



Systematic Operational Budgeting: The Preliminary Study on Perception of SMEs Entrepreneurs

Norhayati Zamri¹, Norul Akma Mansor², Liyana Ab Rahman³

¹Faculty of Accountancy, Universiti Teknologi MARA, Perak Branch, Tapah Campus, 35400 Tapah Road, Perak, Malaysia, norha266@perak.uitm.edu.my

²Faculty of Accountancy, Universiti Teknologi MARA, Perak Branch, Tapah Campus, 35400 Tapah Road, Perak, Malaysia, norul195@perak.uitm.edu.my

³Faculty of Accountancy, Universiti Teknologi MARA, Perak Branch, Tapah Campus, 35400 Tapah Road, Perak, Malaysia, liyana748@perak.uitm.edu.my

ABSTRACT

Inability to acquire and comprehend the required financial and management skills are blamed to be the fathom of failures of small medium enterprises (SMEs) in Malaysia, as reported by Beh (2013). Small business is a critical contributor to Malaysia's economic recovery and strength, to building Malaysia's future and to compete in today's ever-challenging global marketplace. Realizing the above, it drives the current study to investigate i) the perception of the SMEs entrepreneurs in budgeting and record keeping and ii) the need for a systematic operational budgeting to assist SMEs entrepreneurs in recording basic costing transactions. The findings of this study have implications for SMEs entrepreneurs in Malaysia. It will contribute to existing literature which highlight the lack of systematic operational budgeting among SMEs entrepreneurs in rural areas. Therefore, there is a need for the proper budgeting system that lead for better SMEs transformation and empower entrepreneurship towards a sustainable economy

Key Words: SME, budgeting, costing system, financial management.

1. INTRODUCTION

The small and medium enterprises (SMEs) play an imperative role in propping up the nation's economy since they contribute more than a third to the Malaysia gross domestic product (GDP). Recent data by the Department of Statistics Malaysia showed that SMEs recorded a growth of 5.2 % in year 2017 with the SME segment hires 5.7 million employees constituting almost half of total employment and representing 98.5% of the establishments in Malaysia (New Straits Times, 2017). Realizing the significant contribution of SMEs, RM20

billion under the 2018 Budget has been allocated for SMEs development with the expectation to have a GDP growth of 6.5 to 7.5% next year. This is in line with the SME Masterplan 2012-2020 whereby this is a structured framework to advance SMEs development besides other plans such as training, promotional and financing programmes.

Since a lot of allocation has been invested by the government, it is crucial for SMEs to have a proper financial planning and management. A proper and systematic budget can facilitate SMEs to use the information to project product cost, units sold, sales revenues, overheads, net profit and net profit margin percentage. However, it was revealed that most SMEs did not understand what financial planning is (Mutanda, 2014). In addition, the entities did not appreciate the importance of financial plans/budget for the continuity of their enterprise until they were unable to budget and manage finances effectively. In most cases, the main factors that inhibit SMEs from using budgets are lack of top management support and qualified personnel (Maduekwe and Kamala, 2016). In addition, SMEs also face problems in utilizing the technology due to the lack of talent and potential. They are left behind in taking advantage of the developments in digital economy and e-commerce to increase efficiency, enhance productivity and grow sales. Therefore, SMEs need to have a systematic and effective operational budgeting in order to assist them to record the costing transaction in a standardized, fast and effective way. Consequently, it is also important to help them to formulate future plans and to make decisions from generating accurate and reliable cost statement. Failure to utilize budgets would cause these enterprises to be susceptible to failure (Mutanda, 2014).

While various studies have focused largely on the use of budgeting in SMEs around the world such as in Cape Metropolis, South Africa (Maduekwe & Kamala, 2016); in Canada (Armitage & Webb's, 2013); in India (Joshi, 2001) and recently in Malaysia (Ahmad, 2014), very few have emphasized on the relevance of the budgeting especially regarding the issues on the need for the systematic operational budgeting in Malaysia. Therefore, this paper attempts to fill in the gap in the prior literature by investigating:

- i) the perceptions of the SME entrepreneurs in budgeting and record keeping;
- ii) the need for a systematic operational budgeting to assist SME entrepreneurs in recording basic costing transactions.

2. LITERATURE REVIEW

2.1. Overview of SMEs in Malaysia

Different countries may have different definition for SMEs since it depends on the various demographic factors and characteristics such as size, sales volume and number of employees (Zeinalnezhad, Mukhtar & Sahran, 2011). According to the report by The Malaysian Reserve in 2018, there was a new revised definition of SMEs in Malaysia where for the manufacturing sector, the threshold for annual sales turnover was doubled from RM25 million

previously to RM50 million. For the services sector, the sales turnover threshold was quadrupled from RM5 million previously to RM20 million. As a result of these new definition for SMEs, more than 8,000 firms previously classified as large firms were reclassified as medium firms. Subsequently, they are able to enjoy the benefits extended to SMEs including grants from the government. Table 1 shows detailed new definition by category of SMEs that was effective from 1 January 2014.

Table 1 New Definition of SMEs by Category

S I Z E	M I C R O		S M A L L		M E D I U M	
	Sale s Turno ver	Emplo ees	Sal es Turno ver	Emplo ees	Sale s Turno ver	Emplo ees
Manufacturin g	< RM300,0 00	< 5 emplo ees	RM300,0 00 to < 15 million	5 to < 75 emplo ees	RM15 milli on to ≤ 50 million	75 to ≤ 200 emplo ees
Services & other sectors			RM300,0 00 to < 3 million	5 to < 30 emplo ees	RM3 milli on to ≤ 20 million	30 to ≤ 75 emplo ees

Source: SME Annual Report 2016/2017

In Malaysia, the National SME Development Council (NSDC) has been responsible for SME development in Malaysia by setting strategic direction and formulating policies. As the Secretariat to the NSDC since 2009, SME Corporation Malaysia (SME Corp. Malaysia) is a Central Coordinating Agency under the Ministry of International Trade and Industry Malaysia that formulates overall policies and strategies for SMEs. It acts as the central point of reference for research and data dissemination on SMEs as well as provides advisory services for SMEs in Malaysia. Up to now, there were various development programmes have been introduced for the development of SMEs such as SME Masterplan 2012-2020, Digital Free Trade Zone (DFTZ), 4th Industrial Revolution (IR 4.0) and Leading Entrepreneur Accelerator Platform (LEAP) Market. All of these programmes were developed to enable SMEs to adapt and thrive in a more open environment as well as to participate actively in the digital transformation.

Currently, the government has launched two new initiatives which are the Companies Act 2016 and the Malaysia Productivity Blueprint with the hope to bring positive impact on the development of SMEs and entrepreneurship (SME Annual Report, 2016/2017). The revamped

Companies Act 2016, among others, aims to facilitate the setting up and operation of businesses by introducing a new legal framework, simplifying of laws and procedures and removal of obstacles to encourage growth. Meanwhile, the Malaysia Productivity Blueprint aims to raise productivity levels at the national, sectoral and enterprise levels with focusing on various initiatives specific to addressing productivity challenges in the SME sector. With all of the facilities provided by the government, SMEs should grab these opportunities to expand (Norasikin, Norailis & Izlawanie, 2013) and become more competitive and able to increase trade not only locally, but also globally.

Focusing on the utilisation of ICT among SMEs, SME Corp Malaysia has conducted a survey in the third quarter 2016 and the first quarter 2017. Based on the results, majority of the respondents used computers, smartphones and the internet in their daily business operations. Meanwhile, the survey also revealed that about 27.2% of the respondents have participated in online businesses, whereby 20.0% of their total business sales were from online sales. Most of the respondents who were selling products and services online used social media platforms (85.4%) such as Facebook and Instagram. The involvement of SMEs in online business indicated that they wanted to reach out to better wider market and business opportunities. Additionally, among of those involved in online businesses, about 15.6% of them export their products and services online. Therefore, this survey confirmed that SMEs that leverage on ICT have greater potential to increase their efficiency and productivity, thus enable them to raise their business to the next level (SME Annual Report, 2016/2017).

2.2. Budgeting method of SMEs

Budget is defined as “A quantitative expression of a plan for a defined period of time. It may include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows” (CIMA Official Terminology, 2005). The study conducted by Ahmad (2014) confirmed that budgets assist entrepreneurs in monitoring, measuring business performance, planning for future operations and controlling activities. This is further supported by the study done by Maduekwe and Kamala (2016) who then added that presentable budgeting plan is important to convince the provider of capital about the business’s strategic plan to make profit. Thus, it is vital for businesses particularly SMEs to have a proper record of budgeting for them to fix selling price, set targeted profit, make comparison with the actual figures and take corrective action to sustain the business’s growth. However, those SMEs operating in rural areas faced difficulties in recording budgeting because the owners’ lack of knowledge in management accounting field. Mohd. Amy Azhar, Harizal and Hoe (2010) in their study reported that entrepreneurs in Malaysia operate the business on their own without having formal education background and this raised many management problems.

Apart of that, SMEs entrepreneur is so used with the traditional way of recording through book keeping. Based on the survey conducted among non-manufacturing bumiputra small and medium sized firms in Malaysia, only 14 percent of them prepared accounting information using accounting software. Among the reasons given for not using accounting software are because they feel that manual accounting system is sufficient and their lack of financial resources (Ismail & Mat Zin, 2009). According to SME Corporation Malaysia (2013), SMEs in Malaysia are still unfamiliar with operating a computer and won't take the risk as an opportunity to enhance their competitive edge. Most recently, Abdul Rahman, Yaacob and Mat Radzi (2016) further confirmed that among factors that hinder SMEs growth are the lack of management and marketing skills especially in terms of computerized record keeping and networking. When information is lacking, SMEs have poor control and make decision based on ad-hoc basis (Ismail & Mat Zin, 2009). Thus, there is a need for SMEs to utilise technology to increase the operational efficiency, profitability and growth of the business and to remain competitive in the stiff market. By having computerized budgeting system, it is easy for entrepreneur to keep track previous cost, revenue and profit for future planning. Ahmad (2014) claimed that smaller sized of SMEs need a basic budget and some standard cost figures especially for pricing and cost decisions. The same author also suggested that the system being used should be easy to use, understand and maintain; and more importantly, that it is flexible and cost effective.

The survey conducted on SMEs in Cape Metropolis, South Africa revealed that among various types of budgets commonly used are sales budgets, purchases budgets and cash budgets (Maduekwe & Kamala, 2016). Similarly, sales budget, cash flow budget, and production budget are considered as high extent of use, while, purchased and flexible budgets is classified as moderately used by manufacturing SMEs in Malaysia (Ahmad, 2014). Thus, this triggers the current study to gather information about the needs of systematics operational budgeting for SMEs particularly in rural areas for them to record cost in a fast and effective ways.

3. METHODOLOGY

A structured questionnaire is used as an instrument to gather related information to ensure that all information required for analysis would be obtained. Thus, the final sample of 115 respondents of SMEs businesses particularly in rural areas was used to survey the perceptions of the SMEs entrepreneurs in budgeting and record keeping and the need for a systematic operational budgeting to be used in their business operations. The survey was administered through face to face survey and phone calls survey. The questionnaire was divided into three sections namely background of the firm, perceptions regarding budgeting and record keeping and perceptions regarding systematic operational budgeting. The questionnaire used a

4-point Likert scale ranging from “1= strongly disagree” to “4 = strongly agree”. The process of survey was conducted for almost two and a half months.

4. RESULTS AND DISCUSSIONS

The total sample used are from business in rural area that manufacture finished products such as banana and cassava chips, junk foods, salted fishes, fruits, bakeries, handicrafts etc. Figure 1 shows the backgrounds of respondents in SMEs industry that were analysed using the frequency analysis.

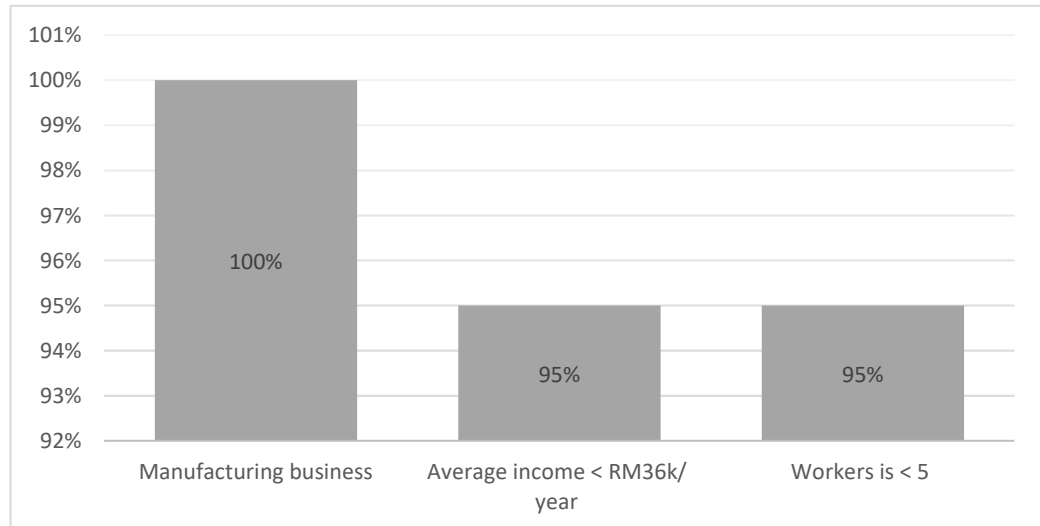


Figure 1: Business Profile

The result indicates that 95% from the total respondents are among those businesses with the average income less than RM36,000 per year or number of workers at minimum of 1 and maximum of 5. Figure 2, then, shows the knowledge of budgeting and record keeping among respondents that were analysed using the frequency analysis.

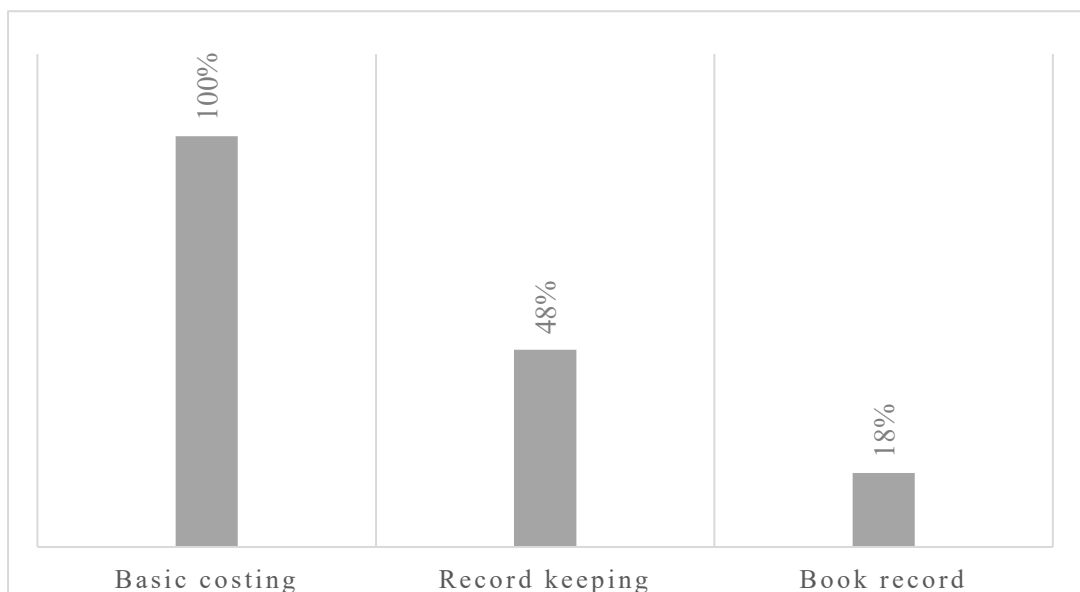


Figure 2: Responses on the Budgeting and Record Keeping

Apparently, all of the respondents did realise how to prepare costing or at least understood on how to setting up their selling price after mark-up the sum of cost incurred. However, less than 50% have record keeping but among them, there are only 18% of respondents who have proper book record (for example; preparing of three column ledgers to record cash in and out, keeping all receipts in one file, list of suppliers with different quoted price offers, etc.).

Further analysis on the needs of systematic operational budgeting is presented in Figure 3 below.

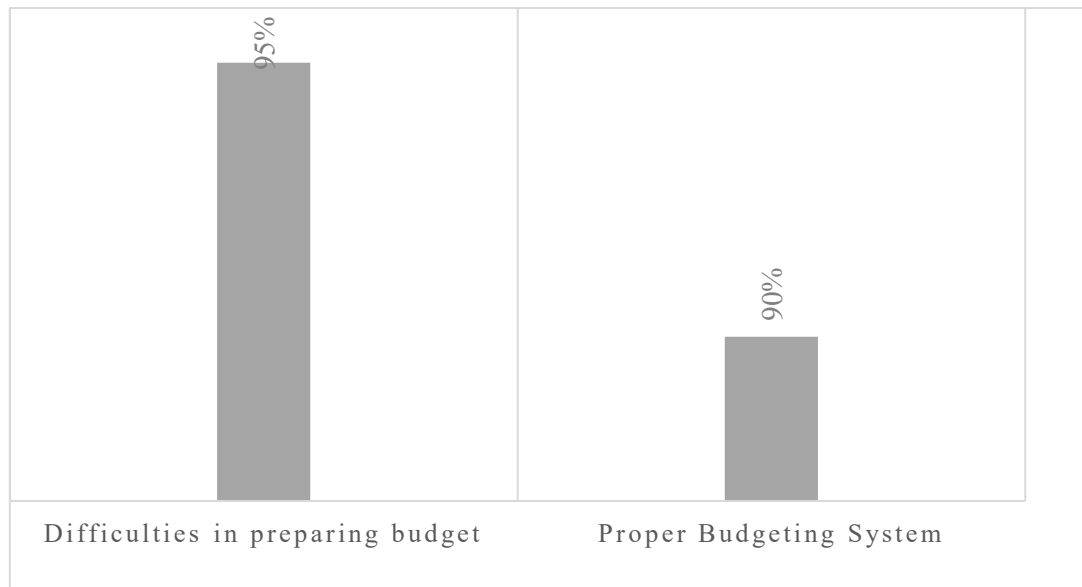


Figure 3: Responses on the Systematic Operational Budgeting

From the survey, the study found that majority (95%) of the respondents face difficulties in maintaining a proper record and preparing the budget. One of the reasons for the difficulties found in a study made by Agyei-Mensah (2011) claims that due to absence of internal accounting staff and high cost to appoint a qualified accountant, SMEs then, confront challenges to comprehend bookkeeping record and practice sound financial management. In addition, the result shows that 90% of respondents indicated that a proper budgeting system is very important so that it will help them in managing the financial part of their business as Ali, Omar, Nasir and Osman (2018) found in their study that budget control seems to be the main factor that entrepreneurs wanted to be an expert at since a correct budget will determine the survival of the firm. Maduekwe and Kamala (2016) further explain that budgets are also used for monitoring the business, measuring performance, future planning and for improving decision making. As a result, the study suggests there is a need for the SMEs businesses to have a systematic operational budgeting system to help entrepreneurs for a proper record detailing cost of materials, labours and overhead where entrepreneurs are able to monitor and control their investment on those cost.

5. CONCLUSION

The aims of this study are to investigate the perceptions of the SMEs entrepreneurs in budgeting and record keeping and the need for a systematic operational budgeting to assist SMEs entrepreneurs in recording basic costing transactions. The results of this study show that even though the entrepreneurs have at least a basic knowledge on costing, they agreed that they found difficulties in maintaining a proper book keeping, which, will affect them in preparing proper budget.

The findings of this study have implications for SMEs entrepreneurs in Malaysia. It will contribute to existing literature which highlight the lack of systematic operational budgeting among SMEs entrepreneurs in rural area. Therefore, there is a need for the proper budgeting system that lead for better SMEs transformation and empower entrepreneurship towards a sustainable economy.

In addition, there are some suggestions for future study. The future study may cover all samples of SMEs business in Malaysia since the current study only covers certain rural areas. By including all SME businesses a bigger sample can be gathered and comparison between rural and urban areas can be made. The future study also can extend by including other SMEs business sectors with higher sales turnover. This is because the high cost to appoint a qualified accountant (Agyei-Mensah, 2011) in managing financial issues including budget preparation will not be the main barrier for those types of SMEs in maintaining the proper budget record. From these, future study can determine whether the budgeting issue only arise among SMEs entrepreneurs in rural area or in SMEs businesses as a whole.

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