

# **SME LIQUIDITY AND ITS DETERMINANTS**

**Sharmilawati Sabki\***  
*Universiti Utara Malaysia*

**Woei-Chyuan Wong**  
*Universiti Utara Malaysia*

**Angappan Regupathi**  
*Universiti Utara Malaysia*

## **ABSTRACT**

This paper examines the determinants of 250 Malaysian SMEs' liquidity position (measured by cash conversion cycle-CCC) during the period 2005 to 2013. Fixed effect regression results indicate that the SMEs with high cash holdings tend to have lower CCC. Furthermore, this study also finds that the SMEs with access to bank loan financing have lower CCC. We argue that the accessibility to the bank loans facilities could serve as quality certification leading to longer payable period granted by the suppliers, hence, shorter CCC. This study adds to the existing literature on the factors that influence working capital management, thereby providing relevant information that may help the companies in working capital management. On the practical side, it also provides inputs to policymakers in formulating policies for the development of Malaysian SMEs.

**Keywords:** SME; Liquidity; Working capital management; Cash conversion cycle

## **1. INTRODUCTION**

Small and medium-sized enterprises (SMEs), which constitute 98.5 percent of business establishments in Malaysia, are important engines of growth and a major source of job creation (SME Corporation, 2017). Despite providing significant value-added contribution to the economy, SMEs continue to wrestle with several issues confronting them. Chief among them are problems related to working capital management (or rather mismanagement), particularly which involves day-to-day operation of the business (Hall & Young, 1991). Among those frequently quoted include cash and cash flow management (Anvari & Gopal, 1983; Khan & Rocha, 1982), credit management (Grablowsky, 1976; Howorth, Peel, & Wilson, 2003), and late payment by credit customers (Howorth & Reber, 2003; Howorth & Wilson, 1998). All these predicaments are in fact interrelated and overlapping. Effective and efficient trade credit practices, for instance, will reduce delay in payment from debtors, which subsequently may improve cash flows of the firm. Hence, competent financial decision making on working capital management generally will have a positive impact on the firm's liquidity position. On the contrary, weak working capital management will result in cash flow problems which will subsequently spawn adverse impact to the business sustainability. Thus, this present study focuses on the liquidity of SMEs which is reflected by the

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\* Corresponding author: School of Finance and Banking, Universiti Utara Malaysia, 06010, Sintok, Kedah, Malaysia, +604-928 6895, sharmila@uum.edu.my

CCC, and will also seek to ascertain which component of the CCC is the most crucial. In addition, the study will examine factors that influence the CCC.

As far as the studies of SME industry in Malaysia are concerned, to the authors' best knowledge, the studies on SMEs' liquidity management is limited. A study by Zainudin (2006) utilizes a current ratio and working capital to total assets ratios to examine the liquidity position among the Malaysian SMEs. Recent papers in Malaysian SMEs focus on another strand of literature that examines the impact of working capital management efficiency on firm performance. Ali (2015) and Rahima (2015) for instance examine the impact of cash conversion cycle (CCC) and its components on SME performance. Kasiran et al. (2016) provides descriptive evidence on the efficiency working capital management for a sample of 25 Malaysian SMEs using method developed by Bhattacharya (1997). We extend the SME literature by focusing on the impact of external and internal financing on SME's working capital management captured by CCC. Specifically, we consider the joint impact of SME's internal financing (cash holdings) and external financing (access to banking facilities) on SME's CCC.

This study is organized as follows. Section 2 discusses the related literature reviews. Section 3 describes the methodology employed in the study. Section 4 elaborates on the findings and finally Section 5 concludes the study.

## **2. LITERATURE REVIEW**

Liquidity is the availability of funds, or assurance that funds will be available, to honour maturing financial commitments. Although it is commonly viewed that the higher excess of current assets over current liabilities reflects better liquidity position, the more relevant question concerning liquidity is the ability of the firm to pay in the future (Gallinger & Healey, 1991). A sound and prudent liquidity policy will seek to strike a balance between two extreme liquidity levels. On the one hand, excessive liquidity indicates accumulation of idle funds that do not earn any profit; and on the other, inadequate liquidity not only affects the firm's ability to pay its current debt, but may result in deteriorating credit standing and a potential forced liquidation of assets (Zainudin, 2006). According to Gallinger and Healey (1991), the key issues in liquidity management are how much to invest in each component of current assets and current liabilities and how to manage these investments effectively in order to minimise insolvency risk. They also assert that the most fundamental objective of liquidity management is to ensure firm solvency. Thus, from a liquidity perspective, value maximisation is secondary to survival. This is especially more pertinent to the SMEs where most of its assets are in the form of current assets, while current liabilities are their primary sources of external finance due to financial constraints (Whited, 1992) and difficult access to funds in the long-term capital markets (Petersen & Rajan, 1997). Hence, efficient and effective management of these current assets and liabilities, commonly referred to as working capital, is crucial if survival and financial well-being in SMEs is to be ensured.

Previous studies on liquidity and working capital management have explored the subject from various perspectives. A number of earlier papers assessed the effects of government policy on the use of trade credit (e.g. Brechling & Lipsey, 1963; Nadiri, 1969) while others have analysed trade credit as an effective means of financial intermediation (Schwartz, 1974; Emery, 1984). Many other studies examined the motives of offering credit to customers. Ferris (1981) and Emery (1987)

note that transaction costs can be considerably trimmed down by separating the exchange of goods and services from the exchange of money, and by allowing periodic payment of bills. Other research works deliberated trade credit as a tool of price discrimination (among others, Mian & Smith, 1992; Petersen & Rajan, 1997), and as a device in identifying information about product quality (Deloof & Jegers, 1996). Mian and Smith (1992) and Lamminmaki and Guilding (2004) study on outsourcing practices of credit activities.

Credit collection period is the average time, in days, taken by a supplying company to collect its trade debt or receivables. In other words, this is the time taken by credit customers to pay their bills. Credit collection period, otherwise known as debtor days or days sales outstanding (DSO), measures the number of days for which a credit sale remains outstanding. The longer the collection period is, the higher the firm's investment in accounts receivable. Credit period, on the other hand, is the length of time allowed for customer to defer payment. It is part of the credit terms offered which indicates when payment is considered due. Therefore, settlement of bills beyond the credit period is considered late payment. To put it briefly, late payment occurs when collection period exceeds credit period.

Unlike collection period which can be determined from financial statements, information on credit period is not displayed in public records. Since the terms of credit is a private arrangement between the seller and buyer, data on credit period can only be resourced from the parties involved. With such constraint, the current study focuses on credit collection period. Nonetheless, besides studies on collection period, this study would also review literature on late payment as it is directly related to collection period.

Payment delays almost always present a problem. If payment from a customer is received late, profitability tends to decline. Worst still, if payment is not made at all, then a complete loss will be incurred. Persistently slow payment and a high incidence of bad debt will spawn adverse impact to the business sustainability. Despite the known fact that credit collection plays an important role in short-term financial management function, issues and problems surrounding it still persist. Not only the matter is long-standing, but it is also common to businesses irrespective of size, industry and location. More than four decades ago, the Bolton (1971) reports that many small firms in the UK are slow and irregular in the collection of debts. This condition was later verified by, among others, Chittenden and Bragg (1997), Howorth and Wilson (1998), and Howorth and Reber (2003) in the UK and Grablowski (1976) and McMahon and Holmes (1991) in the US. Subsequently, similar trends found to be consistent with studies conducted in other parts of the world (for example, Zainudin & Regupathi, 2011).

To the larger firms, late payment and longer collection period do not crucially affect them. Having better access to credit themselves, large business are able to absorb long credit periods and is less sensitive to late payments (Wilson, 2008). Hence, studies on collection period/late payment of large firms are more inclined towards assessing relationships among factors that have some influence over collection period/late payment. Pike and Cheng (2001), for example, study on large UK companies and find that firm size is negatively associated to both collection period and late payment. Similarly, Wilson (2008) reports that small firms delayed payment longer than large firms. More recently, in a study on late payment problem and firm size, Paul and Boden (2011) observe that the larger the firms the fewer debtor days beyond the due date.

According to Banos-Caballero, Garcia-Teruel and Martinez-Solano (2010) and Peel and Wilson (1996) working capital management is vital for SMEs because they are lacking of external funding due to higher operational risk (Fazzari & Petersen, 1993; Porumboiu, 2016; Petersen & Rajan, 1997). Due to that, to support their operations, the reliance on internal funding is said to be crucial for the SMEs (Padachi, 2006). In addition, a study conducted by Afrifa (2016) on non-financial SMEs in UK discovers that the firms with higher level of cash flows tend to have higher net working capital. Earlier study by Fazzari, Hubbard and Petersen (1988) states that the effectiveness of a firm's working capital management is also depending on the availability and cost of the financing internally and externally. They argue that the financial resources availability is important not only to ensure an effective working capital management but also the overall firms' performance. Thus, this present study intends to investigate the impact of both internal and external financing on CCC.

### **3. METHODOLOGY**

We employ data purchased from Business and Search Information Services (BASIS), an independent and private credit information agency that manages and provides online credit information for Malaysian SMEs. The data for this study covers the period of 2005 to 2013. This data collection for the individual company comprises of the information on the firm level characteristics such as size and leverage that allow for a comprehensive regression analysis. The final sample consists of 250 SMEs with total assets less than RM50 million and with data on trade receivables/payables. The unbalanced panel data consists of 509 firm-year observations.

In reference to the previous literature (Soenen, 1993 & Deloof, 2003), this study uses the cash conversion cycle (CCC) as proxy for the efficiency of working capital management. CCC is measured as the sum of the receivables collection period, plus inventory conversion period, minus the account payable period. Lower value of this ratio indicates that less time capital is tied up to the business process, thus, more efficiency in working capital management. Apart from that, lower CCC also indicates higher liquidity position in the firms as they are able to collect the cash faster from customers and delaying payment also would increase the cash availability in the firms. Therefore, the first research objective is to describe the CCC and its components based on the SME industries. While, the second research objective is to examine the determinants of firm's working capital management.

The key variable of this study is the firms' access to external capital. Existing studies generally ignore the impact of accessibility to external financing on firm's working capital management. This study argues that firms with better access to external financing are able to hold large inventory and adopt a generous credit policy with the objective to generate more sales. This leads to the hypothesis that firms with better access to external financing tend to have a longer CCC. Alternatively, levered firms may have short CCC due to concern of financial distress. Graham (2000) finds that firms in the US have incentive to avoid ex-ante financial distress costs by maintaining a low debt ratio. In the context of our paper, this concern financial distress could translate into aggressive working capital management strategy (lower CCC). The negative external financing and CCC relation could also due to levered SMEs' ability to negotiate for better credit terms from the suppliers. SMEs with access to bank loans may enjoy credit quality certification by their bankers that makes them look creditworthiness in the eyes of suppliers. James (1987) and

Lummer and McConnel (1989) show that stock market react positively to new bank financing announcements due to the quality certification from banking relationship. To test this hypotheses, few variables to measure the external financing are included which are bank loan dummy variable (equal to one for observations with bank loans and zero otherwise), Debt (total bank debts scaled by total assets), HP & Leases (hire purchase & leasing scaled by total assets), Trade facilities (summation of bank overdraft and bankers’ acceptance scaled by total assets), Other bank loans (term loans & other bank borrowings scaled by total assets) and Related loans (related party loans scaled by total assets).

The next main variable is internal funding which is represented by the cash holding. This variable is measured using cash balances and bank deposits scaled by total assets. Since the SMEs capability to get external funding is lower than the larger firms (Fazzari & Petersen, 1993; Porumboiu, 2016; Petersen & Rajan, 1997), the reliance on internal funding is said to be crucial for the SMEs (Padachi, 2006). Therefore, this variable enters into the regression to investigate the relationship between CCC and internal funding. This study also controls for factors that found to be significantly related to CCC in previous studies (Evans, 1987; Praesnikar et al., 2004; Zainudin & Regupathi, 2011) such as firm size (Size) measured as the total assets and related advances is calculated by dividing the loan advanced to related party by total assets. Thus, the regression model for the determinant of CCC is as follows:

$$CCC_{i,t} = \beta_0 + \beta_1(Size)_{i,t} + \beta_2(Cash\ holding)_{i,t} + \beta_3(Bank\ loan\ dummy)_{i,t} + \beta_4(Debt)_{i,t} + \beta_5(HP\ \&\ Leases)_{i,t} + \beta_6(Trade\ facilities)_{i,t} + \beta_7(Other\ bank\ loan)_{i,t} + \beta_8\ (Related\ loans)_{i,t} + \beta_9(Related\ advances)_{i,t} + \epsilon_{i,t-1} \dots\dots\dots(1)$$

Firm fixed effects panel regressions are to be used to examine equations (1)<sup>1</sup>. Panel regression is preferred for it control for unobservable firm-specific effects that help improve the precession of our estimation. The summary of variables’ definitions is presented in Table 1.

**Table 1: Definitions of Variables**

<b>Variables</b>	<b>Definition</b>
CCC	Cash conversion cycle in days measured by the summation of trade receivables and inventory days minus trade payable days
Receivables	Trade receivables days measured by trade receivables scaled by total sales multiplied with 365 days
Payables	Trade payables days measured by trade payables scaled by total sales multiplied with 365 days
Inventory	Inventory days measured by total inventory scaled by total sales multiplied with 365 days
Size	Log transformation of total assets in millions
Cash holdings	Cash balances and bank deposits scaled by total assets
Bank loan dummy	Dummy variable equals to one for observations with bank loans and zero otherwise

<sup>1</sup> Hausman test reveals that fixed effects estimator are more appropriate for our panel regression analysis than random effects estimator. In untabulated test, we also experimented with random effect estimator controlling year and industry dummies. Our main results are robust to this alternative estimation method.

<b>Variables</b>	<b>Definition</b>
Debt ratio	Total bank debts scaled by total assets
Trade facilities	Summation of bank overdraft and bankers' acceptance scaled by total assets
Other bank loans	Term loans & other bank borrowings scaled by total assets
HP & leases	Hire purchase & leasing scaled by total assets
Related loans	Loans obtained from related parties scaled by total assets
Related advances	Loan offered to related parties scaled by total assets

#### 4. RESULTS AND DISCUSSION

This section discusses the results of this study. The first discussion is made on the descriptive statistics followed by the explanation on the CCC and its components across different SMEs sectors in Malaysia. Lastly, the results on the CCC's determinants are also presented in the last part of this section.

##### 4.1. Descriptive Statistics

The descriptive statistics of all the variables used in this study is presented in Table 2. This table reports the summary statistics for variables over the period of 2005-2013.

**Table 2:** Descriptive Statistics

<b>Variables</b>	<b>Mean</b>	<b>Median</b>	<b>SD.</b>	<b>Min.</b>	<b>Max.</b>	<b>Obs</b>
CCC	88.06	78.59	87.85	-650.32	605.88	509
Receivables	80.63	75.84	48.11	0.539	280.52	509
Payables	48.62	38.14	57.68	0.635	852.58	509
Inventories	56.05	42.51	59.39	0.142	529.75	509
Size	18.17	12.85	16.17	0.231	96.28	509
Cash holdings	0.092	0.054	0.111	0	0.832	509
Bank loan dummy	0.831	1.000	0.375	0	1	509
Debt ratio	0.215	0.206	0.171	0	0.766	509
Trade facilities	0.097	0.043	0.121	0	0.677	509
Other bank loans	0.118	0.087	0.129	0	0.766	509
HP& leases	0.034	0.012	0.051	0	0.324	509
Related loans	0.021	0.000	0.080	0	0.676	509
Related advances	0.028	0.000	0.088	0	0.813	509

Table 1 shows that the average CCC is 88.06 days with the longest of 605.88 days; while, 80.63, 48.62 and 56.05 are the average days for receivables, inventories and payables respectively. The receivables are within the range of 0.539 days to 280.52 days while payables have the value between 0.635 days and 852.58 days. The external financing of the SME as measured by debt ratio and other bank loans are between the value of 0 and 0.77. Related loans, which represent loans obtained from SME from its related parties constitute of 2.1% of SME total assets. On the other hand, related advances which are loan offered by SME to its related parties constitute of 2.8% of

SME total assets. Overall, Table 1 indicates that the average of external financing of SMEs are low with debt ratio of 0.215 comprising of trade facilities (0.097) and other non-trade bank facilities (11.8%). The level of internal financing as measured by cash holdings ranges from 0 to 0.832 with an average of 0.092.

#### 4.2. CCC and Its Components by Sectors

This section discusses the results for CCC and its components across different SME sectors in Malaysia. The discussion is intended to answer the first research question which is: what are the liquidity position (CCC & its components) among different SME sectors in Malaysia? The results are presented in Table 3<sup>2</sup>:

**Table 3: CCC and Its Components by Sectors (in days)**

Sector**	CCC	Inventories	Receivables	Payables	No of Obs
CHE	87.4	52.2	77.8	42.5	65
CON	85.4	40.8	109.1	64.4	10
DIS	98.1	57.4	95.3	54.6	8
ENE	86.8	50.5	85.8	49.2	19
FNB	83.3	44.9	88.1	49.7	17
HEC	112.2	77.5	79.7	45	8
MET	112.5	54.5	101.1	43.2	27
MIS	53	71.5	64.5	83.1	22
MNE	86.1	58.8	104.1	76.9	15
MRS	88.8	40	91.9	43.2	15
NMP	69.7	65.1	84.9	80.4	18
PHA	76.9	56.7	82	61.7	26
PLA	75	36.5	82.4	43.9	46
PNP	101.3	58.3	86.1	43.1	64
POB	-18.1	15	66.5	99.5	8
RUB	107.9	50.4	90.6	33.1	49
SPA	55.5	38	55.2	37.7	10
SPR	79.9	67.6	38.7	26.5	6
TEX	77.5	75.1	39	36.6	25
TRE	67.3	42.1	83.2	58	10
WWP	115	99.4	54.2	38.6	25

\*\* CHE-chemical & petrochemical products; CON-construction; DIS-Distributive trade inc. wholesale & retail; ENE-electrical & electronics; FNB-food & beverages; HEC-healthcare; MET-metal products; MIS-Miscellaneous; MNE-machinery & engineering; MRS-manufacturing related services; NMP-non-metallic mineral products; PHA-pharmaceutical; PLA-plastic products; PNP-paper & printing; POB-palm based products; RUB-Rubber products; SPA-supporting products & activities; SPR-service provider; TEX-textile & apparels & leather; TRE-transport equipments; WWP-wood & wood products.

Figure 1-4 illustrate the positions of CCC, inventories, receivables and payables across different SME sectors in Malaysia from 2005 to 2013. In total there are 21 sectors as classified by BASIS.

<sup>2</sup>For presentation sake, we only report in Table 3 SME sectors with more than five firm-year observations.

**Figure 1: CCC by Sectors**

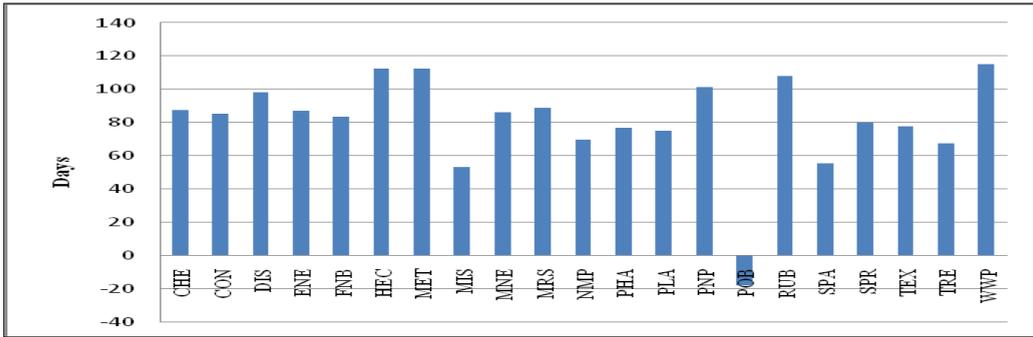


Figure 1 shows that sector POB (palm based products) sector has the lowest CCC which is -18.1 days. This condition is contributed by its shorter inventories period that is only 15 days as compared to the average industry value of 56.05 days. Shorter inventory period indicates that this sector has an effective management of inventories which could result in higher inventory turnover through a fast selling of their products. The nature of their products that are being used on a daily basis such as cooking oil could also explain the shorter inventory period for POB. On the other hand, WWP (wood & wood products) sector has the highest CCC of 115 days. For this sector, the inventory days which 99.4 days is the major factor that contributes to the longer CCC as compared to other SME sectors. Among the products that this sector produced is furniture which is the non-daily basis products. This may be one of the possible explanations for the higher days of sales in inventories.

**Figure 2: Inventories Days**

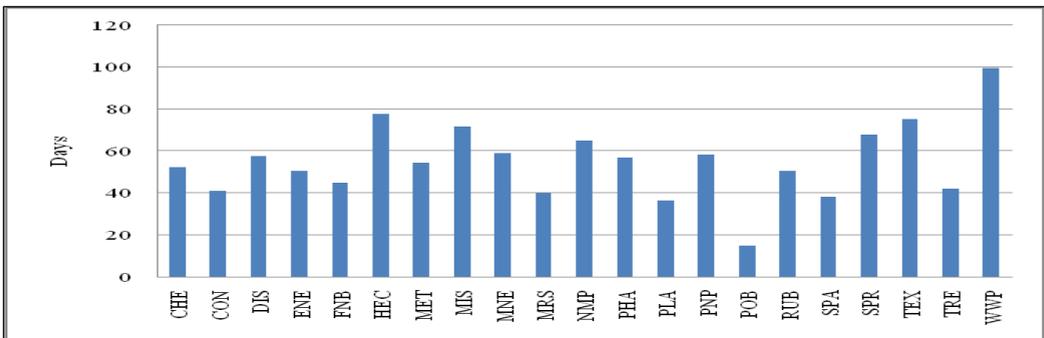


Figure 2 and Figure 3 illustrate two CCC components that are days of sales in inventories and trade receivables days. In order to have higher liquidity or lower CCC, these two components must have lower value which indicates higher ability to convert receivable into cash and effective inventory management. Figure 2 shows that POB (palm based products) and SPA (supporting products & activities) sectors have the lowest days of sales in inventories with 15 days and 38 days respectively. On the other hand, WWP (wood & wood products) and HEC (healthcare) are the sectors with the longest days of inventories in the firms. The results show that POB and SPA

sectors have an effective inventories management system while WWP and HEC sectors are less efficient in term of inventory management as compared to other sectors.

**Figure 3: Days of Sales in Receivables**

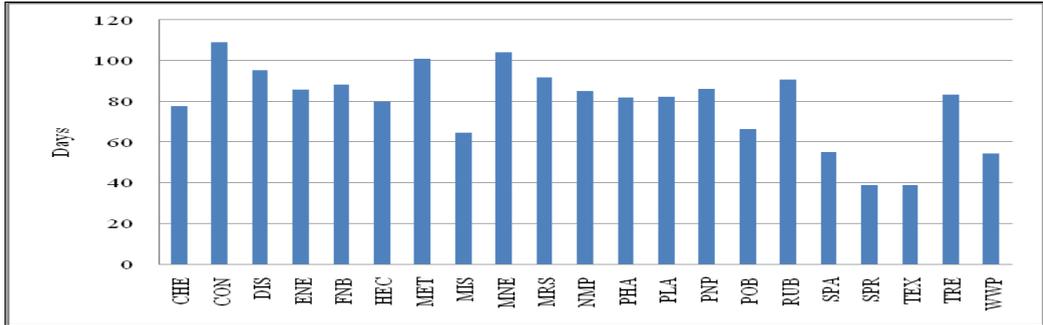
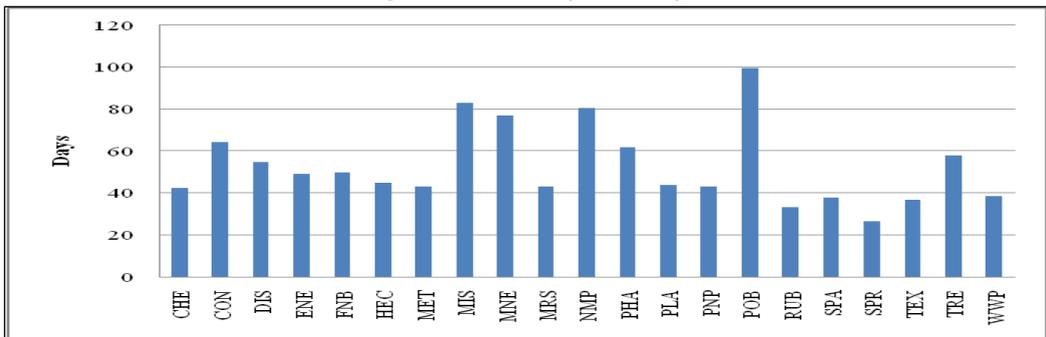


Figure 3 indicates that SPR (service provider) and TEX (textile & apparels & leather) sectors have the lowest days of sales outstanding of 38.7 days and 39 days respectively. These results show that SPR and TEX have managed to collect cash from their sales sooner, thus shorten their sales outstanding period. The characteristics and prices of their products and services may be the factors that allow them to have an effective collection of cash from customers. Meanwhile, CON (construction) and MNE (machinery & engineering) are sectors with the highest days in receivables. It is noted that these two sectors are selling the expensive products that typically offer longer credit terms to the customers.

**Figure 4: Trade Payables Days**



The last component of CCC is payables. For this component, the firms are aimed to have the highest days since delaying payment could increase their liquidity position. As indicated in Figure 4, POB (palm based products) and MIS (miscellaneous) have the longest payables days with 99.5 days and 83.1 days respectively. It means that these sectors enjoy longest supplier credit which explains the lower days in CCC of POB (-18.1 days) and MIS (53 days) discussed earlier. In contrast, SPR (service provider) and RUB (rubber products) sectors enjoy lowest credit term from

their suppliers at 26.5 days and 33.1 days respectively. Thus, in order to improve their CCC and liquidity position, these sectors need to negotiate for a higher credit period from their suppliers.

In summary, the above results indicate that the POB (palm based products) sector has the best liquidity position as indicated by the lowest CCC driven by effective inventory management and longer supplier credit. In contrast, WWP (wood & wood products) sector has the worst liquidity position. Its inventory holding period is also the highest among the SMEs in the dataset. Lastly, SPR (service provider) and RUB (rubber products) sectors have the shortest payable period, while, CON (construction) and MNE (machinery & engineering) are sectors that have the slowest ability to collect cash from their receivables.

### 4.3. Empirical Findings

The next discussion is made on the empirical findings of CCC and its determinants. Table 4 reports the estimates of fixed effect regressions (with year dummies) of the determinants of CCC. The key variables of interest are proxies to internal and external financing captured by access to bank loans and cash holdings respectively.

**Table 4:** Regression Results

	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>
Intercept	-174.86 (-0.37)	-134.33 (-0.28)	-146.49 (-0.32)	31.31 (0.06)
Size	43.21 (0.67)	38.70 (0.58)	37.91 (0.60)	13.04 (0.18)
Cash Holdings	-177.03*** (-3.73)	-170.57*** (-3.57)	-179.30*** (-3.49)	-181.13*** (-3.71)
Bank Loan Dummy	-26.46*** (-3.46)	-22.37*** (-2.80)	-18.29*** (-2.77)	-30.51** (-2.42)
Debt Ratio		-43.05 (-1.62)		
HP & Leases			305.91 (1.62)	334.27 (1.60)
Trade Facilities			-22.196 (-0.51)	-23.85 (-0.51)
Other Bank Loans			-45.463 (-1.29)	-56.53 (-1.61)
Related Loans				9.16 (1.40)
Related Advances				-3.83 (-0.91)
Firm & Year Fixed Effects	Yes	Yes	Yes	Yes
No Obs	509	509	509	509
R <sup>2</sup> (within)	0.09	0.09	0.11	0.18

*Notes:* \*\*\*, \*\*, and \* refer to statistical significance at 1%, 5%, and 10%, respectively. The dependent variable is CCC.

Table 4 indicates that cash holdings variable has a negative and significant relationship with CCC. This implies that SMEs with higher internal financing tend to have shorter CCC. In other words, cash rich SMEs are inclined to collect credit sales sooner and keep lesser inventories. Intuitively, SMEs with large cash holdings are more able to engage in aggressive working capital management strategies due to their high negotiating power over their suppliers or their financial capacity that enables them to invest in advanced credit collection software. This finding is in line with Afrifa (2016) and Banos-Caballero et. al. (2014) that document the positive influence of cash flow on the net working capital.

In addition, the bank loan dummy is negatively and significantly associated with CCC. This indicates that the SMEs with access to bank loan financing have lower CCC as compared to those that do not borrow funds from banks. Since banks are normally reluctant to grant funding to SMEs due to their risk (Fazzari & Petersen, 1993; Porumboiu, 2016; Petersen & Rajan, 1997), the accessibility to the bank loans facilities by SMEs could serve as quality certification leading to longer payable period granted by the suppliers, hence, shorter CCC. The negative bank dummy could also due of concern of financial distress costs by levered SMEs that make them have financial incentive to speed up the collection effort with purpose to enhance their liquidity position.

Model 3 decomposes bank debt into trade and non-trade facilities and controls for hire and purchases facilities while Model 4 controls for loan received and extended (advances) to related parties. The coefficients for bank loan dummy and cash holdings remain negative and statistically significant. Other explanatory variables are however indifferent from zero. Overall, we find that both internal (cash holdings) and external financing (bank loan dummy) have a joint impact on SMEs' working capital management efficiency or liquidity captured by CCC.

## 5. CONCLUSION

This study investigates the characteristics of CCC and its components across different SMEs' sectors. In addition, this study also examines the determinants of CCC for 250 Malaysian SMEs from the year 2005 to 2013. The results indicate that the POB (palm based products) has the lowest CCC indicating an effective working capital management among the firms in this sector. While the WWP (wood & wood products) sector has longest CCC period that may be attributed to slower sales and inefficient collection of cash from the credit sales. Therefore, the results may serve as a benchmark for the respective sectors in the process of improving their working capital management. As for CCC's determinants, both internal financing (cash holdings) and external financing (bank loan) has a negative impact on CCC which show that cash rich and SMEs with access to bank facilities have better liquidity stance. These findings are expected to provide relevant information that may be adopted by companies to manage their working capital. On the practical side, the findings of the study would provide useful input to policymakers in formulating forward-looking policies and programs in the development of Malaysian SMEs. The government, through its many agencies involves in SME development, could disseminate information on the current status as well as develop training to enhance competency and practices of working capital management among the SMEs especially for those that are having problems in managing their liquidity positions. The dataset of this study is from 2005 to 2013, thus, future studies could employ more recent data to capture the current policies changes and recent development in the Malaysian SME industry.

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