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By Dr Tan Thai Soon

Editor's Note

Financial cash flow management play an important part for many firms and enterprises during the economic crisis, and particularly the recent Covid-19 pandemic period. Financial cash flow is a knowledge management process. It is not only about acquisition of sources of funds and application of funds during the normal economic environment; but it is paramount important for firms and enterprises to effectively carry out financial communication with their financial stakeholders during economic crisis. Financial communication help to generate continuous support and raised additional funds during the period when they most needed. Lastly, the financial change process is concerned with how an entrepreneur adapts and responds to technological changes in the disruptive financial marketplace.

Chief Editor

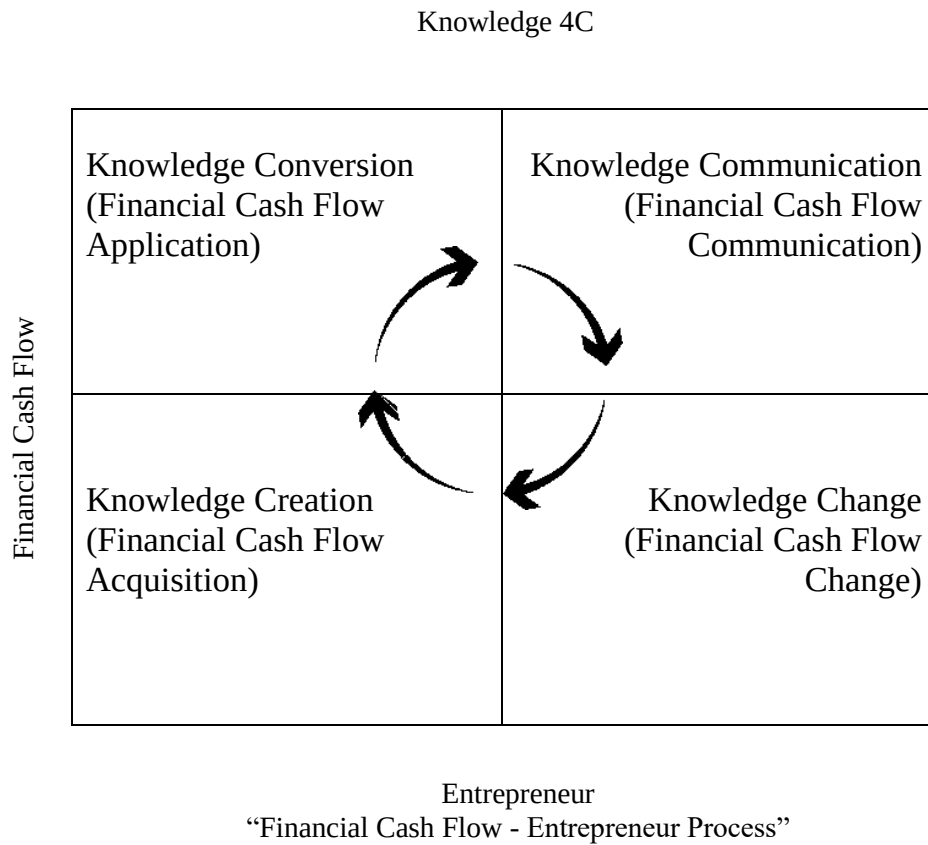
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The Importance of Financial Cash Flow Management During Economic Crisis

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This article is an extract from the book by Tan (2020), it looks into the importance of financial cash flow management during economic crisis and how Malaysian firms and enterprises manage their cash flow in order to survive.

During the economic crisis, financial cash flow management play an important part in the survival of many firms and enterprises. According to Tan (2020), financial cash flow management is a continuous process of managing finance and cash flow by acquiring, applying, communicating and changing the right financial product and service in the right place at the right time in the financial marketplace. The four perspectives in Knowledge Financial Cash Flow Management include Knowledge Creation (*Financial Cash Flow Acquisition*); Knowledge Conversion (*Financial Cash Flow Application*); Knowledge Communication (*Financial Cash Flow Communication*); and Knowledge Change (*Financial Cash Flow Change*) as show in figure below.

Figure 1 - The Four Modes of the Financial Cash Flow Management Process

The first process looks into financial cash flow acquisition

The Knowledge Creation Process in financial cash flow acquisition identifies the sources of finance currently available to the entrepreneurs in the financial marketplace and, the availability of government assistance.

During the economic and pandemic crisis, the source of finance can be in the form of bank credit, government assistance and trade facility; in addition, it may be raised in the form of venture capital and equity capital from the investors.

The entrepreneurs, particularly the start-up and small and medium enterprises, face many challenges in sourcing their finances in the traditional financial marketplace. Similarly, they are facing difficulty in managing their cash flow due to the movement control order lockdown, leading to reduction of sales, reduction in collection and bad debts.

The following sections examines the various types of finance available to the entrepreneurs, and its challenges in sourcing it.

Traditionally, at the financial cash flow acquisition stage, the entrepreneurs or business owners can source their finance from the traditional source likes trade credit from suppliers and private investors which includes:

- Shareholders
- Venture capital;
- Business angels; and
- Preference share.

Entrepreneurs can also source their finance from the financial institutions which include:

- Bank credit facilities, such as bank overdraft and term loan;
- Acceptance credit;
- Debt factoring;
- Debt finance such as debenture and loan stock.

In addition, during this economic and pandemic crisis, the Malaysian government had introduced various financial assistance programs, special relief, and various fiscal measures to help the entrepreneur, which will be discussed below.

The following are the government financial assistance package available to the various sectors and enterprises, through BNM's financing facilities which includes:

- Special relief facility (SRF) Covid-19;
- All economic sectors (AES) facility;
- Automation and digitalisation facility (ADF);
- Agrofood facility (AF); and
- Micro enterprises facility (MEF)

Also, the Malaysian government have also announced the Malaysia short-term economic recovery plan 2020, with the following financial assistance:

- Micros and SMEs E-commerce campaign;
- Shop Malaysia online;
- Technical and digital adoption for SMEs and MTCs;

- MyAssit MSME one stop shop;
- Penjana SME financing (PSF);
- Penjana tourism financing (PTF);
- Penjana micro financing;
- Bumiputra relief financing;
- SME Go-scheme for liquidity support; and
- Social enterprises elevation.

Apart from the financial assistance set out above, the Malaysian Government had introduced *Wages Subsidy Programme* to subsidise affected employers. The intention is to assist enterprises to retain existing employees during the challenging time with special conditions. The application can be made with effect from 1 April 2020 at prihatin.perkeso.gov.my

The second process looks into financial cash flow application

The Knowledge Conversion Process in financial cash flow application is concerned with the application of financial resources and cash flow management. Financial cash flow application is a process of applying financial resources available to them in the marketplace and from government agencies. These financial cash flow application strategies require an entrepreneur to manage its treasury function efficiently.

Financial cash flow application strategies require the entrepreneur to make the right financial decision and to manage their treasury function efficiently. The main function of the treasury management during the economic and pandemic crisis is to manage the liquid funds to ensure resources are available during the

movement control order period, and, thereafter, keep itself solvent as will be discussed and includes the following:

- Forecasting the financial and cash flow needs;
- Responsibility in source and application of funds;
- Overseeing all cashier and payroll activities;
- Ensure proper compliance of employees' pension scheme;
- Ensure proper compliance of tax management, Inland Revenue allowed a deferment of a three-month tax instalment for the months of April to June 2020. The above will help the SMEs with their cash flow liquidity;
- Managing the fixed rental and leasing payment. Rental reduction during MCO period, was available as an additional tax deduction equal to the amount of rental deduction, as a discount given by the landlord to their SME tenants;
- Managing instalments for existing loan payment. Managing hire purchase payment to financial institutions;
- Managing payment to creditors;
- Tightening credit control on customers; and
- Lower total real asset to reduce mortgage and finance cost.

The third process looks into financial communication

The Knowledge Communication Process in financial communication is concerned with how entrepreneurs communicate with such stakeholders as bankers, investors, customers, distributors, suppliers, venture partners and various government agencies.

It relates to how an entrepreneur can carry out a financial-communication mix strategy, to ensure the confidence of the various stakeholders and their continuing support to the firm, which will be discussed below.

In addition to the source and application of funds, the function of a treasury department is to maintain active relationships with the government agencies, financial institutions, the private fund raisers, venture partners, suppliers and customers. This role entails:

- Maintaining effective business and personal relationships with the firm's bankers and other financial providers to get their continuous support through regular reporting;
- Communication to ensure that investors and shareholders are happy and willing to invest additional capital if necessary;
- Advising on customer credit through contact with credit agencies;
- Negotiating with the suppliers on the credit terms and discounts available;
- Negotiating with the business and joint venture partners on the financial terms and conditions; and
- Carrying out periodic financial reviews on special projects, and reporting to the financial institutions, the fund raisers or venture partners.

By applying a proper financial-communication mix strategy, an entrepreneur can ensure a sufficient and sustainable source of funds available for business growth and expansion, failing which it may hinder a business expansion plan or cause insolvency.

In the current economic and pandemic health crisis, the smaller firms or new start-ups always face shortage of cash flow and challenges in raising sufficient source of funds from the traditional financial marketplace.

However, the government stimulate packages have provided many financial assistances to help the SMEs during this challenging period. One of the main concerns was how fast the government agencies and the financial institutions can approve the financial package.

In such a challenging environment, many SMEs, particularly the smaller firms, need to access sufficient funds in order to survive and continue to operate after the movement control order periods.

The fourth process looks into the financial change

The Knowledge Change Process in financial cash flow management examines the process of financial cash flow change strategy. A financial cash flow change process is concerned with how an entrepreneur adapts and responds to technological changes in the disruptive financial marketplace.

The recent development of disruptive technology in the financial environment particularly the financial technology (Fintech) has sent shockwaves through traditional financial services ecosystem as discussed below.

The financial technology, known as Fintech, is an innovation in the financial service industry. It will change the way the traditional financial institutions and financial providers offer their products and services to their customers.

Some of the examples of Fintech products and services being introduced will be discussed below:

- **Equity crowd-funding** and peer to peer lending, as approved by the Securities Commission Malaysia, is a platform for raising funds for the start-ups and SMEs;
- **Maybank Sandbox** is another Fintech ecosystem which assists the talented entrepreneur by providing tools, simulated data and application programming interface within the Fintech environment to develop and test new ideas; and
- **The Mobile payment or e-Wallet** has introduced new forms of cash payment through mobile payment. The mobile payment solutions include Alipay, Samsung Pay, Apple Pay and Tenpay.

The advantages Fintech have for entrepreneurs include:

- Easier for smaller firms and start-ups to raise capital;
- Reduces the cost of transaction through mobile e-Wallet;
- Reduces cost and time to visit to the bank or the ATM;
- Reduces the security risk of handling and transporting cash; and
- The cost of acquiring the relevant information has been reduced.

Regulators around the world have taken a balanced approach to the casual adoption of “regulatory sandboxes” and amended their regulations accordingly.

Economic crisis and crisis management

Malaysians have gone through many economic crises, the Covid-19 pandemic being the most challenging one: it is not just a regional crisis, but the whole world is being affected; and it is not just related to certain sectors, it affected all sectors when the whole country went into lockdown.

The most challenging issues during this Covid-19 for most of the country is the health management in the hospitals. There is a huge shortage of hospital beds and medical supplies like masks and ventilators. This was evident even in the most developed country like U.S., The local/state governments and federal government were pushing their responsibility to each other to secure the medical supplies.

The second challenging issue was the lockdown of the economy to reduce the spread of the virus through movement control order (MCO). Malaysia started its first MCO with effect from 18 March 2020 and with a few extensions still early June 2020.

The consequences of the MCO, were evident and many industries were affected, particularly the hospitality industries like hotel and restaurants; aviation industry; retail shopping malls; oil and gas; and private education sector. This will have an impact on the Malaysian GDP. The Malaysian economy is expected to contract by at least 2 percent, with many sectors reporting negative growth in Q1 2020.

The third challenge for Malaysian SMEs was the cash flow problem. This problem arose because of the MCO, where most of the sectors and industries were under lockdown, which contributed to a fall in sales revenue and debt collections.

The fourth challenge was unemployment. The world economy is expected to contract and thus the unemployment rate will increase. The US economy is experiencing its worst unemployment since the great depression. In the 1930s (24.9%), 1982 (10.8%), 2009 (10%) and in May 2020 more than 33.5 million people had filed for unemployment benefit (>15.5%).

Malaysian unemployment rate was in 1986 (7.4%), 1998 (3.2%), 2009 (3.69%) and in March 2020 (3.9%) and is expected to increase to 5.9% this year.

Conclusion

In summary, the main premise of Knowledge Financial Cash Flow Management is, how entrepreneurs acquire their financial sources of fund; how they manage and apply their financial cash flow; how they communicate with the financial stakeholders through the financial-communication mix strategy; and finally, to think out of the box and be prepared to change in the financially disruptive environment.

The Knowledge 4C will be a continuous fluid process that reminds managers that a learning and effective organization must always be alert to the business environment. The four processes will be necessary to stay solvent and effective. There is a fifth C, that Change is a constant. A Covid-like pandemic appeared

100 years ago as the Spanish Flu that killed millions. Such a major calamity has taught everyone a lesson. Knowledge 4C is an important concept to handle problems in a systematic way. It increases an organization's awareness to the four important parameters to keep organizations solvent and serving its stakeholders well. The government's role is also very important, and it is heart-warming that the Malaysian government took various steps to alleviate the problems of the people. The Knowledge 4C is a private sector initiative to blend private and government resources to keep the organization afloat. The impact can be made worse by inefficiencies, incompetence, political uncertainties, and inertia created by the long lockdowns. The problem is by no means over, and plenty needs to be done as an organization and as a nation. I offer my Knowledge 4C Financial Cash Flow Management as a step that all entrepreneurs and organizations can take to survive this trying period. It was a double jeopardy as the remedy for the virus conflicted with business survival. A compromise is necessary as a country cannot stay in lockdown forever and people must emerge to do work and do commerce for basic survival. Knowledge Management will remain relevant as one never knows when the next big challenge to our existence will arise. In God we trust but also on our own Knowledge Management effort.

Reference

Tan, T. S. (2020) "Knowledge 4C: Financial and cash flow management during economic crisis." TST Consulting Group, Kuala Lumpur.

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