

CHAPTER 5

CONCLUSION AND DISCUSSION

The net growth of small firms is related to the GDP growth rate and the company tax rate in a simple linear relationship. Other economic factors such as rate of inflation and interest rate were thought to have some bearing on net growth of small firms but statistics from period under study shows otherwise.

From the research, we could sum up that:

1. In booming economy (growing GDP), net growth of new firms is higher
2. Company tax rate has some predictive value on the net growth of small firms.

Referring back to the questions we hope to be able to be answered by this research:

1. To investigate any trends in the new firms start-ups, closures and net growth in relation to the business cycle.
2. The relationship between the net growth of small firms and the economic factors.
3. What type of economic environment is conducive for the development of enterprises, apart from financial assistance?"

To answer question 1, Table 4 shows that net growth of small firm has a positive correlation with the GDP growth. However, as could be observed from Figure 3, the net growth rate of small firms started to decline even before the GDP growth rate began to slow down and the net growth of small firms showed any increase later than the increase in GDP. This trend shows that the net growth of small firms behaves like a "leading indicator", leading the economy downturn and "lagging" behind the economy recovery. Also, as indicated in Figure 3, entry rate of small firms follows a trend similar to the trend exhibited by the net growth rate of small firms. This is due to the extremely low exit rate of firms throughout 1980 – 1998.

To answer question 2, the regression analysis shows that the rising trend of net growth of small firms could be predicted by an increase in GDP growth rate and a reduction in company tax rate. Interest rate does not have any predictive power on the net growth of small firms. However, the correlation analysis shows that interest rate has some negative despite a weak correlation with the net growth of small firms. This may be because the analysis was done on only a short period of time. Should the analysis be done for two business cycles a more obvious correlation may be observed.

To answer question 3, this study could not prove any government policy on interest rates or rate of inflation to be able to predict or to correlate with the net growth of small firm. However, these findings suggest a possible role of government in inducing the rise in small firm startups. Government could work on encouraging GDP growth and decreasing company tax rate. The period of high GDP growth is also the period with high level of business activities. So, during this period of time, assistance and aids to develop small firm should be enhanced so that small firm could find its foothold, strengthened, grow and survive the reverse cycle of economy. If this could be achieved, there is the probability that small firm could escape the fate of close-down. Apart from this, keeping BLR low promotes small firm startups.

This study is done on Malaysia, a country with a history of rather stable rate of inflation, interest rate, and company tax rate. Similar study done on other countries may show different relationships.

SUGGESTION

This study does not include professional and institutional establishments. Future study could consider expanding into this sector. Apart from this, another similar study using two business cycles may also be carried out to confirm the relationship arrived in this study.

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