determine it, it uses a degree of freedom, which is calculated as follows:-

The degree of freedom   : N-k-1

Where:-

    N   = number of observations

    k   = number of independent variables.

3.4.2.3 F- statistic (F-Stat)

F-stat is used to test the hypothesis that the variation in the independent variables explained a significant portion of the variation in the dependent variable. It is tries to explain the significance of the model.

$$F - Stat \quad = \quad \frac{\text{Explained variation} / (k - 1)}{\text{Unexplained variation} / (n - k - 1)}$$

Where;

    k   =   Number of independent variables

n   =   Number of observations

3.4.5 General Function

Primary Data

The general function and prior relationship on Business Performance (Revenue / Sales) of SMEs in State of Perlis can be expressed as follow:-

$Y = f(\text{WC}, \text{P}, \text{U}, \text{E})$

Where:

Y	=	Business Performance (Revenue/Sales)
WC	=	Working Capital
P	=	Business Problems
U	=	Loan Utilization
E	=	Experience

The general function of Business Performance and its factors can be expressed as follows:-

$$R = C + WC + P + U + E + e$$

Where :-

R	=	Loan Repayment
C	=	Constant
WC	=	Working Capital
P	=	Business Problem
U	=	Loan Utilization
E	=	Experience
e	=	Error terms

Where R is the dependent variable.

WC, P, U and E are the Independent Variables.

Secondary Data

The general function and priory relationship on business performance (Loan Repayment) of SMEs in State of Perlis can be expressed as follow:-

$$Y = f(X_1, X_2, X_3)$$

Where:

Y	=	Business Performance (Loan Repayment)
X_1	=	NPLs
X_2	=	Loan Disbursement
X_3	=	Economic Growth (GDP)

Y is the Dependent Variable

X_1, X_2 and X_3 are Independent Variables.

The general function of Business Performance and it factors can be expressed as follows:-

$$Y = C + aX_1 + bX_2 + cX_3 + e$$

Where:

Y	=	Business Performance (Loan Repayment)
aX_1	=	NPLs
bX_2	=	Loan Disbursement
cX_3	=	Economic Growth (GDP)
e	=	Error terms

Chapter
4

ANALYSIS AND FINDINGS

- **INTRODUCTION**

- **DATA ANALYSIS**

- **DATA INTERPRETATION**

CHAPTER 4
ANALYSIS AND FINDINGS

4.1   INTRODUCTION

Analysis and Interpretation of the data (primary and secondary) are based on statistical package with using Statistical Package of Social Science (SPSS) program. From the regression analysis, all the information can be gathered for data interpretation such as Correlation, Coefficient of Regression, T-Stat and F-Stat. Statistic and charts for easy reference and understanding will support the results.

4.2   DATA ANALYSIS

4.2.1 Primary Data

4.2.1.1 Trend of Business Performance and Working Capital

The performance of Business Performance moves according to the volume of Working Capital. SMEs that have more Working Capital have more chances to perform well and gain more benefits compared with SMEs that have low Working Capital. In conclusion, Business Performance has a positive relationship with Working Capital (See Figure 1).

Figure 1: Trend of Business Performance and Working Capital

TREND OF BUSINESS PERFORMANCE AND WORKING CAPITAL
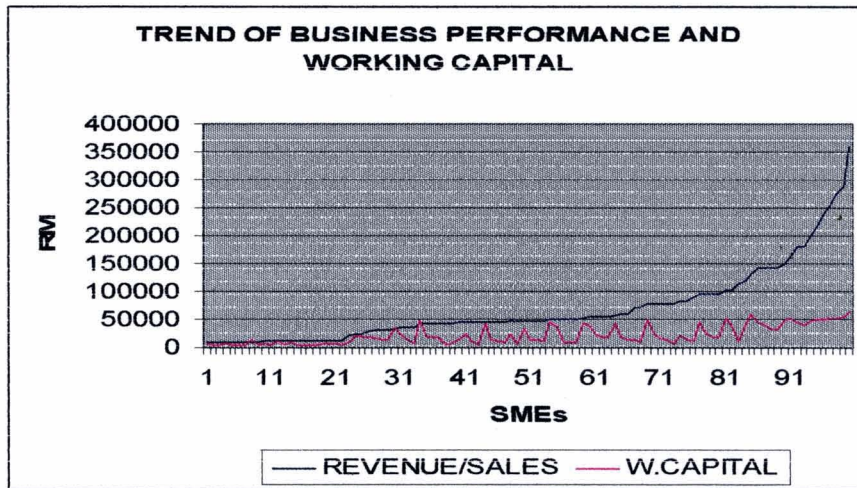
4.2.1.2 Trend of Business Performance and Business Problems

The performance of Business Performance was moving inversely with Business Problems. The higher degree of Business Problems will cause to low Business Performance. SMEs who faced a low degree of Business Problems shown a better performance and vice versa (See Figure 2).

Figure 2:Trend of Business Performance and Business Problems

TREND OF BUSINESS PERFORMANCE AND
BUSINESS PROBLEMS
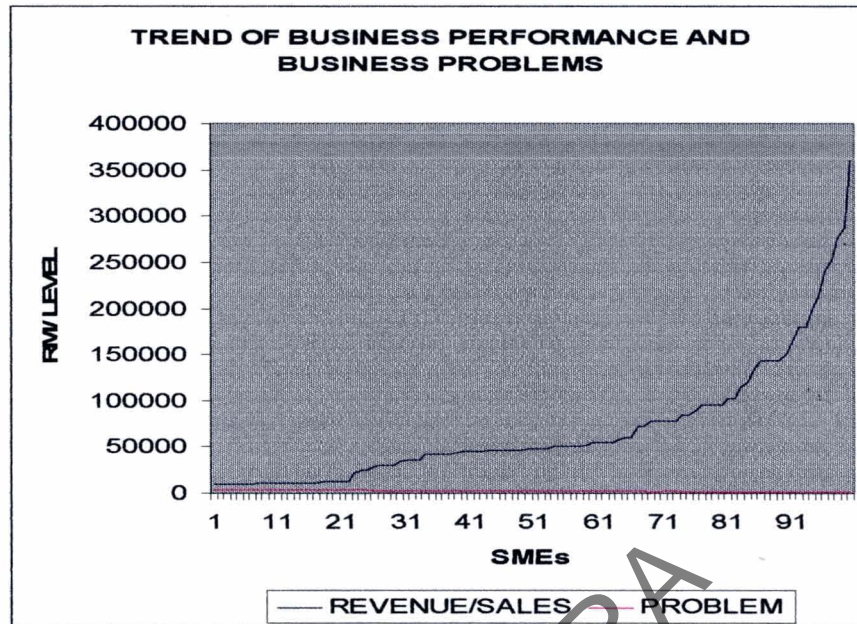
4.2.1.3 Trend of Business Performance and Loan Utilization

From the chart below, we can see that Business Performance has a positive relationship with Loan Utilization. In theory, the more SMEs utilize the loan, the better Business Performance they can achieve (See Figure 3).

Figure 3:Trend of Business Performance and Loan Utilization
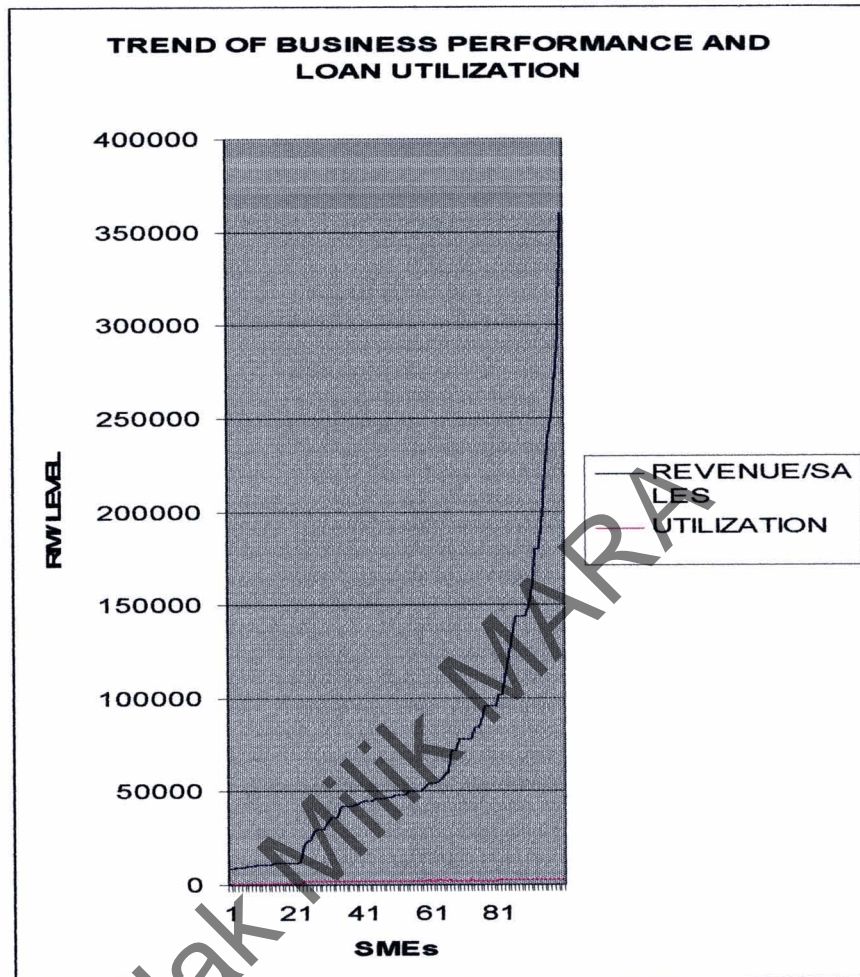
4.2.1.4 Trend of Business Performance and Experience

The performances of SMEs also generally had a positive relationship with Experience. SMEs that have more experience tend to have a higher Business Performance and vice versa (See Figure 4).

Figure 4: Trend of Business Performance and Experience
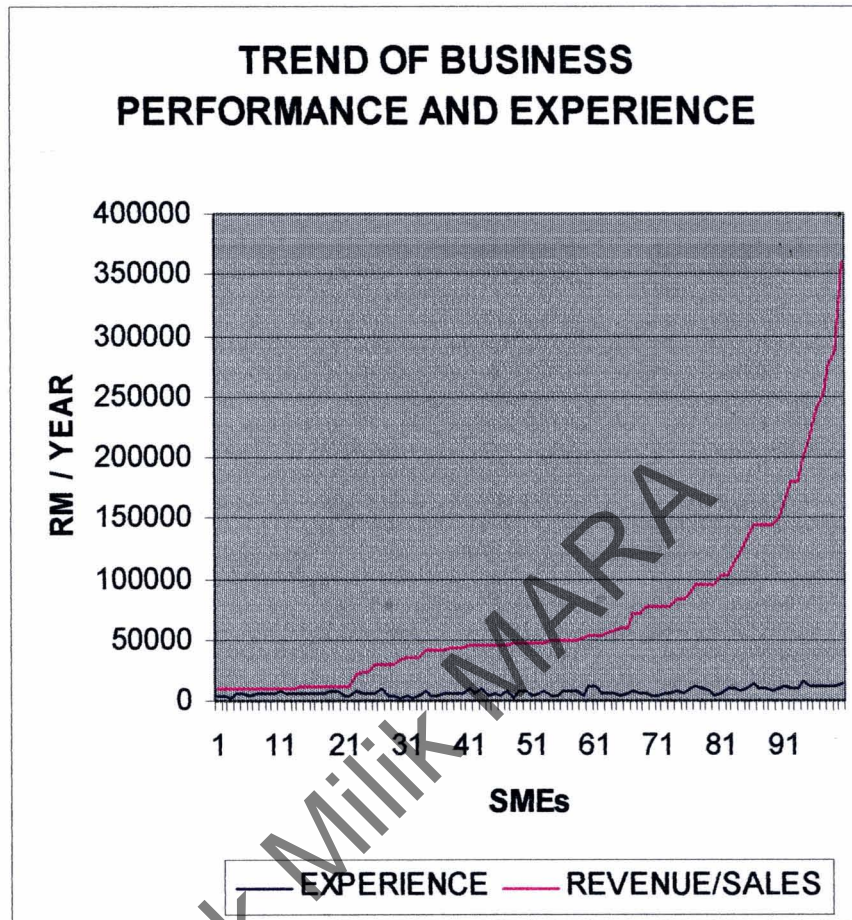
4.2.2 Secondary Data

4.2.2.1 Trend of Loan Repayment and Loan Disbursement

Before the economic crisis, 1994 – 1997 the chart showed that

Loan Repayment volume was more than Loan Disbursement.

However, after 1997 the trend had changed where the volume

of Loan Disbursement was more than Loan Repayment. There

was a positive relationship between Loan Disbursement and

Loan Repayment. The more Loan Disbursed, the more Loan

Repayments (See Figure 5).

TREND OF LOAN REPAYMENT AND LOAN DISBURSE
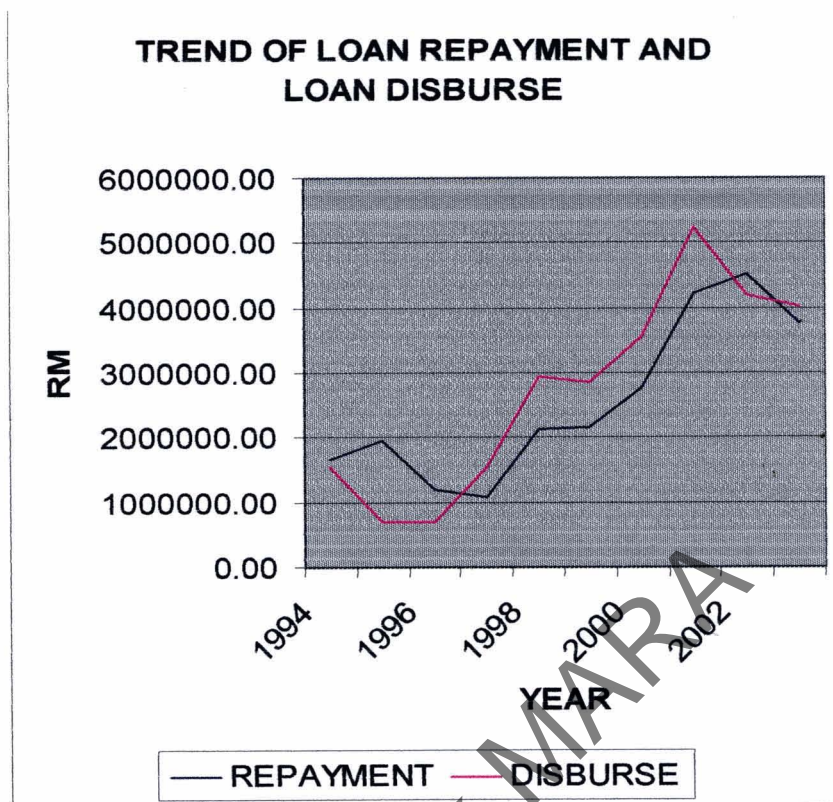
4.2.2.2 Trend of Loan Repayment and NPLs

From the chart, we can see that there is a negative relationship between Loan Repayment and NPLs. Higher NPL before 2000 caused low Loan Repayments, and Low NPL after 2000 showed that there was an increase in Loan Repayments (See Figure 6)

Figure 6: Trend of Loan Repayment and NPLs
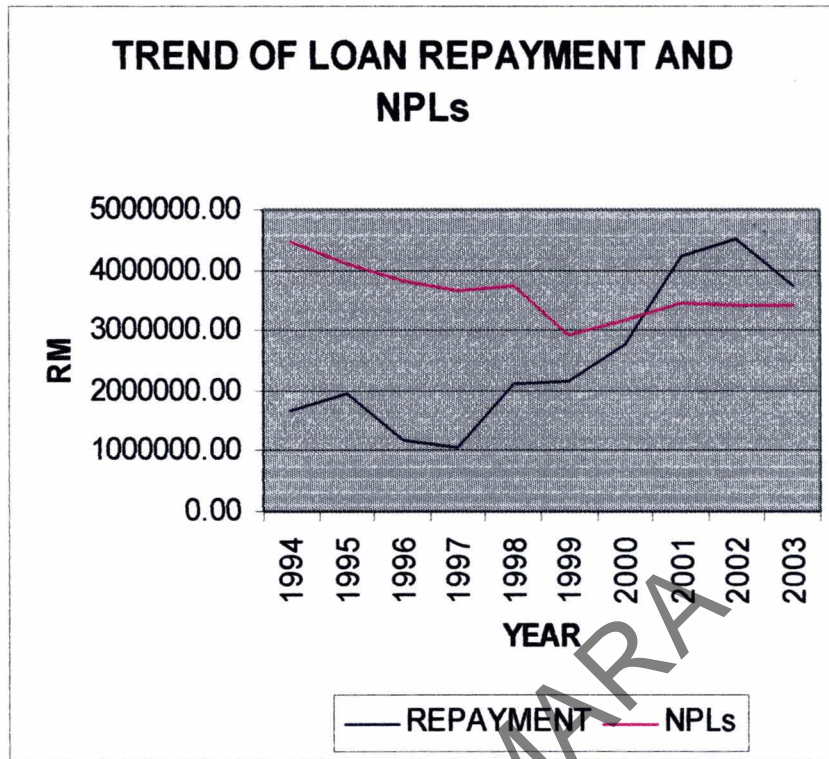
4.2.2.3 Trend of Loan Repayment and GDP

Generally, the chart showed that there were a few relationships or no relationship between Loan Repayment and GDP. In theory, there should be a positive relationship between Loan Repayment and GDP. High growth of GDP will cause high performance in business performance and cause high Loan Repayment (See Figure 7 and Table 2).

Figure 7: Trend of Loan Repayment and GDP
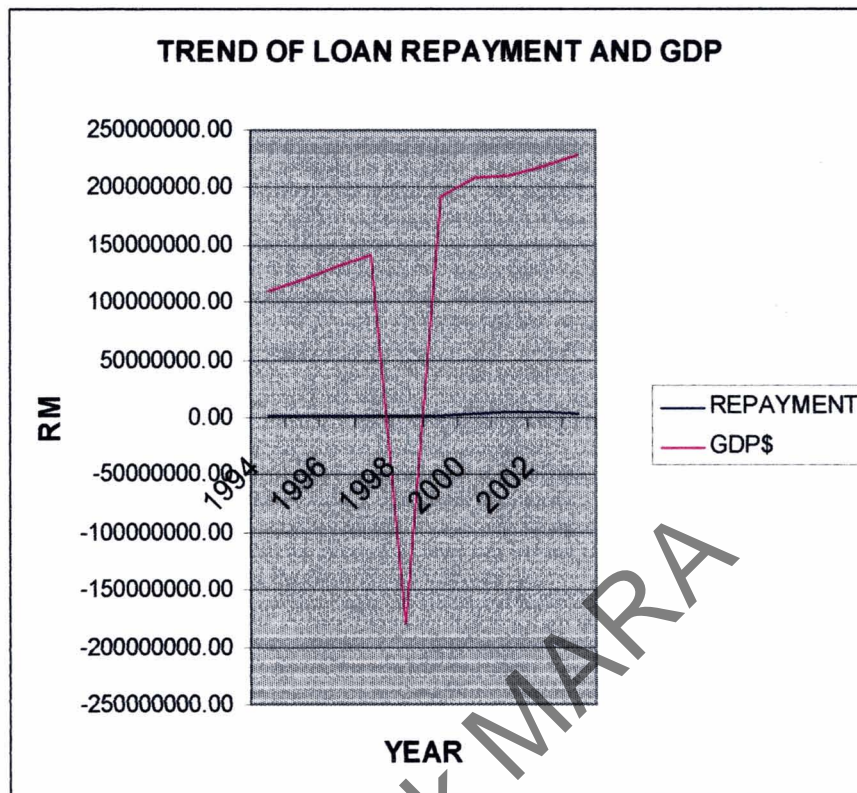
Table 2: Loan Disbursement, Repayment and Classification to NPLs.

YEAR	REPAYMENT	DISBURSE	NPLs	GDP$
1994	1659347.00	1532100.00	4478561.00	110000000.00
1995	1947466.00	710500.00	4103920.00	120000000.00
1996	1196314.00	709500.00	3807743.00	131000000.00
1997	1066528.00	1553800.00	3641724.00	141000000.00
1998	2133349.00	2941000.00	3730863.00	-180000000.00
1999	2157339.00	2847700.00	2945892.00	193000000.00
2000	2781151.00	3562000.00	3151853.00	209000000.00
2001	4222239.00	5231000.00	3435969.00	210000000.00
2002	4524383.00	4208000.00	3428336.00	219000000.00
2003	3754524.00	4008000.00	3421883.00	229000000.00
TOTAL	25442640.00	27303600.00	36146744.00	1382000000.00

4.3   DATA INTERPRETATION

4.3.1 Model of The Study

The model of the study can be classified into two models:-

Primary Data

R   = C + WC + P + U + E + e

Where :-

R	$=$	Loan Repayment
C	$=$	Constant
WC	$=$	Working Capital
P	$=$	Business Problem
U	$=$	Loan Utilization
E	$=$	Experience
e	$=$	Error terms

Secondary Data

Y = C + aX$_1$ + bX$_2$ + cX$_3$ + e

Where:

Y	$=$	Business Performance (Loan Repayment)
C	$=$	Constant
aX$_1$	$=$	NPLs
bX$_2$	$=$	Loan Disbursement
cX$_3$	$=$	Economic Growth (GDP)
e	$=$	Error terms

4.3.2 Coefficient of Determination (R^2)

Primary Data

For Primary Data, the Coefficient of Determination is 80.5%. This shows that 80.5% of the changes in Business Performance can be explained by Working Capital, Business Problems, Loan Utilization and Experience. Another 19.5% can be explained by other variables, that are excluded in this study. This relationship can be considered as a strong relationship since it is more than 50%. See Table 3.

Table 3 : Model Summary and Coefficients Table

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.897[a]	.805	.797	30723.28710

a. Predictors: (Constant), EXPERIENCE, LOAN UTILIZATION, WORKING CAPITAL, PROBLEM

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	98181.451	34260.689		2.866	.005
	WORKING CAPITAL	.732	.306	.180	2.390	.019
	PROBLEM	-34398.6	6136.918	-.528	-5.605	.000
	LOAN UTILIZATION	6727.260	8285.100	.066	.812	.419
	EXPERIENCE	5584.726	1372.194	.237	4.070	.000

a. Dependent Variable: REVENUE / SALES

Secondary Data

For secondary data, the coefficient of Determination is 86.4%. This shows that 86.4% of the changes in Loan Repayment can be explained by the changes of Loan Disbursement, GDP and NPLs. Another 13.6%

can be explained by other variables that are excluded in this study. See

Table 4.

Table 4 : Model Summary and Coefficients Table

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.929[a]	.864	.796	557953.061

a. Predictors: (Constant), TOTAL NPL, GDP$, LOAN DISBURSE

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2535218	2360812		-1.074	.324
	LOAN DISBURSE	.774	.149	.976	5.202	.002
	GDP$	2.317E-03	.002	.227	1.389	.214
	TOTAL NPL	.717	.554	.251	1.294	.243

a. Dependent Variable: LOAN REPAYMENT

4.3.3 Regression Equation

Primary Data

$$R = 98181.451 + 0.732WC - 34398.6P + 6727.260U + 5584.726E$$
$$(2.390) \quad (-5.605) \quad (0.812) \quad (4.070)$$

Note: The figures in the parentheses are T-stat

Secondary Data

$$Y = -2535218 + 0.717X_1 + 0.774 X_2 + 2.317X_3$$
$$(1.294) \quad (5.202) \quad (1.389)$$

Note: The figures in the parentheses are T-stat

4.3.4 T-Statistic

T-statistics measure whether the variables contribute to the relationship. It is used to decide whether to accept or reject the Hypotheses.

Primary Data

The degree of freedom

: N-k-1

: 100- 4 - 1

: 95

From the distribution table at 95% confidence, T value = **1.980**

Therefore:-

Variables	Compute T		T Value	Relationship
W.CAPITAL	2.390	>	1.980	Significant
B. PROBLEM	5.605	>	1.980	Significant
UTILIZATION	0.812	<	1.980	Insignificant
EXPERIENCE	4.070	>	1.980	Significant

From the above result, it shows that Working Capital, Business Problems and Experience have significant result and Loan Utilization level has an insignificant result for Business Performance. So, from the hypotheses, we accept H_1 and reject H_0 for Working Capital, Business Problems and Experience. For Loan Utilization we accept H_0 and reject H_1.

Secondary Data

The degree of freedom   : N-k-1

: $10 - 3 - 1$

: 6

From the Table at 95% confidence, T value = **2.447**

Therefore:-

Variables	Compute T		T Value	Relationship
LOAN DISB	5.202	>	2.447	Significant
GDP	1.389	<	2.447	Insignificant
NPL	1.294	<	2.447	Insignificant

From the above result, it shows that only Loan Disbursement is significant and the other variables are insignificant.

4.3.5 F-Statistic

F-statistics was used to test the reliability of the regression equation to evaluate the significance of each individual component to the entire regression model.

Primary Data

F – Stat   = $\dfrac{\text{Explained variation} / (k - 1)}{\text{Unexplained variation} / (n - k - 1)}$

= $\dfrac{4 - 1}{100 - 4 - 1}$

From the table F value = **2.68**

Comparing the F value in Table 5, the compute F value is greater (98.116 > 2.68) than the F value from the distribution table. Since the computed F value is more than the F value from the distribution table, it can be said that the independent variables are statistically significant. Therefore, there is a significant relationship between the independent and dependent variables. Therefore, the model appears to be useful for predicting Business Performance.

Table 5 : Compute F-Stat value

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.70E+11	4	9.261E+10	98.116	.000[a]
	Residual	8.97E+10	95	943920370.2		
	Total	4.60E+11	99			

[a]. Predictors: (Constant), EXPERIENCE, LOAN UTILIZATION, WORKING CAPITAL, PROBLEM

[b]. Dependent Variable: REVENUE / SALES

Secondary Data

$$\text{F – Stat} = \frac{\text{Explained variation} / (k-1)}{\text{Unexplained variation} / (n-k-1)}$$

$$= \frac{3-1}{10-3-1}$$

From the table F value = **5.14**

Comparing the F value in Table 6, the compute F value is greater (12.686 > 5.14) than the F value from the distribution table. Therefore, there is a significant relationship between the independent and dependent variables.

Table 6: Compute F-Stat value

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.18E+13	3	3.949E+12	12.686	.005[a]
	Residual	1.87E+12	6	3.113E+11		
	Total	1.37E+13	9			

a. Predictors: (Constant), TOTAL NPL, GDP$, LOAN DISBURSE

b. Dependent Variable: LOAN REPAYMENT

4.3.6 Relationship between Primary and Secondary Data

From the analysis and interpretation, this study tries to relate the correlation between the two sources. The results of the findings and the relationship between the two sources are:-

4.3.6.1   From the anaysis based on primary data (survey), this study found that the SMEs business scope under MARA can be classified into 5 categories as shown in Table 7 and Figure 8. According to the percentage of business, SMEs under Services represent 41%, Commerce at 31%, Contract at 15%, and Manufacturing at 12% followed by Transportation at 1%.

4.3.6.2   This study also classified the problems that are faced by SMEs into 6 categories, which are shown in Table 8 and Figure 9. Low Sales / Market / Demand and high competition is the highest problem faced by SMEs under MARA at 58%. The second highest was weakness in management which represents 16%. In conclusion, this information reflects the problemsthat are faced by the entire population of SMEs

under MARA Perlis. The factors also caused NPLs and Loan Repayment Problems

4.3.6.3   To measure the degree of problems that are facing by SMEs, this study categorizes it into four levels (Low, Moderate, High and Very High). The findings showed that 46% of the SMEs facing a High level of problems, 25% Very High, 20% Low and 6% Moderate. This result reflects Business Performance and contributes to the Loan Repayment Performance. See Table 9 and Figure 10.

4.3.6.4   To test whether all SMEs utilized the loan obtained from MARA. This study also tries to find whether it will affect the Business Performance. To measure the degree of Loan Utilization, this study classified Loan Utilization into 4 levels of utilization (Low, Moderate and High or Fully Utilized). From the findings, it showed that only 25% of SMEs fully utilized their loan, 53% were moderate and 22% were low (See Table 10 and Figure 11). This factor also contributes to the business performance of SMEs. However, from the analysis using statistical method, it showed that Loan Utilization was insignificant but still contributes the Business Performance.

4.3.6.5   In Conclusion for the overall performance,

(1994 – 2003) has a relationship with Business Performance.

The findings from primary data could be used to illustrate and

reflects the performance of Loan Repayment.

Table 7: Business Scope Categories

BUSINESS SCOPE CATEGORIES

Categories	No. of SMEs
Contract	15
Commerce	31
Services	41
M'facturing	12
T'portation	1
TOTAL	100

Figure 8: Business Scopes
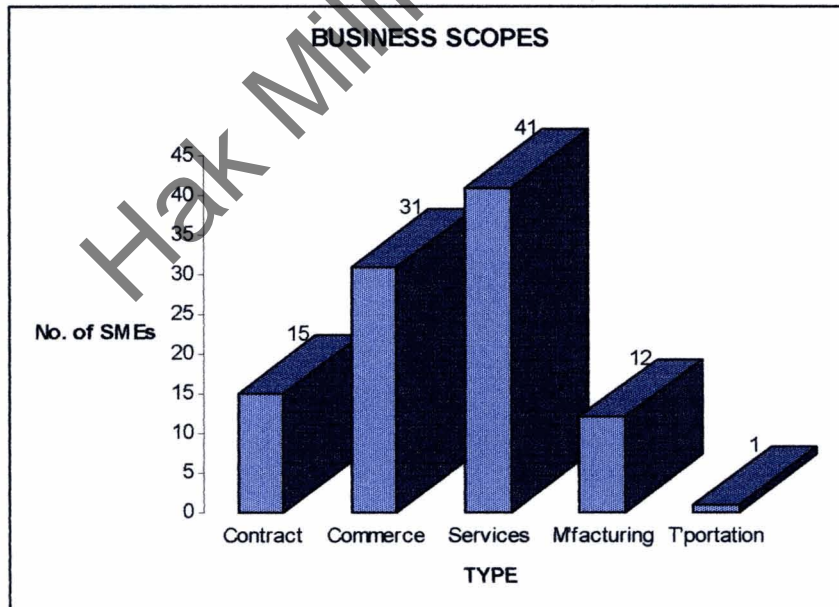
Table 8: Business Problems

Business Problems	No. of SMEs
Low Sales/Market/Competition	58
Economic Recession	5
Personal / Health	6
Weakness in Management	16
Natural Calamity	2
Others	13
TOTAL	100

Figure 9: Type of Business Problems
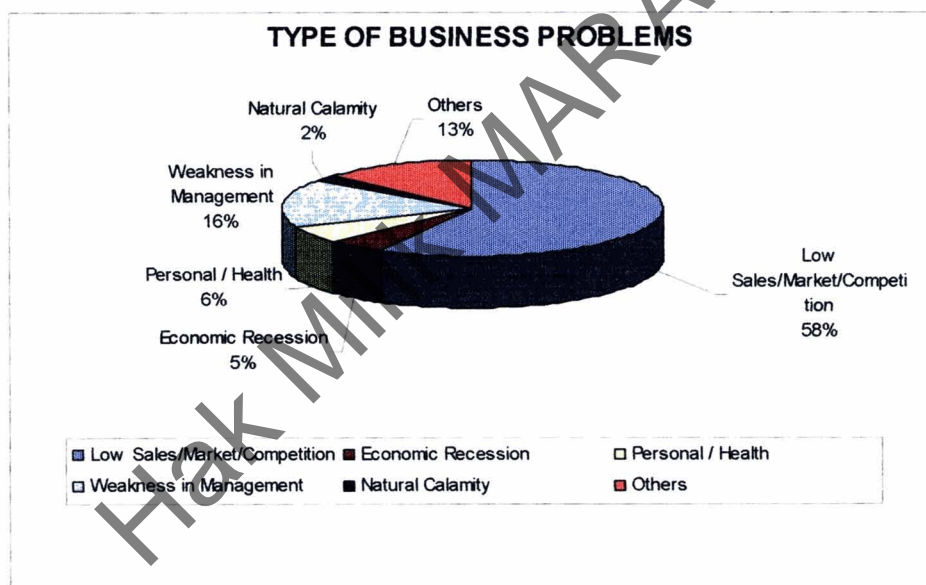
Table 9: Level of Business Problems

LEVEL OF BUSINESS PROBLEMS

Level	No. SMEs
Low	20
Moderate	9
High	46
Very High	25
TOTAL	100

Figure 10: Business Problems Level

BUSINESS PROBLEMS LEVEL

Very High 25%
Low 20%
Moderate 9%
High 46%

□ Low ■ Moderate □ High □ Very High
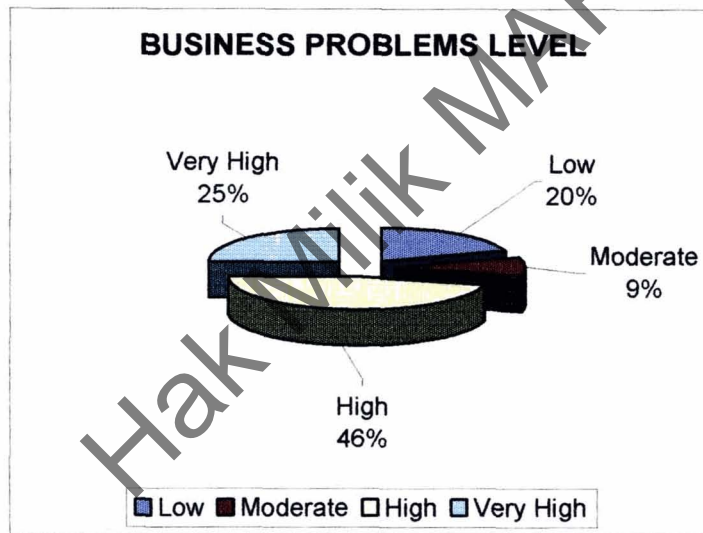
Table 10: Loan Utilization Level

LOAN UTILIZATION LEVEL

Level	No. of SMEs
Low	22
Moderate	53
High/Full	25
TOTAL	100

Figure 11: Loan Utilization Level
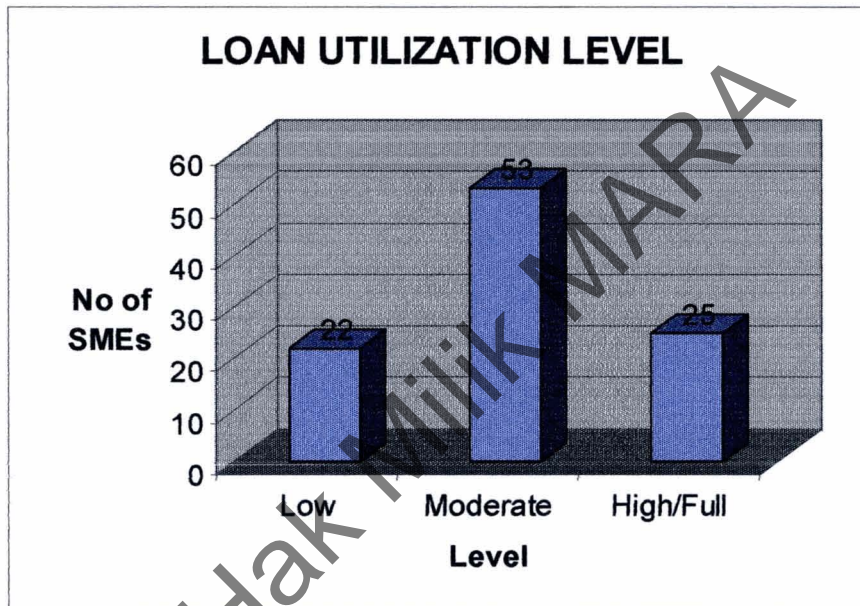
Chapter
5

CONCLUSION AND RECOMMENDATION

- *CONCLUSION*

- *RECOMMENDATION*

CHAPTER 5
CONCLUSION AND RECOMMENDATION

5.1   CONCLUSION

5.1.1   From the findings, it can be concluded that Business Problems, Working Capital, and Experience are important factors that contribute to the Business Performance of SMEs in Perlis. Level of Loan Utilization is not significant but still contributes to the performance of SMEs.

5.1.2   MARA Business Financing plays an important role in performance of SMEs. From the analysis, it was found that MARA Business financing overall has improved the level of Working Capital about 43.61% (mean).

5.1.3   Low Sales / Market / Competition and Weakness in Management are the biggest problems faced by SMEs in Perlis. Others problems, such as economic recession, were not serious problem because most of the SMEs only contribute to the domestic economic development. Therefore, it is not affected much by the economic downturn.

5.1.4   It is found that only 25% of SMEs that had obtained MARA Business Financing fully used their loan for business development, 53% moderate and 22% low. Most of the SMEs possibly kept part of the loan as an emergency fund or used it for personal purposes.

5.1.5   One of the important factors that is not included in this study that influence Business Performance and Loan Repayment is attitude of the SMEs toward business development and responsibility of loan repayment.

5.1.6   Business Performance and Loan Repayment has a significant relationship. Positive performance in business will have a positive impact on loan repayment and vice versa.

5.1.7   In theory, there should be a positive relationship between economic growth and Loan Repayment (Business Performance). However, in this study, it showed that GDP was insignificant with Loan Repayment. This situation might be because of the focus of the study was only on SMEs in Perlis, whereas figures for the GDP represents overall national performance. The value of the GDP does not reflect the performance of economic performance for the State of Perlis.

5.2   RECOMMENDATION

5.2.1   In order to reduce the business problems' gap, MARA should organize more Business Development courses such as course in Marketing, Personal Selling, and Business Management etc. All programs should be related to the quantitative and qualitative aspects. All new SMEs that obtained MARA Business Financing must be made compulsory to follow the business programs organize by MARA.

5.2.2   MARA should particularly take into consideration the financing need of SMEs. Straight procedures and policies should be emphasized in order to avoid SMEs from misusing their loans. Consultations and advice must be given immediately after they obtain the business financing.

5.2.3   MARA should carry out regular inspection to the business places. Advice and recommendations could be given to the SMEs if there is an indication or signs showing SMEs have any problems related to business.

5.2.4   This study also found that loan collection from premise to premise plays an important role to the Loan Repayment performance. Therefore, MARA through the Bill Collector or responsible officer should do a schedule task in order to collect the loan repayments.

5.2.5   A paradigm shift from the old perspective to the new one should be done. MARA must stick with the financing rules and principles .More tolerance should be avoided. Enforcement actions must be taken earlier rather than letting the borrowers take the opportunities to drag the loan repayment. Example from private organizations in the private sector should be followed and implemented by MARA.

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SURVEY AND QUESTIONAIRES ON ENTREPRENEUR (SMEs)
WHO HAVE OBTAINED MARA BUSINESS FINANCING

Assalamualaikum,

Dear Sirs/Madams;

Please be informed that a survey is being done on Entrepreneurs (SMEs) who have obtained MARA Business Financing. The purpose of this survey and questionnaires is to find out what are the problems faced by SMEs (MARA Borrowers) after obtaining the Business Financing. For your information, you are one of the *samples* that have been selected for this survey. Therefore we hope you could give a full cooperation in this survey. You are required to fill the form attached with this letter with honesty and sincerity in order to ensure the accuracy of this survey. All the information given will be treated as a private and confidential and will be used for this purpose only.

Your full cooperation in this matter is appreciated.

Survey Dept
MARA State of Perlis
Tkt. 4, Kompleks Kangar
01000 Kangar, Perlis.

ase tick [✓] and fill in the spaces provided.

PART A – ENTREPRENEUR BACKGROUND

How old are you?

- [ ] *below 25 years*
- [ ] *25 – 34 years*
- [ ] *35 – 39 years*
- [ ] *40 – 49 years*
- [ ] *50 and above*

Gender?

- [ ] *Male*
- [ ] *Female*

Which district do you live in?

- [ ] *Kangar*
- [ ] *Arau*

What is your highest qualification?

- [ ] *Primary School*
- [ ] *Secondary School*
- [ ] *Diploma*
- [ ] *Degree and above*

PART B – BUSINESS BACKGROUND

What is you business registration category?

- [ ] *Individual*
- [ ] *Sharing*
- [ ] *Co. Own Ltd. / Limited*

What is your business scope?

- [ ] *Contract*
- [ ] *Commerce*
- [ ] *Services*
- [ ] *Manufacturing*
- [ ] *Transportation*

How much was your business capital before obtaining MARA Business Financing?

- [ ] *Below RM 5,000.00*
- [ ] *RM 5,001.00 – RM 10,000.00*
- [ ] *RM 10,001.00 – RM 15,000.00*
- [ ] *RM 15,001.00 – RM 20,000.00*
- [ ] *More than RM 20,000.00*

8. Years of experience in the business is?

[ ] *years*

9. How much is your income (Revenue/Sales) per month?

RM_____ per month.

PART C – DETAILS OF MARA BUSINESS LOAN

10. Type of loan?

- [ ] *Contract*
- [ ] *Commerce*
- [ ] *Services*
- [ ] *Manufacturing*
- [ ] *Transportation*

11. Amount of loan obtained?

- [ ] *Below RM 5,000.00*
- [ ] *RM 5,001.00 – RM 10,000.00*
- [ ] *RM 10,001.00 – RM 15,000.00*
- [ ] *RM 15,001.00 – RM 20,000.00*
- [ ] *RM 20,001.00 – RM 25,000.00*
- [ ] *More than RM 25,000.00*

12. Your monthly installment?

- [ ] *Below RM 200.00*
- [ ] *RM 201.00 – RM 400.00*
- [ ] *RM 401.00 – RM 600.00*
- [ ] *RM 601.00 – RM 800.00*
- [ ] *RM 801.00 – RM 1,000.00*
- [ ] *More than RM 1,000.00*

13. What is your collateral?

- [ ] *Guarantor*
- [ ] *Land*
- [ ] *Guarantor and Land*

14. Purpose of the loan?

- [ ] *Revolving Capital*
- [ ] *Fixed Asset / Renovation*
- [ ] *Revolving Capital / Fixed Asset / Renovation*

15. How much is your working capital after obtaining MARA Loan?

RM _____

16. How many times have you obtained the MARA Loan?

- [ ] *1 time*
- [ ] *2 times*
- [ ] *More than 2 times*

17. Amount of money from business loan utilized for business?

- [ ] *A few*
- [ ] *Half*
- [ ] *Full amount*

18. In what year did you obtained the MARA Loan?

- [ ] *1994 – 1995*
- [ ] *1996 – 1997*
- [ ] *1998 – 1999*
- [ ] *2000 – 2001*
- [ ] *2002 – 2003*

19. How long is your loan agreement?

- [ ] *below 2 years*
- [ ] *2 – 3 years*
- [ ] *4 – 5 tahun*
- [ ] *More than 5 years*

20. What is your business problem?

- [ ] *Low Sales / Market / Competition*
- [ ] *Economic Recession*
- [ ] *Personal / Health Problems*
- [ ] *Weaknesses in Management*
- [ ] *Natural Calamity*
- [ ] *Others*

21. To what extend do the business problems affect your business performance?

- [ ] *Low*
- [ ] *Moderate*
- [ ] *High*
- [ ] *Very High*

22. How long is your payment in arrears?

- [ ] *1 – 2 months*
- [ ] *3 – 6 months*
- [ ] *More than 6 months*
- [ ] *No arrears*
- [ ] *Finished*

23. Normally, when do you always made loan payment?

- [ ] *Early in the month*
- [ ] *Middle of the month*
- [ ] *End of the month*
- [ ] *Direct payment from contract owner*

24. Do you need MARA assistance in collecting the loan?

- [ ] *Yes*
- [ ] *No*

25. Have you ever received reminder letters/notices from MARA?

- [ ] *Yes*
- [ ] *No*

26. Will you make a loan payment after receiving the letter/notice from MARA?

- [ ] *Yes*
- [ ] *No*

27. Reason for failing to make prompt payments?

- [ ] *Busy*
- [ ] *Forgot*
- [ ] *Not enough money*
- [ ] *Deliberate*
- [ ] *Not relevant*

28. MARA Business Loan can improve your business in?

- [ ] *Income / Sales*
- [ ] *Profit*
- [ ] *Market*
- [ ] *All the above*
- [ ] *No improvement*

29. Have you ever followed MARA courses conducted by MARA?

- [ ] *Yes*
- [ ] *No*

30. What is you comment on the MARA Business Loan ?

Please state: _____

       .

_____

- T H E   E N D -

Thank You!

-2-

APPENDIX B

LOAN DISBURSEMENT
MARA STATE OF PERLIS (1994 - 2004)

Sector	1994* #	1994* RM	1995 #	1995 RM	1996 #	1996 RM	1997 #	1997 RM	1998 #	1998 RM	1999 #	1999 RM	2000 #	2000 RM	2001 #	2001 RM	2002 #	2002 RM	2003 #	2003 RM	TOTAL #	TOTAL RM
Construction	0		25	473,500	22	508,500	29	747,900	54	2,081,000	49	2,031,700	52	2,701,500	117	4,554,000	88	3,844,000	90	3,375,000	526	20,311,500
Commerce	0		8	84,000	11	88,000	32	314,500	37	485,000	45	524,000	28	120,500	30	495,000	16	217,000	12	201,000	219	2,897,000
Services	0		6	108,000	4	38,000	17	192,800	14	119,000	13	206,000	15	368,500	9	78,000	11	117,000	32	422,000	121	1,639,300
Manufacturing	0		2	35,000	4	85,000	10	271,200	19	256,000	6	88,000	5	56,500	1	4,000	0		2	10,000	49	808,700
Transportation	0		2	15,000	0		0		0		0		1	15,000	0		0		0		3	30,000
TOTAL	67	1,182,100	43	716,800	41	718,600	88	1,553,600	124	2,941,000	113	2,847,700	101	3,262,000	157	5,131,000	115	4,209,000	136	4,008,000	918	25,571,800

Note: * No record available for type of sectors

Source: Computer Report - HRZ51P and HRZ513Q

SUMMARY OF PRIMARY DATA

Respondent	Experience	Revenue/Sales	Working Capital	Utilization	Problem	W.Capital (before)
1	13	360000	65000	1	3	40000
2	12	288000	55000	1	3	35000
3	11	276000	53000	1	3	38000
4	12	252000	52000	1	3	43000
5	11	240000	50000	1	3	35000
6	12	216000	50000	1	3	38000
7	15	198000	48000	1	2	25000
8	9	180000	46000	1	3	28000
9	10	180000	40000	1	3	30000
10	11	162000	53000	1	3	33000
11	10	150000	50000	1	3	38000
12	13	144000	45000	1	3	32000
13	10	144000	41000	1	3	32000
14	9	144000	34000	1	3	25000
15	8	144000	33000	1	3	28000
16	10	132000	60000	1	3	40000
17	7	120000	40000	1	3	35000
18	9	114000	12000	1	2	5000
19	6	102000	52000	1	3	40000
20	10	102000	40000	1	2	30000
21	11	96000	45000	2	2	35000
22	9	96000	25000	2	2	15000
23	7	96000	20000	2	2	9000
24	4	96000	18000	2	2	8500
25	9	90000	13000	2	2	10000
26	7	84000	22000	2	2	18000
27	5	84000	15000	2	2	12000
28	6	78000	50000	2	2	35000
29	3	78000	25000	2	2	20000
30	4	78000	16000	3	2	10000
31	6	78000	15000	3	2	10000
32	5	78000	6000	3	3	4000
33	7	72000	15000	3	2	10000
34	6	72000	10000	3	2	5000
35	4	60000	20000	3	2	10000
36	5	60000	15000	3	3	10000
37	5	57000	42000	3	3	30000
38	5	54960	20000	3	3	10000
39	11	54000	40000	3	3	35000
40	12	54000	25000	3	2	20000
41	5	54000	18000	3	2	10000
42	4	52200	42000	3	2	32000
43	4	50400	45000	3	2	35000
44	4	50400	38000	3	2	20000
45	7	50400	10000	3	2	5000
46	7	50400	10000	3	2	70000
47	8	50400	10000	3	2	6000
48	7	48000	33000	3	2	21000
49	4	48000	15000	3	2	10000
50	5	48000	15000	3	2	8000
51	8	48000	12000	3	2	7000
52	2	46800	25000	3	2	12000
53	8	46800	6000	3	2	4000
54	3	46200	43000	3	2	30000
55	6	46200	15000	3	2	10000
56	3	46200	13000	3	2	9000
57	7	46200	9500	3	2	5000
58	9	45000	25000	3	2	12000
59	6	45000	13000	3	2	8000
60	9	45000	5000	3	2	4000
61	5	44400	14000	3	2	8500
62	6	43200	8500	3	2	5000
63	6	42600	5000	3	2	3000
64	8	42000	50000	3	2	35000
65	3	42000	20000	3	2	10000
66	3	42000	20000	3	2	10000
67	6	42000	16000	3	2	10000
88	3	36000	25000	3	2	15000
69	2	36000	15000	3	2	9500
70	3	36000	8000	3	2	5000
71	2	33600	35000	3	2	20000
72	10	30000	16500	3	2	10000
73	3	30000	15000	3	2	11000
74	3	30000	15000	3	2	9000
75	5	28800	18000	3	2	7000
76	5	24000	21000	4	2	15000
77	5	24000	20000	4	2	10000
78	8	21600	10000	4	2	5000
79	3	11940	4500	4	1	3000
80	7	11880	8000	4	1	4000
81	4	11880	7500	4	1	5000
82	8	11856	8000	4	1	5000
83	6	11760	5000	4	1	3500
84	6	11520	5000	4	1	3000
85	6	11400	8500	4	1	4500
86	6	11400	5000	4	1	3500
87	6	11400	5000	4	1	3000
88	6	10800	12000	4	1	9000
89	5	10800	4000	4	1	2500
90	6	10740	8000	4	1	4000
91	7	10740	5000	4	1	3500
92	6	10560	5000	4	1	3000
93	6	10320	14000	4	1	9000
94	5	10200	5000	4	1	3000
95	4	9960	4000	4	1	2500
96	6	9600	6000	4	1	4000
97	5	9600	4000	4	1	3000
98	2	9360	5000	4	1	3000
99	4	9000	6000	4	1	4000
100	3	9000	4000	4	1	2500

Note: All data sorted according to Revenue / Sales