

# Factors Influencing Business Performance Among Micro Enterprise in Malaysia: An Empirical Review

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**Abstract**— This study is to develop a conceptual model on the factors that influence business performance among micro enterprise. By collecting empirical evidence, it seeks to reveal the relationship between these influencing factors and the business performance. The findings aim to support the development of future management accounting models, which can be used to enhance decision-making processes and foster healthy competition, particularly in this recent market turbulence that threatens the sustainability of these enterprises.

**Keywords**— Micro, small and medium enterprises (MSMEs), Entrepreneurial Competency (EC), Government Intervention (GI), Financial Resources (FR), Business Performance (BP), Management Accounting Practice (MAP).

## I. INTRODUCTION

Awareness of cost-control culture and the emphasis on the importance of cost control have become increasingly relevant, especially given the reasonable expectations of enduring environmental and market turbulence, as well as fluctuations in demand (Roffia et al., 2024). External factors such as natural catastrophes, including recent outbreaks, have influenced the adoption of cost-control culture (Naseri, 2021), which have been heavily discussed, necessitating the consideration of contingency plans. These catastrophic events directly reduce consumers' purchasing power parity (PPP), shifting the consumer behavior from physical to online purchases, adversely affect business profits, and generally shape new economic trends.

The global-scale disruption of supply chains in the recent years has reduced the availability of commodities, causing demand to overflow and the unemployment rate to increase, leading to a combination of inflation and recession known as stagflation, characterized by the correlation between lower output and higher prices (Herold & Marzantowicz, 2023). To overcome this challenge, studies in management accounting have increased, focusing on small and medium-sized businesses, indicating that management accounting plays a crucial role in business strategy (Shields & Shelleman, 2016; Azudin & Mansor, 2018; Ngo, 2021; Roffia et al., 2024). However, there is insufficient attention given to the smaller segment (Ngo, 2021), impeding their ability to expand and compete effectively in the market (Dhar et al., 2022).

## II. BACKGROUND OF MICRO ENTERPRISE IN MALAYSIA

Micro enterprises constitute a significant portion of Malaysia's business landscape, comprising 69.7% of total MSMEs (Bernama, 2024) and accounting for 97.4% of all

newly established businesses (SME Corp Malaysia, 2022). These enterprises play a vital role in the Malaysian economy, contributing over one-third of the country's GDP in 2021 and employing nearly half of the national workforce (Azhar & Shakil, 2021; Musa & Chinniah, 2016).

The effect of the moving trend and high competitive market has been recently reported by many media outlets, indicating that micro enterprises experienced a decline in sales. Despite the celebration of Hari Raya Aidilfitri in Malaysia, a major cultural festival, media reports indicated that many micro businesses failed to generate income as in previous years. For example, traders in Seremban, Negeri Sembilan, made no sales in a night (Hasbi, 2024), and traders in Kangar, Perlis, reported poor sales and declining popularity of the Aidilfitri bazaar (Mutalib, 2024). Similar issues were noted in Kuala Lumpur, where vendors struggled to compete with e-commerce platforms (PBNM, 2024). All of these highlighted reports, was published in April 2024, underscore the need for research to analyze the economic shifts and encouraging develop stabilization mechanisms.

To highlight the ongoing issue, Kosmo news media, Kamaruddin (2024) reported a 50% decline in sales at Pasar Payang, Terengganu, in December 2024, despite high visitor numbers. This trend expected will worsen without any alternative measures to support micro enterprises in market. There is a significant research gap concerning the application of Management Accounting Systems (MAS) in micro, small, and medium enterprises (MSMEs) (Mitchell & Reid, 2000; Umeji & Obi, 2014; Roffia et al., 2024). While research has established a link between broad-scope MAS and performance in large businesses (Ngo, 2021), limited research exists on how these systems can be effectively tailored and implemented in smaller entities, particularly micro-enterprises (Ngo, 2021; Roffia et al., 2024). Effective MAS are crucial for businesses of all sizes to navigate economic challenges and enhance operational efficiency through informed financial decision-making, budgeting, profitability analysis, and strategic planning (Čečević et al., 2020). These practices provide valuable insights for internal decision-making, enabling businesses to understand their financial health, identify areas for improvement, and make informed strategic choices.

However, several critical factors often receive insufficient attention within micro-enterprises. For instance, a lack of strategic competitor analysis can hinder a micro-enterprise's ability to assess its competitive strengths and weaknesses, potentially leading to eroded profit margins. Moreover,

neglecting customer needs, as highlighted by Nwokah (2009) and Ngo (2021), can result in market instability.

### III. GOVERNMENT INTERVENTION TO BUSINESS PERFORMANCE

Malaysia's expanding use of information technology, exemplified by the government's new policies such as the Inland Revenue Board's e-invoicing program, which come with purpose of improve tax efficiency and tax evasion. Businesses significantly benefit from reduced errors, real-time data tracking, and streamlined tax compliance, ultimately improving data accessibility and enhancing their overall operational efficiency. This program, which will gradually allow businesses to retrieve data from government servers via the Myinvoice Portal, enhances transaction transparency and simplifies data retrieval for the management accounting purpose. This policy, ultimately intended for all taxpayers with less than RM150,000 in sales turnover, aims to make accounting information more readily available, facilitating easier integration of management accounting practices, even with basic accounting skills.

A study by Nor et al. (2023) indicates that government intervention significantly influences SMEs' operational strategies and performance. Considering the positive viewpoints and new government policies such as the Madani Economy, the National Energy Transition Roadmap (NETR), the New Industrial Master Plan 2030, and the 12th Malaysia Plan Mid-Term Review, the projected increase in investor confidence is expected to result in continued positive growth and improvements in the Malaysian economy, as highlighted by Prime Minister Datuk Seri Anwar Ibrahim (Prime Minister's Office of Malaysia, 2023). The anticipated growth in investment represents a significant turning point in the nation's history. The Prime Minister's Office of Malaysia Official Website (2024) states that total approved investments rose to RM329.5 billion, a 23% gain over the prior year. These investments are associated with 5,101 projects and are expected to generate over 127,000 new employment opportunities for the nation.

The relationship is also supported by empirical evidence from a study on the effectiveness of government support programs in Perlis, which demonstrates that achieving sustainable business growth requires government support, positively impacting SMEs' sustainable competitive performance (Nor et al., 2023). The literature also highlights the challenges faced by SMEs, including the burden of new government policies. For instance, the reduction of subsidies announced earlier in year 2024 poses significant challenges for micro enterprises to sustain themselves in emerging economies.

### IV. ENTREPRENEURIAL COMPETENCY TO BUSINESS PERFORMANCE

The competency of a micro-enterprise owner can be assessed by the extent to which they implement management accounting practices within their business. Resource planning, cost estimation, budgeting, and cost management are all included in these methods (Bautista et al., 2024). This

competency equips individuals with the necessary skills to navigate the complexities of business start-up and management, enabling them to make informed decisions and drive business success (Mustapha et al., 2020).

Understanding financial principles and managing resources efficiently are crucial components of entrepreneurial competency. These skills contribute significantly to the financial stability and growth of a business, as demonstrated by Bautista et al. (2024). Moreover, leadership competency plays a vital role in inspiring and managing teams to achieve business objectives, seize market opportunities, and maintain a competitive advantage. However, even recognizing the importance of these competencies, their implementation can be hindered in SMEs by a lack of expertise in finance and control functions (Roffia et al., 2024).

### V. FINANCIAL RESOURCES TO BUSINESS PERFORMANCE

Firms with substantial resources are generally better equipped to invest in and effectively utilize sophisticated management accounting systems. These systems act as catalysts for improved business performance, leading to enhanced financial performance and a stronger competitive advantage (Gunarathne et al., 2021; Mustapha et al., 2020; Nguyen, 2018). Larger SMEs are more likely to employ qualified personnel to manage control functions within advanced management accounting systems (Roffia et al., 2024). In contrast, smaller businesses often rely on less comprehensive cost accounting practices (Bautista et al., 2024).

This research highlights the need to develop comprehensive management accounting techniques, particularly cost accounting, to assist smaller businesses in increasing their awareness of key operational and financial data. As information processing theory will discuss in the next segment, the processed information can be used to enhance profitability. Numerous studies have demonstrated that costing tools such as carbon cost, environmental cost, and material flow cost accounting can positively impact both environmental sustainability and profitability."

### VI. THEORETICAL REVIEW

Contingency theory found to be the most common theory used in research study environment. Idea that management and control systems must be adaptable to specific circumstances and still able to deliver it objectives or purposes. Additionally, the theory implies that there is no one ideal way to manage or lead an organization, but that effectiveness is dependent upon the internal and external environment of the organization (Pavlatos & Kostakis, 2022). This theory will guide our exploration of how proposed factors, pushed and influence the role of management accounting in micro-businesses.

Institutional theory highlights the significant influence of external factors, such as government intervention, on SME strategies and performance, as demonstrated by Nor et al. (2023). New policies like the Madani Economy and the NETR, coupled with increased investor confidence, are projected to drive economic growth, underscoring the impact of government intervention on the overall economy. On the

other hand, social capital theory play almost identical effect, where Nor et al. (2023) explored how these social networks and relationships assist SMEs, emphasizing the government's role in fostering networks that contribute to SMEs expansion. Both theories play a similar role in determining the relational effects of these factor on practices and overall business performance.

The upper echelons theory suggests that a company's top management team significantly influences its direction and performance. Developed by Hambrick and Mason, the theory argues that leaders' backgrounds, experiences, and values shape their decision-making, ultimately impacting the company's strategies and outcomes (Ali et al., 2023). Factors such as age, tenure, ownership, financial knowledge, and the career history of the CEO play crucial roles in determining the relation of entrepreneurial competencies and business performance. In correlated, the resource-based view (RBV) suggests that organizations can achieve sustainable competitive advantage by developing and deploying valuable, rare, inimitable, and non-substitutable resources (Nguyen, 2018).

The RBV framework can be used to examine how SMEs' unique resources and capabilities, such as managerial expertise, technological infrastructure, and organizational culture, impact their adoption and implementation of cost accounting practices. Firms with stronger resource endowments may be better equipped to invest in and effectively utilize cost accounting systems, potentially leading to improved financial performance and enhanced competitiveness (Gunaratne et al., 2021; Mustapha et al., 2020 & Nguyen, 2018).

In related, the Information Processing Theory, which aligns closely with management accounting practices by transforming business information into valuable and readable insights. Roffia et al. (2024) demonstrated that the effective utilization of management accounting information can enhance decision-making regarding budget use during crises, not only for large companies but also for smaller enterprises, reflecting the principles of Information Processing Theory. Furthermore, possessing relevant information enables businesses to operate under market influence, allowing them to act in accordance with market requirements.

Advances in information processing are leading to more streamlined data handling and greater analytical capabilities. This increased efficiency allows for less time spent on processing and more on analysis. For example, the study "The Intervention of Micro, Small, and Medium Enterprises (MSMEs) in Malaysia's Digital Economy" (Azhar & Shakil, 2021) details how the Selangor state government is working to improve operational and financial management within MSMEs. One such initiative is the Selangor SME Digitalisation Matching Grant, launched in 2021 by the Selangor Information Technology and Digital Economy Corporation (SIDEK).

This grant aims to facilitate the digitalization of MSMEs, enabling them to leverage various digital tools and platforms to streamline their operations and improve financial management. This initiative is underpinned by the Technology

Acceptance Model (TAM), which posits that the adoption of new technology is primarily influenced by users' perceptions of its usefulness and ease of use. Factors such as the compatibility and complexity of these digital solutions directly influence these perceptions (Roffia et al., 2024)

## VII. METHODOLOGY

This research aims to understand how internal and external factors impact a business's performance, facilitate adaptation to changing market conditions, and ensure its long-term success. To achieve this, an extensive review of existing research was conducted, collecting information from major academic databases, including Google Scholar, SpringerLink, and Emerald. Keyword were searched for studies related to entrepreneurial skills, government support programs, and the factors that contribute to business success. This search yielded a substantial number of research papers, journal articles, and conference proceedings. The most relevant studies were carefully selected for this review, focusing on those that directly addressed the research objectives. Subsequently, a comprehensive analysis of these selected studies was undertaken to summarize their key findings and gain a deeper understanding of the factors that influence business performance. This review examined the research questions, methodologies, and conclusions of all the included studies.

## VIII. SUMMARY

This research aims to investigate the development of management accounting practices that evolve with advancing information technology and to examine the effect of other factors on micro-enterprise business performance. Over 20 years have passed since the first volume of Management Accounting Research was published in March 1990 (Scapens & Bromwich, 2010). This research area has grown significantly, with discussions shifting primarily towards management and organizational control, changes in management accounting practices, and performance measurement in the second decade (Scapens & Bromwich, 2010). The emergence of digital transformation has revolutionized various aspects of organizations, particularly financial operations. With fast and accessible information, it has transformed business dynamics by enabling strategic operational planning and forcing businesses to adapt more effectively to evolving trends and changing consumer preferences (Rosmala, 2024).

As a significant portion of business information comes from numerical data, basic accounting skills are expected to play a crucial role in this rapid development. Traditionally responsible for handling this type of data, finance personnel or micro-enterprise owners are expected to engage with expanding information technologies to leverage this information and deliver enhanced strategic planning for effective decision-making (Erwin, 2019).

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