

SIGNIFICANCE OF CASH FLOW FOR SMALL AND MEDIUM ENTERPRISES (SMES)

NORAIDA SAIDI

Small and medium enterprises (SMEs) play a crucial role in various economies by fostering innovation, generating employment opportunities, and contributing to economic expansion. In Malaysia, the Department of Statistics Malaysia (DOSM) has found that SMEs' contribution to gross domestic product (GDP) increased to 38.4% in 2022 from 37.4% in 2021. However, many small and medium-sized enterprises (SMEs) encounter substantial difficulties, with cash flow management frequently identified as a crucial problem, especially post-movement control orders due to COVID-19 in 2020.

Understanding Cash Flows

Cash flow refers to the inflow and outflow of money inside a business. SMEs must maintain a favourable cash flow to fulfil their daily operational requirements, including paying suppliers, staff, and other operating expenses. Having a robust cash flow is essential for a firm to operate seamlessly without any interruptions.

Challenges faced by small and medium-sized enterprises (SMEs):

Small and medium-sized enterprises frequently encounter difficulties in maintaining positive cash flow as a result of various reasons. It can be due to delayed payments from credit customers, seasonal variations in demand, and unforeseen costs. These issues may result in cash flow deficits, hindering SMEs from fulfilling their financial commitments, such as for loan payments and to expand their operations. Besides, SMEs also face difficulties in obtaining loans from financial institutions and government agencies due to incomplete records of business transactions or negative cash flows.

Significance of Cash Flow for Small and Medium Enterprises (SMSs)

Ensures Business Sustainability

Maintaining a solid cash flow is crucial for SMEs to sustain their operations seamlessly. It enables businesses to promptly pay their suppliers, staff salaries, and other operating expenses to ensure a smooth operation of their businesses.

Facilitates Business Expansion

Adequate cash flow empowers small and medium enterprises to pursue development prospects like diversifying their product range, accessing new markets, or enhancing their infrastructure. This can result in higher sales and profitability.

Enhances Financial Stability

Efficient management of cash flow helps small and medium enterprises achieve financial stability by having positive cash flows, allowing them to endure economic downturns and various problems.

Improves Trustworthiness

Positive cash flow boosts SME's trustworthiness and facilitates access to financing from banks and other financial institutions.

Effective Cash Flows Management

Effective Monitoring of Cashflow

Regularly monitor cash flow to promptly detect and address any difficulties in SMEs. For example, if there is any decrease in cashflow from operating activities, the managers or owners should identify the root cause of the decrease in cash flow (such as low collection of debts from receivables) and immediately provide the solution (such as offering discounts).

Minimise Operating Expenses

Operating expenses are major expenses for SMEs. In managing positive cashflow, they can lower their operating expenses by securing more favourable agreements with suppliers (such as identifying suppliers who can offer longer payment periods), cutting down on unnecessary waste, and enhancing productivity to boost up revenues.

Effective Management of Inventory Systems

SMEs shall utilise Just-In-Time inventory systems to optimise inventory levels to prevent them from investing surplus cash on slow moving inventories.

Effective Management of Receivables

SMEs shall issue invoices promptly after delivering goods to customers and diligently follow up on payments to guarantee timely receipt of funds.

Conclusion

Cash flow management is essential for the success and sustainability of small and medium-sized enterprises (SMEs). SMEs may increase their financial health, boost business growth, and improve business performance by recognising the significance of cash flow and utilising efficient cash flow management solutions.