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FINANCIAL MANAGEMENT BEHAVIOUR AMONG MALAYSIAN SMES OWNERS IN KUALA SELANGOR: SOME NEW INSIGHTS FROM A QUALITATIVE STUDY

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ABSTRACT

One of the critical elements for SMEs to continue improving their performance with a dynamic market in Malaysia is to practice prudent financial management. Therefore, this study aims to identify the owners' and firm characteristics and financial management practices among the SMEs owners in Kuala Selangor. The data was collected through an interview, and the results indicate the importance of ensuring all the available business resources are used efficiently and effectively to provide an optimum return. Findings from this study may be helpful to the Government and financial providers know the importance of educating the financial management knowledge among SMEs owners and understand the appropriate financial management tools adoption by SMEs owner in the sub-urban area in Selangor.

Keywords: Financial Knowledge, Financial Management, Inventory Management Practices, Behaviour, SMEs

INTRODUCTION

Sound financial management may help in retaining the sustainability of the company. Hence, financial management is an important area in managing small and medium-sized enterprises (SMEs). Given that financial management is one of the critical aspects of a business's well-being and survival, the owner of the SMEs needs to be concerned about their firm's financial resources (Belás, Ključnikov, Vojtovič & Sobeková-Májková, 2015). Therefore, SME owners need to ensure that they have sufficient knowledge about financial management. This study aims to explore the financial management practices among the SMEs owners in Kuala Selangor.

Literature Review

Previous studies highlighted SME challenges from many dimensions but failed to address the reality gap that surrounds SMEs. Among the most discussed challenges are not limited to; lack of access to credit, training and development issue, government policy, marketing complexity, poor management skills, low awareness of ICT, culture barrier, and heavy regulatory burden (Khalique, Isa, Shaari & Ageel, 2011; Panigrahi, 2011; Chong, 2012). Many past studies have also been carried out to evaluate and analyse the importance of financial management. They have proven that sound financial management and good accounting practices are the best ways to remain profitable and solvent.

The study by Muneer, Abrar Ahmad and Ali (2017) provides some relevant findings on the relationship between financial management practices and the business performance of SMEs. Filbeck and Lee (2000) stated the relationship between liquidity and profitability, while Uyar (2009) shows significant positive correlations between working capital components with firm performance in Malaysia. Past evidence has been found that SMEs in Malaysia have many failures due to inadequate capital, inadequate institutional credit facilities, outdated technology, improper accounting techniques, inadequate sales, promotion competencies, and inattentiveness of small businesses (Salikin et al., 2014). These obstacles have resulted from inefficient business administration and, lack of experience in essential business functions, mainly accounting and finance. Several studies highlighted that poor accounting and financial management practices are factors contributing to the massive failure of SMEs in the short run.

METHODOLOGY

This study employed the qualitative method. The interviewees are drawn from a population who were involved directly and had the experience on the phenomenon studied. Table 1 provides the details of the interviewees who participated in this study.

Table 1: Demographic Result

| Demographic category | | N | Percentage (%) |
|--|---------------------|---|----------------|
| <i>Nature of business</i> | Services | 4 | 67 |
| | Manufacturing | 2 | 33 |
| | Constructions | | |
| | Agriculture | | |
| <i>Size</i> | Medium | | |
| | Small | 3 | 50 |
| | Micro enterprises | 3 | 50 |
| <i>Number of years business operated</i> | Less than ten years | 1 | 17 |
| | More than ten years | 4 | 66 |
| | More than 20 years | 1 | 17 |

The data obtained were digitally recorded by a voice recorder, and the verbatim transcripts were used to organize the data. The content analysis of the qualitative data was done by using Nvivo Version 11.

FINDINGS

Factors Influencing the Financial Management Behaviour

Most SME owners have viewed the financial performance assessment as an essential factor in evaluating the efficiency of a company.

All respondents are absent sufficient knowledge about efficient financial management. Financial management knowledge helps the SMEs owner in making an excellent financial decision. The respondents need management knowledge such as cash activity, loan application, and inventory management (L1, L3).

I think an entrepreneur must know about financial management as it will help them manage their business better. I do not have sufficient knowledge about financial management. My parents taught me my understanding, who have been in this industry for a long time. I have been exposed to preparing accounts, applying and repaying bank, and other financial matters (L1, L3, L4, and L6).

The poor financial management of owner-managers is the leading cause underlying the problems in SME financial management, and most respondents are aware of the basic knowledge of asset management and the importance of a proper inventory system.

Financial knowledge is not just for acquiring a bank loan to finance the business. Still, it is more than that, such as practicing proper handling of account receivables and accounts payable and a sound inventory management system (L3, L4)

Given the nature of business, a firm's characteristics also play a role in assessing the financial management behavior among SMEs' owners. The firm characteristics are an essential factor in determining how the SME owner is practicing their financial management.

The business in manufacturing is more independent and relies on some financial management practices, especially asset management (practice a proper way of handling account receivables and account payable) and inventory management. The financial management practices must improve the performance of SMEs and give them a more competitive advantage to sustain and contribute to economic development (L1, L2).

Besides knowing financial management, the owners are opined that business experience and risk appetite also might influence the financial management behavior and quantify the probability of actual process and results from the expected level.

All respondents highlight that the knowledge of financial management and business experience are the main factors. The SME's owner must be willing to change the old way

of doing their business and adopt the optimal application and commitment towards financial management practices (L1, L2, L3).

Factors such as business experience, knowledge, risk appetite also might influence the financial management behavior of the SME owner in Malaysia (L2).

Most owners have highlighted the relevant courses or training provided by several agencies such as Agrobank, MARA, and FAMA for SMEs. However, most owners do not frequently attend the course provided as they do not practically use such practices or financial management systems.

Most of the SMEs are from small and microenterprise, generally small, and hire a few employees. Limited resources are among the factors that discourage adopting an excellent financial management practice. The main priority is to ensure early payment, as some suppliers need payment cash (L5, L6).

Financial Management Methods Used

Overall, most SME owners have practiced financial management methods at a minimum level. The SME's owner needs to identify and implement policies and procedures that will lead to and ensure that they meet the financial obligations and ensure the business will have enough working capital once and when needed. Lack of confidence when deciding the best financial management method or system is also a common scenario faced by SMEs in Kuala Selangor.

The inventory system is still mainly conventional (manual checking). All transactions on a cash basis buy the inventory as needed. I issued receipts to customers and kept receipts from suppliers. Most SMEs maintain an adequate record of a cash register and cash book. (L3, L6).

Sometimes I am not happy and not sure about my decision in managing the business credits. I do not apply any comparative ratio analysis before making the decision (L5).

CONCLUSION

In conclusion, financial management is crucial for sustainable growth and stability. From a practical perspective, sound financial management will ensure the optimal allocation of financial resources to achieve organizational goals, facilitate investment in profitable projects and balance risk and return. Good financial management is related to effective liquidity management. Effective liquidity management will ensure sufficient liquidity for smooth day-to-day operations. Financial management literacy will positively affect SMEs' sustainability and will assist the owner in doing sound financial management practices that will boost their development and sustainability. Thus, it will help the business expand by identifying and mitigating financial risks, including market, credit, and operational risks. Its real-world implementations will continuously refine theoretical frameworks, driving the discipline forward. The outcome can also help develop theories for understanding and quantifying the relationship between risk and return and explore the interaction between corporate financial decisions and broader economic factors. Future research should investigate the factors influencing financial management among SME owners in Kuala Selangor using the quantitative method and the impact of financial management on SME performance sustainability in the long run.

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