



The Factors Financial Institutions Rejected Malaysian SMEs Loan Application

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Abstract

SMEs companies can be considered as a back bone of national economy. Same goes to SMEs companies in Malaysia where the SMEs companies play an important role in the economic development of Malaysia. Finance is one of the important aspects for the growth of SMEs companies and has always been an obstacle for SME companies to continue growing. To date various studies have been conducted about SMEs challenges with extensive perspective and examines different factors that may be responsible for the unstable and limited growth of SMEs. Malaysian government has provided numerous schemes for training to boost up SMEs companies. Most financial institution hardly approves SMEs loan application because SMEs companies are considered risky. Besides that, most of SMEs incapable fulfill requirement asked by financial institution such as the collateral, good business banking history, the complete support document and etc. By analyzing previous literature review on the topic of SMEs challenges found that one of main challenges to Malaysian SME is accessing credit.

Keywords: SME Challenges, SME financing, Financial Institutions

1 Introduction

Malaysia SMEs companies play an important role for the national economy because they have exerted much influence on social-economic development based on its outstanding contribution to employment and GDP growth. In 2015 the number of employment is 64.5% and increasing in 2016 by 65.3% while for GDP growth increase by 36.6% in 2016 where in 2015 the GDP is 36.3%. Besides that, the numbers of exporting our product also increase from 2015 by 17.7% to 2016 by 18.6% (5, 8, 9).

A search of Malaysia's SME literature reveals a gap in the study that examines the factors affecting the performance of SMEs in Malaysia. Furthermore, although there is successful historical evidence about the development of SMEs in Malaysia, the development of SMEs in eastern Malaysia such as Sabah is slower compared to Malaysia's peninsula. According to Zindiye, 2008, a study was conducted in Zimbabwe's industry but this may not be generalized directly to SMEs in Malaysia because the culture, standard may be different from others countries (2, 11,15).

SMEs sector in Malaysia can do better regarding their contribution toward the national GDP growth and the increasing number of employments but because of some constraints they become stunted. One of the major problems faced by SMEs is the financial constraint. There are difficulties for them in having access to credits from the financial institutions (4).

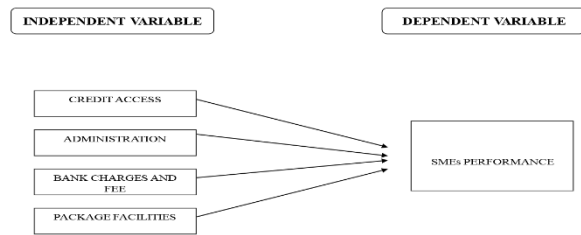
The aims of this study are 1) to identify the challenges faced by SMEs in obtaining credit in Malaysia, 2) to find out the solution that limits the SMEs in obtaining credit from financial institution.

2 Literature Review

2.1 Research Model

Figure 1 showed the research model which have been adopt and adapt. There are numerous previous studies regarding this research topic but most of it discuss only on the surface. There are four independent variables that give impact toward the Malaysian Sme's performance. The independent variables are credit access, administration, bank charges and fees, and package facilities. Most of financial institutions rejected the Malaysian Sme's loan application because of these independent variables.

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Source: Waari and Mwangi (2015)

Figure 1: Research Model of SMEs Performance

2.2 Electric and Electrical Industry

Since the 2010s, in Malaysia the electrical and electronic industry has become the leading manufacturing sector. This industry has a part of distribution to the production output, exports, and employment of the country. In 2016, Malaysia generated 156,665 GWh of gross electricity which coal is the main source of energy used for electricity generation. In 2016, Malaysia's installed capacity increased to 33,023 MW from 30,439 MW in 2015 by 8.5 percent and the annual increase in electricity sales in 2016 amounted to RM49.4 billion, up 6.7 per cent. (1)

2.3 Credit Access (IV 1)

Nurulhasanah (2016), mentioned that the challenge for small and medium-sized enterprises is not a new discussion in the literature review, especially since 1983 until now. Lack of access to credit is one of the most discussed challenges. According to Teoh and Chong (2008), it argued that lack of access to credit is the major obstacles to the development of entrepreneurship.

H1: There is a positive relationship between the credit access and performance of SMEs in the manufacturing industry in Malaysia.

2.4 Administration (IV 2)

John (2011) mentioned that problem related to finance includes the lack of track record required by the bank. Bank difficult to reflect either the company is doing well or not in the business. According to Asma (2015) showed that SMEs in most countries have very limited access to formal funding. Building and sustaining small and medium-sized enterprises is difficult because the majority of financial institutions felt that SMEs are risky being offered the capital.

H2: There is a positive relationship between the administration and performance of SMEs in the manufacturing industry in Malaysia.

2.5 Bank Charges and Fees (IV 3)

High bank charges and fees, high borrowing cost and other charges will be faced by the SME if they manage to obtained loan from the financial institutions (6). According to Wanjohi et al 2008, SME's in Kenya rather seek other alternatives which low interest rate loan such as the pyramid scheme because of the high borrowing cost from the financial institutions.

H3: There is a positive relationship between bank charges and fees and performance of SMEs in the manufacturing industry in Malaysia.

2.6 Package Facilities (IV 4)

According to Nurbani, 2011, mention that SME's financial problem still occur due to the facilities packaged by the financial institution are limited. It is difficult for SME's industry whenever they plan to do the loan application.

H4: There is a positive relationship between the package facilities and performance of SMEs in the manufacturing industry in Malaysia.

2.7 Theory Of Constraint

According to Rahman 1998, in the mid 1980s the theory of constraint first been presented in a books of Eli Goldratt's. The purpose of this theory can be considered as the opportunity for improvement in a system. Management attention and awareness on the constraint occur are important because the constraint may lead the organizational to achieve its goal (3, 7,10, 11, 16,17).

3 Methodology

3.1 Research Design

The research applied the quantitative method as it approach. Numbers of respondent were selected as the resemblance of the authority of the SMEs manufacturing in electrical industry. For the primary data the survey will be conducted by using questionnaire method in order to generate data for this study. The questionnaire consists of 4 sections and using the likert scale.

Besides that, secondary data also had been used such as the journal, books, article and so forth. The validity and reliability of data will be concerned as it will show the quality of the study. The total number of respondent will be 150, which consist of 4 states Kuala Lumpur, Selangor, Johor and Pulau Pinang. These four states are among the highest number of SMEs manufacturing in electrical industry. The result were then be analyzed using the SPSS.

4 Data Analysis

4.1 Normality Test

Table 1 displays skew and kurtosis values for all independent and dependent research variables. First, the results show that the value of skewness ranges from 0.036 to 0.813 for all independent variables. In contrast, the kurtosis ranges from -0.189 to 0.819 for all variables. According to West, Finch & Curran, 1995, based on the result, all independent variables and dependent variables are clearly shown to be acceptable in terms of normality. This is because the skew and kurtosis value for all variables is consistent with the thumb rule where the value is less than two and seven respectively.

Table 1: Summary of Skewness and Kurtosis

	N		Skewness	Std. Error of Skewness	Kurtosis	Std. Error of Kurtosis
	Valid	Missing				
IV1(1)	150	0	.235	0.198	-.312	0.394
IV1(2)	150	0	.190	0.198	-.406	0.394
IV1(3)	150	0	.235	0.198	-.312	0.394
IV1(4)	150	0	.280	0.198	-.204	0.394
IV2(1)	150	0	.723	0.198	.054	0.394
IV2(2)	150	0	.813	0.198	.372	0.394
IV2(3)	150	0	.603	0.198	.136	0.394
IV2(4)	150	0	.723	0.198	.054	0.394
IV3(1)	150	0	.077	0.198	-.349	0.394
IV3(2)	150	0	.036	0.198	-.423	0.394
IV3(3)	150	0	.097	0.198	-.307	0.394
IV3(4)	150	0	.193	0.198	-.230	0.394
IV4(1)	150	0	.456	0.198	.391	0.394
IV4(2)	150	0	.519	0.198	.702	0.394
IV4(3)	150	0	.477	0.198	.488	0.394
IV4(4)	150	0	.477	0.198	.488	0.394
DV1(1)	150	0	.524	0.198	.277	0.394
DV1(2)	150	0	.309	0.198	-.364	0.394
DV1(3)	150	0	.498	0.198	-.189	0.394
DV1(4)	150	0	.539	0.198	.819	0.394

Table 2: Results of Reliability Test: Cronbach's Alpha

Variables	Construct	Cronbach's Alpha	Number Of Items
DEPENDENT VARIABLE	SME PERFORMANCE	0.879	4
INDEPENDENT VARIABLE 1	CREDIT ACCESS	0.968	4
INDEPENDENT VARIABLE 2	ADMINISTRATION	0.957	4
INDEPENDENT VARIABLE 3	BANK CHARGES AND FEES	0.971	4
INDEPENDENT VARIABLE 4	PACKAGE FACILITIES	0.987	4

4.2 Reliability Test

Nunnally et al. (1994) stated that a value greater than 0.60 is considered acceptable for Cronbach's alpha coefficient. The closer the alpha of Cronbach is to 1.00, the more reliable the scale will be (Armstrong and Foley, 2003). This indicates, therefore, that the items used in the build are reliable and consistent. As been showed in the table, all the cronbach's alpha are closed towards 1.00 which indicates that all variables are reliable.

4.3 Pearson's Correlation Analysis

The correlation coefficient in the Pearson correlation between each pair of independent variables should not exceed 0.90 (Hair, Black, Anderson and Tatham, 2006). According to Hair et al, 2006, this is because if the correlation value exceeds 0.90, the data may be suspected of having serious collinearity problem. In Table 3, the highest coefficient of correlation between credit access and performance of SMEs is 0.840 and is still below 0.90. It is therefore assumed that in this research there is no multicollinearity problem.

Table 3: Pearson Correlation Matrix

		PE	CA	AD	BC	PF
Pearson Correlation	PE	1	.840	.713	.774	.818
	CA		1	.476	.666	.615
	AD			1	.503	.541
	BC				1	.605
	PF					1
Sig. (2-tailed)	PE		.000	.000	.000	.000
	CA			.000	.000	.000
	AD				.000	.000
	BC					.000
	PF					
N	PE	150	150	150	150	150

Table 4: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.052	.087		-.603	.548
	CA	.351	.031	.395	11.455	.000
	AD	.200	.023	.248	8.527	.000
	BC	.177	.032	.184	5.550	.000
	PF	.261	.028	.312	9.429	.000

4.4 Multiple Linear Regression Analysis

Table 6 shows that all the independent variables are significant related to the dependent variable as all the four independent variables met the rule of thumb where the p-value is less than 0.05. Then, an unstandardized coefficient linear equation is formulated: Performance of SMEs = $-.052 + 0.351CA + 0.200AD + 0.177BC + 0.261PF$ Where, N = 150 CA = Credit Access AD = Administration BC = Bank Charges And Fees PF = Package Facilities by evaluating the unstandardized coefficients linear equation formed above, it is found that each independent variable has varied relative importance of association with the dependent variable.

5 Discussion and Conclusion

According to this research study, there is a significant negative relationship between credit access and performance of SMEs in Malaysia's manufacturing industry. This study found out that with sufficient credit access will lead to the increasing of business performance of SMEs, and an insufficient credit access will lead to bad performance of SMEs. This result supports prior researches such as Siti (2009), Abdul (2016) and Anthony (2015).

The result also indicates that there is a significant positive relationship between the administration and performance of SMEs. This result is supported by studies carried out by Hasnah (2013) and Nurbani (2011), where they found that the good administration works by the organization can lead to a higher organization performance.

In the research, bank charges and fees is found to have a significant positive relationship with increased performance of SMEs in Malaysia. This result is consistent with the prior researches' findings (Henry, 2016) where lower bank charges and fees for loan application will enhance the overall performance of SMEs in Malaysia. With the decrease of bank charges and fees, the SMEs will easier to obtain the loan and they could pay the loan as schedule without problem and the

organization can growth and expand well. As a result, it will lead to a better performance.

Lastly, the result shows that there is a significant positive relationship between package facilities offer by financial institution with performance of SMEs. This is consistent with the findings of past researches in the context of package facilities affect the performance of SMEs such as Nurbani (2011) and Anthony (2015).

In conclusion, the research goals of this study have been achieved. Development of hypotheses, theoretical framework and design of research were designed to achieve the research goals. There are four determinants in this study that have a significant impact on small and medium-sized enterprises (SMEs) performance.

Based on the results, credit access, administration, bank charges and fees and package facilities by financial institutions are significantly linked to the company's performance. The independent variable that have the strongest positive relationship with SME performance are the credit access and package facilities by financial institutions, followed by administration and bank charges and fees.

Recommendations for the academia, they could study in deep more about these topics and should find another gap to be solve. As for the industry which is the Malaysian Sme's, they should improve on the gap that had been discusses and the financial institution should educate the sme companies, what is the correct way for they to do the loan application in future. The government also should play their roles which provides scheme that are suitable for the sme industries, send them to training or make an exhibition to make the sme companies exposed about this matters.

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