

## Investment and Business Performance: A Study on SMEs Family Business in Malaysia

Nor Razuana Amram

Faculty of Management & Information Technology, Universiti Sultan Azlan Shah, Kuala  
Kangsar, Perak, Malaysia  
Email: norrazuana@usas.edu.my

Nurul Fadly Habidin, Mohd Faizal Basri

Faculty of Management and Economics, Universiti Pendidikan Sultan Idris, Tanjong Malim,  
Perak, Malaysia  
Email: fadly@fpe.upsi.edu.my, mfaizal.basri@fpe.upsi.edu.my

To Link this Article: <http://dx.doi.org/10.6007/IJARBS/v13-i9/18437> DOI:10.6007/IJARBS/v13-i9/18437

**Published Date:** 12 September 2023

### Abstract

This paper examines the relationship between investment and business performance in Malaysian SME family businesses. The study employed a structured questionnaire with close-ended questions to collect data from 399 respondents using a random sampling approach in Perlis, Kedah, Kelantan, and Terengganu. Descriptive statistical analysis and Pearson Correlation analysis were used to analyze the data with SPSS software. The results reveal a positive relationship between investment decisions and business performance in Malaysian SMEs' family businesses. These findings clearly show that investment is an important indicator for identifying the business performance of Malaysian SME family businesses to improve future business performance. Finally, business owners can promote growth by making smart investment decisions and finding expansion prospects. The theoretical contribution of this study follows the Pecking Order Theory (POT) (Myers, 1984) and the resource-based view (RBV) theory (Wernerfelt, 1984), where psychological factors influence individuals' investment decisions. The results of this study contribute theoretical and practical. With all the contributions, the stakeholders can make the right investment decisions for their businesses and, at the same time, will increase business performance.

**Keywords:** Investment, Performance, SMEs, Family, Business, Malaysia

### Introduction

The investment of business in Malaysia started in 1977; under Tunku Abdul Rahman and Tun Abdul Razak's leadership, the country's economy began to grow. Under Tun Hussein Onn, the country's third prime minister, efforts were redoubled to attract foreign investment,

particularly from Japan (Iqbal et al., 2014). The importance of foreign investment, particularly Japanese investment, can be observed in the investment targets set under the Third Malaysia Plan (1976-1980) for achievements by the manufacturing sector. This investment is targeted and specifically aimed at Japan. At the time, Dato' Seri Dr. Mahathir Mohamad, Deputy Prime Minister and Minister of Trade and Industry, asserted that Chinese investors in Malaysia could not establish a robust production industry dependent on exports (Ahmad, 1991). Bringing in advanced technology from outside the country can benefit investment within it.

This investment opportunity introduced by Tun Hussein Onn and the legacy of Tun Dr. Mahathir shows the way of investing. Thus, investing is the process of generating returns in business (Jordan et al., 2009). Looking at the growing investment in Malaysia, Malaysia is a small country that operates businesses small and medium enterprises (SMEs) consisting of circles of family-member businesses. Businesses' revenue can contribute to the country's GDP (Mokhber et al., 2017). Malaysia has 98.5% SMEs (Department of Statistics, 2020). SME GDP rose by 5.8% in 2019, compared to the country's GDP of 4.3% (Department of Statistics, 2020). Economic growth depends on SME development (Muneer et al., 2017).

Family businesses are a generation contribution, and traditional practices in Malaysia are passed down from generation to generation (Mokhber et al., 2017). Many families view entrepreneurship as a method for accumulating wealth and providing for future generations, and family businesses are a source of pride and security. There are several reasons why SMEs in Malaysia are family businesses, according to (Mokhber et al., 2017). Culture, access to capital, trust, loyalty, and succession planning are all factors to consider. In this regard, family businesses frequently have an advantage because they can rely on family members' support to invest in and grow the business.

With the high involvement of family members in business, the Twelfth Malaysian Plan 2021-2025 showed that there were increasing numbers of funds from SME agencies linked to the SME agency programs. The central issue to be researched in the proposed study is the limited access to finance funding from financial institutions (CEDAR Research Team, 2019). The first prevailing problem identified by the researcher is the decline in the SME's limited opportunity for investment operations in the form of assets for the business. Investments in fixed assets fall under the category of capital budgeting decisions. Fixed asset management is an important component of financial management practices because it represents SMEs' long-term investing decisions (Ross, Westerfield, Jaffe, & Jordan, 2019). The business owner must choose the best investment options to achieve the highest business performance. When investing capital, the business owner must focus on the capital's safety, liquidity, and profitability. So, these investments are significant towards capital expenditures and must be well managed (Musah et al., 2018). With the issues and problems above, this study concludes by examining the relationship between investment and business performance in Malaysian SME family businesses.

### **Literature Review**

The achievement of business performance is supported by the Resources-Based View Theory (RBV) by Wernerfelt (1984), which recognizes that the basis for the emergence of SME success generally begins with initiatives and capital contributions supported by the Pecking Order Theory (POT) by Myers (1984), from entrepreneurs or capital growth from external sources (Kimiti, 2020). The Resource-Based View theory view assists in determining the resources available within the business and silently relating them to the business's capabilities.

Much of the investment decision literature focuses on investment strategy. Business owners put their money in places where it may earn a high rate of return for their businesses to grow. According to Hernandez et al (2021); Somathilake and Pathirawasam (2020), most entrepreneurs comprehend the investment strategy utilized to distribute firm money while avoiding frequent investing blunders. According to reports, SMEs employed a questionnaire and the descriptive technique. According to the statistics, most respondents understand many investing strategies and always use them to run their firms. As a result, to prevent frequent investing missteps, company owners must comprehend investment strategy.

The literature on investment decisions has highlighted several important roles in financial management. The importance of capital investment decisions in the correct decision-making process for increasing the performance of SMEs is widely acknowledged. Hendiarto et al (2021); Özbuğday et al (2020); Zada et al (2019); Mogaka and Koori (2018) identified by distributing questionnaires. The study's findings show that capital investment decisions majorly impact business performance. The capital investment decision variable is satisfactory because the MSMEs promoted the importance of capital investment choices in company management. The study's authors recognize that high performance will enable the company to overcome hardship, exist, and continue to do business in the face of the COVID-19 epidemic. As a result, company owners must understand the critical role of capital investment decisions in the context of the correct decision-making process for increasing the performance of SMEs.

Intangible Investment is a major contributor to sustaining business competitive advantage. A growing body of literature recognizes the importance of intangible asset investment and is considered a crucial resource that enables a firm to increase globally. According to Seo and Kim (2020); Matare and Sreedhara (2020); Jayawardane and Gamlath (2020); Jung et al (2018); Nthenge and Ringera (2017) findings, intangible investments positively affect a company's profitability and value. This study reveals that advertising expenditures greatly influence a company's profitability and worth. This research has consequences for the profitability and value of SMEs. Profitability and enterprise value assist company managers and investors in making the best decisions for their operations and investments. Therefore, business managers may increase profitability by investing in more intangible assets.

The financial structure of SMEs influences investment decisions, but other factors, such as internal and external finances, also influence them. Investment expenditures are critical for boosting growth and productivity in economies dominated by SMEs. Due to the importance of investment to the economy's growth path, various studies have examined investment behaviour from a macroeconomic viewpoint, frequently focused on big and developed economies. Pacheco (2017); Yogendrarajah et al (2017) indicate that firm-specific parameters such as profitability, liquidity, leverage, and size determine the degree of investment. They use the panel data technique and an unbalanced sample of manufacturing SMEs. The findings show that the structure of a firm's balance sheet and the availability of suitable sources of money might impact investment. As a result, higher profitability or liquidity boosts investment by providing more and relatively inexpensive internal funds, enhancing the firm's collateral backing.

*Ha1: There is a relationship between investment and business performance in Malaysian SME family businesses.*

**Methodology**

The association between investment and business performance in Malaysian SME family businesses is investigated using quantitative methodologies. The sampling frame represented registered businesses under SMEs Corporation Malaysia was utilized to select the sample size for the various business/activity categories. Since practically all family businesses in the study area had been operating in at least two different industries, as defined in the sampling frame, random sampling was employed to determine the sample size.

The study's target population is SME family business owners in Perlis, Kedah, Kelantan, and Terengganu, Peninsular Malaysia. The selected state is based on The Twelfth Malaysian Plan 2021-2025 (12MP), which showed Perlis, Kedah, Terengganu, and Kelantan to be prioritized in the development distribution due to the decreasing percentage of GDP in Malaysia's economy. The study was restricted to owners of the family businesses or those hired to operate the family businesses. The sampling frame consisted of all registered businesses in all the business sectors in SME Corporation Malaysia. The list of businesses obtained sufficiently represented the target population.

The researcher used data or a list of all registered businesses provided by SME Corporation Malaysia. The sample size obtained was adequate and yielded the desired precision. In determining the sample size, Slovin's formula was used to calculate the sample size (at 95% confidence level and  $\alpha = 0.05$ ). Stratified sampling was used to select the sample size of 399 from the different business sectors from the sampling frame representing 163,694 registered businesses in Perlis, Kedah, Terengganu, and Kelantan. Simple random sampling was used to select the sample size. The researcher observed that almost all family businesses in the study area had been operating in at least more than one industry, as classified in the sampling frame.

The discussion of the variable's measurement is categorized into two sections: (1) the dependent variable is business performance (Somathilake and Pathirawasam (2020) - 6 questions), and (2) the independent variable in this study is an investment (Somathilake and Pathirawasam, 2020). - 7 questions). The questionnaire was developed using the adopted questions from the previous study. The data were collected, processed, and analyzed using descriptive and inferential statistics under the study's objectives. The analysis used SPSS (Statistical Package for Social Sciences) software version 26.0 to test the relationship between the independent and dependent variables.

**Result and Discussion**

Table 1 below shows the distribution of financial management practices and performance of SME family businesses from the investment aspect. The results show that 56.7% (214), mean of 3.47 Malaysia SMEs family business agreed that business follows SME Co-Investment Partners (SCIP) guidelines when analyzing investment opportunities, 57.4% (229), mean of 3.53 Malaysia SMEs family business agreed that business considers past experiences when making investment decisions, 44.4% (177), mean 3.23 Malaysia SMEs family business agreed that business reviews the investment projects after a certain period, 42.8% (171), mean 3.24 Malaysia SMEs family business agreed that business uses payback period to assess the investment, 39.3% (157), mean 2.93 Malaysia SMEs family business agreed that business rents rather than buy fixed assets, 37.8% (151), mean 3.10 Malaysia SMEs family business agreed that business invests in other fixed assets, and lastly the smaller percentages was 32.8% (131), mean 2.84 Malaysia SMEs family business agreed that business invests in real estate.

The average financial management practice and performance of family businesses from the aspect of an investment is 44.5% (176), a mean of 3.19.

Table 1

*Distribution Financial Management Practices and Performance of SMEs Family Businesses from The Aspect of Investment*

No	Statements	Scala					Total (399)	Min	Sd	Level
		1 SDS	2 D	3 N	4 A	5 SA				
1	Your business invests in other fixed assets.	5.5 (22)	29.1 (116)	27.6 (110)	25.3 (101)	12.5 (50)	<b>37.8</b> <b>(151)</b>	<b>3.10</b>	1.12	Average
2	Your business rents rather than buy fixed assets.	15.3 (61)	24.1 (96)	21.3 (85)	303 (121)	9.0 (36)	<b>39.3</b> <b>(157)</b>	<b>2.93</b>	1.23	Average
3	Your business invests in real estate.	16.3 (65)	25.1 (100)	25.8 (103)	23.8 (95)	9.0 (36)	<b>32.8</b> <b>(131)</b>	<b>2.84</b>	1.21	Average
4	Your business uses a payback period to assess the investment.	8.5 (34)	15.8 (63)	32.8 (131)	28.8 (115)	14.0 (56)	<b>42.8</b> <b>(171)</b>	<b>3.24</b>	1.13	Average
5	Your business reviews the investment projects after a certain period.	8.5 (34)	19.8 (79)	27.3 (109)	28.1 (112)	16.3 (65)	<b>44.4</b> <b>(177)</b>	<b>3.23</b>	1.19	Average
6	Your business follows SME Co-Investment Partners (SCIP) guidelines when analyzing investment opportunities.	5.5 (22)	16.3 (65)	24.6 (98)	32.1 (128)	21.6 (86)	<b>56.7</b> <b>(214)</b>	<b>3.47</b>	1.15	High
7	Your business considers past experiences when making investment decisions.	4.8 (19)	16.0 (64)	21.8 (87)	36.1 (144)	21.3 (85)	<b>57.4</b> <b>(229)</b>	<b>3.53</b>	1.13	High
<b>Total Mean</b>						<b>44.5</b> <b>(176)</b>	<b>3.19</b>	1.00	Average	

1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

Table 2 below shows the relationship between investment and business performance in Malaysian SME family businesses. The results show a significant relationship between investment and business performance in Malaysian SMEs family business  $r = .285^{**}$ , sig .000 ( $p < .05$ ). The level of contact is low. Since Pearson's correlation value is positive, the better

the investment, the higher the business performance. Since there is a significant relationship between investment and business performance in Malaysian SME family businesses, Ha1 is accepted.

If the significant level obtained is greater than the significant level  $p > 0.05$ , Ha is rejected. If the significant level obtained is smaller than the significant level  $p < 0.05$ , Ha is accepted.

Table 2

*The relationship Between Investment and Business Performance in Malaysia SMEs Family Business*

Variable	Pearson correlation	Sig (2-Tailed)
Investment* business performance	.285**	.000

This research aims to determine the moderating effect of investment on the influence of financial management practices and business performance in Malaysian SME family businesses. The issues encountered in this study are based on the Bank Negara Malaysia Annual Report 2018. One of the most severe issues Malaysian SMEs confront is a lack of access to capital (CEDAR Research Team, 2019). SMEs may struggle to expand their operations, develop new products or services, invest in technology or equipment, or make timely payments without sufficient financing. As a result, the availability of financial sources might be crucial to Malaysian SMEs' success or failure.

The problem caused is SMEs' limited opportunity for investment operations in the form of assets for the business. Investments in fixed assets fall under the category of capital budgeting decisions. Fixed asset management is an important component of financial management practices because it represents SMEs' long-term investing decisions (Ross et al., 2019). The business owner must choose the best investment options to achieve the highest business performance. When investing capital, the business owner must focus on the capital's safety, liquidity, and profitability. So, these investments are significant towards capital expenditures and must be well managed (Musah et al., 2018).

This study used the resource-based view (RBV) theory, and from the findings, it was found that investment has a relationship with business performance. Based on the theory that a business with sufficient sources of funds will increase its development, From the findings, investment has a relationship with business performance using Pearson Correlation tests. This study also relates to the Pecking Order Theory (POT), and the findings found that capital structure is related to business performance.

Based on the theory that a business prefers to choose internal financing compared to external financing when the business does not have enough funds to run the business. From the findings, capital structure is related to business performance using Pearson Correlation tests. The participants in this study are SME family businesses. Therefore, the funds are raised from internal sources. This study suggests that the Pecking Order Theory (POT) theory can be implemented with the findings obtained in this study. This study also suggests that the resource-based view (RBV) theory can be implemented with the findings obtained in this study.

The discussion on the sample studies used in states with low GDP under the Eleventh Malaysia Plan, namely Perlis, Kedah, Kelantan, and Terengganu. According to the study question, does a relationship exist between investment and the business performance of Malaysian SME family businesses? This study found that investment has a relationship with business performance using Pearson Correlation tests. Accordingly, based on the findings of the study,  $H_{a1}$  was accepted. The findings of the SME family business study contribute to GDP national development through business income and profit.

From the findings of the study in the test, the Pearson correlation of the study the results of this study show that the Pearson correlation of the study shows that there is a significant relationship between investment and business performance in Malaysia SME family business  $r = .285^{**}$ , sig .000 ( $p < .05$ ). In this context, the alternative hypothesis  $H_{a1}$  is accepted. Therefore, the family's involvement in business activities and investment does not indicate participation in improving business performance. The owners must understand the critical role of capital investment decisions in the context of the correct decision-making process for increasing the performance of SMEs (Hendiarto et al., 2021). Thus, various development programs and financial schemes equip them to become entrepreneurs regardless of the challenges outlined in the Twelfth Malaysia Plan and the National Entrepreneurship Policy. Thus, no matter how many funds or programs are drafted by the government, they will not run if investment opportunities and information technology are not developed among entrepreneurs (Hastuti et al., 2021). Overall, these findings clearly show that investment is an important indicator for identifying the business performance of Malaysian SME family businesses to improve future business performance.

### **Conclusion**

The study's main objective is to examine the relationship between investment and business performance in Malaysian SME family businesses. Based on the results of this study, there is a significant relationship between investment and business performance in Malaysian family SMEs. The results also show that the studies supported theories of the Resource-Based View (RBV) theory Wernerfelt (1984) and Peaking Order Theory (Myers, 1984). The peaking order theory states that internally generated funds (retained earnings) finance the business instead of borrowing, and SME owners and managers can build a business with internal financing. In the Resource-Based View (RBV) theory, the business has sufficient sources of funds to increase business performance.

Based on the study's findings, business owners can better grasp the specific investment practices that substantially impact their business performance. Business owners might increase their business performance in various ways using these well-managed investment techniques. Profitability can be increased by maximizing revenue generation and expense control. Business owners can increase liquidity by successfully managing cash flows and maintaining a healthy balance of current assets and liabilities. By reducing processes and optimizing resource allocation, business owners can boost efficiency. Finally, business owners can promote growth by making smart investment decisions and finding expansion prospects. In the future, researchers can look at other parts of investment that weren't covered in this study, such as measuring ratios and studying SMEs listed on the stock market in Malaysia. Another important suggestion is to consider the risks. Every investment carries risks, such as if the company performs poorly or the economy changes. Researchers could investigate these risks to see how they affect investments in small Malaysian businesses.

## References

- Ahmad, A. Z. (1991). *Mahathir: Warisan Perjuangan Langkah Ke Hadapan*. Kuala Lumpur: Syarikat S. Abdul Majeed.
- CEDAR Research Team. (2019). *Recognizing The Challenges of SME Financing*. Kuala Lumpur: Small Medium Enterprise Development Bank Malaysia Berhad.
- Department of Statistics Malaysia. (2020). *Small and Medium Enterprises (SMEs) Performance 2019*. Putrajaya: Dosm.Gov.my. Retrieved from: [https://www.dosm.gov.my/v1/index.php?r=column/cthemebByCat&cat=159&bul\\_id=VjM1enZ2RmlVRDVTNFAwRWZiZUs3QT09&menu\\_id=TE5CRUZCblh4ZTZMODZlbnk2aWRRQT09](https://www.dosm.gov.my/v1/index.php?r=column/cthemebByCat&cat=159&bul_id=VjM1enZ2RmlVRDVTNFAwRWZiZUs3QT09&menu_id=TE5CRUZCblh4ZTZMODZlbnk2aWRRQT09).
- Hastuti, T. D., Sanjaya, R., & Koeswoyo, F. (2021). The Investment Opportunity, Information Technology and Financial Performance of SMEs. In Proceedings - International Conference on Computer and Information Sciences: Sustaining Tomorrow with Digital Innovation. 247-251.
- Hendiarto, R. S., Nurjanah, R. J., Wijaya, T. N., Ardiansyah, R., Septiani, W. D., & Syach, R. A. (2021). The Effect of Capital Investment Decisions on Performance (Case Study on Micro, Small and Medium Enterprises Assisted by the West Java Chamber of Commerce and Industry in Bandung). *Review of International Geographical Education Online*, 11(5), 1099–2013.
- Hernandez, M. C., Balboa, C. S., Cuenca, R. C., & Quilantang, N. K. D. G. (2021). Assessment of Financial Management Practices of Small and Medium Enterprises (SMEs) in Nasugbu, Batangas. *International Journal of Creative Business and Management*, 1(2), 24.
- Iqbal, U., Hussin, N., & Seman, A. A. (2014). The Historical Development of Japanese Investment in Malaysia, 1971–1980. *Jurnal Kajian Sejarah & Pendidikan Sejarah*, 2(2).
- Jayawardane, H., & Gamlath, G. R. M. (2020). The Impact of Financial Reporting Practices on Performance: A Study of Small and Medium Enterprises in Rathnapura District, Sri Lanka. *Sabaragamuwa University Journal*, 18(1), 1.
- Jordan, B., Miller, T., Dolvin, S., (2009). *Fundamentals of Investments: Valuation and Management* (10th ed.). McGraw-Hill.
- Jung, H., Hwang, J., & Kim, B.-K. (2018). Does R&D investment increase SME survival during a recession?. *Technological Forecasting and Social Change*, 137, 190–198.
- Matare, P. G., & Sreedhara, T. N. (2020). Financial Management Practices and Growth of MSMEs of Tanzania. MUDRA. *Journal of Finance and Accounting*, 7(1), 30.
- Mogaka, M. O., & Koori, D. J. (2018). Financial management practices and turnover growth of micro and small enterprises: A case of Uwezo Fund in Kwale County, Kenya. *International Academic Journal of Economics and Finance*, 3(1), 44-66.
- Mokhber, M., Gi, T. G., Rasid, S. Z., Vakilbashi, A., Zamil, N. M., & Seng, Y. W. (2017). Succession planning and family business performance in SMEs. *Journal of Management Development*, 36(3), 330-347.
- Muneer, S., Ahmad, R. A., & Ali, A. (2017). Impact of Financial Management Practices on SMEs Profitability with Moderating Role of Agency Cost. *Information Management and Business Review*, 9, 23-30.
- Musah, A., Gakpetor, E. D., & Pomaa, P. (2018). Financial Management Practices, Firm Growth and Profitability of Small and Medium Scale Enterprises (SMEs). *Information Management and Business Review*, 10(3), 25-37.
- Myers, S. C. (1984). Capital structure puzzle. *The Journal of Finance*, 39, 575-592.



- Nthenge, M. D., & Ringera, J. (2017). Effect Of Financial Management Practices on Financial Performance of Small and Medium Enterprises in Kiambu Town, Kenya. *American Based Research Journal*, 6, 96-32.
- Ozbugday, F. C., Findık, D., Ozcan, K. M., & Basci, S. (2020). Resource Efficiency Investments and Firm Performance: Evidence from European SMEs. *Journal of Cleaner Production*, 252.
- Pacheco, L. (2017). Investment Determinants At The Firm-Level: The Case of Portuguese Industrial SMEs. *International Journal of Business Science and Applied Management*, 12(2), 1–17.
- Ross, S., Westerfield, R., Jaffe, J.F., Jordan, B. (2019), *Corporate Finance (12th Ed.)*. New York: McGraw Hill.
- Seo, H. S., & Kim, Y. (2020). Intangible assets investment and firms' performance: Evidence from small and medium-sized enterprises in Korea. *Journal of Business Economics and Management*, 21(2), 423–445.
- Somathilake, H., & Pathirawasam, C. (2020). The Effect of Financial Management Practices on Performance of SMEs in Sri Lanka. *International Journal of Scientific Research and Management*, 08(05), 1789-1803.
- Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic Management Journal*, 5(2), 171-180.
- Yogendrarajah, R., Kengatharan, L., & Jeyan Suganya, S. (2017). Financial Management Practices and Performance of SMEs in Sri Lanka: Evidence from Jaffna District. *International Journal of Accounting & Business Finance*, 62-72.
- Zada, M., Yukun, C., & Zada, S. (2019). Effect of financial management practices on the development of small-to-medium size forest enterprises: insight from Pakistan. *GeoJournal*, 86, 1073-1088.