

**FACTORS AFFECTING FINANCIAL
REPORTING FOR DECISION MAKING
AMONG SELECTED SMALL AND MEDIUM
ENTERPRISES IN THE OIL AND GAS
SECTOR IN MALAYSIA**

TEOH SAY HEAN

**ASIA e UNIVERSITY
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FACTORS AFFECTING FINANCIAL REPORTING FOR DECISION
MAKING AMONG SELECTED SMALL AND MEDIUM ENTERPRISES
IN THE OIL AND GAS SECTOR IN MALAYSIA

TEOH SAY HEAN

A Thesis Submitted to Asia e University in
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ABSTRACT

Financial reporting for decision-making is crucial as it demonstrates the organisation study of costs, expenditures, and cash flow. Given the prevalence of sustainability and external reporting, it has been expected that financial reporting gains significance among O&G SMEs. While earlier research observed the impact between management characteristics, particularly human capital attributes, and financial reporting responsiveness, the studies on the link between management characteristics and financial reporting responsiveness have been limited. Moreover, given the importance that managers place on the financial reporting process, specifically after the adoption of financial activities on managerial skill and financial reporting timeliness, evidence regarding the factors affecting financial reporting for decision-making purposes among Malaysian O&G SMEs is lacking. Therefore, this study aims to investigate the factors affecting financial reporting for decision-making in O&G SMEs. A complete analysis of the literature indicates a significant correlation between the qualification of accounting staff, managers' skills, preparation of financial statements, comprehensive financial information, and financial literacy in the financial reporting decision-making among O&G SMEs. This study data was collected through an online survey (Google Forms) of 152 O&G SMEs across Malaysia and Statistical Package for the Social Sciences (SPSS) version 25. The SPSS was also used to test the study hypotheses via multiple regression analysis. As a result, it was found that the accounting staff's qualifications, the managers' skills, the preparation of financial statements, the availability of comprehensive financial information, and financial literacy directly affected the financial reporting decisions by O&G SMEs. Additionally, the findings demonstrated that the O&G SMEs adopted an optimal level of financial reporting decision-making, with the optimisation of comprehensive financial information, manager skill, and financial literacy as the top priorities. The literature, policy, and management contributions, limitations, and future research suggestions are highlighted.

Keywords: O&G SMEs, financial reporting, manager's skill, financial literacy, decision making, owners/managers

APPROVAL

This is to certify that this thesis conforms to acceptable standards of scholarly presentation and is fully adequate, in quality and scope, for the fulfilment of the requirements for the degree of Doctor of Business Administration

The student has been supervised by: **Dr. Romzie Rosman**

The thesis has been examined and endorsed by: **Dr. Zubir Azhar**

Dr. Zubir Azhar
Senior Lecturer
Universiti Sains Malaysia
Examiner 1

Professor Dr. Asif Mahbub Karim
Professor
Binary University of Management and Entrepreneurship
Examiner 2

This thesis was submitted to Asia e University and is accepted as fulfilment of the requirements for the degree of Doctor of Business Administration



.....
Dr. Khairul Nizam Bin Mahmud
Asia e University
Chairman, Examination Committee
[20 November 2023]

DECLARATION

I hereby declare that the thesis submitted in fulfilment of the DBA degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the programme and/or exclusion from the award of the degree.

Name: Teoh Say Hean

Signature of Candidate:

Date: 20 November 2023

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LIST OF ABBREVIATION

IASB	International Accounting Standard Board
IASC	International Accounting Standards Committee
IFSR	International Financial Reporting Standard
IMF	International Monetary Fund
MASB	Malaysian Accounting Standard Board
MED	Ministry of Entrepreneur Development
MEDAC	Ministry of Entrepreneur Development and Cooperatives
MPERS	Malaysian Private Entity Reporting Standard
MRPC	Malaysia Petroleum Resources Corporation
NSDC	National SME Development Council
O&G	Oil and Gas
OGSE	Oil and Gas Services and Equipment
SD	Sustainable Development
SDGs	Sustainable Development Goals
SMEs	Small and Medium-Sized Enterprises

CHAPTER 1

INTRODUCTION

1.0 Background of the Study

Sustainable Development (SD) has become a 21st-century milestone where all global stakeholders strive to meet society requirements. The 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs), which were agreed upon by the United Nations in September 2015, provide a framework for the understanding of 21st-century global challenges. Furthermore, SD is related to issues that “influence the daily lives of people of all ages under various living conditions”, which are commonly known as the “3 Ps” (People, Planet, and Profit) (Rieckmann, 2018, p.62). Today’s business environment is defined by an unprecedented, rapid, and complicated combination of challenges and opportunities. Numerous causes, including new technology or a sudden shortage of natural resources, could potentially disrupt the entire market within a short period. There is a growing understanding among forward-thinking corporate leaders and investors that the focus on short-term profits is insufficient after natural disasters, social unrest, and economic unfairness. To illustrate this point, the excessive focus on short-term profit compared to long-term goals could impact the long-term performance. Businesses that identify and address this issue would be one step ahead. It is apparent that SDGs do not only specify the position of enterprises in 2030 to build a sustainable society, but they also describe new markets and possibilities for businesses all across the world (Bekteshi & Xhaferi, 2020).

Given that fulfilment of the SDGs is a precondition for every country development, this study focused on SDG #9, which includes the industry, innovation, and infrastructure. The SDG #9 intends to substantially boost global SD, raise the industry proportion of GDP, and enhance SMEs access to financial services, particularly affordable credit and incorporation into value chains and marketplaces. Furthermore, SMEs and their supply chains affect an organisation ability to remain competitive in the long-term value creation potential that is delivered by SMEs and their supply chains (Rentizelas et al., 2020). Investors have constantly valued the timely disclosure of financial information in financial reporting as an advantage. Upon paired with management skills, this attribute could directly influence the efficacy of financial disclosure of external data to SMEs regarding financial reporting timeliness (Lestari et al., 2021).

Providing a brief description of SDG targets in this study, Malaysia's sixth Prime Minister launched the Economic Transformation Plan, which emphasises the Oil and Gas (O&G) industry as the most promising and attractive industry (Institute of Southeast Asian Studies, 2022). The concentration of Economic Transformation Plan stimulates new enterprises to enter the field while the existing businesses expand at a fast rate. Accordingly, many incentives are being offered to encourage this endeavour. However, the most critical question is whether these SMEs are prepared for development, globalisation, or survivability regarding financial reporting for decision-making on the global stage. One of the significant issues faced by SME in O&G includes the lack of knowledge, managerial skills, and managerial qualification among SMEs in the O&G industry upon interpreting financial statements and preparing relevant finance documents, which is a significant challenge for the management in business sustainability (Abdelwhab Ali et al., 2019). In addition, adequate record-keeping and financial

interpretation abilities are required to ensure that the company establishes trust among its stakeholders.

Today, small and medium-sized businesses (SMEs) are a significant part of any economy. The SMEs are critical in driving economic growth, innovation, job creation, and social integration for established and emerging countries. In addition, SMEs receive significant attention in policy formation and execution. As a result, SMEs tend to have better employee relations compared to larger organisations, employ more devoted and committed employees, and have a higher ability able to maintain their employment levels, which may help sustain and grow the economy (Adla & Gallego-Roquelaure, 2019).

Management requires a wide range of technical, economic, and behavioural knowledge, including the direct ability to interpret financial statements and prepare relevant financial documents. Notably, managerial skills could create a difference between a successful enterprise and an enterprise that has declared bankruptcy. According to the literature, management skills play a critical role in accepting financial statements and preparing necessary financial documentation, particularly in developing nations (Settembre-Blund et al., 2021; Jurakulovna, 2021). In contrast to the ever-changing external environment in which SMEs operate, the quality of their manager's knowledge, skills, talents, and attitude considerably impact their performance in business (Bondarenko et al., 2021). Thus, the manager's degree of expertise and management abilities are critical to the success of an SME. However, various concerns have been present regarding the necessary qualities and skills required for a business to have a successful manager (Bagdadli & Gianecchini, 2019).

While prior research examined the impact between management characteristics, particularly human capital attributes, and financial reporting responsiveness (e.g.,

Abernathy et al., 2017; Gerayli et al., 2021; Sirajo et al., 2020), a small number or no research was conducted on the impact between management characteristics and financial reporting responsiveness, particularly human capital attributes. Given the importance placed by managers on the financial reporting process, especially after the adoption of financial activities concerning managerial skills and financial reporting timeliness, the evidence regarding the effectiveness of financial reporting for decision-making in the O&G industry is remarkably lacking.

Given the strong interest in financial reporting among investors, regulatory agencies, and researchers, it has been predicted that the increased financial reporting will continue (e.g., Bryant-Kutcher et al., 2013; Dobija & Pulawska, 2022). Therefore, SME managers' qualification plays an essential role in financial reporting for decision-making purposes, which could reduce information asymmetry through earlier disclosure. This matter was expanded in a recent study by examining whether senior executives have a role in "second-order choices", such as the firm accounting and transparency standards. Amorelli and García-Sánchez (2020) examined the evolution of top executives across enterprises and found that their backgrounds (e.g., accounting, finance, law) and experiences (e.g., age, experience) had a distinct and meaningful influence on the voluntary disclosure policies of their businesses. Similarly, Seifzadeh et al. (2021) and Wells (2020) examined the implications of managers on financial reporting policies, demonstrating that individual managers impact the firm's accounting and disclosure standards.

Managerial skills are essential in developing nations due to their importance in business decision-making and management. The capabilities of SME managers are diverse, and there is no unique incentive for their specialised talents in the knowledge of

financial statement reporting and other finance-related matters. Shakespeare (2020) emphasised that mismanagement of finances and poor investment selections leads to several consequences. Considering that accounting and reporting are robust tools for SMEs, management ability is critical for data comprehension, appropriate business decisions regarding resource allocation, and identification of the amount of funding necessary for the growth of the business.

The primary components of a financial statement are the Statement of Financial Position, Statement of Profit and Loss, Statement of Cashflows, Statement of Changes in Owner's Equity, and Notes to Financial Statements. In most cases, the Statement of Financial Position is the first component to be generated each year. Moreover, businesses may assemble the financial reporting materials on a monthly or quarterly basis to collect data more efficiently (Bui et al., 2020). In addition, financial statements would be utilised to communicate the organisation financial position and performance to both internal and external stakeholders.

Despite the widespread agreement that income reports may be used to assist in decision-making, SME managers in Malaysia are not well-versed nor competent in leveraging these financial documents for decision-making, as stated by Carraher and Van Auken (2013). Thus, the responsibility for timely and accurate financial statements and reports is delegated to the competent management with financial experience who manages the firm's finance department. This action causes the remaining managers' financial literacy to be unregulated. The most significant issues of incompetent SME managers include the correct documentation of financial transactions and compilation of financial reports (Mekonnen, 2019).

Given the position of SMEs managers as the backbone of the business, they lack the necessary skills and aptitude for the understanding of income reports. Therefore, they are deemed incompetent in financial reporting for decision-making purposes in the O&G sector (Zaim Aiman, 2020; Appiah et al., 2021). Iwasaki et al. (2022) demonstrated the critical nature of efficient financial statement usage and interpretation when a company's failure or financial difficulty is directly connected to inadequate financial management. Additionally, the owners or managers may influence the financial statement performance by judging the firm's success, which limits the financial statement that reports expansionary potential. As a result, financial statements are essential for SMEs as a tool for long-term business sustainability.

To be responsive towards any given circumstance, SME managers should have an understanding of the organisation's cause-effect linkages and strategic thinking about the company management using financial information. These abilities aid the description of the problem and determine the likely causes, leading to the analysis of response alternatives, selection of the ideal variation, execution of the solution, and evaluation of financial outcomes. Furthermore, reading comprehension and studying an organisation's financial accounts are critical for an efficient, result-oriented manager (Popescu et al., 2020; García-Pérez-de-Lema et al., 2021). This notion reflects the SME managers' working practices and how they interpret plans and execute procedures and tools inside their department to meet its overall business objectives.

Despite O&G SMEs' attempt to change through growth momentum in financial reporting, they aim for abnormalities and begin modifying their structures upon being surrounded by the alarming requirements for change in process, people, system, and strategy (Jones et al., 2021; Heim et al., 2017). This situation is the current challenge and

reality confronting the majority of O&G SMEs in Malaysia, given the large percentage of it that continues to operate within local norms and deliverables. Subsequently, SMEs face several challenges from the internal and external contexts, which have a detrimental effect on their sustainability. These disadvantages have been reported in a variety of publications, including Hartmann et al. (2021), Jain et al. (2020), and Radnejad et al. (2020). As a result, internal understanding concerns, particularly those linked to managers' skills, are critical. Therefore, SME businesses should objectively handle internal management capabilities regarding financial reporting for decision-making purposes.

While previous scholars demonstrated the value of financial reporting for decision-making purposes in O&G SMEs, none of them examined the pattern and dimension of O&G SMEs managers' financial reporting qualifications and skills nor evaluated the preparation of financial statements for financial reporting for decision-making purposes in O&G SMEs in Malaysia. Thus, the study on the factors affecting the effectiveness of financial reporting for decision-making purposes in O&G SMEs in Malaysia is a worthy endeavour that contributes to the literature by focusing on a single sector within a relatively homogeneous geographic, economic, and political environment. This action offers a more effective and detailed examination of firm-specific management variables that affect the qualification and skills of O&G SMEs managers in terms of financial information disclosure and stronger control over SME manager heterogeneity. A gap is present in the assessment of SME managers' capabilities in making decisions based on financial declarations to ensure the business continued sustainability. As a result, an all-encompassing approach to investigating the qualifications and abilities of O&G SMEs managers in financial reporting for decision-making purposes is strongly advised.

1.0.1 SMEs in Malaysia

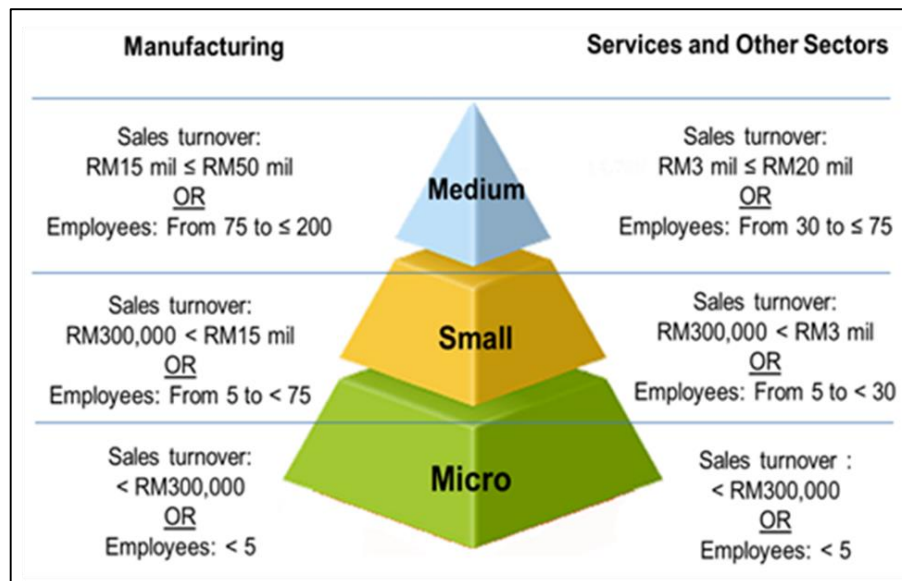
The National SME Development Council (NSDC) has been Malaysia's primary governing body since 2004. Its jurisdiction encompasses expanding SMEs throughout the country economic landscape. Nevertheless, due to the increased focus on entrepreneurship development, the Council has adopted a new name: the National Entrepreneur and Small and Medium-Sized Enterprise Development Council (NESDC). This name was announced and endorsed during the Council's inaugural meeting on April 8, 2019.

Small and Medium Enterprise Corporation of Malaysia (SME Corp. Malaysia) was officially recognised as an agency by the Ministry of Entrepreneur Development (MED) in November 2018. As a result, the MED was renamed the Ministry of Entrepreneur Development and Cooperatives on January 22, 2020. (MEDAC). Currently, SME Corp. Malaysia is progressing towards being the nation's premier organisation for fostering the growth of progressive SMEs to boost wealth creation and social welfare. This action was the initial objective of the organisation when it was founded in 1993. The mission of SME Corp. Malaysia is to empower the critical mass of SMEs with efficient processes, viable business models, access to financial resources, intelligent partnerships, market-entry strategies, and long-term growth solutions. This goal would be accomplished through various platforms and programmes geared toward the development of SMEs and entrepreneurs.

The SMEs in Malaysia could be classified into two broad areas. The first area is manufacturing, while the second area is the service sector. Figure 1.1 presents the industry structure in detail, including the sales revenue and employee headcount. As defined by SMECorp (2020a; 2020b), manufacturing is the "physical or chemical transformation of

materials or components into new products”. On the other hand, services encompass distribution and commerce, including hotels and restaurants, commercial, professional, and information technology (ICT) services, private education and health care, entertainment, financial intermediation, and manufacturing-related services such as R&D, logistics, warehousing, and engineering.

Figure 1.1: Definition of Malaysian SMEs



In Malaysia, SMEs account for an outstanding 98.5% of the 920,624 commercial enterprises (Kaur, 2021). Despite being the backbone of the country economic climate, SMEs’ financial reporting is lagging behind bigger businesses. According to the bank 24th Malaysia Economic Monitor, the COVID-19 pandemic has exposed and aggravated vulnerabilities in Malaysia’s private sector (*Malaysia Economic Monitor*, 2021). This case is particularly true for SMEs, which have severely impacted the supply and demand shocks. As a result, SMEs face more severe revenue shocks compared to medium and large businesses, which is a valid case for non-exporters versus exporters.

As of 2019, SMEs' contribution to the country's overall GDP was 38.9%. Within the same year, SMEs employed approximately 7.3 million population, which accounted for nearly half (48.4%) of the total employment in the country. Malaysia's micro, small, and medium-sized enterprises (SMEs) are divided into three categories: micro, small, and medium companies. Specifically, microbusinesses account for 76.5% of Malaysian SMEs, while medium-sized businesses account for only 2.3% of SMEs (SMEECorp, 2020a; 2020b). According to the World Bank, Malaysia's SMEs have lagged behind peer countries in output and productivity. As a result, the "real-time" evaluations increase the vulnerability of Malaysian SMEs compared to their regional rivals. The pandemic exacerbates the difficulties that had been faced by the country's business sector before the outbreak. Given that the private sector will be primarily responsible for post-pandemic recovery, medium- to long-term steps should be made to increase its resilience (Kaur, 2021).

1.0.2 O&G SME Domain

The Malaysia Petroleum Resources Corporation (MPRC) was established in April 2011 and is currently a unit inside the Prime Minister's Department's Economic Planning Unit. It suggests that the government promotes the globalisation of local OGSE skills in the upstream, midstream, and downstream sectors. The MPRC was founded to promote the nation O&G services and equipment (OGSE) sector and leverage on Malaysia's favourable geographic position to develop the country into a thriving regional hub for the industry. The MPRC facilitates trade and investment to entice multinational players to establish regional headquarters in Malaysia, which enhances Malaysia's appeal as a regional hub. This action involves collaborations with other government agencies and