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Does The Micro Financing Term Dictate The Performance Of Micro Enterprises?

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Abstract

This paper studies the impact of micro financing or micro credit services towards micro enterprise performance in Malaysia. A conceptual framework has been developed to reveal the essential financial elements involved in this study. The elements include financing or loan tenure, collateral, margin of financing and repayment method. Quantitative data have been analysed using the statistical method of correlation and regression analysis. The purpose of this study is to examine the financial services in micro financing that dictate the performance of micro enterprises in Malaysia. It was a lack of studies towards the performance of micro enterprise when it involve in micro financing or micro credit of financial services. The development of micro enterprise scheme in Malaysia needs strong support from all agencies involved especially the government and MFIs to ensure micro enterprise performance.

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1. Introduction

The Malaysian government is strongly committed and is actively promoting micro financing as one of the strategies in developing the young entrepreneurs, especially those among the Malay community (Hanif and Iqbal,

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2010). Most micro-entrepreneurs will initially not be able to finance the start-up costs of their micro-enterprises out of their own pockets. Thus, the most obvious option is to partner up with a micro-credit company to give these entrepreneurs access to micro-credits with a fixed amount on predefined terms for starting the new small business.

Microcredit, in its simplest form, involves granting individuals who have lack of money access to capital in the form of uncollateralized small (micro) loans designed to be repaid with interest. Microcredit and micro franchise share the prefix “micro,” which for both constructs, is synonymous with a focus on select services for very low income clients (Fairbourne, 2007b). At least since Muhammad Yunus and his Grameen Bank won the Nobel Peace Prize in 2006, micro-credit has become well-known in the Western world. But what are the differences between the different concepts and where does micro-franchising fit in? This paper will investigate how far the micro credit or micro financing helps the infant entrepreneur in micro franchising scheme. This paper speaks of the issue of how far the micro credit scheme provided by Financial Institutions helps the infant micro franchisee in Malaysia by looking into the financial elements offered by financial institutions in Malaysia. Micro franchise is the one of the methods to create the employment opportunities in a particular country especially in developing countries.

The tenure of the given loan is an important determinant to the micro enterprise performance and their growth performance. For example, increasing the size of a given loan is important for extending the market and the size of business. The flexibility of appropriate amount given to micro enterprise helps them to start the business properly, time responsiveness and provides adequate information about the terms of service. This is an important determinant in order to ensure micro enterprise meet the goals.

Even though the economic theory suggests that a more flexible repayment schedule would benefit clients and potentially increase their repayment capacity, microfinance experts believe that the discipline imposed by regular repayment maintains high repayment rates in the absence of collateral. Although this feature is less usual than the previous mechanisms, it helps MFI to maintain high repayment rates (Armendariz & Morduch, 2000; Morduch, 1999). In the MFI, the repayment starts almost immediately after disbursement and then occurs on a weekly or monthly basis.

The government encourages more financial institutions to offer micro financing or micro credit scheme to aid businesses at every level, including entrepreneurs from lower income groups (Bernama, 2015).

2. Problem Statement

With regard to the above issues, no study has been conducted to develop a framework regarding the financing terms and micro enterprise performance. Therefore, this paper targets to explore the effect of financial terms towards the micro enterprise performance and to identify whether those financial terms have a significant impact to the return on Investment of micro enterprise.

3. Research Questions

- a) Does tenure positively relate to the return on investment in micro enterprise?
- b) Does collateral negatively relate to the return on investment in micro enterprise?
- c) Does the interest rate of financing positively relate to the return on investment in micro enterprise?
- d) Does mode of payment positively relate to the return on investment in micro enterprise?

4. Research Objectives

This paper is focusing on the main elements that will be looked into both internally and externally. Specifically, this research has the following objectives:

- a) To identify the relationship between tenure of financing and return on Investment for micro enterprise performance
- b) To examine the relationship between collateral of financing and return on Investment for micro enterprise performance

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