

Sustainable Supply Chain Management of Malaysian Small Business: An Accounting Perspective

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Abstract- Small businesses are perceived as having essential impact to the economy and society particularly in the developing economies. In Malaysia, 98.5% or 907,065 business establishments are Small Medium Enterprises (SMEs) [1]. Nonetheless, it is not easy for the small businesses to sustain in the ups and downs of the economy as well as the increasing competitions from all types of small business such as micro, small and medium businesses. In fact, half of the start-ups Malaysian SMEs failed to continue their businesses during the first 5 years of operation [2]. The handy ways to enhance the sustainability of small businesses could be through providing some appropriate accounting and finance skills and knowledge to the business owners to assist them in managing all the business resources effectively and efficiently. As such, small businesses owners should be made aware of the importance of having at least the basic financial accounting system. With the existence of financial accounting system in the business, the small businesses have the potential to contribute more positive impact to not only the economy but also to the society both in the present and in the future.

Keywords- *Small Medium Enterprises, Supply Chain Management, Sustainable development, Business Accounting.*

1. Introduction

Small businesses or small enterprises are neither uncommon nor alien particularly in the developing nations. There are many small enterprises elsewhere in developing economies and the number can be said to keep on increasing from day to day. In Malaysia, 98.5% or 907,065 business establishments are Small Medium Enterprises (SMEs) [1]. In terms of the contribution to Malaysian economy, the [1] discloses that the SMEs contribute 36.5%, 65.3% and 18.6% for Gross Domestic Products (GDP), employment and export respectively. The statistic has shown that

SMEs are an important contributor and become an integral part of Malaysian economic development. What could be the probable reasons for the mushrooming of small businesses in developing nations? One of the factors could be that the business is quite easy to open and set up as it does not require much capital as compared to the big scale businesses. The growing number of small businesses will certainly have some impact on the economy, society and nation. This is due to the fact that while providing income for the owners or entrepreneurs, small businesses also provides the income for the society through the job opportunities offered. For instance, the SMEs have been regarded as a major employer of finance professionals [3]. As noted by [3], 45% of their members have worked for an SME at some point in their lives. Nevertheless, not all or not many small businesses are able to sustain and succeed in view of the existing of many competitors as well as the ups and downs of the economy. As a matter of fact, half of the start-ups Malaysian SMEs failed to continue their businesses during the first 5 years of operation [2]. The survival of small enterprises is indeed seen not as easy as its establishment. The success of small businesses depends perhaps upon careful planning, efficient operation and effective control by the business entrepreneurs. From another viewpoint, the setting of overall accounting works is regarded as essential. Accounting is perceived as a tool that can attract the investors particularly from the developed nations. Ref. [4] assert that the investors need to comprehend how far is the use of various accounting and non-accounting techniques of the Western in other settings. Through this, the developed nations will be able to know and see how their system or practice functions in other economic environments. Despite of several factors for successful small enterprises as

discussed above, this paper will focus on the control aspect of small business. Specifically, the paper is to deliberate issues concerning the accounting practices involving the small businesses industry. This is considering the nature of the small businesses themselves, which is small and therefore in need of a more effective control with respect to the issue of accounting and finance to ensure better utilization of resources for the businesses. In other words, the paper discusses the contributions of accounting knowledge on the sustainability of Malaysian small business. The paper is arranged in several sections. The next section discusses the small business or small enterprise. Thereafter, the paper discusses the concept of sustainability and accounting knowledge. In the subsequent sections, the paper presents the discussions on decision usefulness theory, stakeholder theory, impact of small business on economy and society as well as sustainability of small business: contributions of accounting knowledge. The paper ends with the section on conclusion.

2. Small Businesses or Small Enterprises

Small businesses are widely known or interpreted as small and medium scale type of businesses. The sole traders or retailers or businessmen are therefore could be one of the common members for this kind or level of business. In Malaysia, a more specific classification or definition on Small Businesses could those provided by the Central Bank of Malaysia [5] i.e. National SME (Small Medium Enterprise) Development Council of Bank Negara. There are 3 categories of business scale fall under the definitions issued by the Bank Negara Malaysia namely micro, small and medium. According to Bank Negara Malaysia, SMEs are classified or defined based on two basic criteria i.e. amount of sales turnover and number of full time employees. The definitions of SMEs in Malaysia are applicable to sectors such as manufacturing and services (including other sectors). The detailed definition is provided in the Table 1 below.

Table 1. Definitions of Micro, Small and Medium Businesses

Manufacturing	Types of Business	Services and Other Sectors
Sales Turnover: RM15 million to equal or less than RM50 million Or Employees: From 75 to equal or less than 200	Medium	Sales Turnover: RM3 million to equal or less RM20 million Or Employees: From 30 to equal or less than 75
Sales Turnover: RM300,000 to less than RM15 million Or Employees: From 5 to less than 75	Small	Sales Turnover: RM300,000 to RM3 million Or Employees: From 5 less than 30
Sales Turnover: Less than RM300,000 Or Employees: Less than 5	Micro	Sales Turnover: Less than RM300,000 Or Employees: Less than 5

Source: [6]

2.1. Concept of Sustainability and Accounting

Sustainability can be regarded as the interrelationship among different life creatures that share the same planet in order to live and survive. Specifically, according to [7], such interrelationship signifies an understanding that is the output of the link between the people as well as the organizations within the context of not only national but also international societies which includes among others the economies and the industries. Accounting on the other hand, contributes towards better sustainability of business through its financial reporting process function. In this context, financial accounting acts as a tool that disclose financial and non-financial information i.e. social and environments to the stakeholders via

mediums like annual reports and other media [8]. Such information is perceived as crucial to assist the stakeholders to make informed decision makings.

3. Decision Usefulness Theory

The [9] asserts that “the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.” In this regard, the decision usefulness theory is viewed as describing accounting as an essential process that provides relevant financial information to the relevant users for wise economics decision making practices. In other words, accounting assists

the decision makers to make the most accurate decisions that would lead profit making in the business. The decision usefulness theory is relevant to the context of small business since the theory focuses on the use of financial information for the private use of the business owners. [10] describes on how an entrepreneur succeeds by considering or using profit as a measure of achievement and competency. In this perspective, the entrepreneurs use accounting as a tool to measure how well their businesses are doing in achieving the business goal which is to make profit.

3.1. Stakeholder Theory

The term stakeholder is used to symbolise those groups without whose existence and support corporations would cease to survive. The term is defined as “any group or individual who can affect or is affected by the achievement of an organization’s objectives [11,12] notes that the stakeholder theory has two important explanations concerning the acts of corporations towards their stakeholders. First, it makes and allows corporations to move forward and aim for outstanding achievements, since it provides the managers with a lucid and shared sense of the value that they have created, as well as brings the core stakeholders together. In addition, the stakeholder theory helps the managers to describe their responsibilities to the corporate stakeholders. Hence, the management needs to detail how they want to carry out the business and be clear about what type of relationship they want to formulate and develop with their stakeholders in performing their duties. Therefore, the stakeholder theory actually concerns the managerial conception about the strategy and ethical value of organizations. In this respect, the stakeholder theory can also be described or elaborated through management and ethical branches [13]. At this juncture, the success of organizations depends upon their ability to establish, develop as well as manage the connections with an array of stakeholder groups. The managers have the duty to maintain the support needed while simultaneously balancing the stakeholders’ interests.

3.2. Impact of Small Businesses on Economy and Society

From the economy perspective, the contribution of small businesses is basically seen not from the scale

of operation per small business. The impact is viewed from the cumulative scale of operations based on the total number of small enterprises that exist. In this perspective, the high number of small businesses, in one way or another, is perceived as one of the catalysts for money movement in the economy which is good for the economic growth particularly in the emerging or developing economies. In the long run, the small businesses that are properly managed may give a greater impact to the economy as the owners or entrepreneurs can expand the business into larger businesses such as small, medium or even big businesses depending on their level of success in the market. This is in line with the national and international companies’ efforts to come out with new sustainable organizations that are socially and environmentally responsible for shareholders’ value creation [14]. If this occurs, the economic activities will surely become more active as more trading and services arrangements can be made in larger scales. On the other hand, from the perspective of the society, the existence of small businesses is able to contribute by offering job opportunities to the less fortunate or poor people in the community. In this context, the less fortunate people can also be part of the individuals who contribute to the economic development in their respective locations or places. The jobs will enable them to improve their quality of living through the income earned as it is not easy for these people to get jobs without proper qualifications. The small businesses that succeed through better and more systematic managements in the future will have the opportunity to encourage more participation from the public if they decide to expand their businesses. This, in turn, will create more job opportunities to those who are still looking for jobs or employments. As such, the employment rate can be enhanced and at the same time they can have the chance to have a better life in the society as well. From another point of view, the higher quality of living as reflected through low unemployment rate is perceived as one of the indicators for healthy economy. This is due to the fact that, high employment rate will increase the purchasing power and therefore increase the amount of expenditure in the economy. The increase in expenditure will also mean an increase in terms of money that is flowing in the market which is vital for the economic growth.

3.3. Sustainability of Small Businesses: Contributions of the Accounting Knowledge

It can be said that not many small businesses can sustain or survive in the market or industry for a long period of time. Although the owners or entrepreneurs could be the same individuals but the businesses are different. What are the possible factors for these occurrences? The main issue that has been faced by the small business entrepreneurs could be the lack of appropriate skills and knowledge with respect to business management that they involved in particularly on the accounting and financial aspects. Even though the business is relatively small, the basic financial accounting and management should perhaps at least be there. In this context, the business should have a record or book keeping for all business transactions. This is important to ensure that the business will be able to trace down all the money flowing in and out from the business. In addition, the owner can control the money movement especially the expenditure part. The business can also use the recorded financial information to plan for future expansion. The existence of financial accounting and reporting system is perceived as able to build the relationship and trust with the stakeholders. As the stakeholders are in need of the financial information regarding businesses that they have the stake, therefore, these elements are vital for the businesses to survive and grow in the market and industry. As noted [15], relationship and trust are the essential conditions for enabling the business to grow and develop. Within this perspective, self-regulation is viewed as the way for the small businesses particularly the micro enterprises to have accounting records. This is due to the fact that small businesses are not being regulated and monitored unlike the big companies or the public listed companies with respect to the preparation and the presentation of the financial accounting and reporting information. As asserted [16], there have been a big gap between the International Financial Reporting Standards (IFRSs) adopted for application by non-private entities and the Private Entities Reporting Standards (PERSs) applied by private entities up to 2016. It is therefore up to the owners of the business themselves to find the appropriate means to ensure that businesses have the suitable financial information system. From another view, the financial information system is viewed as crucial since small businesses need such information to formulate appropriate strategies for the

businesses. This is because small businesses are not only competing to each other but may also receive competition from the small businesses or even from the medium businesses in some places. The existence of recording system or financial information system is seen as helpful in the sense that the owners can now plan and use the money more effectively and efficiently. In this perspective, the accounting information system i.e. cash budget enables the business to know when the business will need for example to look for fund or extra fund to finance the business. The records or documents can act as the supporting documents for the business to make loan or borrow some money from the banks or related government agencies. Lack of business records may have caused many small business owners unable to get some fund for their business particularly in time of difficulties. From another point of view, the use of budgets is also found to be relevant for SMEs' performance evaluation [17].

4. Conclusion

From the macro perspective, small businesses are seen as having some impact to the economy and society especially in the developing economies or nations. However, it is not easy for the small businesses to sustain in the ups and downs of the economy as well as the increasing competitions from not only the other small businesses themselves but also from other kinds of business such as small and medium businesses. One of the ways to enhance the sustainability of small businesses could be through providing some appropriate skills and knowledge to the owners of small businesses [18,19]. Specifically, the skills and knowledge with respect to the accounting and finance are viewed as important to the owners of small business in order to assist them to properly manage all the business resources. The owners of small businesses should be made aware of the importance of having the appropriate skills and knowledge pertaining to the basic financial accounting and management system. This is to ensure that the owners can start looking for the possible initiatives to learn (for those who are new or fresh) or improve (for those who have the basic knowledge) their understanding, knowledge and skills with respect to financial accounting and management. With proper resources management by means of better financial accounting records and system, the

small businesses have the potential to contribute more positive impact to not only the economy but also to the society in the long run. In this case, the small businesses may able to grow or expand into bigger businesses in the future. This will certainly bring more good effect to the economy and at the same time improve the quality of living of the society especially the poor or unlucky people through more job opportunities offered.

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