



DETERMINANTS OF SUCCESSFUL FINANCIAL MANAGEMENT AMONG MICRO ENTREPRENEUR IN MALAYSIA

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ABSTRACT

Many reports had showed that micro enterprise always dealing with a lot of challenges as they are not skilled and experienced even been guided with numerous governments' bodies. In Malaysia, there is almost 99% of business entity is micro enterprise. However, their existence alone does not constitute any growth or development to the Malaysian economy. For that reason, there is an urgency to endow specific way of financial management that may leads to the success of their business. Hence, this study aims to investigate the factors of successful financial management amongst Malaysian micro entrepreneurs. The term "success" is defined with both traditional criteria such as profit and growth by looking at the possible contributing factors which are experience, qualification and business plan. In this study, successful financial management refers to the successful micro enterprise in Malaysia because it is interconnected. By focusing on previous studies, this paper will review the challenges of micro enterprise, summary of successful financial management and provide recommendations for future research.

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Keywords: Financial management, Micro entrepreneur, Experience, Qualification, Business plan, Malaysia, Micro enterprise.

Contribution/ Originality

The paper's primary contribution is the finding that shows Experience, Qualification and Business Plan as the main determinants of successful financial management among micro entrepreneur in Malaysia. Even though there are numerous determinants are being discussed in previous studies, these three variables are the best fit for Malaysian case study.

1. INTRODUCTION

Generally, business is the key to the never ending fortune. Wealth and properties are the core of leading a great life ahead. People are targeting to maximize their profit and minimize their loss as to ensure they get the best result from business. However, due to some circumstances, there are actually a lot of obstacles they need to face. Existing literature emphasize various challenges facing SMEs in a globalized environment; from difficulty in facing recession, barrier from global sourcing, low productivity, lack of managerial capabilities and financing, difficulty in accessing management and technology, heavy regulatory burden and others [1, 2]. Micro enterprise is very vulnerable to the current competitive market and they need to know the factors that lead to a successful financial management to ensure they will heading a smooth and profitable business [3]. Nevertheless, as far as this study concern, very limited study has addressed the measures needed or any solutions to this issue. Therefore, this paper aims to study the determinants of successful financial management among micro entrepreneur. As a result, the micro entrepreneur will have better picture to manage their financial wisely so that they can expand their business across boundary.

1.1. Significance of Study

- 1.1.1 This paper may act as one of the contributions to the literature of financial management among micro entrepreneur especially in Malaysian case study. The content of this paper may also encourage future research to improve the literature reviews on entrepreneurship and create new perspective on micro enterprises' studies.
- 1.1.2 Micro enterprise generates a large sum of profit if the owner knows the correct way to gain their profit without risking their savings. However, there are a lot of loopholes in educating the micro entrepreneurs on how they can manage their financial well. Thus, the findings derived from this study may help them to decide on this matter.
- 1.1.3 This study may also helps the government bodies such as Tabung Ekonomi Kumpulan Usaha Niaga Nasional (TEKUN), AIM and other non governmental bodies to consider the findings to ensure micro enterprise can lasts longer and keep expanding till it reached the macro enterprise level.

1.2. Research Objective

Based on the literature reviewed above and due to the scarcity of this type of research, the following research objectives are suggested:

- 1.2.1 To identify how micro entrepreneurs manage their financial management.
- 1.2.2 To determine the factors that contribute to a successful financial management among micro entrepreneurs in Malaysia and factor that contribute the most.

1.3. Overview of Micro Enterprise

Generally, Small and Medium Enterprise (SME) sector is categorized into three: micro, small and medium enterprises or businesses. The micro SMEs are the smallest among the three categories. In Malaysia, 99 percent of the total business establishments are Small Medium Enterprises (SMEs). Based on the Census of Establishments & Enterprises 2005 by the Department of Statistics Malaysia, out of the 548,267 SMEs established in Malaysia, 435,324 (78.7%) business establishments were contributed by the Micro Enterprises (MEs). The MEs involved in all three main sectors in Malaysia, namely; Services – 381, 585 MEs (87.7%), Agriculture – 31, 838 MEs (7.3%) and Manufacturing – 21, 516 MEs (4.9%) It shows that micro enterprise has a big influence for Malaysian economy. SMEs contribute 31 percent of the nation's GDP and share 56 percent of the total employment [4]. Within the expanding scope of SMEs, it is necessary to provide solid definition of micro enterprise. The definition of micro enterprise from SME Corporation Malaysia (2013) stated that it depends on the sectors. For instance, microenterprises across all sectors, the sales turnover must be less than RM300,000 or full-time employees not exceeding 5 full-time employees (revised 1 January 2014). In Malaysia, the government has set-up Amanah Ikhtiar Malaysia ("AIM") in the 1980s to help the poor to improve the quality of their life by getting them involved in the business. The idea of establishment of AIM is taken from the establishment of Grameen Bank in Bangladesh [3].

Up until March 2013, the total amount of financing disbursed is estimated at RM 8,201,128,533 with the rate of repayment put at 99.36 percent [5]. SME Corp chief executive officer Datuk Hafsa Hashim hails the 13 specific programs for SME development in Budget 2014, with funding amounting to RM2.6 billion including funds from the private sector [6]. AIM's micro credit approach is based on small repayment system to be paid on a weekly basis during the center meetings. Although the primary objective of AIM's micro credit schemes is to provide loans for income generating activities (namely I-Mesra loan, I-Srikandi loan and I-Wibawa loan), AIM does provide loans for other activities such as recovery loan (I-Penyayang), education loan (I-Bistari) and housing/multipurpose loan (I-Sejahtera).

In order to strengthen the micro enterprise in Malaysia, it depends on the micro entrepreneurs because they are the one who hold the keys to make difference. Other than that, many scholars have agreed to the same fact that is the financial management among the micro entrepreneurs is exactly what we need to sustain and expand the business [2]. As mentioned by Nurbani, et al. [3], the most common financial challenges faced by the micro enterprises are the lack of capital and access to credit. Ahmad and Seet (2009) stated that SMEs face high failure rate in their first five years. In Malaysia, the failure rate is alarmingly high at 60 percent [6]. Thus, the government has initiated various funds to help the micro entrepreneurs in getting funds to start the business as well as to expand the business.

2. LITERATURE REVIEW

2.1. Challenges of Micro Enterprise

Generally, SMEs are also poorly managed due to the lack of management skills among owners or managers. They lack awareness of the importance of adopting business best practices and quality

management systems, such as financial management and customer focused activities, in order to enhance the firms' productivity and profitability. As a result, inefficient SMEs are unable to compete effectively in the market impacting the entire SME sector performance [1].

Furthermore, the hardcore poor are trapped in chronic deprivation due to the combination of poor health, poor education, broken families, inadequate infrastructure and scarce employment opportunities. These characteristics of hardcore poor households make them more vulnerable and reduce their ability to take any risk [7]. Thus, they are the main targeted group of AIM to encourage them involve in business. These people will start their life turning journey as micro entrepreneur. By utilizing the micro finance provided by the government, it helps them to slowly improve their current condition for a better future. Nevertheless, Radam, et al. [1] had also reviewed the challenges faced by Malaysian micro enterprises as lack of access to loans, limited adoption of technology, lack of human resources and competition from Multinational Companies (MNCs) and also the globalization. More recently, Saleh and Ndubisi (2006) conducted a pilot survey of 100 Malaysian SMEs to determine competitiveness issues within the SMEs. Some of the issues identified include high labor cost, lack of innovation, access to funding and working capital [1].

2.2. Successful Financial Management

Above all, financial management is the answer that can best fit the current market penetration for micro entrepreneurs. Fatoki [8] summarize the definition of financial management as planning for the future of a business enterprise to ensure a positive cash flow. Meanwhile, Brinckmann et al. (2011) defines financial management as managerial activities that concern the acquisition of financial resources and the assurance of their effective and efficient use [8]. Fatoki [8] also concludes that financial management involves planning, organizing, directing and controlling the financial activities such as the procurement and the utilization of funds of the enterprise [8]. Successful financial management in this study reflects the same concept of successful micro enterprises. By having a good way of financial management will ensure that the micro enterprises fully utilize their resources, gain profit and limit the losses as to aims for business expansion [8]. There is no consensus among researchers on the factors that contribute to the success of SMEs. However, some factors are discussed more often in the previous research 1) the psychological and personality traits [5, 6]; 2) the managerial skills and training of entrepreneurs [5, 9, 10] and 3) the external environment [5, 6, 10, 11] in which entrepreneurs operate.

According to Chong [6], the term "success" is defined with both traditional criteria such as profit and growth; and also with intrinsic factors such as personal satisfaction and the sense of achievement. Indeed, her study revealed that the perceived success factors across ethnic groups and gender were reputation of honesty, good customer service and hard work. A lot of previous studies [6] pointed out that management skills and environmental conditions are critical for business success. In a study conducted amongst Pakistan small business owners revealed that hard work, good customer services and product quality were the three most important factors. The reputation for honesty, friendliness and good customer services were found to be critical for entrepreneurs in Vietnam and Romania. In another study, also found that Turkey entrepreneurs rated honesty,

friendliness and social skills as the three most important success factors. Chong [6] also cited that similar results were found in the survey of the entrepreneurs in other developing. Several studies found that culture, religion and gender may play a role in entrepreneurial behaviors. In short, successful financial management covers the effective record keeping, good rapport with customers, suppliers and competitors as well as optimization of capital, asset and liability [6].

Osoimehin, et al. [12] highlighted that record keeping is particularly important to the integrity of the business. The prevailing corrupt tendency in Nigeria society, which has permeated the fabric of the society including Nigeria entrepreneurs, have prevents most small and medium enterprises operators from keeping adequate records. Many entrepreneurs avoid paying tax into the relevant authorities. In Malaysia, it may not entail bribery or any corruption activities but more into lack of awareness. Typically, micro entrepreneur started their small business without engaging any formal training or awareness regarding record keeping. They tend to put aside the records as they do not understand the importance of it. Micro entrepreneur assume that record keeping is troublesome. For that reason, effective record keeping will be the best way to ensure a successful financial management as the flow of income and every cent counts.

Other than that, good rapport with customers, suppliers and competitors are extremely as important as record keeping. This is actually where soft skills take part. Soft skills are the skills that cannot easily be taught because it is learn indirectly and needs personal initiatives. There are many other micro entrepreneurs out there that sell the same product as what we have. However, the good relationship between the service provider and the customer is the best determinant for loyal customers. People are more reliable on business that is customer-friendly and approachable. They will not hesitate to repeat orders or promote to other people. The power of word of mouth is undeniable here. All in all, successful entrepreneurship requires the entrepreneur to possess certain managerial skills. These skills are the ability to conceptualize and plan effectively, ability to manage other individuals, ability to manage time effectively and to learn new techniques in handling business operations and ability to adopt to change and to handle changes in our environment [13, 14].

Experience is usually the key to a successful business in any parts of the world. It can be divided into three main categories which are family business, previous business/working experience or others' experience that people encountered. Most of small business does not make it through for the first five years if they do not possess enough experience. It can be through experience in financial management, business structure or even human resource management. It is essential need for micro-entrepreneurs to develop management capabilities and skills in their business to maintain competitiveness even without technical or academic knowledge [15]. Failure to do so, surely ends up overspending the financial aids without using it in a profitable way. Bosire and Gamba (2003) showed that entrepreneurs in small markets have developed empirically marketing strategies and sales in informal forms, aiming to stand out against competitors from sustainable competitive advantages [15]. The most common form of business organization in the world is family business. According to a study by Allouche et al., (2008), family businesses' performance is better than non-family businesses, for both profitability and financial structures [15]. Supported by McConaughy et. al. (2001), family firms controlled by the founders are

generally run more efficiently, have greater value and also carry less debt in comparison to other firms [15].

Looking at another perspective, qualification does make its grand entrance to today business-making entity. Qualification does not only depend on the academic certificates from the educational institutions but also consider the importance of training and management skills [6]. These are the answers that many countries in this world are now encouraging the graduates to make a move in business. Start a business as small as micro enterprise with the qualification on paper and the knowledge that they possess, they might be able to make a difference. As stated by Osotimehin, et al. [12], the business operators should be knowledgeable about the kind of business they want to venture into to ensure they can survive for a long time. This point is more relevant for a new generation of micro entrepreneur. They are normally the fresh graduates join the entrepreneurship either inherited from a family business or new business. The information and training they obtain from educational institutions will be the basis for their financial management process. They study the process and its consequences which make them more alert and cautious before making any decision. Gerber (2001) indicated that formal education leads to competent and skillful entrepreneurs which play significant role in managing their business [5]. Supported by Luissier dan Pfeifer (2001), as the higher the education of the entrepreneurs, the better experience they gain which lead to the wider exposure of the business and success [5].

Many other literature also reviewed that business planning can be the determinant of a successful business [6, 10, 15]. It ensures that the micro entrepreneurs to study and do their research on how to operate their business and know their product well enough before start a business. This is helpful when they actually enter the market that competition leaves no room for second thoughts. Some commercial banks make it compulsory to the future-micro entrepreneur to prepare a thorough business plan before they can apply for a soft loan. Other than having business plan, courses organized by government or non-governmental organizations are also fairly important for a fresh entrepreneur. Among the active organizers are SME Corporation, AIM, TEKUN, MITI and many other bodies. The government programs are also provided to equip the entrepreneur to be resilient with the current market. It does not matter whether it is a business for domestic market or international level.

At the same time, the government assistance also plays a significant role. It include training program, contributes significantly and positively impact the success of entrepreneurs [5]. Through the training program, the entrepreneurs are expected to be well equipped in term of knowledge and skills necessary in effectively managing their business and which subsequently result to their success. In fact, there are numerous government programs that aim to create awareness on the effectiveness of good financial management as well as to create first class entrepreneur's mentality in starting a business [16]. These planning will be the catalyst for the entrepreneur to jump start their business and focusing on the financial management to safeguard their business for a longer life span of time.

Therefore, by identifying the factors that contribute to a successful financial management may help the micro entrepreneurs to improve themselves and work on the best measures to be a successful micro enterprise in Malaysia. As stated by Batra & Tan (2003), efficient firms had better

access to new technology through knowledge, licensing agreements, joint ventures with foreign partners, and export contacts with foreign buyers and suppliers [7]. They had a more educated work force, and were more likely to provide formal structured training to their workers [7]. Among the most studied factors are the capital, experience, qualification, business plan, passion and motivation, financial management and networking are the elements that determine the time-span of a business [1, 3, 6, 11, 17-19]. This paper highlights experience, qualification and the business planning as the factors that contribute to a successful financial management among micro entrepreneurs in Malaysia.

2.3. Suggestion for Future Research

Future studies are necessary to investigate other factors that contribute to a successful financial management among micro entrepreneur other than experience, qualification and business planning. It is also interesting to compare the findings between men and women entrepreneurs using the comprehensive framework developed. Other than that, future studies also may determine a standard definition of successful financial management to generalized the term to any micro enterprise in this world. Same study is encouraged to be done in other countries so that the content of successful financial management is universal and applicable to any micro enterprise regardless of the countries they live.

3. CONCLUSION

In conclusion, it is hope for this paper to provide insight view on successful financial management and urge the related bodies to consider the findings for future practice. Besides, findings from this study also suggested more studies to be done in this area. The understanding of factors that contribute to successful financial management may guide the future micro entrepreneurs to equip themselves with significant information on how to deal with their financial management effectively. Therefore, by knowing the factors of successful financial management, they will be more prepared to face the challenges of current market competition and fully utilize the programs planned for them.

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