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**Strengths and Weaknesses among Malaysian SMEs:
Financial Management Perspectives**

Norasikin Salikin,^{a*} Norailis Ab Wahab,^b Izlawanie Muhammad^c

^{a,b,c} Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia, 71800 Nilai, Negeri Sembilan, Malaysia

Abstract

In Malaysia, 97.3% of business establishments are comprised of small and medium enterprises (SMEs) which account for about 52.7% of total employment that is generated in the country. Malaysian government through the Ministry of International Trade and Industry (MITI) and its agencies works hard on assisting SMEs through various activities to promote exposures on prudent financial management. This paper aims to identify the financial strengths and weaknesses face by SMEs in helping those entities to plan appropriate financial management programme. Semi-structured interviews were conducted among thirty five SMEs that are willing to participate voluntarily. This study found that capital is the key elements in both strengths and weakness among SMEs. Running the business without any external capital (loan) reducing the financial risk of the business. It will be easier for the managers to make business decisions without any constraint as there is no limitation set by fund provider. The study also revealed capital insufficiency is the crucial problems among SMEs which might due to the difficulties to obtain external fund. Although the results should be taken with caution, nevertheless financial management is vital in order to face new business challenges as well as for the survival of the business in the future.

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* Corresponding author. Tel.: +60679886311; fax: +60679886302.
E-mail address: norasikin@usim.edu.my

1. Introduction

Small and medium enterprises (SMEs) play important roles in Malaysian economy. Report of Malaysia Economic Census 2011 showed that there were 645,136 SMEs operating in Malaysia, representing 97.3 per cent of total business establishments. Furthermore, SMEs employed about 3.7 million out of a total of 7.0 million workers amounting 52.7 per cent of total employment in the country. With a total share of gross output reached 28.5 per cent in year 2011 as compared to only 22.2 per cent in year 2000 it shows that the roles are getting significant.

A considerable amount of literature has been published on the management issues of SMEs. On the other hand only few studies were focusing on the financial management, especially in developing countries although it has been known that, financial management plays crucial function in business management. Report on case study conducted by Bank Negara Malaysia (2003) on SMEs, suggested that one of the key elements SMEs should adopt to survive for a long term, in a global environment is prudent financial management. It will ensure that all the available business resources are used efficiently and effectively to provide optimum return (SME Corporation Malaysia, 2011).

The aim of this paper is to identify the strengths and weaknesses face by Malaysian SMEs in term of financial management.

2. SMEs Definition in Malaysia

There is no solid meaning of SMEs as different countries are using different definition due to several demographic factors and characteristics including size, location, structure, age, number of employees, sales volume, ownership through innovation and technology (Zeinalnezhad et. al, 2011). Based on employees number and total turnover, Malaysia adopts slightly similar definition as being use by United Kingdom, United States of America, Japan, China and Korea (Norailis, 2013).

Previously Malaysian SMEs were defined as firms with sales turnover not exceeding RM25 million or employment not exceeding 150 workers for manufacturing and sales turnover not exceeding RM5 million or employment not exceeding 50 workers for services and other sectors. As the economy has change and the business trends are moving abroad. On 11th July 2013, Malaysian Prime Minister Datuk Seri Najib Tun Razak announced the new criteria of SMEs which will be effective on 1st January 2014. Table 1 shows the new classification of SMEs.

Table 1. New classification of SMEs

SMEs Category	Micro	Small	Medium
Manufacturing	Sales turnover of less than RM300,000 OR employees of less than 5	Sales turnover from RM300,000 to less than RM15mil OR employees from 5 to less than 75	Sales turnover from RM15 mil not exceeding 50 mil OR employees from 75 to not exceeding 200 than 5
Services and other sectors	Sales turnover of less than RM300,000 OR employees of less than 5	Sales turnover from RM300,000 to less than RM3mil OR employees from 5 to less than 30	Sales turnover from RM3mil not exceeding 20 mil OR employees from 30 to not exceeding 5

The new definition is more comprehensive, covering all sectors of the economy including construction, as well as mining and quarrying sectors. It is expected to result in more firms being classified as SMEs to 98.5 per cent (currently: 97.3 per cent), particularly from the services sector to

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