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Promoting Sustainability of Microfinance via Innovation Risks, Best Practices and Management Accounting Practices

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Abstract

Revolution in the business environment has crucial growing changes on most globalized markets. Numerous organizations are necessitating towards producing more proactive entrepreneurs with a dynamic teams, who can run and steer their business to victory. Revolutionizing on business strategy and entrepreneurial skills, also implementing innovation and practices to enhance its performance are necessary for these organizations to be more cost-efficient and increase their efficiency. The study aims to clarify issues of whether measurement has a positive effect on different aspects of innovation and best practices. The study contributes to the current understanding in three ways; firstly by presenting the important aspects of organizational innovation and best practices. Secondly, it shows the importance of measurement in promoting different aspects of innovation and best practices. And thirdly, it examines the link between innovation, best practices and sustainability in microfinance. The study has been executed by conducting a qualitative study toward the microfinance industry. A representative of management and employees in each company was selected through an invitation to participate in getting information for data collection purpose in the study. The study contains a comprehensive description of the impacts of measurement on different aspects of innovation and best practices towards sustainability in both microfinance industries and SMEs. Findings from this study show that performance measurement has positive effects on issues related to innovation and best practices. The measurement for several aspects of innovation and best practices has good potential in microfinance industries. Additionally, measurement on innovation and best practices are positively related with each other to enhance organization performance. The study suggests that both academics and practitioners should focus on the development of new methods and practices to describe and scrutinize further understanding for measuring issues which is related to innovation and best practices, in order to better develop the aspect of innovation and best practices towards sustainability. This effort would not only contribute to firm's success, but also toward the development of the nation in the developing countries.

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1. Introduction

Eradication of poverty has always been a key priority in the strategic planning and development plans by the Government, particularly from the 1970s until now (Zin, 2011). Indeed, the multi-dimensional nature of poverty, if not fixed, will cause impact of various forms to social phenomena. The Malaysian government has also made a strategic commitment and consistency in tackling poverty. This has given rise to various policies on development of Malaysia future plan that focuses on poverty reduction, especially in rural areas. From the First Malaysia Plan until the 7th Malaysia Plan (7MP), more than a quarter of the development budget has been consistently channeled to poverty reduction. As a result, Malaysia has shown a rather remarkable success in efforts to reduce poverty. For example, Malaysia has achieved the goal of reducing poverty, from 52.4% in 1970 to 4.4% in 2004, and further reduced to 3.8% in 2009. In addition, to complement the 8th Malaysia Plan, RMK-9 which focused on the eradication of extreme poverty and the Ninth Malaysia Plan 10 (2010-2015), have targeted goal of achieving poverty rate that is projected to 2.0% in 2015 (Razib, 2013).

In an effort to assist the Government of Malaysia to run other programs in poverty alleviation, establishment of special institutions have focused mainly during the fifth Malaysia Plan (5MP). The goal is to improve the lives of the poor through the provision of financial services to meet their needs. In this case, Ikhtiar Malaysia (AIM), Diligent and PUNB are dedicated to reduce poverty in Malaysia and bridge the gap between the poor and the rich. This is within the aim of enhancing financial income and economic empowerment through microfinance.

In Malaysia, a micro-finance program has been implemented since 1987 as one of the poverty eradication strategies. There are three large microfinance institutions, namely AIM, TEKUN, and PUNB and their targets consist of different groups. Indeed, the largest microfinance institution in Malaysia is Amanah Ikhtihar Malaysia (AIM), this institution is the most prominent of the three institutions, particularly in terms of its scope. AIM is the first micro finance institution established in Malaysia and is an adaptation of the largest Grameen Bank model outside Bangladesh (McGuire et. al., 1998). It was established in 1988, under Act 258 of incorporation of the trustee (revised 1981) (Chamhuri & Quinones, 2000). AIM is a poverty-oriented microfinance institution that provides loans to the poor. The program is inspired by the success of micro-finance program famous Grameen Bank of Bangladesh, which AIM was then established as one of the strategies to eradicate poverty in Malaysia. It started from a pilot project by the policy research centre of the University Sains Malaysia (USM), with the primary objective to reduce the amount of poverty in the country by funding income generating activities through the distribution of funds endeavour to poor households (AIM, 2012; AIM, 2013).

Sustainability in microfinance industries (MFIs) is essential in the transformation of their knowledge using management accounting practices (MAP). Thus, MAP is an integral part of the managerial process of organizations in distinctive perspective by focusing in using on one key dimension of organizational activity-resourcing and use of resource (Scapens, 2006). Additionally, as stated by Lukka (2007), MAP definitely adds value by continuously probing whether resources are used effectively by organizations or in creating value for shareholders, customers or other stakeholders.

1.1. Problem Statement

As a developing country, Malaysia has moved towards global competitiveness (Tuanmat & Smith, 2011). Companies in Malaysia were also experiencing changes in their business operation and have to cope with the current changes (Smith, Abdullah & Razak, 2008). Microfinance Industries can be categorized as a part of Micro Small Medium Enterprises (MSMEs) which have an important role as contributors to the Malaysian economy growth, ongoing reporting in performance of reducing profits, sales growth, market share, low return on investment and low value for money which has made them less competitive on both local and international markets (SMEE Corp., 2012). This microfinance industry is still relatively small and being concentrated in a small number of countries (MIX & CGAP, 2011), but growing, hence providing chances for researcher to shape decision-making, especially planning new initiatives to develop capacity in the region and seeking both the opinions of stakeholders (World Bank & DFID, 2012) and evidence of effectiveness (DFID, 2010).

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