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The Effectiveness of Credit Management Practicesof Perbadanan Nasional Berhad (PNS)

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Abstract: In Malaysia Third (3[rd]) Industrial Master Plan for the period of 2006 – 2015, several agencies were established to provide financing assistance to SMEs in Malaysia. The purpose was to help SMEs who faced difficulties to secure financing especially from commercial banks since they do not meet the minimum requirement set by the bank.PerbadananNasionalBerhad (PNS) was given a mandate by the government not only to develop the franchise industry in Malaysia, but also to allocate a certain amount of budget as to provide financing facilities for SMEs in Malaysia. The aim of this study is to determine the effectiveness of credit management practices of PNS's borrower appraisal and also identifying factors affecting PNS's credit monitoring and control. These objectives are crucial since higher none performing financing (NPF) resulted to reduce PNS returns. Raising own fund and self-sustained needsPNS to have good credit management practice in the pipelines in order to ensure every single cents being spent for financing manage to be collected with gain. For that purpose, a survey questionnaires and internal records being used to gather the information. Based on the analysis several findings were determined. The findings revealed that guidelines and procedures need to be enhance especillay on monitong and control, reschedule and restructuring procedures, loophole in PNS Credit Lending Policy, inadequacy in credit rating, lacking in staff knowledge and lenient in taking legal action towards default borrower. Thus, PNS need to review and monitor their credit management guidelines and procedures frequently, revise their credit lending policy and review their credit rating in order to mitigate the non-performing financing amount.

Key words: Credit management practices · Credit monitoring · Credit control · Perbadanan Nasional Berhad

INTRODUCTION

Preamble: Credit management covers all financing or lending activities offered to the potential borrowers [1]. Involves with various activities starting from the assessment of the potential borrowers, process and evaluating their application, administrative aspect for seeking decisions either to the approval or rejection of the application from the relevant authority. Upon approval, it will continue with the process of establishment of relevant documentation prior disbursement of the funds [2]. The second part is monitoring and collecting of the repayment as agreed in the letter of offer and financing agreement within the stipulated time given [3]. As to ensure stability and profitability of the financial institution that grant the financing, prudent credit management strategies are needed. This is to avoid the deteriorating of the non-performing financing that may affect the financial institution bottom line [4]. The final part of the credit management practice is litigation. This part is considered crucial as to exercise right to recover the unpaid amount from the borrower [5]. All the risk mitigation on the credit risk is to be addressed at all the credit management chain practices. Credit quality is the most crucial part in the credit management which may cause stress to financial performance [6]. As such the practical management of credit risk assessment can curtail the credit operational risk in order to safeguard the expected returns.

The competency of the front line staff in executing the credit assessment is crucial. Failing to screen the good customer resulted to high credit risk and may affect the financing performance [7]. As such, appropriate training is needed as to equip the staff and gain knowledge.

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Compliance to the legal requirement and credit financing aspect are also important as to protect the financial institution interest, which is part of the credit management strategies to manage the risk. Another area is to ensure the board duty on how to manage and govern the financing institutions [8]. The credit policies and the approved limit has to be clearly set or manage where this is another area of credit risk [9]. The financing limit for individuals and their related parties which involves companies, partnerships or relatives also need to be set.

In credit management strategies, the board and management need to set goals or targets for their loan portfolio in the annual planning [10]. Monitoring the financing portfolio need to be done regularly as an ongoing basis. This manage to determine whether the financing portfolio performance meets the expectation of the board. It will also remain the risk level is within the acceptable limits. In order to reduce the transactional error, thus standardise financing procedures is to be established [11]. This will also ensure on compliance with the regulatory requirements and board policy.

The main objectives of the study is to explore the effectiveness of credit management practice with regards to financing performance in PNS. Specifically, this study aims:

- To determine the effectiveness of credit management practice towards borrower appraisal; and
- To determine factors leading to the efficient credit monitoring and credit control of PNS

Overview of Financing Facilities In PNS: Perbadanan Nasional Berhad (PNS) is given a mandate by gorvernment and being responsible to develop the franchise industry in Malayisa [12]. Besides receiving grant from minister, PNS also allocate a certain amount of budget as to provide financing facilities for SMEs in Malaysia. Several financing facilities being offered to borrowers [13]. PNS provides three types of financing namely financing to franchisor, financing to franchisee and Business In Transformation as below:-

- There are four schemes of financing under franchisor known as below;
  - Pre-Franchise;
  - Franchisor Financing;
  - Pembangunan Produk Francais Tempatan (PPFT); and
  - Dana Bantuan Pembangunan Francais (DBPF).
- There are two schemes under financing to franchisee namely;
  - Franchise Executicve; and
  - Franchise Finanching;
- Business in Transformation (BIT).

Currently the most popular financing product offered under franchisor is Franchisor Financing Schemes. The two products under PPFT Schemes and DBPF Schemes have been stopped since no funds available or budgeted by Government [14]. These two product were previously considered among the popular product and received a lot of application from SMEs. While under franchisee, the most sought after product is Franchisee Financing Scheme. While for BIT is considered successful among all PNS schemes [15]. BIT was first launched by our Prime Minister,Dato Seri NajibRazak with the fund allocation was RM5 Million in 2011. Since after the funds was exhausted, PNS still continue with this product due to high returns and demands among SMEs. As such, since 2013 until 2016, certain funds being allocated by PNS in yearly budget. BIT product, consists of several process. Firstly, PNS is to identify the potential SMEs business that can be transformed to franchise business [16]. After identifying the product and getting commitment from the business owner then PNS will do assessment and due diligence. Once confirmed, the product and the owner has to go to several process [17]. Among the process are establishing the standard operation procedures for business manual, identify the know how of the owner in order to tranform them as a franchaisor [18]. At the same time, the business owner must have at least one outlet being operated. After having three outlets, then the business model can be offered to franchisee [19]. This is considered killing two birds using one stone, where PNS execute their main mandate to assist in developing the franchise industry in Malaysia as well as provide financing [20]. The business owner also has to undergo training conducted by PNS Academy as to prepare the business owner becoming the franchisor.

Literature Review

Financing Performance: A financing or loan (financing) is considered performing when there is no amount default or near default [21]. According to the International Monetary Fund (IMF), a performing financing is any amount of financing in which, the interest or unearned profit and principal payments were made less than 90 days outstanding. The formula that can be used to calculate NPF rate is as follows:

$$\text{None Performing Financing Rate} = \frac{\text{None Repayment Financing}}{\text{Total financing portfolio}} \times 100$$

In accordance to guideline issued by Bank Negara Malaysia (BNM) for Developmental Financial Institutions (DFIs), it is compulsory for DFI to regularly review all financing and other advances given to borrower [22]. This is to ensure to classify impaired financing and to treat such financing in accordance to the guidelines [23].

Credit Management Practice: Credit management practice in PNS involves in several key component activities [24]. Among the key component of credit management practices involved are firstly customer appraisal that consist of appraisal, financial stability and analysis, technical feasibility study and credit rating, secondly covers on credit risk assessment which consists of risk transfer, risk diversification and credit risk management, thirdly assessment on monitoring and control and lastly on litigation process [25]. Details of the credit management practice in PNS shown in the Figure 1.1 (1) as follows:

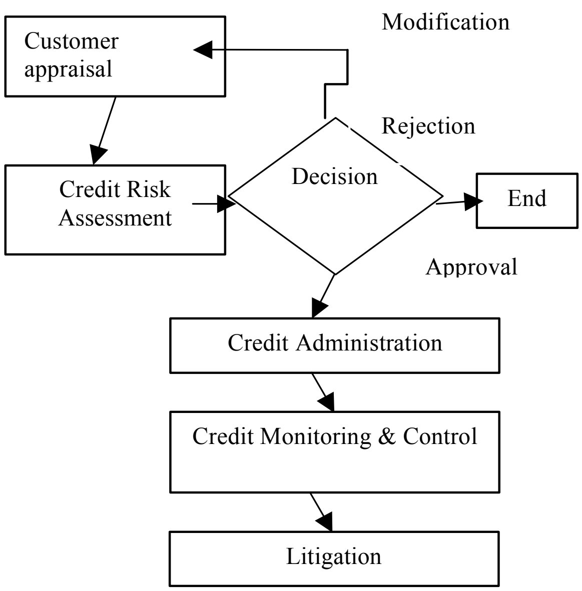

Fig. 1: Credit Management Process

Research Methodology: The research design and methodology approach, highlighted in chapter three. The structure of this section focus on the research design and methodology, determine the sample population and selection, data analysis as to meet the study objectives. This study aim to meet the research objectives specifically on determining the effectiveness of credit management practice towards borrower appraisal and to determine whether the credit management practices factors have any effect on credit monitoring and control.

The primary data derived from the identified respondents. The questionnaires were distributed and administered by the researcher personally starting from 18th April to 22nd April 2016. The feedbacks were collected from the respondents between one to five days. The distribution of the survey questionnaires as shown in Table 1.

Table 1: Distribution of the Survey Questionnaires

Division/Region	Number of Questionnaire Distribution
Marketing and Processing Units – PNS, Kuala Lumpur	15
Credit Administration Unit –PNS, Kuala Lumpur	6
Credit Control and Monitoring Unit – PNS, Kuala Lumpur	8
Previous BOD's Staff	8
Corridor Office – Penang	3
Corridor Office – Johore Bahru	3
Corridor Office – Kuantan	3
Corridor Office – Kuching, Sarawak	3
Corridor Office - Kota Kinabalu, Sabah	3
Risk Management Department	4
Total number of distributed questionnaires	56

RESULTS AND DISCUSSIONS

Reliability Test: The study uses various statements to gauge the perceptions of respondents on the eight dimensions: appraisal (16 statements); financial viability and analysis (8 statements); technical feasibility (9 statements); credit rating (10 statements); risk transfer (6 statements); risk diversification (6 statements); credit risk management (6 statements) and credit monitoring and control (11 statements). The use of statements to measure perceptions of people on something (dimension) requires that these statements be reliable or consistent. For this, a reliability test was carried out, the summary statistics of which are presented in Table 2 and discussed as follows.

Table 2: Cronbach's Alpha by Dimension

Dimension	No of statements	Cronbach's Alpha
1. Appraisal	16	0.875
2. Financial viability and analysis	8	0.805
3. Technical feasibility	9	0.680
4. Credit rating	10	0.843
5. Risk transfer	6	0.792
6. Risk diversification	6	0.605
7. Credit risk management	6	0.843
8. Credit monitoring and control	11	0.896

Table 2 presents the Cronbach's alpha values of the eight dimensions, ranging from 0.605(risk diversification) to 0.896 (credit monitoring and control). The various Cronbach's alpha values indicate that the statements used reliably measure the perception of the respondents on the eight dimensions.

Perception of Respondents on Credit Management Practices: The focus in this section is on the perception of respondents on credit management practices. The perception of respondents is measured on a 5-point scale as follows:

1 = Strongly Disagree
2 = Disagree
3 = Uncertain
4 = Agree
5= Strongly Agree

The descriptive statistics of the perception scores are presented and discussed separately for each dimension, starting with the appraisal and ending with credit risk management.

Perception on Appraisal: Table 3 presents the means and standard deviations of perception scores on appraisal, by individual statements, arranged in descending order of size (declining agreeability). Considering all the sixteen statements together, the mean score of 4.22 implies that, on the average, the respondents agree with the appraisal. The size of the standard deviation (CV=9.4%) implies that the mean score is representative of the majority of respondents, or that the individual perception scores do not vary much from one another.

By individual statements, the respondents agreed towards the statement; *Evaluate the Franchisor/franchisee business capability* (Mean = 4.68) and least agreed with; *Look at the political conditions before considering to finance the applicant* (Mean=3.51).

Perception on Financial Viability and Analysis: Table 4 presents the mean scores of statements to measure the perception of respondents on financial viability and analysis and its related statistics. The list is arranged in descending order of mean size (decreasing agreeability). Based on all the eight statements, the mean score of 4.28 implies that, on the average, the respondents' perception level of financial viability and analysis is on the more agreeable side. In other words, they consider the elements of financial viability and analysis as manifest in the statements positively [26].

Table 3: Mean Scores of Perceptions on Appraisal

Statement	Mean	Median	Std. Deviation
Evaluate the Franchisor/franchisee business capability	4.68	5.00	0.474
Analyze the business plan to identify risk exposure	4.48	4.00	0.506
Appraise the cash flow forecasts of business proposal before considering.	4.43	4.00	0.5946
Look at the credit trustworthiness of financing applicants	4.43	4.00	0.636
Consider the repayment performance history	4.43	4.50	0.675
Look for the applicant's business plan	4.35	4.00	0.622
Look at the character of financing applicants	4.35	4.00	0.662
Consider capacity of the financing applicants	4.35	4.00	0.663
Consider the net worth of the business	4.28	4.00	0.554
Look at relevant experience of the applicants	4.25	4.00	0.5886
Look at capitalization of the business	4.13	4.00	0.723
Consider collateral as secondary source of repayment	4.00	4.00	0.751
Review the long-term planning of all financing applicant.	3.98	4.00	0.733
Determine the economic conditions before considering to finance the applicant.	3.98	4.00	0.733
Consider The leadership quality of the applicant management. (e.g. experience, level of education, member of any professional bodies)	3.95	4.00	0.815
Look at the political conditions before considering to finance the applicant.	3.51	3.00	0.906
All Statements	4.22	4.22	0.397

Table 4: Mean Scores of Perceptions on Financial Viability and Analysis

Statement	Mean	Median	Std. Deviation
Analyze the financial reports	4.38	4.00	0.586
Analyze the annual sales growth of the applicant.	4.38	4.00	0.868
Request for audited financial reports from applicant (if any).	4.35	4.00	0.864
Calculate ratio analysis e.g. profitability, efficiency and leverage and interest coverage.	4.33	4.00	0.656
Request for 3 years management account (financial reports) from all applicant.	4.33	4.00	0.730
Examine the quality of financial report presented according to the accounting standards.	4.28	4.00	0.554
Sound financial management policies of all applicants.	4.20	4.00	0.464
Consider to finance only applicant with sound financial management policies	3.98	4.00	0.733
All Statements	4.28	4.13	0.452

Table 5: Mean Scores of Perceptions on Technical Feasibility

Statement	Mean	Median	Std. Deviation
Consider to finance projects with potential market/ trade	4.33	4.00	0.572
Analyze the marketing strategy of financing applicants	4.30	4.00	0.464
Look at consumption behaviors of the market	4.18	4.00	0.549
Look at the implementation plan of all applicant.	4.08	4.00	0.474
Consider availability of raw material before can finance the applicant.	3.85	4.00	0.580
Look at access to infrastructure	3.80	4.00	0.516
Consider finance projects that useappropriate technology	3.73	4.00	0.751
Consider if the applicant has specialized workers	3.65	4.00	0.770
PNS staff are qualified to assess the level of technology.	3.43	3.50	0.844
All Statements	3.84	3.80	0.527

The respondents are most agreeable with *Analyze the financial reports*(Mean=4.38). These are followed, in descending order, by elements contained in the statements, *Analyze the annual sales growth of the applicant* (Mean=4.38), *Request for audited financial reports from applicant* (Mean=4.35), *Calculate ratio analysis e.g. profitability, efficiency and leverage and interest coverage* (Mean=4.33*), Request for 3 years management account (financial reports) from all applicant* (Mean=4.33), *Examine the quality of financial report presented according to the accounting standards* (Mean=4.28), *Sound financial management policies of all applicants.* (Mean=4.20) and *Consider to finance only applicant with sound financial management polcies*(Mean=3.98)

Perception on Technical Feasibility: Based on all the nine statements and following the interpretation of the 5-point scale, on the average, the respondents perceive technical feasibility influence the financing performance (Mean=3.845). By individual statements, on the average, the respondents agreed most with *Consider to finance projects with potential market/ trade*(Mean=4.33) and least agree with *PNS staff are qualified to assess the level of technology.* (Mean=3.43).

Perception on Credit Rating: Respondents' perception on credit rating measured using ten statements evaluated on a 5-point scale as before. The mean scores of the ten statements are shown in Table 6, listed in descending order of size (decreasing level of agreeable)

Table 6: Mean Scores of Perceptions on Credit Rating

Statement	Mean	Median	Std. Deviation
PNS has an internal credit rating system.	4.23	4.00	0.832
We base our rating on financial reports	4.10	4.00	0.672
We rate the management capacity of financing applicants	4.05	4.00	0.677
PNS do credit rating on all projects	3.90	4.00	1.008
PNS quantifies risk through credit rating	3.90	4.00	0.744
Our rating system predicts debt serving capacity of financing applicants	3.85	4.00	0.770
The rating used can determine deteriorating / non-performing financing	3.85	4.00	0.834
We use public and private information in rating	3.75	4.00	0.809
PNS monitors all problem loans	3.65	4.00	0.864
I know how to use rating system	3.08	3.00	0.917
All Statements	3.84	3.800	0.527

Based on all the eight statements, on the average, the respondents agree with credit rating statements (Mean=3.84). By individual statement, they agreed most with; *PNS has an internal credit rating system*(Mean=4.23) and not sure towards *I know how to use rating system* (Mean=3.08).

Perception on Risk Transfer:

Table 7: Mean Scores of Perceptions on Risk Transfer

Statement	Mean	Median	Std. Deviation
Borrowers is covered by MRTA	4.40	5.00	0.744
Financing portfolio is fully insured	4.20	4.00	0.648
Consider debentures as financing guarantee	3.93	4.00	0.917
Risk transfer improves loan recovery	3.80	4.00	0.791
Clients are requested to provide corporate guarantees	3.58	3.50	0.813
Financing are guaranteed with fixed deposits	3.28	3.00	0.905
All Statements	3.86	3.83	0.566

Based on all the six statements, on the average, the respondents agreed with risk transfer (Mean=3.86). By individual statement, they agreed most with; *Borrowers is covered by MRTA*(Mean=4.40) and not sure towards *Financing are guaranteed with fixed deposits* (Mean=3.28).

Perception on Risk Diversification:

Table 8: Mean Scores of Perceptions on Risk Diversification

Statement	Mean	Median	Std. Deviation
The loan portfolio is invested in different sectors of the economy	4.05	4.00	0.597
Diversify Decision only done by management	3.83	4.00	0.931
We do not concentrate our loan portfolio in particular sectors of the economy e.g. IT, Services, F & B	3.80	4.00	0.883
We invest in different loan products	3.95	4.00	0.783
Diversification has reduced risk exposure in PNS	3.75	4.00	0.707
Default level have reduced due to diversification of business.	3.63	4.00	0.774
All Statements	3.83	3.92	0.456

Based on all the six statements, on the average, the respondents agreed with risk diversification (Mean=3.04). By individual statement, they agreed most with; *The loan portfolio is invested in different sectors of the economy*(Mean=4.05) and least agreed towards *Default level have reduced due to diversification of business.* (Mean=3.63).

Perception on Credit Risk Management:

Table 9: Mean Scores of Perceptions on Credit

Risk ManagementStatement	Mean	Median	Std. Deviation
PNS has a risk management policy	4.35	4.00	0.700
PNS has a risk management guidelines	4.33	4.00	0.694
Perform risk assessment in all financing application	3.90	4.00	0.900
PNS has pre-set portfolio limits	3.85	4.00	0.770
PNS has pre-set concentration limits in every sector	3.83	4.00	0.781
PNS quickly responds to market changes	3.48	3.00	0.933
All Statements	3.95	4.00	0.600

Based on all the six statements, on the average, the respondents agree with credit risk management (Mean=3.95). By individual statement, they agreed most with; *PNS has a risk management policy*(Mean=4.35) and not sure towards *PNS quickly responds to market changes* (Mean=3.48).

Normality Test: The analysis to determine the relationship involves the use of test of significant correlation and regression. The appropriate statistical tools for this depend on the normality or non-normality of observation values. A normality test was carried out using the One-Sample Kolmogorov-Smirnov Test on appraisal, financial viability and analysis, technical feasibility, credit rating, risk transfer, risk diversification, credit risk management and credit monitoring and control. The summary statistics are presented in Table 10.

Table 10: Summary Statistics of One-Sample Kolmogorov-Smirtnov Test (K-S)

Variable	Kolmogorov-Smirnov (K-S) Test Statistic K-S Z-value	*p-value*
1. Appraisal	0.858	0.454
2. Financial viability and analysis	1.129	0.156
3. Technical feasibility	0.626	0.829
4. Credit rating	0.626	0.829
5. Risk transfer	0.816	0.518
6. Risk diversification	0.949	0.329
7. Credit risk management	0.706	0.701
8. Credit monitoring and control	0.805	0.536

It can be seen that all the K-S Z-values are not significant at 0.05 level ($p>0.05$). This means that the mean scores of appraisal, financial viability and analysis, technical feasibility, credit rating, risk transfer, risk diversification, credit risk management and credit monitoring and control are normally distributed. Following this conclusion, the study uses the parametric statistical tool in the following analysis.

Factors Affecting Credit Monitoring and Control: A regression equation was estimated with credit monitoring and control score as the dependent variable and appraisal, financial viability and analysis, technical feasibility, credit rating, risk transfer, risk diversification and credit risk management as the independent variables [27]. Table 11 presents the summary statistics of the estimated regression equation.

Table 11: Estimated Regression Equation

Variable	Coefficient	*t*-value	*p*-value
1. Appraisal	0.026	0.159	0.874
2. Financial viability and analysis	0.270	1.549	0.131
3. Technical feasibility	-0.305	-1.975	0.668
4. Credit rating	-0.372	-2.232	0.033*
5. Risk transfer	0.087	0.528	0.601
6. Risk diversification	0.188	1.214	0.233
7. Credit risk management	0.473	2.261	0.030*
F	5.498		0.000**
R^2	0.500		

* Significant at 0.05

** Significant at 0.01

The regression equation is statistically significant at 0.01 ($p<0.01$), implying that there is an association between credit monitoring and control and any or all of the independent variables. The R-square value being 0.500 means that the seven independent variables as a whole account for 50 per cent of the variation in the dependent variable (credit monitoring and control). Hence, the effect of appraisal, financial viability and analysis, technical feasibility, credit rating, risk transfer, risk diversification and credit risk managementas a whole oncredit monitoring and control is moderately high.

Looking at the individual regression coefficient, one finds that only the coefficient of credit rating and credit risk management are statistically significant at 0.05 ($p<0.05$), whereas those of appraisal, financial viability and analysis, technical feasibility, risk transfer and risk diversification are not. The coefficient of credit rating (-0.372) mean that an increase in credit rating decrease credit monitoring and control and an increase in credit risk management (0.473) increases credit monitoring and control, whilst changes in the other five variables have no impact on credit monitoring and control.

CONCLUSION

Financing performance were contributed from external and internal factors [28]. Having an effective credit management practice that focus in internal manage to safeguard and improve PNS financing performance. Chapter five consists of three main sections [29]. The first part of the section discuss on the findings summary of the research objectives enlightened in chapter one and four respectively [30]. While the second part of the section will deliberate the recommendations with regards to credit management practice in PNS. Lastly, the third section of the chapter highlighted on the study limitation.

The purpose of this study is to summarise the two objectives mentioned earlier in chapter one. Primary data was gathered by distributing survey questionnaire. 56 survey questionnaires were disseminated to current and previous Business Operations Divisions (BOD) staff and also Risk Management Department (RMD) staff [31]. Relevant PNS records were then gathered especially on Non Performing Financing (NPF) records, PNS policy and guidelines on Credit Management practice.

Primary survey data from the feedback were then keyed-in and analysed using SPSS. Descriptive data analysis were further explained in chapter four. PNSs internal data with regards to PNS details information, record, policy and guidelines were examined as to determine the credit management practice and PNS financial performance achievement [32]. The aims in conducting analysis of the collected data was to verify the respondents' perspective with the research issues and to secure the explanations on the research questions [33].

Currently, PNS has implemented credit management practice in line with PNSs policy and guidelines [34]. All the key process in credit management practices namely appraisal, credit risk management, credit administration, credit monitoring and control as well as litigation being executed [35]. However certain practise need to be further enhanced. Based on the findings with regards to the effectiveness of credit management and PNS financing performance, as an agency that undertake the developmental roles thus it is necessary for BOD staff, conduct market study, understand the franchise business model, analyse the proposal paper submitted by applicant, creative in getting borrower's commitment by requesting director corporate guarantee and collateral such as fixed deposit thus will help PNS to curb the NPF rate [36].

The credit management practice towards borrower appraisal can also be improved further [37]. It is necessary for PNS staff to know their customer, enhance their technical knowledge with regards to new technology used by the franchise business thus will benefit in doing appraisal of the borrower. Further, due to information asymmetry resulted to have different perspective of the processor who appraise the borrower [38]. An experienced staff will manage to acquire as much information from the applicant and manage to put certain recommendation for management approval [39]. Further suggestion like to secure collateral in term of fixed deposits and corporate guarantees may be imposed depends on the applicant's credit worthiness [40]. With the PEST analysis on the existing borrower while doing review of the account will manage to assist the staff who are doing monitoring and control of the borrower financing account [41]. Having close business relationship with the borrower will further enhance monitoring and manage to control the borrower's repayment closely. Taking litigation action also will help PNS to curb the raising NPF rate.

As for the factors that contribute to PNS's financing performance, the record shows that PNS has established several guidelines such as Franchise Financing Guidelines and Procedures, Collateral Guidelines and Procedures for Financing Facilities and Guidelines and Procedures for recovery of Franchise Financing Facilities [42]. However from the feedback certain creativity and enhancement need to be done on the PNS credit lending policy. Certain stringent requirement need to be added. Improvise especially on the credit risk rating in doing customer appraisal as well as to enhance the credit rating system also will improve further.

As for conclusion, determine that the outline objectives as stated in chapter one of the study were contented accordingly. It is learned that certain weaknesses revealed from the study can be undertaken.

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