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INVESTIGATING OPERATIONAL RISK CHALLENGES FACED BY MICRO ENTERPRISE IN MALAYSIA

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ABSTRACT

Micro and small enterprises have emerged as a pivotal driving force behind Malaysia's economic growth, contributing significantly to its overall economic prosperity. In the contemporary landscape of the digital economy, effectively navigating the multifaceted challenges that beset these enterprises is of paramount importance to ensure their sustained survival and success in the competitive economic environment. Understanding these risks and addressing them appropriately is essential to safeguard the long-term prospects of micro and small enterprises. This research endeavours to shed light on the diverse challenges associated with managing potential operational risks within the context of micro and small enterprises situated in Kuala Selangor, Selangor, Malaysia. In-depth interviews were conducted with a carefully selected group of business owners operating within the geographical confines of Kuala Selangor. The insights and data gathered from these interviews provide a comprehensive perspective on the challenges faced by these enterprising individuals, as well as their perceptions of operational risk occurrences within the contemporary business environment. Furthermore, this study also takes cognizance of its own limitations and offers valuable recommendations for future research directions in this domain. By exploring the nuances of managing operational risks in micro and small enterprises, this research seeks to contribute to a deeper understanding of the intricate economic landscape in Malaysia and provide insights that can inform policy, strategy, and best practices for the benefit of these crucial economic contributors.

Keywords: Operational Risk, Micro and Small Enterprises, Entrepreneur

INTRODUCTION

The economic landscape of Malaysia has experienced significant challenges due to internal political instability and what some consider as unfavorable government policies. These factors have not only increased the cost of living but have also prompted a shift in consumer behavior, as people adapt their spending habits to cope with these economic hardships. This shifting landscape has put a strain on the survival of micro and small enterprises (MSEs), which heavily depend on stable economic conditions. Consequently, there has been a growing discourse among academics, industry professionals, and regulatory bodies about how to effectively manage the difficulties and risks associated with this changing economic environment. Business decisions in such conditions are increasingly influenced by the ability to foresee and mitigate impending risks, yet it is surprising that only a limited number of previous research efforts have delved into this crucial subject matter (Saghaian et al., 2022). In 2016, Malaysia boasted an impressive number of small and medium enterprises (SMEs), encompassing a wide array of sectors. Among these, Micro Enterprises (MEs) held a prominent position, accounting for 76.5% of the total SMEs, with 693,670 businesses. As these MSEs play a pivotal role in driving the economy and are often the cornerstone for many families, it is crucial to understand and address the potential risks that may affect their operations. The Malaysian government, through agencies like SME Corporation, has prioritized the improvement of income for rural and local communities, in alignment with the goals outlined in the 11th Malaysia Plan, aimed at elevating the living standards of bottom-tier households (referred to as B40) toward achieving middle-class status. MSEs are viewed as a promising avenue for creating business opportunities for family members and enhancing their quality of life. Previous research has pinpointed several potential risks that can impact MSEs, spanning product-related, marketing, human resources, suppliers, economic, and technological domains. Hence, it is essential for business owners to proactively assess the operational risks that might manifest in their ventures, which would not only benefit their own enterprises but also support organizations like SME Corporation, Amanah Ikhtiar Malaysia (AIM), Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN

Nasional), or Perbadanan Usahawan Nasional Berhad (PUNB) in their efforts to provide comprehensive support.

A paramount challenge for many MSEs lies in their ability to assess specific risks at each stage of their business life cycle. This evaluation is instrumental as it enables them to identify priority areas for improvement (Ismail Albalushi et al., 2022). Over time, it has become evident that decisions often hinge on the perceived causes of actions, even if the actual risks have not been fully acknowledged. Even those risks with low probabilities of occurrence must be considered in the decision-making process. In essence, avoiding risk is not a guarantee for business survival in a competitive environment, as a previous study suggests that the ability to analyze rivals' strategies and business risks is critical for the survival of MSEs in such an intensely competitive landscape (Jamak, Salleh, Sivapalan & Abdullah, 2011). In light of these challenges, this study seeks to explore the hurdles faced by MSEs in Kuala Selangor, Selangor, as they strive to minimize the occurrences of operational risks that could threaten their business survival. The research endeavors to provide a deeper understanding of the challenges confronting micro and small businesses and to identify the factors contributing to perceived operational risks and how they can be minimized to prevent losses. This study aims to shed light on the practices of risk management among micro and small business owners, ultimately helping them navigate and mitigate the impacts of risks that could hinder their business's longevity and success.

LITERATURE REVIEW

Operational Risk and Business Survivability

In the context of micro-enterprises in Malaysia, there has been substantial discourse within professional and regulatory circles concerning the management of business risk. Despite the fact that the ability to detect and anticipate significant risk-related events can profoundly influence business decisions, there is a limited body of previous research that delves into risk management strategies aimed at ensuring the survival of small and medium-sized enterprises. Solomon, Solomon, Norton, and Joseph (2000) offer a definition of risk as the uncertainty associated with potential gains and losses, presenting risk information from both positive and negative perspectives (ICAEW, 2000). ICAEW (2000) goes on to elaborate on operational risks as events that disrupt operations, rendering them inefficient and ineffective in executing the firm's business model and meeting quality, cost, and time performance objectives (Naude & Chiweshe, 2017). In another study, risk is defined as disturbances in operational events that lead to deviations from expected performance, resulting in unfavorable consequences and losses (Crovini et al., 2021). Generally, risks can be categorized into three groups: operational, occupational, and economic. These risks may have interconnected adverse effects on routine operations, potentially causing decreased productivity, losses in production quality, asset depletion, elevated risks related to human capital issues such as employee health, safety, and well-being, financial penalties, compensation claims, and damage to the firm's reputation (Crovini et al., 2021). Previous empirical studies also indicate that intense competition, lack of customers, and deficiencies in management, sales, and marketing skills can significantly impede the overall business systems and processes (Jamak et al., 2011).

Factors Contributing to Business Success

The success of businesses is closely tied to entrepreneurs' ability to overcome challenges at every stage of the business life cycle (Dewa, Matope, Van Der Merwe, & Nyanga, 2014). Scholars have explored various factors that contribute to the success or failure of SMEs. Entrepreneurial competence, the use of IT technology, and financial resources have all been identified as major determinants of business success (Mohamad Radzi, Mohd Nor, & Mohezar Ali, 2017). Additionally, three owner-related characteristics, business background, and business practices have been recognized as crucial elements for the survival of micro and small enterprises (Jamak et al., 2011; Usama & Yusoff, 2019). Business survival can be influenced by the general characteristics of business owners, including gender, age, and education, as well as their motives, such as risk tolerance, desire for independence, and employment status. Competencies, such as industry-specific skills and general business management, also play a vital role (Saghaian, Mohammadi & Mohammadi, 2022).

Furthermore, the business background encompasses factors like the age of the business, its size, industry/sector, and location, while business characteristics involve the execution of daily operations, innovation, technology adoption, market orientation, and sources of finance (Che Omar & Nor Azmi,

2015). The motivation behind an individual’s decision to start and sustain a business can be driven by either opportunity or necessity (Nasiri & Hamelin, 2018; Papadaki & Chami, 2002). Various reasons underpin the choice to become an entrepreneur, dependent on the individual’s initial objectives and aspirations in the realm of business (Mabhungu & Van Der Poll, 2017). The opportunity or “pull” factor relates to resource exploitation, such as expertise, business innovation, and self-realization, whereas the necessity or “push” factor is associated with personal forces like unemployment, preference for work flexibility, or the compulsion to meet the cost of living (Nasiri & Hamelin, 2018). Therefore, the motivations and factors driving individuals to become business owners are of paramount importance, as they shape how entrepreneurs perceive the challenges within their businesses. These challenges can be viewed as either opportunities or threats depending on entrepreneurs’ perceptions of their impacts.

RESEARCH METHODOLOGY

The research participants were carefully selected from the Kuala Selangor district, a significant area in the state of Selangor, which ranks as the second-largest district in the region but exhibits lower economic performance compared to smaller districts within the same state. This choice was informed by statistical data from SME Corp, which highlighted Selangor’s dominance in terms of SME registration in Malaysia, at 19.8%, surpassing the Federal Territory of Kuala Lumpur (14.7%) and Johor (10.8%). Despite this, the Kuala Selangor district was ranked eighth out of nine districts, with a total cumulative investment of only RM3,702.6 million reported from 1987 to 2016. The study engaged seven respondents, each representing three distinct types of businesses: education services, trading, and food production. These individuals willingly participated in in-depth semi-structured interviews conducted in the Malay language, reflecting the local environment. The primary aim of the research was to comprehensively explore the personal experiences of entrepreneurs as they navigate challenges and disruptions in their respective businesses. The interview questions were meticulously crafted around four key themes: the business profile, understanding of operational risks, challenges associated with managing operational risks, and the assessment of operational risk factors to mitigate adverse effects on business sustainability. Each interview session spanned approximately 40 minutes to one hour and was carried out at the premises of the respective businesses. These sessions were recorded, and the pertinent information was subsequently manually transcribed to align with the research’s objectives. Data analysis was conducted through an extensive review of relevant literature sources, focusing on extracting and presenting information directly related to the study’s objectives.

RESULTS AND DISCUSSION

The initial section of the interviews unveiled its results in Table 1, which focused on gathering essential business profile details that shed light on the background of both entrepreneurs and their respective enterprises. This section made no distinction between these two components. Among the participants, three were male, while four were female. When it came to the duration of business operations, two establishments had been running for a period spanning 5 to 10 years, whereas the remaining five could be categorized as relatively new startups since their operations had not exceeded 5 years. In terms of workforce size, all of these businesses could be classified as either micro or small enterprises, as their staff number did not surpass 20 individuals. Out of the seven businesses under investigation, only three were able to generate a monthly sales income exceeding RM20,000. Consequently, these specific criteria established their credibility as respondents, given their significance in determining business survival, as highlighted by Che Omar and Nor Azmi (2015).

Table 1: Business Profile

Item	Frequenc y	Percent
Gender		
Male	3	42.8
Female	4	57.2
Sector		

Services	2	28.6
Food & Beverages	1	14.3
Education services	3	42.8
Trading	1	14.3
Number of Employees		
Nil	2	28.6
0 to 5	3	42.8
6 to 20	2	28.6
Monthly Sales Income		
Less than RM5,000	1	14.3
Less than RM10,000	2	28.6
Less than RM20,000	2	28.6
More than RM20,000	2	28.6

Operating Risk: Definition, Comprehension, and Consequences

Each participant in this study held varying perspectives on operating risks and their impact on their businesses. These participants are identified as “E1” through “E7.” A majority of them failed to recognize that business operations, regardless of their scale, are susceptible to operating risks by their very nature. In general, they encountered disruptions in both their routine and non-routine operations (Ismail, Md Yusoff, Ab Samad & Ahmad, 2020). However, they did not perceive these disruptions as risks to their businesses, primarily because most of them associated the term ‘risk’ with a negative connotation. Their understanding of risks was limited, not recognizing that risks can have either a positive or negative connotation, depending on one’s perspective. All respondents also agreed that perceived risks could be either positive or negative, and their significance depended on their initial intentions when establishing their businesses and their ability to navigate these risks over the next five years.

Challenges in Managing Operational Risk in Micro and Small Businesses

Accordingly, all respondents indicated that they began their businesses for various reasons. Eighty-five percent of them stated that the push factor compelled them to start their businesses (Jamak et al., 2011; Ismail et al., 2020). They acknowledged that these decision-driving factors would influence their future life planning. Most respondents perceived the challenges they encountered in managing operational risks positively. They identified human capital issues, such as employee and owner health problems, as a key risk factor contributing to business challenges. They also were asked how they perceived themselves as entrepreneurs when confronting these challenges. Interestingly, most respondents portrayed themselves as risk-takers, displaying the courage to explore new ideas, seek new markets, and adopt innovative marketing methods. They demonstrated a strong understanding of product/service gaps and were unafraid of failure in their ventures (Ismail et al., 2020). This indicates their ability to effectively manage these challenges, even though most of them could be classified as young entrepreneurs with less than five years of experience in their businesses.

Assessing Operational Risk Factors to Minimize Impacts

During interviews, respondents mentioned various actions they had taken to minimize or mitigate the impacts of risks on their business operations. These questions elicited detailed responses from the respondents, demonstrating their ability to take appropriate actions when faced with unexpected events in their businesses. Despite the absence of specific risk assessment procedures and designated personnel, they equipped themselves with knowledge about their businesses. They could grasp critical situations, assess the consequences of unforeseen risk events, and consider customer preferences and regulatory requirements to ensure the continued relevance of their businesses (Jamak et al., 2011).

CONCLUSION

This research delves into the realm of micro and small enterprises in the Kuala Selangor district of Selangor, Malaysia, seeking to illuminate the rich tapestry of experiences of business owners who embarked on their entrepreneurial journeys within the past decade. Through a carefully curated selection process, we engaged with these individuals, aiming to extract valuable insights into the myriad operational risks that permeate their business landscapes. Despite their diminutive size, micro and small enterprises harbor tremendous growth potential, presenting a formidable opportunity to bolster the Malaysian economy. Thus, the paramount objective of this study is to fathom the business owners' perspectives regarding the impetus behind their enterprises, their nuanced perceptions of the operational hazards that loom, and the multifaceted challenges entailed in effectively managing and evaluating these risks. Micro and small enterprise proprietors are often viewed as daring risk-takers, their foray into the business landscape exemplifying their willingness to confront challenges head-on. Despite being seasoned entrepreneurs, they exhibit an unwavering commitment to embracing risk as an integral part of decision-making, essential for ensuring the survival and flourishing of their ventures amidst cutthroat competition. Crucially, a noteworthy subset of these entrepreneurs has undertaken proactive measures to identify and evaluate the latent risks within their operations, thereby enabling them to implement safeguards to mitigate the adverse impacts of unforeseen events. In light of these findings, it is apparent that future investigations should be conducted on a larger scale, with a quantitative methodology poised to offer more comprehensive insights. Moreover, to delve deeper into the intricate web of factors that influence the management and assessment of risks, a more detailed examination is warranted. The current qualitative approach, while insightful, may fall short in encapsulating the diverse perspectives and experiences within the broader population. Additionally, a profiling of business owners is a promising avenue to explore, allowing for a more thorough examination of whether personality differences constitute a determinative factor in the growth of MSEs within Malaysia.

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