TRADE CREDIT MANAGEMENT PRACTICES OF MALAYSIAN SMALL AND MEDIUM-SIZED ENTERPRISES IN THE MANUFACTURING SECTOR

by

NASRUDDIN ZAINUDIN
MBA (Indiana St.), BSc (Finance) (Indiana St.)

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Declaration

I certify that the substance of this thesis has not already been submitted for any degree and is not currently being submitted for any other degree or qualification.

I certify that any help received in preparing this thesis, and all sources used, have been acknowledged in this thesis.

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(NASRUDIN ZAINUDIN)
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List of Abbreviations

ACP  Average collection period
AFTA  Asean Free Trade Area
APEC  Asia-Pacific Economic Cooperation
ASEAN  Association of Southeast Asian Nations
BASIS  Business and Search Information Services
BNM  Bank Negara Malaysia (the Central Bank)
CASRO  Council of American Survey Research Organisation
CCM  Companies Commission of Malaysia
CEO  Chief Executive Officer
CGC  Credit Guarantee Corporation
FMM  Federation of Malaysian Manufacturers
ICA  Industry Coordination Act
MATRADE  Malaysian Trade Exports
MD  Managing Director
MECD  Ministry of Entrepreneur and Cooperatives Development
MIDA  Malaysian Industry Development Authority
MITI  Ministry of International Trade and Industry
MNC  Multinational corporation
NEP  New Economic Policy
NPC  National Productivity Council
NSDC  National SME Development Council
RIDA  Rural Industry Development Authority
ROA  Return on assets
SIC  Standard Industrial Classification
SIRIM  Standard Industrial Research Malaysia
SME  Small and Medium-Sized Enterprise
SMIDEC  Small and Medium Industry Development Corporation
SPSS  Statistical Packages for Social Science
UMNO  United Malay National Organisation
WTO  World Trade Organisation
Abstract

Considered as the engine of growth, small and medium-sized enterprises (SMEs) in Malaysia are heavily assisted and supported by various government agencies. Nonetheless, previous studies indicated that SMEs were facing many problems, where the most common finance-related problem was the lack of financing. However, the existence of various sources of financing in the market raised doubt as to whether the lack of funding is real or a myth. It is suspected that the problem for SMEs in Malaysia is not with the availability of funds, but the management of the funds obtained.

Hence, this study focuses on the management of receivables, as they constitute a substantive component of company assets. This study centres on the trade credit management practices of Malaysian SMEs in the manufacturing sector, since this sector is a dominant contributor to the Malaysian SMEs’ total output. Specifically, the research objectives are (1) to compile the profile of, and investigate, the trade credit management practices of SMEs in the manufacturing sector; and (2) to identify factors (company characteristics) that might influence the trade credit management practices.

To accomplish the research objectives, data on 214 manufacturing SMEs were collected from two different sources. Non-financial data was collected using mail questionnaires while the financial data were obtained from a private credit information agency. Both these primary and secondary data were later matched and used for analysis. First, descriptive analyses were performed to present the profile of practices adopted by SMEs in managing their trade credit. Then, bivariate associative analyses were conducted between the credit management practices and company characteristics using the Mann-Whitney, chi-square, Kruskal-Wallis and Spearman’s rank correlation tests. Next, trade credit management practice variables that showed associations with multiple company characteristics were further analysed as the dependent variables under multivariate settings. Multiple and logistic regressions were used for this purpose.
The study provides a broad view of the SMEs’ trade credit management practices and finds them to be not very sophisticated. Thus, the study identifies some aspects that should be addressed to overcome this lack of sophistication. In addition, the study also identifies some of the company characteristics that may have some influence on the SMEs' credit management practices. The study provides many implications that illustrate the SMEs' lack of awareness and understanding on the importance of the various credit functions. Therefore, one of the recommendations suggested is to provide training for SMEs to increase knowledge and skills in managing trade credit. The study also proposes the establishment of a cooperative for SMEs, to be initiated and run, either by the SMEs themselves, or one of the related government agencies.