

The Relationship Between Working Capital Management and Business Performance in Malaysia SMEs Family Business

Nor Razuana Amram

Faculty of Management & Information Technology, Universiti Sultan Azlan Shah, Kuala Kangsar, Perak, Malaysia
Email: norrazuana@usas.edu.my

Nurul Fadly Habidin

Faculty of Management and Economics, Universiti Pendidikan Sultan Idris, Tanjong Malim, Perak, Malaysia
Email: fadly@fpe.upsi.edu.my

Mohd Faizal Basri

Faculty of Management and Economics, Universiti Pendidikan Sultan Idris, Tanjong Malim, Perak, Malaysia
Email: mfaizal.basri@fpe.upsi.edu.my

To Link this Article: <http://dx.doi.org/10.6007/IJARBSS/v13-i9/17910> DOI:10.6007/IJARBSS/v13-i9/17910

Published Date: 12 September 2023

Abstract

The study examines the relationship between working capital management and business performance in Malaysian SMEs family businesses. A questionnaire was developed and randomly distributed, and a total of 399 questionnaires were completed. The statistical tests, which include descriptive and Pearson correlation analysis, were used to test the hypotheses. The results revealed a significant relationship between working capital management and the business performance of SME family businesses in Malaysia. The results also show that the studies supported theories of the Resource-Based View (RBV) theory (Wernerfelt, 1984) and Pecking Order Theory (Myers, 1984). This study concludes that SMEs in Perlis, Kedah, Kelantan, and Terengganu would do better if they had more working capital and managed it better. Family-owned SMEs in Perlis, Kedah, Kelantan, and Terengganu should focus more on managing their working capital in day-to-day operations. The results of this study contribute theoretical and practical. With all the contributions, the stakeholders can know the SME's business funding requirements in managing working capital management simultaneously, increasing business performance.

Keywords: SMEs, Business, Performance, Family, Malaysia

Introduction

Most Malaysian small and medium enterprises (SMEs) are family-member businesses. The business outcome can contribute to the country's GDP (Mokhber et al., 2017). According to the Department of Statistics (2020), 98.5% of businesses in Malaysia are SMEs. In 2019, SME GDP increased by 5.8% compared to Malaysia's GDP, which increased by 4.3% (Department of Statistics, 2020). SME development and growth are essential to the economy (Muneer et al., 2017).

Family businesses have a long tradition in Malaysia, and many are passed down from generation to generation. Family businesses show as a source of pride and security, and many families view entrepreneurship as a means of accumulating wealth and providing for future generations. According to Mokhber et al (2017), there are several reasons why SMEs in Malaysia are family businesses. Factors include culture, access to capital, trust and loyalty, and succession planning. In this regard, family businesses are often at an advantage as they can rely on the support of family members to invest in and grow the business.

With the high involvement of family members in business, the Twelfth Malaysian Plan 2021-2025 showed that there were increasing numbers of funds from SME agencies linked to the SME agency programs. The primary sources of financing for SMEs came from banking institutions, which provided more than 90% of total funding (Bank Negara Malaysia, 2021). Bank Negara Malaysia allocated RM31.1 billion for SMEs (Bank Negara Malaysia, 2021). Based on Bank Negara Malaysia's 2018 annual report, SMEs in Malaysia have limited access to finance, one of the most significant issues faced (CEDAR Research Team, 2019). SMEs may struggle to expand their business, develop new products or services, invest in technology or equipment, or make timely payments without adequate financing. Therefore, the availability of funding sources can be critical to the success or failure of Malaysian SMEs.

The central issue to be researched in the proposed study is the limited access to finance funding from financial institutions (CEDAR Research Team 2019). The first prevailing problem identified by the researcher is the decline in their working capital management. Working capital is an important area of short-term asset management. It is important to finance the production cycle and capital expenditures to maintain or expand current operations (Ross et al., 2019). The problem of working capital has received considerable critical attention in the business community (Hernandez, et al., 2021). No business can survive without sufficient funds for working capital. Therefore, external financing is important to improve working capital management in a business. With the issues and problems above, this study concludes an objective to examine the relationship between working capital management and business performance in Malaysia SMEs family business.

Literature Review

Several theories offer theoretical perspectives and progress in building a framework in which empirical research can be properly interpreted to understand family business performance better. The achievement of business performance is supported by the Resources-Based View Theory (RBV) by Wernerfelt (1984), which recognizes that the basis for the emergence of SME success generally begins with initiatives and capital contributions supported by the Pecking Order Theory by Myers (1984) from entrepreneurs or capital growth from external sources (Kimiti, 2020). The Resource-Based View theory view assists in determining the resources available within the business and silently relating them to the business's capabilities.

A growing body of literature recognizes the importance of working capital management to a business's success and smooth operation. Mang'ana et al (2023) examine working capital management for successful agricultural businesses. Structured equation modelling (PLS-SEM) was used to test the hypotheses about the questionnaire designs using data from 427 agricultural SMEs in Tanzania. The results show that working capital management has a significant positive impact on business performance. The results also show that consistent with Hernandez et al (2021), SME business owners pay bills on time to prevent challenges in business operations, notably in accounts payable. According to the statistics, these great working capital management methods are implemented in the organization's day-to-day operations.

Research on the relationship between working capital management and business success is extensive and expanding. Businesses' working capital management and profitability are analyzed (Rey-Ares et al., 2021; Afrifa and Tingbani, 2018; Musah et al., 2018; Muneer et al., 2017; Dinka, 2017; Lamptey et al., 2017; Abimbola and Kolawole, 2017). According to the findings, inventory investment and economic profitability have a convex or U-shaped relationship. In other words, an increase in inventory levels initially reduces the firm's economic profitability. Thus, cash management becomes more important than other current assets because cash is a business's most important asset. Cash management is thus essential to any business that wishes to meet its short-term financial obligations.

According to Somathilake and Pathirawasam (2020); Simon-Oke (2020); Folajinmi and Peter (2020); Kimiti (2020); Zada et al (2019); Rugui and Omagwa (2018); Mogaka and Koori (2018); Podile (2017); Nthenge and Ringera (2017), working capital management practices significantly positively affect SME performance. According to the research, effective working capital management guarantees that small and medium-sized enterprises (SMEs) have sufficient cash for day-to-day operations.

Management of inventories is a component of managing working capital. A significant relationship exists between a business's future and how quickly it can collect payment from customers for their transactions. Working capital has been related to improved business performance and growth (Matore & Sreedhara, 2020; Kangangi Omagwa, 2020). The heavy spending of cash in inventory by businesses ultimately reduces their profitability. Recent studies have been conducted using conceptual papers that show the influence of overconfidence bias on working capital management and the performance of SMEs in Ghana (Lamptey et al., 2020). The management overconfidence idea focuses on individual investors and corporate managers. This framework will apply to SME managers who desire to increase performance, particularly those in Ghana who may use overconfidence as an alternate framework to improve working capital management and performance. Therefore, the business should maintain an ideal level of working capital since it relates directly to performance.

Ha1: There is a relationship between working capital management and business performance in Malaysian SME family businesses.

Methodology

The association between working capital management and business performance in Malaysian SME family businesses is investigated using quantitative methodologies. The sampling frame represented registered businesses under SMEs Corporation Malaysia was utilized to select the sample size for the various business/activity categories. Since practically

all family businesses in the study area had been operating in at least two different industries, as defined in the sampling frame, random sampling was employed to determine the sample size. The study's target population is SME family business owners in Perlis, Kedah, Kelantan and Terengganu, Peninsular Malaysia. The selected state is based on The Twelfth Malaysian Plan 2021-2025 (12MP) showed Perlis, Kedah, Terengganu, and Kelantan to be prioritized in the development distribution due to the decreasing percentage of GDP in Malaysia's economy.

The study was restricted to owners of the family businesses or those hired to operate the family businesses. The sampling frame consisted of all registered businesses in all the business sectors in SME Corp. Malaysia. The list of businesses obtained sufficiently represented the target population. The researcher used data or a list of all registered businesses provided by SME Corporation Malaysia. The sample size obtained was adequate and yielded the desired precision. In determining the sample size, Slovin's formula was used to calculate the sample size (at 95% confidence level and $\alpha = 0.05$), as indicated in Figure 1.

$$n = \frac{N}{(1 + N e^2)}$$

Figure 1: Slovin's formula

Where,

n = is the desired sample size

N = is the population size

e = margin of error (at 95% confidence level)

Therefore, the sample size was given as follows,

$$n = 163,694 / (1 + 163,694 (0.05^2))$$

$$= 399$$

Stratified sampling was used to select the sample size of 399 from the different business sectors from the sampling frame representing 163,694 registered businesses in Perlis, Kedah, Terengganu, and Kelantan shown in Table 1. Simple random sampling was used to select the sample size. The researcher observed that almost all family businesses in the study area had been operating in at least more than one industry, as classified in the sampling frame.

Table 1

Population and Sampling Design

Business (Industry) Activity	Total Number
services	74,582
wholesale & retail trade	62,918
construction	12,481
manufacturing	10,822
Agriculture	2,255
mining & Quarrying	636
TOTAL	163,694

The discussion of the variable's measurement is categorized into two sections; (1) the dependent variable is business performance (Somathilake & Pathirawasam, 2020- 7 questions), and (2) the independent variable in this study is working capital management (Somathilake & Pathirawasam, 2020- 6 questions). The questionnaire was developed using

the adopted questions from the previous study. The data were collected, processed, and analyzed using descriptive and inferential statistics under the study's objectives. The analysis used SPSS (Statistical Package for Social Sciences) software version 26.0 to test the relationship between the independent and dependent variables.

Result and Discussion

Table 2 below shows the distribution of financial management practices and performance of SME family businesses from working capital management. The results show that 82.0% (294), mean 3.75 Malaysian SMEs family businesses agree that business reviews the levels of receivables, 78.0% (294), mean 3.75 Malaysian SME family businesses agree that business reviews the levels of payables, 74.2% (294), mean 3.75 Malaysian SME family businesses hold liquid cash for daily business transactions, 73.7% (294), mean 3.75 Malaysian SME family businesses agree that business maintains cash transactions in line with the business cash budgets, 68.2% (294), mean 3.75 Malaysia SMEs Family Business agreed that business conducts payments to suppliers on cash basis, 56.4% (294), mean 3.75 Malaysia SMEs Family Business agreed that business maintain enough liquid assets to meet creditors demand. Finally, 39.8% (294), a mean of 3.75 Malaysia SMEs Family Business agreed that business makes payments to suppliers using a credit card which incurs additional bank charges. The average financial management practice and performance of family businesses from working capital management is 69.1% (276), a mean of 3.70.

Table 2

Distribution of Financial Management Practices and Performance of SMEs Family Businesses from The Aspect of Working Capital Management

No	Statements	Scala					Total (399)	Min	Sd	Level
		1 SDS	2 D	3 N	4 A	5 SA				
1	Your business maintains cash transactions in line with the business cash budgets.	6.8 (27)	7.5 (30)	12.0 (48)	50.6 (202)	23.1 (92)	73.7 (294)	3.75	1.09	High
2	Your business holds liquid cash for daily business transactions.	1.0 (4)	4.0 (16)	20.8 (83)	53.1 (212)	21.1 (84)	74.2 (296)	3.89	.826	High
3	Your business prefers cash transactions than credit for customers.	4.0 (16)	17.5 (70)	10.8 (43)	44.9 (179)	22.8 (91)	67.7 (270)	3.65	1.13	High
4	Your business reviews the levels of receivables.	0.3 (8)	6.3 (25)	11.0 (44)	52.9 (211)	29.1 (116)	82.0 (327)	4.03	.852	High
5	Your business conducts payments to suppliers on cash basis.	2.8 (11)	13.3 (53)	15.8 (63)	47.4 (189)	20.8 (83)	68.2 (272)	3.70	1.03	High
6	Your business makes payments to suppliers using a credit card which incurs additional bank charges.	17.8 (71)	23.1 (92)	19.3 (77)	30.3 (121)	9.5 (38)	39.8 (159)	2.90	1.27	Average
7	Your business reviews the levels of payables.	1.8 (7)	4.5 (18)	15.8 (63)	47.9 (191)	30.1 (120)	78.0 (311)	4.00	.893	High
Total Mean						69.1 (276)	3.70	1.013	High	

1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5 Strongly Agree

Table 3 below shows the relationship between working capital management and business performance in Malaysian SMEs family businesses. The results show a significant relationship between working capital management and business performance in Malaysian SMEs family business $r = .515^{**}$, sig .000 ($p < .05$). The level of contact is simplified. Since the Pearson correlation value is positive, the better the working capital management, the higher the business performance. Since there is a significant relationship between working capital management and business performance in Malaysian SMEs family businesses, H_{a1} is accepted.

If the significant level obtained is greater than the significant level $p > 0.05$, H_{a1} fails is rejected. If the significant level obtained is smaller than the significant level $p < 0.05$, H_{a1} is accepted.

Table 3

The relationship between working capital management and business performance in Malaysia SMEs family business

Variable	Pearson correlation	Sig (2-Tailed)
Working Capital Management * business performance	.515**	.000

This research aims to assess the impact of working capital management on business success in Malaysian SMEs owned by families. The problems encountered in this study are based on the Bank Negara Malaysia Annual Report 2018. One of the most serious problems Malaysian SMEs confront is a lack of access to capital (CEDAR Research Team, 2019). SMEs may struggle to expand their operations, develop new products or services, invest in technology or equipment, or make timely payments without sufficient financing. As a result, the availability of financial sources might be important to Malaysian SMEs' success or failure. The difficulty they are dealing with is deteriorating their working capital management. Working capital is crucial to short-term asset management because it finances the production cycle and capital expenditures to maintain or expand current operations (Ross, Westerfield, Jaffe, & Jordan, 2019). The issue of working capital has garnered a great deal of criticism in the corporate world (Hernandez et al., 2021). No business can survive without enough working cash. As a result, this study addresses the question: Does a relationship exist between working capital management and the business performance of Malaysian SMEs family businesses?

This study used the resource-based view (RBV) theory, and from the findings, it was found that working capital management has a relationship with business performance. Based on the theory that a business with sufficient sources of funds will increase its development, From the findings, working capital management has a relationship with business performance. This study suggests that the resource-based view (RBV) theory can be implemented with the findings obtained in this study.

It discusses the sample studies used in states with low GDP under the Eleventh Malaysia Plan, namely Perlis, Kedah, Kelantan, and Terengganu. According to the study question, does working capital management directly influence the business performance of Malaysian SMEs family businesses? This study found that working capital management has a relationship with business performance. Accordingly, based on the findings of the study, Ha1 was accepted. Therefore, the results show that poor working capital management causes low GDP, possibly due to other factors that cause low GDP.

From the findings of the study in the test, The Pearson correlation of the study shows that there is a significant relationship between working capital management and business performance in Malaysia SMEs family business $r = .515^{**}$, sig .000 ($p < .05$). In this context, the alternative hypothesis Ha1 'There is a significant relationship between working capital management and business performance in Malaysia SMEs family business,' is also accepted Ha1. Whereas the findings from multiple regression analysis found working capital management is a small influence, contributor, or predictor of business performance among Malaysians, R Square Change = .213 (.213 x 100 = 2.13%), $F(2, 396) = 152.063$, $p < .000$, is 2.13% which is a small and significant influence. As there is a major contributing factor in working capital management to business performance among Malaysians, Ha1 is accepted.

A strong relationship between working capital management and SMEs' business performance has been reported in the literature. Therefore, Mang'ana et al (2023) show that working capital management significantly influences agricultural SMEs' performance. The findings are

also consistent with Somathilake and Pathirawasam (2020) study that working capital management practices significantly positively impact SME performance. A business must have enough money in the bank to function well. A lack of cash makes it difficult for a business to operate and can even lead to bankruptcy. In line with this finding, Kangangi and Omagwa (2020) show that the respondents indicated that working capital management practices impact the growth of small and medium-sized enterprises. This study indicates that entrepreneurs must be educated on various inventory management techniques to optimize growth for SMEs to thrive. As a result, working capital management was investigated in this study. This study hypothesizes that working capital management significantly influence the business performance of Malaysian SMEs family business. Ha1 is accepted.

This study was set out with the aim of assessing the importance of working capital in businesses that deal with day-to-day operations. The literature on working capital management has become more extensive in recent years. Recent studies have been largely exploratory. Rey-Ares et al (2021) found a significant relationship between working capital management and SME performance. The results are also supported by Kimiti (2020), who found that effective working capital management contributes significantly to the expansion of SMEs' performance. This study means that SMEs' working capital management practices can forecast their growth. Thus, the findings indicate that working capital management is effective when these variables are met.

This study confirms that working capital management is related to firm performance. According to Zada et al (2019), a positive relationship exists between working capital management and SME performance. In addition, working capital management ensures the smooth functioning of business operations. The result also aligns with Muneer et al (2017), who found a positive relationship between working capital management and business performance. By having enough cash available when the business needs it, good cash management entails better timing of spending decisions, earlier recognition and booking of revenues, and more accurate cash flow forecasts.

This result is broadly in line with the findings of other studies that establish a link between working capital management and firm performance. Accordingly, Yogendrarajah et al (2017) found working capital management has a positive relationship with SMEs' business performance. Baños-Caballero et al (2016) also found that working capital significantly impacts company performance in a study on working capital management. Furthermore, the study's findings indicate that working capital management is the second most important element influencing the business success of Malaysian SMEs. Working capital management is a significant instrument for business families that benefits their business and, as a result, promotes successful business performance in the future.

Overall, these findings clearly show that working capital management is an important indicator for identifying the business performance of Malaysian SMEs family businesses to improve future business performance. As a result, when businesses believe that working capital management is important, they tend to reciprocate by becoming more involved in business activities. Thus, this study provides strong empirical evidence that working capital management significantly influences the business performance of Malaysian SMEs family businesses. The study findings made it possible to determine the performance of the lower GDP states under the Eleventh Malaysia Plan.

Conclusion

The results of this study contribute to theoretical and contributions to practical. With these particular contributions to the theoretical, this study used the resources-based view theory (Wernerfelt, 1984) and the pecking order theory (Myer, 1984) to understand the relationship of working capital management in improving business performance based on available resources. Hence, contributions to practical, this study are important for SME entrepreneurs, SME agencies, banks and other financial institutions, potential investors, researchers and academics. This study proves that these contributions are important for all the above stakeholders. With all the contributions, the stakeholders can know the SME's business funding requirements in managing working capital management simultaneously, increasing business performance.

References

- Abimbola, O., & Kolawole, O. (2017). Effect of Working Capital Management Practices on the Performance of Small and Medium Enterprises in Oyo State, Nigeria. *Asian Journal of Economics, Business and Accounting*, 3(4), 1–8.
- Afrifa, G. A., & Tingbani, I. (2018). Working capital management, cash flow and SMEs' performance. *International Journal of Banking, Accounting and Finance*, 9(1), 19.
- Bank Negara Malaysia. (2021). *Bank Negara Malaysia: Financing for Small and Medium Enterprises*. Kuala Lumpur: Bank Negara Malaysia. Retrieved from: <https://www.bnm.gov.my/sme-financing>.
- CEDAR Research Team. (2019). *Recognizing The Challenges of SME Financing*. Kuala Lumpur: Small Medium Enterprise Development Bank Malaysia Berhad.
- Department of Statistics Malaysia. (2020). *Small and Medium Enterprises (SMEs) Performance 2019*. Putrajaya: Dasm.Gov.my. Retrieved from: https://www.dasm.gov.my/v1/index.php?r=column/cthemByCat&cat=159&bul_id=VjM1enZ2RmlVRDVTNFawRWZiZUs3QT09&menu_id=TE5CRUZCb1h4ZTZMODZlbnk2aWRRQT09.
- Dinka, S. T. (2017). Assessment of Financial Management Practices: A Case Study on Small Businesses in Sokoru District, Ethiopia. *Research Journal of Finance and Accounting*, 8, 18-29.
- Folajinmi, D. F., & Peter, A. O. (2020). Financial Management Practices and Performance of Small and Medium Scale Poultry Industry in Ogun State, Nigeria. *Journal of Finance and Accounting*, 90-106.
- Hernandez, M. C., Balboa, C. S., Cuenca, R. C., & Quilantang, N. K. D. G. (2021). Assessment of Financial Management Practices of Small and Medium Enterprises (SMEs) in Nasugbu, Batangas. *International Journal of Creative Business and Management*, 1(2), 24.
- Kangangi, L. K., & Omagwa, J. (2020). A study on the effect of working capital management practices on growth of Small and Medium Enterprises (SMEs) in Nyeri County, Kenya. *International Journal of Economics, Business and Management Research*, 4(11).
- Kimiti, A. H. (2020). An Assessment of the Impact of Financial Management Practices on Growth of SMEs. *Master's thesis*. Mzumbe University, Dar es Salaam Campus College.
- Kimiti, A. H. (2020). An Assessment of the Impact of Financial Management Practices on Growth of SMEs. *Master's thesis*. Mzumbe University, Dar es Salaam Campus College.
- Lamprey, J., Marsidi, A. B., Usman, B., & Ali, A. B. (2020). The Overconfidence Behavioral Bias in Working Capital Management and Performance of Small and Medium Enterprise in Ghana: A Conceptual Paper. *Malaysian Journal of Social Sciences and Humanities*, 5(7).

- Lamptey, L., Frimpong, K., & Morrison, A. (2017). Empirical Study on the Influence of Working Capital Management on Performance of SMEs in a Developing Economy. *British Journal of Economics, Management & Trade*, 17(4), 1–10.
- Mang'ana, K. M., Ndyetabula, D. W., & Hokororo, S. J. (2023). Financial management practices and performance of agricultural small and medium enterprises in Tanzania. *Social Sciences and Humanities Open*, 7(1).
- Matare, P. G., & Sreedhara, T.N. (2020). Financial Management Practices and Growth of MSMEs of Tanzania. MUDRA. *Journal of Finance and Accounting*, 7(1), 30.
- Mokhber, M., Gi, T. G., Rasid, S. Z., Vakilbashi, A., Zamil, N. M., & Seng, Y. W. (2017). Succession planning and family business performance in SMEs. *Journal of Management Development*, 36(3), 330-347.
- Mogaka, M. O., & Koori, D. J. (2018). Financial management practices and turnover growth of micro and small enterprises: A case of Uwezo Fund in Kwale County, Kenya. *International Academic Journal of Economics and Finance*, 3(1), 44-66.
- Muneer, S., Ahmad, R. A., & Ali, A. (2017). Impact of Financial Management Practices on SMEs Profitability with Moderating Role of Agency Cost. *Information Management and Business Review*, 9, 23-30.
- Musah, A., Gakpetor, E. D., & Pomaa, P. (2018). Financial Management Practices, Firm Growth and Profitability of Small and Medium Scale Enterprises (SMEs). *Information Management and Business Review*, 10(3), 25-37.
- Myers, S. C. (1984). Capital structure puzzle. *The Journal of Finance*, 39, 575-592.
- Nthenge, M. D., & Ringera, J. (2017). Effect Of Financial Management Practices on Financial Performance of Small and Medium Enterprises in Kiambu Town, Kenya. *American Based Research Journal*, 6, 96-32.
- Omar, N. A. (2017). Influence of Financial Management Practices on the Growth of Family Businesses in Kenya. *Doctoral dissertation*. Kenya: Jomo Kenyatta University of Agriculture and Technology.
- Podile, V., Chinta, S. S., & SuryachandraRao, D. (2017). Working Capital Management in Small Enterprise -A Case Study of PL PLAST Pvt. Ltd. IOSR. *Journal of Business and Management*, 19(04), 61–65.
- Rey-Ares, L., Fernandez-Lopez, S., & Rodeiro-Pazos, D. (2021). Impact of working capital management on profitability for Spanish fish canning companies. *Marine Policy*, 130.
- Ross, S., Westerfield, R., Jaffe, J. F., Jordan, B. (2019), *Corporate Finance (12th Ed.)*. New York: McGraw Hill.
- Rugui, L., & Omagwa, J. (2018). Effect of Financial Management Practices on Performance of Selected Small and Medium Enterprises in Limuru Town, Kenya. *International Journal of Scientific and Education Research*, 2(5).
- Simon-Oke, O. (2020). Working Capital Management –Performance Relationship: A Study of Small and Medium Enterprises in Akure, Nigeria. *International Journal of Small Business and Entrepreneurship Research*, 8(2), 32-42.
- Somathilake, H., & Pathirawasam, C. (2020). The Effect of Financial Management Practices on Performance of SMEs in Sri Lanka. *International Journal of Scientific Research and Management*, 08(05), 1789-1803.
- Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic management journal*, 5(2), 171-180.