

**THE EFFECTIVENESS OF ENTREPRENEURIAL DEVELOPMENT
MECHANISM IMPLEMENTED BY BANK PEMBANGUNAN &
INFRASTRUKTUR MALAYSIA BERHAD (BPIMB) TOWARDS BPIMB
FACTORY SCHEME'S (BFS) PARTICIPANTS**

by

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**Research report submitted in partial fulfillment of the requirements for the degree
of Masters of Business Administration**

APRIL 2005

DEDICATION

My beloved, understanding and patience wife,

Zuraida binti Haji Mohd Shah

My beautiful children,

Mazlira Zakirah, Mazikry Zuhairi, Mazuwan Zakurwan and Mazliny Zawanni

My beloved mother, Hajjah Nyonya binti Haji Baba,

brothers, Madzlan and Madzlee, sister, Mazlena and all my colleagues

thank you for your never ending support and encouragement

ACKNOWLEDGEMENTS

Alhamdulillah, praise to Allah, with His blessing, I manage to complete this project. This means that I have completed the whole Masters of Business Administration (MBA) program in Universiti Sains Malaysia (USM). First and foremost, I would like to express my gratitude to my supervisor Dr Intan Osman for her supervision and provision of necessary references to do this project. Thousand apologies for minimum meeting and discussion on the project seems that I have been posted to Melaka since August 2004. Unlimited thanks to all lecturers who have share their valuable knowledge and skills for the past three years. To all my colleagues and close friends, Ahmadi, Amin, Nazri, Sarina, Noresma, Lee Hee Long, Brian Ngooi and Vincent Tan, thank you for your support. My mother, Hajjah Nyonya binti Haji Baba, brothers Madzlan and Madzlee and sister, Mazlena, your support and encouragement will be remembered. Last but not least, to my beloved wife, Zuraida binti Haji Mohd Shah, thank you for your never-ending love, support and patience. To my beautiful children, Mazlira Zakirah, Mazikry Zuhairy, Mazuwan Zakuwan and Mazliny Zawanni, thank you for being my continuous inspiration to complete my study.

TABLE OF CONTENTS

	<u>Page</u>
Title	i
Dedication	ii
Acknowledgements	iii
Table of Contents	iv
Appendixes	viii
List of Tables	ix
List of Figures	x
Abstrak	xi
Abstract	xii
Chapter 1 INTRODUCTION	
1.1 Introduction	1
1.2 Problem Statement	3
1.3 Research Questions and Objectives	4
1.4 Significance of the Present Study	6
1.5 Definition of Key Variables	6
1.6 Organization of Chapters	7
Chapter 2 LITERATURE REVIEW	
2.1 Introduction	9
2.2 An Overview of BPIMB Factory Scheme (BFS)	9
2.2.1 <i>BPIMB Factory Complexes (BFC)</i>	10
2.2.2 <i>Financial Supports</i>	11
2.2.3 <i>Entrepreneurial Development Programs</i>	11
2.2.4 <i>Advisory Services</i>	11
2.2.5 <i>Participants Selection Criteria</i>	11
2.2.6 <i>BPIMB Factory Scheme (BFS) Advantages</i>	12
2.2.7 <i>BPIMB Factory Scheme's Concept</i>	13
2.2.8 <i>BPIMB Factory Scheme's Status</i>	14

2.3	Business Performance	15
2.4	Financial Services	16
2.5	Non-Financial Services	16
	2.5.1 <i>Advisory Services</i>	17
	2.5.2 <i>Entrepreneurial Development Programs</i>	17
	2.5.3 <i>Factory Buildings</i>	18
2.6	Theoretical Framework	19
2.7	Hypotheses	20
	2.7.1 <i>The Relationship between Financial Services and Business Performance</i>	20
	2.7.2 <i>The Relationship between Non-financial Services and Business Performance</i>	21
	2.7.3 <i>The Relationship between Combination of Financial and Non-financial Services and Business performance</i>	22
	2.7.4 <i>The Relationship between Obtaining Different Level of Non-financial Services and Business Performance</i>	23
2.8	Summary	24

Chapter 3 METHODODOLOGY

3.1	Introduction	25
3.2	Sample and Procedure	25
3.3	Variables and Measurement	26
	3.3.1 <i>Dependent Variable</i>	26
	3.3.2 <i>Independent Variables</i>	27
	3.3.2.1 <i>Financial Services</i>	27
	3.3.2.2 <i>Advisory Services</i>	27
	3.3.2.3 <i>Entrepreneurial Development Programs</i>	28
	3.3.2.4 <i>Factory Buildings</i>	28
	3.3.3 <i>Demographic Variables</i>	29
	3.3.4 <i>Control Variables</i>	29
3.4	Data Collection Technique	29

	3.4.1 Questionnaire Design	29
3.5	Data Analysis Methods	30
Chapter 4	RESULTS	
4.1	Introduction	31
4.2	Demographic Profile of Respondents and Unit of Analysis	31
4.3	Goodness of Measurements	33
	4.3.1 Factor Analysis of Business Performance	33
	4.3.2 Factor Analysis of Financial Services	34
	4.3.3 Factor Analysis of Non-Financial Services	35
4.4	Restatement of Hypotheses	37
4.5	Reliability of Measures	39
4.6	Descriptive Statistics	40
4.7	Correlation Analysis	40
4.8	Hypotheses Testing	41
	4.8.1 Test of Hypothesis 1	42
	4.8.2 Test for Hypothesis 2	43
	4.8.3 Test for Hypothesis 3	44
	4.8.4 Test for Hypothesis 4	44
4.9	Summary	45
Chapter 5	DISCUSSION AND CONCLUSION	
5.1	Introduction	47
5.2	Recapitulation of the Present Study	47
5.3	Discussion	48
	5.3.1 Financial Services Variables and Business Performance	48
	5.3.2 Non-financial Services Variables and Business Performance	48
	5.3.3 Combination of Financial and Non-financial Services and Business Performance	48

	5.3.4 <i>Relationship Among Different Level of Obtaining Non-financial Variables Towards Business Performance</i>	49
5.4	Implications	49
5.5	Limitations	50
5.6	Recommendations for Future Research	51
5.7	Conclusion	51
REFERENCES		53
APPENDIXES		
Appendix A	Cover Letter and Questionnaires	57
Appendix B	Coding of Variables	65
Appendix C	SPSS Analysis Outputs	
	CI <i>Frequencies</i>	66
	CII <i>Factor Analyses</i>	69
	CIII <i>Reliability Analyses</i>	72
	CIV <i>Descriptive Statistics</i>	79
	CV <i>Correlation Analysis</i>	80
	CVI <i>Hierarchical Regression Analyses</i>	81

APPENDIXES

	<u>Page</u>
Appendix A Cover Letter and Questionnaires	57
Appendix B Coding of Variables	65
Appendix C SPSS Analysis Outputs	66

LIST OF TABLES

		<u>Page</u>
Table 4.1	Frequency Count and Percentage Distribution of Respondents on Demographic Profile	31
Table 4.2	Rotated Factors and Factor Loadings for Business Performance Measures	34
Table 4.3	Rotated Factors and Factor Loadings for Financial Services Measures	35
Table 4.4	Rotated Factors and Factor Loadings for Non-Financial Services	37
Table 4.5	Reliability coefficients of the study variables	39
Table 4.6	Overall descriptive Statistics of the study variables	40
Table 4.7	Pearson's correlation coefficients of the study variables	41
Table 4.8	Summary of Hierarchical Multiple Regression for Business Performance	43
Table 4.9	Summary of Hierarchical Multiple Regression for Business Performance on Combination of Financial and Non-financial Services	44
Table 4.10	Results summary of all hypotheses	46

LIST OF FIGURES

		<u>Page</u>
Figure 2.1	BPIMB Factory Scheme Concept's Diagram	13
Figure 2.2	BPIMB Factory Scheme's Status as at December 31, 2004	14
Figure 2.3	The Framework of Business Performance	20

ABSTRAK

Kajian ini dilaksanakan untuk mengkaji tahap keberkesanan mekanisme pembangunan usahawan yang dilaksanakan oleh Bank Pembangunan & Infrastruktur Malaysia Berhad (BPIMB) terhadap peserta Skim Kilang BPIMB (SKB) di seluruh Malaysia. Tujuan kajian ini adalah untuk menentukan sama ada pemboleh ubah tidak bersandar, khidmat kewangan (tempoh proses pembiayaan & sifat-sifat kemudahan kewangan), serta khidmat bukan kewangan (khidmat nasihat, program pembangunan keusahawanan, sifat-sifat bangunan kilang, khidmat inkubator & syarat sewaan kilang yang anjal) memainkan peranan penting dalam mempengaruhi pemboleh ubah bersandar, prestasi perniagaan peserta SKB (keuntungan & jualan serta peningkatan dalaman). 92 peserta SKB telah memberikan maklumbalas. Empat hipotesis utama diutarakan. Sifat-sifat kewangan & sifat-sifat bangunan kilang didapati memainkan peranan penting dalam mempengaruhi prestasi perniagaan peserta SKB. Kombinasi di antara perkhidmatan kewangan & perkhidmatan bukan kewangan memainkan peranan penting dalam mempengaruhi prestasi perniagaan peserta SKB dengan pencapaian yang lebih baik. Tahap penerimaan perkhidmatan bukan kewangan memainkan peranan penting dalam mempengaruhi prestasi perniagaan peserta SKB. Disamping itu, kajian ini gagal membuktikan keberkesanan tempoh proses pembiayaan, khidmat nasihat, program pembangunan keusahawanan, khidmat inkubator & syarat sewaan kilang yang anjal terhadap prestasi perniagaan peserta SKB. BPIMB perlu mengukuhkan lagi sifat-sifat kemudahan pembiayaan & sifat-sifat bangunan kilang disamping perlu menekankan faktor-faktor lain yang masih kurang berkesan terhadap prestasi perniagaan peserta SKB.

ABSTRACT

This research was conducted to investigate the effectiveness level of entrepreneurial development mechanism implemented by Bank Pembangunan & Infrastruktur Malaysia Berhad (BPIMB) towards BPIMB Factory Scheme's (BFS) participants throughout Malaysia. The purpose of this research is to determine whether independent variables, financial services (financing processing period and financial facilities characteristics) and non-financial services (advisory services, entrepreneurial development programs, factory building's characteristics, incubator services and flexible factory rental terms) plays an important role in influencing dependent variable BFS participant's business performance (profitability and sales and internal growth). 92 BFS participants responded on the survey. Four main hypotheses were raised. It was found that financial facilities characteristics and factory buildings characteristics plays an important role in influencing BFS participants' business performance. Combination of financial services and non-financial services plays an important role in influencing BFS participants' business performance with a better achievement. Level of getting non-financial services plays an important role in influencing BFS participants' business performance. Besides that, this research was not able to prove the effectiveness of financing processing period, advisory services, entrepreneurial development programs, incubator services and flexible factory rental terms towards BFS participants' business performance. BPIMB has to further enhance its financial facilities characteristics and factory buildings' characteristics as well as instilling factors which found to be as low effective level towards BFS participants' business performance.

Chapter 1

INTRODUCTION

1.1 Introduction

At present, small and medium sized enterprises (SMEs) plays a significant role in Malaysia business system. The globalization and liberalization process has resulted in the increased number of SMEs. Malaysian government encourages people to participate in businesses especially in manufacturing industries. The government has created various programs and funds to show their support on SMEs especially to bumiputera entrepreneurs. Government believes that, SMEs still need a helping hand in order to facilitate the existing and new players to improve and start their business. Malaysian government has established the Ministry of Entrepreneur Development (presently known as Ministry of Entrepreneur and Cooperative Development (MECD)) with four main responsibilities as follows: (1) to provide guidance for owners of small businesses, (2) to advise them in solving management and production problems, (3) to provide small firms with adequate training in various areas and (4) to provide financial assistance (Hashim & Wafa, 2002).

Bank Pembangunan & Infrastruktur Malaysia Berhad (BPIMB), as one of the agency under MECD, has been mandated by the government to support SMEs especially bumiputera entrepreneurs by providing assistance through financial facilities, equity participation and organizing entrepreneurial development activities. The objective is to enhance and establish new bumiputera entrepreneurs particularly in the manufacturing sector and strategic industries. BPIMB also aims to modernize the operations and enhance project's productivity. BPIMB's corporate mission is; "*We*

strive to be the premier development financial institution (DFI) in the development of Bumiputera entrepreneurs, financing of small and medium industries (SMI) and infrastructure projects, in line with the national development policies” (BPIMB Annual Report, 2003).

BPIMB was incorporated in 1973 and started its operation in 1974. Previously known as Bank Pembangunan Malaysia Berhad. The bank changed its name to Bank Pembangunan & Infrastruktur Malaysia Berhad (BPIMB) in 1998. This is in line with the additional role mandated by the government whereby BPIMB has to expand its function to finance infrastructure and mega projects. With RM1.60 billion of paid up capital stands, as to date, the Ministry of Finance wholly owns BPIMB. The bank is supervised by MECD and governed under the Development and Financial Institution Act (DFIA), 2002 that is regularized by Bank Negara Malaysia. BPIMB has launched various programs and mechanism to show its support on SMEs but until to date, there are no specific studies is being done on the effectiveness of these programs and mechanism.

In order to measure the effectiveness of BPIMB’s entrepreneurial development mechanism, it is vital to measure the performance/success rate of companies/firms, which are being financed by BPIMB. Entrepreneurial development mechanism currently implemented by BPIMB comprise of financial and non-financial services. Financial services are packages offered by BPIMB especially to bumiputera entrepreneurs with low interest rate and flexible terms. Non-financial services comprise of advisory services on technical, business, marketing, networking and entrepreneurial development programs such as seminars and courses as well as factory buildings to be rented by firms to accommodate instant business start-up. Hence, this

present study aims to investigate the effectiveness of entrepreneurial development mechanism implemented by BPIMB whereby the level of effectiveness will be measured based on the business performance of the companies/firms.

1.2 Problem Statement

BPIMB provides financial and non-financial services to meet its main objectives; to increase the number of bumiputera participation in SMEs and its mission is to be the premier financial institution in SMEs and infrastructure projects' financing. Financial services comprises of project financing (fixed assets and working capital financing) as well as investment and equity participation (investment in companies with potential growth industries). Non-financial services comprises of advisory services, entrepreneurial development programs such as entrepreneur attachment program (mentor/mentee and vendor), entrepreneurial training and seminar activities, technical and business advisory and integrated factory buildings which being rented to bumiputera entrepreneurs at subsidized rate under BPIMB Factory Scheme (BFS) which is also known as 'incubator program'. This study will focus on entrepreneurs who operate in the BPIMB's factories.

A side from the performance of SMEs, it is important to identify which entrepreneurial development mechanisms implemented by BPIMB contributed most towards the business performance of BFS participants. This is parallel with the objectives of this study; to identify the effectiveness of entrepreneurial development mechanism implemented by BPIMB. Smith et al., (2003) in their study came out with a conclusion that managerial behavior and entrepreneurial style can influence small firm performance. Yusof (2003); Buckles (1996) established, renewal model on

performance comprise of strategy, structure, process, benefit and labor. On the other hand, Hashim & Wafa (2002) in their study stated that weaknesses or obstacles of SMEs performance comprise of: 1) lack of capital and credit facilities (Chee, 1986; Diah, 1985; Mohd Jan et al., 1990; Shahadan et al., 1990; Hassan, 1992; Broom and Longenecker, 1975; Longenecker, Moore and Petly 1994); 2) Shortage of skilled labor (Chee, 1986; Broom and Longenecker, 1975; BauMack, 1988; Mohd Jan et al., 1990), 3) Shortage of raw materials (Chee, 1986; Shahadan et al., 1990; Meredith, 1982; Pickle and Abrahamson, 1990), 4) Inadequate infrastructure (Chee, 1986; Shahadan et al., 1990) 5) lack of managerial and technical expertise (Chee, 1986; Shahadan et al., 1990; Pickle and Abrahamson, 1990; BauMack, 1988), 6) marketing constraints and knowledge (Chee, 1986; Mohd Jan et al., 1990; Shahadan et al., 1990, Meredith, 1982) and 7) limited application of new technology (Chee, 1986; Ghazali and Shaari, 1988; Mohd Jan et al., 1990; Meredith, 1982; Hashim, 1999).

From the above discussion, we can conclude that this present study is important to investigate whether entrepreneurial development mechanisms implemented by BPIMB do carry weight in contributing towards the business performance of BFS participants.

1.3 Research Questions and Objectives

Hashim & Wafa (2002) have conducted a study on moderating effects on technology and environment on business strategy performance relationship in Malaysia SMEs. They also came out with a model of strategic factors for SMEs success that comprise of 1) entrepreneurial characteristics, 2) organization context and 3) external environment. The main objectives of this present study is to determine the success rate

in terms of business performance among BPIMB existing clients whom participated in the BFS/incubator program and indirectly, explore the effectiveness of entrepreneurial development mechanism implemented by BPIMB.

The present study seeks to find the answer to the following questions:

- (1) Is there any impact on BPIMB's financial services towards BFS participants' business performance?
- (2) Is there any impact on BPIMB's non-financial services towards BFS participants' business performance?
- (3) Does combination of BPIMB's financial and non-financial services caused better impact on BFS participants' business performance?
- (4) Does getting different level of non-financial services correlate towards the business performance of BFS participants?

In order to answer the abovementioned questions, the investigations that would be undertaken are as follows:

- (1) To explore the effectiveness of BPIMB's financial services packages towards BFS participants' business performance.
- (2) To explore the effectiveness of BPIMB's non-financial services packages towards BFS participants' business performance.
- (3) To explore the combination between BPIMB's financial and non-financial services packages towards BFS participants' business performance.
- (4) To examine the impact of getting different level of non-financial services packages towards BFS participants' business performance.

1.4 Significance of the Present Study

BPIMB has purposely expanded its services to enhance entrepreneurship values towards bumiputera SMEs. The present study aims to determine the effectiveness of financial and non-financial services packages provides by BPIMB. The result of this present research may be useful for BPIMB whether to continue, enhance and expand its existing mechanism on entrepreneurial development.

This study will be a source of information for entrepreneurs in making decision to choose which financial institutions provides comprehensive services that can help them to decide on the best strategy for their financial and operation management.

Finally the finding of this research can provide ideas towards other financial services providers whether they want to adopt the same practices as BPIMB or not. Hopefully, this present research will assist BPIMB and its customers to determine the strength and weaknesses of the existing mechanism of entrepreneurial development implemented by BPIMB.

1.5 Definition of Key Variables

Business performance in the context of SMEs can be defined as success or the ‘effectiveness’ of an enterprise in accomplishing its objectives (Hashim & Wafa, 2002). Here, profitability and growth will be used to measure success as; this is the best indicator of whether or not an organization is doing well (Nash, 1984; Doyle, 1994).

The independent variables that will be examined in the present study consist of two variables with four dimensions. The independent variables are financial services (financial support) and non-financial services (advisory services, entrepreneurial

development programs and factory buildings). The definitions of these dimensions are as follows:

Financial services can be defined as credit facilities for asset and working capital financing as well as business and financial consultation (Lee & Osteryoung, 2004). In this present study, financial services are defined as financial facilities terms and its processing period.

Advisory services can be defined as in kind services that complemented the financial services such as technical consultation, business consultation, marketing consultation and networking consultation (Adegbite, 2001).

Entrepreneurial development programs can be defined as entrepreneurial training and seminars activities that comprise of basic training, intensive training and enhancement training (BPIMB Annual Report, 2003). In addition, the effectiveness of the training also depends on the duration, venue, structure and content (Faoite et al., 2003).

Factory buildings in the context of incubation program, can be defined as rental space with flexible leases rate and period, strategic location, sharing of administration equipments and basic amenities (Brown, 1998).

1.6 Organization of Chapters

Chapter 1 outlines the preview of the research. It comprises of the introduction, the problem statement of the study, research questions and objectives, definition of key variables and significance of the study. Chapter 2 consists of comments on the previous literature related to the topic and review on the independent and dependent

variables. The literature review helps in developing the theoretical framework and hypotheses of this study.

Chapter 3 explains on the research methodology. It comprises of collection of data, variable and measurement as well as statistical analysis that are being used. Chapter 4 will discuss on the results from the statistical analysis. Finally, Chapter 5 provides conclusion and discussion on the research's findings. The limitations and suggestions on future studies are also highlighted to accommodate future research.

Chapter 2

LITERATURE REVIEW

2.1 Introduction

In the process of exploring the effectiveness of entrepreneurial development mechanism implemented by BPIMB towards BFS participants' business performance, it is vital to refer to the studies of previous researchers. This chapter will review on the previous researchers studies that are related to this present study. The review provides the theoretical framework and hypotheses for this study. This chapter will comprise of an overview of BFS concept and review on literatures related to the dependent and independent variables of this study, followed by explanation on the present study's theoretical framework and hypotheses. At the end of this chapter, there will be a discussion, summary and a preview of the subsequent chapters.

2.2 An Overview of BPIMB Factory Scheme (BFS)

As mentioned in the previous chapter, BPIMB plays its roles in assisting entrepreneurs through three main activities i.e. (1) project financing, (2) investment and equity participation and (3) organizing entrepreneurial development activities. The entrepreneurial development activities comprise of advisory services, entrepreneurial development programs and BPIMB factory scheme. In this present study, we will concentrate on the entrepreneurial development activities and focus on factory scheme implemented by BPIMB.

BPIMB factory scheme (BFS) is an entrepreneurial developmental approach program implemented by BPIMB with one stop services comprise of financial

services, advisory services, entrepreneurial development programs and factory buildings to be rented by existing and new bumiputera entrepreneurs to expand and start their business. The main objective of BFS program is to create and increased the number of bumiputera participation in industrial and viable projects. The focus is purely on the manufacturing sector. The characteristics of BFS are as follows:

2.2.1 BPIMB Factory Complexes (BFC)

BPIMB factory complexes (BFC) have been constructed at an identified strategic location with various factory sizes and types such as terrace, semi detached and bungalows. These factories are rented to bumiputera entrepreneurs at a reasonable rate with flexible terms. They are equipped with manufacturing areas, administration areas and basic amenities such as water and electricity supplies. Each participant is only allowed to rent one unit of the factory lot, however under certain circumstances (in the process of business expansion) participants may rent additional units subjected to the discretion of BPIMB's management. Tenants who rent the factories without obtaining any financial facilities from BPIMB will be imposed a monthly rental rate without any discount (based on the market rate). On the contrary, tenants who received BPIMB's financial facilities would enjoy a 50% discount for the first year rental. The discount will be reduced by 10% for the subsequent years until no discount is provided at the end of year five. After year five, tenants are expected to move out and graduate from BFS. BPIMB will extend its financial supports for the purchase of a new factory, machineries and equipments as well as working capital requirement depending on the needs of every participant's expansion plan.

2.2.2 Financial Supports

All BFS participants are entitled to apply for financial facilities such as term loans and leasing for assets financing and working capital financing to support their operational costs. BPIMB allocated various funds with low interest rate and flexible repayment terms for BFS participants. Those funds contributed mainly by the government, with low financial cost and grants in order to support participants' business.

2.2.3 Entrepreneurial Development Programs

BPIMB has an annual schedule on entrepreneur development programs in order to equip and educate entrepreneurs with knowledge and good operation practices. These programs comprise of marketing, technology, manufacturing and financial managements.

2.2.4 Advisory Services

Advisory services are in kind services provided by BPIMB towards BFS participants comprise of technical, business, marketing and networking consultation services. The purpose is to enhance participants' business performance. They aim to enhance the quality of entrepreneurial skills and groom small enterprises into medium size while the mediums into large size.

2.2.5 Participant Selection Criteria

BPIMB has established certain criteria in selecting BFS participants, to ensure that every firm, which operates in BFS, is viable and prospective with quality entrepreneurial spirit. The companies/firms must be a legal form business body

registered at Companies Commission. The entrepreneurs must possess experience, suitable skills to run the business, capable to start business and service the monthly rental. The main owner must be a full time operator. Priority is given to entrepreneurs who have started business. Renting of factory without having getting any loan is also allowed.

2.2.6 BPIMB Factory Scheme (BFS) Advantages

There are several advantages of the BPIMB factory scheme program. Among the advantages are as follows:

- 1) To accommodate instant businesses start up
- 2) The BFC, ready with basic infrastructures
- 3) BPIMB provides financial supports for asset financing and working capital
- 4) BPIMB provides other supporting entrepreneurial development activities such as advisory services
- 5) BPIMB provides entrepreneurial courses and trainings
- 6) BPIMB provides product's quality improvement & management guidance
- 7) Participants can create business-networking within/among BFCs
- 8) Every BFC being located at an identified strategic location
- 9) BPIMB provides further financial supports after graduation

2.2.7 BPIMB Factory Scheme's Concept

Based on the explanation in Section 2.2.1 until 2.2.6, the BFS concept can be recapitulated as follows:

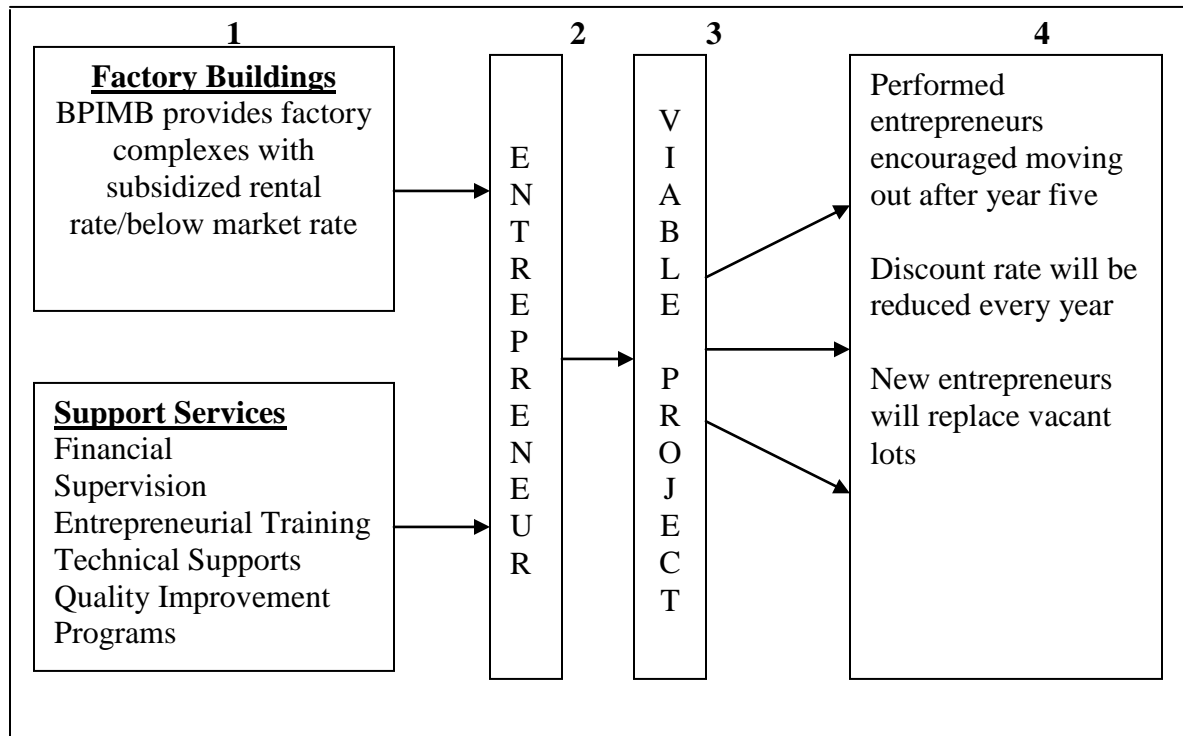


Figure 2.1 BPIMB Factory Scheme Concept's Diagram

- (1) BPIMB provides factory buildings with various sizes and types, basic infrastructure and amenities, strategic location and flexible rental terms.
- (2) Entrepreneurs being selected to ensure their dedication and willingness to fully devoted towards their business.
- (3) BPIMB support entrepreneurs with various entrepreneurial development activities and programs to ensure the projects being running are viable.
- (5) Discounts rate will be reduced by 10% for the subsequent years, performed entrepreneur encouraged to move out after year five and vacant lots expected to be replaced by new entrepreneurs.

2.2.8 BPIMB Factory Scheme's Status

BFS status as at December 31, 2004 is as follows:

Figure 2.2 BPIMB Factory Scheme's Status as at December 31 2004

BFC	UNITS	RENTED UNITS	FACTORY TYPES
Kuala Perlis	15	14	Terrace 1 1/2
Alor Setar	17	15	Terrace 1 1/2
Sungai Petani	18	7	Semi-Detached
Seberang Prai (Bukit Minyak)	17	6	Terrace 1 ½
Seberang Prai (Simpang Ampat)	12	7	Terrace 1 1/2
Bayan Lepas	4	4	Terrace 1 1/2
Ipoh	29	15	Semi-Detached 1 1/2
Seremban	22	19	Semi-Detached
Melaka	18	11	Terrace 1 1/2
Batu Pahat	20	12	Terrace 1 ½ Berkembar
Johor Bahru	17	16	Terrace 1 1/2
Kota Bharu 1	23	19	Terrace 1,1 ½
Kota Bharu 2	20	10	Terrace 1 ½ Berkembar
Besut	15	10	Terrace 1
Kuala Terengganu	19	18	Terrace 1 1/2
Kuantan	20	16	Terrace 1 ½, Semi-Detached
Jengka	20	19	Terrace 1 1/2
Sungai Buluh	3	3	Terrace 1 1/2
Shah Alam	35	35	Terrace 1 1/2
Batu Caves	5	4	Terrace 1 1/2
-Existing	18	In progress	
-Newly completed			
Sunway Damansara	4	4	Semi-Detached
Kuching	6	In	Semi-Detached
Kota Kinabalu	15	9	Terrace 1
Total	368	273	(74%)

As to date BPIMB has 23 factory complexes all over Malaysia except Kuala Lumpur with 368 units and 74% occupancy rate.

2.3 Business Performance

This section will discuss on business performance also known as dependent variable in this study. Business performance will reflect the effectiveness of BPIMB entrepreneurial development mechanisms. It can be measured by business performance of firms whereby this indicates the success of a firm. Hashim & Wafa (2002), stated that, 'success' could be referred to the effectiveness of an enterprise in accomplishing its objectives. Literature suggested that financial profitability and growth is the best indicator to measure organization success (Nash 1983; Doyle 1984). Robinson (1982), Galbraith & Schendel (1983) in their study stated that profit margin, return on assets, return on equity and return on sales are common measures of financial profitability. Malaysia manufacturing firms prefer financial measures such as sales, sales growth net profit and gross profit to measure effectiveness (Abu Kasim et al; 1989). Bracker and Pearson (1986) in their studies clarified that employed revenue growth; entrepreneurial compensation growth and revenue ratios growth are the performance indicators of small firms. In addition, growth in revenues, net income growth and present value growth as well as cash compensation can be indicators to measure the performance of small organizations (Hashim, 2002; Bracker Keats & Pearson, 1988).

2.4 Financial Services

Financial services are the financial packages offered by financial institutions to entrepreneurs to help them finance part of their cost project. Lee & Osteryoung (2004), in their study on *'Critical Success Factors for Effective Operations of University Business Incubator in the United States and Korea'* stated that one of the critical success factors of business incubator is financial support and business consultation. Incubators should stress on financial support and consultation assistance on financial management towards tenants/participants (Allen & Rahman, 1986). They suggested that incubator financial packages should provide more than the conventional financial services in order to create a positive environment for entrepreneurship. The financial consultation assistance that was discussed by them included of business taxes, risk management insurance, low cost government loan and grants, government procurement process, government contract preparation, equity and debt financing. Therefore, generally we can conclude that financial services plays an important roles in supporting companies/firms to ensure its success especially for the new start up business (Adegbite, 2001).

2.5 Non-Financial Services

In this present study, non-financial services are defined as in kind services such as advisory services, entrepreneurial development programs and factory buildings to be rented by companies/firms. Brown (1998) proposed that there are at least four keys considerations in starting an incubator; the facilities, funding, comprehensive assistance programs and tenants. He further suggested that an incubator should provide incubates with access to rental space and flexible leases, shared basic services

and equipment, technology support, professional services and management guidance. From the study, it's found that average companies'/firms' sales increased by more than 400% from the time it's entered until it's left the incubator.

2.5.1 Advisory Services

Kasim and Sani (2002) indicated that, besides financial assistance, incubator should be able to offer entrepreneurs coaching on business expertise such as marketing techniques, research and development and technical assistance (Brown, 1998). Adegbite (2001) proposed that the main cause of incubation failure is inadequate support services. Support services in his study that related to advisory services are, enterprise counseling and monitoring, technical assistance, marketing and promotion of products and linkages with large-scale enterprises and institutes. The previous study as reviewed above suggested that advisory services such as technical, business, marketing and networking consultation have significant influences towards business performance.

2.5.2 Entrepreneurial Development Programs

Entrepreneurial development programs refer to entrepreneurial education, courses, trainings and seminars, which are carried out to equip entrepreneurs and their employees on all aspects of entrepreneurship and management skills. Faoite et al., (2003) indicates that, academic researchers have examined the effectiveness of entrepreneurship training and support. The three areas that should be stressed by incubators are technical skills, business management skills and personal entrepreneurial skills. In addition, Faoite et al., (2003) stressed that entrepreneurship

development programs should include mentoring, business counseling and follow up support. The education program should also vary greatly on duration, venue, structure and content in order to attract and benefit participants effectively.

Shahadan (2001) proposed that training courses designed to develop achievement motivation have improved small business performance significantly in terms of sales, profits and numbers of employees. Entrepreneurial courses and education have a positive relationship on entrepreneurship qualities.

2.5.3 Factory Buildings

Factory buildings in this present study are defined as factories available to be rented by new start up businesses with low rental rate, complete with basic amenities and located at strategic places that provide easy access towards participants' clients, suppliers and co-business partners. Peters (2004) define, factory for incubator as flexible rental space and leases as well as shared administrative services and equipments. He suggested that infrastructure of premises should provide equipments, certain cases labs as well as conference facilities. Peters (2004) also came out with a model that complemented incubation services such as coaching and networking would produce more graduates from the incubator program.

Adegbite (2000), stated that factory building for incubates comprises of fully built up factory buildings on flexible and affordable terms. Exit rules generally limited the tenancy period up to between three to five years, to ensure a reasonable turnover of tenants. Peters (2004) suggested that all the required infrastructure facilities, such as good access road, electricity, water, telephone must be available at the center in order

to enhance participants' business performance. Thus, it is proven that infrastructure of factory buildings have a positive relationship towards business performance.

2.6 Theoretical Framework

Based on past literatures, a theoretical framework of the present study was constructed. This theoretical frame work was adapted from the previous study by Lee & Osteryoung (2004) on the '*Critical Success Factors for Effective Operations of University Business Incubators in the United States and Korea*'. This previous research came out with 14 factors emerged as important to the effective operation of the incubator system such as goal/ operation strategy, easy access to facility and equipment, common access to service space, networking, expert organization, technology transfer, business law consulting, financial support, entrepreneurial education institutional networking, networking of tenant, networking of business and government support. The study found that there is no significant difference between incubation critical success factors and goal/operation strategy. This present study adopted the framework with some modification and simplification because the previous study was more in depth and complicated. While the previous study is focusing on university incubators in the United States and Korea, this present study will focus on BFS participants. The present study only put financial services (financial support) and non-financial services (advisory services, entrepreneurial development programs and factory buildings to be rented) as independent variables. The dependent variable for this present study is business performance (profitability and growth) (Hashim, 2004).

The theoretical framework is as follows:

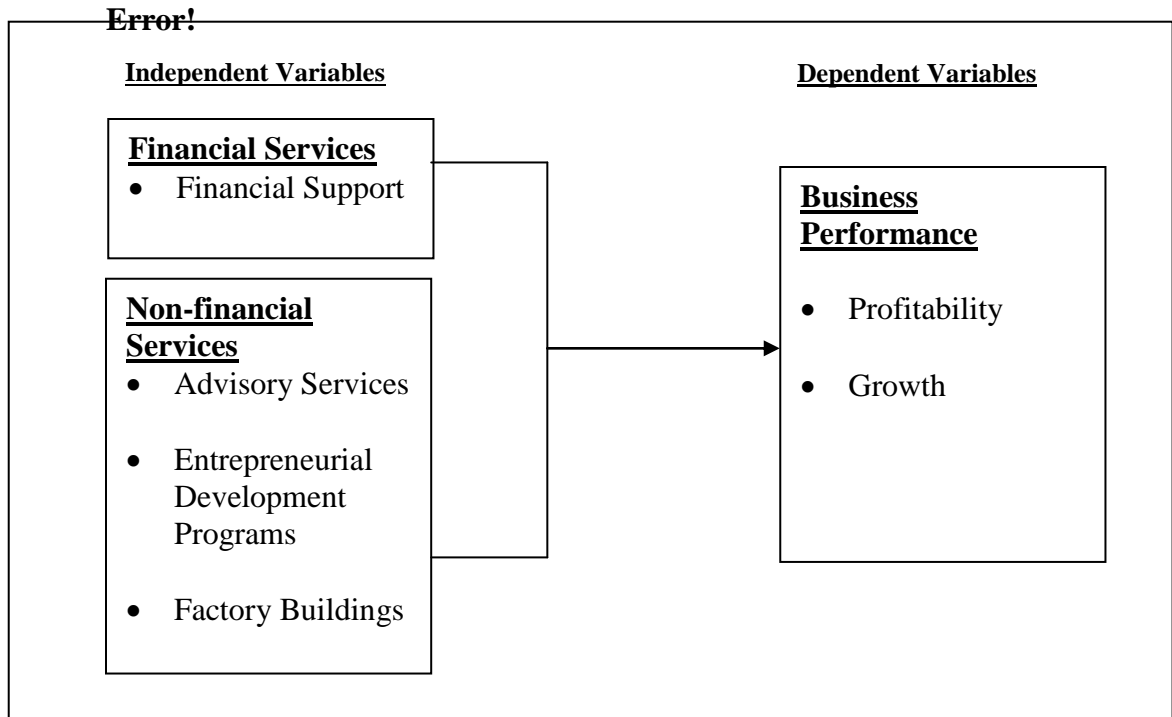


Figure 2.3. The Framework of Business Performance
An adaptation from Lee & Osteryoung (2004)

2.7 Hypotheses

Based on literature review of the past studies, it's suggested that financial services and non-financial services plays an important roles towards business performance.

2.7.1 *The Relationship between Financial Services and Business*

Performance

Financial support is one the critical success factors for effective operations of business incubators (Lee & Osteryoung, 2004). Allen & Rahman (1985) stated that financial assistance should be one of the compulsory items in the incubator services. Hence, we can conclude that the more effective financial support provided towards entrepreneurs,

the business performance would be better. To test the relationship between financial services and business performance, it is hypothesized that:

H1: BPIMB financial services have significant influences towards BFS participants' business performance.

H1a: BPIMB financial support will have positive influence towards BFS participants' profitability.

H1b: BPIMB financial support will have positive influence towards BFS participants' growth.

2.7.2 The Relationship between Non-financial Services and Business Performance

Adegbite (2001), suggested that, besides offering space to tenant firms in fully built up factory premises, incubators should provide additional support services (non-financial services) to ensure better business performance. Among the non-financial services are; enterprise counseling and monitoring, management training and assistance, technical assistance, marketing and promotion and linkage with large-scale enterprises. Thus, it can be argue that the non-financial services have a positive relationship towards business performance. This relationship can be test by below hypotheses:

H2: BPIMB non-financial services have significant influences towards BFS participants' business performance.

H2a: Advisory services by BPIMB have significant relationship with BFS participants' profitability.

H2b: Advisory services by BPIMB have significant relationship with BFS participants' growth.

H2c: BPIMB factory buildings will be related to BFS participants' profitability.

H2d:BPIMB factory building will be related to BFS participants' growth.

H2e: BPIMB entrepreneurial development programs have significant relationship towards BFS participants' profitability.

H2f: BPIMB entrepreneurial development programs have significant relationship towards BFS participants' growth.

2.7.3 The Relationship between Combination of Financial and Non-financial Services and Business Performance

Combination of financial and non-financial services such as financial consulting assistance, management assistance, general business assistance, professional business assistance and physical services, aided the growth of small business with a better business performance (Allen & Rahman, 1985). Lee & Osteryoung (2004) suggested that critical success factors for incubator services comprises of non-financial (technology transfer and research and development, business and law consulting and entrepreneurial education program) and financial services (financial support and consulting). Therefore, the assumption is, combination of financial and non-financial services would result better business performance. In order to test this relationship it is hypothesized that:

H3: The combination between BPIMB financial and non-financial services have more significant influences towards BFS participants' business performance

H3a: The combination between BPIMB financial and non-financial services have more significant influences towards BFS participants' profitability.

H3b: The combination between BPIMB financial and non-financial services have more significant influence towards BFS participants' growth.

2.7.4 The Relationship between Obtaining Different Level of Non-financial Services and Business Performance

Hackett and Dilts (2004) posited that levels of incubator development (non-financial services by incubators) are positively related with incubatee success. Furthermore Peters et al., (2004) found that majority of the incubators just focus on infrastructure and fail to deliver sufficient services with high levels of expertise, which would result failure on tenants firms. Thus, we can conclude that, obtaining different levels of non-financial services has direct relationship with business performance. The hypothesis for this relationship is as follows:

H4: Different levels of obtaining non-financial services are expected to correlate positively with BFS participants' business performance.

2.8 Summary

This chapter discusses and reviews literatures, on both, the dependent and independent variables of the present study. Theoretical framework adopted was constructed and four main hypotheses are formulated. Research methodology of the present study will be discussed and presents in the subsequent chapter.