

## SUPERVISOR'S APPROVAL

I hereby acknowledge that I have read this work and in my opinion this it is sufficient in terms of scope and quality for the submission and award of a Degree of Bachelor of Technopreneurship with Honors'

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Determinants of Sustainable Financial Resources for SME in Malaysia

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This Report Submitted in Partial Fulfillment of the Requirements for the Award of a  
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## STUDENT'S DECLARATION

“I hereby declare that this thesis entitled “Determinants of Sustainable Financial Resources for SME’s in Malaysia” is my own work except for the quotations summaries that have been duly acknowledged”

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## DEDICATION

I dedicated this thesis to my beloved parents; Zulke Bin Zulke and Noraini Binti Ibrahim, who always supported me towards completion of this research. They also given advices, financial and moral support in order to motivate me to conduct this research until now. Thanks also to my Supervisor, Family and my friend for always support and helping me in this research.

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Thank you very much.

## ABSTRACT

SMEs provide a lot of contributions to the country that could strengthen the basic structure of the national industry and reducing the imported of consumer goods that could improve the economic conditions. Nevertheless, most SMEs required financial supports from the local government in order to smoothen their business operations. Due to the uncertainty in the world economic scenario, the SMEs need to be more independent and not too depending on the financial aids from the government in order to sustain in business world. They need to look at on more sustainable financial resources to be utilised in running a business. As such, this study aims to assist the SMEs to determine the sustainable financial resources that could be sourced by them. Through the literature of few studies conducted, the researcher found that there are few resources that could be sourced by the SMEs which are through angel investors, crowd funding and bootstrapping. This study was designed to help SME's to know each of the government agency's role in helping to provide financial resources. This is because most of the SMEs stopped running their business half-way due to financial constraint. The researcher used quantitative approach to collect data through distribution of questionnaires to 300 respondents consist of government agency and successful entrepreneur. This study can help entrepreneurs to understand the sustainable financial resources before they could develop the SME business.

## ABSTRAK

*PKS memberikan banyak sumbangan kepada negara yang dapat memperkukuhkan struktur asas industri negara dan mengurangkan import barangan pengguna yang boleh memperbaiki keadaan ekonomi. Walau bagaimanapun, kebanyakan PKS diperlukan bantuan kewangan daripada kerajaan tempatan dalam usaha untuk melicinkan operasi perniagaan mereka. Disebabkan ketidakpastian dalam senario ekonomi dunia, PKS perlu lebih berdikari dan tidak terlalu bergantung kepada bantuan kewangan daripada kerajaan untuk mengekalkan dalam dunia perniagaan. Mereka perlu melihat kepada sumber-sumber kewangan yang lebih mampan untuk digunakan dalam menjalankan perniagaan. Oleh itu, kajian ini bertujuan untuk membantu PKS untuk menentukan sumber kewangan yang mampan yang boleh diperolehi oleh mereka. Melalui sastera Beberapa kajian yang dijalankan, pengkaji mendapati bahawa terdapat beberapa sumber yang boleh diperolehi oleh PKS yang melalui pelabur malaikat, penuhih pembiayaan dan but. Kajian ini telah direka untuk membantu PKS untuk tahu setiap peranan agensi kerajaan dalam membantu untuk menyediakan sumber kewangan. Ini kerana sebahagian besar PKS berhenti menjalankan perniagaan separuh jalan mereka kerana kekangan kewangan. Penyelidik menggunakan pendekatan kuantitatif untuk mengumpul data melalui pengedaran soal selidik kepada 300 responden terdiri daripada agensi kerajaan dan usahawan berjaya. kajian ini dapat membantu usahawan untuk memahami sumber-sumber kewangan yang mampan sebelum mereka boleh mengembangkan perniagaan PKS.*

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**LIST OF ABBREVIATIONS AND SYMBOLS**

H0	= Null (rejected)
H1	= H one (accepted)
IV	= Independent Variable
DV	= Dependent Variable
SPSS	= Statistical Package for Social Science
%	= Per cent
<	= Greater-than
>	= Less-than
=	= Equals



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## CHAPTER 1

### INTRODUCTION

#### 1.1 Background of the Research

Developments in economic and improvement in infrastructure has led to an increase in entrepreneurial activities either in the country or globally. This condition also had led to an increase in the establishment of the industrial SMEs in Malaysia. In Malaysia, Small and medium-sized enterprises (SMEs) are defined based on two categories, for the manufacturing sector, SMEs are defined as firms with annual sales turnover not exceeding RM50 million or full-time employees not exceeding 200 persons while for the services sector and other sectors, SMEs are defined as firms with annual sales turnover not exceeding RM20 million or full-time employees not more than 75 people (SMEs Corp Malaysia website). According to Gray (2006), exploring the SMEs' ability to absorb and manage knowledge is an important factor towards successful adoption of innovation and entrepreneurial growth. SMEs provide a lot of contributions to the country, such as provide employment opportunities, increase savings in the economy, strengthen the basic structure of the national industry or reducing imports of consumer goods (UTUSAN ONLINE, 2016).

For instance, the establishment of the SMEs can reduce the rate of unemployment as most SMEs using labour-intensive and non-intensive use of capital. This causes a lot of labour is used mainly in production. Despite of its contributions towards the economic development of the country, the SMEs still need some support from the local development especially during the initial stage of their business. However, the local government may have constraints in continuously support them especially in the long term run because it will much depending on the global economic condition that might affect the government spending. The depreciation of the economy has led to the depreciation of Ringgit Malaysia (RM) and this situation had forced the government to reduce the distribution of the annual budget for all sectors in Malaysia. This situation had forced the government to find the other alternatives to ensure a continuous financial support for the SMEs. In this regard, the government's role is very important to ensure financial resources for SMEs may continue for the foreseeable future.

As such, it has triggered a government agency to aim at preserving the financial resources that can be channelled to the SMEs in order to enhance their productivity. For instance, the main government agencies involved are SME Corp Malaysia, Majlis Amanah Rakyat (MARA) and AGRO Bank. Each agency is intended to provide financing and advisory services to the SMEs in Malaysia based on the guidelines of classification but according to the agency's own way. MARA plays the important role to increase and enhance Bumiputera participation in commercial and industrial activities as well as improving the economic and social of the Bumiputera in line with the New Economic Policy (MARA web site 2016). The AGRO Bank was established to provide loans, advances and credit facilities for agricultural development including production and marketing. SME Corp. Malaysia is the nation's premier organization for the development of progressive SMEs to enhance wealth creation and social well-being of the nation. SME Corp. Malaysia provides business advisory services and information to SMEs in Malaysia through its One Referral Centre (ORC) and also implements various programmes and initiatives under its own auspices including its annual flagship

programmes such as the SME Annual Showcase (SMIDEX), Enterprise 50 (E50) Award and SME Week(SME CORP Malaysia Web Site).

However, all those funding still comes from the local government. As such, the SMEs need to find the sustainable financial resources that could be obtained in case the government cannot continuously support them. Therefore, this study tends to identify the sustainable financial resources that could be obtained by the SMEs in order to enhance their business growth.

## **1.2 Problem Statement**

The purpose of this study is to develop and propose the sustainable financial resources that could be obtained by the SMEs in Malaysia. This is because the government cannot afford to continuously support the SMEs in the long term run due to increase in other government spending. Furthermore, currently the world economy is at unfavourable condition. This situation also impacted adversely on the local economy and the devaluation of the ringgit (RM). For instance, according to the magazine (The Economist, 2016) in a report in August 2015, the ringgit fell by 9.8 per cent against the US dollar which is a significant decline as compared with Thailand's baht which has dropped by 6.4 present. Currency devaluation also has led to a greater government spending from revenues and it can cause inflation. As a result, the allocation of the government budget had to be reduced and it definitely affects the budget allocation for helping the SMEs. Therefore, the researcher tends to assist the government and SMEs in determining the sustainable financial resources that could be obtained by the SMEs in the near future.

### **1.3 Research Objectives**

- 1) To study the importance of financial support from the government agencies (such as SME Corp. SME Bank and MARA) towards SMEs development.
- 2) To investigate the effect of the economic downturn towards government's financial support to SMEs'.
- 3) To identify the sustainable financial resources for SMEs.

### **1.4 Research Questions**

- 1) What is the importance of financial support from government agencies (such as SME Corp. SME Bank and MARA) to SMEs?
- 2) What is the effect of the economic downturn towards government's financial support to SMEs'?
- 3) What are the sustainable financial resources for SMEs?

### **1.5 Scope and Limitations of the Research**

In this section, the researcher will explain the scope and limitations of the study and a research study on the financial resources of SMEs in Kelantan. The scope is limited because only in Kelantan while the target respondents focused on government agencies such as SME CORP, AGRO BANK, SME BANK, MARA, TEKUN,

TERAJU, KADA and including also entrepreneurs who have been successful in their business.

Limitations of the study are the time constraints. The time allocated for this study is only a year and in addition to that I also need to complete the task in which subjects are taught in the classroom. This caused me less time to make observations and visits to local SMEs. Furthermore, had the next is difficult to collect accurate data because some respondents did not answer correctly target.

## **1.6 The Importance of the Study**

This research aims to know that sustainable financial resources in order to assist the development and growth of the SMEs. As such, it will help the government and SMEs find the source of funding in the long term run despite of the downturn in the economy. In addition, this study also will assist SMEs in order to enhance their growth as when they have sufficient financial resources they will be able to improve productivity.

## **1.7 Summary**

The study has an importance to find financial resources to the benefit of SMEs entrepreneurs for the future whether this aid remains constant or reduced and to select measures that can be used for upholding financial resources if it is stopped or reduced. The next chapter will explain more about the literature review and the theoretical framework of this research.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This section will discuss the relevant theories and previous studies done by various researchers based on the related topic. It includes a variety of reference materials as a guide as journals, books, magazines, newspaper articles, mass media and other relevant printed materials. These materials are used to understand and explore the studies conducted in details. This chapter will state the literature review on the importance of sustainable financial resources towards SMEs for the future and develop the proposed conceptual framework to answer the research objectives and questions on how to sustain the financial resources to SMEs.

#### **2.2 Definitions of SMEs**

Nowadays, SMEs play an important role in the development and growth of the national economy. So far, there are many definitions refer to the meaning of SME. Based on the report of the Ministry of International Trade and Industry (MITI), a

manufacturer of small enterprises are those companies with the paid-up capital of not exceeding RM0.5 million or full-time employees not exceeding 50 persons. While medium industry are those companies with ownership of assets between RM0.5 million to RM2.5 million or have employees between 50 to 199 people. With this, SMEs are defined as industrial assets not exceeding RM2.5 million or the number of employees not more than 200 full-time employees (Mohd Asri, 1997). US Small Business Administration defines SMEs as enterprises with less than 500 employees and projected sales of less than 5 million euros (Carmel, 2002).

South Korea based on the Basic Act on Small and Medium Enterprises, the Industrial Cooperation of Small and Medium Enterprises and the Banking Industry Fair define SMEs according to the amount of labour that is, not more than 300 employees for manufacturing, mining and transport not more than 200 workers for the construction industry. (Hasnah Rahmah, 1989). While in Japan also gave its own definition of SMEs. SMEs in the country has clearly outlined in the Law Small and Medium Base Industry in 1973 the SMI defined by among worker and the paid-up capital (Madeline Faridah, 1989).

For Malaysia, there are two criteria used in determining the definition for SMEs. For manufacturing sector, SMEs are defined as firms with sales turnover not exceeding RM50 million or number of full-time employees not exceeding 200 and for the services and other sectors, SMEs are defined as firms with sales turnover not exceeding RM20 million or number of full-time employees not exceeding 75 person. (SME CORP MALAYSIA Website).