

# Selection of Small Business Practices Priorities

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## Abstract

*Small business plays an important role in Malaysian business systems. This is because it contributes to the national economic growth by creating job opportunities. As job creators, small businesses must secure access to financial resources but the critical issue surrounding the survival of small businesses is their financial management. Thus, this study approaches small business specifically to examine their financial practices in doing business. This study succeeded in interviewing 185 entrepreneurs in Kedah, which are involved in five different business sectors. These businesses include food and furniture sectors in the manufacturing area; and catering, groceries, and tailoring from the trade and service area. All these businesses represent the most important small businesses that are operating in Kedah. The selection for business practice priorities was done through a fuzzy approach. This approach had been utilised in investigating the linguistic data of business practices. The results showed that updating bookkeeping records is a dominant practice among the entrepreneurs across all sectors, except for the food processing business.*

**Keywords:** small business, business practices, fuzzy approach

## 1.0 Introduction

The latest statistics from the Economic Census 2011 indicated that SMEs constitute 97.3% of total business establishments in this country (645,000). Most businesses are in wholesale and retail trade, restaurants and accommodation, as well as manufacturing of textiles and food products (SMECorp, 2013). The importance of small businesses in Malaysia have been shown to be significant, as witnessed by the increase in growth and number of establishments in all sectors, as well as the increase in job opportunities that are offered, especially in the manufacturing sector (MPC, 2010).

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In order to fulfil their role as job creators, small businesses must secure access to financial resources (Harding & Cowling, 2006). However, one of the critical issues surrounding the survival and success of the small businesses is their financial management. Without further action, it will become one of the causes for closure or even bankruptcy, when these small businesses are burdened with unresolvable liabilities.

Many government agencies such as Majlis Amanah Rakyat (MARA) and SME Development Council (SMEDCorp) had been set up to help the growth of small businesses in Malaysia. Whereas in Kedah, where this study was carried out, Kedah Development Authority (KEDA) and Perbadanan Kemajuan Negeri Kedah (PKNK) are a few government agencies that also play the same role in giving training for entrepreneurs. Realising that a lot of money had been invested in this sector via many government agencies, research is sorely needed to investigate the current practices, especially financial management, by the owners of these small businesses. Thus the purpose of this paper is to present an analysis of the financial practices of small businesses in Kedah by objectively measuring them.

The issue of business practice has attracted the attention of many scholars and researchers, such as Amario et al. (2008), Carlson et al. (2006), and Wilson-Donnelly et al. (2005). It often becomes a measurement item for functional activities or evaluation item for business strategies. Functional activities consist of several managerial functions like finance and marketing, both of which have roles in the distribution of certain tasks. Meanwhile, business strategies refer to the preparation plan that is characteristically long term to ensure that the business is capable of competing well against its rivals. However, this paper will not discuss the business practice based on business strategy.

The ability of a business to develop greatly depends on the managerial activities. These activities will become business practice when they are repeated constantly while performing the same task. In other words, business practice is the action taken by the entrepreneur, whether in the form of daily, weekly, and monthly routines, or even for an identified period of time, in order to advance the business. There are often practices that eventually become the norm to the entrepreneur, such as the payment of wages to workers on a weekly or monthly basis, acquiring supplies from permanent vendors, and other activities.

Referring to the CPA (2010), implementing “good business practices” involves identifying the critical tasks which must be done to keep the business in good financial shape. Among the good business practices are using record keeping and financial control (Lussier & Halabi, 2008), obtaining financial loans (Berggren & Silver, 2010), financing opportunities (Marsch, Schmieder, & Aerssen, 2007), and avoidance of cash credit (Maes, Sels, & Roodhooft, 2005).

Furthermore, research work on small businesses showed that firms that do not perform are not because of lack of awareness of key business factors, but lack of adequate accounting knowledge and proper financial records. Bitler et al. (2001), and Johnsen and McMahon (2005) also studied the financial practice of small businesses. As a result, the study by Bitler et al. revealed that 60% from 3561 business organisations operate using credit sales. Johnsen and McMahon were successful in proving that cross-industry differences in financing behaviour do exist even after controlling for other relevant influences on SME financing choices. Meanwhile McMahon (2001b) found that obtaining loans and getting financial advice have a significant relationship with the performance of 1051 units of small scale manufacturing industries in Australia. These studies indicated that financial practice plays a very important role in the success of a small business.

Each financial practice can also be related to the performance factors of each business in order to observe the extent of their effectiveness in ensuring the survival of an organisation. Therefore, knowledge about

certain principle practices can be a guide to the business in making a more informed and correct decision, which could be continually utilised to generate profit.

The remaining paper is organised as follows. Section 2 discusses the material and methods used to study the financial business practice of the small business entrepreneur. Section 3 explains the concept of fuzzy approach, while section 4 describes the fuzzy approach application in the study. Section 5 presents the results and discussion of the findings that show the level of financial practice according to the type of business. Section 6 concludes the financial practices that are selected to be the priority among small business entrepreneurs.

## 2.0 Materials and Methods

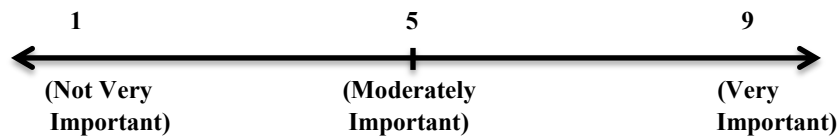
The research population frame is the five main businesses carried out by the local (Bumiputera) entrepreneurs in the state of Kedah, which are food product, furniture, restaurant, grocery shop, and tailoring businesses. Thus, the research subjects consisted of Bumiputera entrepreneurs that are involved in one of these five types of businesses. The research population size in 833 business units and the subjects that were successfully interviewed using a structured interview were 185 individuals, which is roughly two-thirds (2/3) of the sample size. They consisted of 50 from the food product business, 19 furniture makers, 41 restaurants, 39 grocery stores, and 36 tailoring shops. Two types of sampled data were i) demographic data and 2) level of importance of business practice (Table 1).

Seven financial practice items by Gadenne (1998), and Kotey and Meredith (1997) had been adopted and modified with the addition of another practice that had been identified as being important through a pilot study performed on the entrepreneurs (Table 1)

Table 1

*Information Form Evaluated by Research Subjects (Research Questionnaire)*

The list below consists of business practices that are generally practised in an organisation. By using the given scale, please indicate your evaluation (by marking the relevant number) "THE EXTENT OF IMPORTANCE OF THE FOLLOWING PRACTICES IN YOUR CURRENT BUSINESS EFFORT". For example, if obtaining a financial loan is very important, and then circle number 9.



Financial Practice	Degree of Importance of Each Practice								
AW1: Obtain a financial loan	1	2	3	4	5	6	7	8	9
AW2: Find cheaper financial resources to save cost	1	2	3	4	5	6	7	8	9
AW3: Re-invest the profit	1	2	3	4	5	6	7	8	9
AW4: Maintain a large amount of surplus cash	1	2	3	4	5	6	7	8	9
AW5: Obtain supplies using cash	1	2	3	4	5	6	7	8	9
AW6: Allow customers credit	1	2	3	4	5	6	7	8	9
AW7: Selling in bulk	1	2	3	4	5	6	7	8	9
AW8: Update the ledger books each month	1	2	3	4	5	6	7	8	9

### 3.0 Fuzzy Approach

It has been the general norm for the management discipline to use qualitative data in overcoming a problem, where the respondent will answer each question with the help of a certain scale. Often, the Likert scale will be utilised in evaluating some entity, like using the five- or seven-point scale, and each point is a numerical proxy that accurately measures that evaluation. According to Abdul Aziz and Kamaruzaman (2004), this approach is not quite correct because the data does not change linearly and it is not appropriate to treat it as a framed value.

In relation to this, Zadeh (1965) had provided an alternative method of analysing qualitative data through the approach of fuzzy logic. This approach allows flexibility over the subjective evaluation so that the natural phenomenon that is complex can be explained in a language that is easily understood by most people. However, the use of fuzzy set mathematical formula in the analysis of data has not been fully realised in most fields, except for engineering, let alone in the field of management. Therefore, this research effort has utilised this fuzzy technique approach in order to make a more subjective evaluation toward the business practice as a whole.

Zadeh (1965) had pioneered the method of measuring something that cannot be stated accurately. For example, the term “tall” is a fuzzy measurement because if an individual is taller than two metres, then most would say he is “tall”, and if a person is less than 1.5 metres, then he is “not tall”. However, for those between 1.5 metres and 2 metres, they cannot be said to be “tall” or “not tall”. In this case, fuzzy set theory recommends a fuzzy measurement (from 0 to 1) for representing the height. This theory consists of several mathematical element list fuzzy set, fuzzy number, and membership degree. Each element has various methods and sequences that can be applied accordingly.

### 4.0 Fuzzy Approach Application

This study used only one approach of fuzzy methods by selecting the evaluation of the respondent in a linguistic form, which is by using a language statement (Table 2).

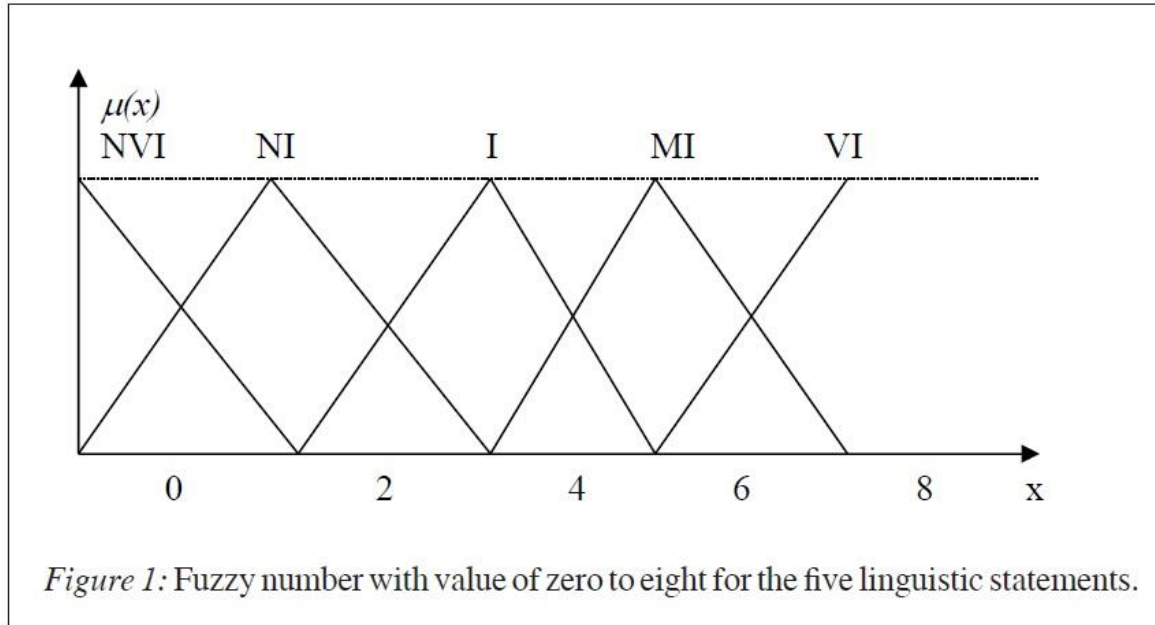
Table 2

*Evaluate each Business Practice according to Importance*

- |                             |                              |
|-----------------------------|------------------------------|
| 1. Not Very Important (NVI) | 4. Moderately Important (MI) |
| 2. Not Important (NI)       | 5. Very Important (VI)       |
| 3. Important (I)            |                              |

	Business Practice	Evaluation				
$a_1$	Obtaining supplies using cash	<del>NVI</del>	NI	I	MI	VI
$a_2$	Lower product price than competitors	NVI	NI	<del>I</del>	MI	VI
$a_3$	Emphasising cost reduction	NVI	NI	I	MI	<del>VI</del>
$a_4$	Obtaining information about business trends	NVI	NI	I	<del>MI</del>	VI
$a_5$	Involving employees in decision making	NVI	<del>NI</del>	I	MI	VI

Following this, a linguistic evaluation needs a transformation process into a fuzzy number. The five linguistic statements are formed into triangular fuzzy numbers that explain the five levels of importance based on the values between the zero and eighth value. The illustration of fuzzy numbers using the five linguistic statements with the membership functions can be seen in Figure 1.



Thus, the linguistic evaluation in Example 1 is symbolised as  $L^k = (l_{k,1}, \dots, l_{k,n})$ , where is the linguistic value for each  $i$ -th practice by business  $k$ , which is:

$$L^k = (NVI, I, VI, MI, NI)$$

and in the form of triangular fuzzy number,

$$l_{k,1} = (0,0,2), l_{k,2} = (2,4,6), l_{k,3} = (6,8,8), l_{k,4} = (4,6,8) \text{ and } l_{k,5} = (0,2,4)$$

where briefly ( $A^k$  is  $L^k$  in fuzzy number form)

$$A^k = ((0,0,2), (2,4,6), (6,8,8), (4,6,8), (0,2,4)).$$

Then the process of difuzzification by utilisation produces ( $U^k$  is  $L^k$  in utility form)

$$U^k = (0, 4, 8, 6, 2)$$

Following this, the formation of a prioritise matrix and the selection process of the most dominant business practice if formed by fuzzy majority.

## 5.0 Results and Discussion

The main objective of a commercial business is to maximise profit. Normally, this responsibility is placed on the financial function of the organisation. This function consists of financial practices that play a role in generating profit, whether by performing daily activities or activities performed within a certain period

of time. By using the items evaluated by the respondent, the sequence of importance of each practice based on the largest score can be found in Table 3.

Table 3

*Level of Financial Practice according to Type of Business*

Level	Food Production		Furniture Production		Restaurant Business		Grocery Business		Tailoring Business	
	SCORE	Practice	SCORE	Practice	SCORE	Practice	SCORE	Practice	SCORE	Practice
1	0.60456	AW7	0.62319	AW8	0.68116	AW8	0.69771	AW8	0.65977	AW8
2	0.56010	AW4	0.55728	AW6	0.64359	AW4	0.67349	AW3	0.62752	AW3
3	0.50445	AW3	0.52384	AW5	0.59975	AW3	0.62299	AW4	0.60489	AW4
4	0.45222	AW2	0.49489	AW7	0.43098	AW2	0.55769	AW5	0.55793	AW2
5	0.44775	AW1	0.44757	AW3	0.37361	AW1	0.34657	AW7	0.30766	AW5
6	0.37559	AW8	0.42547	AW4	0.35072	AW7	0.19766	AW2	0.23235	AW1
7	0.25473	AW5	0.18183	AW1	0.20043	AW5	0.13428	AW1	0.21678	AW7
8	0.23401	AW6	0.14624	AW2	0.04353	AW6	0.10612	AW6	0.13375	AW6

AW1 : Obtain a financial loan

AW2 : Find cheaper financial resources to save cost

AW3 : Re-invest the profit obtained

AW4 : Maintain a large amount of surplus cash

AW5 : Obtain supplies using cash

AW6 : Allow customers credit

AW7 : Selling in bulk

AW8 : Update the ledger books each month

In general, the following three financial practices of updating the ledger books each month (AW8), maintaining a large amount of cash (AW4), and re-investing the profit gained (AW3) have been unanimously identified by three types of businesses as being the important forms of business practice to be adopted. All three businesses are restaurant business, grocery store, and tailoring business, and they are businesses operating in the services sector where they are directly involved with the product end-users.

The importance of these three practices illustrates that small business in the services sector places emphasis on cash flow in the operations. Cash flow is needed by the respondents so that the capital can be utilised repeatedly to ensure that the business is continuously active. In relation to one of these practices is the updating of accounts (AW8). McMahon (2001a) found that the practice of preparing formal financial reports has a significant relationship with business performance. Therefore, he recommended that

entrepreneurs should continuously perform this practice consistently. Aligned with this action, entrepreneurs will always be aware of the financial position of the organisation when making any vital decision making.

Meanwhile, the selection of the main business practice for the manufacturing sector differs. Even though the furniture making business still selects the updating of accounts (AW8) as the main practice, the food production business did not view it as important, and maintained that the most important business practice is selling in bulk (AW7). However, food production respondents were similar in opinion with the businesses in the services sector that chose re-investment of gained profits (AW3) and large amount of cash surplus (AW4) as the top three main practices, but not so for the furniture production respondents.

Additionally, it was revealed that allowing customers to purchase using credit (AW6) is the last choice for all businesses except for furniture production. This course of action is pertinent for small businesses because it is difficult for them to acquire financial loans as re-usable capital. It is clearly seen that obtaining financial loan (AW1) is not a priority practice for them. However, McMahan (2001b) was able to prove the dependence on external financial loans having a significant relationship with the performance of small businesses. Furthermore, Faridah (2001) had recommended that the government should play an active role in providing financial aid to entrepreneurs so that they can be more productive and innovative.

Conversely for furniture production companies, the practice of giving credit to customers (AW6) is the second most important practice. This situation explains the business condition that most furniture producing Bumiputera entrepreneurs depend heavily on government contracts even though they produce their own products. For the most part, they only have an F-class contractor license that forces them to become subcontractors to certain projects and only receive payment after completing the tasks that they are responsible for.

## **6.0 Conclusion**

This study found that three financial practices have been selected by the respondents to be the most important in operating their business, which are updating their ledger books each month, maintaining a large amount of cash, and re-investing the profit gained. These practices allow the entrepreneur to continuously be alert of their current financial position when performing any decision making. Furthermore, these practices which focus on monitoring and controlling could ensure the survival of the small business in the highly competitive market.

To date there are many established agencies in assisting the small business entrepreneur, thus this finding may help these agencies to embed these practices in their training modules by emphasising monitoring and controlling as important tools in running the business. Strengthening their skills, knowledge, and competencies in financial planning and controlling will nurture small business entrepreneur competitiveness in the industry.

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