

GOVERNMENT ADMINISTERED SMALL BUSINESS FUNDS: THE PERSPECTIVE OF COMMERCIAL BANK OFFICERS IN MALAYSIA

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ABSTRACT

Notwithstanding the increasing amount of allocation under the government administered small business funds over the recent years, complaints on the inaccessibility of small businesses to these funds and the low disbursement by the participating financial institutions are reported. Due to the crucial role of commercial banks as the key intermediaries in the loan granting process, it is vital for policy makers to understand the problems faced by commercial bank officers in dealing with the funds. This paper highlights key findings on the perception of commercial bank officers on the policy, the word load, the return and the level of difficulty involved in dealing with such funds, and the variation of these perceptions across different bank's location and officer's position.

1.0 INTRODUCTION

Problem faced by small businesses, commonly referred to in Malaysia as the Small and Medium Enterprises (SMEs), has attracted the attention of many, including the policy makers and academicians. Such attention can be ascribed to the critical role often associated with the SMEs in relation to a nation's economic growth, political stability and social progress (University of Cambridge, 1996; Hashim, 1999a). Studies however found that lack of capital was among the major problems that inhibited the growth of small businesses (e.g. Poll, 1995; Boocock and Wahab, 1997; Hashim, 1999b; Carpenter and Peterson, 2002). The sheer lack of capital was closely associated with the difficulty of obtaining loans from financial institutions (Haron and Shanmugan, 1994a; Weidner, 1998; Amstead, 1999).

In order to circumvent the lack of financing problems, the Malaysian government has launched various funds with the specific aim to ensure that SMEs have access to loans at a reasonable cost and to bail out some struggling businesses that have the potential to succeed (BNM, 1999). Among the funds granted with substantial allocations for this purpose are Fund For Small and Medium Industries (RM 1.85 billion), New Entrepreneur Fund (RM 1.25 billion), Entrepreneur Rehabilitation Fund (RM 800 million) and Small and Medium Industries Rehabilitation Fund (RM 500 million). These funds, referred to in this paper as the Government Administered Small Business Fund (GASBF), are channeled via participating financial institutions (PFI) comprising of all commercial banks, selected finance companies and four financial development institutions.

Despite the positive effort discussed above, there are still some grievances expressed by small businesses on their failure to obtain financial aids under the GASBF. The entrepreneurs often claimed that they were slighted by banks as these banks turned down their loan applications. This scenario is also reflected by the sluggish and low level of fund under these schemes channeled by banks to small business customers. For example, at the end of December 2000, only RM 284.6 million from the RM 800 million allotted on February 1988 under the Entrepreneur Rehabilitation Fund scheme was channeled to the small businesses.

To date, no study has been carried with the focus on GASBF or specifically to investigate the factors that cause the sluggish flow of many of these funds. Related literature on lending to small businesses in general suggests that the small businesses are partly to be blamed for their failure to receive loans from banks (e.g. Wright, 1989; Haron and Shanmugam, 1994). Arguably the lack of commitment or motivation in disbursing the funds among the PFI and their officers who involve directly in granting out the GASBF is an equally crucial factor. We anticipate factors such as no clear policy established by banks' top management, heavy work load and low return relative to ordinary loans hinder the PFI from channeling GASBF. This study is thus undertaken with the objective of examining the commercial bank officers' opinion on (a) their bank's policy on GASBF (b) the workload related to administering GASBF, and (c) the appropriateness of GASBF. To enhance the significance of the study we also investigate the influence of bank location and officer position on the opinions.

Due to the fact that commercial banks represent the majority of the PFI, the opinions of their bank officers in various aspects pertaining to the GASBF are seen as of great important not only in affecting the total loan approved but also vital in the legislation of effective government policy to overcome the lack of capital problem faced by the small businesses.

The remainder of this paper is organized as follows- Section Two reviews findings from related literature. The development of the research framework is discussed in Section three followed by description on the methodology in Section four. Section five highlights key findings of the study. Section six offers concluding remarks.

2.0 RELATED STUDIES

To date no research has been undertaken to gauge the perceptions of bank officers on GASBF. There are however few studies conducted in various countries on problems faced by bank officers in giving loans to SMEs. There are also studies on the criteria used by bank officers in assessing small business loans. The characteristics of banks that influence the decision making process in giving loans to this group of customers are also been investigated.

The literature on the problems faced by bank officers when dealing with small business loans includes Haron (1990), Deakins and Hussain (1991), Haron and Shanmugam (1994a), Haron (1996). Limited knowledge in accounting, total dependence on business income to repay the loan, incomplete information provided to processing officers, great urgency of loan approval, and insufficient capital relative to loan required are among the commonly cited problems found by these studies.

With regards to the factors that influence decision making in granting loans to small business customers, Wright (1989) believes that the inability to provide suitable collateral, the unjustifiable duration of repayment period, and the lack of experience in the venture were reasons for loans rejection. Haron (1996) found that there is a great possibility that a loan would be rejected by Australian bank officers if the applicant is entering into unprofitable venture, fails to provide collateral as required, provides insufficient information and finally lacking of experience in managing the business.

There is also an indication that characteristics of banks play some role in influencing the flow of loan to small businesses. Haron (1994b) found that bank officers working in metropolitan and big towns tend to be more confident of the potentiality and viability of small business customers, thus, he argues that there is a possibility that the branches in these areas approve

more loans to small businesses relative to the branches in the rural and small towns. This study also shows the existence of variation in the perceived problems of credit officers and that of branch managers. These findings however have not been confirmed by statistical testing.

3.0 THE DEVELOPMENT OF RESEARCH FRAMEWORK

Due to the limited amount of literature on the research topic, insight from key informants, through a series of interview with several experience bank managers and top officials in related government agencies, were used to complement the existing literature in developing the research framework for this study.

With regards to the policy pertaining to GASBF, three dimensions were looked at; (i) the existence of a policy (ii) whether it is in a written form and (iii) whether a meeting was held to explain about it. Rose (2002) highlights the importance of a written loan policy in providing guidelines to making individual loan decisions and in shaping the bank's overall portfolio. Explanation of the policy by the top management can be used as an indicator of the seriousness of top management in imposing the policy and in ensuring the effectiveness of the policy.

On the issue of workloads related to GASBF, there is non-uniformity in the mainstream bank lending literature in how the workloads were classified. Choo (1995), for example, envisions lending process as involving 4 stages; business development, credit evaluation, loan administration and loan recovery. Ruth (1995) on the other hand makes no clear statement about lending process or activities but from the discussion throughout the book, commercial loan process is explained to include loan interviewing and credit investigation, loan structuring, loan negotiation, loan documentation and loan monitoring. Due to the lack of single acceptable lending process or list of lending activities, input from several bank managers on the how they normally classify lending activities were gathered. Based on their input, workload related to GASBF is identified to include five main tasks, namely the application process, documentation work, loan disbursement and collection activity before and after loan becoming non performing.

The general opinion on the appropriateness of GASBFs is analyzed based on the perception on the necessity of the fund and the need to channeled it via commercial banks.

Study by Haron (1994b) was drawn to hypothesis that the commercial bank officer opinions on the issues understudy vary significantly across different bank location and officer position. The potential difference in opinion is also justified based on the different nature of work and level of information flow.

4.0 METHODOLOGY

The population for this research consisted of all branch managers and credit officers from all commercial banks in Malaysia. The banks' addresses were obtained from the annual reports of each of the banks. 1200 branches of banks were included in the research population. A number 300 bank branches were extracted randomly from the list.

Information for this study was obtained from a questionnaire designed by the researchers based on the above research framework and the input received from key informants in the

industry. Parts of the questionnaire items relevant for this study are (I) the section pertaining to respondents personal details like age, academic background, field of study, duration of service at the bank, task involvement in giving out credits, work place location, post held, and bank status, (ii) the section that comprised opinion on related issues pertaining to bank policy and workload on GASBF, and (iii) information on general matters related to fund implementation.

The questionnaires were circulated via mailing and direct distribution to respondents. Two sets of questionnaire, one to be filled in by the branch manager and the second, to be filled in by the credit officer were mailed to every selected bank branches.

A number of 168 questionnaires, representing 28 percent respond rate, were returned. The profile of respondents was made available in Appendix 1. 53.6 percent of the respondents are from the branches located in metropolitan and big towns while 46.4 percent come from the branches in the rural and small town area. Branch managers represent 47.2 percent of the respondent while credit officers represent 52.7 percent of the respondents.

The analysis methods used in this research were both of qualitative and quantitative based. The qualitative method included distribution analysis, percentage and cross tabulation analysis. The quantitative method employed one of the non-parametric statistical testing mainly the Chi-Square and Mann-Whitney U tests.

5.0 ANALYSIS AND FINDINGS

5.1 Policy Related to GASBF

Table 1 shows that around 76.8% of the commercial bank officers admit the existence of policy on GASBF in their banks, of which 93.7% of them claim that the policy is in a written form and 73.4% percent of them claim that meetings were arranged by top management to clarify issues related to the policy.

Table 1
Respondent distribution on issues on the policy on GASBF

Issues	Yes		Not Sure		No	
	n	%	n	%	n	%
There exist special policy on granting loan under GASBF (n =164)	126	76.8	6	3.7	32	19.5
The policy in a written form (n = 127)	119	93.7	4	2.4	5	3.9
Special meeting is arranged by your bank to explain the policy (n = 124)	91	73.4	6	4.8	27	21.8

The result of Chi Square test (excluding the ‘not sure’ response), presented in Table 2, indicates that there is no statistically significant difference in the distribution of opinion on all the above dimensions between credit officers and bank managers and also between bank officers in rural bank and bank officers in metropolitan and big town.

Table 2

Chi Square test on the relationship between responses on the selected issues related to the policy and bank location and officers position

Issues	χ^2 (‘p’ value)	
	Officers Position	Banks Location
There exist special policy on granting loan under GASBF	0.58 (0.485)	0.923 (0.223)
The policy in a written form	0.004 (0.665)	0.40 (0.607)
Special meeting is arranged by your bank to explain the policy	0.180 (0.419)	0.025 (0.527)

Table 4 indicates that on average the bank officers feel that the top management are serious in implementing the policy on GASBF. There seems to be no different in opinion on this matter across different bank location and officer position. Mann-Whitney test, the result as displayed in Table 5, supports this conclusion.

Table 4

Mean analysis on the opinion that ‘the top management of the bank is really serious in implementing the policy related to GASBF’

	Mean Score*	Std. Deviation
Overall	4.02	0.771
Position		
Branch manager	4.08	0.802
Credit Officer	4.00	0.713
Location		
Metropolitan/big town	4.00	0.742
Small town and rural	4.05	0.811

* ‘1’ : absolutely no ‘2’: no ‘3’:50/50 ‘4’: yes ‘5’: absolutely yes

Table 5

Mann Whitney test for testing the relationship between the opinion that ‘the top management of the bank is really serious in implementing the policy related to GASBF’ banks locations and officers positions

Factor	Z statistics	‘P’ value
Location	-0.533	0.594
Position	-0.694	0.488

5.2 Workload related to GASBF

Analysis of mean for the respondents’ perception on the various work load associated with granting loans under GASBF is displayed in Table 6. The findings indicate that the bank officers in general perceive all the tasks related to GASBF investigated in this study as being difficult with their means being less than 3.

Table 6
Mean score for the opinion on workload related to GASBF

Task	Mean score*				
	Overall	metropoli tan	rural	Branch manager	Credit officer
Application	2.87	2.85	2.89	2.92	2.84
Documentation	2.80	2.80	2.88	2.95	2.75
Disbursement	2.69	2.66	2.84	2.73	2.65
Collection before 'NPL'	2.56	2.62	2.49	2.57	2.54
Collection after 'NPL'	1.97	1.95	2.00	1.97	1.98

* 1: 'very difficult' 2: 'difficult' 3: 'normal' 4: 'easy' 5: 'very easy'

Mann-Whitney test was run to test whether the opinion differs across managers from different location and across managers holding different position. The result (refer to Table 7), indicates that significant difference only exists between the perception on the level of difficulty in documentation work of branch managers and that of credit officers, and between the perception on the level of difficulty in collection before 'NPL' of officers in metropolitan than that of officers in the rural areas. It can be concluded from Table 6 that the level of difficulty in documentation work perceived by credit officer is higher than that perceived by branch managers and the level of difficulty in collection before 'NPL' perceived by officers in rural areas is higher than that perceived by officers in the metropolitan areas.

Table 7
Mann Whitney test on the relationship between opinion on workload related to GASBF and bank location and officer position

Task	'Z' value ('p' value)	
	location	position
Application	-0.230 (0.818)	-1.316 (0.188)
Documentation	-0.407 (0.684)	-2.545 (0.011)*
Disbursement	-0.752 (0.452)	-1.048 (0.295)
Collection before 'NPL'	-2.019 (0.044)*	.000 (1.00)
Collection after 'NPL'	-0.407 (0.684)	-0.038 (0.970)

* significant at 95% confident level

6.0 CONCLUSION

The study unveils the opinions and perceptions of commercial bank officers in Malaysia on the bank policy and workloads associated with the various special small business funds launched by the government. The finding that more than 70 percent of bank officers admit the existence of lending policy on the funds shows that the majority of commercial banks in Malaysia give special attention to these funds. This finding, however, should be given serious attention if the government is expecting all the commercial banks to play their role in disbursing the funds. Moreover, the possibility of respondent bias has taken place in this study suggest that the actual percentage is perhaps lower than that reported in this study.

The lack of significant difference in the claim across different bank location and bank officers indicates an equal awareness level of the policy. This may be due to the fact that the policy is being put in a written form as found by this study. The effectiveness of a policy can be enhanced by having top management explaining the implementation of the policy. This effort however is not been pursued by many banks.

Difficulties in handling the work loads associated with the funds found in this study is consistent with the many problems in giving loans faced by bank managers as found by the above mentioned studies, specifically Haron and Shanmugam (1994b). It could thus be suspected that this is among the factors that cause the sluggish flow of fund from the GASBF. Different opinions between officers in different bank location on the work load involved should be carefully analyzed in light of the government policy to promote rural based SMEs. It is our hope that findings from this study will be used by policy makers in improving the government.

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