

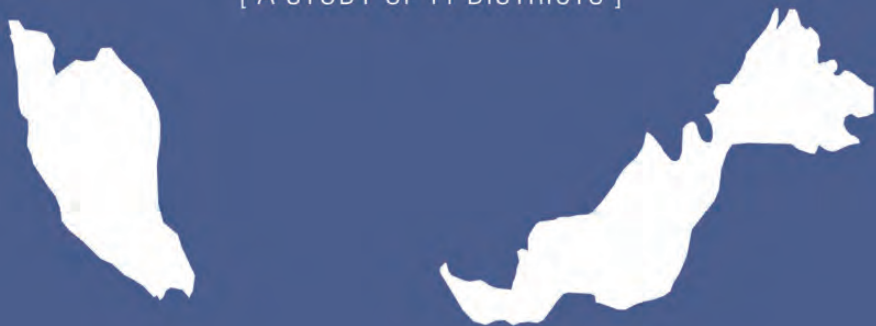


MALAYSIA

Business Environment Index 2012

Challenges and Opportunities for Accelerating Local Business

[A STUDY OF 11 DISTRICTS]



MALAYSIA

BUSINESS ENVIRONMENT INDEX 2012

Challenges and Opportunities for Accelerating Local Business

(A Study of 11 Districts)

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Abbreviations

ADB	Asian Development Bank
BEI	Business Environment Index
DoS	Department of Statistics
ETP	Economic Transformation Programme
GDP	Gross domestic product
GLC	Government-linked Company
GoM	Government of Malaysia
GTP	Government Transformation Programme
MAMPU	Malaysia Administrative Modernisation and Management Planning Unit (Unit Pemodenan Tadbiran dan Perancangan Pengurusan Malaysia)
RM	Ringgit Malaysia
OECD	Organization for Economic Cooperation and Development
PEMUDAH	Special Taskforce to Facilitate Business (Pasukan Petugas Khas Pemudahcara Perniagaan)
PEMANDU	The Performance Management and Delivery Unit (Unit Pengurusan Prestasi dan Perlaksanaan)
P.P.	Pulau Pinang
RAM	RAM Holdings Berhad
S.D.	Standard deviation
SME	Small and medium-sized enterprise
SSM	Companies Commission (Suruhanjaya Syarikat Malaysia)
TAF	The Asia Foundation

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Executive Summary

The Malaysia Business Environment Index (BEI) Pilot Study 2012 is the first survey that investigates firms' perceptions about the business environment at the district level. Utilizing data collected from 635 small and medium-sized firms, the BEI is a composite of nine sub-indices which measure the business environment in 11 city and municipal districts across six states in peninsular Malaysia, and ranks them against each other based on a 100-point scale. The nine sub-indices have been structured to capture the key elements of the local business environment that can be influenced by district regulations or district implementation of federal and state policies.

The sub-indices in the BEI measure nine areas of economic governance that are relevant to local economic growth in Malaysia: Transparency and Policy Risk, Regulatory Costs, Entry Costs, Crime and Security, Land Access and Security of Tenure, Informal Charges, Infrastructure and Business Development Services, Proactive Government, and Property Rights and Dispute Resolution. Each sub-index comprises indicators primarily derived from perception data from local business managers or owners. When appropriate, experience data are also used to form relevant indicators.

In the BEI 2012 pilot study, six states were first chosen to give a good representation of peninsular Malaysia and 11 districts were then drawn randomly within those states. The pilot study was specifically designed to include at least one city and one municipality in states with both cities and municipalities. Among the 11 districts, three are cities where about 66 firms in each were surveyed. The remaining eight districts are municipalities where about 50 firms in each were surveyed. All survey data were collected through hour-long face-to-face interviews.

The study uses a stratified district-level random sample based on the sampling frame provided by the Companies Commission. The strata were determined by sector (manufacturing, trade and services) and ownership type (sole proprietorship, partnership, private limited company). Based on a quota for each stratum provided by the research team, the Companies Commission drew a list of firms for the survey.

The BEI 2012 for each district is the sum of the district scores on all nine weighted sub-indices. The weights given to the sub-indices range from four percent to 22 percent based on the decisions of an expert panel. Of all the sub-indices, Transparency and Policy Risk are given the highest weight and Property Rights the lowest.

Among the 11 sampled districts, Kemaman in the state of Terengganu ranks the highest in the BEI 2012 followed by Sepang in the state of Selangor. Ampang Jaya ranks the lowest while Petaling Jaya ranks the second lowest. Both districts are located within the state of Selangor. The BEI rankings of Petaling Jaya and Ampang Jaya are dramatically different from their scores awarded in the Star Rating System in which they both scored among the highest.

There is an apparent state-effect in the rankings. The two districts in Terengganu, Kemaman and Kuala Terengganu, score among the highest while Ampang Jaya and Petaling Jaya, in Selangor, score among the lowest. The three districts in Johor, Kluang, Batu Pahat, and Johor Bahru, score in the middle. Since this pilot study is based on only 11 urban districts in peninsular Malaysia, and excludes rural districts and those districts in Sabah and Sarawak, this state-effect may have a limited generalization.

There is also an apparent relationship between density of firms and BEI scores. The results suggest that the higher the district's firm density, the lower its weighted BEI. This may be a reflection of both higher quantity and quality public services demanded in more economically active districts. Another explanation is that crime and corruption are also more serious in more economically active areas, resulting in lower scores in two sub-indices, Informal Charges, and Crime and Security. These two sub-indices were found to be significantly and negatively correlated with a district's firm density.

Efforts to improve transparency require better communication via conventional means. The results reveal that 56 percent of the firms surveyed do not use computers or the internet, and among those firms that do use computers, the majority (over 80 percent) do not access government information online even though most of them (over 80 percent) are aware of e-government services. This suggests that there is a need to look into the reasons for low

computer usage. It also suggests that effective government-business communications should continue to utilize conventional media in addition to e-government services.

The BEI aims to inspire local authorities to improve their service delivery and develop actionable policy agendas that benefit local businesses. By ranking the district scores, the BEI study identifies the best performers. The practices and initiatives implemented by those high performing districts are practical examples of attainable success which can be emulated by other districts. It is hoped that the findings in the study will facilitate dialogue between governments and businesses, allowing more participation of stakeholders in policy reform.

The goal of the BEI is consistent with the government's Economic Transformation Programme and Government Transformation Programme. The goal of the BEI is to help create a business-friendly environment in which businesses can prosper and develop. The BEI complements the national initiatives by providing the perspective of small and medium-sized enterprises on the business environments at the district level. A nationwide BEI will provide a comprehensive view of the micro business environments, further enhancing the transformation efforts made by the Government.



1. Introduction

Malaysia aspires to become a progressive and high income¹ nation by 2020. To achieve this goal, it launched several ambitious plans in 2010: the Economic Transformation Programme (ETP), the Government Transformation Programme (GTP) and the Tenth Malaysia Plan. These initiatives are designed to stimulate broad based and inclusive growth across Malaysia. The specific development goals for SMEs, outlined in the Tenth Malaysia Plan, aim to develop SMEs as an engine of growth and innovation by reducing regulatory costs, helping build capacity and capability, supporting the creation of an entrepreneurial culture, strengthening support systems for SMEs, and enhancing access to financing for SMEs. If the plans work, SMEs in Malaysia face a major turning point where more pro-business policies and positive government efforts will offer a different landscape for business in the years to come. Amidst these future expectations, the Business Environment Index Pilot Study 2012 examines the current business environment facing Malaysia's SMEs in some key areas of economic governance.

If national level reforms and commitments are essential, it is also important that the Government's support to SMEs translates into tangible improvements of the business environment throughout the country and at the local level.

Indeed if national policies shape the general framework in which SMEs develop and grow, their day-to-day environment is at the local level. In Malaysia, government at federal, state and local levels has the power to improve the business environment and facilitate private sector growth by pursuing business-friendly policies, removing unnecessary regulations, and providing quality public services. However, too often, it has hindered

¹ Defined by reaching a GDP per capita of USD15,000. Malaysia's GDP per capita in 2010 was USD8,373.

private sector development by failing to accommodate the practical needs of the business community.

A dynamic and robust private sector is essential for Malaysia's long-term economic development. In a 2011 report, *Asia 2050: Realizing the Asian Century*, the Asian Development Bank (ADB) predicted that seven Asian economies – Malaysia, China, India, Indonesia, Japan, South Korea, and Thailand– could account for more than 50 percent of global GDP in the next 40 years.² The report warned, however, that, to enjoy continued prosperity, these economies must avoid falling into the “middle-income trap” – in which countries stagnate at middle-income status and are not able to make the next leap to developed nation status.

The middle income trap is a serious concern for Malaysia. According to World Bank data, real GDP growth has slowed considerably, from an average of over nine percent between 1990 and 1996 to around four percent between 1997 and 2010. In addition, domestic investment measured by gross capital formation as a percentage of GDP has also decreased dramatically, from over 40 percent in the mid-late 1990s to less than 20 percent in recent years. These significant decreases in GDP growth and domestic investment over the past decade raise serious doubts about whether Malaysia can attain its goal of reaching developed nation status by the year 2020.

In light of these facts, the Government of Malaysia (GoM) has acknowledged the important link between good business environments which foster private sector growth and favourable economic outcomes. The high-level national initiatives, the GTP and the ETP, aim to improve public service delivery and help shift

² Asian Development Bank. (2011). *Asia 2050: Realizing the Asian Century*, P.36..

economic activity up the value chain. The government envisions that the GTP will play an important role in improving the effectiveness of the Malaysian government, while the ETP will propel Malaysia's economy into high-income status by providing priority support to selected private sectors. In addition, recognizing the need for participation of the private sector in promoting economic growth, GoM established The Special Taskforce to Facilitate Business, or PEMUDAH (Pasukan Petugas Khas Pemudahcara Perniagaan), a national public-private taskforce charged with improving the operating environment for the private sector.³ However, these efforts and national level reforms will only have limited impact if they are not fully implemented and supported by a similar improved business environment at the local level, where the vast majority of the SMEs operate on a daily basis. It is with this understanding of the importance of local business environments for SMEs, and against this background of public commitment that The Asia Foundation, Monash University Sunway Campus, Malaysia and RAM Holdings Berhad (RAM) have developed the pilot edition of the Malaysia Business Environment Index 2012 (BEI 2012) looking at cities and municipalities' environments.

The BEI 2012 is a Malaysia-specific diagnostic tool to benchmark and rank localities on various aspects of their business environments that can be influenced by federal, state and local policies and regulations. It is important to understand that the BEI 2012 is a diagnostic tool and not a ranking of sub-national competitiveness. The BEI does not take into consideration the variety of other factors that help to shape competitiveness—such as availability of raw material, market size, access to ports, access to transportation and proximity to service providers or like businesses and networks. These factors are not captured in the BEI.

³ Established in 2007 by the prime minister, PEMUDAH uses the World Bank's annual *Doing Business* report as an annual success benchmark and recommends improvements to Malaysia's public services delivery system for the private sector.

Rather, this first edition of BEI 2012 covers 11 cities and municipalities across six states in peninsular Malaysia, ranking them on the quality of the business environment they help to shape for private enterprises. Based on a verified methodology⁴ that relies largely on the perception of the business owners, the BEI 2012 provides valuable data to assist both public and private sectors in improving the local business environment regardless of the present level of sub-national competitiveness. Moreover, the data collected from the 635 randomly drawn firms depicts a representative picture of the experiences and challenges faced by the SMEs. Given the absence of similar data in the public domain, the empirical data in the report provides informative reference to all parties that are interested in SME development in Malaysia.

The sub-indices that underlie the overall BEI 2012 indicate particular strengths and weaknesses within each district. Thus, they serve as a useful guide for officials, the private sector, and other stakeholders to compare the performance of their area with that of other localities, and to identify the strengths and weaknesses of their respective business environments and prioritize areas that need particular attention. The public sector can then use the results as a practical tool to map out an actionable policy agenda, in consultation with the private sector.

In the Malaysian context, tools like the BEI 2012 which measure institutional effectiveness are essential to maintain the country's current momentum. Achieving developed country status, requires middle-income countries to strengthen institutions and public service delivery at all levels of government while encouraging entrepreneurship and innovation.

⁴ Malesky, E. & Merchant-Vega, N. (2011). A peek under the engine hood: The methodology of sub-national economic governance indices. *Hague Journal of Rule of Law*, 3, 186-219.

Although the BEI 2012 is tailored to the country's environment and specificities, it builds on the experience and methodology used for similar indices developed by The Asia Foundation and its partners in other countries such as Indonesia, Vietnam, Cambodia, Sri Lanka and Bangladesh⁵.

This report presents the findings of the BEI 2012 and it is structured as follows: Chapter 2 gives a brief description of the Methodology employed in the study; Chapter 3 details the sample characteristics; Chapter 4 provides the district rankings of the BEI; Chapter 5 describes the findings by sub-index; Chapter 6 gives the conclusion and highlights the important issues identified in the study. The last part of the report consists of six appendices that provide further data and more detailed methodological information of the BEI 2012.



⁵ For more information on the Economic Governance Indices, including EGI reports, plus raw EGI survey results and data from some countries, please see – <http://asiafoundation.org/program/overview/economic-governance-index>

2. Methodology

2.1 A Composite Index of Nine Sub-indices

The Malaysia Business Environment Index (BEI 2012) is a composite index which measures the business environment in 11 city and municipal districts across six states in peninsular Malaysia and ranks them against each other based on a 100-point scale. Like similar indices conducted in Bangladesh, Vietnam, Indonesia, Cambodia, and Sri Lanka, the BEI 2012 is composed of nine sub-indices (See Box 2.1) developed from the academic literature on economic transition and growth, and tailored to the country context. These sub-indices capture key elements of the local business environment that can be influenced by district regulations or district implementation of federal and state regulations and programmes.

Box 2.1 Malaysia Business Environment Index Sub-Indices

1. *Transparency and policy risk:* A measure of the ease of accessing the proper government information or legal documents necessary to run a business, and of the extent to which new policies and laws are communicated to firms and predictably implemented.
2. *Regulatory costs:* A measure of the amount of time firms spend on bureaucratic compliance and waiting periods, as well as of the frequency and duration of inspections by local regulatory agencies.
3. *Entry costs:* A measure of the time it takes to register and receive licenses to start a business, the official costs of obtaining all licenses/permits, and the ease of obtaining those documents as perceived by businesses.
4. *Informal charges:* A measure of the prevalence of paying informal charges for firm level operations as well as of the fairness of the government procurement process.
5. *Crime and security:* A measure of the amount of financial loss a business experiences due to crime and the need to hire security services for protection.
6. *Access to land and security of tenure:* A measure of the formal rights to business premises and the perceived security of tenure once land is properly acquired.
7. *Infrastructure and business development services:* A measure of the availability of business development facilities and the availability and quality of infrastructure.
8. *Pro-active government:* A measure of the effectiveness of federal, state, and local government programmes and of businesses' awareness of major pro-economic development programmes initiated by the federal government.
9. *Property rights and dispute resolution:* A measure of confidence in both the legal system's protection of property rights and in the fairness of dispute resolution.

The BEI sub-indices are created primarily from indicators derived from perception data from local business owners. When available, 'hard' data is collected from government sources and other published materials and incorporated into the sub-indices. These data are grouped into nine broad sub-indices which are each assessed on a comparable 10-point scale. Added together, these nine sub-indices create an unweighted 90-point overall score for each business environment in the district. To acknowledge the fact that some sub-indices are more important than others and to make it more relevant and useful to policy-makers, weights are determined by an expert panel for each sub-index and the overall score is re-calculated to obtain a final weighted index.

Another important aspect of the BEI 2012 is that the ranking of districts is based on how these districts perform *relative* to each other on particular survey questions and other data, within the country. Therefore, the scores are not comparable to scores in other countries or to some ideal and external measure of governance. Rather, the sub-indices should be viewed as measures of comparative achievement of districts in the Malaysian context. For a more detailed explanation of the complete diagnostic and indexing methodology, see Appendix A of this report.



2.2 Sampling the 11 BEI 2012 Districts

Figure 2.1 Map of West Malaysia with 11 BEI Districts

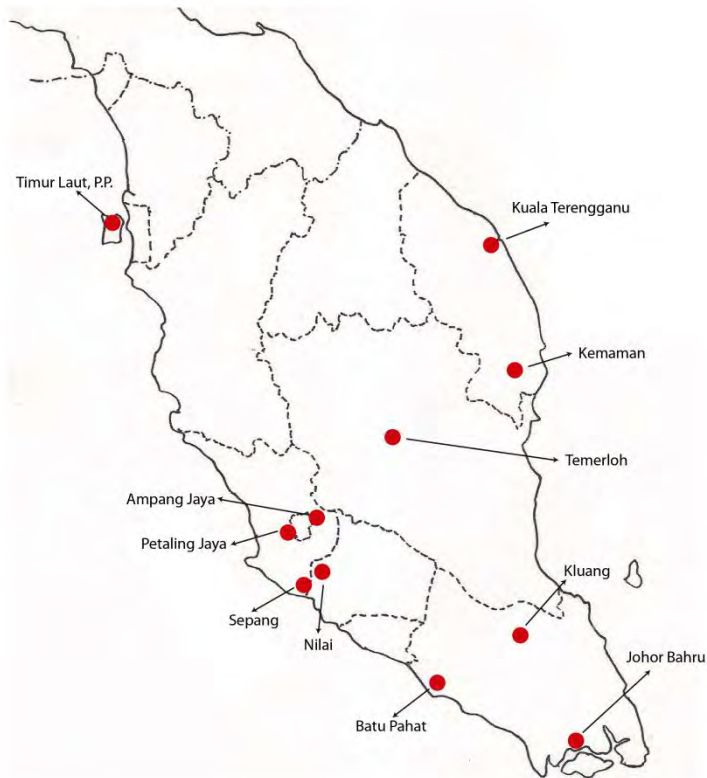


Table 2.1 BEI 2012 States

Region	State	National Percentage of Firms ¹	Concentration of Firms
North	Pulau Pinang	6.8	Med
East	Terengganu	2.6	Low
East-Central	Pahang	6.2	Med
West-Central	Selangor	24.2	High
West	Negeri Sembilan	6.0	Low
South	Johor	11.3	High

¹ Please refer to Table C6 in Appendix C for more details of firm concentration in Malaysia.

The pilot BEI 2012 covered 11 city and municipal districts (Majlis Bandaraya and Majlis Perbandaran) in six states across peninsular Malaysia. The rationale of the pilot study is to demonstrate the value and relevance of the BEI with the intent of scaling it to the national level. Municipalities were chosen as the level of analysis in order to capture the effects of the national, state and local policy environment on individual businesses. For more information on the choice of the local level, see Appendix A2.

Table 2.2 BEI City and Municipal Districts

State	City/Municipality	Name
Pulau Pinang	Municipality	Timur Laut, P.P.
Terengganu	City	Kuala Terengganu
	Municipality	Kemaman
Pahang	Municipality	Temerloh
Selangor	City	Petaling Jaya
	Municipality	Sepang
	Municipality	Ampang Jaya
Negeri Sembilan	Municipality	Nilai
Johor	City	Johor Bahru
	Municipality	Batu Pahat
	Municipality	Kluang

To ensure regional coverage and economic diversity, the research team purposefully selected six states (out of 11 states and four federal territories) for the pilot study. As a basic indicator of economic diversity, the team considered the national share of firms located in the state in the selection process. The highest concentrations of firms in the country are in Selangor (24.2 percent), Kuala Lumpur Federal District (14.7 percent), and Johor (11.3 percent), while medium concentrations of firms are found in Perak (8.4 percent), Kedah (7.4 percent), Pulau Pinang (6.8 percent), and Pahang (6.2 percent). The proportion of the country's total firms within other states in Malaysia ranges from 0.2 to 6 percent, which the research team considered a low concentration of firms. Thus, as Table 2.1 shows, the team selected two high concentration states (Selangor and Johor), two medium concentration States (Pahang and Pulau Pinang) and two low concentration states (Terengganu and Negeri Sembilan), while also ensuring geographic diversity.

After selecting the states, the research team chose the city and municipal districts. Recognizing that cities are important economic and service centres in Malaysia, the research team deliberately ensured that at least one city was chosen from each state for the index. Thus, for Terengganu and Johor, which have one city each, those cities, Kuala Terengganu and Johor Bahru, respectively, were automatically selected into the sample. For Selangor, which has two cities, the research team randomly selected one city, Petaling Jaya. Municipal districts were then selected from each state, proportional to the number of total municipal districts in the state. For example, since Selangor and Johor each have six municipalities, two were randomly chosen from each state while Negeri Sembilan and Pahang have only three municipalities so one was chosen from each state.

2.3 The BEI Research Strategy

The BEI 2012 is based primarily on a firm-level survey administered from May through August 2011, and November through December 2011. The research strategy consisted of four main steps. First the research team obtained a district-level sampling frame for the survey. A stratified random sample was then drawn from this listing. Second, the research team developed an appropriate database. Third, face-to-face interviews were conducted with sampled business owners or managers to capture their perceptions and experiences of doing business in their district. Finally, the research team gathered secondary data both at the state and district level, when possible, for use in the index and for secondary analysis.

2.3.1 Sampling Frame and Survey Sample

The first challenge for the research team was to obtain a reliable listing of firms, at the district level, from which to draw a sample for the survey. There were two possible sources of data for the sampling frame: the Department of Statistics (DoS), which carries out the national firm census, and the Companies Commission, which is responsible for business registration. While the DoS was willing to provide a list of firms, there were several limitations of the data that it could provide. First, the DoS database only included a small fraction of the country's total business establishments. Therefore, it would be impossible to compare the sample statistics to the population statistics. Second, the DoS could not stratify the sample by size or ownership type, which was a requirement of the research design. Therefore, the research team decided not to use the DoS data for the project.

The second possible source of data for the team was data from the Companies Commission, which keeps a list of all active, registered firms in the country. However, at the start, the research team was worried about inactive firms that were never purged from the lists as well as “Ali-Baba”² (pass through) firms. Nevertheless, with the DoS data lacking required variables, the research team decided to use the Companies Commission data. The Companies Commission was able to release the data, provide summary statistics, and stratify the sample by sector and ownership type for each of the 11 districts.

Using the sampling frame from the Companies Commission, a stratified district-level random sample was drawn. The strata were based on sector (manufacturing, trade and services) and ownership type (sole proprietorship, partnership, private limited company). Since publicly listed companies have a more complex ownership structure and often face different sets of problems than privately held SMEs, the research team decided to exclude them from the listing. Also excluded are government-linked firms as our project focuses on the private sector. Additionally, the team was unable to use firm size as a stratum because that information was not available in the Companies Commission database.

The research team decided that the survey needed to capture at least 66 firms in city districts and 50 firms in municipal districts (600 in total) for the survey to give reliable results at the district level. Therefore, the team drew a 500 percent oversample of 3,000 firms to ensure that the minimum number of firms would be sampled, with particular consideration of the prevalence of inactive and “Ali-Baba” firms. This sample was sufficient for all of the districts except for Ampang Jaya and Petaling Jaya, which had a higher percentage of inactive firms and a lower response rate than other districts. Therefore, a second sample was drawn for those areas from the Companies Commission database to obtain the minimum number of respondents needed.

In addition, after all of the data were obtained, it was discovered that certain strata were under-sampled in some districts. While this was a minor issue in most districts, it was quite severe in Kluang and it became clear that the district needed

² Please see Appendix C for more description of Ali-Baba firms.

to be sampled again. Moreover, in all three districts in Johor (Kluang, Batu Pahat and Johor Baru) there were more than 60 incidences in which enumerators interviewed more than one respondent per firm. This was a serious problem as those districts had much less variation in firm responses than other districts. The research team could not simply drop these duplicates without seriously jeopardizing the validity of the survey, as the duplicates were concentrated in only three districts. Therefore, the research team randomly dropped half of the duplicates and made the decision to go back and collect more data from all three districts in Johor to ensure the needed number of firms. Extra data was also collected in other districts with under-sampled strata. For more information on the sampling frame and sample design, please see Appendix A3.

2.3.2 BEI Survey Instrument

A survey instrument was developed to gauge respondents' perceptions of their business environment and experience doing business at the district level in nine key areas of economic governance: transparency, regulatory costs, entry costs, informal charges, crime, land access and security of tenure, infrastructure and business development services, pro-activity of government, and property rights and dispute resolution. The survey instrument also asked general questions of the firms, for example, about their expansion plans, annual revenue and number of employees, and some questions on entrepreneurship orientation. It was pre-tested with three respondents. Based on the comments received from the pre-tests, the instrument was revised to ensure clarity. The instrument was drafted first in English and the final draft was translated into Malay and Chinese by a trilingual officer at Synovate, the partnering survey firm. The instrument was then proof-read by two separate research team members who are bilingual in Malay and English, and Chinese and English.

2.3.3 Secondary Data and Qualitative Data

In addition to primary data, the BEI survey uses secondary data from several sources. The secondary data include state level data such as state GDP, as well as district population and geographic data. The district level data are presented in Appendix B.

The research team also conducted six one-hour semi-structured interviews in July and August 2011. The interviewees include two firm owners in Kuala Terengganu and three in Petaling Jaya. In addition, the chairman of a business association in

Terengganu was also interviewed. The interviews were recorded and then transcribed into English. The qualitative data were used to validate and enrich the quantitative findings.



3. Characteristics of Sample Firms

3.1 The BEI Sample

The credibility of the Business Environment Index lies not only in the construction of the indices, but also in the quality of the sample of firms used to construct it. This section outlines the key characteristics of the BEI sample and provides a comparison to the profile of Malaysian firms (Appendix C). In general, the sample characteristics largely resemble the key features identified in the national firm profile. A typical firm in our sample is a traditional small trading enterprise. It is likely to have five or fewer full-time employees and to have been operating for about 20 years. Its sales are exclusively within the state in which it is located. Moreover, it is registered as a sole proprietorship and does not rely on IT for its operations. Appendix B presents the demographics of the sample in detail and we highlight the key characteristics below.

"I am the sole proprietor of my firm and sell batik and songket. I inherited the business from my father who started it in the 1970s."

A batik seller in Kuala Terengganu

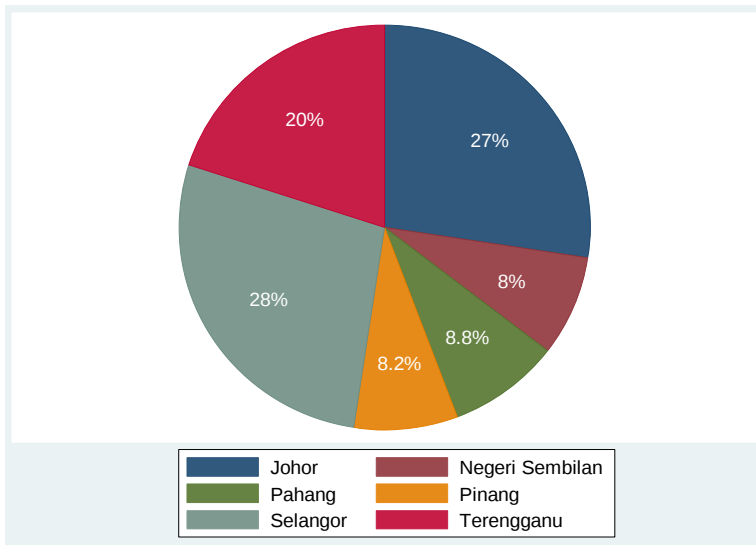
3.2 Sample Size and Breakdown

The BEI sample covered 11 city and municipal districts (Majlis Bandaraya and Majlis Perbandaran) in peninsular Malaysia. In the cities, which have no fewer than 500,000 residents, the research team interviewed 68 to 74 firms and in the municipalities, which have no fewer than 150,000 residents, we interviewed 50 to 53 firms. Table 3.1 shows the numbers of firms surveyed in each city and municipality and Figure 3.1 shows the percentage of firms by state.

Table 3.1 Number of Firms Surveyed by State and by District

State	District	Number of Firms
Johor	Johor Bahru	68
	Batu Pahat	50
	Kluang	56
Negeri Sembilan	Nilai	51
Pahang	Temerloh	56
Pulau Pinang	Timur Laut, P.P.	52
Selangor	Petaling Jaya	74
	Ampang Jaya	51
	Sepang	50
Terengganu	Kuala Terengganu	73
	Kemaman	54
Total		635

Figure 3.1 Firms Surveyed by State



3.3 Firm Size and Age

Our sample comprises mostly SMEs and 69 percent are micro enterprises. Relative to the Census statistics that classified 79 percent of firms in the country as micro, our sample has more small and medium sized firms (See Table 3.2).

"I am involved in multiple businesses, supplying uniforms, books for school children from standard one to form five - basically my business deals with government schools in Terengganu....I also run an industrial laundry business supplying service to the factory next door. ..My firm is a sole proprietorship...established three years ago.... I employ one staff member to do the paper work for me."

A school needs supplier and a laundry operator in Petaling Jaya

Table 3.2 Number of Full-time Workers (Firm size)

Number of Full-time Employees	Numbers of firms	Percentage
1	153	24.17
2 - 4	281	44.39
5 - 9	117	18.48
10 - 19	44	6.95
20 - 49	25	3.95
50 - 99	5	0.79
100 and above	8	1.26
Total	633 ^a	100

Note (a). Two missing values in the question about full-time employees.

The firms in the sample have an average age of 20 years (S.D. 16 years) with an age ranging from one to 92 years. The median firm age in our sample is 16 years, indicating that 50 percent of the firms surveyed have been operating for over 16 years. Table 3.3 shows the number of firms in each age category. The age statistics suggest that the sample in Malaysia includes more mature firms than did BEI studies conducted in other ASEAN economies such

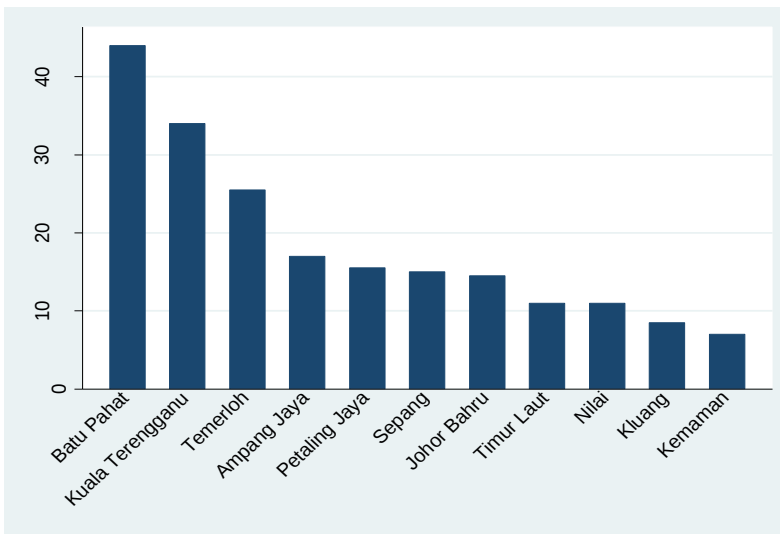
as Indonesia, Cambodia and Vietnam. This finding could be indicative of Malaysia's higher level and longer history of economic development. However, it is important to also highlight that more than a third of businesses in the sample are 10 years old or younger and most of the firms in that category (59 percent) are five years old or younger. This reflects some dynamism in the SME sector, as new firms are created and old firms are replaced.

Table 3.3 *Firm age*

Age (year)	Frequency	Percentage
1 - 10	222	35
11 - 20	146	23
21 - 30	100	16
31 - 40	78	12
41 - 50	54	9
51 - 60	19	3
≥61	15	2
Total	634	100

Figure 3.2 presents the mean age of firm by district. As shown, Batu Pahat has more older firms than any other district while Kemaman has the youngest firms, on average.

Figure 3.2 Mean Firm Age by District



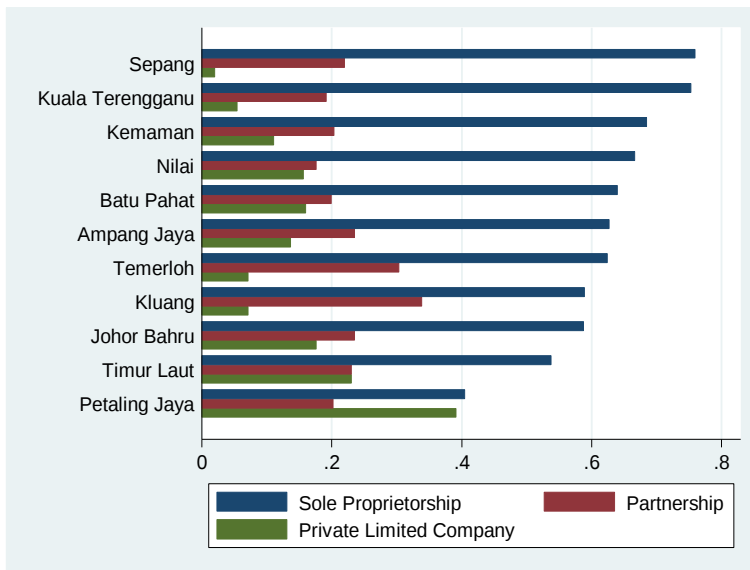
"My firm is a partnership...It is a family business. The other two partners are my brothers and we run three different shops....The business has been expanded since we took it over from our father who started the business 30 years ago."

A hardware retailer in Petaling Jaya

3.4 Ownership Type and Sector

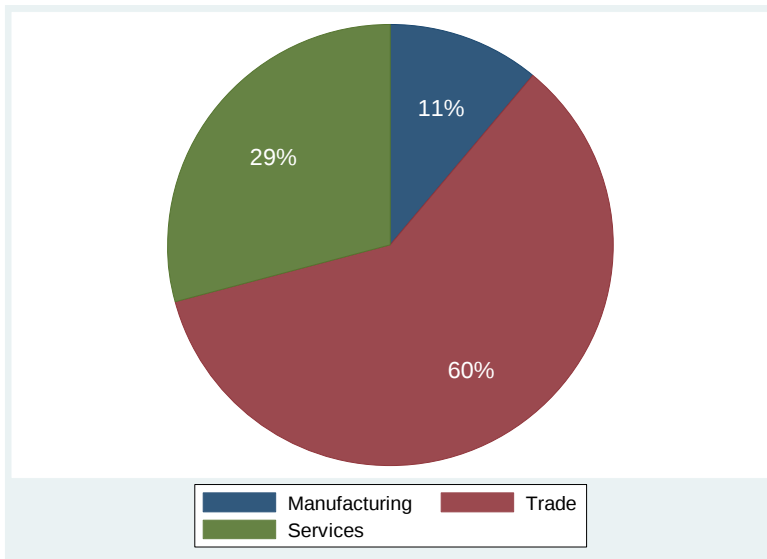
Most of the firms (62 percent) in the BEI sample are sole proprietorships while about one quarter (23 percent) are partnerships and 15 percent private limited companies. This ownership distribution is characteristic of all districts except Petaling Jaya where more private limited companies (39 percent) were surveyed. See Figure 3.3.

Figure 3.3 Ownership Types by Districts (%)



In terms of business sector, most of the firms surveyed fall under the categories of “Trade” (60 percent) and “Services” (29 percent)¹, while “Manufacturing” firms (11 percent) make up the remainder. This breakdown is fairly consistent across districts. The districts with noticeably more service firms are Petaling Jaya (42 percent), Timur Laut, P.P. (33 percent), and Nilai, Ampang Jaya and Johor Bahru (31 percent). As mentioned, we deliberately exclude public limited companies, government-linked firms, and firms in financial, education and health-related sub-sectors since they operate under different regulatory environments.

Figure 3.4 Firm Breakdown by Sector



3.5 Gender and Ethnicity

Across the BEI sample, 40 percent of the respondents are female.²

This proportion is not surprising since the nation's female labour force participation stood at 44percent in 2009. Among the 446 business owners interviewed, 30 percent are female. This forms a female to male ratio of .50,

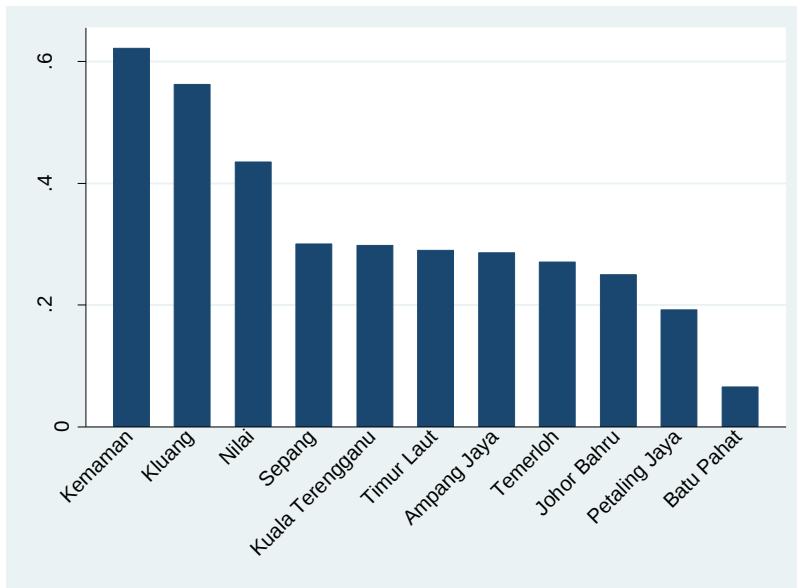
¹ Following the business categorization by the Companies Commission of Malaysia, “Trade” refers to wholesales, retail trade business and motorcycle and motor vehicle repair. The “Service” sector in this survey focuses on professional, scientific and technical activities, administrative support, and art and entertainment but excludes education, social, health care, financial services.

² Respondents are categorized as firm owners, managers, employees or spouses of owners.

which is lower than the national rate of .72 for established firms.³ However for firms under 10 years old in the sample, the ratio is .68, reflecting more gender equality in the ownership of more recently established firms. Among the nascent firms (three years old or younger), the ratio is .92, indicating that there are almost equal numbers of female and male entrepreneurs who started a business in the last three years.

Of all districts, Kemaman has the most female firm owners and Batu Pahat has the fewest. Figure 3.5 gives more details.

Figure 3.5 Female Firm Owners by District (%)



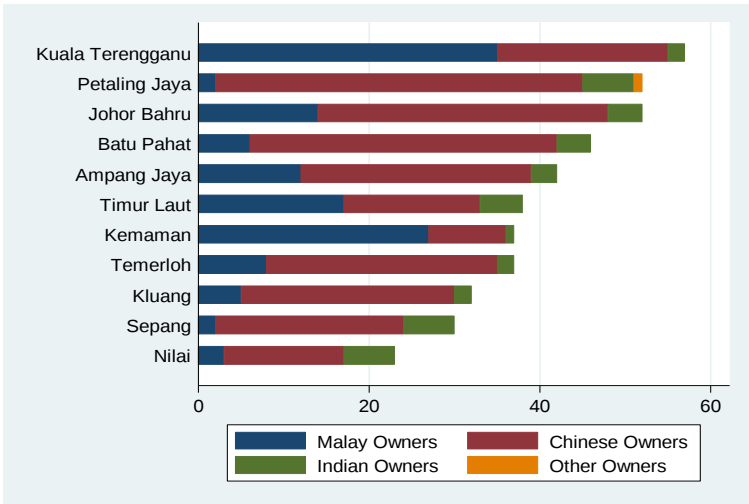
Ethnic Chinese form the biggest group among all respondents (59 percent) and among all business owners (61 percent) in our survey.

This is in line with the general observation that Chinese Malaysians have disproportionately high representation in business. Malays make up 33 percent of the respondents and 29 percent of the firm owners. The highest percentage of Malay owners is in Kemaman (73 percent) and Kuala Terengganu (61 percent),

³ Global Entrepreneurship Monitor *Thailand 2006 Executive Report*, p.26.

both located in the Malay-majority Terengganu state. These are the only cities/municipalities in the sample with a Malay majority.

Figure 3.6 Ethnicity of Firm Owners (%)



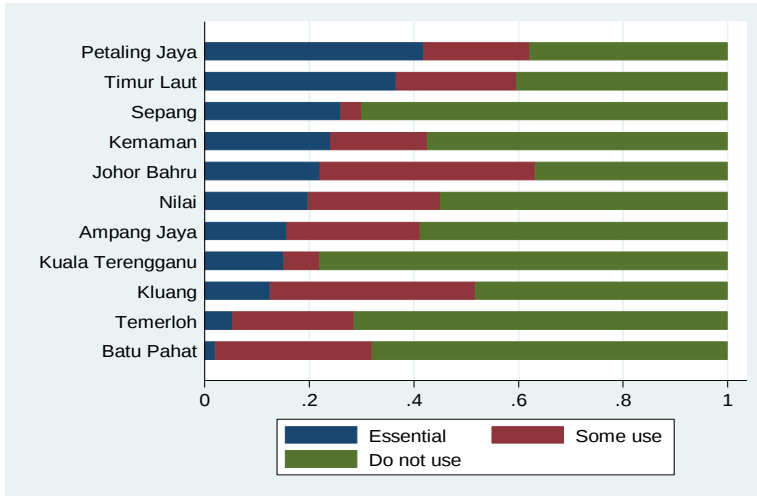
3.6 Use of Technology in Business

Over half of the firms (56 percent) in our sample do not use computers or the internet for their business and fewer than a quarter (21 percent) consider the computer and the internet to be essential to their business. In the sample, the use of IT is positively related to firm size but negatively related to firm age. Thus, the larger and younger a firm is, the more likely it is to use IT⁴. The use of technology also varies across districts (Figure 3.7). Sixty percent or more of firms in the highly urbanized large cities of Johor Bahru, Petaling Jaya and Timur Laut, P.P. engage in at least some computer and internet use. In addition, the municipality of Kluang, in Johor state, also has an above-average usage rate at 52 percent. Firm owners in the city of Kuala Terengganu and the municipalities of Temerloh and Sepang have the lowest rates of computer and internet use at 22 percent, 29 percent, and 30 percent, respectively. This is likely due to the high percentage of sole proprietorships in those areas as technology

⁴ The correlation coefficient for use of IT and firm size is .35 ($p < 0.0001$) while the coefficient with firm age is $-.23$ ($p < 0.0001$).

use is negatively correlated with sole proprietorships and positively correlated with private limited companies.⁵

Figure 3.7 Computer and Internet Use by District (%)



3.7 Internationalization

The majority (87 percent) of firms in the BEI sample are domestic and sell exclusively within the state where they are located. Ninety-eight percent of them do not export directly or indirectly. Petaling Jaya reports the most firms (4) with direct and indirect export activities. Johor Bahru, Ampang Jaya, and Selangor, all in more commercialized states, also report some export activities. This suggests that entrepreneurship development of SMEs in Malaysia is still in its infancy. Malaysian SMEs operate on a small scale with a local focus. Only a few of them are internationalized in terms of sales. Table 3.4 shows the percentage distribution of firms by the geographical scope of their sales activities:

⁵ The correlation coefficient for use of IT and sole proprietorships is $-.28$ ($p < 0.0001$) while the coefficient with private limited companies is $.33$ ($p < 0.0001$).

Table 3.4 Firm Distribution by Geography of Sales⁶

	Percentage of Firms
Exclusively sold within the state	87
Some sales sold out of state	12
Some direct export sales	2
Some indirect export sales	1

3.8 Obstacles to Growth

In order of importance, lack of customers, powerful competitors, lack of credit, and lack of qualified personnel are the largest perceived obstacles to growth. The two most prevalent responses suggest that market conditions are a major barrier to growth, followed by financing and personnel issues. See Table 3.5 below for more details.

Table 3.5 Most Important Obstacles to Growth

Common obstacles	% mentioning the item as the first most important obstacle	% mentioning the item as the second most important obstacle
Lack of customers	33	17
Powerful competitors	21	33
Lack of credit	16	10
Lack of qualified personnel	14	11



⁶ Sales categories are not exclusive

4. The 2012 BEI Rankings: Explanation and Analysis

4.1 Index Weighting

The final or summary measurement of the quality of local economic government is the sum of all nine weighted sub-indices. While all of the nine sub-indices are important to economic development, their impact on the economy and the business community is not necessarily identical. To determine the impact factor for each of the nine sub-indices, the research team formed an expert panel to decide on the weights that should be assigned to each sub-index. Following the method described in Appendix A1.2.3, the weights given to the sub-indices are shown below:

Table 4.1 Weights Allocated to Sub-indices

Sub-index	Weight (%)
Transparency and policy risk	22
Regulatory costs	17
Entry costs	13
Informal charges	9
Crime and security	9
Infrastructure and business development services	9
Proactive government	9
Land access and security of tenure	9
Property rights and dispute resolution	4
Total	100

4.2 Overall Rankings

Figure 4.1 and Table 4.2 present the overall results of the 2012 Malaysia BEI. The BEI score for each district is the sum of the district scores on all nine weighted sub-indices¹. The weights given to the sub-indices range from 4 to 22 percent with a total weight of 100% (Table 4.1). Therefore, the highest possible score is 100. In the 2012 BEI, Kemaman, in the state of Terengganu, obtained the highest score, 68.94, and is ranked first. It is closely followed by Sepang (66.57), in the state of Selangor, and Kuala Terengganu (66.25), also in the state of Terengganu.

¹ See Appendix D for Unweighted BEI results.

It is important to note that the index or sub-index scores represent relative achievement benchmarked against the highest and the lowest performers within the 11 districts. They are not computed against any objective measures or standards² and should not be judged by the numeric scores alone.

Within the overall score distribution, the performers fall into clusters. The first cluster, with seven districts, scores in the 60s whereas the second cluster containing the remaining four districts scores between 44 and 56. The scores of the higher performers are quite close to each other; there is just a seven point difference between the highest and the lowest scores in that cluster. The scores of the lower performers are more disparate, with a range of 11 points. To facilitate interpretation, we further sub-divide the districts' performances into four tiers based on the observed breaks in scores. We label those districts with scores of 65 or above as the high tier. The top three performers, Kemaman, Sepang and Kuala Terengganu, are in this category. Those that score between 60 and 64, the four districts of Kluang, Johor Bahru and Batu Pahat and Nilai, we label as the medium tier. The medium-low tier includes those that obtain scores between 50 and 59, that is Timur Laut, P.P. and Temerloh. The low tier consists of districts with scores below 50 and includes Petaling Jaya and Ampang Jaya. Given the narrow range of scores in the high and medium tiers, districts could easily move from the medium to the high tier with marginal improvement in a few sub-indices.

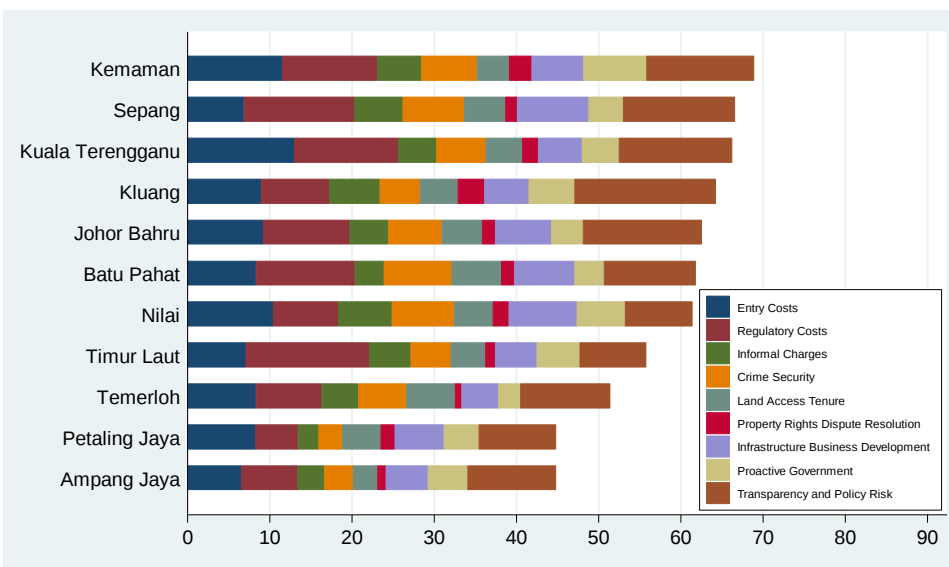


² Appendix A1 provides details of computing the sub-index scores.

Table 4.2 BEI Rankings and Tiers

District	State	Rank	Weighted BEI	Tier
Kemaman	Terengganu	1	68.94	High
Selangor	Selangor	2	66.57	High
Kuala Terengganu	Terengganu	3	66.25	High
Kluang	Johor	4	64.28	Medium
Johor Bahru	Johor	5	62.55	Medium
Batu Pahat	Johor	6	61.78	Medium
Nilai	Negeri Sembilan	7	61.41	Medium
Timur Laut	Pulau Pinang	8	55.79	Medium-low
Temerloh	Pahang	9	51.41	Medium-low
Petaling Jaya	Selangor	10	44.83	Low
Ampang Jaya	Selangor	11	44.83	Low

Figure 4.1 BEI 2012 Overall Rankings



4.3 State-effect in Rankings

By clustering the district performance into tiers, we observe an obvious state effect: Districts in the same state have similar performances. The two districts in Terengganu, Kemaman and Kuala Terengganu, are both high performers. Kemaman ranks number one and Kuala

Terengganu ranks number three. All of the districts in Johor, Kluang, Johor Bahru and Batu Pahat, cluster next to each other in the medium tier. Petaling Jaya and Ampang Jaya, in the state of Selangor, are grouped in the low tier. The only exception is Sepang, a district in Selangor, that performs far better than Petaling Jaya and Ampang Jaya and ranks number two in the list. A closer examination of individual sub-indices, however, suggests further within-state variances masked by the aggregate scores, the details of which are discussed in Chapter 5, Findings by Sub-index.

There are two plausible explanations for the within-state similarity in district performance. First, the state has direct involvement in local affairs by appointing district officials who are accountable to the state. Therefore, it is likely that the agenda of the district offices are heavily influenced by the state directives. Second, district officials of the same state have more opportunities to meet, interact with each other and share practices. From a knowledge sharing perspective, there is more diffusion of knowledge and practices between districts within the same state than between those of different states.

4.4 Consistency of Performance

Consistency of performance can be examined by looking at how each district performs relative to the median for all districts for each of the weighted sub-indices. The results of this analysis are presented in Table 4.4. The best performing district, Kemaman, consistently scores above the median in eight of the nine sub-indices. This consistency is also exhibited by the lowest performer, Ampang Jaya, which scores below the median in eight out of nine categories. The median performer, Batu Pahat, scores above the median four times and below it three times.

Box 4.1 Consistent High Performers

Kemaman: Scores eight times above the median and once below the median

Sepang: Scores six times above the median (including in the two highest weighted sub-indices) and three times below the median

Kuala Terengganu: Scores four times above the median, twice at the median and three times below the median

Box 4.2 Consistent Low Performers

Ampang Jaya: Scores eight times below the median and once above the median (in the Pro-active Government Sub-index)

Petaling Jaya: Scores six times below the median, twice at the median and once above the median (in the Property Rights and Dispute Resolution Sub-index)

4.5 Competition and Weighted BEI

Firm density is negatively correlated with weighted BEI ($r=-.5963$, $p<.1$). In other words, in districts where there are more firms per square kilometer, the weighted BEI is lower. To a lesser extent, population density is also negatively correlated with weighted BEI ($r=-.5068$, $p<.15$). Firm density and population density are both indicators of competition - the higher the density, the higher the competition in the economy. When there is more competition in a district, firms are likely to have a higher demand for quality public service delivery. Moreover, where there is a higher demand for service, local offices are likely to have a more difficult time meeting the demand. Therefore, it is probable that the weighted BEI for a highly commercialized district is lower as a result of challenge of meeting the greater demand together with the possibility of higher firm expectations. This inverse relationship between local economic governance and competition has also been identified in other local economic governance projects.

To further explore the ability of firm density to explain the variance of weighted BEI scores, the research team conducted a regression analysis using the weighted BEI score as the dependent variable and firm density as an explanatory variable, controlling for two other district demographic variables³. Based on the limited data, 11 observations in total, firm density has a strong negative relationship with the variance of weighted BEI even when demographic differences between districts are accounted for.

³ The two district demographic variables are percentage of manufacturing firms, and percentage of Malay respondents. The t-value of firm density was -2.31 ($p<.10$) while the model had a $F(3,7) = 3.19$, $p<.10$.

4.6 More Positive Business Environment, Probably Higher Firm Expansion Intention

It is probable that firms are more likely to have an intention to expand in districts with higher weighted BEI scores. About half of the firms (48 percent) surveyed expect their business to increase in the following two years. To determine if a firm's expansion plan is related to its district's business environment, we conducted a regression analysis using the percentage of firms expressing expansion intention as the dependent variable and district weighted BEI as an explanatory variable, controlling for firm density. The results show that a one-point increase in the weighted BEI is associated with a 1.8 percentage point increase in the district's expansion intention⁴. However, this relationship may not be causal and should be viewed with considerable caution as the confidence level is not within the conventional standards and the sample size is *very small*. Nonetheless, the possibility of a positive influence of district weighted BEI on firm expansion intentions cannot be ignored.

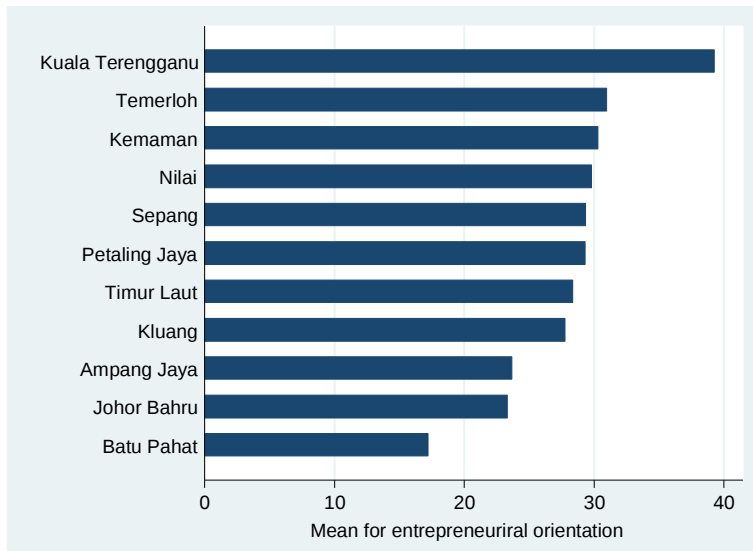
Firms in the districts with higher percentages of Malay respondents show greater expansion intentions. This finding is unexpected. It suggests that firms with Malay respondents in the BEI sample are more optimistic about their business future. This can be explained by another finding that **high firm entrepreneurial orientation is present in both of the Malay-majority districts in the sample**. Kuala Terengganu and Kemaman in the state of Terengganu have higher means for entrepreneurial orientation than most of the Chinese-majority districts in the sample (Figure 4.2). While there is no significant relationship between expansion intention and entrepreneurial orientation at the district level, entrepreneurial orientation is a significant explanatory variable for expansion intention at the firm level analysis⁵. Theoretically, it makes sense that

⁴ The model is not significant with a $F(2,8)=2.16$ ($p<.20$) but the weighted BEI has a t-value of 1.89 ($p<.10$).

⁵ There are 11 observations at the district level analysis but 616 observations at the firm level analysis. Regression results using 11 observations should be viewed with caution because of the small sample size. In a regression analysis for firm expansion intention and entrepreneurial orientation, controlling for districts, ownership type, sector, gender of respondent, ethnicity of respondent, firm size and firm age, entrepreneurial orientation, in addition to firm age, respondent ethnicity and ownership type, is a powerful explanatory variable to expansion intention. The model is significant with a $F(20,595)=12.34$ ($p<.0001$) and $R^2=.3$. Firm's entrepreneurial orientation has a t-value of 5.80 ($p<.001$).

when firms rank highly on entrepreneurial orientation, they tend to take more risks given similar external environments. But why entrepreneurialism is higher in the districts with more Malay managers or owners cannot be explained by the limited district-level data collected in this pilot study.

Figure 4.2 District Mean of Entrepreneurial Orientation



Note. The highest obtainable score is 56.

4.7 Impact of Weighting the Sub-indices on BEI Rankings

The weighting scheme used for the final rankings does not affect the raw, unweighted rankings of most of the districts in the sample.

It impacts only two districts, Nilai and Johor Bahru. Nilai ranks number three in the unweighted BEI but drops to number seven in the weighted BEI. This change is a result of scoring below the median in two highly weighted sub-indices, Transparency and Policy Risk, and Regulatory Costs, which respectively account for 22 percent and 17 percent of the weighted index. In contrast, Johor Bahru performs better in the weighted BEI than in the unweighted version as it scores above the median in the Transparency and Policy Risk Sub-index and at the median in the Regulatory Costs Sub-index.

4.8 BEI Results Differ from those in the Star Rating System

The district rankings of the BEI differ from the Government's Star Ratings. Ampang Jaya and Petaling Jaya rank the lowest and the second lowest in the BEI but they both obtained four out of five stars and scored among the highest in the 2010 Star Rating assessment. Kemaman ranks first in the BEI but it got only three stars in the last Star Rating (Table 4.3). The Star Rating System, led by MAMPU⁶, is part of the internal performance management mechanism for public sector agencies. A key difference between the two assessments is that the BEI relies on the experience and perceptions of local business people while the Star Rating System focuses on the internal structure and various aspects of government functions and uses internal officers as judges. Moreover, the areas evaluated are also different. The BEI assesses nine areas of economic governance while the Star Rating System evaluates three administrative domains: Management, Core Business Functions, and Customer Service Management. In other words, the BEI adopts a pure output evaluation approach based on the data collected from the users of public services, whereas the Star Rating System examines a combination of process and output with more emphasis on the process. These differences likely account for the different rankings and scores. By combining the results of the BEI and the Star Rating, it is possible to develop a better understanding of both the strengths and weaknesses of current governance practices. Therefore, the two assessments methods, which reflect different approaches and foci, are complementary to each other.



⁶ MAMPU is the acronym for Malaysian Administrative Modernisation and Management Planning Unit, Prime Minister's Department. Its official website address is www.mampu.gov.my

Table 4.3 Comparison of the BEI Rankings and the Star Ratings

	BEI score	BEI ranking	Star Rating 2010/2011 (no. of stars)	Star Rating score	Star ranking (among 11 districts)	Difference in ranking (Star's-BEI's)
Kemaman	68.94	1	3	68.69	8	7
Selangor	66.57	2	4	76.32	6	4
Kuala Terengganu	66.25	3	4	79.99	4	1
Kluang	64.28	4	3	67.94	10	6
Johor Bahru	62.55	5	4	79.42	5	0
Batu Pahat	61.78	6	3	72.47	7	1
Nilai	61.41	7	3	67.79	11	4
Timur Laut, P.P.	55.79	8	4	83.96	2	-6
Temerloh	51.41	9	3	68.42	9	0
Petaling Jaya	44.83	10	4	87.44	1	-9
Ampang Jaya	44.83	11	4	81.79	3	-8

Note. The information of the Star Rating was retrieved on April 3, 2012, from

<http://jkt.kpkt.gov.my/bm/main.php?Content=sections&SubSectionID=101&SectionID=19>

Table 4.4 Median Analysis of Weighted Sub-index Scores

District	Weighted BEI Ranking	Entry Costs	Regulatory Costs	Informal Charges	Crime & Security	Land Access & Tenure	Property Rights & Dispute Resolution	Infrastructure & Business Development Services	Pro-Active Government	Transparency & Policy Risk
Kemaman	1	11.50	11.61	5.32	6.81	3.89	2.75	6.29	7.65	13.12
Selangor	2	6.87	13.45	5.84	7.51	5.02	1.44	8.67	4.18	13.61
Kuala Terengganu	3	12.97	12.72	4.58	6.00	4.47	1.91	5.33	4.51	13.78
Kluang	4	8.98	8.28	6.14	4.91	4.59	3.21	5.44	5.54	17.19
Johor Bahru	5	9.26	10.48	4.66	6.54	4.89	1.62	6.80	3.87	14.43
Batu Pahat	6	8.34	12.02	3.53	8.23	6.03	1.63	7.29	3.58	11.14
Nilai	7	10.44	7.88	6.57	7.52	4.72	1.97	8.28	5.87	8.17
Timur Laut, P.P.	8	7.07	15.09	5.00	4.85	4.24	1.16	5.10	5.20	8.08
Temerloh	9	8.36	7.96	4.45	5.85	5.91	0.79	4.52	2.64	10.93
Petaling Jaya	10	8.25	5.22	2.47	2.90	4.65	1.75	5.95	4.23	9.41
Ampang Jaya	11	6.58	6.84	3.23	3.48	2.97	1.05	5.09	4.82	10.76

Note:

Above Median

Below Median

Median



5. Findings by Sub-index

This findings section will focus on the nine aspects of local economic governance: Transparency and Policy Risk, Regulatory Costs, Entry Costs, Informal Charges, Crime and Security, Land Access and Security of Tenure, Infrastructure and Business Development Services, Proactive Government, and Property Rights and Dispute Resolution. These aspects of economic governance were selected to form the sub-indices of the overall BEI because of their pertinence to sound development principles, and relevance to the context of Malaysia.

Each sub-index section will begin with a general background of the underlying governance aspect, and then a summary of the sub-index findings. It will end with a results section presenting details of the key indicators and findings.

5.1 Transparency and Policy Risk

The Malaysian government has invested considerable resources in several programmes and policies designed to assist businesses to develop and expand. To deliver on its objectives the government must communicate effectively with its target business community. Similarly, to create a positive business climate, efficient, equitable and transparent dissemination of information about the laws, policies and regulations governing businesses is critical. However, in Malaysia like in other emerging economies, proper communication of those laws and regulations is often lacking and government information is unclear or difficult to obtain for business people, making firms vulnerable to operations outside of the law¹ and sometimes ignorant of the policies that could be used to their advantage.

Related to public communications is the concept of transparency. **Transparency is more than simply the disclosure of information.** The OECD² defines it as “the capacity of regulated entities to identify, understand and express views on their obligations under the rule of law”. Thus a transparent

¹For example, in Bangladesh, some firms did not register or obtain proper licences. For more details, please refer to The Asia Foundation et al. (June 2010). *Bangladesh Economic Governance Index: A Measure of Economic Governance at the District Level*.

² OECD. (2002). *Regulatory Policies in OECD countries: From Interventionism to Regulatory Governance*, OECD, p.65.

government should provide easy access to government information, make the information simple and easy to understand and provide an opportunity to businesses, “the regulated entities”, to express their opinions.

Policy risk is another critical factor that can negatively affect the business climate. It refers to the frequency and predictability of changes in government policies that affect businesses as perceived by firm’s managers, investors, and other stakeholders. The higher the frequency and the lower the predictability of the changes, the higher the policy risk. Business environments with high policy risk produce uncertainty that can discourage new businesses from entering the market. Even if the business opportunity is there, investors would demand a higher expected return to justify the additional risk. Therefore, a low policy risk environment is more attractive to both domestic and international investors, and more welcoming to entrepreneurs. For those that are already in business, frequent changes in policy add to operating costs as firms are forced to devote more resources, time, and personnel to keep abreast of the changes in policies. Therefore, high transparency and low policy risk should be goals for a government that is keen to produce a positive business climate.

The Transparency and Policy Risk Sub-index aims to assess transparency and policy risk at the district level. Several questions were specially designed to gauge the variables of access to information and the predictability of government policies.



5.1.1 The Transparency and Policy Risk Sub-index

The Transparency and Policy Risk Sub-index is a measure of the ease of accessing the proper government information or legal documents necessary to run a business, and of the extent to which new policies and laws are communicated to firms and predictably implemented.

This Sub-index includes three dimensions that comprise nine indicators (Box 5.1.1). Dimension 1, Access to Federal Information, measured by indicators 1 to 3; Dimension 2, Access to State/local Information, measured by indicators 4 to 7; and Dimension 3, Federal Policy Risk, measured by the remaining indicators.

Box 5.1.1 Indicators in the Transparency and Policy Risk Sub-index

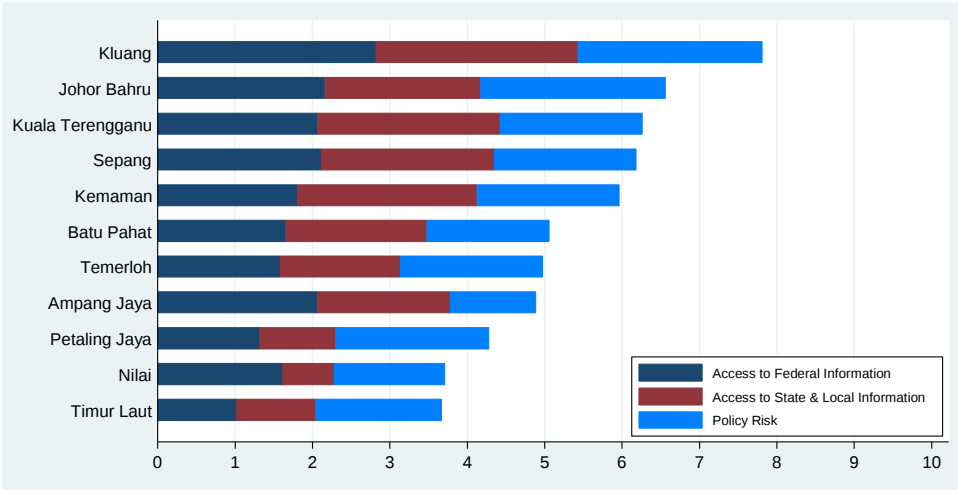
1. Percentage of firms that said getting information on federal policies is easy or very easy
2. Percentage of firms that accessed federal documents online of those that use computers/internet at least sometimes
3. Percentage of firms that did not know federal documents are online of those that use computers/internet at least sometimes but had not accessed such documents*
4. Percentage of firms that said getting information on state/local government policies is easy or very easy
5. Percentage of firms that said getting information on land titling is easy or very easy
6. Percentage of firms that accessed state/local documents online of those that use computers/internet at least sometimes
7. Percentage firms that did not know state/local documents are online of those that use computers/internet at least sometimes but had not accessed such documents*
8. Percentage of firms that said there are always or frequently changes in federal laws that significantly affect their business*
9. Percentage of firms that said they always or frequently know about these changes in federal laws in advance

**Scores are reversed in computing the sub-index to ensure that a higher index number always refers to better performance*

Kluang and Johor Bahru, both in Johor, are ranked at the top in this sub-index. Compared to other districts, firms in those two districts have more experience in accessing government information online and higher awareness of the availability of federal, state or local government information. They also reported higher predictability of federal laws. However, Batu Pahat, also in Johor is ranked in the middle. This within-district variation also occurs in the district of Selangor. While Petaling Jaya and Ampang Jaya score below the median, Sepang scores above it.

The lowest-ranking district is Timur Laut of Pulau Pinang. Fewer than one third of the firms surveyed in this district felt it was easy or very easy to obtain government information, either on the federal or the state/local level, and only 20 percent of the firms reported it was easy or very easy to get land titling documents. Just three percent of the surveyed firms in the district using computers had accessed government information online.

Figure 5.1.1 The Transparency and Policy Risk Sub-index 2012



5.1.2 Results: Firms Do Not Take Full Advantage of the Online Government Information

One third of the firms surveyed reported it was impossible, or possible but difficult, to access information on government policies and regulations relevant to their sector while about 40 percent felt that it was easy or very easy to obtain that information (Table 5.1.1). In addition, 49 percent firms reported it was easy to obtain information of land titling. These findings are consistent with another finding that 56 percent of the firms surveyed do not use computer or internet in their business. For firms that do not use computer or internet, access to government information online has limited value.

Table 5.1.1 Perception of Ease of Access to Information on Government Policies and Regulations

	Federal government (%)	State/local government (%)
Impossible	3.31	3.46
Possible, but difficult	30.55	30.24
Easy or very easy	39.84	39.53
Refuse to answer	0.47	0.63
Don't know	25.83	26.14

Malaysian firms have a high awareness but low use of e-government services. Since early 2000 when the Malaysian government began to digitalize its services, there has been a considerable amount of government information available online. In the survey, we specifically asked those respondents whose firms used computers or internet if they accessed federal, or state/local government policies or documents online. For respondents that did not access information online, we asked if they were aware of the documents that were already available online. As reported in Table 5.1.2, the majority of computer-user firms did not access government information online. Furthermore, for those computer-users that did not access information online, a majority knew about the availability of government documents on the internet (Table 5.1.3), indicating a high awareness, though not necessarily use, of e-government services.

Table 5.1.2 Access to Information on Government Policies and Regulations

	Federal information		State/local information	
	Frequency	Percentage	Frequency	Percentage
Yes	50	17.92	45	16.13
No	229	82.08	234	83.87
Total	279	100.00	279	100.00

Note. Of those firms that use computer at least sometimes

Table 5.1.3 Absence of Knowledge of Government Policies Available Online

	Federal information (%)	State/local information (%)
Don't know information is available online	17.90	19.32

Note. Of those firms that use computer at least sometimes but did not access online for information

Federal policy risk is not high in Malaysia but there is need for more transparency about policy changes. Only four percent of the firms surveyed indicated that changes in policy always or frequently had a significant impact on their businesses, even though 96 percent reported that they never or seldom knew about the policy changes in advance. These responses imply that federal policy risk and transparency about policy changes are both low.

5.2 Regulatory Costs

Compliance with government regulations is part of business operations. But when compliance becomes a substantial operational activity, regulators need to examine whether regulatory procedures are necessary or overly cumbersome, and check whether enforcement personnel execute the procedures appropriately. Prior studies have indicated that compliance cost is inversely correlated to firm size³. That is, it is more burdensome to small firms than to larger ones. Therefore, to promote SME development, it is important to create an environment in which regulatory rules and procedures are simple and compliance costs are reasonable and minimal.

In Malaysia, the basic regulatory requirement that all firms must meet is to renew their registration either annually or at longer intervals (up to five years). In

³ For example, Crain, W.M. (2005). The impact of regulatory costs on small firms, *Small Business Research Summary*, no. 264. Retrieved March 2, 2012 from <http://archive.sba.gov/advo/research/rs264tot.pdf>

addition, the majority of firms are required to obtain a business license and renew it periodically. Firms in some sectors, such as manufacturing and food and beverage, are required to be inspected on a regular basis.

In the last few years, major efforts were initiated to provide e-government services. The Companies Commission (Suruhanjaya Syarikat Malaysia, or SSM), for example, initiated an e-information system that provides company registration information on its website. It followed up with its e-lodgement for businesses⁴ and subsequently for companies, allowing both types of firms to file statutory documents electronically. Today, renewal of business or company registrations and licenses can be completed in a matter of hours online.

Given these positive changes in document renewal, the BEI survey seeks to assess the compliance costs incurred by firms in the 11 sampled districts. We identify two indicators to measure time costs for document renewal and three indicators to measure time costs for inspection. Here are the results.

5.2.1 The Regulatory Costs Sub-index

A measure of the amount of time firms spend on bureaucratic compliance and waiting periods, as well as of the frequency and duration of inspections by local regulatory agencies.

To assess the quality of economic governance regarding compliance costs at the district level, we combine five indicators into a single sub-index, as shown in Box 5.2.1:

Box 5.2.1 Indicators in the Regulatory Costs Sub-index

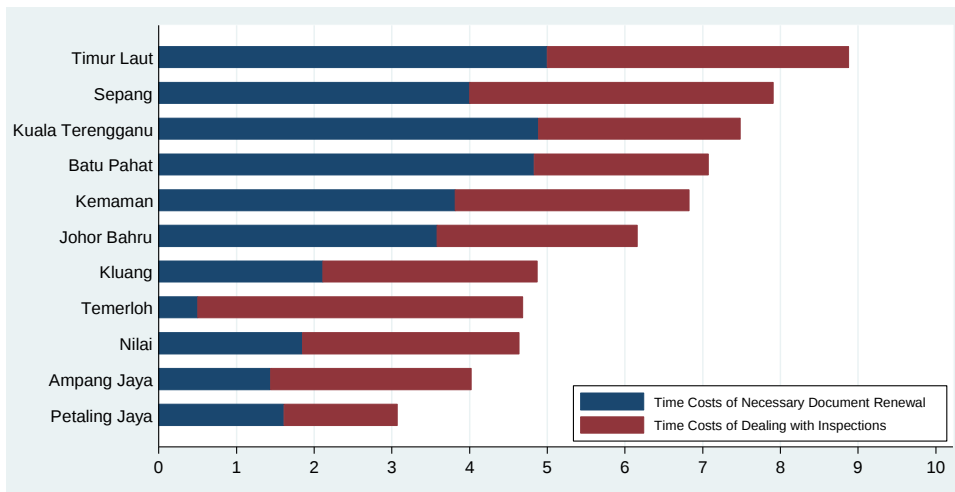
- Percentage of firms waiting more than one day to renew Companies Commission registration*
- Percentage of firms waiting more than one day to renew business license*
- Mean number of inspections per year*
- Mean duration of business license inspection (in minutes)*
- Percentage of firms saying inspections are easy or very easy

**Scores are reversed in computing the sub-index to ensure that a higher index number always refers to better performance.*

⁴ Businesses refer to firms that are registered as sole proprietor or partnership whereas companies mean incorporated firms.

Timur Laut, P.P., Sepang and Kuala Terengganu are the best performers while some high firm density districts like Ampang Jaya and Petaling Jaya post the worst scores. The results show considerable within-state variation in Selangor's governance performance. Sepang outperforms Ampang Jaya and Petaling Jaya by a large margin though they are located in the same state. However, the same within-state variation does not appear in Johor. The three districts in Johor, Batu Pahat, Johor Bahru and Kluang are all ranked in the middle compared with others.

Figure 5.2.1 The Regulatory Costs Sub-index



5.2.2 Results: Regulatory Costs Have Been Lowered

The government's efforts in improving the system for documentation renewal have met its target of one day service in more than half of the sampled districts. A majority (88 percent) of the firms surveyed took less than one day to renew their registration. Similarly, a majority of the firms surveyed (87 percent) took less than one day to renew their business licenses. However, in Temerloh, Ampang Jaya and Petaling Jaya, over 20 percent of the firms had to wait more than one day to renew their registration and business licence. It appears that renewal services in those districts were consistently less efficient than those in other districts (Table 5.2.1).

Table 5.2.1 Firms Waiting More Than One Day for Registration Renewal

District	Percentage of firms waiting more than one day to renew Companies Commission registration	Percentage of firms waiting over one day to renew business license
Temerloh	29	28
Ampang Jaya	22	23
Petaling Jaya	22	21
Kluang	20	16
Nilai	20	20
Johor Bahru	8	10
Kemaman	7	9
Sepang	5	8
Timur Laut, P.P.	0	0
Kuala Terengganu	0	1
Batu Pahat	0	2

Regarding inspections, a majority of firms (93 percent) rated inspections as easy or very easy. The district that received the least positive rating was Petaling Jaya (where 78 percent of respondents found inspections easy or very easy). The frequency of inspections was not high. The mean number of inspections per year across districts was less than two. The average length of inspections was less than 12 minutes and the frequency and length of inspections did not vary much across districts.

Table 5.2.2 Indicators of Inspection Costs

	Percentage of firms saying inspections were easy or very easy	Mean number of inspections per year	Mean duration of business license inspection (minutes)
Timur Laut, P.P.	100	2.35	8.67
Temerloh	100	1.08	10.15
Kemaman	98	1.07	14.26
Kluang	96	2.07	12.56
Kuala Terengganu	94	1.96	13.07
Nilai	94	3.06	9.78
Sepang	93	0.24	11.13
Johor Bahru	92	1.98	12.44
Ampang Jaya	88	1.31	12.79
Batu Pahat	86	2.60	10.80
Petaling Jaya	78	1.26	14.65

5.3 Entry Costs

A positive business environment is one that welcomes new start-ups and has minimal hurdles and barriers as firms establish themselves. To promote a healthy private sector, it is important to streamline the business entry process and minimize entry costs. In Malaysia, starting a small business in most cases requires at least two documents: a business registration and a business license. Business registration can be obtained at the Companies Commission while business licenses are issued by the local offices of different ministries. In addition to these two documents, businesses must comply with social security regulations and provident fund procedures.

Entry costs involve monetary expenses as well as the time costs of document preparation. The Malaysian government has made very significant improvements in reducing entry costs and its ranking in the World Bank's *Doing Business Survey (2012)* improved by 52 places in the starting-a-business indicator. However, the *Doing Business Survey* focuses on limited companies while Malaysian sole proprietorship and partnership businesses are more numerous (most are micro and small in size). The BEI survey asked these firms about their experiences with entry costs. The Entry Costs Sub-index aims to measure district-level perceptions and experiences of Malaysian SMEs in starting their businesses.

5.3.1 The Entry Costs Sub-index

A measure of the time it takes to register and receive licenses to start a business, the official costs of obtaining all licenses/permits, and the ease of obtaining those documents as perceived by businesses.

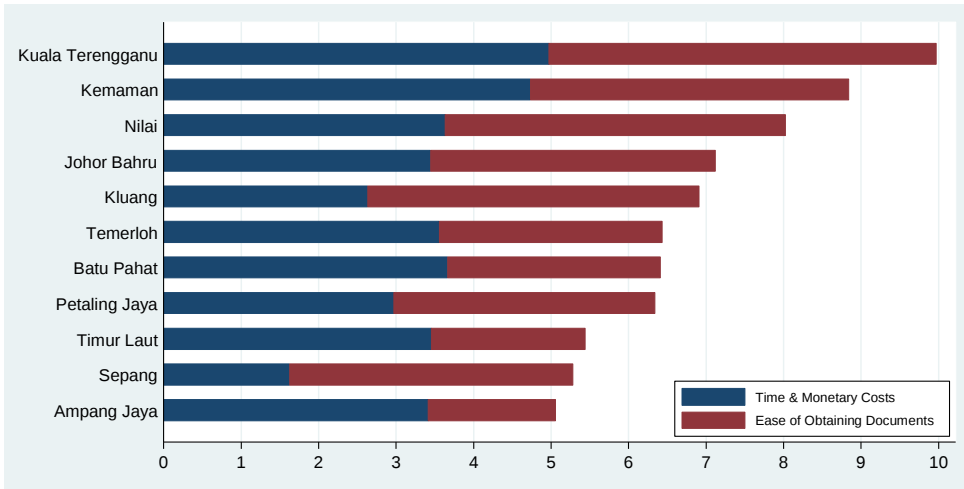
The Entry Costs sub-index comprises five indicators (Box 4.3.1). The first three indicators form Dimension 1, Time and Monetary costs, and the remaining two indicators form Dimension 2, Ease of Obtaining Documents. The final sub-index is the sum of the indicator scores and the district rankings are presented in Figure 4.3.1.

Box 5.3.1 Indicators in the Entry Costs Sub-index

- Median days to obtain a Companies Commission registration*
- Median days to obtain a business license*
- Median cost to obtain a business license*
- Percentage of firms that had a Companies Commission registration and a Business License
- Percentage of firms that said it is easy or very easy to obtain all start-up documentation

*Scores reversed in the sub-index

Figure 5.3.1 The Entry Costs Sub-index



Kuala Terengganu heads the list of the Entry Costs Sub-index by a significant margin as 100 percent of its firms responded positively to Dimension 2, Ease of Obtaining Entry Documents. This district also reported low monetary and time entry costs. The three districts in Selangor score near the bottom. Districts in Johor perform similarly, near the median, despite some major variation in ease of document procurement.

5.3.2 Results: Entry Costs are not High

The two basic indicators of entry costs are the price of acquiring essential documents for setting up a business and the time required to obtain those documents. The median number of days to obtain a business registration ranges from one (in Ampang Jaya, Johor Bahru, Nilai and Kemaman) to 30 in Sepang. The median number of days to obtain a business license ranges from two (in Kuala Terengganu) to 30 (in Sepang). The median cost of a business license also varies from RM30 to RM500 (Table 5.3.1).

Table 5.3.1 Time and Monetary Costs of Registration and Licensing

District	Median days to obtain a Companies Commission registration	Median days to obtain a business license*	Median cost for a business license (RM)
Kuala Terengganu	1.5	2	30
Kemaman	1	7	30
Nilai	1	2.5	450
Johor Bahru	1	3	500
Kluang	7	25.5	280
Temerloh	7	10	250
Batu Pahat	7	8	250
Petaling Jaya	5	14	400
Timur Laut, P.P.	7	14	215
Selangor	30	30	147.5
Ampang Jaya	1	14	325
MIN	1	2	30
MAX	30	30	500

**limited to firms with fewer than 150 employees*

Among all firms surveyed, 90 percent had both a business registration and a business license. Five out of the 11 districts reported 100 percent complete documentation. In a healthy private sector, all firms should complete the registration and documentation legally required of them. This percentage is remarkably high relative to the complete documentation rates in other developing countries.

Table 5.3.2 Percentage of Firms with Documentation

District	Percentage of firms that have a Companies Commission registration and a business license
Kuala Terengganu	100
Nilai	100
Kluang	100
Batu Pahat	100
Petaling Jaya	100
Kemaman	98
Selangor	96
Johor Bahru	95
Temerloh	94
Timur Laut, P.P.	88
Ampang Jaya	88

Table 5.3.3 Ease of Obtaining Start-up Documentation

District	Percentage of firms saying it is easy or very easy to obtain all required start-up documentation
Kuala Terengganu	100
Johor Bahru	92
Kemaman	87
Nilai	85
Sepang	84
Kluang	82
Timur Laut, P.P.	81
Temerloh	72
Ampang Jaya	69
Petaling Jaya	59
Batu Pahat	43

Seventy-three percent of all firms surveyed reported that it was easy or very easy to obtain all start-up documentation, including 100 percent of those in Kuala Terengganu. Respondents in Batu Pahat found document procurement most challenging. There is also some within-state variation in this indicator and it is most notable in Johor. Johor Bahru ranks second highest but its sibling district, Batu Pahat, is at the bottom of the list. Among the three districts in Selangor, Sepang is ranked above the overall median while Petaling Jaya and Ampang Jaya both score below the median.

5.4 Informal Charges

Paying informal charges to government officials for service or privileges adds to the costs of running a business. If the amount of informal charges is unpredictable, or the bribery efficiency is less than perfect, it will increase operational risk and thereby diminish the interest of investors and slow the rate of foreign direct investment. Thus, public sector corruption is recognized as both an impediment to doing business and a major obstacle of economic development. When public sector corruption is endemic, it undermines the rule of law, property rights, and enforcement of contracts, thus eroding fundamental institutions of free markets. Politically, rampant public sector corruption discredits the ruling government and may lead to widespread public frustration and upheaval.

Because of the potentially far-reaching harm of corruption, a clean, transparent and trustworthy civil service is a necessary component of good governance at all levels of government.

The Malaysian Government is aware of the negative impacts of corruption. To combat corruption, several major efforts have been initiated over the years that include the establishment of the Malaysia Anti-corruption Agency and the Integrity Institute of Malaysia. Despite notable progress, resulting in a reduction of petty corruption, efforts to eliminate grand corruption, involving large sums of money and senior officials, still fall short of expectations⁵. This is reflected in Malaysia's ranking in Transparency International's *Corruption Perceptions Index*, which declined from 43rd in 2007 to 60th in 2011⁶. Compared to other developing countries, Malaysia has shown less improvement in recent years.

Nonetheless, the international and domestic perceptions toward the corruption in Malaysia may change in the future.

As one of the six National Key Results Area under the Government Transformation Programme, anti-corruption efforts have been intensified since 2010. The 2011 report illustrated the latest initiatives to combat corruption: inviting private businesses to sign an integrity pact, introducing the Whistleblower Protection Act 2010, establishing the special corruption courts, developing the Name and Shame Corruption Offender Database, and promoting cross-agency collaboration in fighting corruption. If these programmes are effectively implemented, there should be noticeable progress in combating corruption. As an indicator of the success of GTP's anti-graft initiatives, the Royal Malaysian Police recently reported that only one percent of the police force were involved in corrupt or immoral activities⁷. However, this news was received with skepticism on the internet. Against these recent developments, the BEI is a timely survey to investigate SMEs' perception of corruption in their districts.

⁵ Siddiquee, N. A. (2005). Public accountability in Malaysia: Challenges and critical concern. *International Journal of Public Administration*, 28(1-2), 107-129.

⁶ Transparency International. Multiple years. Accessed March 3, 2012, <http://cpi.transparency.org/cpi2011/>.

⁷ IGB. (March 15, 2012). Malaysian Police only 1% Corrupt. Retrieved April 14, 2012 from <http://news.malaysia.msn.com/regional/article.aspx?cp-documentid=5997071>

Corruption faced by SMEs generally takes the form of bribes and gifts offered to government officials or politically connected parties to obtain required documents or to win contracts for public projects.

The survey asks questions about both government service delivery and contracts procurement. In formulating the questions, the researchers were subject to two constraints. The first is related to the law that paying bribes is a crime in Malaysia, which makes it ethically inappropriate to ask questions that potentially incriminate respondents. The second is that it is impossible to obtain accurate responses to sensitive questions. As an alternative to directly measuring the extent of corruption at the local level, the BEI survey includes several *indirect* questions asking respondents about their *perceptions* regarding the practice of informal payments in their line of business.

5.4.1 The Informal Charges Sub-Index

A measure of the prevalence of paying informal charges for firm level operations as well as of the fairness of the government procurement process.

To assess the overall level of informal charges at the district level, we combine six perception questions into a single sub-index as shown in Box 5.4.1. The responses to individual questions are given in Table 5.4.1.

Box 5.4.1 Indicators in the Informal Charges Sub-Index

- Percentage of firms reporting that firms in their line make informal payments*
- Percentage of firms indicating that informal payments in their line are very necessary or essential*
- Percentage of firms that agree or strongly agree that local government treats all bidders for public contracts fairly
- Percentage of firms that agree or strongly agree that the government chooses bidders based on merit
- Percentage of firms that agree or strongly agree that personal connections to officials are important for winning public contracts*
- Percentage of firms that agree or strongly agree that political party backing is important for winning public procurement contracts*

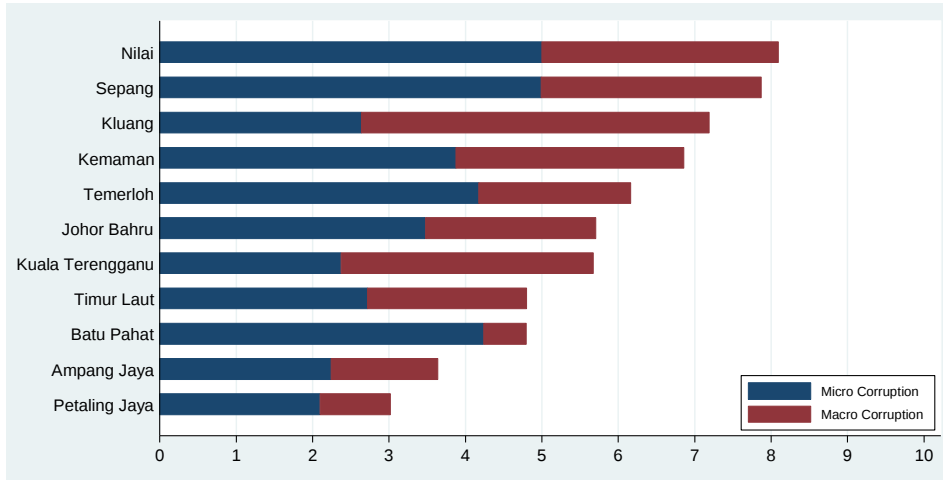
**Scores reversed in computing the sub-index*

The first two indicators form Dimension 1, measuring corruption on a micro level, while the remaining four indicators form Dimension 2, measuring corruption on a macro level, which focuses on government contracts procurement.

Overall, Nilai and Sepang top the rankings in the Informal Charges Sub-index while Ampang Jaya and Petaling Jaya are at the bottom.

In Nilai and Sepang, three percent reported other firms made informal payments and none felt paying bribes was necessary or essential in their line of business. Moreover, a large number of firms in those districts felt that governments were fair and merit-based in the allocation of public contracts. On the contrary, Petaling Jaya firms were less convinced that government contract allocation was fair (18 percent) or merit-based (17 percent). The aggregate score of Ampang Jaya is slightly higher than that of Petaling Jaya and so it is ranked second to last. Like the Crime and Security Sub-index, the Informal Charges Sub-index scores have a significant negative correlation with firm density ($r=-.71$, $p<0.05$). The more firms a district has relative to its size, the lower score it obtains in this sub-index.

Figure 5.4.1 Informal Charges Sub-index



5.4.2 Results: Corruption Prevents Fair Competition and Proper Law Enforcement

Nearly fourteen percent of the firms surveyed responded that establishments in their line of business are sometimes required to make gifts or informal payments to public officials to “get things done” with regard to customs, taxes, licenses, regulation, and inspections

(Column B in Table 5.4.1). A closer examination of the responses reveals that the informal payments are particularly widespread in Ampang Jaya (26 percent), Kluang (25 percent), Petaling Jaya (24 percent) and Timur Laut of Pulau Pinang (20 percent), and least likely in Nilai (3 percent), Sepang (3 percent), and Temerloh (4 percent).

Some businesses bribe to avoid law enforcement and trouble caused by public officials. The case presented in Box 5.4.2 suggests other reasons for bribery in addition to trying to get things done, speeding up public service delivery or winning government procurement contracts. It suggests some firms offer bribes to government officials so that the related law will not be enforced against them. On the other hand, some firms bribe to avoid trouble caused by officials' abuse of power.

Box 5.4.2 Excerpt of an Interview with a Retail Firm in Petaling Jaya

Question : Is bribery common in your line of business? Corruption is already in our blood, you can never run away from not paying. It is common in Malaysia, but it is not as bad as in other countries.

Question : If a firm does not pay the bribe, what will happen?

Answer : The authority will create problems. They would come and use their power to actively identify flaws in our business and give us trouble... We might need to close the shop. Or they would enforce a law that would otherwise not be enforced. For example, we are not allowed to use a residential house as a store, but it is very common in our line of business. That is why there have been a lot of people leaving this area. A house is not allowed to be used for business. Most of the houses in this area are converted into business premises, which is, in a way, illegal.

Question : How often do the government officials come to disrupt firms like yours?

Answer : Every month when it is time for their pay cheque.

The predictability of corruption is rather high but its efficiency is not.

Forty of the 78 respondents that answered the question regarding informal payment amounts acknowledged that firms had knowledge of the expected amount prior to payment. This suggests that the predictability of payment amounts is quite high. Unfortunately for those that paid, payment makers did not

necessarily get the service they expected. In fact, only 26.2 percent reported that the service was delivered as expected.

Connections to government officials and backing from political parties are keys to the success of winning public contracts. On average, a majority of the firms across all districts perceived that connections to government officials (mean = 87.8 percent) and backing from political parties (mean = 83.3 percent) are important to the success of winning government contracts. These findings help explain the perception that the procurement process is not fair (mean = 57.3 percent) and that decisions are not made based on merit (mean = 64 percent). However, there was substantial variance across districts in respondent's confidence that local governments were fair to all bidders (S.D. = 30 percent) and that winning bidders were selected on merit (S.D. = 28.8 percent) as indicated in Table 5.4.1. In contrast, more than 90 percent of the respondents in Nilai and Kemaman perceived the government to be fair and the decisions in granting contracts are merit-based.

The extent of corruption in the sample could be explained in part by an absence of effective mechanisms to pursue cases of abuse. If a government agent engaged in excessive inspections or pursued unofficial payments, 60 percent of respondents indicated that they could *seldom or never* go to another official or the offender's superior to have the treatment corrected. This implies that the management control or supervision in the local government is less than effective.

Corruption involving Malaysian SMEs is more related to government service delivery than to public contracts. For the majority of the SMEs in our sample, corruption in government contract procurement is not an issue as 88 percent of the firms surveyed were not involved with any public projects. For those that were, most (69 percent) paid no informal charges. The remainder reported a range of two percent to 35 percent of the contract's value in informal payments.

Table 5.4.1 Indicators and Dimensions in the Informal Charges Sub-index

A	Dimension 1: Micro Corruption			Dimension 2: Macro Corruption		
	B	C	D	E	F	G
District	Percentage of firms reporting that firms in their line make informal payments	Percentage of firms indicating that informal payments in their line are very necessary or essential	Percentage of firms that agree or strongly agree that local government treats all bidders for public contracts fairly	Percentage of firms that agree or strongly agree that the government chooses bidders based on merit	Percentage of firms that agree or strongly agree that personal connections to officials are important for winning public contracts	Percentage of firms that agree or strongly agree that political party backing is important for winning public procurement contracts
Nilai	3	0	97	93	89	91
Selangor	3	0	70	72	85	78
Kluang	25	2	79	81	60	52
Kemaman	14	0	97	92	92	91
Temerloh	4	11	31	87	92	92
Johor Bahru	15	4	59	63	90	85
Kuala Terengganu	7	35	81	94	82	84
Timur Laut, P.P.	20	10	53	43	96	69
Batu Pahat	11	0	19	20	97	97
Ampang Jaya	26	8	26	44	92	88
Petaling Jaya	24	12	18	17	90	89
S.D.	8.9	10.2	30.0	28.8	10.2	12.7
Mean	13.9	7.4	57.3	64.0	87.8	83.3

5.5 Crime and Security

Security is a necessary condition for businesses to operate successfully. To promote economic growth, governments have to provide a safe environment to the business community. If not, security and crime concerns will have a negative impact on the business climate. Crime like theft, robbery, vandalism, and arson “act like a tax on the entire economy”⁸. It serves as an entry barrier to new business, discouraging both domestic and foreign direct investments. Because of the threat of crime, firms may need to protect their assets by hiring security services and installing alarm systems. Such allocation of resources undermines profit maximization by adding to operating costs. Although local governments do not have authority over local police forces, they are involved in making decisions related to combating crime and maintaining law and order in their districts. Therefore, crime and security are important indicators of local governance. In Malaysia, crime reduction is one of the National Key Result Areas under the Government Transformation Programme. Continuous efforts have been made by the law enforcement agencies to reduce crime. In the GTP 2011 Annual Report, it recorded a 39.7 percent drop in street crime⁹ and 11.1 percent drop in index crime¹⁰. Nonetheless, crime reduction is still rated as one of the top three public policy issues by executives in Malaysia¹¹.

The BEI survey specifically measures the prevalence of crime and the costs associated with prevention of crime in each of the 11 districts. A good indicator of crime prevalence is the number of crimes reports. Since hard data of criminal activities by district was not available, we asked the respondents if their firms had experienced direct losses from theft, robbery, vandalism or arson and the amount of such losses in the previous year. We also asked for respondents’ perceptions of

⁸ Detotto, C. & Otranto, E. (2010). Does crime affect economic growth? *Kyklos*, 63(3): 330-345, p.330.

⁹ The GTP 2011 Annual Report can be retrieved at <http://www.pemandu.gov.my/gtp/annualreport2011/>
http://www.pmo.gov.my/?menu=newslist&news_id=9556&news_cat=61&cl=1&page=1731&sort_year=&sort_month=

¹⁰ Index crime refers to murder, rape, robbery, aggravated assault, burglary, larceny, motor vehicle theft and arson.

¹¹ Terpstra, R.H., Mahenthiran, S., Tong, J. & Rachagan, S. (2010). CEO Survey: The climate of our business – A perspective from Malaysian Executives. Kuala Lumpur: Monash University Sunway Campus.

the need for security services in their line of business and their level of agreement with the idea that paying police officers in return for security is necessary.

5.5.1 Crime and Security Sub-Index

A measure of the amount of financial loss due to crime and the need to hire security services for protection.

The Crime and Security Sub-index comprises four indicators as shown in Box 5.5.1. The first two indicators form Dimension 1, Explicit Loss from Crime and the last two indicators form Dimension 2, Implicit Loss from Crime. The resulting Crime and Security Sub-index score for each district is the arithmetic average of the four indicator scores (Figure 5.5.1).

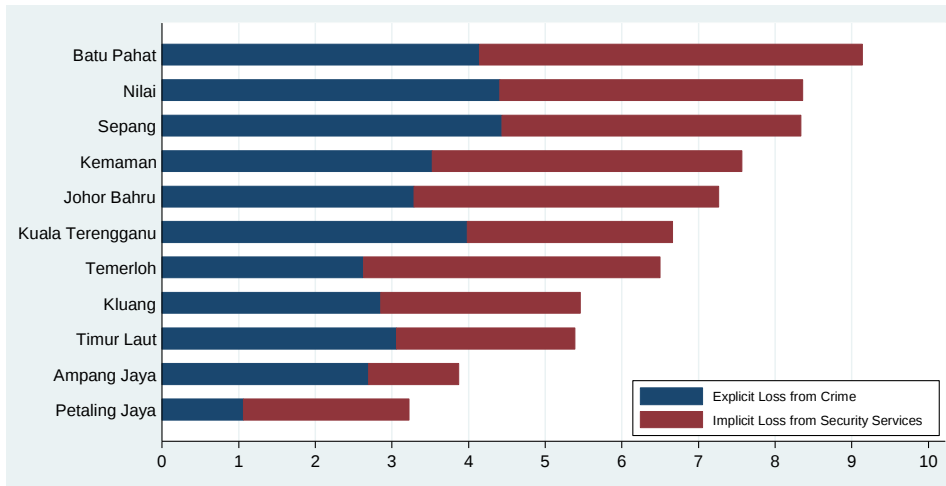
Box 5.5.1 Indicators in the Crime and Security Sub-Index

- Percentage of firms that experienced losses in the last year due to theft, robbery, vandalism or arson
- Median value of losses due to theft, robbery, vandalism or arson (RM)
- Percentage of firms that say it is necessary for firms in their line of business to hire security services
- Percentage of firms that agree or strongly agree that it is necessary to pay protection money to local police officers to ensure protection

Batu Pahat scores the highest in this Crime and Security Sub-index while Petaling Jaya scores the lowest (Figure 5.5.1). This suggests that crime and security is of greater concern to firms in Petaling Jaya. These firms reported the highest level of experienced losses last year due to theft, robbery, vandalism or arson along with one of highest levels of need to hire private security services. In addition, Ampang Jaya and Timur Laut, P.P. also reported high losses from crime. From the findings of this sub-index, we observe that firms in economically active districts tend to experience higher losses from crime. Using firm density¹² as a proxy for economic activity, we identify that the higher firm density a district has, the lower its score in this sub-index. The correlation coefficient between firm density and the Crime and Security Sub-index is negative 0.69 ($p < .05$).

¹² Firm density = No. of active firms to district area (km)

Figure 5.5.1 The Crime and Security Sub-index



5.5.2 Results: Crime and Corruption Are Both More Serious in Highly Commercialised Districts

On average, 13 percent of businesses across all districts experienced losses from crime last year. Among the 11 districts, Petaling Jaya (27 percent) and Kluang (21 percent) reported the most incidents of crime. The least crime was reported in Sepang (6 percent).

Table 5.5.1 Crime Losses by District

District	Percentage of firms that experienced losses in the last year due to theft, robbery, vandalism or arson
Selangor	6
Temerloh	7
Kemaman	9
Nilai	10
Kuala Terengganu	12
Ampang Jaya	12
Johor Bahru	13
Batu Pahat	14
Timur Laut, P.P.	15
Kluang	21
Petaling Jaya	27
Mean	13

Table 5.5.2 Values of Crime Losses by District

District	Median value of losses due to theft, robbery, vandalism or arson (RM)
Batu Pahat	500
Nilai	1,000
Kuala Terengganu	1,400
Kluang	1,825
Selangor	2,000
Johor Bahru	3,000
Timur Laut, P.P.	3,000
Kemaman	3,500
Ampang Jaya	5,000
Petaling Jaya	5,000
Temerloh	6,500

In terms of the amount of losses, Temerloh reported the highest median of loss from crime (RM6,500) and Batu Pahat the lowest (RM500). It is common in Malaysia for businesses to hire private security services. Our findings indicate that, on average, 10 percent of firms found it necessary for firms in their line of business to hire security services. This figure is especially large given that our sample firms are mostly micro, small and medium-sized enterprises, which are not normally resourceful enough to afford private security services. Although we did not ask respondents directly about their use of security services, we can infer that 10 percent of firms feel a need to use these services for their own business based on the literature in survey psychology¹³.



¹³ Tourangeau, R., Rips, L., & Rasinski, K.A.(2000). *The Psychology of Survey Response*, Cambridge University Press.

Table 5.5.3 Perceived Need for Security Services

District	Percentage that said it is necessary for firms in their line of business to hire security services.
Batu Pahat	2
Selangor	2
Kuala Terengganu	3
Nilai	4
Temerloh	4
Kemaman	6
Johor Bahru	6
Kluang	13
Petaling Jaya	19
Ampang Jaya	24
Timur Laut, P.P.	25
Mean	10

Nine percent of respondents felt it was necessary to pay protection money to local police. In light of the previous finding, it is not surprising one out of 11 respondents perceived the need to pay local officers for protection. We

note the irony that police are supposed to protect the community and enforce the law rather than breaking it by taking bribes. The responses thus reflect two situations: that security is a prominent concern and that there is a widespread willingness to bribe. Among the 11 districts, Kuala Terengganu reported the highest percentage of firms that feel it is necessary to bribe the police for protection. Conversely, none of the firms sampled in Batu Pahat perceived such a need.

Table 5.5.4 Perceived Need to Pay Protection Money to Local Police Officers

District	Percentage of firms that agreed or strongly agreed that it is necessary to pay protection money to local police officers to ensure protection
Batu Pahat	0
Timur Laut, P.P.	4
Kemaman	6
Johor Bahru	6
Nilai	8
Temerloh	9
Selangor	10
Petaling Jaya	11
Kluang	13
Ampang Jaya	16
Kuala Terengganu	21
Mean	9

5.6 Land Access and Security of Tenure

Access to land is essential to almost all businesses and thus one of the most important aspects of the business climate. All businesses require land to operate, whether for manufacturing facilities, shop space or offices. Easy access to land removes a major entry barrier, thereby encouraging new start up firms to enter the market. But the ease of land access depends on the supply and demand in the market as well as on government decisions. If the land or premises is owned by private individuals, then market forces partially determine its price, a critical factor affecting the difficulty of land acquisition. If the property is owned by government, government officials determine the terms and conditions of land sale or lease. In developing countries where governments likely remain the biggest land owners, their decisions directly influence the success of firms' land acquisition efforts.

Leasing is a common way to acquire land for business. When a firm acquires a lease, its assurance of secure tenure is important. Without security, firms face higher risk and will have less motivation to expand. Therefore, both land access and security of tenure are important for firm establishment and growth and for local economic development.

In the BEI, land access is defined as the ease of obtaining land and premises for business operations, while security of tenure refers to protection from arbitrary increases in rent and any government attempt to evict the tenant.

5.6.1 The Land Access and Security of Tenure Sub-index

A measure of the formal rights to business premises and the perceived security of tenure once land is properly acquired.

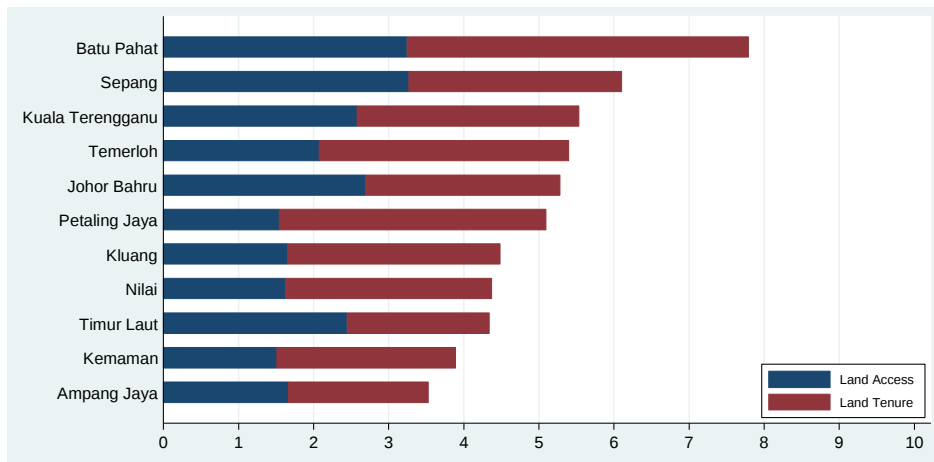
To assess the overall quality of the business environment regarding land issues at the district level, we combine four measures into the Land Access and Security of Tenure Sub-index (Box 5.6.1). The first two measures form Dimension 1, Land Access, and the other two measures form Dimension 2, Security of Tenure.

Box 5.6.1 Indicators in the Land Access and Security of Tenure Sub-index

- Percentage of land owning businesses which say that it is easy or very easy to obtain land
- Percentage of firms that agree or strongly agree that state officials have too much autonomy in deciding land prices
- Percentage of property renting businesses which say that rental risk is high or very high
- Percentage of firms that say land is always or frequently expropriated by the government*

*Scores reversed in computing the sub-index

Figure 5.6.1 Land Access and Security of Tenure Sub-index



Batu Pahat tops the ranking of the Land Access and Security of Tenure Sub-index by a notable margin.

It scores the highest in government autonomy in land prices and rental risk. The poorest ranking district, Ampang Jaya, scores below the median in all four measures.

District performance in the same state varies quite a bit in this sub-index and it is most notable in Selangor.

Of the three districts in the state of Selangor, Sepang ranks second and Petaling Jaya ranks third but Ampang Jaya comes in last place. In Johor, Batu Pahat leads the sub-index but Johor Bahru and Kluang both score near the median. It appears that land access and security of tenure issues are thus district-specific. However, we caution against over-interpretation of results given that this pilot study covered only 11 districts in six states.

5.6.2 Results: Perceived Low Expropriation Risk but Moderately-high Rental Risk

More firms lease their premises or land than own them in the BEI sample. About one quarter of firms surveyed own the land or the premises they use while half lease their business property. It is possible that this distribution of leasing and ownership is not nationally representative because the pilot study only covered urban areas where property for lease is more available and popular. Of the respondents that lease business property, 86 percent lease it from private individuals and companies, nine percent from municipal or city governments, two percent from state governments and just 0.3 percent from federal government.

More than half of the firms that own property reported that it was easy or very easy to acquire land or premises for their business (Table 5.6.1). Sepang tops all districts in the ranking for ease of acquiring business land or premises while Petaling Jaya (33 percent) is placed last. Kemaman (42 percent) and Ampang Jaya (44 percent) fare little better (Table 5.6.2).

Table 5.6.1 Ease of Obtaining Land or Premises for Business (Overall)

	Frequency	Percent
Very Difficult	13	7.26
Difficult	68	37.99
Easy	95	53.07
Very Easy	3	1.68
Total	179	



Table 5.6.2 Ease of Obtaining Land or Premises for Business by District

District	Percentage of land owning businesses saying that it is easy or very easy to obtain land
Selangor	100
Nilai	67
Johor Bahru	65
Kuala Terengganu	64
Temerloh	62
Timur Laut, P.P.	55
Kluang	50
Batu Pahat	48
Ampang Jaya	44
Kemaman	42
Petaling Jaya	33

More than half of the firms (54 percent) also reported that state officials had too much autonomy to decide land prices (Table 5.6.3).

Of firms across all surveyed districts, those in Nilai (91 percent) and Selangor (72 percent) felt most strongly that state officials were too autonomous in land pricing while only 9 percent of firms in Batu Pahat felt this way (Table 5.6.4).

Table 5.6.3 Perceived Autonomy of State Officials on Land Prices (Overall)

"The state officials have too much autonomy to decide land prices."	Frequency	Percent
Strongly agree	42	6.60
Agree	301	47.40
Disagree	244	38.43
Strongly disagree	39	6.14
Don't know	9	1.42
Total	635	100.00

Table 5.6.4 Perceived Autonomy of State Officials on Land Prices by District

District	Percentage of firms that agree or strongly agree that state officials have too much autonomy in deciding land prices
Nilai	91
Selangor	72
Kluang	70
Temerloh	69
Kemaman	65
Ampang Jaya	63
Kuala Terengganu	53
Petaling Jaya	53
Johor Bahru	50
Timur Laut, P.P.	46
Batu Pahat	9

A majority of the firms leasing the premises they used perceived a moderate or high risk of changes in rental conditions that significantly affect business. Nearly half of firms that lease property perceived a moderate risk level while 30 percent perceived a high risk and 9 percent a very high risk level (Table 5.6.5). Such changes might include sudden rent increases, sales to new parties, or new contractual terms which limit business activities. These results imply an overall low perception of security of tenure in Malaysia. Of all districts, Nilai (93 percent) and Selangor (73 percent) reported the highest concern about risks related to rental conditions whereas Batu Pahat (8 percent) reported the lowest.

Table 5.6.5 Perception of Rental Risk

	Frequency	Percent
Very High	30	9.40
High	96	30.09
Moderate	148	46.39
Low	41	12.85
Very Low	4	1.25
Total	319	

Table 5.6.6 Perception of Rental Risk by District

District	Percentage of renters saying that rental risks are high or very high
Nilai	93
Selangor	73
Kluang	70
Ampang Jaya	66
Temerloh	64
Kemaman	60
Kuala Terengganu	53
Petaling Jaya	53
Johor Bahru	46
Timur Laut, P.P.	40
Batu Pahat	8

The perceived risk of expropriation of private land by the local, state or federal government is substantially lower than that associated with renting property. Still, 8.3 percent of respondents felt that such expropriation occurs frequently or always, 22 percent felt it happens sometimes and 50.8 percent said it occurs seldom or never. This suggests that half of the firms in Malaysia do not see government expropriation of private land as an issue and only a minority see it as a problem (Table 5.6.7).

Table 5.6.7 Perceived Frequency of Expropriation of Private Land

	Frequency	Percent
Never	167	26.30
Seldom	156	24.57
Sometimes	139	21.89
Frequently	31	4.88
Always	22	3.46
Refuse to answer	8	1.26
Don't know	112	17.64
Total	635	

Firms in the *more economically active* areas appear to have a higher risk perception of the government expropriating private land. Over a quarter of the firms (27 percent) surveyed in the district of Timur Laut of Pulau Pinang reported that land was always or frequently expropriated by

the government, followed by Ampang Jaya (19 percent) and Johor Bahru (17 percent). Firms in Nilai and Temerloh had the lowest perception of land expropriation risk by the government.

Table 5.6.8 Perceived Land Expropriation Risk by District

District	Percentage of firms saying that land is always or frequently expropriated by the government
Nilai	0
Temerloh	2
Petaling Jaya	3
Sepang	5
Batu Pahat	5
Kluang	6
Kuala Terengganu	10
Kemaman	15
Johor Bahru	17
Ampang Jaya	19
Timur Laut, P.P.	27

5.7 Infrastructure and Business Development Services

The availability and quality of infrastructure are key to determining the success of manufacturing, agricultural, trading, and other business activities. Infrastructure comprises basic physical installations, such as roads, utilities and sanitary systems, that are required for the proper functioning of a society and an economy. Without sufficient infrastructure, the economy as a whole is bogged down with higher operating costs and suffers a competitive disadvantage. Poor infrastructure also affects the country's ability to attract foreign direct investment and limits international and inter-state trade. Government intervention in infrastructure development is therefore considered to be necessary and beneficial, and so infrastructure availability and quality are indicators of economic governance.

Malaysia has been investing considerable resources in building roads and utilities systems, and its infrastructure is considered to be among the best in Southeast Asia. But is the availability and quality of infrastructure consistent across the country? The BEI survey assesses the quality and availability of an array of infrastructural issues across districts and examines the extent to which they serve as an obstacle for businesses.

5.7.1 The Infrastructure and Business Development Services Sub-index

A measure of the availability of business development facilities, and the availability and quality of infrastructure.

The Infrastructure Sub-index comprises six indicators. The first four indicators form Dimension 1, Availability of Infrastructure and Facilities, and the last two indicators form Dimension 2, Quality of Infrastructure (Box 5.7.1).



Box 5.7.1 Indicators in the Infrastructure and Business Development Services Sub-index

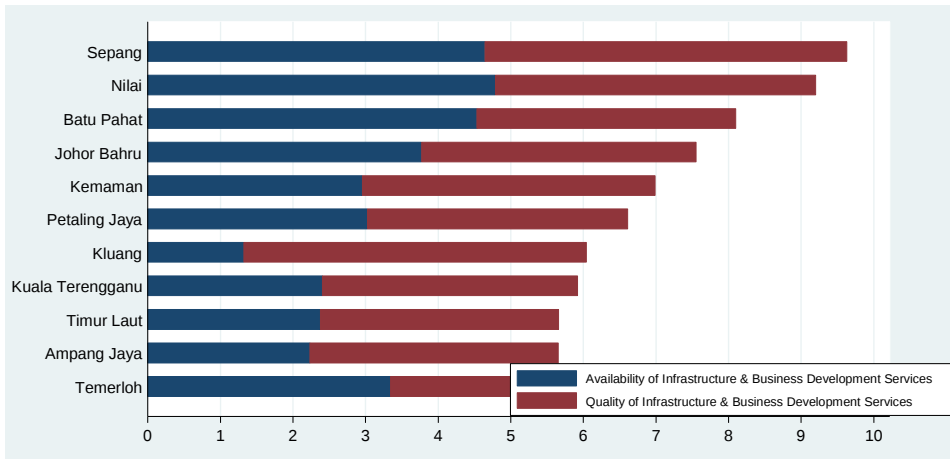
- Factor Scores for infrastructure availability data
- Percentage of firms reporting that lack of business support facilities are minor or no obstacle
- Percentage of firms reporting that availability of commercial and industrial facilities are minor or no obstacle
- Percentage of firms reporting that road quality is minor or no obstacle
- Median number of electricity outages per year*
- Median number of water outages per year*

**Scores reversed in computing the sub-index*

Selangor and Nilai performed best in this sub-index, having the most adequate business support, commercial and industrial facilities, and good availability and quality of infrastructure. The three districts in Johor cluster together

above the median, indicating that their infrastructure developments seem to have reached a similar level. However, within-state variance is shown again in Selangor. Sepang ranks first while Petaling Jaya is in the middle and Ampang Jaya ranks near the bottom. Finally, the findings of this sub-index are significantly correlated with the Crime and Security Sub-index, most likely a partial reflection of the overall development level of the districts.

Figure 5.7.1 The Infrastructure Sub-index



5.7.2 Results: Both Availability and Quality of Infrastructure Need Improvement

Over a quarter of the firms surveyed reported that the availability of electricity was a major obstacle to their business. Seventy-three percent of firms reported at least one power outage during the last year with a mean frequency of three outages (and a maximum of 120). Road quality also represented a major or moderate obstacle for more than one third of the businesses in the sample. Water supply was reported as the third major obstacle. About half of the firms experienced water supply interruptions and the mean number of interruptions was three times per year. Moreover, about a quarter of firms reported that street lighting affected their business at least moderately. Internet speed did not seem to bother many firms as half of the sample do not use computers or the internet. For those businesses sampled that do use computers or the internet, one third reported that internet speed was an obstacle.

The cost of industrial and commercial facilities is a major or moderate obstacle to about 18 percent of the firms surveyed. Since this cost generally constitutes a

substantial portion of operating expenses, particularly for small firms, it may limit business development. More details are provided in Table 5.7.1:

Table 5.7.1 Perceptions of Different Types of Infrastructure as Obstacles to Business

Infrastructure Component/ Type of Infrastructure	Major Obstacle	Moderate Obstacle	Minor Obstacle	No Obstacle
Road quality	15.0	19.5	19.2	41.1
Electricity availability	26.6	19.1	17.6	30.6
Water Supply	11.5	11.7	19.2	50.6
Street Lighting	9.1	16.7	14.2	51.8
Internet speed	7.9	10.7	11.8	48.8
(LP) gas supply	1.9	4.1	5.2	56.2
Lack of business support facilities, (e.g. R&D centers, business incubators)	5.0	7.2	16.5	47.2
Cost of industrial and commercial facilities	4.9	12.6	16.2	40.5

Combining the responses of the supply of internet, electricity, water, gas and street lighting, we compute infrastructure factor scores for each district. The scores indicate that Batu Pahat has the best infrastructure availability while Timur Laut of Pulau Pinang has the worst availability. Table 5.7.2 presents the districts/ rankings of infrastructure availability.

Table 5.7.2 Rankings of Infrastructure Availability by District

District	Ranking of Infrastructure availability (1 highest, 11 lowest)
Batu Pahat	1
Nilai	2
Selangor	3
Johor Bahru	4
Kluang	5
Petaling Jaya	6
Kemaman	7
Temerloh	8
Kuala Terengganu	9
Ampang Jaya	10
Timur Laut, P.P.	11

A majority of the firms surveyed (over 84 percent) in each district felt that the business support facilities, and commercial and industrial facilities are adequate. Of the 11 districts, Sepang and Nilai rank highest while Kluang ranks lowest. In addition, there is a high and significant correlation ($r = .77$, $p < .001$) between the firm perceptions of availability of business support facilities and of commercial and industrial facilities.

Table 5.7.3 Perceptions of Availability of Business Support and Commercial and Industrial Facilities

District	Percentage of firms reporting that lack of business support facilities are minor or no obstacle	Percentage of firms reporting that availability of commercial and industrial facilities are minor or no obstacle
Sepang	100	98
Nilai	100	100
Timur Laut, P.P.	94	77
Johor Bahru	87	92
Petaling Jaya	87	82
Temerloh	86	91
Batu Pahat	83	100
Kemaman	82	84
Ampang Jaya	81	79
Kuala Terengganu	77	83
Kluang	47	64

5.8 Proactive Government

Proactivity refers to taking actions in advance of anticipated challenges. It contrasts with reactivity whereby actors respond only when action is required. **A proactive government is one that takes the initiative to understand what problems might arise, understands how to prevent such problems from occurring, knows how to stop them from getting worse and, above all, knows how to prepare solutions to create and ensure a sustainable, equitable, and inclusive environment.** In relation to economic governance, a proactive government would try to understand the dynamics of the economy, learn the challenges facing businesses, and prepare solutions to tackle them. Furthermore, it would anticipate the future needs of business growth and implement a course of action that would assist the economy to succeed and prosper in the face of global competition.

Malaysia has formulated a vision to transform itself into a high-income country by 2020. To reach this goal, it has undertaken several initiatives to promote economic growth. In 2007, for example, it set up PEMUDAH¹⁴ (Pasukan Petugas Khas Pemudahcara Perniagaan), or “A Special Taskforce to Facilitate Business” in English, an agency directly answerable to the Prime Minister. This taskforce is composed of members who are experienced industry leaders and senior government officials, and is currently co-led by the chief secretary and the former chairman of the Federation of Malaysian Manufacturers. This high-powered private and public sector initiative promotes and coordinates the efforts of different ministries to improve Malaysia’s competitiveness. In doing so, it seeks to enhance Malaysia’s ranking in the World Bank’s *Doing Business Survey*. In addition, in 2009 the Malaysian government established another agency under the Prime Minister’s Department, the Performance Management and Delivery Unit (PEMANDU), which oversees the progress of major economic and social initiatives, namely, the Economic Transformation Programme (ETP) and the Government Transformation Programme (GTP). Included in the ETP are six business enabling programmes and 12 National Key Economic Areas that form the priority sectors for growth. Under the GTP, seven national key results areas¹⁵ across different ministerial functions were identified. Those areas are related to social and infrastructure advancements such as crime reduction, fighting corruption and improving public transportation.

One way to judge the effectiveness of the above proactive government initiatives is to examine the opinions of the intended beneficiaries, Malaysian businesses. Such an examination of the perception of users of government services is a useful way to measure the output of government initiatives. We specifically designed questions focusing on all three dimensions of the government initiatives: Awareness of the Federal Government Programmes, Effectiveness of the Federal Government Programmes, and Effectiveness of the State/local Government Programmes. Combining responses across these three dimensions, we can construct a district-level picture of the perceived effectiveness of proactive government activities.

¹⁴ Refer to PEMUDAH official website at <http://www.pemudah.gov.my/297>

¹⁵ Office website of PEMANDU is at http://www.pemandu.gov.my/gtp/What_Are_NKRAs%5E@-Overview.aspx

5.8.1 The Proactive Government Sub-index

A measure of the effectiveness of federal, state, and local government programmes and of businesses' awareness of major pro-economic development programmes initiated by the federal government.

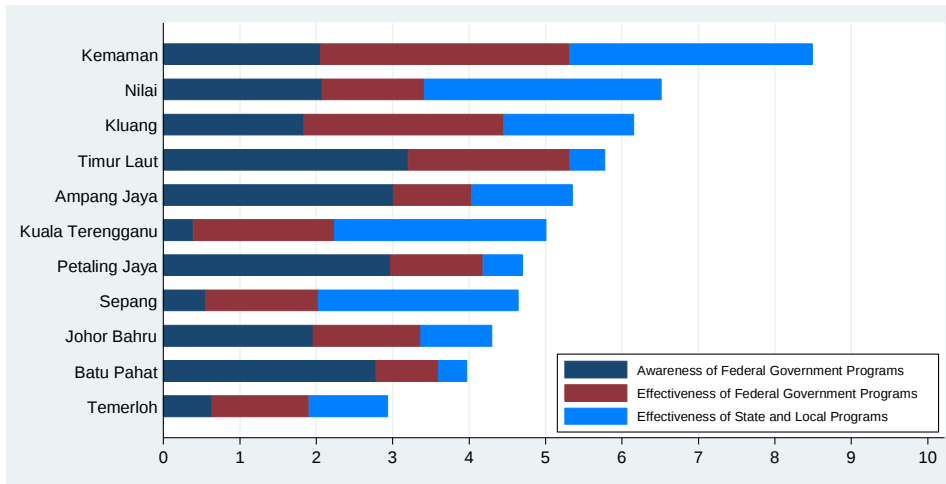
We compute the Proactive Government Sub-index by combining the scores of the eight indicators at the district level (Box 5.8.1). The first three indicators are grouped as Dimension 1, Awareness of Federal Programmes, the next three indicators form Dimension 2, Effectiveness of Federal Programmes and the last two indicators comprise Dimension 3, Effectiveness of State and Local Programmes.

Box 5.8.1 Indicators in the Proactive Government Sub-index

- Percentage of firms aware of PEMUDAH
- Percentage of firms aware of the Economic Transformation Programme (ETP)
- Percentage of firms aware of the Government Transformation Programme (GTP)
- Percentage of firms saying that the federal government is effective or very effective in implementing changes in laws, rules, and regulations
- Percentage of firms that agree or strongly agree that the ETP will increase business opportunities in the country
- Percentage of firms that disagree or strongly disagree that ministries with influence over their industry don't understand the industry
- Percentage of firms that agree or strongly agree that local and state governments are thoughtful in business needs
- Percentage of firms that agree or strongly agree that local and state governments are creative and clever in solving new business problems



Figure 5.8.1 The Proactive Government Sub-index



Kemaman in the state of Terengganu performs the best in this sub-index. Despite relatively low awareness of federal government programmes (about 30 percent), it scores very high on Dimensions 2 and 3, with very high perceived effectiveness (70-80 percent) of government programmes at both federal and state/local levels. Overall, it tops the list by a considerable margin. In contrast, Temerloh scores the lowest, with low scores in all three dimensions.

In this sub-index, within-state variance is obvious among the three districts in Johor. Kluang outperforms the other two districts from Johor by a few places while the three districts in Selangor, Ampang Jaya, Petaling Jaya and Sepang, cluster around the median with little within-state variance.

5.8.2 Results: Low Awareness of Federal Government Initiatives and Low Perception of Ministry Effectiveness

The vast majority of firms in the sample were not aware of two major business-related government initiatives, ETP or GTP, despite considerable media coverage of these programmes. Only 28 percent of the firms surveyed had heard of ETP and 24 percent were aware of GTP. Not surprisingly, even fewer of them (10 percent) knew about PEMUDAH, the special agency created to promote the Malaysian economy. These findings suggest that communication efforts have not been effective in reaching the majority of SMEs in

Malaysia and the intended consequences of the initiatives have not been achieved.

Table 5.8.1 Awareness of Government Initiatives

District	Percentage of firms aware of the Economic Transformation Programme (ETP)	Percentage of firms aware of the Government Transformation Programme (GTP)	Percentage of firms aware of PEMUDAH
Timur Laut, P.P.	42	35	21
Ampang Jaya	41	35	18
Kemaman	35	33	4
Nilai	35	33	4
Petaling Jaya	34	39	19
Kluang	34	30	2
Batu Pahat	30	38	18
Johor Bahru	29	26	9
Temerloh	11	5	5
Sepang	8	4	6
Kuala Terengganu	8	4	3
Mean	28	26	10

More than half of the firms in the sample thought the federal government was effective in implementing changes in laws, rules and regulations (Table 5.8.2). And for those that were aware of the ETP, 66 percent agreed or strongly agreed that it would increase the business opportunities in the country. Yet, **Malaysian firms do not have much confidence that the ministry with influence over their industry knows enough about their industry**. Slightly over one third of the firms surveyed rated the knowledge of the ministry of their industry positively (Table 5.8.3). When asked about their perception of the ability of local and state government to meet the needs of business, about half of the firms (55 percent) reported that those governments were thoughtful in meeting their needs and less than half (43 percent) believed they were creative and clever in solving new business problems (Table 5.8.4). That is to say, less than half of the firms surveyed hold a strong belief in the governments' ability and motivation to manage economic affairs.

Table 5.8.2 Perception of Effectiveness of Federal Government

District	Percentage of firms saying that the federal government is effective or very effective in implementing changes in laws, rules and regulations
Kemaman	85
Kluang	81
Kuala Terengganu	79
Selangor	73
Nilai	73
Johor Bahru	55
Petaling Jaya	45
Ampang Jaya	41
Temerloh	39
Timur Laut, P.P.	35
Batu Pahat	33
Mean	58

Table 5.8.3 Perception of Ministry's Understanding of Industry

District	Percentage of firms that disagree or strongly disagree that ministries with influence over their industry don't understand the industry
Kemaman	72
Timur Laut, P.P.	60
Temerloh	45
Kluang	39
Nilai	33
Selangor	33
Ampang Jaya	26
Kuala Terengganu	24
Petaling Jaya	24
Batu Pahat	22
Johor Bahru	20
Mean	36

Table 5.8.4 Perception of the Ability of Local and State Government in Meeting Business Needs

District	Percentage of firms that agree or strongly agree that local and state governments are thoughtful in meeting the needs of business	Percentage of firms that agree or strongly agree that local and state governments are creative and clever in solving new business problems
Nilai	95	77
Kemaman	87	88
Kuala Terengganu	86	68
Sepang	84	63
Kluang	57	44
Ampang Jaya	44	39
Johor Bahru	44	19
Temerloh	34	34
Petaling Jaya	30	13
Timur Laut, P.P.	25	15
Batu Pahat	21	15
Mean	55	43

5.9 Property Rights and Dispute Resolution

Property rights are one of the fundamental institutions of any capitalist economic system. Property owners, private or public, have the right to allocate the use of their property and to transfer the rights to others at will. Such allocation and transfer of rights require a professional and reliable public service and legal system to delineate what constitutes the property and what rights are attached, and to protect them when there are disputes. It also requires a capable registry to register the details of all transfers and keep an updated record of property titles.

In some developing countries, the property rights system is less than well established. Disputes arise when one party accuses another of infringing on their property rights. Government officials are often accused of “land grabbing” by taking property from private individuals for public purposes or for

the use of their cronies¹⁶. But governments should also abide by law. They should also be subject to the scrutiny of an independent and impartial legal system. While infringers cannot be eliminated, as long as the country has a legal system that effectively protects property rights, such rights will remain intact.

To SMEs, property rights matter more than the property itself since firm owners can apply for financing with the property as collateral.

Lack of credit is considered to be one of the biggest barriers to business growth, second only to market and competition forces, by Malaysian firms (See Chapter 3). Therefore, a legal system that protects property rights and resolves disputes is essential to private sector development.

In the BEI survey, we assessed the confidence of the respondents in the legal system's protection of property rights and their perceptions of the process of dispute resolution involving rental contracts and private land.

5.9.1 The Property Rights and Dispute Resolution Sub-index

A measure of confidence in both the legal system's protection of property rights and in the fairness of dispute resolution.

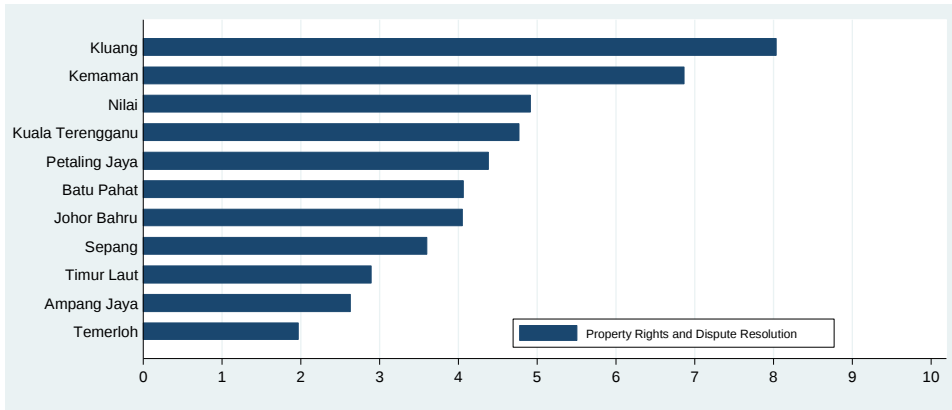
The Property Rights and Dispute Resolution Sub-index comprises three indicators (Box 5.9.1).

Box 5.9.1 Indicators in the Property Rights and Dispute Resolution Sub-index

- Percentage of firms saying that they agree or strongly agree that the system will uphold their property rights
- Percentage of renters that say that there is always or frequently a fair process to dispute rental contracts
- Percentage of firms that say there is always or frequently a fair process to dispute private owned land

¹⁶ For example, China. See Huang, Y. (2008). *Capitalism with Chinese Characteristics*, Cambridge University Press.

Figure 5.9.1 The Property Rights and Dispute Resolution Sub-index



Kluang outperforms other districts and tops the list in this sub-index.

This sub-index has the widest range of scores among all sub-indices. The lowest performer, Temerloh, falls more than six points behind the highest performer, Kluang. Again, there is noticeable within-state variance in Johor as well as in Selangor. While Kluang ranks first, Batu Pahat and Johor Bahru fall in the middle. In Selangor, Petaling Jaya ranks fifth, Sepang seventh and Ampang Jaya ninth.

5.9.2 Results: Confidence on Property Rights Protection but not on Rental Rights Protection

A majority of the firms (80 percent) surveyed agreed that the system would uphold their property rights. Nilai in the state of Negeri Sembilan had the highest level of agreement (98 percent) while Ampang Jaya in the state of Selangor has the lowest (61 percent). This variation is surprising as the legal and land registry systems are centralized and procedures are expected to be uniform across the country. There is also notable variance in the state of Johor where the two municipalities of Batu Pahat and Kluang performed much better than the city of Johor Bahru. This within-state variance does not exist in the two other states in which more than one district was surveyed, Terengganu and Selangor.

Table 5.9.1 Firm Perception of Property Rights

District	Percentage of firms saying that they agree or strongly agree that the system will uphold their property rights
Nilai	98
Batu Pahat	91
Kluang	88
Kuala Terengganu	86
Kemaman	85
Selangor	78
Petaling Jaya	75
Johor Bahru	75
Temerloh	73
Timur Laut, P.P.	71
Ampang Jaya	61
Mean	80

The legal protection of property rights does not seem to have spilled over into resolving rental contract disputes. On average, only 19 percent of firms surveyed agreed that there was always or frequently a fair process to dispute rental contracts. And the performances of most districts was inconsistent with the previous indicator. Those that perform near the bottom on property rights protection rise to the top of the rankings for fair process of rental contract disputes. The only exception is Kluang, which performs well in both property rights protection and the rental dispute process.



Table 5.9.2 Firm Perception of the Dispute Resolution Process

District	Percentage of renters that say that there is always or frequently a fair process to dispute rental contracts	Percentage of firms that say there is always or frequently a fair process to dispute privately owned land
Kluang	58	41
Petaling Jaya	29	17
Ampang Jaya	22	11
Kuala Terengganu	21	14
Selangor	20	5
Kemaman	17	67
Nilai	15	3
Johor Bahru	13	27
Timur Laut, P.P.	11	12
Batu Pahat	0	14
Temerloh	0	0
Mean	19	19

The same percentage of firms (19 percent) reported there was always or frequently a fair process to resolve disputes for privately owned land and for rental contracts. The only exception is Kemaman, which ranks in the middle on rental contract disputes but tops the list in land dispute processes.



6. Concluding Remarks and Policy Implications

The Malaysia Business Environment Index Pilot Study 2012 is the first survey of local economic governance issues based upon firm-level data from small and medium-sized enterprises. Despite its small sample size, this study provides valuable information on how local business people perceive the environment in which they launch and operate their businesses, what factors pose significant constraints to their business growth, and how they perceive the performance of the local authorities. These findings on economic governance are good reference for policy makers and others interested in promoting economic growth in Malaysia. This chapter reviews the potential uses of this sub-national study, highlights its policy implications and proposes recommendations for successful policy reform. It concludes with the limitations of this pilot study and suggestions for an ideal BEI survey design.

6.1 The BEI as a Tool for Reflection and Policy Reform

The BEI serves as a diagnostic tool for local authorities to reflect on their achievements. “What gets measured, gets managed”¹ is a useful adage for improving productivity across organizations, private and public alike. The measurement of the private sector’s perception of its local business environment assesses each district’s position relative to others and provides a base line for improvement and higher achievement in the future. The 2012 BEI identifies nine governance areas that are relevant to economic growth at the district level: Transparency and Policy Risk, Regulatory Costs, Entry Costs, Crime and Security, Land Access and Security of Tenure, Informal Charges, Infrastructure, Proactive Government, Property Rights, and Dispute Resolution. Local authorities can compare their district’s performance against that of other districts to see where they stand in regard to a range of governance areas, and benchmark where they want to be. The BEI is meant to help local authorities identify the strengths and weaknesses of their district. It can also inspire them to improve their service delivery and develop an actionable policy agenda that benefits local businesses.

Local authorities in other South and Southeast Asian countries have used the findings of similar studies in formulating their policies. To

¹ A famous quote from the late management professor, Peter Drucker.

maximize the use of the data and information collected in the survey, local authorities should look into the results by sub-index and identify their strengths and weaknesses as reflected by the scores they obtained. Appendix F presents the sub-index scores by district. This empirical information can assist local governments to prioritise their efforts and decide on the most pressing and urgent issues they have to resolve. In the case of Vietnam, the central government adopted the sub-indices as indicators to evaluate local performance in economic governance. This demonstrates how the BEI not only serves as a tool for reflection for local authorities, but also assists the federal government to better manage the performance of lower level governments.

By ranking the districts by the scores they obtained in each category and overall, the BEI study identifies the best performers.

The practices and initiatives implemented by those high performing districts are practical examples of attainable success which can be emulated by other districts seeking to improve their service delivery.

6.2 Policy Implications

Three critical issues arose from the voluminous data collected in the BEI study: Transparency, Crime and Security, and Informal Charges. Each carries important policy implications.

Transparency extends beyond the simple disclosure of information. Governments have to ensure relevant information is effectively communicated to the appropriate members of the public. The e-government service has limited value for the 56 percent of firms surveyed that do not use a computer or the internet. Even though the Malaysian government has digitalized a considerable amount of its information and provided a wide range of e-services, low computer usage among businesses undermines these efforts to improve transparency. To enable more businesses to use e-government services, more initiative must be undertaken to facilitate the use of computers and the internet. The “Get Malaysia Business Online” programme under the Economic Transformation Programme (ETP) focuses on getting 50,000 businesses online by helping them develop their own websites. However, the needs of the majority of firms are more basic: introductory computer knowledge and easier access to the internet. In addition, broadband internet connection in Malaysia is expensive by

regional standards² and the coverage is limited. More pro-competition policy and an increased pro-market approach are needed to drive down the price of internet connections. This will generate consumer benefits and allow the government to maximize the return to its efforts in e-government service delivery.

Increased internet use will help narrow the gap between the high and the low performers in the Transparency sub-index. If more firms begin to use e-government services, district scores in the Entry Costs and Regulatory Costs sub-indices will also rise. Wider use of computers and the internet by businesses has implications for minimizing entry and regulatory costs in addition to the dissemination of government information and delivery of government services.

In the meantime, government services and information should be made more accessible to businesses. Local authorities can better target essential information to local businesses by better understanding how they receive news and information, if not electronically.

A safe living and business environment is compromised by a high incidence of crime. Thirteen percent of firms surveyed acknowledged having suffered financial losses from crime in the previous year. This high percentage reveals a serious safety issue for businesses in Malaysia. In two districts, the rate of crime resulting in financial loss was above 20 percent. Furthermore, nine percent of firms reported that they would bribe the local police for protection. These findings suggest that serious attention to criminal activity is necessary from all levels of government. As discussed in Section 5.5, crime acts as a tax on the entire economy. Elimination of crime thus has the same effect as lowering profit tax, benefitting businesses without reducing the nation's tax revenues. Therefore, government efforts to improve the business environment and investment climate should focus more on crime and security issues.

Corruption continues to be a major concern for Malaysian businesses. Nearly 14 percent of firms reported that firms in their line of business paid informal charges to public sector officials to get things done. In three districts, the rate of bribery was as high as 24 percent. These corruption perceptions are alarming and suggest corruption is still a major issue despite years of efforts to counter it. The BEI data also reveal a general perception amongst businesses that public procurement procedures are not fair and that

² A subscription for a monthly plan costs USD81 for 20Mbps in Kuala Lumpur, USD18 for 100Mbps in Hong Kong and USD 31 for 25 Mbps in Singapore.

personal and political connections with officials are important to winning government contracts. Favouritism behaviour undermines meritocracy, reduces competition, and indirectly impedes economic growth of the district in particular and of the country as a whole. Therefore, all levels of government in Malaysia need to make a more concerted effort to ensure that the procurement process is based on merit and perceived to be fair. A continued perception of unfair procurement processes will only discourage qualified businesses from bidding on government contracts, resulting in lower quality public service delivery.

BEI findings reaffirm the importance of recent initiatives made by the federal government. Reducing crime and fighting corruption are the top two National Key Result Areas under the Government Transformation Programme. In addition to providing evidence about the seriousness of these issues, the BEI data also identify the districts which suffer most from these problems. With this information, the local authorities have more justification to request additional resources in tackling these barriers on the path of local economic growth.

6.3 Building Public-Private Coalitions to Improve Competitiveness

Improving the business environment is a shared responsibility and requires more input from SMEs. Businesses, as the beneficiaries of a better business environment, also have a positive role to play in this improvement process. The BEI aims to facilitate the dialogue between governments and businesses, allowing more participation of stakeholders in policy reform. The BEI data show that only five percent of firms surveyed were invited to give input to the Economic Transformation Programme. Considering SMEs make up 99 percent of the nation's total business establishments and contribute 30 percent of the GDP, this participation rate is very low. The data collected in the survey reflect the experience and perceptions of 635 firms that strive to survive and prosper in the districts where they are located. With this data, governments at the district, state, and federal level will be able to reflect upon and evaluate their policy approach.

More dialogues between states to share experience and practices will help improve the overall business environment. The BEI identifies a state effect in the overall performance of the districts surveyed. Districts in the same state tend to perform better or worse together. This finding suggests that there should be some factors at the state level that lead to better district performance. Exchanges between states will therefore be helpful in identifying the positive factors that promote economic growth and thus help to remove the factors that impede business activities. Nonetheless, a micro examination of the sub-indices (Chapter 5) also reveals the existence of some within-state variance.

Based on these findings, governments should aim to foster dialogue at both cross-district and cross-state levels.

6.4 Ideal BEI Research Design

A nationwide BEI will be more useful. An ideal BEI survey should be a nationwide study covering more cities and municipalities in all of the 13 states and the three federal territories in Malaysia. This pilot study covers only 11 urban districts in six states in peninsula Malaysia. Economically less developed districts in East Malaysia are not surveyed and they are possibly in more urgent need of policy reform. Rural areas are also omitted from this pilot sample. The experience from similar studies in other countries suggests that the gap between urban and rural districts in the same state could be as large as the gap between urbanized districts in different states. Therefore, the findings in this pilot study may understate the within-state district-level differences in economic governance. On the other hand, the state effect identified may also be overstated due to the absence of rural districts. These possibilities reinforce the need for a nationwide study that will provide a comprehensive description of Malaysia's business environments at the local level.

More hard data at the district level will improve analytical power. The research team was only able to obtain district-level hard data on population and area. The majority of local demographic data are only available at the state level. Therefore, very limited hard data were used in the analysis. For future BEI studies and other research, it would be helpful if demographic variables such as GDP per capita, literacy rates, education levels of the population, poverty levels, electricity consumption, and crime rates, become available at the district level, as well as data on infrastructure such as the extent of paved roads.

With a larger sample and more hard data, the research team would be able to conduct more complex statistical analyses. Nevertheless, the current pilot study adopted a stratified random sampling method which makes the findings representative of the districts surveyed.

Regular BEIs over time will help measure progress. Conducting a BEI survey at regular intervals will generate longitudinal data, allowing local authorities to measure progress and compare perceptions over time. Longitudinal data collected at two or more intervals reflect the extent of change in businesses' perceptions of their local environment. In Indonesia, similar studies involving more than 240 regencies were conducted in 2007 and again in 2011. The data collected in the two studies were used to measure changes in local environments and the success of reform efforts. In Malaysia, where the government is seeking to

make rapid reforms and transformations, the BEI is a practical and timely tool to help assess the country's current state of governance and its progress over time.

In conclusion, the BEI survey builds upon evidence that local governance matters in fostering economic growth. It provides empirically based information for government of all levels to reflect upon, helping them develop business friendly policies and practices. By identifying nine governance areas relevant to the business environment in Malaysia and presenting the findings of 11 selected districts, this pilot study demonstrates the value and the potential use of a possible nationwide BEI study.



Appendix A1 Indexing Methodology

The indexing methodology for the BEI is well established based on similar indices developed by The Asia Foundation in other countries, including Vietnam, Cambodia, Indonesia, Sri Lanka and Bangladesh. The BEI is a collection of indicators assembled from the BEI survey data and hard data that are then standardized to a 10-point scale and compiled into theoretically-relevant sub-indices. Those indices are then compiled into unweighted and weighted overall indices.

A1.1 Choosing Sub-Indices and Indicators

The sub-indices and indicators for the Malaysia BEI were carefully chosen to be highly relevant in the Malaysian context. The process of choosing the sub-indices and indicators was ongoing throughout the life of the BEI project and required constant refinement. The multi-step process begins with the survey instrument and ends with running sophisticated diagnostics on the final survey data.

A1.1.1 BEI Survey Instrument

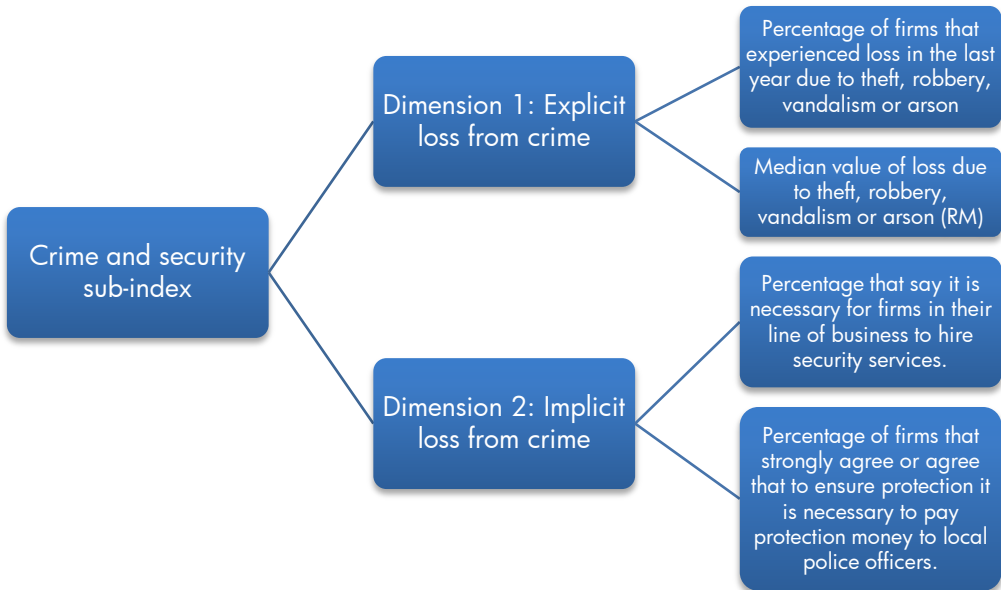
The process of choosing sub-indices and indicators for the BEI started with the creation of the survey instrument. The sections and questions on the survey instrument were carefully crafted by The Asia Foundation, Monash University, and RAM to capture information that is relevant to Malaysia's business context.

A1.1.2 Research Team Meeting and Feedback

Once the BEI survey data was compiled and cleaned, the research team met to compile a list of sub-indices and potential indicators from the survey. The team went through a long list of potential sub-indices and evaluated their theoretical and contextual relevance for Malaysia. The team finally came to a consensus on the final nine sub-indices as fulfilling both criteria.

During the process, the team also chose the "dimensions" of each sub-index. The "dimensions" of a sub-index highlight important theoretical aspects of that sub-index with indicators grouped under each. For example, the Crime and Security Sub-index has two dimensions: 1) Explicit loss from crime; and 2) Implicit loss from crime. Each dimension has two indicators. It was important to group indicators under such dimensions in order to keep them theoretically distinct. While not all of the sub-indices have more than one dimension—either because there are not enough indicators to justify more than one dimension or because there is no theoretical distinction between the indicators—the majority do have more than one. Within any given sub-index each of the dimensions is weighted equally (i.e. in a sub-index with two dimensions, each dimension is worth 50 percent of the total sub-index).

Figure A1.1 Dimensions and Indicators in the Crime and Security Sub-index



A1.1.3 Hard Data

The research team also made a preliminary list of the hard data needed for the “hard data” indicators. Most hard data available was disaggregated only to the state level, not the district level.

A1.1.4 Data diagnostics

After the preliminary choices for the sub-indices and survey indicators were made the research team performed two additional diagnostic tests to further ensure that the final sub-index and overall index scores would be driven by differences among districts rather than by firm-level factors. First, the standard errors around district indicators had to be small enough, so that district scores at the 75th percentile of a particular indicator were significantly different from districts at the 25th percentile. This check was important, as it means that if a sub-index were to be replicated on a hundred separate random samples of firms, ninety-five of those times, the same districts would be at the high end and low ends of a particular score.

Second, the research team used regression analysis to ensure that the differences in particular indicators were not primarily driven by variation in the type or size of firms concentrated in particular districts. This test helped ensure that rankings resulted from universally applicable governance factors and not from attributes of particular firms in particular districts. For example, one might worry that registration procedures take longer for manufacturing firms and districts with a disproportionate share of such

firms would fare worse in the rankings. When possible, such indicators were eliminated altogether from the BEI. When it was not possible to eliminate these indicators because that would result in too few indicators being included in the sub-index, the research team would restrict the sample to a reasonable set of firms for the analysis. For example, in the Entry Costs Sub-index it was clear that larger firms required more time to obtain a business licence and that this effect was consistent across districts, meaning that districts with a higher concentration of large firms would get higher median scores than those with lower concentrations of large firms. Therefore, the research team restricted the analysis on this variable to firms with fewer than 150 employees, so regardless of the differing concentrations of firms across districts, the analysis compared like firms.

A1.2 Indexing Methodology

Once these theoretical decisions and diagnostics were complete, the research team narrowed down its final set of sub-indices, dimensions and indicators and proceeded with the indexing methodology.

A1.2.1 Normalizing indicators

Once the indicators were finalized and their district means or medians were obtained, researchers standardized those statistics around a ten-point scale through a simple normalization process, using the following formula:

$$9 * \left(\frac{\text{District}_i - \text{Minimum}}{\text{Maximum} - \text{Minimum}} \right) + 1$$

Where District_i is the individual district value, Minimum is the smallest district value among all of the districts, and Maximum is the largest district value among all of the districts. For some indicators, a large number has negative interpretation. In these cases, we reversed the index by subtracting the entire quantity from eleven. An example of a negative indicator would be the number of total inspections experienced by each firm. Such an indicator would take the form:

$$11 - \left(9 * \left(\frac{\text{District}_i - \text{Minimum}}{\text{Maximum} - \text{Minimum}} \right) + 1 \right)$$

There are three principle reasons the research team normalized the indicators. First, it allowed researchers to transform indicators into a value that is based solely on each district's score in comparison to other districts. Second, the process of normalizing scores allowed researchers to combine data from different indicators, which are often in different units, into one sub-index. For example, it allows researchers to combine an indicator which is expressed in 'average number of days' with an indicator which

is expressed in 'average number of firms'. Third, normalizing the data facilitates a comparison of BEI scores across years throughout successive iterations of the index.

A1.2.2 Constructing the sub-indices

After the indicators are normalized, the sub-index scores are calculated by taking the simple average of indicators. If a sub-index contains multiple dimensions, the average of the dimensions is used instead, so that dimensions receive equal weight. When hard data is used in a sub-index, the general rule is that the indicator account for 40 percent of the total sub-index. If hard data is used in a sub-index that has multiple dimensions, however, the rule is adapted so that the hard indicators account for 40 percent of the particular dimension rather than the total sub-index, so as not to distort the overall meaning of the index.

A1.2.3 Constructing the final sub-index

Once the sub-indices are all constructed, the final unweighted sub-index is compiled by simply summing up all nine sub-indices. For the 2012 BEI, the research team also decided to weight the final version of the sub-index to ensure that it was highly policy relevant. Weighting each sub-index in terms of importance signals to local officials how to best prioritize their reform interventions for the biggest impact.

To determine the impact factor for each of the nine sub-indices, we formed an expert panel to decide on the weights that should be assigned to each sub-index. The expert panel comprised three members: an expert in local politics and public administration, an experienced business professor who has lived and worked in over nine developed and developing countries including four years in Malaysia, and a senior economist well versed in Malaysian economic affairs. An additional academic served as the moderator for the panel. The panel applied a modified Delphi decision making process¹ to establish the weights. Opinions were collected through two rounds of online surveys administered at weekly intervals. In the first round, panel members were asked to choose the most significant and the least significant constraints facing Malaysian SMEs from the list of nine sub-indices. In the second round, after removing the previously identified most significant constraints, the moderator asked the panel members to list the remaining most significant, second most significant and third most significant constraints. All responses were collected by the moderator and re-distributed to all members for their consideration. After two rounds of deliberation and exchange of comments, the panel decided on rankings of the sub-indices which were used to compute the weights for each sub-index² (Table A1.1).

¹ Delphi method is a group decision making process using the opinion of experts. The objective is to obtain the most reliable consensus of the opinions. The key to this process is to create an environment in which all expert members feel free to express their opinions.

² For example, the weight of Transparency and Policy Risk equals $5/23 \times 100\% = 22\%$

Table A1.1 Weights Allocated to Sub-indices

Sub-index	Ranking of significance	Weight
Transparency and policy risk	5 (highest)	22%
Regulatory costs	4	17%
Entry costs	3	13%
Informal charges	2	9%
Crime and security	2	9%
Infrastructure and business development services	2	9%
Pro-active government	2	9%
Land access and security of tenure	2	9%
Property rights and dispute resolution	1 (lowest)	4%
Total	23	100%

Appendix A2 Choice of Local Level

The pilot BEI 2012 covered 11 city and municipal districts (Majlis Bandaraya and Majlis Perbandaran) in six states throughout peninsular Malaysia. While the research team originally considered creating a state-level index, budget and resource constraints prohibited statewide coverage throughout peninsular Malaysia. Thus, the team began exploring the possibility of an index at the local level.

Administratively, Malaysia is constitutionally organized into a three-tier system of government at the federal, state and local levels. Formally, the role of the local governments is presided over by the Local Government Act (1976), the Town and Country Planning Act (1976) and the Street, Drainage and Building Act (1974). These laws provide local authorities in Malaysia with a very comprehensive set of mandatory responsibilities and functions including collecting assessment taxes, solid waste management, licensing authority and local planning authority. In addition, the Local Government Act (1976) lays out a broad list of discretionary functions including development functions (development planning, land-use planning, infrastructure development and support facilities, delivery of public services, etc. Therefore, it was clear to the research team that local governments have a strong role to play in shaping the business environment for private enterprise and the BEI could be constructed to look at local business environments.

This important role notwithstanding, local governments do function within the structure of state and federal governments and it must be acknowledged that many functions that affect the business environment at the local level are not handled solely by local governments. For example, important functions like investment incentives such as

pioneer status with tax breaks, policing, and education curriculum are carried out at the federal level, while significant regulations such as land policies are carried out at the state level. Thus, in choosing to create a BEI at the local level in Malaysia, it must be noted that local governments do not always have full control over policies and regulations that affect the business environment in their districts. In some cases, local governments may have some discretion over how some policies are implemented or coordinated and the BEI is useful in giving local, state and federal governments information on how well such policies are being implemented at the local level. In other cases they may have little discretion and the BEI is simply a reflection of how some state or federal policy is being carried out at the local level. Thus, the research presented is not targeted at any one level of government, but rather at all three, as they all have important roles to play in shaping local business environments.

Appendix A3 Sampling Frame and Survey Sample

A3.1 Sampling Frame

The BEI 2012 in Malaysia covers 11 cities and municipalities in peninsular Malaysia. For the project there were two possible sources of data for the sampling frame, the Department of Statistics (DoS), which carries out the national firm census, and the Companies Commission, which is responsible for business registration. The DoS was willing to provide the research team with a list of firms with names, telephone numbers and addresses. However, there were several limitations with the data that it could provide. First, the latest available DoS data was from its 2009 annual survey of firms, which included only 7,000 of the 76,000 firms from the last DoS firm census in the 11 BEI cities and municipalities. The DoS had reservations about releasing data from the census of firms because the data was several years old. While the annual survey of firms was randomly sampled from the census list, there were a large number of now non-existent firms. As a result, there was no way of accurately knowing if the sample distribution represented the current population distribution. For this reason, it was impossible to compare the sample statistics to the population statistics. The DoS was unable to stratify the sample by size or ownership type, a requirement of the research design. Therefore, the research team decided not to use the DoS data for the project.

The second possible source of data for the team was data from the Companies Commission, which keeps a list of all active, registered firms in the country. However, at the start, the research team was worried about inactive firms that were never taken off the lists as well as “Ali-Baba” (pass through) firms. Nevertheless, with the DoS data unsuitable, the research team decided to go with the Companies Commission, as it could release the data, provide summary statistics and stratify the sample by sector and ownership type for each of the 11 districts.

A3.2 Stratification Design

For the BEI survey sample, the research team decided that the survey needed to capture at least 66 firms in city districts and 50 firms in municipal districts (600 in total) for the survey to give reliable results at the district level. The research team also decided to use a stratified random sampling strategy to ensure accurate representation. While the team originally wanted to stratify by sector and size, the Companies Commission could not provide data on firm size by either number of employees or by assets. Therefore, the research team decided to stratify by sector and ownership type (which is itself strongly correlated with firms size). Sector type was divided into three strata: (i) manufacturing; (ii) trade and (iii) services; and ownership type was divided into three strata: (i) sole proprietorship, (ii) partnership, and (iii) private limited company. Since publicly listed companies have a more complex ownership structure and often face different sets of problems than privately held SMEs, the research team decided to exclude them from the listing. We also excluded government-linked companies since they operated under different sets of institutional constraints.

A3.3 Stratified Population Distribution

Due to resource and time limitations the study sample design limited to approximately 50 to 66 the number of enterprises to be interviewed in each district. The objective of stratification by sector and ownership type was warranted to produce a minimum acceptable coverage of each of the nine strata to draw inferences about the population characteristics from the sampled firms in each stratum. Based on the Companies Commission data, usage of a completely random sampling approach would yield a very high representation of sole proprietorships and trade firms. As Table A3.1 shows for Johor Bahru, the population breakdowns yield a lower percentage of manufacturing firms, particularly among partnerships and private limited companies. The stratification strategy ensures that at least some firms in these less represented categories are captured in the sample as stratification overcomes normal sampling variation.

Table A3.1 Johor Bahru Population Breakdown by Strata

	Sole Proprietorship (%)	Partnership (%)	Private Limited (%)	Sub-Total (%)
Manufacturing	7	3	3	13
Trade	36	13	8	57
Services	17	7	7	31
Sub-total	60	23	17	100

A3.4 Inaccuracies and Challenges in the Original Survey Sample

Even with the stratified sampling strategy, after all of the data was obtained, it was found that in Petaling Jaya, Kemaman, and Kuala Terengganu certain strata were under-sampled by more than 50 percent. For these strata, we asked the survey research firm to go back and collect a slightly larger sample for the under-sampled strata in each of these districts.

While this was a minor issue in the districts listed above, As Tables A3.2 and A3.3 show, it was quite severe in Kluang. One problem seemed to be that the ownership-type listed in the Companies Commission database and firms' actual current status differed for 19 of the firms in the sample. These firms were listed as sole proprietorships, but were actually partnerships. Identifying this discrepancy, the team checked a random sample of all of the district samples against the Companies Commission lists. For the districts in which discrepancies were found, the team then did callbacks to all firms in the district to verify their ownership status. As Table A3.4 shows there were discrepancies for Nilai, Ampang Jaya, Sepang and Kuala Terengganu. For these districts, if any of the strata were under-sampled, we asked the survey research firm to go back and collect more data to complete the strata.

Table A3.2 Kluang Sampling Strata

	Sole Proprietorship	Partnership	Private Limited	Total
Manufacturing	4	1	1	6
Trade	20	7	2	30
Services	9	3	2	14
Total	33	12	5	50

Table A3.3 Kluang Actual Sample

	Sole Proprietorship	Partnership	Private Limited	Total
Manufacturing	4	3	0	7
Trade	6	20	3	29
Services	4	9	2	15
Total	14	32	5	51

Table A3.4 Number of Discrepancies on Ownership Type between Lists and Sample

District	Number of Discrepancies Found	Percentage of Discrepancies Found
Johor Baru	0	0.0
Batu Pahat	0	0.0
Kluang	19	37.2
Nilai	5	9.8
Temerloh	0	0.0
Timur Laut, P.P.	0	0.0
Petaling Jaya	0	0.0
Ampang Jaya	3	6.0
Selangor	3	5.8
Kuala Terengganu	3	4.3
Kemaman	0	0.0

Moreover, the research team found that in all three districts in Johor (Kluang, Batu Pahat and Johor Bahru) there were more than 60 incidences in which enumerators interviewed more than one respondent per firm. In Kluang there were 21 duplicate firm respondent pairs (42 interviews), in Batu Pahat one duplicate firm pair (two interviews) and in Johor Bahru nine duplicate firm pairs (18 interviews). This was a serious problem as those districts had much less variation in firm responses than other districts. The research team could not simply drop these duplicates without seriously jeopardizing the validity of the survey, as the duplicates were concentrated in only three districts. Therefore, the research team randomly dropped half of the duplicates and made the decision to go back and collect more data from all three districts in Johor to ensure the needed number of firms. Additionally, extra data was also collected in other districts with under-sampled strata.

Appendix B

Selected Demographics of the BEI Sample

District	No. of firms surveyed	Area (sq km)	Population ('000)	Average firm size measured by no. of full-time employees (Std. Deviation)	Average firm Age (Std. Deviation)	Median firm age	Sole proprietor: partnership: private limited (%)	Manufacturing: trade: services (%)	Female respondents (n=635) (%)	Female business owner (n=446) (%)	Ethnicity of respondents (Malay: Chinese: Indian) (%)	Ethnicity of business owners (Malay: Chinese: Indian) (%)	Use of internet and technology (do not use: some use: essential use) (%)
Total/overall	635	n.a.	n.a.	2.19(1.12)	20.41(16.43)	16	62:23:15	11: 60: 29	40	30	33: 59: 8	29: 61: 9	56: 23: 21
Ampang Jaya	51	628	681.3	2.13(.85)	18.94(12.93)	17	63: 24: 14	20:49:31	33	29	25: 67: 8	29: 64: 7	56: 26: 16
Batu Pahat	50	1,999	406.4	2.12(1.06)	42.42(18.98)	44	64:20:16	12:64:24	14	7	16:76:8	13: 78: 8	68:30:2
Johor Bahru	68	1,865	1,463.8	2.63(1.28)	18.29(15.59)	14.5	59:24:18	15:54:31	29	25	31:63:6	27: 65: 8	37:41:22
Kemaman	54	2,581	173.0	2.06(1.16)	8.39(5.88)	7	69: 20: 11	9:67:24	65	62	80: 19: 2	73: 24: 3	57:19:24
Kluang	56	2,885	316.5	2.32(1.13)	12.73(11.24)	8.5	59:34:7	11:61:29	66	56	20:75:5	15: 78: 6	48:39:13
Kuala Terengganu	73	604	341.1	1.90(.84)	32.11(13.35)	34	75: 19: 5	10:70:21	33	30	63: 34: 3	61:35: 4	78: 7: 15
Nilai	51	959	468.8	2.02(.89)	14.24(14.24)	11	67: 18: 16	12:57:31	63	43	24: 55: 18	13: 61: 26	55:26:20
Petaling Jaya	74	501	1,508.9	2.57(1.29)	16.77(11.78)	15.5	41:20:39	8:50:42	27	19	3:85:9	3: 83: 12	38: 20: 42
Sepang	50	612	151.7	1.58(.57)	18.36(14.01)	15	76: 22: 2	10:62:28	48	30	18: 64: 16	7: 73: 20	70: 4: 26
Temerloh	56	2,471	166.5	2.14(.903)	26.54(17.55)	25.5	63:30:7	9:66:25	36	27	36:59:5	22: 73: 5	71: 23: 5
Timur Laut, P.P	52	121	523.9	2.42(1.54)	14.33(12.03)	11	54: 23: 23	8:60:33	31	29	42: 48: 10	45: 42: 13	40: 23: 37

Appendix C A Profile of Malaysian Firms

This section provides a general profile of all Malaysian firms from publically available national and international data, characterized by six distinct features. First, as in other developing economies, the government is heavily involved in the private sector through its ownership of a number of large firms. Second, there are a large number of small and medium-sized enterprises, which, as a group, have played a significant role in the economy and are expected to continue to contribute to the country's future economic development. Third, Malaysia's economy is divided along ethnic lines with the minority Chinese contributing to a disproportionately large share of the economy. Fourth, the "Ali-Baba" collaboration between Malay firms and Chinese firms—a by-product of the government's efforts to increase economic opportunities for Malays—is a widespread practice around the country. Fifth, Malaysian women, relative to their counterparts in other ASEAN countries, have a lower labour participation rate. In spite of this, Malaysia has one of the highest rates of female entrepreneurship in early start-up activity in the region. Lastly, firms tend to be concentrated in and around the three economic centres in Malaysia.

C1 Dominance of Government-linked Companies in Strategic Businesses

Malaysian Government has a substantial stake in the country's economy by owning shares in companies through its ministries and seven sovereign wealth funds³. Those companies, having the government as the controlling shareholder, are collectively known as Government-linked Companies or GLCs in short. It is estimated that GLCs account for 36 percent of market capitalization in Bursa Malaysia, the country's only stock exchange, and 54 percent of the benchmark Kuala Lumpur Composite Index⁴. They also employ five percent of the nation's workforce. GLCs are engaged in various economic sectors, most notably in strategic industries, such as natural resources (petroleum, natural gas and palm oil), basic materials, utilities (electricity, water), banking, telecommunications, transportation, aviation and other infrastructure business. They are typically large firms. PETRONAS, an oil and gas conglomerate, for

³ They are Khazanah (the nation's investment agency), Kumpulan Wang Amanah Pencen (Pension trust fund), Lembaga Tabung Angkatan Tentera (LTAT), Employees Provident Fund, Permodalan Nasional Berhad (Malaysia's fund management company and a subsidiary of Yayasan Pelaburan Bumiputera), Menteri Kewangan Diperbadankan (MKD) and Lembaga Tabung Haji (Pilgrims Fund Board).

⁴ Economist. (2005). The Malay Way of Business Change. 376(8440):50. Also in http://www.khazanah.com.my/faq.htm#_ques15/.

example, contributed about 50 percent of the government's annual income⁵. The financial performance of GLCs has been mixed. In recent years, a majority of them have been profitable while some GLCs, such as Malaysia Airlines, and PROTON, a state-owned car maker with 30 percent share in the car market, struggle to be competitive.

C2 Prevalence of SMEs

Small and Medium-sized enterprises⁶, SMEs, also play a significant role in Malaysia's economy primarily by their contribution to GDP and employment. In 2009, SMEs contributed 31 percent of Malaysia's GDP and 56 percent of total employment⁷. Based on the Census on Establishments and Enterprises 2005, 86.6 percent of SMEs were engaged in the services⁸ sector and only 7.2 percent in the manufacturing and 5.2 percent in the agriculture sectors. As a whole, SMEs accounted for 99 percent of total business establishments.⁹

In Malaysia, SMEs are defined and categorized by sectors, and the number of employees or annual sales turnover. Table C1 presents the official definition of SMEs in Malaysia. Of the micro, small and medium-sized firms, micro firms accounted for the majority of establishments in all three key sectors and most of them registered their business in form of sole proprietorship (see Table C2).

⁵ Lee, W.L. (Sep. 27, 2011). Petrona's profit falls, but will pay government RM30b. *The Malaysian Insider*. Retrieved on Sep. 27, 2011 from

<http://www.themalaysianinsider.com/mobile/malaysia/article/petronas-profit-falls-but-will-pay-government-rm30b/>.

⁶In Malaysia, micro enterprises with five or less employees, are included in the category of SMEs.

⁷ National SME Development Council. (2010). *SME Annual Report 2009/2010*, p.21.

⁸ In Malaysia, retail and wholesale are grouped under the category of service.

⁹ Readers should note that the 2005 Census only surveyed a sample of about half a million establishments, or about one third of the then active listing at Companies Commission. Therefore, the sample could have biased towards small firms that were willing to participate in the survey.

Table C1 Definition of SMEs

To be classified as SME, a firm should meet one of the following criteria:

By annual sales turnover:

Size	Manufacturing (including agro-based) and manufacturing related services	Primary agriculture	Services Sector (including ICT)
Micro	Less than RM250,000	Less than RM200,000	Less than RM200,000
Small	From RM250,000 to less than RM10 million	From RM200,000 to less than RM1 million	From RM200,000 to less than RM1 million
Medium	From RM10 million to less than RM25 million	From RM1 million to less than RM5 million	From RM1 million to less than RM5 million

By number of full-time employees:

Size	Manufacturing (including agro-based) and manufacturing related services	Primary agriculture	Services Sector (including ICT)
Micro	Less than 5 employees	Less than 5 employees	Less than 5 employees
Small	From 5 to less than 50 employees	From 5 to less than 20 employees	From 5 to less than 20 employees
Medium	From 50 to less than 150 employees	From 20 to less than 50 employees	From 20 to less than 50 employees

Source: National SME Development Council. (2010) SME Annual Report 2009/10, p. 190.

Table C2 Importance of Micro enterprises to Three Key Economic Sectors in Malaysia

	Manufacturing	Services	Agriculture
Micro firms in the sector	55.3%	80.4%	93.3%
All SMEs to total establishments in the 2005 survey	96.6%	99.4%	99.2%

Source: Department of Statistics Malaysia. (2005). Census on Establishments and Enterprises 2005.

Even though the SMEs' contribution to the country's economy is significant, it is not as prominent as in other developing and developed countries. Japan's SMEs accounted for 53 percent of the country's GDP in 2007, Germany's 53 percent in 2008, South

Korea's 49 percent in 2007, and Thailand's 38 percent in 2008¹⁰. Nonetheless, SMEs' role in providing employment and business opportunities to small-scale entrepreneurs is crucial in achieving the country's objectives of income equality across various ethnic and socio-economic groups as well as rural income generation, and thus stability¹¹. The Malaysian government, since its First Malaysia Plan (1966-1970), has invested significant resources to promote entrepreneurship in the country to achieve these social objectives

C3 Disproportionate Presence of Chinese in Business

The Chinese population has been dropping relative to the Malay population over the last three decades. At present, Malaysia's population comprises about 66 percent Malay, 23 percent Chinese and the remainder Indian and other indigenous people. However, the Chinese continue to be disproportionately represented in the management of Malaysia's businesses, in particular those in the manufacturing sector. According to the directory of the Federation of Malaysia's Manufacturers, the majority of the manufacturing CEOs are Chinese¹². The Chinese also have a prominent presence in ownership of business. These generalizations are well supported by several academic studies as well as official reports. Accordingly, Chinese equity ownership rose to 45.5 percent in 1990 from 22.8 percent in 1969, and remained at 37.9 percent in 1999 (Table C3).



¹⁰ National SME Development Council. (2010) *SME Annual Report 2009/10*, p. 23.

¹¹ Hashim, K.M. (2000). SMES in Malaysia: Past, Present and Future. *Malaysian Management Review*, 35(1). Retrieved from <http://mgv.mim.edu.my/MMR/0006/frame.Html/> on September 2, 2011.

¹²FMM (Federation of Malaysia's Manufacturers). *Directory 2009*.

Table C3 Malaysia Ownership of Share Capital (at Par Value) of Limited Companies, 1969-1999 (in Percentage)

	1969	1975	1980	1990	1999
Bumiputera individuals and trust agencies	1.5	9.2	12.5	19.2	19.1
Chinese	22.8	n.a.	n.a.	45.5	37.9
Indian	0.9	n.a.	n.a.	1.0	1.5
Others	-	-	-	-	0.9
Nominee companies	2.1	6.0	n.a.	8.5	7.9
Locally-controlled firms	10.1	-	-	0.3	-
Foreigners	62.1	53.3	42.9	25.4	32.7

n.a. not available

Adapted from Gomez, E.T. (2004). State of Malaysia: Ethnicity, Equity and Reform, London: Routledge, p. 158. Permission was given for reprint.

Sources: Seventh Malaysia Plan, 1996-2000; Eighth Malaysia Plan, 2001-2005.

C4 Ali-Baba “Joint Venture”

Ali-Baba joint venture refers to a unique type of firm collaboration that takes place in Malaysia. It is essentially a partnership between a Malay (Bumiputera)¹³ firm, “Ali” and a Chinese firm, “Baba”¹⁴. This Ali-Baba arrangement is a response to the country’s wealth redistribution policy that began in 1970. Under this policy the government grants Bumiputera firms easier access to government resources and opportunities, particularly in licences and government procurement contracts. In order to participate, Chinese firms collaborate with Malay firms, which obtain government contracts or licence while the services or products are primarily provided by the Chinese firms. Even though there are no reliable statistics of the number of Ali-Baba firms, it is believed that there are many such firms in the country. Some Bumiputera simply set up separate companies for the purpose of bidding government contracts or licences for the “Baba” to operate. In reality, many of them are dormant firms without business activity. See Box C1 for a real business case.

¹³ Bumiputera literally means “son of the soil” in Malay language and refers to the Malay and other indigenous minorities.

¹⁴ Baba refers to the Chinese descendants born along the Strait of Malacca.

Box C1 An Example of an Ali-Baba Firm

"I am in the freight forwarding business. We handle shipments, and today it is more commonly known as logistics..... In the past, around 20 years ago, everyone could apply for a forwarding licence because there was no restriction. But as time passed, about 10 years ago, the authorities began to require licences. Then after the new economic policy was implemented, only Bumiputera had the rights to hold the license. The licences were issued only to Bumiputera. A few years later, the authorities started to relax the law regarding this matter but a Bumiputera partner is still required to obtain a licence. They do not allow a non-Bumiputera to hold 100 percent equity in a logistics company.....Therefore, in everything we earn, some percentages will go to him (the Bumiputera partner).....The government labels us as Ali-Baba companies. I do not mind admitting that we are Ali-Baba firm, because they require us to do business this way. That is why I have no choice. I have to split my company, and the firm's operations. One is purely about logistics and the other is related to the customs. Thus, I put the customs-related business under a separate company which is legally owned by my Malay partner."

A Chinese partner in a logistics firm in Petaling Jaya

C5 Lower Female Labour Participation and Firm Ownership

Compared to other Southeast Asian countries, fewer Malaysian women above 15 years participate in the labour force. As shown in Table 3, female labour participation in Malaysia was 44 percent in 2009 which was the lowest rate among ASEAN countries (see Table C4).

Table C4 Female Labour Participation in Malaysia and other selected countries in 2009

Country	Female labour participation (%)
Malaysia	44%
Brunei	60%
Cambodia	74%
Indonesia	52%
Myanmar	63%
Philippines	49%
Laos	78%
Singapore	54%
Thailand	66%
Vietnam	68%
Middle income countries (developing)	50%
World	52%

Source: <http://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS/countries?display=default/>

With regards to female business owners, in 2006, there were as many female entrepreneurs as male in early start-up firms (less than 3.5 years old) while the ratio of female to male business owners in established firms (3.5 years or older) was 0.72. These ratios seem to suggest that there were equal number of Malaysian women and men that were motivated to launch their business, whereas in sustained enterprises, there were fewer female business owners than male (Table C5).¹⁵

Table C5 Percentage of Population in Total Early-startup Activity and Established Business Owners by Gender in Selected Countries

Country	Total Early Startup Activity			Established Business Owners		
	Female (%)	Male (%)	Female/ Male	Female (%)	Male (%)	Female/ Male
Malaysia	11.13	11.05	1.00	6.12	8.49	0.72
Thailand	14.18	16.25	0.87	17.27	17.57	0.98
Indonesia	18.73	19.84	0.94	14.61	20.63	0.71
Philippines	22.45	18.40	1.22	13.36	26.15	0.51
Singapore	3.75	6.00	0.63	1.37	5.48	0.25
India	9.16	11.60	0.79	3.84	7.26	0.53
China	15.73	15.70	1.00	10.52	13.67	0.77

Source: *Global Entrepreneurship Monitor Thailand 2006 Executive Report*, p.26.

Note: Total Early-startup Activity refers to involvement in firms that are less than 3.5 years old. Established business refers to firms that are 3.5 years or older.



¹⁵ Virasa, T., Hunt, B., Shannon R. & Tang, Zhimin (2007). *Global Entrepreneurship Monitor Thailand 2006 Executive Report*, p.26.

C6 Geographic Distribution of Firms

The number of firms indicates the level of economic activities of a locality. In Malaysia, economic activities centre in three of the 13 states and three federal territories. About a quarter of Malaysian firms are located in Selangor, 14.5 percent in Kuala Lumpur, the country's capital, and 11.3 percent in Johor, the state bordering Singapore.

Table C6 Numbers of Firms in Malaysia by State in 2011

State and Federal Territory	Total No. of Businesses and Companies	Percentage
Johor	176,578	11.3
Kedah	113,395	7.2
Kelantan	73,028	4.7
Melaka	47,773	3.0
Negeri Sembilan	94,671	6.0
Pahang	96,857	6.2
Perak	132,036	8.4
Perlis	17,797	1.1
Pulau Pinang	107,273	6.8
Sabah*	18,162	1.2
Sarawak*	25,703	1.6
Selangor	380,148	24.2
Terengganu	41,484	2.6
Wilayah Persekutuan Labuan	2,502	0.2
Wilayah Persekutuan Putrajaya	14,557	0.9
Wilayah Persekutuan Kuala Lumpur	227,065	14.5
Total	1,569,029	100.0

Source: Suruhanjaya Syarikat Malaysia, SSM (Companies Commission Malaysia)

Note: SSM classifies firms registered as sole proprietorship and partnership as business, and incorporated firms as companies. It does not register businesses in Sabah and Sarawak and so the data for these two states only include companies

Appendix D

Business Environment Unweighted Index 2012

Unweighted BEI by order of score											
District	Transparency	Regulatory costs	Entry costs	Informal charges	Crime and security	Land access and security of tenure	Infra-structure and business development services	Proactive government	Property rights & dispute resolution	Total (max. 90)	Adjusted total (max. 100)
Kemaman	5.96	6.83	8.85	6.86	7.57	3.90	6.99	8.50	6.87	62.32	69.25
Selangor	6.18	7.91	5.28	7.87	8.34	6.11	9.63	4.64	3.60	59.58	66.19
Nilai	3.71	4.64	8.03	8.10	8.36	4.38	9.20	6.52	4.92	57.85	64.28
Kuala Terengganu	6.26	7.48	9.97	5.67	6.66	5.54	5.92	5.01	4.77	57.29	63.66
Kluang	7.81	4.87	6.91	7.19	5.46	4.49	6.05	6.15	8.03	56.95	63.28
Batu Pahat	5.06	7.07	6.42	4.79	9.14	7.79	8.10	3.98	4.07	56.42	62.69
Johor Bahru	6.56	6.16	7.12	5.71	7.26	5.28	7.55	4.30	4.05	54.00	60.00
Timur Laut, P.P.	3.67	8.88	5.44	4.80	5.39	4.34	5.66	5.78	2.90	46.86	52.07
Temerloh	4.97	4.68	6.43	6.17	6.50	5.40	5.03	2.93	1.97	44.08	48.97
Petaling Jaya	4.28	3.07	6.34	3.02	3.22	5.09	6.61	4.70	4.38	40.72	45.25
Ampang Jaya	4.89	4.02	5.06	3.64	3.87	3.53	5.66	5.36	2.63	38.66	42.96
Minimum	3.67	3.07	5.06	3.02	3.22	3.53	5.03	2.93	1.97	38.66	42.96
Maximum	7.81	8.88	9.97	8.10	9.14	7.79	9.63	8.50	8.03	62.32	69.25
Range	4.14	5.81	4.91	5.08	5.92	4.27	4.61	5.56	6.06	23.66	26.29
Median	5.06	6.16	6.43	5.71	6.66	5.09	6.61	5.01	4.07	56.42	62.69
Standard Deviation	1.28	1.83	1.53	1.65	1.89	1.18	1.52	1.48	1.78	8.17	9.08

Appendix E

Description of Sub-indices and Indicators

Sub-index	Dimension	Indicator
<i>Transparency</i> A measure of the ease of accessing the proper government information or legal documents necessary to run their business, and of the extent to which new policies and laws are communicated to firms and predictably implemented.	1) <i>Access to information on federal policy</i> - A measure of the ease of obtaining federal government information, and usage of such online service.	a) Percentage of firms that said getting information on federal policies is easy or very easy.
		b) Percentage of firms that accessed federal documents online of those that used computers/internet at least sometimes.
		c) Percentage of firms that did not know federal documents were online of those that use computers/internet at least sometimes but had not accessed such documents.
	2) <i>Access to information on state/local policy</i> - A measure of the ease of obtaining state/local government information, and usage of such online service.	d) Percentage of firms that said getting information on state/local government policies was easy or very easy.
		e) Percentage of firms that said getting information on land titling was easy or very easy.
		f) Percentage of firms that accessed state/local documents online of those that used computers/internet at least sometimes.
		g) Percentage firms that did not know state/local documents were online of those that used computers/internet at least sometimes but had not accessed such documents.
	3) <i>Federal policy risk</i> - A measure of frequency and predictability of federal policy changes.	h) Percentage of firms that said that there were always or frequently changes in federal laws that significantly affected their business.
		i) Percentage of firms that said they always or frequently knew about these changes in federal laws in advance.

Appendix E (continued)

Sub-index	Dimension	Indicator
<i>Regulatory costs</i> A measure of the amount of time firms spend on bureaucratic compliance and waiting periods, as well as of the frequency and the duration of inspections by local regulatory agencies.	1) <i>Time costs of document renewal</i> - A measure of time spent on government regulatory compliance.	a) Percentage of firms waiting more than one day to renew Companies Commission registration. b) Percentage of firms waiting more than one day to renew business license.
	2) <i>Time costs of inspections</i> - A measure of number and duration of inspections and the difficulty of inspections.	c) Mean number of inspections per year. d) Mean duration of business license inspection. e) Percentage of firms saying inspections were easy or very easy.
	1) <i>Time and monetary costs</i> - A measure of the time and monetary costs for required start-up documents.	a) Median days to obtain a Companies Commission registration. b) Median days to obtain a business license. c) Median cost for a business license.
	2) <i>Ease of obtaining documents</i> - A measure of the ease of obtaining start-up documentation.	d) Percentage of firms that have a Companies Commission registration and a business license. e) Percentage of firms that said it was easy or very easy to obtain all required start-up documentation.
<i>Informal charges</i> A measure of the prevalence of paying informal charges for firm level operations as well as the fairness of the government procurement.	1) Micro corruption- A measure of monetary payments for getting service delivered.	a) Percentage of firms that agree or strongly agree that local government treats all bidders for public contracts fairly. b) Percentage of firms that agree or strongly agree that the government chooses bidders based on merit.
	2) Macro corruption- A measure of the extent to which the public procurement process is fair.	c) Percentage of firms that agree or strongly agree that personal connections to officials are important for winning public contracts. d) Percentage of firms that agree or strongly agree that political party backing is important for winning public procurement contracts.

Appendix E (continued)

Sub-index	Dimension	Indicator
<i>Crime and security</i> A measure of the amount of financial loss due to crime and the need to hire security services for protection.	1) <i>Explicit loss from crime</i> - A measure of the scope and intensity of explicit losses from crime.	a) Percentage of firms that experienced losses in the last year due to theft, robbery, vandalism or arson.
		b) Median value of losses due to theft, robbery, vandalism or arson.
	2) <i>Implicit loss from crime</i> - A measure of the implicit opportunity cost of crime through security spending.	c) Percentage that said it was necessary for firms in their line of business to hire security services.
		d) Percentage of firms that strongly agreed or agreed that it was necessary to pay protection money to local police officers to ensure protection.
<i>Land access and security of tenure</i> A measure of the formal rights to business premises and the perceived security of tenure once land is properly acquired.	1) <i>Land access</i> - A measure of the ease of purchasing or renting land for business purposes.	a) Percentage of land owning businesses which said that it was easy or very easy to obtain land.
		b) Percentage of firms that agreed or strongly agreed that state officials had too much autonomy in deciding land prices.
	2) <i>Land tenure</i> - A measure of security of land tenure for business purposes.	c) Percentage of renters who said that rental risk was high or very high.
		d) Percentage of firms that said land was always or frequently expropriated by the government.
<i>Infrastructure and Business Development Services</i> A measure of the availability of business development facilities and the availability and quality of infrastructure.	1) <i>Availability</i> - A measure of the availability of infrastructure, and business and business support facilities.	a) Factor scores for infrastructure availability data.
		b) Percentage of firms reporting that lack of business support facilities is minor or no obstacle.
		c) Percentage of firms reporting that availability of commercial and industrial facilities is minor or no obstacle.
	2) <i>Quality</i> - A measure of the quality of infrastructure.	d) Percentage of firms saying that road quality is minor or no obstacle.
		e) Median number of electricity outages per year.
		f) Median number of water outages per year.

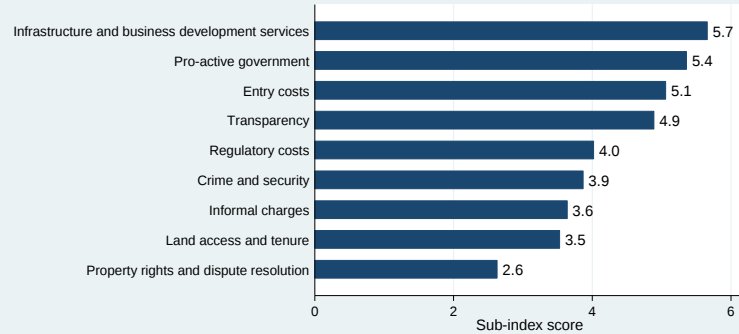
Appendix E (continued)

Sub-index	Dimension	Indicator
<i>Proactive government</i> A measure of the effectiveness of federal, state, and local government programmes and of businesses' awareness of major pro-economic development programmes initiated by the federal government.	1) <i>Awareness of federal government programmes</i> – A measure of the awareness of PERMUDAH, ETP and GTP.	a) Percentage of firms aware of PEMUDAH. b) Percentage of firms aware of the Economic Transformation Programme (ETP). c) Percentage of firms aware of the Government Transformation Programme (GTP).
	2) <i>Effectiveness of federal government programmes</i> – A measure of the perception to effectiveness and ability of federal government and ministries.	d) Percentage of firms saying that the federal government is effective or very effective in implementing changes in laws, rules and regulations. e) Percentage of firms that agree or strongly agree that the ETP will increase business opportunities in the country. f) Percentage of firms that disagree or strongly disagree that ministries with influence over their industry don't understand the industry. g)
	3) <i>Effectiveness of state and local programmes</i> – A measure of the effectiveness and ability of local and state governments.	h) Percentage of firms that agree or strongly agree that local and state governments are thoughtful in business needs. i) Percentage of firms that agree or strongly disagree that local and state governments are creative and clever in solving new business problems.
	<i>Property rights and dispute resolution</i> A measure of confidence in both the legal system's protection of property rights and in the fairness of dispute resolution.	a) Percentage of firms saying that they agree or strongly agree that the system will uphold their property rights. b) Percentage of renters saying that there is always or frequently a fair process to dispute rental contracts. c) Percentage of firms saying that there is always or frequently a fair process to dispute private owned land.

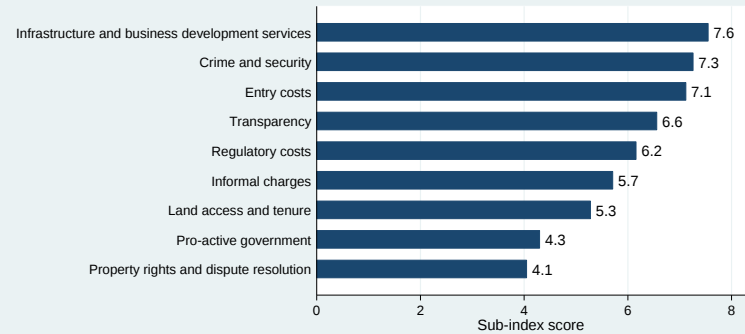
Appendix F

Results by District

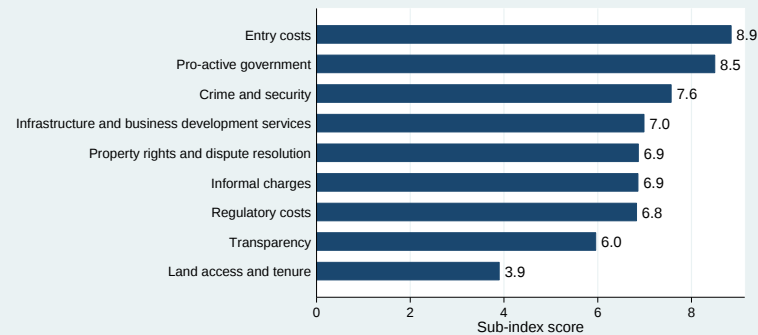
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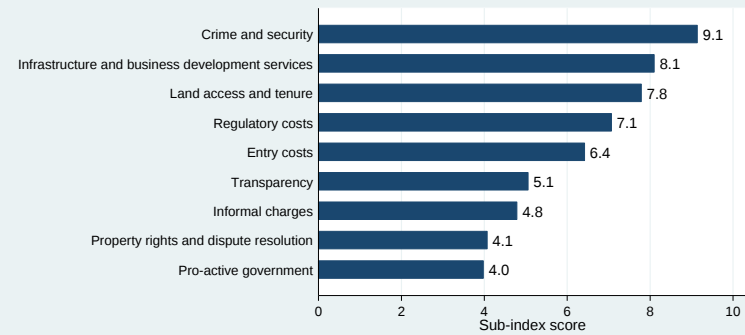
Johor Bahru



Kemaman

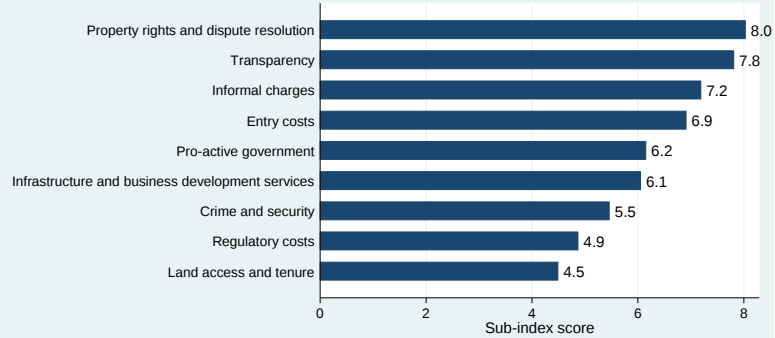


Batu Pahat

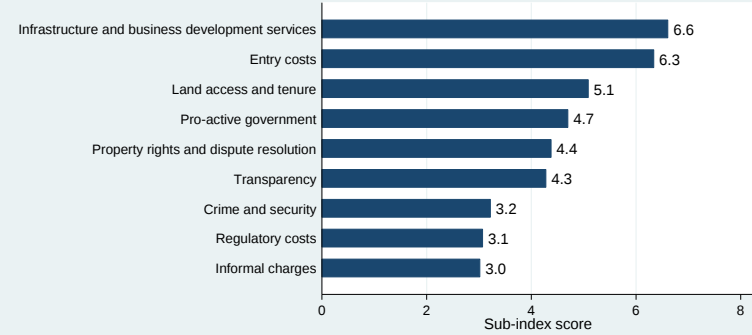


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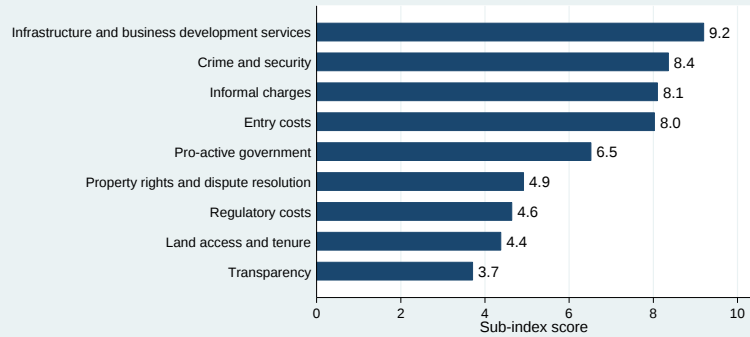
Kluang



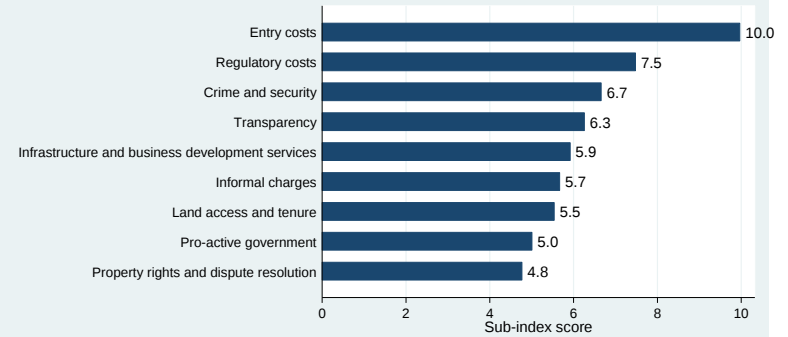
Petaling Jaya



Nilai

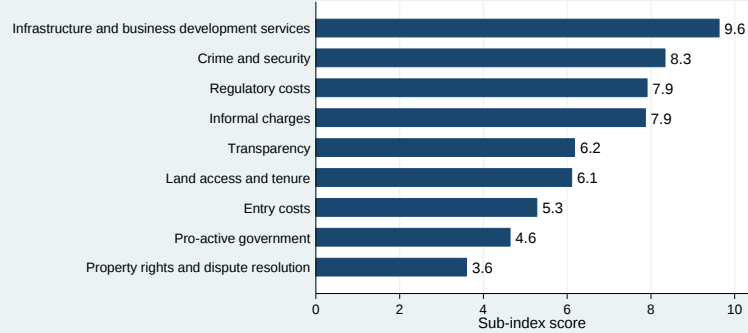


Kuala Terengganu

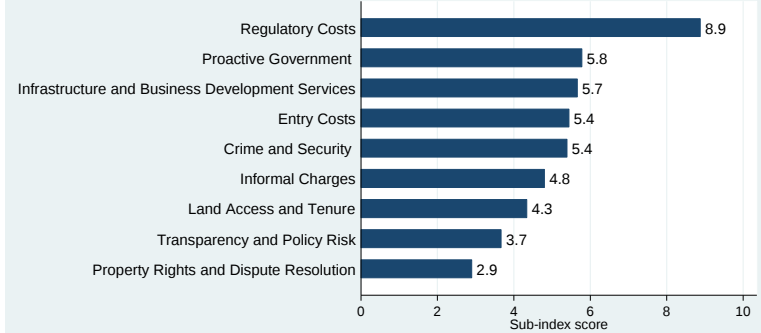


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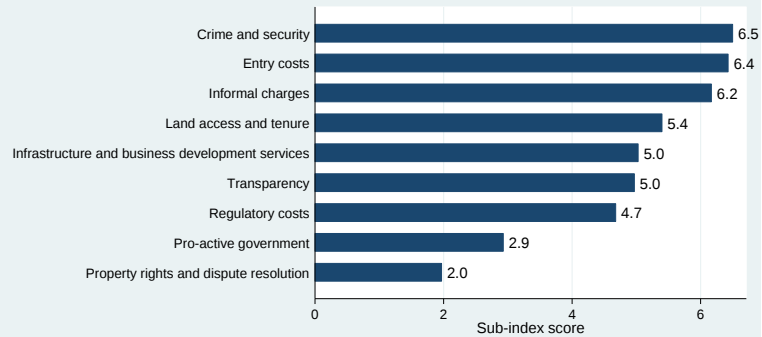
Sepang



Timur Laut, Pulau Pinang



Temerloh





The Asia Foundation



MONASH University
Sunway campus

The Asia Foundation

The Asia Foundation is a nonprofit, nongovernmental organization committed to the development of a peaceful, prosperous, just, and open Asia-Pacific region. The Foundation supports Asian initiatives to improve governance and law, economic development, women's empowerment, the environment, and regional cooperation. Drawing on nearly 60 years of experience in Asia, the Foundation collaborates with private and public partners to support leadership and institutional development, exchanges, and policy research.

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Established in 1990 as Malaysia's first credit rating agency, RAM Holdings Berhad (formerly known as Rating Agency Malaysia Berhad) is the market leader and catalyst for the development of the domestic debt capital market. It has developed a strong track record and pool of expertise in economic and financial analyses, industry studies and corporate credit rating.

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The Sunway campus is one of the international campuses of Monash University, providing a quality and inspiring learning experience to students helping them become responsible global citizens. The School of Business conducts academic as well as applied research that guides and promotes industry development with a research agenda that emphasizes interdisciplinary approaches and academic rigor.