An exploration of financing preferences among entrepreneurs: The case of micro enterprises in Kelantan, Malaysia

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Abstract : - Financing plays an important role in supporting micro enterprises development. Although there are many financing options made available for this sector, most micro-enterprises encounter problems in accessing the funding assistance due to some external issues. This paper aims to examine the financing preference among micro enterprises and the reasons that contribute to their financing preference. Data were derived from the questionnaire survey among the micro-enterprises entrepreneurs in Kelantan Malaysia. Based on 100 usable responses, the results demonstrate that the majority of the respondents rely heavily on their own funds due to loan application bureaucracy and owner/managers reluctance for additional debt commitment. The results also indicate that the respondents who opt for external debt financing, are triggered mainly by the insufficiency of their own internal capital for business expansion. In addition, respondents tend to use external funding if the loan application process is quick and simple with no collateral requirement. This is the case of most government micro-loan schemes where approval requirements are less rigid. This paper provides an insight in financing preferences among micro enterprises especially in a developing country.

Keywords: - financing preferences, small and medium enterprises, micro enterprise, capital structure

1. Introduction

Small and medium-sized enterprises (SMEs) are the backbone of the Asian economy (Yoshino and Taghizadeh-Hesary, 2016) through its vital roles in economic diversification, job opportunities creation and equitable distribution of resources (Bilal and Al Mqbali, 2015). Access to finance is important for the growth of SMEs because it allows small businesses to undertake productive investments and contributes to the development of the national economy and poverty alleviation. This is because the ability of SMEs to develop, grow, sustain and strengthen themselves depend on their capacity to access to finance (Peprah, 2016). Osano and Languitone (2016) suggested that external source of funds for small and medium enterprises is essential for boosting start-up businesses and without external finance this sector will probably not be able to compete in an international market or to expand the businesses and strike linkages of business with the large firms. Nevertheless SMEs have been encountering various challenges including insufficient working capital, competition and difficulty in obtaining funds. There is a claim that micro-enterprises are financially-constrained and face difficulties in accessing financial supports (Moro et al. 2014). Compared to the larger firms, micro-enterprises have more challenges to obtain financing from formal financial institutions. Wang et al. (2015) argued that access to external finance is typically identified as the major constraint to small firm's growth and development due to the perception of the loan provider that. A current body of literature in financing among small business suggests that the majority of firms have less access to formal sources of external finance and are reported to face many financing obstacles compared to larger firms. The situation can slow down the development of small enterprises that need a continuous financial assistance for expanding the businesses. Westhead and Wright (2000) reported that the absence of adequate funding represents a major obstacle to the entrepreneurial process in a firm – regardless of size, location or type of economic activity. Similarly it has been reported that the Malaysian micro-enterprises underutilized the financing assistance provided by the government (DOS, 2011).

Poor business proposal/plan, unprofitable investment decisions, information asymmetry, high interest rate and unfavorable government economic policies and insufficient collateral are some of the challenges SMEs are facing in accessing bank loans (Peprah, 2016). Besides that Yoshino and Taghizadeh-Hesary (2016) revealed that the lack of databases, low R&D expenditures, undeveloped sales channels, and low levels of financial inclusion limit SMEs' access to finance. Similarly Ahmad (2012) demonstrated that SMEs face constraints in obtaining financial support, bureaucracy, lack of credit options and unfriendly business environment. Khandker et al. (2013) stated that SMEs who are successful in obtaining funding from financial institutions such as banks or micro credit are less than 10 percent. Meanwhile, Osei-Assibey (2013) states that entrepreneurs tend to choose their own funds rather than debt financing as entrepreneurs do not have to disclose the company's financial statements to any party and do not involve floating cost. Other important problem include inadequate government support, unpredictable policy changes and lack of training (Ahmad, 2012). These barriers very according to the field of activity of the enterprises.

Other than external issues faced by micro enterprises personal characteristics of the owner-manager have been cited as an important influence on financing preference as claimed by Mohamed Zabri et al. (2015). The literature indicates that managerial characteristics such as gender, age, education, experience and business ownership owners' preferences, business goals and motivations towards financing preference are important in understanding firms' financial practices. This is supported by Raghu and Trivedi (2016) who suggest that demographic factors such as age, gender, level of income, level of educational, home ownership, employment status and location are the contributing factors to financing preferences among small business.

In Malaysia, there are 650,000 SMEs and almost 500,000 are the micro enterprises (Department of Statistics, 2011). There are 37,823 SMEs in operation and 34,759 (91.9%) are micro enterprises (Department of Statistics, 2011). In this sector, micro enterprises, is considered as one of the major players in generating economic growth and creating job opportunities in Malaysia. Micro enterprise in Kelantan are the highest compared to others country. According to the Department of Statistics (2011), SMEs have employed around 3.7 million workers from the total workforce of 7.0 million which amounted to 52.7 percent. Micro enterprises are hiring almost 1.3 million workers that is nearly 36.5 per cent of the total SMEs. The contribution of SMEs in helping to increase the income of the rural community is undeniable when the profit of RM 507.1 billion has been recorded. RM 87.7 billion of the total contribution was generated through micro enterprises (Department of Statistics, 2011).

Recognizing the importance of micro enterprises, many facilities are provided to assist micro-entrepreneurs such as initial start-up capital. This is due to the SME's ability to develop, maintain and strengthen the company that relies heavily on the capability of the SME to get funding (Peprah, 2016 and Abe et al., 2015). For example, the Ministry of International Trade and Industry provided a Small and Medium Enterprise Loan Scheme (SPIKS) and Entrepreneur Development Program of RM 2.75 million (Department of Statistics, 2011). SME Bank and TERAJU have also provided an allocation of RM 376 million and RM 100 million for SME development. This facility can help SMEs to develop their business with very fast.

The Department of Statistics (2011) found that micro entrepreneurs relied on their own funds to continue the operations although a number of financial supports were provided. For example, internal funds recorded the highest percentage of 58.1 per cent compared to other sources of funding. Economic census reported that in Malaysia the incentives provided are still under-explored by entrepreneurs. The Borneo Post (2014) reports that the allocation to develop small and medium enterprises is poorly utilized by local entrepreneurs. This statement is also supported by the results of the economic census published by the Department of Statistics Malaysia in 2011 which shows that only 17.4% of entrepreneurs choose financing through financing schemes provided by the government.

This leaves questions what is specific financing preference among micro-enterprises and constraints faced by this sector in accessing financial support provided by the relevant agencies. Therefore, this research is developed to investigate the different types of financing sources used by micro-enterprises, their financing preferences, and to explore reasons as well as the barriers in accessing financial assistance.

2. Financing Preference

Financing practices and preference among small business have been studied quite extensively. For example, Daskalakis et al. (2013) investigated finance preferences among Greek small and micro firms. The study found that firms rely heavily on their own funds and would not raise new equity from sources outside the family; thus, there is a reluctance to use new outside equity (venture capital, business angels, etc.). In term of debt financing, firms agreed that they would use more debt, specifically long-term debt, than they currently do. This indicates that there are also limitations in accessing long-term debt financing. In addition, micro and small firms should be better informed and encouraged more to participate in state grants and co-financed programs which indicates that there is an informational gap in grant financing. Mohamed Zabri & Lean (2014) conducted a study on SME managers' financing preferences among successful SMEs in Malaysia and found that average debt-to-equity ratio among the successful SMEs is between 40 to 60 percent. On the other hand, Hussain et al. (2006) suggested that there are similarities as well as differences between SME financing in the UK and in China. In terms of initial (start-up) funding, a large proportion of respondents relied exclusively on financial support from their immediate family. After two years in business, respondents exhibited a higher reliance on own savings and the financial support from bank and other financial institutions. At the end of five years of uninterrupted economic activity, most of the owner/managers in the UK sample relied primarily from financial institutions and to a lesser extent upon their own savings. In contrast, owner/managers in China depended mainly upon financial support from their immediate family and to a lesser extent on financial institutions.

Current literature indicates that education has significant relationship with a financing preference and bank loan approval (Osei-Assibey, 2013). Mohamed Zabri & Lean (2014) revealed that manager's ownership status and level of education are found to have a statistically significant association with their level of financing preferences. In others study by Slavec and Prodan (2012) claimed that educational level of owners have significant positive correlation with access to bank loan. Ahmad (2012) used the top manager's level of education as a measure of the quality of human capital and found significant positive relationship between educational level and the probability of accessing bank finance. Pandula (2011) found that educational background has significant relationship with access to bank loan. Nguyen and Luu (2013) divided education into three different variables, basic educational level, professional educational level and knowledge about enterprise law and tax law. This study showed that all these proxies of educational qualification of the owner/manager have significant positive effect on access to finance. Mukiri (2012) studied on the effect of educational level and training on access to bank loan indirectly through entrepreneurial orientation and found that educational level of the entrepreneur has positive effect on access to finance. Maziku (2012) claimed that SMEs with owner/manager who have educational qualification of vocational level and beyond are more likely to be favored by banks to access credit. However Nguyen and Luu (2013) reported that enterprises' owners who are more educated do not prefer debt financing in the first place as they can differentiate financing alternatives that suitable for their business and they are more careful on debt financing decision. Ogubazghi and Muturi (2014) revealed that educational level of the owner/manager does not have significant effect on access to bank loan. Similarly Irwin and Scott (2010) found that education made little difference to sources of finance, except that those educated to A-level more frequently used friends and family and remortgaged their homes. However, graduates had the least difficulties raising finance. Thus, the literatures suggest there are mixed results regarding the relationship between educational level and financing preference.

Nakano and Nguyen (2011) claimed that age is one of the most commonly studied factors that affect access to bank loan. The effect that age has on access to bank loan can be viewed from both demand and supply side of loan. From the perspective of demand side, age is a factor that determines the owner/manager's preference or self-selection of either being user or non-user in the credit market. This is based on the assumption that a particular age group tends to behave and prefer in a different way than other age groups. For instance, older owner/managers commonly appear to be risk (Nakano and Nguyen, 2011) and do not want to use bank loan. The motivation of entrepreneurs also varies with age. For instance old entrepreneur motivation to run a business often appears to be just a hobby or monopoly of power. Such individuals tend to fail to attract, apply or secure external finance. Similarly, from supply side perspective, bank's perception of different age group also affects access to bank loan. For instance, entrepreneurs of old age group are generally perceived as non-innovative and non-dynamic. Young aged owner/managers are perceived as innovative and good performers, but risky portfolio. In addition Abdulsaleh and Worthington (2013) observed that information asymmetry decreases as the age of owner/managers increases and lead to an improved access to bank loan. Therefore, there are some implicit and explicit implications which can affect the decision of both the lender and borrower. There are several studies that investigated the effect of age on access to finance, however there are mixed results, mainly on the significance of the variable. A study conducted by Nguyen and Luu (2013), Fatoki and Odeyemi (2010) and Nguyen and Luu (2013) showed that age do not have significant effect on access to finance. Slavec and Prodan (2012) also found out that age and debt financing do not have significant relationship. However, contrary to the above findings, Nguyen and Luu (2013) demonstrated that age have significant effect on the studied firms' ability to access finance. As it can be concluded from the above discussion, the results of the studies on this factor have mixed result, more particularly with regard to its significance. The result on the direction of the effect that age has on access to bank loan is also mixed. However, Abdulsaleh and Worthington (2013) suggested that the positive effect of age on access to credit prevails over the negative effects.

There are several studies indicates that gender has significant relationship with bank loan approval (Raghu *et al*., 2016). In a study by Sandhu et al. (2012) showed that the relationship of female owner/mangers with their banks was affected by gender prejudices inherent in the male dominated banking sector in India. Loan rejection rates for female owner/managers were significantly greater than those of their male counterparts. The incidence of bank managers requiring collateral/referral letters was considerably higher for female owner/managers than for equivalent male applicants. Sena et al. (2012) showed that women are less likely than men to seek external finance and that gender differences in access to finance are affecting adversely the transition into self-employment. Nkuah et al. (2013) explained that male tend to receive favourable responses from bank compared to female entrepreneurs. Women were about twice as likely to be rejected loans even after fulfilling well in all the required parameters. Similarly Orser, Riding and Manley (2006) argued that male tends to receive as favourable responses from the bank because they believed that man have strong business stable rather than a woman. Women are about to be rejected because there are seen weak in project planning. Osei-Assibey (2013) found a mixed relationship between gender and financing at different stages of business life. At start-up, female owners are likely to access formal banking credit rather than the male owners. However, there are no significant differences to be found between these two in term of their financing preferences for on-going finance. Linvert et al. (2015) found that women entrepreneurs perceived semi-formal capital, as the most accessible external capital. Governmental subsidies are ranked second, followed by informal capital, such as loans from family, friends and investors. As expected, loans from formal banks are ranked as the least accessible financing alternative. Nevertheless Hussain et al. (2010) result showed that women appear to be no more disadvantaged from obtaining finance than men in China and in some respects appear to be in a better position. Both women- and men-led firms are significantly stronger in relation to having access to enough finance to grow than at the start-up phase. A majority of participants in this study used guanxi to access finance. Furthermore, the paper finds that guanxi is used equally by men and women, and that guanxi-sourced finance comprised a significant proportion of the overall capital obtained.

The company's operating period will have the significant relationship with the choosing of internal finance. Briozzo danVigier (2014) argued that the company that has been involved in business for a long time, have less tendency to choose debt financing especially personal loan to finance the operation of the company. This may be due to the company that has long been involved in the market have a stable financial to cover the operating costs of the company. Yazdanfar and Ohman (2017) demonstrated that based on their research, they found that the operating period for the company have the negative relationship with the debt financing. The company that has just started their business tend to choose equity financing because it does not involve much cost (Osei-Assibey, 2013). The result of this study are contrary to the research done by Pickernell et al. (2013) who stated that the new companies that is still at the beginning stage, they tend to choose debt financing compared to the companies that has long been established. This is because, the new companies will be having problem like lack of financing capital as it is not easy for them to get the external financing for their companies (Daskalakis *et al.,* 2013). On the other hand, Bargio and Newman (2012) found that the company's operating period have the significant and positive relationship with the debt ratio in a company. A study done by Sena et al. (2012) found that the company's operating period and the entrepreneurs experience have the positive relationship with the willingness of the entrepreneurs to get the external financing. Therefore, the entrepreneurs experience also influenced the challenges level to get the finance for the company.

The majority of entrepreneurs use their internal financing like personal savings and fund from companies to support their company's operation while there are only small number of entrepreneurs who choose the debt financing (Cowling and Zhang, 2016). As for the starting to establish and develop companies, the entrepreneurs would usually choose the internal financing (Fatoki and Asah, 2011). This is because internal financing is easier to access and the process take a shorter period compared to debt financing that has too many procedures plus the entrepreneurs have enough funds to accommodate the company's cost. Baporikar et al. (2016) stated that it is difficult for the micro enterprise to get debt financing comparing to the larger companies because the bank needs the report for the company's development before they approve the loan application. This situation leads the entrepreneurs from the micro enterprise to choose internal financing to develop their companies.

Some study indicate that there are significant relationship between willingness to use debt financing among entrepreneurs and financing preference. This is because not all entrepreneurs are willing to commit to debt as it is a long term liability to the business due to high transaction cost (Peprah, 2016) and the interest rate (Mashenene, 2015) in addition to the principal. This cost makes micro entrepreneurs unwilling to engage in debt commitment. Besides that, they are unlikely to take a challenge (Osano and Languitone, 2016 and Mashenene, 2015). Mashenene (2015) claim that entrepreneurs see debt financing as a risk to companies that need to be avoided. Thus the greater owner/manager's risk taking tendency, the more likely they were to deploy external debt financing. A study by Sena et al. (2012) reveal that manager's experience have positive relationship with the level of willingness for debt commitment. This is line with Borgia and Newman (2012) who report that managerial experience is positively related to total leverage.

Maziku (2012) found that the company's debt whether for a long term or short term have the negative relation with the amount of company's profit. This is due to the higher the company's debt, the higher the cost for the operation of the company and there is the chance that the amount of debt to be uncontrollable. Thus, this leads to the higher tendency for the entrepreneurs to choose the equity financing. The study by Ezeoha (2011) shows nearly the same result that the company will have a higher profit rate if the amount of debt incurred is minimal. The study found that there was no significant relationship between the company's characteristics and the selection of financing. While Yazdanfar and Ohman (2017) believe that the company's profitability has a positive relationship with the amount of debt. This is because in order to maintain a high profit in the long run the entrepreneurs need a fairly high level of financing and injection to plan and resume the operations of the company. Hence, debt financing is able to meet the needs of companies requiring relatively high capital injection.

Some of the micro enterprise are reluctant to choose external financing since there is procedure need to be followed in applying credit (Mashenene, 2015). Maziku (2012) revealed that many of micro enterprise do not have complete documentation for their business information as requested by the bank. In fact, the bank will automatically reject their applications for obtaining bank loan if they received incomplete documentation. Furthermore Maziku (2012) state that micro enterprise is poor in a record-keeping system, lack of credit history and poor in cash flow for their business that caused them faced in incomplete documentation. Furthermore lack of third party guarantees and lack of collateral (Yoshino and Taghizadeh-Hesary, 2016) are among the reasons micro enterprises turn to choose internal fund. Mashenene (2015) claimed that the lack value of collateral is also of the reason the turn to choose internal funding. Maziku (2012) pointed out geographical distance between collateral location and business location is one of the problems faced by micro enterprise. Banks may be reluctant to lend to small firms located in rural areas, as the assets offered as collateral by some firms may have less market value, and in case of default, they may find it difficult to realise these assets (Pandula, 2011). Ansah et al. (2011) revealed that enterprises in rural areas facing lack of financial institution, even bank branches took a long time to process

In Malaysia, the government has been providing financial supports in the form of SMEs loans, micro loans and other financing incentives in order to stimulate entrepreneurship activities; enable growth oriented businesses and to create employment and economic stability. In 2008, the government provided a fund of RM200 million to enhance access to financing for potential micro-enterprises. Nevertheless, there are still a significant numbers of micro-enterprises have not grabbed this opportunity (Department of Statistics, 2011). Therefore, this research is developed to investigate the behaviour of financing preference from the perspective of micro enterprises in Malaysia.

3. Research Methodology

This study focuses on micro enterprises as the main target population. Malaysian micro enterprise is defined as businesses that fall within the criteria of having either a turnover of less than RM3000,000 or fewer than five employees. A questionnaire survey was conducted to collect data on financing preferences among owner/manager in micro enterprises. In this study 120 questionnaires were distributed to the micro enterprises with a consideration of a 5 percent margin of error and confident level 90%. The results from Raosoft Sample Size Calculator suggested that 97 is the minimum sample size of the survey. At the end of the survey, 100 usable questionnaires were received. The questionnaire comprises information on background of respondents, general questions on type of source of funding (section A). The questionnaire separates details enquiries based on internal funding (section B) and external funding (section C). Section B includes questions on sources of internal funding and reasons for selecting internal financing using scale from 1: Strongly disagree to 5: Strongly agree. Meanwhile section C comprises questions on sources of external funding and reasons for choosing debt financing and obstacles faced in obtaining external funding sources based on scales from 1: Strongly disagree to 5: Strongly agree.

4. Data Analysis

This section discusses the descriptive results of the data collected from 100 micro-enterprises.

4.1. Demographic profiles of respondents

This section collects data on demographic profiles of the responding enterprises. Table 1 presents results.

Table 1: Demographic profiles of the respondents

		(%)			**(%)**
1	*Type of Business*		2	*Business Period*	
	Retail/ Wholesale	70		Less than 5 year	37
	Manufacturing	10		5 to 10 year	46
	Agriculture	6		10 – 15 year	17
	Services	14		More than 15 year	0
	Total	100		Total	100
3	*Annual Sales (RM)*		4	*Education Level*	
	0 - 25,000	23		UPSR	22
	25,000 - 50,000	31		PMR	9
	50,000 - 100,000	34		SPM	49
	100,000 - 250,000	9		Certificate/ Diploma	19
	250,000 above	3		Bachelor Degree	1
	Total	100		Total	100
5	*Number of employees*		6	*Form of Funding*	
	1 people	70		Own Capital	53
	2 - 3 people	26		Own capital & debt	30
	4 - 5 people	4		Debt	17
	Total	100		Total	100
7	*Micro Grant Application*		8	*Successful grants application*	
	Yes	52		Yes	47
	No	48		No	5
	Total	100		Not applicable	48

The findings show that most respondents are from retailing and wholesaling businesses and have been in operation for 5 to 10 years. The average full-time employees and annual sales are 1 employee and between RM50,000 to RM100,000 respectively which signify the characteristics of micro business in Malaysia. Most respondents hold SPM certificates which indicates a lower level of education. The results indicate that just over half of the respondents have previously applied microfinance loans and most of the application received approval from the respective fund providers. Nevertheless less than 50% of respondents have never applied any financial assistance. The results also show that most respondents choose their own capital as main source of financing and 30% of respondents used both own capital and debt financing. Only 17% of the respondents totally relied on external debt. The results suggest that micro entrepreneurs tend to use internal source for their business financing.

4.2. Reasons for selecting internal financing

Table 2 presents the results on the type of source of funding and reasons for selecting internal financing as a source of financing. The findings indicate the majority of the micro entrepreneurs obtained fund from both their own savings and close family members. Around 47% of total respondents used their personal savings only as a source of funding and less than 3% of respondents received funding solely from their close family members. The reasons of internal financing are 'to avoid burden on long-term debt commitment' and 'do not want to deal with bureaucracy in loan application process'. 'Do not have adequate necessary documentation' and 'lack of knowledge about available sources of external funding'.

Table 2: Descriptive results for internal funding, (N=100)

No.	Items				
1.	*Type of source of funding*	**n**	**(%)**		
	Own savings only	39	47.0		
	Own savings & family members	42	50.6		
	Close family members only	2	2.4		
	Total	83	100		
2.	*Factors for Selecting Internal Financing*	**Min**	**Max**	**Mean**	**Std. Dev.**
	Not wanting to deal with bureaucracy	2	5	4.46	.79
	Do not want to bear the burden of external debt	2	5	4.36	.82
	No adequate business documentation	1	5	4.19	.98
	Lack of knowledge about the sources of external funding	1	5	3.16	1.23
	Having sufficient equity capital	2	5	3.14	.72
	Feeling a bit high interest rate loan	2	5	3.01	.77
	Loan application processing time is quite long	1	5	2.64	.85

4.3 Sources of debt financing

Table 3 shows details of source of debt financing and reasons for choosing external debt. The highest debt proportion indicated by respondents is 81% - 100% and 41%-60% with 38% and 31% of total respondents respectively. AIM is the most popular source of micro financing among respondents. Due to the easy access, quick and simple application procedures. The second largest source is MARA.

Table 3: Source of debt financing and reasons for choosing debt financing

No.	Items				
1	*Proportion of debt*	**n**	**%**		
	0-20%	1	2.1		
	21%-40%	1	2.1		
	41%-60%	15	31.3		
	61%-80%	13	27.1		
	81%-100%	18	37.5		
	Total	48	100.0		
2	*Sources of debt financing*	**n**	**%**		
	Government agencies				
	TEKUN	3	6.3		
	Majlis Amanah Rakyat (MARA)	7	14.6		
	Koperasi	3	6.3		
	Amanah Ikhtiar Malaysia (AIM)	19	39.6		
	Financial Institutions				
	Conventional lease	1	2.1		
	Agrobank	12.8	12.5		
	Bank Rakyat	5	10.4		
	Bank Simpanan Nasional	2	4.2		
	Public Bank	1	2.1		
	CIMB Bank	1	2.1		
	Total	48	100.0		
3	*Factors in Choosing Debt Financing*	**Min**	**Max**	**Mean**	**Std. Dev**
	Do not have enough savings	2	5	4.40	.85
	Easy access to the nearby branch	2	5	4.40	.85
	Have knowledge about the existing loan scheme	1	5	4.08	.99
	Quick and easy	2	4	3.49	.59

	procedure				
	To take advantage of the existing loan scheme	1	4	2.02	.79
	Does not require collateral	2	4	3.13	.61
	Does not require guarantor	2	4	3.11	.79
	Affordable loan repayment	1	4	2.51	.69
	Influence of business partners	1	5	2.23	.99
	Good promotions from lending institutions	1	5	2.40	1.03
4	*Obstacles faced in obtaining external funding*	**Min**	**Max**	**Mean**	**Std. Dev**
	Lack of collateral	1	5	2.3	0.93
	Inadequate supporting documents	2	5	4.31	0.79
	No records of financial performance	2	5	4.27	0.79
	Has outstanding debt	1	5	1.78	0.96
	The business plan was not considered viable	1	4	1.6	0.75

Among the highest reasons for choosing external financing are ‘inadequacy of own savings’ and ‘easy access to the nearest branch’ and ‘having knowledge on the existing loan scheme’. On the other hand, the main obstacles encountered by the respondents in obtaining debt financing are insufficient supporting documents and no financial track records with mean scores of 4.31 and 4.27 respectively.

5. Conclusion

This study examines the preferences of financing in micro-enterprises sector, the reasons for choosing the type of financing as well as the barriers for financing access faced by micro-enterprises. Based on 100 responses, the findings show that micro entrepreneurs are more likely to choose internal financing (in the form of their own capital) for their business financing mainly to avoid the burden of long-term debt. Micro enterprise do not want to be bound by debts and afraid if they are not able to repay the loan. Bureaucracy in external funding applications are also found to be the major factor that cause micro-enterprise to choose self-financing using their own savings. Gill & Biger (2012) and Daskalakis et al. (2013) stated that bureaucracy in procedures imposed by the bank seem to be barrier of access to finance. Major barrier confronted by micro entrepreneurs in obtaining external financing is due to lack of supporting documents. This situation become a constraint for the enterprises as most of them have lack financial literacy for preparing financial records. Sian & Roberts (2009) states that financial track record has been a burden on micro-entrepreneurs to apply for funding. This is because most of the micro-entrepreneurs possess lower level of education. This forces the micro-entrepreneurs to choose their own form of financing for business capital.

This study indicates that Amanah Ikhtiar Malaysia (AIM) is the most popular sources of financing. Apart of the insufficient saving of owner/managers as one of the major reason for micro-enterprise to raise external loan, the result show that the micro-enterprises entrepreneurs also agreed to apply for funding when it only requires a quick and easy procedure. Thus this issue should be resolved in order to increase financing access among small business.

Overall, this study provides new empirical evidence on financing preference among micro enterprises in Malaysia. This study is limited to specific micro enterprise in Eastern region of Malaysia. Thus for future study, the sample size should be increased to avoid bias in responses as well as to increase the generalization of result. This study contributes to the body of knowledge by highlighting the financing preference and the reasons of their financing selection towards more understanding on the financing behaviour of businesses from micro enterprise sector perspective.

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