CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter summarizes the research process and findings of this study. This chapter also highlights the limitation of the study and the basis of future research areas proposed.

5.2 Summary and Conclusion

This study aims to unveil the bank's attitude towards financing the small and medium enterprises (SMEs) in Malaysia. This study has tried to investigate the relationship of government initiates and lending technologies in influencing the bank's attitude towards financing the SMEs. We used mixed method research in completing this relationship of which we collect quantitative data from our purposeful sampling. In order to explain further the relationship we proceed with qualitative data to get our results.

Based on our results, we found that in relation to the bank's policies and regulations on SME lending, direction of lending is towards certain preferred industry which is influenced by the government policies. Most preferred industry is manufacturing and oil and gas industry. Banks also avoid industry which has higher risk like the wood industry. Banks perception is that SME are riskier and that due to that they charge higher

interest rates. In general, Banks still required collateral and not willing to finance SME on a clean basis.

Further, our results summarized that SMEs are subjected to various documentation for loan evaluation for approval. Banks find that creditworthiness of SMEs is dependent on this information. Despite that, they think that not all the information is reliable and accurate. Therefore, in order to evaluate the loan objectively, they need to rely on credit databases from the private as well as the public bureaus. Additionally, banks need to complete credit rating for the SMEs on top of all the documents required. The results shows that overall, the credit officers follow their bank lending direction in considering financing for SMEs.

However, on a case to case basis the overall creditworthiness of the SMEs found in the loan evaluation and analysis process is the determinant to the loan approvals. We also found out from the result that on top of the documents assessed, Banks still require collateral for approval and will revert to credit guarantee when security becomes an issue. Our results show that bank's attitude affects SME access to financing.

Our result on the third part shows that government sponsored schemes influence the Bank's perception on the credit evaluation of SMEs in relation to the security issues and interest rates. Most banks in this study participate in the government schemes for SMEs and they are in compliance to the government direction. However, all SMEs are subjected

to the normal evaluation process for approval in which they still need to submit to the Bank full documentation for approval. Banks on the other hand will proceed with the normal process of checking credit database, using credit rating as well as requirement of collateral. Our result shows that government funded scheme affects bank's attitude towards financing the SMEs.

Our result on the lending technologies indicated that most lending officers utilize the transaction and relationship lending to determine SMEs creditworthiness. Most favorable financing technology is the term loan with fixed assets charge to the Bank. The lending technologies adopted also incorporate the security arrangement for the banks. The results show that lending technologies affect bank's attitude towards access to financing.

5.3   Limitation of the Study

Due to time constraints, the study only covers five local banks and one DFI with 50 credit officers. Our result may be different if we increase the sample or we invite participation from foreign locally incorporated banks in Malaysia, Islamic banks as well as foreign locally incorporated Islamic banks.

Additionally, our focus is only addressing the supply side of SME financing which involve Bank's perception on the SME companies. However, there are also demand side constraints on SME financing.

5.4 Suggestions for Future Research

Based on the limitations above, the research could be further refined and improved by looking into diversifying the sample selection by including many other financial institutions. In addition to reviewing the results based on the data collected and interviews, future research should also involve an interview with top management, directors of the Banks, relevant regulators and SME companies.

Further, the research could be further investigated in relation to SMEs perceptions towards services offered by local banks in Malaysia in replication to research done by Bbenkele, E.K. (2007) for banks in South Africa.

5.5 Implications

This research shows that SME access to financing is dependent on the bank's attitude. Banks financing has remained the major source of capital for the SMEs in Malaysia. Basically, efforts have been made by the Malaysian Government   to encourage lending to SMEs by means of loans incentives and government guaranteed schemes. However, the prevailing mindset that large corporate is better and the fact that banks are risk adverse to lending to SME will hinder the access to financing by the SME. This is evidence by the demand for collateral, onerous documentation and

same evaluation criteria as large corporate. Thus, shortage of financing will impaired SME competitiveness.

5.6 Recommendation to improve Bank's attitude

Some of the literatures found highlighted the recommendation to further improve Bank's attitude in order to increase the improve access to financing for SMEs. Among the recommendations made by RAM (2005) are:

5.6.1 Improve techniques and appraisal method for SME

There should be a paradigm shift on the top management that SME has its own unique characteristics and that they are different from large corporate. The techniques and evaluation methods for large corporates are not relevant to SMEs. As such banks must design a new method of evaluation for SME financing. In the absence of such improvements, dealings with SMEs should be done by long and experience staff working in the Bank as relationship lending takes place. Credit rating is more suitable for large corporate and that specific evaluation appraisals are more necessary to deal with SMEs as they have weak information structure.

5.6.2 Promote dialogue between financial institutions and SMEs

The financial services offered by financial institutions may not be appropriate to meet the SMEs need. In order to promote better understanding and facilitate financing for SME, greater linkage and dialogue between financial institutions and SMEs should be promoted.

5.6.3 Improve information access to SMEs

The lack of information access is a pertinent barrier to improve SME financing. Banks are not able to create a good credit models or history for the SMEs due to lack of data. Presently, credit and trade information data granted by CTOS and CCRIS are not freely shared due to regulator and private companies restricting access to such information. The improvement in information access would greatly assist banks in accessing and better understand risk profile of SMEs. Meanwhile, research and surveys on funding trends, facilities utilized, cost of capital, problems of financing should be published for assessment of banks.

5.6.4 Enhance SME accounting standards

SMEs struggle to understand the complex requirements of accounting standards and difficulty of preparing financial statements. SMEs prefer to

save cost rather than professional accountants to prepare proper accounts. SME needs to comply with the same accounting standards like all registered companies in Malaysia. Simplifying or improving the accounting standards to adjust to the SMEs would assist more SMEs to comply with transparency and disclosure of information issues.

5.6.5 Develop alternative markets for SMEs

The government can look into developing the debt and equity markets for the SMEs as an alternative source of funding. Presently, the requirement on the Bursa does not cater for smaller corporations and not SME friendly. Access to such funding could be equipped with non-stringent requirements