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CONCEPTUALISING THE FINANCIAL ACCESSIBILITY OF SMALL AND MEDIUM ENTERPRISES (SMES) IN MALAYSIA

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Abstract:
The purpose of this study is to focus on the SME access to finance and alternative financing options available in promoting the business growth and potentiality. The key influences of selecting capital structure decisions consist of five variables were profitability, firm size, growth opportunity and firm age and asset tangibility. The results concluded that the firm size possesses the most significant impact in the financial decision of capital structure towards firm performance among SME in Malaysia. Policymakers should focus on giving intensive support to SMEs and continue to discover the method for diverting the financial support from profitable firms to the firms who need more formal financing to grow their business potential, but yet are lacking financially accessible due to the concerns of creditworthiness, liquidity and asset structure. Hence, this study recommends non-collateral financing options such as microfinance, leasing and factoring are well fitted to SMEs, whereby the government initiatives to make better access to finance extensively in terms of financing.

JEL: L10, L20, P12, D24

Keywords: debt, equity, financing, entrepreneurs, small and medium enterprises

1. Introduction

This study tends to examine the impact of capital structure on firm performance and motivating factors that influence their financial choice decision in regard to financial preference and behaviour of SME in Malaysia. SME is the foundation of growing

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economies, especially developing countries like Malaysia in which it plays a vital role in providing employment opportunities and economic output (Azam and Moha Asri, 2015; Tham et al., 2017; Udriyah et al., 2019; Al Shehhi and Azam, 2019a; Tao et al., 2019). The significance of the economic contribution of SMEs has substantially increased deliberation by concentrating on policymakers and academics. SMEs had contributed to the nation's economic development and would thus strengthen the resilience of Malaysian businesses in order to face a competitive and global environment (Normah, 2018). The importance of SMEs in encouraging domestic sources of development and intensifying the infrastructure for strengthening economic growth and expansion in Malaysia. The government in Malaysia has planned and committed with several efforts and strategic plans to promote and boost the performance of the SMEs to global reach. SMEs contribute to the development of both in local and regional, primarily expedite the development in rural areas by accelerating its productivity growth to reduce poverty issues (Haque et al., 2014; Rachmawati et al., 2019; Tarofder et al., 2019; Al Shehhi and Azam, 2019b).

The overall review of SME is treated under three sections; there are the definition of SME, SME landscape and discuss the development of SMEs in Malaysia context. This study gives an in-depth understanding of SME contributions to economic growth and national development towards National Vision 2020. The establishment of dedicated agency named Small and Medium Industries Development Corporation (SMIDEC) in 1996 is to accelerate and empower the development of SMEs in terms of financial supports, brand development, human capital development, market entry strategy, access to finance, adoption of innovation and technology together with other business support programs (Azam et al., 2014; Haur et al., 2017; Tarofder et al., 2017; Katukurunda et al., 2019; Chong et al., 2019). The objectives of SMIDEC are to elevate the capabilities of Malaysian entrepreneurs with well-equipped knowledge and government initiative to be able to sustain and succeed in the global competition.

To bring the economy into the next level, the National SME Development Council (NSDC) founded in 2004 was formed to encourage entrepreneurship and to strengthen SMEs development across the nations. The NDSC serves as the policy-making body with the highest level of authority embark on SMEs development in Malaysia, as well as ensure the successful implementation across all sectors. The SMEs development programs are implemented by 15 Ministers of the country together with 65 respective government agencies.

2. Literature Review

An extensive contextual review of SME financing in Malaysia begins with new SME definitions, landscape and its development, followed by the discussion on sources of financial availability and the standard financial practices among SMEs have studied by numbers of researchers and scholars. As was mentioned in the introduction of this study, the possible explanation of the financial challenges of raising capital facing by SMEs in Malaysia is being addressed as well.

2.1. Small and Medium Enterprises (SMEs)

In 2007, the government agency of Small and Medium Enterprise Corporation Malaysia, also known as SME Corp. Malaysia under the Ministry of International Trade and Industry Malaysia (MITI) was appointed by NSDC as the Secretariat to formulate strategies and policies for SMEs, also coordinate development programs with Ministries and agencies across all economic sectors. In 2 years, the official transformation from SMIDEC to SME Corp. Malaysia initiated on October 2009 to be the focal point of contact by offering business counselling, consultation services and several forms of supports the SME growth. SME Corp drives the mission of the SME Masterplan (2012-2020). Malaysia to fast track the growth and development of SMEs in Malaysia to become a high income and developed the country by 2020.

According to the SME Corporation Malaysia annual report 2015/2016, an announcement had made during the 14th NSDC meeting in 2013, a new definition of SME was endorsed after an audit was embraced since the significant corporate growth and SME development since 2005 and it covers all sectors specifically include manufacturing, distribution trade, services, manufacturing related service, agriculture, constructions, mining and quarry. Referring to the SME Corporation Malaysia guideline book for the new SME definition updated on August 2016, there are two main criteria to identify the eligibility of SME based on their annual sales turnover or numbers of workers measured by manufacturing, services and other sectors.

As the new definition of SME in Malaysia will become effective starting at 1st January 2014, therefore all the SME development programs, policies, data collection and compilation for statistical analysis from 2014 onwards will take after with the latest definition. Those vital measurements or statistics of SMEs which tabulated by financial institutions, ministries and government agencies till 2013 will remain the present state of affairs without taking the new definition into account.

All SMEs in Malaysia are mandatory to comply with the corporate statutory under the Company Act 1965 as separate legal entities by registering with Suruhanjaya Syarikat Malaysia (SSM), which is Company Commission Malaysia (CCM) or other respective statutory bodies for a professional service provider. Conversely, according to SME Corporation Malaysia’s guideline book (2016), there are some exclusions of SSM registered companies do not consider as SME and do not eligible for government support and financial assistance under the SME development programs. For instance, public listed companies and its subsidiaries on the Main Board of Bursa Malaysia or listed on the main board on other countries stock exchange. On the other hand, any SSM registered companies whom listed on Second board of Bursa Malaysia such as ACE Market (formerly known as MESDAQ), Malaysia Online Trading Platforms for Unlisted Market (MyULM) or listed on any sub-market or Alternative Investment Market (AIM) in overseas are still falling under category of SMEs in Malaysia with its qualifying requirements. Besides of leading board public listed companies, large firms like multinational corporations (MNCs), government-linked companies, companies owned by the Ministry of Finance and companies owned by the State government are not deemed as SMEs as well.

3. SME Financial Landscape

The government structure a comprehensive and broaden the financing landscape for SMEs in Malaysia. Development Financial Institutions supported by the government like SME Bank, Export-Import Bank and Banking Institutions like Maybank and Bank Islam are under the Financial Institutions and performs as the primary source of financing for SMEs. Alternatively, SMEs can likewise access to a significant development fund and scheme made obtainable by the government ministries, and agencies such as Credit Guarantee Corporation and Perbadanan Nasional Berhad, as well as Bank Negara Malaysia.

Despite finance sources, there are additional alternatives from non-banking avenues, for examples, Micro Finance institutions Equity Crowdfunding framework, Peer-to-Peer (P2P) financing, Investment Account Platform (IAP) with the rise of Financial Technology (FinTech) opens up more prominent financing alternatives to SMEs.

4. Sources of SME Finance

This study will review the level of access to finance by SMEs for growth and expansion, also reflect the requirement of customised and dedicated financial expert advice to open their potential through access to the correct fund at the preferred time. The sources of SME financing can be divided into three main groups, to be specific namely, there are easy financing, internal and external source of finance.

4.1 Informal Financing

Any financial dealings, connections and businesses between two entities or parties and happen outside of the legal or regulatory framework of the central bank is known as informal finance. It may come from personal savings, borrowing from friends, family, relatives, illegal moneylenders which also called as 'loan sharks'. As this sort of financing is out of the regulatory body's capacity to regulate and enforce the law, for example, protecting borrowers and accusing abusers. However, in Malaysia, many microenterprises are having the misperception that licensed moneylenders are the same operations and work precisely like a commercial bank. They do not. Therefore, some SMEs pursue hazardously on the source of informal finance because it does not require collateral, guarantor and can get the funds immediately. This circumstance may probably lead them to become victims of scams, harass and threaten by gangsters if the borrower is unable to make repayment promptly (Jayasuriya and Azam, 2017; Dewi et al., 2019; Nguyen et al., 2019; Kanapathipillai and Azam, 2019; Gunasinghe et al., 2019).

4.2 Internal Financing

The source of private financing refers to the funds generated from the firm's business such as retained earnings (RE) and working capital. The proficient inventory management, prompt payment collections from debtors and trade payments result in improvements in working capital, which strengthen the cash inflow and diminish of the working capital required to keep the business alive. It is helpful to produce an additional source of funds that can be utilised for investment and expansions. Moreover, the natural and internal financing is the source of funding being utilised by many SMEs, especially a new start-up, micro and small enterprises in developing countries, which includes Malaysia (Maghfuriyah et al., 2019; Pushpakumara et al., 2019; Al Shehhi and Azam, 2019c).

In most cases, private finance is including retained profits serves as the primary source of funding for the firm because it is relatively less expensive compared to additional shares by avoiding the costly securities issuance (Pike & Neale, 2009). It may act that retained earnings are a finance source with no cost of capital incur and much more appealing to the board of the company when benchmarking with debt financing with interest rates. On the contrary, if a firm over depended on private finance may lead to a risky and shortfall of cash flow situation to sustain the business. Nevertheless, private financing has not secured the full amount of capital entailed by new investment. Every period demonstrates the financial needs to be fueled by reinvesting cash flow from shareholders, which convert into higher share values in this manner and capital gains. Shareholders desire to take their returns as capital gains, which is much lesser tax payable than dividends.

4.3 Government SME Financing Scheme

In Malaysia, the government encourage the growth of SMEs by initiating numerous support is including financial assistance, entrepreneurship training, financial education, credit guarantee, development soft loans and many others through the assigned agencies or development financial institutions such as SME Corporate Malaysia, SME bank, Malaysian Industrial Development Finance (MIDF), Credit Guarantee Corporation Malaysia Berhad, Malaysian Technology Development Corporation (MTDC), Halal Industry Development Corporation (HDC), Malaysia Debt Ventures Berhad (MDV), Majlis Amanah Rakyat, GreenTech Malaysia, Malaysia External Trade Development Corporation (MATRADE) and other related agencies actively involved in SMEs development.

The government initiatives in SMEs financing usually are in types of soft loans, grants, subsidy, tax reduction, credit guarantee, seed capital and collateral waiver through state-owned banks, commercial banks and development financial institutions, also government agencies. The government reviews and refines the SME financing landscape and regulatory framework by providing specific financial products to solve the different financial challenges to ensure that the SMEs sector is not undeserved and nurture entrepreneurs in overall socioeconomic development. A recent study by Yusof (2011) stated that the government initiatives, for instance, fund support and credit guarantee, learning and development, market opportunities, system infrastructure, legal framework, advisory services are given to enhance the achievement of Bumiputera entrepreneurs. Furthermore, Yusof (2011) asserted that the government initiatives, development programs and accessibility of financial resource are fostering the accomplishment of entrepreneurial in Malaysia.

4.4 Short Term Debt Financing

A short-term debt financing is known as current liabilities in the statement of financial position and indicates the particular debt must be repaid within 12 months. Sometimes, short term debt refers as unfunded debt, which has the obligations relied upon to make repayment with interest rate imposed within the short tenure or the operating cycle, whichever is shorter (Ross *et al.*, 2005). Debt financing is the leading external source of fundraising for SMEs such as overdraft, term loans, letter of credit and trade credit (De Silva et al., 2017; Kuruwitaarachchi et al., 2019; Pambreni et al., 2019; Fernando et al., 2019). Sometimes, it is known as working capital financing. SMEs require to provide collateral of tangible assets or property to secure the business loans from commercial banks. Otherwise, the credit guarantee scheme will be the alternative to assist SMEs financially. Initially, short term debt financing is projected for funding working capital, not for long term financial needs by protecting the SMEs assets or owner' assets.

4.5 Long Term Debt Financing

Long term debt financing is a type of financial obligation that is accommodated with a time of over a year and given to those companies that face a deficiency of funds. Long term debt like debentures and bonds is the commitment that is payable over a year from the period it was initially issued. Every so often, long term debt is named as funded debt (Ross *et al.*, 2005). Long term debt can be imperative in giving the sort of financing generally suitable for SMEs that need long term reserves for the capital venture. Financial leasing, for instance, connectively joins the terms of 'debt' with the utilisation of leased equipment or asset. Naturally, after the asset is wholly depreciated and debt is stopped at bookkeeping terms, responsibility and ownership of the assets are shifted to the lessor, which is the lease provider to leaseholder legally.

Corporate bonds are securities that finance the firm's balance sheet with issuance in the public market or private market. Generally, bonds have longer tendencies that allow borrowers to secure long-term financing compared to the loan as most of the bonds have a fixed coupon rate (OECD, 2004). Frequently, firms issue the most secure stock first which is debt, when external finance is a prerequisite in fundraising. The interest of debt financing is the critical benefits under the corporate income tax framework, which is tax relief cost. In this manner, the tax credit or subsidy to bondholders from the government at a commercial level. As a consequence, potentially convertibles bonds, also called as hybrid securities, then maybe equity issuance if all else fails (Brealey *et al*., 2001).

The theory of backdoor equity theory initiated by Stein (1992) revealed that convertible bonds in stock could be considered as backdoor equities, in fact, that most of the firms offer hybrid securities are planning to switch them into equities soon after. This view is supported by Davidson *et al.* (1995) argued by offering hybrid securities is viewed as a hint to the capital market that soon to is converted into equity, where conventional stock issuance is unappealing.

4.6 Equity-based Financing

Once the capacity of debt financing has reached to the maximum level, the last options of capital raising will be equity financing. OECD (2015) defined that equity finance denotes to every single financial asset that is given to the company consequently to in reimburse for a percentage of ownership. Financiers may offer their stocks in the company, investment portfolio, or they probably receive dividends once the equity is sold. The sources equity financing includes business angel networks, private equity, venture capital, even securities issuance through initial public offerings.

One of the crucial dissimilarities between equity and debt capital is no obligation to pay an intermittent profit for equity, though there such an agreement on debt borrowed from lenders. The return of shareholders is determined exclusively on the firm's financial performance, not at all like those creditors. If the firm is the default, creditors will be disbursed over the required funds before shareholders get anything or nothing in return. Ordinarily, a new start-up will experience serious difficulties obtaining debt financing because of no credit record and tangible assets as a guarantee. As a result, a new start-up needs to look for equity financing. Additionally, as indicated by Brealey *et al.* (2001), most of the company running at a loss with hazardous and intangible assets such as technology solution, training service, franchise contract, related artistic works, like music and video, brand trademark and customer contacts have to depend more on equity financing.

The desire to preserve a level of financial flexibility is significantly essential to hold the opportunity in any form of new investments speedily. By having a surplus lending limit, equity financing is always favourable without trade off any future decisions. Then again, when a firm has achieved a stronger market position to ensure the productivity and profitability, the predictable financial strategy in capital structure is to diminish equity financing and increase debt financing, ideally retained earnings for sure. At the point when the business risk occurs in control, equity is possible to be traded by debt capital.

4.7 Alternative Investment Platform

The innovation of Financial Technology (FinTech) attempts to diminish the finance gap globally, including Malaysia to give a podium for financiers and entrepreneurs to develop a society that offers subjects and forums to make over finance through innovative entrepreneurial, also urges to promote better access to finance to SMEs with, which might not have much historical record and reputation to pursue other sources of formal financing. It serves as an alternative investment platform for SMEs get financiers to fund their business start-up includes Equity Crowdfunding Framework (ECF), Peer-to-Peer lending (P2P) which is also called as a debt crowdfunding platform and *Shariah*-compliant Investment Account Platform (IAP).

4.7.1 Equity Crowdfunding (ECF)

An online platform of equity crowdfunding encourages innovative business ideas, startups and SMEs acquire capital across the capital market using fewer ventures from both entrepreneurs and financiers in exchange of shares of the company. It offers new pathways to motivate and reach more startups to have alternative access to finance by connecting with a broader pool of financial investors (MIA, 2016). In ECF, startups are required to have visions, business plan and modest paradigm to magnetise financiers that can benefit to the stakeholders and room for the future growth of the community. A recent study of crowdfunding as an emerging fundraising tool carried out by Abdullah *et al.* (2016), he argues that to adapt the process of crowdfunding in Malaysia is concentrated mostly on financial return crowdfunding, which regulates either P2P lending or equity crowdfunding or both. In contrast, the regulatory framework for community-based crowdfunding, mainly endowment based crowdfunding in numerous fields are yet imprecise.

4.7.2 Peer-to-Peer (P2P) Financing

The debt crowdfunding platform, also called peer-to-peer (P2P) lending platform launched in Malaysia to furnish SMEs and financiers with a reliable alternative source of capital and financial prospects. The concept of P2P lending is well accepted and proven in worldwide and making ready for SMEs to get into another pathway of financing and tends to elevate the growth of entrepreneurs where funding is the ultimate challenges, especially SMEs. The capacity of debt financing has practically multiplied each year, and traditional banking institutions are beginning to deliberate in regards to the competition of P2P lending is getting intense and the possibility of dual BIs and P2P lending products in the future (PwC, 2015). Financial investors are likewise ready to expand their capital investments with minimal risk at this platform to instinct the development of economy in Malaysia by offering term financings and invoice financing solutions to different segments of SMEs. P2P lending tends to give a strong linkage amongst SMEs and financiers to eventually fortify the communities and enable each entrepreneur in Malaysia to achieve their most prominent potential.

5. SME Financing Patterns

SMEs play a vitally important role in the achievement of the Malaysia economy. It is fundamental that financial institutions encourage them with legitimately classifying

SMEs as per business size, development stage and industry. The accountants' role in providing the necessary financial and management advice fills this gap. An independent audit also builds public confidence towards the integrity of financial statement and in nurturing the correct corporate behaviour of SMEs (MIA, 2016). This statement explained that the value of auditing is not only designed to detect wrongdoing but also aims to improve the financial discipline and responsibility to assume SMEs carry good corporate governance practice in Malaysia. With fundamental of financial management skills to manage the firm's cash flow and working capital efficiently to increase the level of access to credit to finance and better creditworthiness.

During the recession, government initiatives and the range of new financial products could be complicated or have a limited outreach to SMEs across the nation. It is incredibly essential for SMEs to understand the difference and drawbacks of each fund, before securing the right source to finance their business plan and expansion. The size of the firm and phase of the business life cycle is commonly sought for a different source of finance to support their financial goals, which aligned the business strategy.

Through the years, SME financing has been the primary area in supporting the growth of SMEs, which is 96% of them, and it also rises from 43.8% to 46.6% in 2015 to total business financing, according to the SME Corporation Malaysia (2016). By understanding the challenges of access to financing, SMEs has moved to the improvement of managing the financial requirements at different phases of the business lifecycle with alternative financing platforms such as IAP, P2P, equity crowdfunding, angel investors and the coming of Financial Technology (FinTech). With new external sources of financing, it aims to be more cost-effective and shorter time take to get the financing to empower SMEs during their startups and early phase of growth to reach the breakeven point.

6. Review of SME Financing Studies in Malaysia

Over the past decade, there has been an increasing amount of academic literature on SME financing in Malaysia and concentrate on the issues of identifying the sources of funds utilised by SMEs. Another significant of SME financing study by Abdullah and Manan (2009) examined the level of adequacy of commercial facilities by measuring the accessibility, availability and competency of financial support to cultivate the development of SMEs in Malaysia. This study is carried out with 201 SMEs in all sectors across Klang Valley by survey questionnaires. Despite the fact that there are 88.1% of respondents indicated that the commercial facilities and government initiatives are insufficient and incompetent to support their financial needs, like the amount of financing is lesser than what they applied initially and higher interest rate with shorter loan tenure to payback. Subsequently, Abdullah and Manan (2009) asserted that even if the government has expressed its commitment and budget allocation to encourage entrepreneurship and SMEs expansion, yet the expectation has not been delivered. In conclusion, a possible explanation for these findings could be lack of adequate to create the bridge between SMEs and commercial facilities, which leads to the outcome of poor access to finance and the SMEs' potential may be locked or caused the business failure. They suggested that commercial facilities and development schemes should be tailored to SMEs financial requirements of each phase of the business life cycle, from start-up, growth, expansion and decline.

A broader perspective has been adopted by Harif *et al.* (2011) who provided evidence of factors in business financing to SMEs in Malaysia in banking sector perspective by conducting survey interviews with seven major financial institutions who actively offer borrowings to SMEs. There are SME Bank, EON Bank Berhad (acquired and now known as Hong Leong Bank Berhad, Malayan Banking Berhad (Maybank), Alliance Bank Malaysia Berhad, RHB Bank Berhad, Bumiputera-Commerce Bank Berhad (now known as CIMB Bank Berhad) and Public Bank Berhad. In the most comprehensive study of SME financing, Harif *et at.*, (2011) found that there are 12 banks determining factors of SME creditworthiness. For instance, lack of collateral, administrative literacy, inability to make a loan repayment, cash flow and effective capital management, the current economic crisis, transparency of bank record, management style, owner characters, industry experience, vague financing objective, risky of business and lack of entrepreneurship experience.

In a comprehensive study of factors influencing SME obtaining loan, Haron *et al.* (2013) found that the three main factors of borrowers' character, collateral and capacity are reviewed, examined and evaluated by the bank when SMEs presenting their loan application, according to the outcomes of twelve combinations of cases and scenario with 63 bank officers in the northern region of Malaysia, Kedah, Penang and Perlis. Haron *et al.* (2013) concluded that independent variable of collateral, which is the first and critical factor taken into account by bank officers while processing the loan application, followed by another two independent variables, character and capacity. It explains that most of the bank officers consider collateral as robust security, objective and actual measurements which is most valuable in the view of any financial institutions.

Similarly, this view is supported by another study with semi-structured interviewed by Zairani and Zaimah (2013) with five major banks in Malaysia found that credit officers usually demand SMEs to provide financial track records or supporting documents, before they can offer the finance scheme by assuring the bank has lower risk in non-performing loan. This result is aligned with previous literature by Hasnah *et al.* (2013). Usually, commercial banks and other financial institutions have an immense duty to their shareholders and depositors as well, although corporate debt financing is one of the significant sources of income to them. For the reason of that, banks and credit officers are obliged to conduct 5C's framework of credit analysis consist of capacity, capital, collateral, conditions and character to evaluate the prospective SME credit worthiness, before any loan approval. Zairani and Zaimah (2013) suggested that financial institutions offer free financial consultancy and professional services to assist SMEs as part of their corporate governance, also corporate social responsibility. Thus, SMEs have the opportunity to strengthen their knowledge by giving them a better understanding of areas of financing and capital market in Malaysia to grow their business.

A combination of qualitative and quantitative study by Ata *et al.* (2013) pointed SMEs are considered as unsafe, minimal credibility and lack of structure compared to reputable large firms who are practising good corporate governance with an organised track record for financial institutions. In due course, the financial gap of SMEs to access to finance is increasingly broader. Ata *et al.* (2013) asserted that traditional financial institutions are unable to take advantage on the potentiality of SME financing by placing them at the least priority level, due to the limitation in understanding SMEs financial requirements. Conversely, the current credit scoring framework does not support SMEs to have better access to finance. Therefore, the disappointment of SMEs upon the favouritism to large firms which initially given by financial institutions. This study also reported that SMEs do not become aware of the range of financing products and scheme, government funds and alternative sources of external finance are currently available. Given that, the solution of tailor-made SME financing schemes is suggested by Ata *et al*. (2013) to policymakers and urges to simplify the process of SME borrowing at an affordable interest rate and repayment tenure.

Salikin *et al.* (2014) had drawn the SMEs' strengths and shortcoming in managing financial management to help them in planning financial budget. The study with 35 SMEs in Malaysia and they found that insufficient funding and working capital are the primary concerns to them. The findings reported 26% of respondents are maintaining their business by utilising own funds as only working capital, and only 33% of participants acknowledge their economic weakness, specifically the financial constraints of limited working capital to fund their business operations and poor bookkeeping record. These two significant problems may eventually be causing to the challenges of acquiring external financing, and it emphasised the importance of corporate financial management in future business success strongly.

A study tends to evaluate the mediating relationship of financial practice between financial knowledge and business success among small businesses in Malaysia conducted by Abdullah and Azam (2015). This study concentrates on 302 small businesses owners or managers who have direct involvement or without direct involvement in financial practice and decisions. During the research with 302 small business owners or managers, the finding shows that there is no significant mediating relationship between the Financial Behavior (FB) and Business Success (BS), which is the similar result of Financial Knowledge (FK) and Business Success (BS). Subsequently, Financial Practice (FP) served as an indicator with full mediation from the conceptual model. It indicates the mediator between Financial Knowledge (FK) and Business Success (BS) is Financial Practice (FP) undoubtedly. The process of explicitly examining the structural relationship among the hypothesis simplifies a better perception with financial related exercises and procedures can eventually cultivate the business growth of small businesses in Malaysia. Abdullah and Azam (2015) asserted that the knowledge and best practices of financial management are progressively more imperative for entrepreneurs and managers to serve as one of the strategies to achieve company objectives by capitalising the full potential of the firm and stand out from competition in Malaysia.

A panel data analysed carried by Abdullah *et al.* (2016) explored the aspects adding to the financial distress of SMEs in the manufacturing sector in Malaysia from 2000 to 2010 by using logistics regression. The outcomes demonstrated that certain factors are reliably critical, for instance, firm's age, liabilities to total assets, debt ratio, liquidity, short term debts EBIT and net income to capital share against to four periods based on four years, three years, two years and one year to distress model. The debt ratio is continually substantial in differentiating financially distressed and non-financial distressed of SMEs in Malaysia, who depend hugely on liabilities and debts. Abdullah *et al.* (2016) explained that the firm's age is considered to be critical in the initial period one year before insolvent. In this study, the findings highlight that those financially distressed SMEs could be identified four years before they go into bankruptcy. Subsequently, a precautionary measure could be started when SMEs are unable to repay debt obligations to keep them away from unfavourable circumstances. The reason for many new firms has a high failure rate due to the business is running at a loss and lack of financial growth. As a new start-up, sole proprietors have too little of individual assets and probably prefer debt financing, which leads the company into the risk of financial distress and eventually bankruptcy if having difficulty to make payment to creditors. As a conclusion, the higher debt ratio of entrepreneurs will result in more financial distress or bankruptcy among SMEs in Malaysia.

A recent study by Muridan and Ibrahim (2016) found that micro enterprises contributed the most prominent establishment with 496,458 of them, which is 77% of total SMEs in Malaysia. By foster, the growth of SMEs and the country's economy, the demand for micro financing is increasing rapidly to fill the gap between financial institutions and micro enterprises, particularly in rural areas. For instance, Amanah Ikhtiar Malaysia (AIM) is the most significant micro financial intuitions in Malaysia to offer a micro-financing scheme, known as Ikhtiar Financing Scheme to assist microenterprises without demanding collateral and guarantor with a weekly instalment plan. In 2012, AIM distributed RM7.9 billion with the highest repayment rate at 99.4%. Another concept of the microcredit institution, Yayasan Usaha Maju (YUM) concentrate on the micro enterprises have no collateral and oblige to collective responsibilities. YUM has reached up to 8,252 micro entrepreneurs with the total financing amount at RM46 million with 90.7% of high repayment rate as at December 2008. As indicated by the Department of Statistics (2011) reported that medium enterprises had the highest access to micro-financing at 41.8%, small enterprises at 26.1% and 10.7% of microenterprises. Many small and micro enterprises are usually newly start-up or early phase in entrepreneurship without a credit history, have no tangible assets and collateral required by MFIs. In this study, Muridan and Ibrahim (2016) concluded that the government should keep an eye on the MFIs to ensure that the budget allocated is being channelled properly and micro enterprises can get the micro-financing straightforward from the respective agencies.

In order to remain a firm financially stable and optimal efficiency, adopting good practices of cash management is tremendously essential to meet the business objectives. Thus, a recent study by Ahmad (2016) and found that the level of efficiency in managing the cash inflow and cash outflow of a company is relatively high. As micro and small business owners have a good understanding of the challenges to apply debt financing from commercial banks because of no collateral, therefore they must have proper cash management to keep the business alive. Despite this, the consequences of internal control of cash management are having a few shortcomings, where the specific practice was not well employed. For instance, entrepreneurs did not take part in financial budgeting and same account staff who are managing the firm's cash inflow and outflow in bookkeeping records. These practices may lead to insider fraud, who takes advantage of a delicate process or poor internal control. In this manner, Ahmad (2016) suggested financial investors are required to train the business owners on the significance of cash flow manages to stay away from the cash flow shortfall, bad debts and other treasury challenges. Moreover, the government likewise to take the initiative to educate and train SMEs on adopting best practices in dealing cash management from the process of planning, monitoring and controlling cash flow internally to bolster the financial position of the company.

Together these studies provide valuable and practical insights into SME financing for business owners, entrepreneurs, finance managers and bank managers' perspectives. The emphasis of this study covers SME financing issues, commercial facilities, factors of accessing bank loans, capital management, financial distress, financing preference, financial knowledge, micro-financing and credit risk assessment in Malaysia context.

7. Conclusions

SMEs contribute significantly to the economy and form a trustworthy establishment to the development of new businesses and fortifying the existing ones for the future growth of Malaysia. This study on financing patterns among SMEs in Malaysia in respects to their financial practices and preference in making a decision. The knowledge of SME financing has mostly concentrated on the patterns of fundraising among SMEs business owners and finance managers during the business life cycle and the availability of financing facilities.

As the business grows, SMEs required to pursue long term financing in both debt and equity securities to raise the expansion capital and potential investment. Moreover, non-collateral financing options such as micro finance, leasing and factoring are well fitted to SMEs, whereby the government initiatives to make better access to finance extensively in terms of financing products, financial landscape, grants, and development framework to empower the enlargement of SMEs in Malaysia towards Vision 2020, also encourage and nurture the next generation of entrepreneurs as future leaders.

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