

Business Management Practices Among Small and Medium Enterprises (SMEs)

Wan Maimunah Wan Ishak & Jidarulaila Salleh
Politeknik Sultan Haji Ahmad Shah, Kuantan
Email; wan9762@gmail.com

Abstract

Small and medium enterprises (SMEs) is one of the business branches that contribute to the economic development of the country. In the current challenges of business environment, the skills that need to be mastered by SME entrepreneurs are vital. For this purpose, the study aims to look at the level of human resource management skills, financial management skills, and marketing management skills among SMEs. Descriptive studies using quantitative data have been conducted among 112 SME entrepreneurs. The results of the study found that entrepreneurs have high skills in human resource management and marketing management. Nevertheless, entrepreneurs have skills at a moderate level in the aspect of financial management. The results of the study indicate that there are management skills and practices that need to be improved among entrepreneurs. These management skills are essential to enhance management abilities and subsequently contributing to the development and management of entrepreneurship.

Keywords: *Management Practices; Human Resources; Financial; Marketing.*

1. Introduction

Small and medium enterprises (SMEs) are one of the existing forms of enterprise and contribute to Malaysia's economic development. The role of SMEs is important in contributing to the increase in the number of entrepreneurs and subsequently contributing to the economy. In Malaysia, the government plays important roles in improving this industry. Many bodies are responsible for helping entrepreneurs such as SME Bank, Tabung Ekonomi Niaga (RAJIN), Belia Economic Tube (TEB) and many more. SMEs development is coordinated by SME Corp. Malaysia aims to develop a resilient and competitive businesses.

SMEs represents nearly 99.2% of all entrepreneurs in Malaysia (Muhammad Asri & Zaimah, 2012). This shows the role and contribution of SMEs is something that needs attention. However, SMEs still needs to overcome its weaknesses such as in the management and operations aspects to compete globally. Factors of lack of knowledge in entrepreneurship, management strategies as well as insufficient skills and training contribute to SMEs failure rate (Nurulhayah & Muhammad, 2016). Among the problems experienced by entrepreneurs are also a lack of skills towards marketing, lack of skilled employees, lack of knowledge and financial stewardship. In fact, the number of SMEs in Malaysia is seen to be decreasing after Malaysia's recession in 2009 (Azmi & Rohana, 2016). It's somewhat worrying data. To ensure the continuity and progress of a business, an entrepreneur needs to have certain knowledge and skills. The study by Mohd Maliki & Norasmah (2018) states that entrepreneurs need to master management, finance, and marketing skills to manage the business successfully. This has also been proven by studies that have been conducted by other researchers who state the importance of entrepreneurs to master these skills (Zaimah & Abdullah, 2017; Azlin, Zahariah, Norafiza & Norliani, 2017). Therefore, this study was conducted to look at business management practices by assessing the level of management

skills in the dimensions of human resource management, finance and marketing among SMEs entrepreneurs.

2. Literature Review

Small and Medium Enterprise Corporation Malaysia (SME Corp) defines small and medium enterprises (SMEs) based on the annual sales and the number of full-time workers found in the business. For the manufacturing sector, SME Corp defines SMEs as a business that has annual sales not exceeding RM50 million or the number of full-time workers not exceeding 200 people. For the service sector and other sectors, annual sales do not exceed RM20 million, or the number of full-time workers does not exceed 75 people. Under the new definition effective from July 2013, SMEs must be an entity registered under the Malaysian Commission (SSM) or bodies of the same standard as it.

To achieve goals in business, business management practices need to be practiced effectively. To make the business more competitive and stable, SMEs need to equip themselves with business management skills. SMEs need to have management skills to assist them in planning, arranging, controlling, and organizing their operations (Zarook, Rahman & Khanam, 2013). This statement is supported by Fatoki & Odeyemi (2010) stated that managing skills play an important role in determining success for a small company. Entrepreneurs need to have a clear picture in matters related to finance, marketing and market development to be able to solve problems properly. Aspects of knowledge need to be emphasized including accounting knowledge, financial management knowledge, business management knowledge such as marketing strategy, human resource management and knowledge in business-related technical skills.

Human resource management is a function carried out in an organization to manage employees effectively to achieve business goals. Among the important aspects in human resource management are employee recruitment, training and skills development, performance assessment and reward system (Norasmah, Zuraidah & Mohd Izaham, 2010). Effective recruitment and selection system can reflect in business performance. In addition, another important human resources management's aspect are benefits and rewards, training and development, performance assessment, safety and health, career development and so on. These powerful skills are an important factor in ensuring a business is viable. Human resources drive a business. Therefore, good management in the aspects of planning, organizing, leading, and controlling will affect the business performance. Entrepreneurs who want to succeed must have these skills (Norashidah, Norasmah & Noraishah, 2009). These elements go hand in hand to ensure success in a business.

Financial management is important for improving the performance and progress of a business. Good financial management practices are an essential element to the success of SMEs (Abanis, Sunday, Burani & Eliabu, 2013). Previous studies have shown among the factors of failure of SMEs entrepreneurs is inefficient financial management. Entrepreneurs do not emphasize these aspects that include capital management, budget, and receivables (Mohd Maliki & Norasmah, 2018). With good financial management, entrepreneurs can plan cash flows in business. This is because with good cash flow management, entrepreneurs can plan their operating, investment, or financial activities.

Marketing management skills are skills related to how businesses act or response to the business environment. Good marketing skills will allow entrepreneurs to remain competitive. A study by Mohd Maliki & Norasmah (2018) among Felcra female entrepreneurs found

entrepreneurs conducted market analysis before running a business. This preliminary study will equip them with information on what the customers need from the business. Studies by Moorthy et al. (2012) among SMEs entrepreneurs prove the existence of a positive and significant relationship between SMEs performance and marketing management skills. This skill is significant because it affects how the preparation will be made by the entrepreneur. In today's era of digital entrepreneurship for example, entrepreneurs need to act immediately to remain relevant in the industry. Sufficient knowledge and skills to deal with ever-changing market conditions are of utmost importance.

3. Research Methodology

Descriptive study was carried out among SME owners in Kuantan. As of the end of 2019, there are 37,189 SME entrepreneurs in Pahang (Official website of SME Corp). Due to the restraint of time and cost factors, the Kuantan district was selected as a sample of the study. G*Power 3.1 software is used to determine the appropriate sample size (Faul, Erdfelder, Lang, & Buchner, 2007). With three variables, at medium effect size, the number of samples needed was 77 respondents. So, a sample of 112 people is sufficient to answer the objectives of the study.

Data collection was done through surveys. Purposive sampling method was used in this study to obtain respondents from different types of businesses. The business chose in this study were narrowed down to the business that operated in services industry. According to SME Corp, the business that meets this definition included distribution and retailing, hotel and restaurant, business related services, healthcare, entertainment, and some other sectors. The respondents selected were entrepreneurs who fulfilled the characteristics required in the study and those who were willing to participate as respondents.

The instrument was adapted from Nurulhuda & Ramlee (2009) to measure business management practices and skills among SMEs in Kuantan. The dimensions of management studied were human resource management, financial management and marketing management. The questionnaire is divided into two parts. Part A contains business background and profile. Part B contains items aimed at assessing management practices in business in the dimensions of human resource management, financial and marketing. Measurements of data in this section use the 5-stage Likert scale of 1 until 5 with 1 as strongly disagree and 5 as strongly agree. The data obtained was analyzed using IBM SPSS version 22. The reliability test has been run with a Cronbach alpha of 0.722. According to Pallant (2001), the value that exceeds 0.6 is reliable. Data was analyzed using descriptive statistics percentage (%), frequency as well as mean analysis. Mean interpretation is based on Lendall (1997) as in Table 1.

Table 1: Mean Interpretation Score

Mean Score	Level
1.00 – 2.33	Low
2.34 – 3.68	Moderate
3.69 – 5.00	High

4. Findings and Discussion

Table 2: Profile of the Respondents

Item	Details	Frequency (f)	Percentage (%)
Type of business	Sole proprietor	70	62.5
	Partnership	22	19.6
	Company	20	17.9
Experience in business	1-3 years	23	20.5
	4-6 years	30	26.8
	6-10 years	20	17.9
	> 10 years	39	34.8
Kind of business	Food & beverage	26	23.2
	Clothing & accessories	22	19.6
	Distribution & retailing	25	22.3
	Others	39	34.8
Reason to choose your business	Market potential	47	42
	Expert in this business	33	29.5
	Have training in this area	11	9.8
	Incentives from government	3	2.7
	Inspired by others' success	13	11.6
	Others	5	4.5
How you started your business	Own initiative	59	52.7
	Inherited/family business	30	26.8
	Buy other business	6	5.4
	Became a partner	13	11.6
	Others	4	3.6
Annual sales	Below RM 50,000	79	70.5
	RM50,000 – RM100,000	24	21.4
	RM100,001 – RM 150,000	4	3.6
	More than RM150,000	5	4.5

As can be seen in Table 2, majority of respondents own sole-proprietorship business (62.5%), partnership (19.6%) and companies (17.9%). In term of experience, about 34.8% has more than ten years of experience, which is the highest percentage compared to others. There are various types of business run by the respondents, including food and beverage (23.2%), clothing and accessories (19.6%), distribution and retailing (22.3%) and other businesses (34.8%). The reasons or factors of business selection by the entrepreneurs was assessed and found that largest percentage (42%) chose the kind of business run because of market potential, followed by 29.5% said they have expertise in the field. While the lowest percentage (2.7%) is due to incentive drives by the government. Most of the respondents in the study (52.7%) started their business on own initiative rather than inheriting from a family (26.8%), buying from others (5.4%), becoming a business partner (11.6%) and others (3.6%). A large percentage of the respondents (70.5%)

generate annual sales less than RM50,000, followed by RM50,000-RM100,000 (21.4%), RM100,001-RM150,000 (3.6%), and only 4.5% generate annual sales more than RM150,000.

Table 3: Human Resource Management

No.	Item	SD	Mean	Level
1.	Workers hired based on their suitable qualification	1.09	3.61	Moderate
2.	Workers provided with training to increase skills	0.86	3.91	High
3.	Performance of the workers were assessed fairly	0.76	4.21	High
4.	Benefits and incentives were provided to workers	0.82	4.09	High
Overall mean			3.96	High

Table 3 shows that the overall mean at a high level (mean=3.96). The highest mean refers to assessment of the workers' performance (mean =4.21, SD=0.76). Through a study conducted by Shahnawaz & Juyal (2006) performance assessment is an important indicator of employee performance, satisfaction, and commitment. The second highest mean is followed by providing benefits and rewards to workers (mean=4.09, SD=0.82) and training provided to improve worker skills (mean=3.91, SD=0.86).

However, the finding show that practice of hiring workers based on qualification is only at moderate level (mean = 3.61, SD=1.09). Through a study conducted by Rohana & Abdul Razak (2009), the main reason for SMEs failure is the weaknesses in recruitment and selection, training and development, compensation as well as benefits to employees. This needs attention if SMEs want to remain competitive in business. Other than qualification aspect, training is very important for employees to increase efficiency and in turn increase productivity in their work. Upskilling the workers will be very beneficial to the business.

Table 4: Financial Management

No.	Item	SD	Mean	Level
1.	I can get credit facilities when I need to	1.11	3.29	Moderate
2.	I manage the accounting records and financial statement properly	0.96	3.86	High
3.	I know how to maximise my profit for productive investment	0.84	3.87	High
4.	I can manage and collect receivables on time	1.05	3.31	Moderate
5.	I prepare cash flow and manage it properly	0.83	3.91	High
Overall mean			3.65	Moderate

Overall, this study shows the overall mean for financial management is at moderate level where it is illustrated that SME entrepreneurs are less skill on financial management. This skill is essential for SMEs survival. Entrepreneurs on a small-scale business are usually difficult to obtain funding or credit facilities because of improper or insufficient business financial records. It is supported by Norashidah et al. (2009) that an entrepreneur who wants to succeed needs to have skills in financial management. This is parallel with study done by Nurulhuda & Ramlee (2009) who found that SMEs practice good business management in terms of human resource management, but lack in financial management and marketing management.

Table 5: Marketing Management

No.	Item	SD	Mean	Level
1.	I have enough budget for aggressive marketing	0.84	3.79	High
2.	I do marketing research and study from time to time	0.90	3.83	High
3.	I can place my product in local market	0.89	3.90	High
4.	I do SWOT analysis on my competitor	0.94	3.88	High
5.	I have good marketing plan and good marketing medium	0.86	3.96	High
Overall mean			3.87	High

Table 5 demonstrates the level of respondents' marketing management. All items show a high level of mean. They have skills in implementing marketing strategies through planning, studying, and developing the market. In short, the results show that they have good marketing skills and high commitment in marketing the products. Alaudin (2014) found that SME entrepreneurs who utilize marketing skills through various channels and platforms have a positive impact on their business. In addition, according to Azlin et. al (2017) found that there is a significant relationship between marketing strategy and the success of a business.

5. Conclusion and Suggestion

The results of this study found that the level of human resource management and marketing practices is good while financial management practices are at a moderate level. Human resource management practices are seen as more prominent than the other two practices. This makes it clear that SMEs has strength in the practice. This reflects good relationship exist in the business environment. The employer also emphasizes on welfare of their employees. However, recruitment does not emphasize about the qualification of the workers. This is important because their skills, knowledge and lack of interest can impact the business development, thus can affect business' missions and goals. Due to the practice of financial management at a moderate level, there are some obvious drawbacks especially in obtaining credit facilities and techniques of collecting receivables, as this will effect on the cash flow and capital. In conclusion, inefficient management will cause other problems even limiting business development in the future.

Based on these findings, it is suggested that training providers from government or private sectors provide adequate and extensive training to SMEs. More programs regarding financial management should be provided. This will ensure all SMEs' survival in this challenging time. To improve the quality of the upcoming study, researchers can focus on entrepreneurs' accessibility to credit facilities, and debt and liability management, as these are major challenges in managing a business.

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