

WHY MALAY ENTREPRENEURS DID NOT USE BUSINESS SUPPORT SERVICES IN MALAYSIA?

(MENGAPA USAHAWAN MELAYU TIDAK MENGGUNAKAN PERKHIDMATAN BANTUAN PERNIAGAAN DI MALAYSIA?)

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Abstract: The establishment of SMEs among Bumiputra entrepreneurs has experienced a rapid development in Malaysia. The government focuses on Malays entrepreneurship to eradicate poverty and to cope with social and economic imbalance among races. In 1970 the government launched a New Economic Policy (1970 -1990) which aimed to increase Malays ownership to 30%, yet until now the figure yet to be achieved despite various government support services provided. This study aims to investigate inherent factors that prevent SMEs from using the services. This study also assesses the non-users perception on their firms performance in absence of the government support services. Altogether 3,832 questionnaires were distributed throughout the country via mail in June 2012 together with a stamped returned envelope. 670 questionnaires were returned, 333 (49.7%) respondents were not utilised the support services. Amongst other reasons were due to complicated procedure imposed by the agencies in obtaining the facilities and did not know about the existence of the services. As far as firms performance was concerned majority of entrepreneurs satisfied with their business. In conclusion, the government and service providers should revisit their strategies to render the services conspicuous amongst Malay entrepreneurs.

KEYWORDS: Malay entrepreneurs, government support services, SMEs.

Abstrak: Penubuhan SME dalam kalangan usahawan Bumiputera telah menunjukkan pembangunan yang pesat di Malaysia. Pihak kerajaan telah menumpukan kepada usahawan Melayu khususnya untuk menghapuskan kemiskinan dan menyeimbangkan sosioekonomi antara kaum. Pada tahun 1970, kerajaan telah melancarkan Dasar Ekonomi Baru (1970-1990) yang memfokuskan kepada kenaikan hak pemilikan Bumiputera sehingga 30% yang sehingga kini masih lagi menjadi sasaran utama walaupun pelbagai perkhidmatan sokongan telah disediakan oleh pihak kerajaan. Kajian ini bertujuan untuk mengenal pasti kewujudan faktor yang menghalang SME daripada menggunakan perkhidmatan yang telah disediakan. Kajian ini juga akan mengakses persepsi pihak yang tidak berkepentingan berkaitan prestasi yang dicapai mereka apabila berlakunya ketiadaan perkhidmatan sokongan daripada pihak kerajaan. Kesemua 3,832 borang soal selidik telah diedarkan ke seluruh negara melalui aplikasi e-mel pada Jun 2012 bersama-sama dengan sampul bersetem. Sebanyak 670 borang soal selidik telah dikembalikan yang menunjukkan bahawa seramai 333 orang responden atau 49.7% tidak memanfaatkan perkhidmatan sokongan yang disediakan. Antara punca yang menyebabkan keadaan ini berlaku adalah prosedur yang rumit apabila berurusan dengan agensi yang terlibat dan tidak mengetahui akan kewujudan perkhidmatan tersebut. Selain itu, terdapat juga firma yang berpuas hati dengan prestasi perniagaan mereka dan tidak memerlukan perkhidmatan sokongan ini. Kesimpulannya, pihak kerajaan dan agensi terlibat seharusnya menyusun kembali strategi mereka untuk memudahkan penyampaian perkhidmatan kepada usahawan Melayu.

KATA KUNCI: Usahawan Melayu, Perkhidmatan Bantuan Kerajaan, Perusahaan Kecil dan Sederhana (SME).

Background of the Study

The establishment of business entities among Bumiputra (sons of soil) especially Malays experience rapid development since Malaysia has gained independence from the British colonial in 1957. The government focuses on Malays entrepreneurs as one of the tools to redistribute and stabilise the disproportionate distribution of wealth among ethnics. The great impact on inequitable distribution of wealth witnessed a tragic incidence in 1969 where the country paid a very high price when ethnic riot occurs. As a turning point, the government came out with a bold and well structured 20 years economic planned (1970-1990) which was called The New Economic Policy which the two-pronged objective was to eradicate poverty and redistribution of wealth among ethnics (Malaysia, 1971). Achieving the said objective required overwhelming involvement of Malays in entrepreneurship. The government not only encouraged Malays to venture into entrepreneurship activities but at the same time provided various mechanisms to help Malays in business including financial assistances and incentives. The government recognised and believed that entrepreneurship is one of the effective tools to achieve the objectives outlined in the New Economic Policy.

During the NEP period (1970-1990) a number of government agencies including development banks were established to provide business supports for Malays. It is important to note that, the NEP targeted that by the end of NEP period (1990), at least 30% of national wealth goes to Bumiputera (Malaysia, 1971). Since the starting of the NEP the government spent huge sums of money, providing supports to Malay entrepreneurs, beginning with business start up to business expansion and as well as to internationalisation. However, at the end of the period, the targeted figure yet achieved. The underlying reasons of the failure were many and closely intertwined and interrelated with each other. It is believed that the unsatisfactory achievement also to do with ineffective roles of business support services by development banks.

Previous study shows that a significant numbers of Malay SMEs did not utilise the services. However, no indepth and comprehensive investigation have been done to unearth the problems. So, this study aims to investigate the factors that hinders SMEs from using the services and to assess SMEs perception on their performance in the absence of the government business support services.

Literature Review

This section epitomises the concept of effectiveness of the business support services including measurement of the services as well as findings of previous studies on the impacts of the external business support services on SMEs firms performance.

The Efficacy of the Business Support Services

In the study of business supports, the efficacy of the services is measured at two different stages. First, the measurement on the frequency of usage of the services as the Resource-based Theory suggested, where the frequency of the usage has positive impact on the firms performance. Second, the efficacy is measured based on the direct impact on firms performance.

Frequency of Usage

The measurement is based on how frequent SMEs seek for advice from the service of development banks and or service agencies pertaining to SMEs. In the study conducted by Berry, Sweeting and Goto (2006) in the UK, the study used scale of “always use” to “never use” in measuring the effectiveness of the services provided by a range of services suppliers. In other study, Boter and Lundstrom (2006) scale of “use regularly” to “never use” to measure the usage of the services. The services rendered effective and “working” when the utilisation rate is satisfactory. Overall, the studies on the government backed-up business support found the services were not popular among SMEs (Dyer & Ross, 2008; Hakimin, 2010; Lewis, Massey, Ashby, Coetzer, & Harris, 2007). Sequentially, the services experienced low

utilisation rate and perceived less impacts on firm performance.

Impact on Firms Performance

The effectiveness of the services is measured on the direct impact of the usage of the services to the firms performance. Robson and Bennet (2000) used growth to measure the impact of the external business support. Instead, Wren and Storey (2002) used sales and number of employees to measure the firms performance.

The Impacts of the External Business Support

Various studies of the impact of the external intervention including business support services to SMEs firms performance have come out with mixed results. Berry, Sweeting and Gotu (2006) found the support services had positive impacts on firms performance. Their study was supported by Wiklund and Shepherd (2005), arguing regular contacts with support agencies provided favorable impacts on firm's growth. In a further study by Boter and Lundstrom (2006) also shared the same view. However, Curran and Blackburn (2000) questioned the government involvement in SMEs activities and claimed that the government intervention not to help SMEs per se rather to gain political support, leaving the programs ineffective. This is consistent with the study by Westhead and Birley (1995) who conjectured that the government backed-up support services did not give significant impact on firms performance. A study by Robson and Bennet (2000) who concluded that the effect of the services is in doubt confirmed the above-mentioned findings.

Previous study on the government sponsored business support conducted elsewhere found that the services are not popular among SMEs for a number of reasons (Berry, *et al.*, 2006; Josee & Etienne, 2007). Among others are bureaucracy and incompetence of advisors. Most of the SMEs are more willing to utilise the services provided by private agencies which are faster, in line with their needs and competence staff (Ian. Chaston & Sue, 1998).

Scenario in Malaysia

The government support services are provided especially to assist Malays where their entrepreneurship capabilities and business performances are far behind other ethnics and international business in Malaysia. Without government intervention it is almost impossible for them to compete. This is especially true for new set up business entities which are known to have difficulties to acquire facilities and support from private institutions which is operated on profit-making basis (Brown, Earle, & Lup, 2005). With a wide range of services provided, supposedly the Malays SMEs should fully utilise them and enjoy the benefits. Surprisingly, studies show that the services are under utilised. According to Abdul Aziz and Faoziah (2009), to obtain financial support Malay SMEs prefer to deal with commercial bank over the development banks.

Khairudin *et al.*, (2009) found small percentage (10.1%) of SMEs aware of the services provided by one of the credit guarantees in Malaysia. It is also found that most of the SMEs were unaware of the existence of the credit guarantee services sponsored by the government in their localities. This finding further supported by the study conducted by Foziah *et al.*, (2006), stated that lack of awareness of the existence of business assistance services provided by the government agencies is among the reasons on the poor take up rate. As the consequences, the government sponsored programs are not fully utilised by SMEs and poor take up rate (Boter and Lundstrom, 2005; Berry and Sweating, 2006; Ramsden & Bennet, 2005; Matton, 1999 cited in Devin *et al.*, 2005). The above-mentioned studies found that lack of awareness is one of the factors of poor utilisation of government sponsored business assistance.

Methodology

This study used structured questionnaires to gauge the non usage of the governmental development bank services among Malays SMEs and inherent factors that lie behind the non usage on the services offered. Altogether

3,832 questionnaires were distributed via mail to all the owners of Malays SMEs in Malaysia in June 2012 together with a stamped returned envelope. The questionnaire was divided into 4 sections. Section I asking respondents either they use or do not use the government business support services. Section II comprises of 12 statements pertaining to the reasons for not using the services. The respondents needed to mark any chosen reason and they could mark more than one reason. Section III is the measurement for respondents firms' performance. Finally, Section IV comprises of questions on demographic information which respondents needed to mark the choices given. The survey questionnaires were adapted from previous literatures. By late October 2012, 728 questionnaires were returned and went gone through preliminary data analysis. Out of 728 questionnaires returned, 58 questionnaires were dropped due to (1) 21 set of the questionnaire were not completed more than 10% and (2) 37 set of questionnaires were not answered by owner of the firms. The requirement for the owners to attempt the questionnaires is to get the respond from persons who were heading the top management. The total number responds gave response rate of 17.48%. This response rate is in line with other studies conducted locally with able to obtain a response between 15%-25%. From 670 set of questionnaires returned, 333 (49.7%) respondents are not utilising the government business support services.

Findings

The respondents are equally distributed among 14 states with the highest respondents from the State of Terengganu followed by Selangor. The lowest response is from Perlis which is the smallest state in Malaysia and also have the least number of Malays SMEs in the country.

Majority of the respondents are male (68.5%) and 60% of respondents are below 45 years old. About 60% respondents possess higher education with 28.5% obtained diploma, 14.1% first degree, 3.9% master degree and 1.5% PhD.

Table 1: List of Respondents by States.

State	N	%
Kedah	32	9.6
Kelantan	28	8.4
Perlis	5	1.5
Penang	21	6.3
Perak	20	6.0
Federal Territory	29	8.7
Sabah	15	4.5
Sarawak	28	8.4
Pahang	9	2.7
Selangor	39	11.7
Melaka	20	6.0
N. Sembilan	11	3.3
Johor	30	9.0
Terengganu	46	13.8
Total	333	100.0

Table 2: Respondents/Owners Profile.

	N	%
Age		
<25	22	6.6
26-35	83	24.9
36-45	92	27.6
46-55	104	31.2
56-65	29	8.7
>65	3	.9
Gender		
Male	228	68.5
Female	105	31.5
Level of Education		
Lower Certificate of Education	32	9.6
Malaysia Certificate of Education	108	32.4
Certificate	33	9.9
Diploma	95	28.5
First Degree	47	14.1
Master Degree	13	3.9
PhD	5	1.5
Designation		
Owner	285	85.6
CEO	44	13.2
General Manager	4	1.2

Table 3: Firms Profile.

	N	%
Number of employees		
1-5 y	207	62.2
6-20 y	91	27.3
21-35 y	23	6.9
36-50 y	7	2.1
>50 y	5	1.5
Age of firms		
<1	28	8.4
1-5 y	105	31.5
6-10 y	87	26.1
11-15 y	53	15.9
16-20 y	24	7.2
>20 y	36	10.8
State		
Kedah	32	9.6
Kelantan	28	8.4
Perlis	5	1.5
Penang	21	6.3
Perak	20	6.0
Federal Territory	29	8.7
Sabah	15	4.5
Sarawak	28	8.4
Pahang	9	2.7
Selangor	39	11.7
Melaka	20	6.0
N. Sembilan	11	3.3
Johor	30	9.0
Terengganu	46	13.8
Location		
Urban	226	67.9
Rural	107	32.1
Sector		
Manufacturing	50	15.0
Services	216	64.9
Agriculture	16	4.8
Construction	51	15.3

Out of 333 respondents, majority (64.9%) involves in services activities. Manufacturing represent 15% of the respondents and the rest

are SMEs which running agriculture based activities (4.8%) and construction (15.3%). In term of size, 62% respondents is categorised as micro-scale firms with 5 and less of full time employees and 37% categorised as small-scale firms with number of employees between 5 to 50. The balance of 1.5% is medium size firms with number of employees more than 50. Majority of respondents run the business in urban area and 60% of the respondents have more than 5 years in business.

Table 4: List of Factors for Not Using Business Advisory Services.

Reason	Frequency	%*
Insufficient resources	83	24.92
Not aware of the services	76	22.82
Services only for nascent business	46	13.81
Did not know about the services	53	15.92
Did not confident with the service offered	46	13.81
Poor fit between the business need and services available	52	15.62
Did not know to apply for the services	115	34.53
Concern about possibility of information leakage	37	11.11
Procedure are complicated	245	73.57
Did not understand about the product	51	15.32
Service quality is poor	42	12.61
High charges imposed for the services	54	16.22
Others	20	6.01

* Percentage out of total respondents of 333

Of 333 respondents, 73.57% agreed that long process and complicated procedure to obtain the services is the most popular reason why SMEs were not utilising the services. The second is they did not know how to apply. This is related to the former and it is believed due to long and complicated procedure. The

Table 5: Non-users Perception on Firms' Performance.

	Better market position		Larger market share		Higher sales growth		Higher employment growth		Better financial result	
	N	%	N	%	N	%	N	%	N	%
Strongly Disagree	6	1.8	4	1.2	5	1.5	3	.9	4	1.2
Disagree	18	5.4	33	9.9	16	4.8	36	10.8	15	4.5
Neutral	139	41.7	139	41.7	146	43.8	152	45.6	129	38.7
Agree	148	44.4	130	39.0	140	42.0	117	35.1	161	48.3
Strongly Agree	22	6.6	27	8.1	26	7.8	25	7.5	24	7.2
Total	333	100.0	333	100.0	333	100.0	333	100.0	333	100.0
Mean	3.49		3.43		3.50		3.38		3.56	
SD	.77		.82		.77		.81		.74	

third reason is insufficient resources where the fund is insufficient and need to wait for new allocation from the government. Based on one of the researcher's experience with one of the participants in a particular training session, the participant claimed that the fund is exhausted when he submitted his application. Surprisingly despite the government boasted of success of advisory services a significant proportion - 22.82% respondents were not aware about the services provided by the government development banks and other related development agencies.

To assess the firm's performance, the respondents were asked to rate the five items used in the performance construct. The measurement using 5 point Likert-scale which scale of strongly disagree (1) to strongly agree (5). The respondents were required to give assessment based on the comparison between respondents firms and competitors firms. The results show that 44.4% respondents agreed that their firms have better market position compares with competitors. Only 6.6% strongly agreed that they have better market position. In terms of market share, 39% agreed that their market share are larger than competitors whereas 11% disagree to this statement. The respondents also agreed that their firms experienced higher sales and employment growth which response of 42% and 35.1% respectively. Finally, in terms of

financial position, 48.3% of respondents agreed that they recorded better financial position compared to competitors. Overall, the mean for items in performance construct is between 3.38 to 3.56 which can be concluded that the respondents agreed that their firms' performance is fairly better than competitors.

Discussion

The study found that almost half (49.7%) of the respondents did not utilise the services provided by the government. Majority of the respondents failed to benefit from various programs due to complicated procedure imposed by the agencies in obtaining the facilities. Another reason is that they did not know and aware about the services. This is quite alarming where 22% claimed they did not use because of unaware about the services. A lot more should be done as the result of this study, indicating the message did not reach certain group of SMEs - 22%. The result suggests that the awareness of the programs did not work well to certain groups of Malays SMEs.

The issue of complicated procedure dominated the factor for failure to use the services. Salleh and Ndubisi (2006) reported that the bureaucracy is one of the challenges that facing the agencies to disseminate efficient and effective services to SMEs. This is a long and overdue issue that remain unsolved. There

are a lot of debates pertaining to bureaucracies, some authors argue that the long and complicated process in obtaining services from the government is related to the accountability and good governance in public sector. The government is responsible and answerable to the public in particular on the money spent and activities held. In turn, the agencies must carefully act by keeping a comprehensive and detail record. This practices lead to lengthy process and a lot of forms need to be filled up. Bureaucracy lead to a rigid procedures and takes longer time to complete a process. This become problems to SMEs as long waiting time affected their daily operations.

There are also a debate that complicated procedure on obtaining financial aid. The government sponsored programs are managed by government-link corporations which run as a profit oriented organisation. As a corporate body with focus on profit making activities, giving out loan to SMEs is a risky activity in particular to micro and small size SMEs. So, to mitigate the risk, the corporation involved needs a lot of information which sometimes is not readily available for Malay applicants (SMEs). SMEs need to work out with other parties in order to produce the information. For instance, it is a normal practices by the financial institutions to ask for 3 years audited financial statements for corporations or endorsed by Public Accountant in the case of unincorporated business entity. Obviously, most of the micro and small sized SMEs are incapable to employ a qualified employee as an accountant as salary is high and did not commensurate with their earnings. By imposing such conditions, small business need to engage private party where some money need to be spent for the purpose. Such spending is rather considered as a loss. Furthermore, it takes considerable time to prepare the documents. At the same time, the lodgement of the documents after spending much money and time did not give any guarantee for loan approval. This is the dilemma facing the SMEs. They are in dire need for the services which should come with no cost upon application but turn to be a very

high prices. Consequently, these factors become distraction factors for SMEs.

Non-users SMEs assess their performance at better position compares with their competitors. Thus, the findings reflect that the business support services offered by the government available in the market are not attractive to this group. Simply speaking the implication of the findings shows Malay SMEs believed their operation do not need intervention from the government. They are doing well without advisory services, so why they need to bother with the services.

Conclusion and Suggestions

Majority of the respondents did not use the services on the reason of failure to comply with lengthy procedure and bureaucracy. Surprisingly, the awareness issues still exist besides various programs conducted to overcome the problems. There are number of factors that can overcome the problems if the service providers really understand the nature of SMEs and their requirements. The problems of bureaucracy, complicated procedure and awareness, are long overdue and need serious attention from the government. Non users rate is consider high when about half of the total Malays SMEs population are not benefited from the programs. It is suggested that the government agencies to review the terms and conditions stipulated in the services in order to cut-off a lengthy procedures. For financial support, the government backed-up financial institution for SMEs is suggested to review the whole procedures by considering not to apply normal credit practices in particular when assessing loan application form micro and small sized SMEs. Imposing normal credit practices especially on nascent micro and small sized SMEs will be discouraging and defect the intended purpose as they are not capable to comply. For instance, recently, a new financial support services scheme dedicated to youth below 30 years old was launched. It was announced that the support comes in the form of soft loan where the extension of financial aid to SMEs without third party guarantee. The

fund is managed by one of the development institutions. However, in practice the facilities offered without guarantee but SMEs need to put cash collateral which is equivalent to 10% of loan amount. Cash collateral imposed creates difficulties for nascent and existing Malay entrepreneurs and again discourage them from using the facilities. Subsequently, it defeats the government aspiration to provide advisory services render from the government development banks and related institutions for the benefit of Malay SMEs.

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