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# THE INFLUENCE OF FINANCIAL MANAGEMENT PRACTICES AND BUSINESS PERFORMANCE IN MALAYSIA SME FAMILY BUSINESS

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BUSINESS PERFORMANCE IN MALAYSIA SME FAMILY  
BUSINESS

NOR RAZUANA BINTI AMRAM



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THESIS SUBMITTED IN FULFILLMENT OF THE REQUIREMENT FOR THE  
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2024



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## ABSTRACT

The absence of financial management practices results in financial institutions facing difficulties when approving loan applications. This study aims to examine the influence of financial management practices on the business performance of Malaysian SME family businesses. A quantitative survey was conducted involving 399 family-owned SMEs in the states of Perlis, Kedah, Kelantan, and Terengganu, using a simple random sampling technique. Questionnaires with a 5-point Likert scale were distributed and collected through self-administration. Pearson correlation, multiple regression analysis, and moderation analysis were performed using SPSS v.26 and the PROCESS macro for SPSS v.3.0. The study applied the Resource-Based View (RBV) theory and Pecking Order Theory (POT). The results showed positive and significant correlations between working capital management, investment, accounting information systems, capital structure, financial reporting analysis, and business performance of Malaysian SME family businesses. Multiple regression analysis revealed that financial management practices explained 46.9% of the variance in the performance of these businesses. The findings of multiple regression analysis showed that financial reporting analysis ( $\beta = 0.383$ ,  $p = 0.000$ ), working capital management ( $\beta = 0.213$ ,  $p = 0.000$ ), capital structure ( $\beta = 0.168$ ,  $p = 0.000$ ), and accounting information systems ( $\beta = 0.129$ ,  $p = 0.003$ ) were the most influential financial management practices affecting their business performance. Furthermore, the findings demonstrated that financial attitudes moderated 71.06% of the relationship between financial management practices and business performance in Malaysian SME family businesses. In conclusion, the findings provide empirical evidence that financial management practices, coupled with a positive financial attitude, play a crucial role in enhancing business performance in Malaysian SME family businesses. As such, the implications of this study indicate that to improve access to funding from SME agencies in Malaysia, SME family businesses should collaborate with financial institutions to evaluate the implementation of financial management practices.





## PENGARUH AMALAN PENGURUSAN KEWANGAN DAN PRESTASI PERNIAGAAN DALAM PERNIAGAAN KELUARGA PKS MALAYSIA

### ABSTRAK

Ketiadaan amalan pengurusan kewangan menyebabkan institusi kewangan menghadapi kesukaran apabila meluluskan permohonan pinjaman. Kajian ini bertujuan untuk mengkaji pengaruh amalan pengurusan kewangan terhadap prestasi perniagaan keluarga PKS Malaysia. Satu tinjauan kuantitatif telah dijalankan melibatkan 399 PKS milik keluarga di Perlis, Kedah, Kelantan, dan Terengganu dengan menggunakan teknik pengambilan sampel rawak mudah. Soal selidik dengan skala Likert 5 mata diedarkan dan dikumpulkan melalui pentadbiran sendiri. Korelasi Pearson, analisis regresi berganda, dan analisis penyederhanaan dilakukan menggunakan SPSS v. 26 dan makro PROSES untuk SPSS v. 3.0. Kajian ini menggunakan teori Pandangan Berasaskan Sumber (RBV) dan Teori Urutan Tatatingkat (POT). Hasil kajian menunjukkan korelasi positif dan signifikan antara pengurusan modal kerja, pelaburan, Sistem Maklumat Perakaunan, struktur modal, analisis pelaporan kewangan, dan prestasi perniagaan keluarga PKS Malaysia. Analisis regresi berganda mendedahkan bahawa amalan pengurusan kewangan menjelaskan 46.9% daripada varians dalam prestasi perniagaan ini. Penemuan analisis regresi berganda menunjukkan bahawa analisis pelaporan kewangan ( $\beta = 0.383$ ,  $p = 0.000$ ), pengurusan modal kerja ( $\beta = 0.213$ ,  $p = 0.000$ ), struktur modal ( $\beta = 0.168$ ,  $p = 0.000$ ), dan Sistem Maklumat Perakaunan ( $\beta = 0.129$ ,  $p = 0.003$ ) adalah amalan pengurusan kewangan yang paling berpengaruh yang mempengaruhi prestasi perniagaan mereka. Selain itu, penemuan menunjukkan bahawa sikap kewangan menyederhanakan 71.06% hubungan antara amalan pengurusan kewangan dan prestasi perniagaan dalam perniagaan keluarga PKS Malaysia. Kesimpulannya, penemuan ini memberikan bukti empirikal bahawa amalan pengurusan kewangan, ditambah pula dengan sikap kewangan yang positif, memainkan peranan penting dalam meningkatkan prestasi perniagaan dalam perniagaan keluarga PKS Malaysia. Oleh itu, implikasi kajian ini menunjukkan bahawa untuk meningkatkan akses kepada pembiayaan daripada agensi PKS Malaysia, perniagaan keluarga PKS perlu bekerjasama dengan institusi kewangan untuk menilai pelaksanaan amalan pengurusan kewangan.





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## LIST OF ABBREVIATIONS

|          |   |
|----------|---|
| 12MP     | Twelfth Malaysian Plan                                      |
| AI       | Artificial Intelligence                                     |
| AIM      | Amanah Ikhtiar Malaysia                                     |
| AIS      | Accounting Information Systems                              |
| COVID-19 | Coronavirus disease   |
| CPS      | Cyber-Physical Systems                                      |
| CVI      | Content Validity Index                                      |
| DFIs     | Development Financial Institutions                          |
| DTAP     | Digital Transformation Acceleration Programme               |
| EFB      | European Family Business                                    |
| GAP      | Global Accelerator Programme                                |
| GCR      | Global Competitiveness Report                               |
| GDP      | Gross Domestic Product                                      |
| GEI      | Global Entrepreneurship Index                               |
| GII      | Global Innovation Index                                     |
| GLCs     | Government-Linked Companies                                 |
| IFRS     | International Financial Reporting Standard                  |
| IIoT     | Industrial Internet of Things                               |
| IJSRM    | International Journal of Scientific Research and Management |
| IKM      | Institut Kemahiran Mara                                     |



|          |   |
|----------|---|
| INSKEN   | Institut Keusahawanan Negara  |
| IoT      | Internet of Things  |
| IP       | Internet Protocol   |
| IR-40    | Industrial Revolution 40  |
| JIT      | Just-In-Time  |
| KPMG     | Klynveld Peat Marwick Goerdeler   |
| KPI      | Key Performance Indicators  |
| MaGIC    | Global Innovation & Creativity Centre   |
| MARA     | Majlis Amanah Rakyat  |
| MDEC GTF | Malaysia Digital Economy Corporation Global Tech Fund   |
| MED      | Ministry of Entrepreneur Development  |
| MEDAC    | Ministry of Entrepreneur and Cooperative Development  |
| MITI     | Ministry of International Trade and Industry  |
| MNCs     | Multinational Corporations  |
| MyIPO    | Intellectual Property Corporation of Malaysia   |
| NEF 2030 | National Entrepreneurship Framework 2030  |
| NEP      | New Economic Policy   |
| NEF      | National Entrepreneurship Framework   |
| NGOs     | Non-Governmental Organizations  |
| NPV      | Net Present Value   |
| NESDC    | National Entrepreneur and SME Development Council   |
| NSDC     | National SME Development Council  |
| OSC-MECD | One-Stop Entrepreneurship Center for the Ministry of Entrepreneur and Cooperative Development |
| PERNAS   | Perbadanan Nasional Berhad  |

|         |   |
|---------|---|
| POT     | Pecking Order Theory  |
| PROTÉGÉ | Professional Training and Education for Growing Entrepreneurs |
| RBV     | Resource-Based View   |
| PUNB    | Perbadanan Usahawan Nasional Berhad                           |
| R&D     | Research and Development                                      |
| RMCD    | Royal Malaysian Customs Department                            |
| RMIC    | Research Management and Innovation Centre                     |
| SCIP    | SME Co-Investment Partners                                    |
| SDGs    | Sustainable Development Goals                                 |
| SKM     | Suruhanjaya Koperasi Malaysia                                 |
| SMEs    | Small And Medium Enterprises                                  |
| SMIDEC  | Small and Medium Industry Development Corporation             |
| SPGC    | STEP Project Global Consortium                                |
| SPSS    | Statistical Package for the Social Sciences                   |
| TERAJU  | Unit Peneraju Agenda Bumiputera                               |
| TEKUN   | <i>Tabung Ekonomi Kumpulan Usaha Niaga</i>                    |
| UDA     | Urban Development Authority                                   |
| UPSI    | Universiti Pendidikan Sultan Idris                            |
| VDP     | Vendor Development Programme                                  |
| WKB     | Wawasan Kemakmuran Bersama                                    |

## LIST OF APPENDICES

- A Questionnaire
- B Letter Approval Research Ethics



## CHAPTER 1

### INTRODUCTION

#### 1.1 Introduction



This chapter introduces the study by describing the research approach. Section 1.1 provides an introduction. Section 1.2 explains the background of Malaysian Small and Medium Enterprises (SMEs) family businesses, including current issues related to their financial management practices and business performance. Section 1.3 then discusses the problems associated with these current issues. The research objectives are described in Section 1.4, followed by the research questions in Section 1.5, the hypotheses in Section 1.6, and the significance of the study in Section 1.7. Section 1.8 covers the scope of the study, while Section 1.9 provides operational definitions. The limitations of the study are discussed in Section 1.10. Finally, Section 1.11 summarizes the key points of the chapter.







## 1.2 Research Background

Typically, most small and medium enterprises (SMEs) are family businesses (Mokhber et al., 2017). A large body of recent literature indicates that most micro and small enterprises are family businesses (Garces-Galdeano & Garcia-Olaverri, 2020). The author found that SME businesses in Malaysia are traditionally family businesses passed down from generation to generation. According to Maseda et al. (2019), a family business can be defined as an asset that should be transferred from generation to generation, and families must have a strong interest in business continuity. While Lwango, Coeurderoy, and Giménez Roche (2017) and Omar (2017) defined the criteria established for a family business as one run solely by family members, which explains the differences between family and non-family businesses. Therefore, family businesses are seen as a source of pride and security, with many families viewing entrepreneurship as a means of accumulating wealth and providing for future generations (Chaudhary et al., 2021).

Surveys conducted by Calabrò and Valentino (2019) revealed that family businesses contributed 9% to European Gross Domestic Product (GDP) under the STEP Project Global Consortium (SPGC), European Family Business (EFB), and Klynveld Peat Marwick Goerdeler (KPMG) program. The program aimed to encourage more family members to work in businesses, thereby increasing household income and contributing to the country's GDP growth (Calabrò & Valentino, 2019).

In Malaysia, SMEs contribute over a third of the GDP and provide job opportunities for over four million workers (Bank Negara Malaysia, 2021). In Malaysia, 98.5% of business establishments are SMEs (Mokhber et al., 2017). In





2019, the GDP of SMEs increased by 5.8%, outpacing Malaysia's overall GDP growth of 4.3% (Department of Statistics, 2023). Recognizing the importance of SME family businesses, the Malaysian government has implemented various initiatives and policies to support their growth and development under the Twelfth Malaysia Plan. These initiatives include financial assistance, tax incentives, training programs, and access to technology and markets (SME Corporation Malaysia, 2022). Overall, SMEs and family businesses are crucial contributors to Malaysia's economy, with their success vital for the country's sustained economic growth and prosperity (Department of Statistics, 2023). Therefore, SMEs play a pivotal role in economic development and growth (Muneer, Ahmad, & Ali, 2017).

Thus, with the involvement of family members in SME businesses, family members should ensure stable financial management practices and business performance. According to Mokhber et al. (2017) effective financial management practices can directly impact overall business performance. Therefore, in this study, the corresponding issue of business performance is addressed through The Twelfth Malaysia Plan and the National Entrepreneurship Framework (NEF 2030). The Twelfth Malaysia Plan outlines programs developed by the Ministry of Entrepreneur Development (MED) to support SMEs and business entrepreneurs (Ministry of Economy, 2020). According to the Ministry of Economy (2020) the programs can be categorized as: (1) funding; (2) research grants; (3) training and capacity building; (4) infrastructure/business premises/equipment; (5) technology; (6) market access; (7) social enterprise; and (8) globalization.





Regarding the integration of financial management practices into business, Mokhber et al. (2017) revealed that financial management practices directly influence family business performance. The relevant issues in this research are measured based on SME Insights 2019/20 by SME Corporation Malaysia (2021) and the Digital Economy Blueprint by Economic Planning Unit (2021). Based on SME Insights 2019/20, PUNB allocated RM230 million for SME working capital management. The allocation funded the modernization of automation systems and equipment for daily business operations (SME Corporation Malaysia, 2021). Therefore, good working capital management practices have been found to positively impact SME performance (Mang'ana, Ndyetabula, & Hokororo, 2023).

Meanwhile, SME Corp Malaysia (2020) launched two programs - SME Go Global and SME Co-Investment Partner (SCIP) - to enhance SME capabilities in exploring export opportunities abroad. SCIP provided RM15 million to companies to identify export opportunities outside Malaysia (SME Corporation Malaysia, 2020). Through this program, SME Corp Malaysia (2020) appointed assistance agencies like TERAJU, TEKUN, Majlis Amanah Rakyat (MARA), SME Bank, Perbadanan Usahawan Nasional Berhad (PUNB), Malaysia Digital Economy Corporation Global Tech Fund (MDEC GTF), and Amanah Ikhtiar Malaysia (AIM) as intermediaries to allocate opportunities to SME businesses. Therefore, studies have found a significant positive impact of investment decisions on business performance in family businesses (Werner, Schell, & Haunschild, 2021; Hendiarto et al., 2021; Özbuğday et al., 2020; Mogaka & Koori, 2018; Gveroski & Jankuloska, 2017).



Additionally, based on the Digital Economy Blueprint for Malaysia by the Elliot & Co, (2023), the government allocated RM100 million in grants for entrepreneurs. The grants can be used to upgrade digital sales, inventory, and accounting systems. Elliot & Co (2023) also set aside a RM900 million loan fund for SMEs to enhance business productivity through digitization. Therefore, studies have found that accounting information systems significantly positively impact SME performance (Wahyuni, 2023; Sabri, Rapani, & Almaliki, 2022; Khan et al., 2022; Somathilake & Pathirawasam, 2020; Zada, Yukun & Zada, 2019).

Moreover, under the Twelfth Malaysia Plan, the government allocated RM60 million for a second-chance financing fund, supporting SMEs and innovative entrepreneurs in the manufacturing and services sectors to rebound from failure and continue contributing to the economy. Meanwhile, banking institutions remain the primary financing source for SMEs, providing over 90% of total financing (Bank Negara Malaysia, 2021). Bank Negara Malaysia allocated RM31.1 billion for SMEs (Bank Negara Malaysia, 2022). The 2018 Bank Negara Malaysia annual report indicated that Malaysian SMEs have limited access to finance, which is one of their biggest challenges (CEDAR Research Team, 2019). SMEs may struggle to expand their businesses, develop new products/services, invest in technology or equipment, or make timely payments without adequate financing. Therefore, the availability of funding sources is critical to the success or failure of Malaysian SMEs. Therefore, studies have found that capital structure significantly influence SME performance (Ayange et al., 2021; Dalalo & Hunde, 2020; Schulz, 2017).



SME Corp Malaysia (2023) allocated RM100 million through the Micro Madani Strengthening Programme (Micro Madani) to assist 20,700 SME entrepreneurs nationwide. Despite this initiative, Malaysian SMEs still face challenges obtaining financing to support business growth, invest in innovation and research & development (R&D), manage cash flow, and handle financial reporting. Access to financial reporting analysis can help SMEs thrive in securing funding (Yuan, Azam, & Tham, 2019). Thus, financial reporting analysis has been found to significantly positively influence SME performance (Somathilake & Pathirawasam, 2020).

The National Entrepreneurship Policy (2030), which aims for Malaysia to become a distinguished entrepreneurial nation by 2030, strives to cultivate an entrepreneurial attitude and culture in Malaysian society. Enhancements in ownership attitude have been found to improve financial management practices and performance in SME businesses (Asres & Muche, 2022). Therefore, the importance of financial management practices in influencing SME family business performance, with the role of financial attitude as a moderator, must be emphasized and scrutinized. Accordingly, empirical research on this topic is warranted.

### 1.3 Problem Statement

The key problem to be researched in this study is the lack of financial management practices in Malaysian SME family businesses. The absence of financial management practices results in financial institutions facing difficulties approving loan applications due to incomplete supporting documentation, negatively affecting business





performance. Previous studies by Somathilake and Pathirawasam (2020); Kimiti (2020); Zada et al. (2019) found that robust financial management practices can improve overall business performance. However, a study by Ramzi, Mohamad, and Ridzwan (2022); Mbaye, 2023 reported incomplete financial management practices among Malaysian SMEs leading to poor business performance. Therefore, implementing financial management practices is needed to improve the business performance of Malaysian SME family businesses.

The first identified problem is the lack of working capital management implementation in day-to-day operations of Malaysian SME family businesses. Working capital is important for financing the production cycle and capital expenditures to maintain or expand current operations (Ross, Westerfield, & Jordan, 2019). Good working capital management has been found to increase business performance (Hernandez et al., 2021). However, a study by Ahmeti, Ahmeti, and Ahmeti (2022) reported poor working capital management among Malaysian SMEs leading to poor business performance.

The second identified problem is the limited investment opportunities for SMEs to acquire fixed assets for their businesses. An important component of business investment is fixed asset management, which is crucial for financial management practices as it improves SME performance (Ross et al., 2022). Studies have shown that significant investments from exporting activities positively influence business performance (Piątkowski, 2020). However, a study by Özbuğday et al. (2020) indicated bad investments from exporting activities in SMEs lead to poor business performance.





The third identified problem is the lack of accounting information system usage records among SMEs. accounting information systems enables tracking and measurement of key performance indicators (KPIs) and financial metrics, providing insights into the organization's financial health and operational performance (Romney, 2021). Studies have found that robust accounting information systems utilization can increase business performance (Kareem et al., 2021). However, Kareem et al. (2021) also identified low accounting information systems utilization contributing to poor SME performance.

The fourth identified problem is the lack of proper capital structure management among SMEs. Capital structure involves a debt-equity mix for financing business operations and plays a crucial role in determining a company's capability and success (Ross et al., 2022). Studies have found appropriate capital structure management can increase business performance (Dalalo & Hunde, 2020). However, a study by Ningsih, Giri, and Artha (2022) suggests high leverage can negatively impact firm performance, while others find no significant relationship or even a positive relationship between leverage and performance.

The fifth identified problem is the absence of financial reporting analysis preparation among SMEs. Financial reporting analysis is crucial for analyzing and reporting accounting statements, presenting business performance, and obtaining funding (Ross et al., 2022). Studies have found complete financial reporting analysis contributes to increased business performance (Ramajeyam, Sooriyakumaran & Vannarajah, 2023). However, a study by Nawi (2020) indicated incomplete financial reporting analysis leads to poor business performance.



The final identified problem is that a lack of positive financial attitude toward financial management often leads SMEs into serious performance problems. Studies have indicated a positive financial attitude can improve financial management practices and performance, while a negative attitude can result in poor practices and performance (Supriyatna, 2023).

Therefore, financial management practices - including working capital management, investment, accounting information systems, capital structure, and financial reporting analysis - need to be implemented to enhance the business performance of Malaysian SME family businesses. Also, SMEs should develop a positive attitude toward adopting financial management practices to achieve desired business performance.

In summary, convincing business professionals to change practices is difficult without evidence demonstrating the influence of financial management practices on business performance. Previous research and gap analyses validate the need for a study examining the relationship between financial management practices and business performance within Malaysian SME family businesses.

#### **1.4 Research Objectives**

The main objective of this study is to examine the influence of financial management practices on the business performance of Malaysian SME family businesses.





Specific objectives of this study include:

1. To determine the influence of working capital management on the business performance of Malaysian SME family businesses.
2. To determine the influence of investment on the business performance of Malaysian SME family businesses.
3. To determine the influence of accounting information system on the business performance of Malaysian SME family businesses.
4. To determine the influence of capital structure on the business performance of Malaysian SME family businesses.
5. To determine the influence of financial reporting analysis on the business performance of Malaysian SME family businesses.
6. To determine the moderating effect of financial attitude on the relationship between financial management practices and business performance of Malaysian SME family businesses.

## 1.5 Research Questions

This study addresses the following research questions:

1. Does working capital management directly influence the business performance of Malaysian SME family businesses?
2. Does investment directly influence the business performance of Malaysian SME family businesses?





3. Does accounting information systems directly influence the business performance of Malaysian SME family businesses?
4. Does capital structure directly influence the business performance of Malaysian SME family businesses?
5. Does financial reporting analysis directly influence the business performance of Malaysian SME family businesses?
6. Does financial attitude moderate the relationship between financial management practices and business performance of Malaysian SME family businesses.

## 1.6 Research Hypothesis



The following alternative research hypotheses guided this study:

- Ha1: Working capital management significantly influences the business performance of Malaysian SME family businesses.
- Ha2: Investment significantly influences the business performance of Malaysian SME family businesses.
- Ha3: Accounting information systems significantly influence the business performance of Malaysian SME family businesses.
- Ha4: Capital structure significantly influences the business performance of Malaysian SME family businesses.



Ha5: Financial reporting analysis significantly influences the business performance of Malaysian SME family businesses.

Ha6: Financial attitude moderates the relationship between financial management practices and business performance of Malaysian SME family businesses.

## 1.7 Significance of the Study

This study offers valuable insights contributing to theory, methodology, empirics, and practical applications for researchers, academics, Malaysia SME family businesses, government, and consultants. Firstly, the results will provide comprehensive theories that can be used to examine the influence of financial management practices on the business performance of Malaysian SME family businesses.

Secondly, the results will provide clarity in applying theories, geography, and moderators to verify the validity and reliability of scales used to measure dimensions of the relationship between financial management practices and the business performance of Malaysian SME family businesses. Additionally, the results will contribute to a comprehensive framework for investigating the influence of financial management practices on the business performance of Malaysian SME family businesses.

Thirdly, the results will provide Malaysia SME family business with practical guidance on implementing financial practices that can improve business returns. By highlighting the relationship between specific practices and performance, this study will empower SMEs to adopt financial management strategies that drive growth.

Then, the findings will assist SME agencies, banks, and other financial institutions in developing policies and initiatives to effectively support the SME sector. The study's recommendations can shape new directions for financial management policies that promote Malaysian SME success. The findings will also encourage the government to align with the SME objectives in the Twelfth Malaysia Plan and the National Entrepreneurial Policy.

Finally, researchers, academics and consultant will benefit from a deeper understanding of how critical financial management is for SME performance. The results will enable future studies to build more advanced financial practices and models. As published findings, this study will also contribute knowledge that academics can leverage across journals, libraries, and open access research platforms.

In summary, by informing strategies and policies across sectors, this study aims to advance financial management practices and performance for Malaysian SMEs family business. The insights offer tangible value for key stakeholders seeking to empower SME growth.

## 1.8 Scope of the Study

This study focuses on the influence of financial management practices - including working capital management, investment, accounting information systems, capital structure, and financial reporting analysis - on the business performance of Malaysian SME family businesses.

According to SME Corporation Malaysia (2021), Malaysian SMEs are classified into three categories based on size: micro, small, and medium. This study focuses only on micro and small businesses. Medium businesses were not included as they tend to be more structured, whereas most micro and small businesses are family-owned (Mokhber et al., 2017; Omar, 2017; Garcia-Galdeano & Garcia-Olaverri, 2020). This study targets SME family business leaders and owners as they are best positioned to provide relevant information on the businesses (Omar, 2017).

The scope of SMEs is limited to those located in Perlis, Kedah, Kelantan, and Terengganu only. According to the Twelfth Malaysian Plan report, these four states were identified as less developed and prioritized for expenditure allocation, including infrastructure and agriculture projects, to promote more balanced development. They were selected due to having lower GDP per capita performance compared to other states. Focusing on SMEs in these areas provides important insight into financial management issues facing less developed regions.

Figure 1.1 shows Perlis GDP per capita growing by RM23,582 in 2016-2020 (1.8% per annum), Kedah GDP per capita growing by RM22,140 in 2016-2020 (3.3% per annum), Kelantan GDP per capita growing by RM14,083 in 2016-2020 (3.0% per annum), and Terengganu GDP per capita growing by RM26,910 in 2016-2020 (0.1% per annum) (Ministry of Economy, 2020).

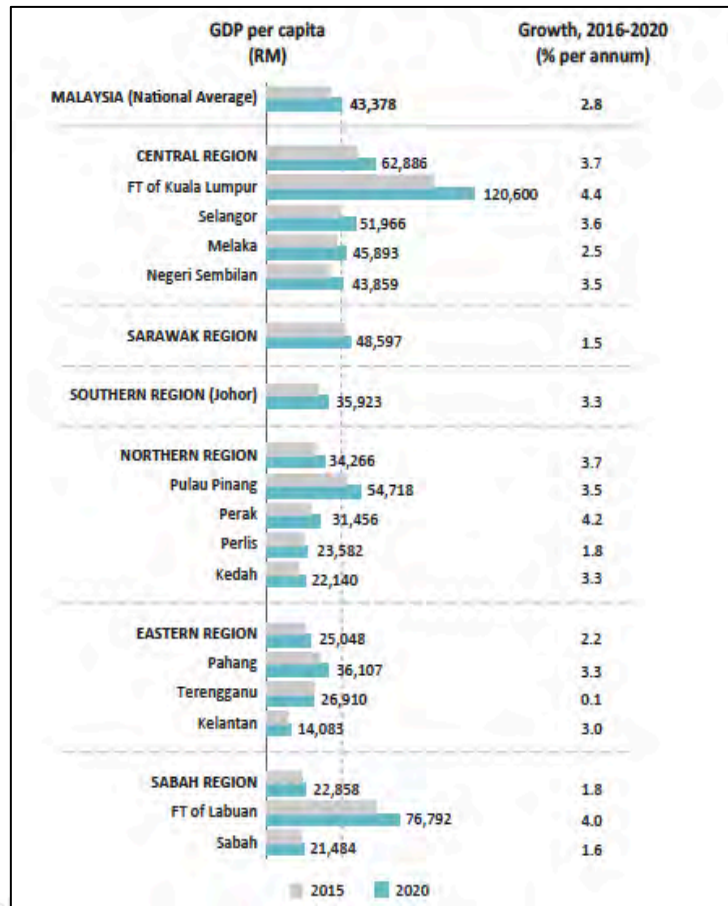


Figure 1.1. Gross Domestic Product Per Capita by Region, 2015 and 2020. Source: Ministry of Economy (2020)

## 1.9 Operational Definitions

The following key terms are used frequently throughout this study.

### (a) Financial management practice:

The practice that deals with financial management and involves a balance sheet model of the business. It deals with the enterprise's net working capital, investments, and capital structure. It also deals with how companies manage their accounting information systems and financial reporting analysis. Thus, financial management is concerned with



business objectives and examines how the company maximizes the efficiency of its financial resources (Omar, 2017). Thus, financial management practices in this study refer to the implication of complementary management of working capital, investment, accounting information systems, capital structure, and financial reporting analysis in the business.

#### **i. Working capital management:**

The difference between a company's current assets and current liabilities, and its optimal management ensures a balance between growth, profitability, and liquidity in day-to-day operations (Hernandez et al., 2021). Thus, working capital management in this study refers to liquidity management in day-to-day operations.



#### **ii. Investment:**

A process by SMEs in fixed assets such as new machinery, new equipment, and new products in projects that can bring profit and return to the business (Ross et al., 2022). Thus, investment in this study refers to generating a return for the business.

#### **iii. Accounting information system:**

An accounting information system is an information system that processes the recording, collecting, storing, and processing of financial and accounting data using computers (Romney, 2021). Thus, accounting information systems in this study refer





specifically to the computerized recording and processing of financial and accounting data.

#### **iv. Capital structure:**

The mix of debt and equity used in financing a business, which has a major impact on the business's success (Ross et al., 2022). Thus, capital structure in this study refers specifically to a business's particular combination of debt and equity financing.

#### **v. Financial reporting analysis:**

The collection, organizing, and reporting of accounting information that is analyzed and used to make management decisions for a business (Dalalo & Hunde, 2020). Thus, financial reporting analysis in this study refers specifically to the analysis of financial reports and accounting information.

#### **(b) Business performance:**

This term refers to the measurable outcomes and results achieved by a company in relation to its objectives, goals, and key performance indicators (KPIs) (Ross et al., 2022). In this study, 'business performance' encompasses the outcomes that result from the interplay between a company's financial and non-financial metrics.





**(c) Family business:**

The family business is an asset that should be passed down from generation to generation, and families must have a strong interest in continuing the business. The business is owned by a dominant head and controlled by members of the same family or a small number of families in a potentially sustainable way across generations of the family (Maseda et al., 2019). Thus, "family business" in this study refers to the generational members contributing to the business operation.

**(d) Financial attitude:**

An individual's ability to plan ahead, maintain savings, and make decisions related to money management (Rai, Dua, & Yadav, 2019). Hence, in this study, financial attitude refers to an entrepreneur's ability to plan and manage money effectively.

### **1.10 Limitations of the Study**

This study is limited in scope to determining the influence of financial management practices on business performance within Malaysian SME family businesses. As such, there are some limitations to this investigation:

**(a) Respondents**

This study focuses on SMEs in the less developed states of Perlis, Kedah, Kelantan, and Terengganu, which have lower projected GDP compared to national averages from

2016-2021. As such, the results may not generalize to SMEs operating in more developed regions of Malaysia.

## (b) Documents

The documents from Scopus relating to the topic "finance management practices" are displayed by year in Table 1.4 and Figure 1.8. Additionally, Table 1.5 presents the total number of documents found in Google Scholar (34) and Scopus (17). The analysis includes a total of 61 documents, indicating a limited amount of literature available on the topic.

Table 1.1

 05-4506832
  pustaka.upsi.edu.my
  Perpustakaan Tuanku Bainun  
Kampus Sultan Abdul Jalil Shah
  PustakaTBainun
  ptbupsi

| No    | Year | Total |
|-------|------|-------|
| 1     | 2023 | 2     |
| 2     | 2022 | 8     |
| 3     | 2021 | 3     |
| 4     | 2020 | 2     |
| 5     | 2019 | 0     |
| 6     | 2018 | 0     |
| 7     | 2017 | 2     |
| Total |      | 17    |

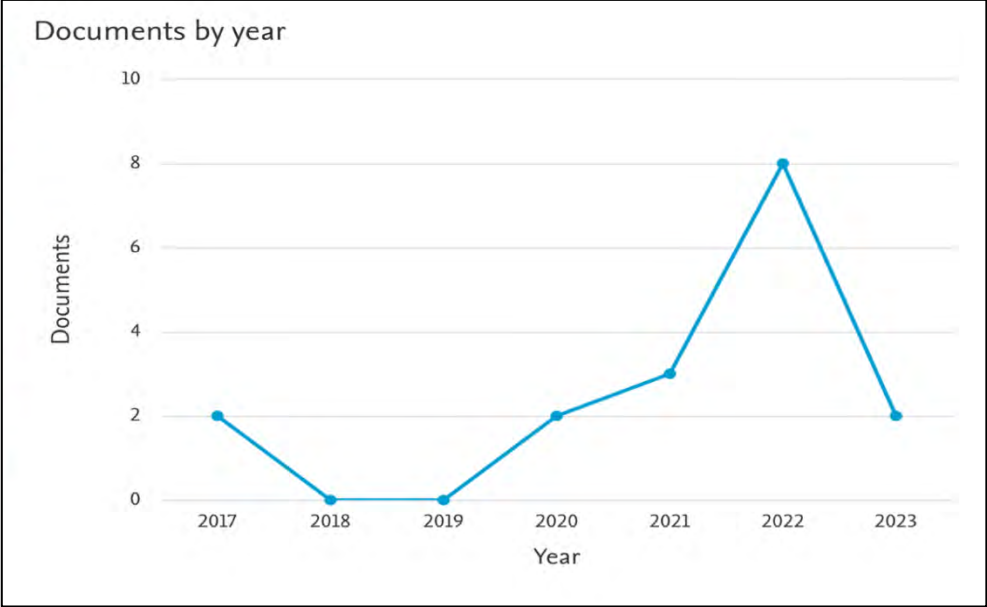


Figure 1.1. Documents published in Scopus by year

Table 1.2

Documents published in Google Scholar by year

| No    | Year | Total |
|-------|------|-------|
| 1     | 2023 | 1     |
| 2     | 2022 | 11    |
| 3     | 2021 | 5     |
| 4     | 2020 | 4     |
| 5     | 2019 | 3     |
| 6     | 2018 | 5     |
| 7     | 2017 | 5     |
| Total |      | 34    |



### **(c) Financial**

This investigation was conducted during a period of rapidly rising costs for printing, transportation, and souvenirs among Malaysian SME family businesses. To minimize additional expenses, the research process had to progress swiftly once initiated.

### **(d) Cooperation**

Financial records and balance sheet details tend to be highly confidential for SME family businesses. This proprietary information is seldom disclosed publicly due to strict privacy reasons. As a result, obtaining access to such data directly from respondents was challenging. Further, the study's focus on owners' personal attitudes surprised some participants when asked to share intimate perspectives in a questionnaire. Building sufficient trust and ensuring data privacy were critical to mitigate concerns over disclosure of information to outside parties. Therefore, acquiring formal ethical approval and permissions from the Research Center of Universiti Pendidikan Sultan Idris (UPSI) was essential for gaining respondents' trust and access to sensitive data.

### **(e) Time**

The 2021 COVID-19 pandemic had made collecting data from SME family businesses extremely challenging. Due to restrictions on in-person meetings and a shift to remote work, most business activities are now conducted online, with all employers working from home. In this study, the questionnaires were typically distributed face-to-face,





requiring business owners or managers to respond within a specific timeframe. As a result, data collection for the study took longer, necessitating a delay until the pandemic ended.

#### **(f) Experience and Skills**

As a new researcher, his study offers a valuable opportunity to develop essential skills and contribute meaningfully. Despite the likelihood of gaining more experience and expertise over time, the researcher's fresh perspective promises unique insights. This project can lay a strong foundation for developing key competencies such as framing incisive questions, designing rigorous methodologies, gathering and analyzing data, interpreting results, and articulating compelling conclusions. By approaching this learning process with care and integrity, significant progress can be achieved. All researchers encounter such beginnings, and with patience and commitment, the skills acquired through dedicated effort will outweigh any limitations and pave the way for future advancement in the field.

### **1.11 Summary**

This chapter introduces the research by presenting the background, problem statement, research objectives, questions, hypotheses, theoretical framework, significance, scope, definitions, and limitations. The background explains the issues surrounding financial management practices and performance in Malaysian family SMEs. The problem statement highlights the need to examine how financial practices relate to performance in this context. The research objectives, questions, and hypotheses narrow the focus to





specific relationships to be analyzed. The theoretical framework provides the foundation for the study based on relevant theories. The significance and scope convey the importance and boundaries of the research. Key terms are defined operationally. Limitations acknowledge the constraints of the study. Overall, this chapter lays the groundwork for the study before reviewing past literature in the next chapter.

