

The Impact of Financial Resources Management on SME Performance

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Abstract

It is often understood that in order to be a successful entrepreneur, one must be fully equipped with all aspects of management, finance and human relation skills. More often than not, marketing is deemed as the crucial importance for the success or failure of an enterprise. Nevertheless, the degree of financial resources management of an enterprise may well impact its overall business performance, both in the context of young and small enterprises and the process of launching new products which will eventually have an impact on performance. Entrepreneurial marketing is driven by entrepreneurial opportunities which involves the proactive identification and exploitation of opportunities for acquiring and retaining profitable customers through innovative approaches to risk management, resource leveraging and value creation.

Keywords: Entrepreneur, SME, Financial Resources Management, Performance

Introduction

To be a successful entrepreneur in a very challenging business world of today, all required knowledge is essential as tools to remain relevant, competitive and profitable. The success of any company big or small are measured by two variables which are the sales volume and the propensity to grow physically in terms of size or product or services diversification

Literature Review

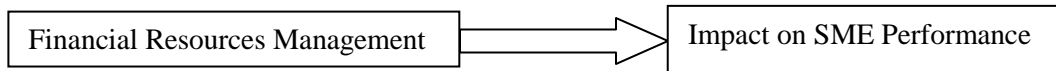
Beck et al. (2008) debate that firms with larger financing needs are more probable to rely in different sources of external finance, and, in line to the pecking order theory of Myers and Majluf (1984) the adverse selection in the market for external finances makes it efficient for the firm to access equity last after all other sources of external finance are levered. Therefore, Beck et al. (2008) examine financing source as the proportion of investment financed by external sources which are bank debt (includes financing from domestic as well as foreign banks), equity, leasing, supplier credit, development banks (including finance from both development and public sector banks), or informal sources.

Riding et al. (2012) also examine different sources of financing which includes external financing, external equity capital, external debt capital and trade credit, and their findings indicate that growth-oriented enterprises are more likely to apply for financial capital.

Berger and Udell (1998) argued that firms' growth cycle influences the source of finance. Considering small firms with high growth, venture capital, we can say that trade credit, short and intermediate-term financial institution loans and mezzanine fund financing are the most typical sources of finance used. Taking medium-sized and large firms into consideration, then public equity, commercial paper, medium term notes and public debt could be used. However, these two last resources are not adjusted to finance. Theirs results are consistent with the findings of Cavusgil (1984) and Tannous (1997) show that financial needs depending on which stage the firms are at. In experimental and active stages, financial export activities are more complicated, for example because of higher risk of payment from foreign buyers and the lack of international experience, and therefore, they should seek venture capital rather than traditional financing. By the other hand, in committed stages, activities require large investments in working capital, and usually banks are the major sources of credit of SMEs.

Bell (1997) concluded that financial constraints, such as exporting financing resources, currency fluctuations and delays in payments, can decrease international capabilities of small innovative firms. On other hands, learning orientation is a broader concept that holds many characteristics of adaptation and change.

Theoretical Framework



Hypothesis

H¹ : There is a direct relation between financial resources management and performance of business

H⁰ : There is no relation between financial resources management and performance of business

Data Collection

The research setting is within the *Klang Valley* district in Malaysia which is known as the most urban and developed part of Malaysia. The population consists of 500 SMEs producing diversified products and services with total respondents of 270 SMEs. These data will allow testing the hypothesis. The SME owners/entrepreneurs answered a structured questionnaire given by the researcher.

Data Analysis

Descriptive Statistics

	Mean	Std. Deviation	N
Paid Up Capital	2.48	1.051	270
Financial Assistance	.53	.812	270

Correlations

		Paid Up Capital	Financial Assistance
Paid Up Capital	Pearson Correlation	1	-.067
	Sig. (2-tailed)		.273
	N	270	270
Financial Assistance	Pearson Correlation	-.067	1
	Sig. (2-tailed)	.273	
	N	270	270

Conclusion

Financial resources management is another aspect of a person's human capital that may be valuable in the discovery and exploitation of opportunities. Prudent financial resources management will increase a person's stock of information and skills, including those needed to recognize and pursue an entrepreneurial opportunity successfully.

Suggestion for future research

Future research should attempt to investigate 'why' small firms fail and how to overcome their failure. To establish the 'why' and 'how', future research should consider a longitudinal qualitative study because new firms are considered fragile and organization experience may have an impact on both firm survival and growth.

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