

“We acknowledge that we have read this thesis and in our opinion this thesis is sufficient in terms of scope and quality for the award of Bachelor of Technology Management (Innovation Technology)”

Signature : .....

Name of Main Supervisor : Puan Murzidah binti Ahmad Murad

Date : 24 June 2013

Signature : .....

Name of Joint Supervisor : Dr. Norain binti Ismail

Date : 25 June 2013

THE FINANCING OF SMALL AND MEDIUM SIZED ENTERPRISES (SMEs)  
AND THE IMPACT TO BUSINESS PERFORMANCE IN MELAKA FOOD  
INDUSTRY

SITI RASYIDAH BINTI BASIRON

This report submitted in  
partial fulfillment of the requirements for  
the award of Bachelor of Technology Management (Innovation)

Faculty of Technology Management and Technopreneurship  
Universiti Teknikal Malaysia Melaka

JUNE 2013

“I truly admit that this report is my own writing except the summary and citations that I have mentioned their sources.”

Signature : .....

Name : Siti Rasyidah binti Basiron

Date : 25 June 2013

This thesis is dedicated to my parents;

Mak and Abah

For their endless love, support and encouragement

## ACKNOWLEDGEMENT

In the name of Allah, the Most Gracious and the Most Merciful

Alhamdulillah, all praises to Allah for the strengths and His blessing in completing this research. I would like to extend my deepest gratitude to all those who have directly and indirectly guide and help me to complete this research.

Special appreciation to my supervisor, Puan Murzidah binti Ahmad Murad for the patient guidance, encouragement and advice she has provided throughout my time as her student. I have extremely lucky to have a supervisor who considers and cared about my research. I appreciate all valuable information that make easier to write the report.

I would like to convey my gratitude to my Research Method lecturer, Dr. Chew Boon Cheong for his priceless guidance directly and indirectly: whether in class or his blog about a research method subject toward making a good research. I feel so grateful to be his student as he always support and encourage all students with invaluable words.

Sincere thanks to all my housemate especially Naziatul, Zarin, Izzati and Syahirah for their kindness and moral support throughout my study. Thanks for friendship and memories.

Last but not least, a special thanks goes to my parents, sister and elder brother. They are always support me and encourage me to be who I am today.

## ABSTRACT

Nowadays, one of Malaysia's key drivers for economic growth is Small and Medium Enterprises (SMEs). Based on SME Master Plan launched two years ago, the government target for SMEs contribution is 41% of country's Gross Domestic Product (GDP) by 2020. Although the number might be lower in Malaysia, SMEs have the potential to contribute substantially to the economy and can provide a strong foundation for the growth of Malaysia's future development. According to Doing Business Report by World Bank, Malaysia record for 'getting credit' is ranked number one for four consecutive years (SME Master plan 2012-2020). Financing is necessary for SMEs to help them set up and expand their operations or production facilities. In this research food industry was selected among SMEs to identify the types of financing involved whether the sources can enhance the performance of the SMEs. Specifically, this study was initiated to investigate the impact and examine the relationship between financing and business performance. In order to examine the food industry at Melaka, some survey was conducted among SMEs, while data collected was analysed through quantitative by using frequency, descriptive and correlation analysis. The result showed there is moderate to strong impact of financing toward business performance and the relationship is significant for all variables.

## ABSTRAK

Kini, salah satu daripada pemacu utama Malaysia bagi pertumbuhan ekonomi ialah daripada Perusahaan Kecil dan Sederhana (PKS). Berdasarkan kepada Pelan Induk PKS yang dilancarkan dua tahun lalu, sasaran kerajaan bagi sumbangan PKS adalah 41% dalam Keluaran Dalam Negara Kasar negara (KDNK) pada tahun 2020. Walaupun jumlah itu mungkin lebih rendah di Malaysia, PKS mempunyai potensi untuk menyumbang dengan ketara kepada ekonomi dan boleh menyediakan asas yang kukuh untuk pertumbuhan pembangunan masa depan. Menurut Laporan ‘Doing Business Report oleh Bank Dunia, rekod Malaysia untuk mendapat kredit berada di kedudukan nombor satu untuk empat tahun berturut-turut (PKS Pelan Induk 2012-2020). Pembiayaan adalah perlu bagi PKS untuk membantu mereka menubuhkan dan mengembangkan operasi atau bagi kemudahan pengeluaran. Industri makanan telah dipilih bagi menjalankan penyelidikan di kalangan PKS untuk mengenal pasti jenis-jenis pembiayaan yang terlibat sama ada sumber-sumber yang boleh meningkatkan prestasi PKS. Khususnya, kajian ini telah dimulakan untuk menyiasat kesan dan mengkaji hubungan antara pembiayaan dan prestasi perniagaan. Dalam usaha untuk mengkaji industri makanan di Melaka, beberapa kajian telah dijalankan di kalangan PKS, manakala data yang diperolehi dianalisis melalui kaedah kuantitatif dengan menggunakan kekerapan, deskriptif dan korelasi analisis. Hasil menunjukkan terdapat kesan yang sederhana kepada tinggi mengenai pembiayaan dengan prestasi perniagaan manakala hubungan adalah penting bagi semua pembolehubah.

## LIST OF CONTENT

CHAPTER	TOPIC	PAGES
	CONFESSION	ii
	DEDICATION	iii
	ACKNOWLEDGEMENT	iv
	ABSTRACT	v
	ABSTRAK	vi
	LIST OF CONTENT	vii
	LIST OF TABLE	x
	LIST OF FIGURE	xi
	LIST OF ABBREVIATION	xii
	LIST OF APPENDIX	xiii
CHAPTER 1	INTRODUCTION	1
	1.1 Introduction/Background of Study	1
	1.2 Statement of Problem / Research Question	2
	1.3 Research Objective	2
	1.4 Scope	3
	1.5 Limitation	3
	1.6 Importance of The Project	4
	1.7 Summary	4



CHAPTER 2	LITERATURE REVIEW	5
	2.1 Introduction	5
	2.2 Small and Medium-sized Enterprises (SMEs)	6
	2.3 SMEs Financing	8
	2.4 Capital Structure theory	10
	2.5 Business performance	11
	2.6 Theoretical Framework	12
	2.7 Hypothesis	13
	2.8 Summary	14
CHAPTER 3	RESEARCH METHOD	15
	3.1 Introduction	15
	3.2 Research Design	15
	3.3 Quantitative Research	16
	3.4 Primary and Secondary Data Sources	16
	3.5 Location of The Research	17
	3.6 Method of Primary Data Collection	17
	3.7 Questionnaire Design	18
	3.7 Data analysis	18
	3.8 Summary	20
CHAPTER 4	RESULT AND DISCUSSION	21
	4.1 Introduction	21
	4.2 Reliability test	22
	4.3 Organizational Profile	23
	4.4 Respondents Financing Preferences	25
	4.5 Impact to Business Performance	27
	4.6 Relationship between independent variable and dependent variables and hypothesis testing	30
	4.7 Summary	32

CHAPTER 5	CONCLUSION AND SUGGESTIONS	33
5.1	Introduction	33
5.2	Summary of main finding	34
5.3	Suggestion to overcome / improve something	35
5.4	Recommendation for further studies	36
	References	37
	Appendixes	40

## LIST OF TABLE

NO	TOPIC	PAGES
2.1	SMEs definition based on number of full-time employees	5
2.2	SMEs definition based on annuals sales turnover	6
2.3	Performance of Government Funds and Schemes as at December 2010	9
4.2.1	Reliability Statistics	22
4.5.1	Mean and standard deviation for Turnover and financial management	27
4.5.2	Mean and standard deviation for Return on Investment	28
4.5.3	Mean and standard deviation for revenue, profit and margin	28
4.5.4	Mean and standard deviation for productivity	29
4.6.1	Correlation table for finance and turnover	30
4.6.2	Correlation table for finance and return on investment	31
4.6.3	Correlation table for finance and return on revenue	31
4.6.4	Correlation table for finance and productivity	32

## LIST OF FIGURE

NO	TOPIC	PAGES
2.2	Theoretical Framework	11
4.3.1	Firm's Age	23
4.3.2	Firm's Size	24
4.4.1	SMEs Financing Preferences by Size	25
4.4.2	Overall SMEs Financing Preferences	26

## LIST OF ABBREVIATION

SMEs	Small and Medium Enterprises
GDP	Gross Domestic Product
SMIs	Small and Medium Industries
SMIDEC	Small and Medium Industries Development Corporation
SPSS	Statistical Package of Social Sciences
TEKUN	Tabung Ekonomi Kumpulan Usaha Niaga

## LIST OF APPENDIX

NO	TOPIC	PAGES
1.	Appendix A : Permission Letter	40
2.	Appendix B : Questionnaire	41
3.	Appendix C : Gantt Chart I	46
	Appendix C : Gantt Chart II	46

## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1 Introduction/ background of the study**

Without doubt, Small and Medium Enterprises (SMEs) is important to the Malaysian contribution economy to strive high-income nation from the medium-high income nation. One of the strategic goals to be achieved by SMEs is to increase business formation and expand the number of high growth and innovative firms. According to Ministry of International Trade and Industries (2012), SMEs represent the largest percentage of establishment in Malaysia at 99.2 % while for economic contribution, SMEs contributes 32% to Gross Domestic Product (GDP), 56.4 % of total work force and 19% of total export. Budget 2013 represents 1 Billion will be provided under the development of SMEs to be handled by SME Bank to facilitate the access of SMEs to obtain financing. Financing is necessary for SMEs to help them set up and expand their operations or production of facilities. Based on the fund provided by the government and non-government sector, there will be a variety of financial sources involved by the firms. So that, the main purpose of this this study is to investigate how far financing sources can impact business performance. Besides that, this project will identify the relationship between financing and business performance.

## **1.2 Statement of the problem/ Research Question**

Based on the contribution of SMEs to GDP in the economy, the government realized the importance of SMEs and provide RM1 billion in 2013 Budget for entrepreneur in accessing the funding. Compared to previous research about SMEs, this topic is concerned about challenges for SMEs in financing. Since the government is encouraging entrepreneur with the allocation to get funding to expand the business, the researcher is interested to investigate about financing preferences adopted by SMEs and how far the financing can impact business performance. The research questions of this case study are as stated below:

1. What are the types of SMEs financing preferences in Melaka food industry?
2. What is the impact of financing sources to business performance?
3. Does SMEs financing have a positive relationship to business performance?

## **1.3 Objectives**

There are three objectives of this research study as stated below:

1. To identify types of SMEs financing preferences in Melaka food industry.
2. To investigate the impact of financing sources to business performance.
3. To examine the relationship between financing and business performance.

## **1.4 Scope**

The focus of this study is to investigate the impact of financing sources to the business performance of SMEs in food industry. For the case study itself, this topic only covers the sources of financing involved and its impact on business performance. The other factors which influence the performance of Malaysian SMEs such as human capital development, market access, legal and regulation environment, innovation and technology adoption, and infrastructure are not to be covered in this case study.



## **1.5 Limitation**

### **1.5.1 Time constraint**

The major limitation in conducting this research is due to time constraint. Since this study only takes about one year, there is a time limitation to complete this research. As a degree student, the researcher has another commitment to do. In order to get accurate data, it is a must for the researcher to allocate a long period of time in order to obtain all necessary information. However this research has limited time to gather relevant information on selected topics upon conducting this study hence makes time constraint obviously is the utmost limitation for this case study.

### **1.5.2 Lack of respondent's co-operation**

Some of the respondents refused to give full co-operation during the questionnaire survey distribution since the times used to distribute the questionnaire were during office hours.

### **1.5.3 Cost to conduct the research**

In order to prepare and finish this research, the cost involved is quite high especially for printing, photocopy of questionnaire for the entire respondent and transportation cost used for questionnaire distribution.

## **1.6 Importance of the Project**

The importance of the project is to determine how far the financial factor can impact to business performance of the SMEs. Other than that, this study will investigate which types of sources of financing preferences among SMEs. It includes government step in budget 2013 to increase the funding is the best way to increase the growth of SMEs. The allocation Budget 2013 for Small and Medium Industries

(SMIs) is about 1 million under SME bank. The value of this project can be appraised based on the result of the finding.

## **1.7 Summary**

The main basis of conducting research on firms in the SME industry sector is significant to economic contribution in which about 41% to GDP by 2020. In order to achieve the target of high income nation, there are a lot of strategies that have been provided by the government. The obvious effort is to empower Small and Medium Industry. Without doubt, nowadays SMEs is performing well best on its current GDP which is about 32%. The previous research of financing is concerned with the difficulty in securing accesses the financing. There is less attention about the financing sources whether can impact to the firm's performance in the future.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.1 Introduction

Many theories have been proposed to explain financial issues about SMEs. However, this research aims to study about the impact of financial sources to the business performance. According to Little S.S. (2005) it is stated that big or small organization needs to build a system about the financial health of an organization for people to run the organization that is able to deliver time and consistent information. The other way, corporate financial structure literature is concerned with debt explanations or equity choice (Bhaird, C.M.A., 2010), followed with Ross Levine (2004) which stated that there are huge implication for international flows and economic growth rates based on different in quality of financial intermediation across country (Boyd, J.H. and Smith, B.D., 1992). This chapter will explain the details about the definition of SMEs, types of finance available in Malaysian SMEs, and the impact financing sources to business performance.

## 2.2 Small and Medium-sized Enterprises (SMEs)

There are different parameters about definitions in SMEs based on the researchers in earlier studies. However, according to Bhaird, M.A. (2010), “definitions are not static and will change constantly to reflect to economies condition, productivity, and technology change”.

SME is defined as a company with no more than 500 employees (Oxford Dictionary, 2012). A general definition specified by the Small and Medium Industries Development Corporation (SMIDEC) can be grouped into three categories which are Micro, Small or Medium. There are two main factors to consider whether the numbers of people a business employs or according to total sales or revenue generated by a business in a year. Table 2.1 and Table 2.2 show the SMEs definition based on two factors stated.

Table 2.1: SMEs definition based on number of full-time employees  
(Sources: Small Medium Industries Development Corporation)

Sector Size	Primary agriculture	Manufacturing (including Agro- Based) & MRS	Services Sector (including ICT)
Micro	Less than 5 employees	Less than 5 employees	Less than 5 employees
Small	Between 5 & 19 employees	Between 5 to less than 50 employees	Between 5 & 19 employees
Medium	Between 20 & 50 employees	Between 51 & 150 employees	Between 20 & 50 employees

Table 2.2: SMEs definition based on annuals sales turnover  
 (Sources: Small Medium Industries Development Corporation)

Sector Size	Primary Agriculture	Manufacturing (including Agro Based) & MRS	Services Sector ( including ICT)
Micro	Less than RM200,000	Less than RM250,000	Less than RM200,000
Small	Between RM200,000 & less than RM 1 million	Between RM250,000 to less than RM 10 million	Between RM200,000 & less than RM 1 million
Medium	Between RM 1 million & RM 5 million	Between RM 10 million to less than RM 25 million	Between RM 1 million & RM 5 million

The researchers refer to SMIDEC to determine the size of the firm whether the firm size is micro, small or medium firm. It is based on two main factors: annual sales turnover or based on number full-time employees.

## **2.3 SMEs Financing: Types of Resources**

The sources of capital available in Malaysian SMEs can be found in three types which are personal saving (bootstrap) , equity financing, bank loans, financing with debt, and the government (SMIDEC,. 2012)

### **2.3.1 Bootstrap Financing**

Personal saving or bootstrap financing is categorized as internal sources. Basically this source is used to start-up the business. It is important to note some basic different between small to medium sized enterprises (SMEs) and large firm in relation to financing. Compared to large firms, they are mostly rely on more heavily bootstrap financing in the form of retained profit (Tim,M., 2011).

### **2.3.2 Equity financing**

Equity financing is the money that investor puts into a private company in return for a share in the ownership of that business (Black, A.,2007). According to SME Corporation, Bank loans can be defined as bank lends money to existing business but for a start-up, it may be very difficult to get a bank loan as they do not have a track record. This includes a track record of good cash flow to allow for repayments plus adequate shareholder funds or working capital that can cover any short term cash requirement and ensure the solvency (Tim,M.,2011).

### **Venture Capital**

Venture capital usually used to finance high-risk, and seeking high return investment ( Brutonand Bamford, 2006: Axman, A.,2007). Venture capitalist usually invests in business in every kind, and also known as angels. The angel investor provides capital to start-up firms and takes a personal stake in the venture.

### **2.3.3 Non-Equity financing**

#### **Debt Financing**

Financing a business with debt involves securing a loan. This can be happened in the form of unsecured or secured debt. Unsecured debt refers to a taken without having to put up any specific form of security or collateral (SMIDEC, 2012).

#### **Loans**

Loans are repaid monthly from cash flow and are secured by an asset or personal. The sources of loan can be getting from personal loan, mortgage loan, and insurance loan.

#### **Government/ Grants**

Government is one of the important sources to access finance. According to SMIDEC there are a variety of loans provided by the government in order help an entrepreneur especially to Bumiputeras. These types of loans are under the Financial Institution like Development Financial Institutions (DFIs) and commercial bank. While grant means a special fund, neither equity debt or equity designed to aid business in a specific area( Bruton and Bamford, 2006).

The researcher analysed that the firm needs to decide which types of financing is right for their business. With debt financing, the money that the firm borrow need to repay, such as a bank loan. Equity financing decision is necessary capital from the investor of the firm. While by personal saving and bootstrap, the owner's take risk on their money and did not to repay to other parties. Informal finance and trade secret on the private firm can be influence to the net income and reinvestment rate (Su, J. and Sun, Y., 2011).

Table 2.3: Performance of Government Funds and Schemes as at December 2010  
(Source: SME Corporation Malaysia; Annual Report 2010/2011)

Types of Funds	No. of Schemes	Allocation	Applications Approved		Disbursed	Outstanding
		(RM b)	No.	(RM billion)		
Soft Loans	45	27.87	2,138,960	48.17	78.48	17.67
Grants*	17	4.59	76,708	4.30	3.33	0.17
Guarantees Schemes	7	3.08	35,155	3.52	2.05	1.54
Venture Capital	12	1.29	94	0.72	0.67	0.09
Equity	2	0.39	138	0.72	0.56	0.36
<b>Total</b>	<b>83</b>	<b>37.22</b>	<b>2,251,055</b>	<b>57.43</b>	<b>85.09</b>	<b>19.83</b>

\*Including venture capital funds that had been rationalised into grants

Based on table 3, Malaysia SMEs involved types of funds approved to 2.2 Million SMEs which are from soft loans, grants, guarantee schemes, venture capital and equity. Based on the annual report employed by SME Corporation Malaysia, the total amount is about RM 57.4 billion. The researcher will investigate how far the finance by government and non-government can impact to business performance. According to Bhaird, C.M.A.,(2010) stated that the youngest age firm are employed from external sources in term of short and long term debt to run the business.

## 2.4 Capital Structure Theory

According to Modigliani and Miller (1958) trade-Off theory is about capital structure theory which focused on the irrelevance proposition of debt versus equity observed on the right-hand side of corporations' balance sheet. When firm chooses a certain proportion of debt and equity to finance its assets, all that it does is to divide up cash flow among investors. This theory explains the mix of securities and financing sources used by corporations to finance real investment (Zabri, S. M ; 2012). The most profitable firms should potentially benefit most from employing an optimal level of debt. According to Frank, M.Z. and Goyal, V.K., (2005) Pecking order theory comes out with approaches to defining the capital structure of a company. Firms use internal funds that are less costly than external funds. When external funds are necessary, firms prefer to used debt and lastly raising equity. Debt