

DETERMINANTS OF MICRO ENTERPRISES BUSINESS PERFORMANCE IN MALAYSIA: A SYSTEMATIC LITERATURE

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Abstract: *The objective of this study is to review articles of the determinants of micro enterprises' business performance from 2010 to 2024. The PRISMA Statement (Preferred Reporting Items for Systematic reviews and Meta-Analyses) review method was utilized to classify the articles in which fifteen (15) articles related to the study were identified. The findings showed that numerous articles were found in the Scopus database with the highest publications being conducted in China and the most common study design was quantitative type of approach. Among the factors that are found to be the determinants of micro enterprises' business performance are external factors such as financial support, government policies, regulatory environment, economic conditions and internal factors such as firms' characteristics, entrepreneur orientation, innovation and technology, marketing orientation, strategic orientation and financial*

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Introduction

Micro, Small and Medium Enterprises (MSMEs) are the business establishments that primarily involved in producing, manufacturing, processing, or preserving goods for consumers' consumption (Tambe & Jain, 2024). These business establishments are recognised as critical agents of economic growth as they account for most of the enterprises worldwide and contribute significantly to global economic development and job creation (Keskin et. al (2010); Madanchian et.al (2016); Bayraktar & Algan (2019); Arshad, Ahmad, & Tang (2020); Pedrazza (2021) and Yahaya & Nadarajah (2023). Hence, the role of MSMEs has become significantly important throughout the world (Varga & Csiszárík-Kocsir, 2024). These business establishments are recognised as critical agents of economic growth as they account for most of the enterprises worldwide and contribute significantly to global economic development and job creation (Keskin et. al (2010); Madanchian et.al (2016); Bayraktar & Algan (2019); Arshad, Ahmad, & Tang (2020); Pedrazza, 2021 and Yahaya & Nadarajah, 2023). In fact, MSMEs accounted for almost 90% of enterprises and more than 50% of jobs globally (Dirgiatmo, 2015; Yahaya & Nadarajah, 2023).

Furthermore, the Malaysian economy relies heavily on MSMEs, which account for 38.4 % of the country's Gross Domestic Products (GDP) or more than RM 500 billion per year (SMEs Corp Malaysia, 2022). Around 97.2 % of Malaysia's businesses are micro, small and medium-sized enterprises (MSMEs), and they employ close to 70 % of the country's workers which around 7.59 million Malaysian citizen in 2022. The studies by Mohd Azhar and Mohd Syakil (2021), Lehan and Kamaruddin (2023) and Wulandari and Koe (2023) also found that MSMEs is the backbone of Malaysian economy. Despite MSMEs contribute significantly to the Malaysian economy and development, Zakaria (2013) asserted that the performance of MSMEs in Malaysia has not yet reached the full potential. This finding was confirmed by a report from SME Corp Malaysia in 2020 which revealed that MSMEs in Malaysia are generally still underperforming compared to other ASEAN countries like Thailand, Vietnam and Indonesia.

Consequently, research on MSMEs' performance has received a lot of interest in recent years, especially given their importance in economic development, job creation, and innovation. Several aspects of MSMEs' success have been investigated, including financial results (e.g., profit, sales growth), operational efficiency (e.g., productivity), and non-financial indicators (e.g., customer satisfaction and market share). For example, Ahmad et al. (2023) emphasised the multidimensional aspect of performance, arguing that a comprehensive strategy should include both quantitative and qualitative measurements. A study by Sinha et al. (2019) found that effective strategic planning, employee involvement, and operational efficiency significantly contributed to the performance of small enterprises in India. Similarly, Mazzarol and Soutar (2002) emphasized the importance of managerial competencies and their impact on business outcomes. Beck et al. (2005) found inadequate access to financial resources constrains the growth of MSMEs, particularly in developing countries. Their research showed that firms with better access to finance experienced higher growth rates and improved performance. This issue remains pertinent in Malaysia, where studies by Nanda and Khanna (2019) revealed that micro enterprises often struggle to obtain loans due to limited credit histories and collateral.

Furthermore, Bhat et al. (2020) indicated that businesses with higher levels of employee training and skills development tend to perform better. In the Malaysian context, Ali et al. (2021) found that investments in employee training positively impacted productivity and

overall performance. Their study emphasized the need for continuous skills development to meet the evolving demands of the market. The adoption of technology also found as a crucial determinant of MSME performance. A study by Nadarajah et al. (2020) demonstrated that technological innovations, such as digital marketing and e-commerce, significantly enhance the competitiveness of small enterprises. Their findings suggested that businesses leveraging technology could improve operational efficiency and customer reach, ultimately leading to better performance. However, many micro enterprises in Malaysia remain hesitant to adopt new technologies due to cost and knowledge barriers (Tan & Ooi, 2021).

In addition, market orientation refers to a firm's ability to understand and respond to market needs and trends. Research by Kohli and Jaworski (1990) established a strong link between market orientation and business performance. This has been corroborated by various studies focusing on MSMEs. For instance, Jabeen et al. (2019) found that a strong market orientation positively influenced the performance of small enterprises in Pakistan. Government policies and support mechanisms are also pivotal in enhancing MSMEs performance. Studies such as those by Yusof et al. (2019) emphasized the role of government initiatives, including subsidies, training programs, and infrastructure development, in promoting MSME growth. Their findings revealed that favorable policy environments significantly boost the performance of micro and small enterprises, particularly in emerging economies like Malaysia. Based on the above-mentioned studies, the focus of most of the research are towards studying the business performance that concentrated towards MSMEs or SMES as a whole category, not as individual category such micro enterprises. This unbalance focus creates a study gap for researchers to contribute understandings to the body of knowledge with regards to micro enterprises especially in Malaysia.

Overview of Micro Enterprises in Malaysia

Micro enterprise falls under the category of Small-Medium Enterprises (SMEs) (Nguyen, 2018). Basically, micro enterprises business is established in varying forms and may be structured as a sole proprietorship, partnership, or a family enterprise (Munoz et al, 2014). Larson and Shaw (2001) characterize micro- and small-enterprises (MSEs) as being: 1) mostly family-owned with family members working in the business, 2) driven by one person, 3) located primarily in rural areas, 4) involved in trading and manufacturing, 5) characterized by multiple start-up and failure rates, 6) founded primarily by women, and 7) operated on a small basis with low income earnings. Since 2023, Malaysia's Ministry of Finance (MOF) had refined the term Small and Medium Enterprises (SMEs) into Micro, Small and Medium Enterprises (MSMEs). As a result, business establishments that involve in manufacturing, services or other sectors that have sales turnover less than RM 500,000 and RM 300,000 per year respectively and the number of employees is less than five (<5) employees falls under micro enterprises category (see Table 1). Realising that MSMEs play vital roles in economy, the Malaysian government had also introduced National Entrepreneurship Policy 2030 and Shared Prosperity Vision 2030 in order to achieve sustainable growth along with a fair and equitable distribution across income groups and ethnicities and transforming Malaysia into an entrepreneurially focused country by 2030 (SME Corp Malaysia, 2024).

Table 1: Category of Micro, Small and Medium Enterprises (MSMEs) in Malaysia

Enterprise Category	Number of Employees	Sales Turnover (per year)
Micro Manufacturing Services and Others	<5 employees	< RM 500,000 < RM 300,000
Small Manufacturing Services and Others	5 to < 75 employees	RM 500,000 to < RM 15,000,000
	5 to < 30 employees	RM 300,000 to < RM 3,000,000
Medium Manufacturing Services and Others	75 ≤ 200 employees	RM 15,000,000 to ≤ RM 50,000,000
	30 ≤ 75 employees	RM 3,000,000 to ≤ RM 20,000,000

Source: SME Corp Malaysia: Official National MSMEs Definition (2024)

Latest statistics in 2023 showed that majority of the MSMEs in Malaysia were micro enterprises, forming 69.7% (767,421 firms) of total MSMEs. Meanwhile, small-sized firms accounted for 28.5% (314,465 firms) and medium-sized firms constituted the balance 1.8% (19,839 firms) (SME Corp, 2024). Despite of this figures, micro enterprises contributions often go overlooked in favour of small and medium enterprises (SMEs). According to the Department of Statistics Malaysia (2022), micro enterprises constitute a significant portion of the business landscape, accounting for 76.5% of total businesses and contributing to employment and income generation. However, a lot of research frequently prioritizes SMEs, which are perceived as more scalable and impactful (Fadillah et al., 2020). The bias focus towards SMEs compared to Micro Enterprises may stem from their larger size and ability to attract more investment, leading policymakers and researchers to focus their analyses on sectors with higher economic returns (Abdullah & Hossain, 2021). Additionally, micro enterprises often operate informally and lack formal recognition, further obscuring their contributions. This oversight can result in policy frameworks that inadequately support micro enterprises, limiting their growth potential and contributions to national development (Mohamad & Yusof, 2018). As a result, although micro enterprises are vital to Malaysia's economic fabric, their significance is frequently overshadowed by a focus towards Small and Medium Enterprises.

Based on the above mentioned, the objectives of the study are as follows:

- To systematically review determinants of micro enterprises business performance articles based on country, year of study, type of database, theme of study, type of theory, and type of journal.
- To generate the research themes based on the finalized articles of micro enterprises business performance studies for a period of fourteen years.

In order to meet these objectives, this paper has employed the PRISMA Statement (Preferred Reporting Items for Systematic reviews and Meta- Analyses) review method to review the determinants of micro enterprises business performance articles ranging from 2010 to 2024. This is because the Systematic Literature Review (SLR) on micro enterprises business

performance is highly necessary to increase the understanding on research trends and future directions for micro enterprises studies in the future and support the diverse contributions of all enterprise sizes and useful to various parties like entrepreneurs, government agencies and financial institutions to understand the factors that influence micro enterprises business performance in Malaysia.

Methodology

The Review Protocol

The study was guided by the PRISMA Statement (Preferred Reporting Items for Systematic reviews and Meta-Analyses) review protocol (Figure 1). Interestingly, PRISMA is frequently applied in the management field (Sierra-Correa & Cantera Kintz, 2015; Shaffril et al. 2017) and it offers three unique benefits namely: 1) defining clear research questions that allow systematic research; 2) identify inclusion and exclusion criteria; and 3) allow for large databases of the scientific literature to be used within a specific time frame.

Based on this review protocol, the process started with the formulation of appropriate research questions for the review. Then, the process continued with a systematic searching strategy that considered the elements of identification, screening, and eligibility. Next, a quality assessment was conducted to ensure the quality and relevancy of the articles to be reviewed. Finally, the data were abstracted for the review and the final data were analyzed and validated.

Systematic Search Strategy

The articles were identified in the main bibliographic databases which were Scopus and Web of Science (WoS). It was analyzed for a period of 10 years from 2010 to 2024. Two databases were selected for the literature search: Scopus These databases were selected as they were among the most extensive peer-reviewed abstract and citation databases in many related disciplines such as environmental studies, interdisciplinary social sciences, social issues, development and planning and other disciplines. Moreover, Scopus and WoS have some of the largest repositories of business search and they are typically used in the systematic literature review (Durach, Wieland & Machuca, 2014). The Publish or Perish (POP) application was used to screen and filter the articles from the databases. Referring to the prior literature, the keywords were identified for the search process.

Table 2: The Search String Used for The Systematic Review Process

Database	Keyword Used
Scopus	TITLE-ABS-KEY (("Determinants" OR "Factors" OR "Critical factors") AND ("Micro Enterprises" OR "Micro business") AND ("Business Performance" OR "Firms Performance" OR "Performance"))

In Table 2, the search string was constructed based on the list of the identified keywords. The search was conducted using combinations of exact keywords on titles and abstracts as these were addressed by breaking down the review questions. The search strategy resulted in a total

of 143 articles were from Scopus. Then, the data were exported to an Excel spreadsheet for data cleaning and sorting. After careful inspection, another 115 articles were excluded from the dataset due to inclusion and exclusion criteria (Table 3). As a result, 28 articles were retained for further analysis.

Table 3: The Inclusion and Exclusion Criteria

Criterion	Inclusion	Exclusion
Literature Type	Journal article	Book series, book, chapter in the book, conference proceeding, editorial, non-research papers, review papers, opinion pieces
Language	English	Non-English
Timeline	2010-2024	<2010 Science Citation Indexed Expanded
Indexs	Social Science Citation Index, Emerging Sources Citation Index, Art and Humanities Index	

Quality Assessment

With the use of the appraisal method for both qualitative and quantitative research, 28 articles were assessed by three reviewers. In the review process, the reviewers ranked the remaining articles into three quality categories namely high, moderate, and low. Articles were accepted if all reviewers agreed on them. However, if there was a disagreement among them, a fourth reviewer was invited to assess the paper (Petticrew & Roberts, 2006). As a result, thirteen (13) articles were removed after being assessed by the reviewers and the remaining articles were included in the review.

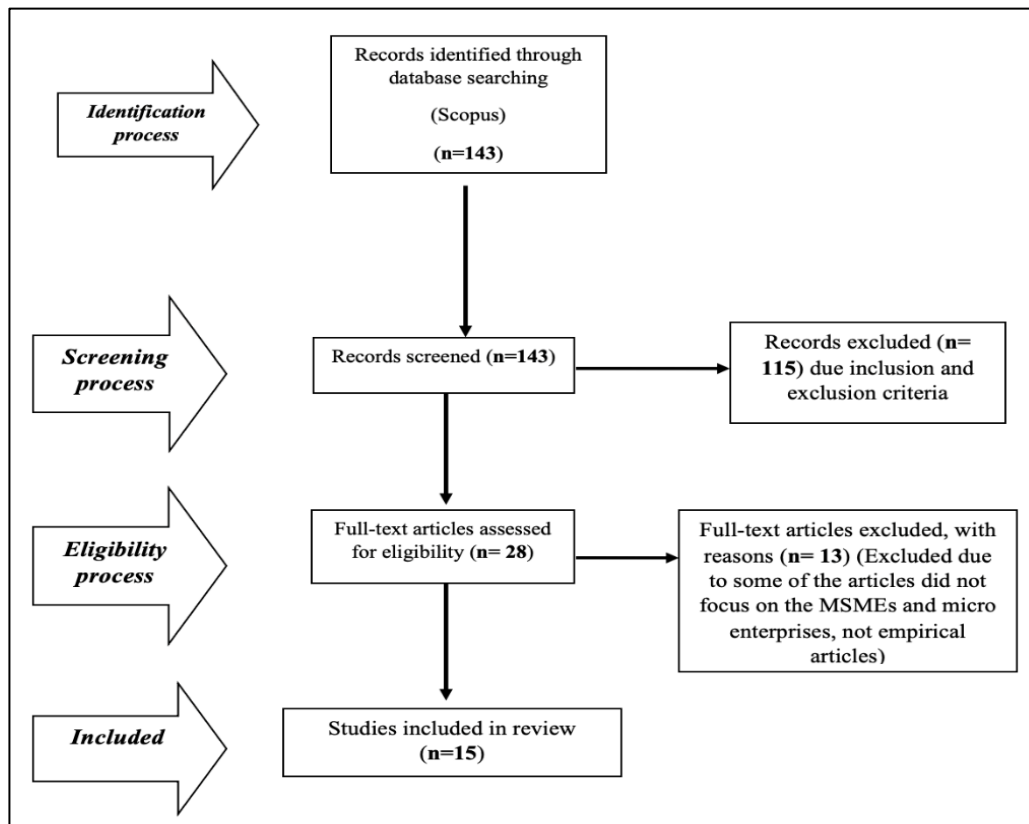


Figure 2: The Flow Diagram of The Study is Adopted from PRISM

Result and Discussion

An extensive systematic literature review showed an upward trend manifesting the increasing interest in micro enterprises research. The results showed that the year 2022 had the highest number of published articles on business performances of micro enterprises with seven (7) articles being published in Scopus. It is then followed by the year 2024 with five (5) articles and four (4) articles respectively in 2023. Compared to 2010 until 2021, it is shown that an average one (1) article being published in business performance of micro enterprises. It shows that researchers have become more interested in this area of study since 2022 because the significance increase number of studies conducted during these three years. Furthermore, it was found that the determinants of micro enterprises' business performance were divided into two major factors which were internal and external factors. Among the external factors that determine the micro enterprise business' performance were financial support, government policies, regulatory environment and economic conditions. On the other hand, the internal factors include firms' characteristics, entrepreneur orientation, innovation and technology, marketing orientation, strategic orientation and financial and capital aspects.

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