



Firm Performance Improvement Through Employees Performance Evaluation

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Abstract. Due to outbreaks of the COVID-19 pandemic, the survival and continuity of Malaysian SME businesses are seriously affected. According to SME Corporation Malaysia (2019), SME establishments from service sector contribute to 63.3% of SMEs gross domestic product in 2019. Hence, it is of utmost importance that effective management practices are engaged by the businesses to strengthen the capabilities of their employees in response to challenges in the external environment. Despite management accounting literature strongly supporting the positive role of formal employee performance evaluation on firm performance, there are still substantially limited SMEs in Malaysia adopting such a practice. A formal employee performance evaluation system improves firm performance, which in turn allows the businesses to survive and get through the hard times. Thus, this study aims to perform an investigation on how employee performance evaluation as a key management accounting practice relates to SME firm performance. The outcome of the proposed study provides valuable information to policymakers and government agencies on what actions could be taken to motivate SMEs to implement formal management accounting practices. This study contributes further to the employee performance evaluation literature as well as allows SME businesses the insights on utilizing employee performance evaluation for improving their firm performance.

Keywords: Small and medium enterprise · Management accounting practices · Employees performance evaluation · Firm performance

1 Introduction

Small and medium-sized enterprises (SMEs) are considered as one of the crucial economic contributors to the economy growth of the country (Isa & Razak, 2021). These enterprises have significantly created tremendous job opportunities and considered the backbone of the country's economic development (Abdullah, Mirza, Krishnan, Zakaria, & Morris, 2022). Therefore, over a few decades, researchers of accounting and management area have been consistently placing efforts in investigating the SMEs (Azudin & Mansor, 2018).

In Malaysia, the SMEs consist of 97.4% of total business establishments across various of sectors and industries (DOSM, 2022). The SMEs service sector alone has occupied the largest portion of business establishments which is 83.8%. In 2021, the SMEs contributed 37.4% to the Malaysia's Gross Domestic Product (GDP) and provided 47.8% jobs out of the country's total jobs (DOSM, 2022). These clearly demonstrated that the SMEs are significant to Malaysia's employment rate, as well as economic growth (Abdullah et al., 2022).

However, due to the COVID-19 pandemic outbreak and the practice of lockdown or Movement Control Order (MCO) which have heavily affected the numerous Malaysia's SMEs facing issues such as business discontinuity and struggling to survive. For instance, 70% of SMEs reported they faced a 50% drop in their businesses within a week (Gong & Tong, 2020).

In order for the SMEs to grow and continue contributing to the country's economic development, Malaysia's government has provided their enormous support to the SMEs. For instance, with the sustainability and continuation of SMEs in the business operations would ensure two-thirds of the workforces' job retention, Malaysian government has announced and implemented various economic stimulus packages up to RM147.1 billion in year 2020 (The Malaysia Reserve, 2021). In addition, Bank Negara Malaysia (BNM) also enhanced the existing financial facilities up to RM5 billion in relief at 3.5% interest rate (SME Corporation Malaysia, 2020.a). On top of that, the management accounting practices (MAPs) could be one of the key success factors for the firms. The management accounting techniques and analysis could be able to provide relevant, accurate and reliable information to the firm to ensure the business continuity and sustainability in the economic growth (Abdullah et al., 2022).

Management accounting is defined as accounting which provides value-added knowledge, which include both financial and non-financial information that enable certain support to be provided to the SMEs in enhancing their management functions (Azudin & Mansor, 2018). Furthermore, with the integration of financial and non-financial information, the SMEs could have the ability to compete in the market and deal with environmental uncertainties and eventually improve the overall business performance (Reid & Smith, 2002). Although SMEs is the major contributor to Malaysian economic development, but the MAPs are not effectively utilized among the SMEs in Malaysia (Abdullah et al., 2022). According to the previous empirical studies, the study on MAPs by researchers are more towards manufacturing sectors rather than service sectors (Ashfaq, Younas, Usman, & Zahid, 2014; Terzioglu & Chan, 2013; Sleihat, Nimer, & Almahamid, 2012). Therefore, the proposed study is expected to focus and examine management accounting in service sector.

2 Literature Review

2.1 Dependant Variable

2.1.1 Firm Performance

The firm's performance seems to be a multifaceted notion comprised of various theoretical and empirical aspects which might or might not be associated to one another (Golubeva, 2021). Peterson, Gijbers, and Wilks (2003) claimed that the primary focus of the

concept of firm performance is on a firm's competence and ability to effectively employ available resources to generate accomplishments corresponding with the firm's defined aims and objectives, in addition to assess their significance to users. Since COVID-19 outbreaks may introduce new challenges for firms, it is crucial to determine the metrics and indicators that effectively reflect the firm's performance during the outbreaks (Kraus, Clauss, Breier, Gast, Zardini, & Tiberius, 2020).

Firm performance measurements, which are generally classified into financial and non-financial indicators, are an integral component of a management control system (Gong and Young, 2016). PWC (2021) argued that financial performance measures are used to analyze a firm's financial conditions such as cash flow management, banking arrangement and refinancing. Furthermore, Kells (2020) supported that financial performance measures include assessing the effectiveness of utilizing its available resources to produce sustainable revenues and operating income. During the COVID-19 outbreaks, there were researches that highlighted the significance of financial aspects for firm performance (Golubeva, 2021; Hu & Zhang, 2021; Kells, 2020).

Non-financial performance measurements offer insightful information about a firm's operations, such as employee productivity, customer satisfaction, and the quality of firm's products or services (Maduekwe & Kamala, 2016), and it also serves as a leading predictor for future financial success (Gallani, Kajiwara, & Krishnan, 2017). Several scholars pointed out that although financial performance measurements are crucial, they are insufficient for a reliable performance assessment system (Al-Dmour, Abbod, & Al-Balqa, 2018; Ghosh & Wu, 2012).

2.2 Independent Variables

2.2.1 Employees Performance Evaluation

The adoption of management accounting practices may improve company's performance (also known as firm performance). However, the adoption of management accounting practices is not mandatory, unlike financial accounting which is statutorily required (Drury & Tayles, 2021). Similarly, in Malaysia, the adoption of management accounting practices is not mandatory. Employees performance evaluation represents one of the management accounting practices which could improve firm performance.

The employees performance evaluation refers to the mechanism where employees' performance at work are being measured (Drury & Tayles, 2021). As commented by Harden and Upton (2016), one of the better ways in measuring employees performance is through the adoption of Balanced Scorecard. Instead of relying solely on traditional financial measurements, the application of Balance Scorecard which uses non-financial measurements as well, provides a better indicator on employees' performance. As a result, employees are motivated and have better long-term performance (rather than short term) at workplace.

Having said that, one of the ways companies could increase employees' performance at workplace is via training to the employees. However, the training itself may not increase firm performance, but it is the transfer of training. In other words, the outcome of the training (i.e. transfer of training) is the component which would improve employees' performance. According to Saks and Burke-Smalley (2014), the transfer of training is

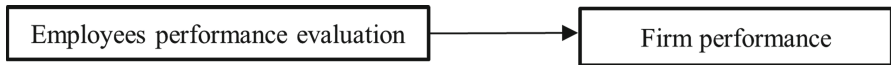


Fig. 1. Employees performance evaluation and Firm performance

found to be positively related to firm performance. The higher the transfer of training, the greater the firm performance.

Another past study conducted by Sriviboon (2020) discovered training provided to employees will improve the skills and working ability of the workforce. On top of that, reward and compensation policy of the company improves employees' motivation. This in turn, improve the performance of employees at workplace.

However, another study conducted in Nigeria has found significant negative impact on motivational incentive on firm performance. As commented by Vincent (2016), the contradicting result could be due to mismanagement of motivational incentive. Vincent (2016) suggested additional efforts to be taken place by the companies in order to reap the benefits of positive contribution towards firm performance. After all, in the first place, the motivational incentive is designed to motivate the employees and not to demotivate them.

2.3 Conceptual Framework

Thus, it is suggested employees performance evaluation significantly and positively affects the firm performance (Fig. 1).

3 Research Methodology

The service sector of SMEs in Malaysia serve as the target population for this proposed study. The group of SMEs are chosen as it plays an important role to Malaysia's economic growth. According to SME Corporation Malaysia (2022), 83.3% of the total SMEs establishments are from service sector. The service sector had contributed 63.3% of SMEs GDP in 2019 (SME Corporation Malaysia, 2019). Since sampling frame are available in SMEs Corp Malaysia, the stratified random sampling method will be employed as dividing the population into subsets is more likely to be representative (Saunders, Lewis, & Thornhill, 2019). The sampling location of the proposed study will mainly focus on the Klang Valley representing central part of Malaysia, while Penang and Perak representing northern part of Malaysia, and Johor Bahru representing the southern part of Malaysia. The choices of these locations are because more than 50% of the SMEs are located in these states (DOSM, 2022). According to Sekaran (2003), a sample size of 384 would be deemed sufficient for a population size exceeding one million. Thus, empirical data for this proposed study will be collected by distributing 400 self-administered online survey questionnaires to target respondents.

The reason of choosing online survey questionnaire is because it can accommodate large sample size for the purpose of quantitative analysis and avoid close contact with respondents (Saunders et al., 2019). The questions are structured in close ended questions. In order to ensure the validity of the content, all items under each variable will be

adapted from existing published journal papers. Pilot test will be conducted to improve response rates, minimize sampling error, detect flaw in the instrument and increase the credibility of the study. The Google forms, which is a web-based formative feedback process is chosen in this study. The Google forms link will be emailed to the respondents. Descriptive analysis and inferential analysis will be performed on the collected data using the Statistical Package for the Social Sciences (SPSS) software.

4 Conclusion and Discussion

The proposed study is raised in view of limited investigation on Malaysia SMEs toward MAPs especially in the context of service sector. The result of this proposed study is expected to contribute to the body of knowledge in management accounting practices area by providing insight on both literature and research methodologies as such it can be utilised as source of reference in research by future researchers. In addition, the outcome of the proposed study may be useful in raising awareness among SMEs owners on the advantages of adopting the MAPs and could provide valuable information to government agency on the actions to motivate SMEs to adapt MAPs.

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