

**THE SUCCESS FACTORS IN GETTING BUSINESS
FINANCING FOR SMEs IN MALAYSIA**

A thesis submitted to the Graduate School in partial fulfillment of the requirements for the degree Master of Science (Banking), Faculty of Finance and Banking, Universiti Utara Malaysia

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ABSTRACT (BAHASA MALAYSIA)

Industri Kecil dan Sederhana (IKS) menjadi sebahagian daripada sistem perniagaan yang penting di Malaysia. Walaupun industri ini mempunyai peranan yang tersendiri dan turut menyumbang kepada ekonomi di Malaysia, tetapi IKS berhadapan dengan kekangan dari segi kewangan untuk mengembangkan perniagaan mereka.

Oleh itu, disertasi ini bertujuan untuk mengkaji faktor-faktor yang dilihat oleh bank dalam pemberian kredit kepada Industri Kecil dan Sederhana di Malaysia. Bagi tujuan tersebut kajian ini hanya menumpukan kepada persoalan: *apakah faktor-faktor yang menjamin kejayaan pinjaman perniagaan bagi Industri Kecil dan Sederhana di Malaysia?*

Objektif kajian ini adalah untuk mengenalpasti faktor-faktor yang dilihat oleh bank dalam proses pemberian pinjaman perniagaan kepada Industri Kecil dan Sederhana di Malaysia. Empat isu kajian telah dibina untuk membuat penelitian yang lebih mendalam ke atas persoalan kajian iaitu; *apakah faktor yang digunakan oleh bank dalam pemberian kredit kepada IKS, apakah faktor kewangan dan bukan kewangan yang dilihat oleh bank sebagai faktor yang memberi kejayaan dalam pemberian kredit kepada IKS dan adakah factor ini boleh dikategorikan kepada factor utama dan factor sampingan.*

Untuk mencapai objektif dan menjawab persoalan kajian tersebut, kaedah temuduga tertumpu telah digunakan dengan menemuduga komersial bank termasuk SME Bank disekitar negeri Kedah. Kajian ini telah menggunakan teknik “cross case analysis” bagi tujuan menganalisa data. Hasil daripada analisa yang dibuat menunjukkan terdapat 12 faktor yang dikelaskan sebagai faktor yang memberi kejayaan kepada Industri Kecil dan Sederhana untuk mendapatkan pinjaman dari pihak bank.

ABSTRACT (ENGLISH)

Small and medium enterprises (SMEs) constitute an important part of the business system in Malaysia. Although their role in the Malaysian national economy has been one of distinction and contribution, but SMEs possess a lack of financial to expand their business.

Thus, the purpose of this dissertation is to investigate the factors considered by banks in providing the financing to Small and Medium Enterprise (SMEs) in Malaysia. This study is focused on question; *what are the success factors in getting the business financing for SMEs in Malaysia?*

The objective of this dissertation is to identify the factors considered by the banks in providing the business financing for SMEs in Malaysia. Four research issues have been developed for in-depth investigation at the research question; *what are factors used by the banks in providing the business financing for SMEs, what are “financial factors” and “non-financial factors” considered by bank as a success factors in getting the business financing for SMEs and can this factors categorized into core and supplement factors.*

To achieve the objective and also to answer the research issues, this dissertation employs the convergent interview with the commercial banks including SME Bank around Kedah. This dissertation have been used a cross case analysis technique to analyzed data. From this analysis, the result suggested that have 12 factors classified as a success factors in getting the business financing for SMEs.

DEDICATION

This dissertation is dedicated to my parents, Zali bin Abdullah and Yam bt Ismail, who have provided undying love, support and encouragement. They also never give up for provide me with strength, dreams, courage and determination to move through the final stage of this process until my dream came true due their love and sacrifices.

I also dedicated this dissertation to all my sister and brother in law and my brothers. Thank you to all of you who really inspire me and always give me support. Without their love, patience and sacrifices, this dissertation would not have been possible.

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LIST OF ABBREVIATIONS

- **BNM** Bank Negara Malaysia (lending guidelines)
- **CCRIS** Central Credit Reference Information System (CCRIS)
- **CCDSI** Coordinating Council for Development of Small-scale Industries
- **MITI** Ministry of International Trade and Industry
- **SMEs** Small and Medium Enterprise
- **SMIDEC** Small and Medium-sized Industry Development Corporation

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter intends to give a brief picture to the flow of this dissertation and its contents. The organization of this chapter is as follows: section 1.1 presents the background of study, section 1.2 explains the problem statement, section 1.3 provides the justification of the study, section 1.4 describes the objectives of the study, section 1.5 documents the methodology, section 1.6 discusses the limitation of the study, and finally section 1.7 concludes the whole chapter.

1.1 Background of study

Bank lending has played an important role as the major source of funds and liquidity for the private sector in Malaysia (Public Bank Economic Review, 2002). As the main mobilized of funds in the economy, the banking sector was able to support the increasing lending requirements to business activities.

Reflecting that, Bank Negara Malaysia (2004) stated that demand for new financing by businesses was higher in 2004. Loan applications received from businesses were increased by 20% in 2004, a turnaround from the decline of 7.7% in 2003. The increase was driven by higher applications received from the manufacturing, construction and the wholesale and retail trade sectors, amounting to RM76.2 billion. In tandem with higher loan applications, new loans approved to businesses were increased by 9.8% to RM84.9 billion, accounting for 48.9% of total new loans approved by the banking system. Nearly 51% or RM43.2 billion of new loans approved to businesses were channeled to the construction, manufacturing and the wholesale and retail trade sectors.

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