BUSINESS OUTLOOK REPORT
2020
Introduction

This report is jointly commissioned by MIA (Malaysian Institute of Accountants) and ACCA (Association of Chartered Certified Accountants) to provide insights into the collective viewpoints of accounting and finance professionals, with regards to the business outlook for Malaysia in 2020 and in the medium term. Second in a series, this study is part of a collaborative research initiative undertaken by both professional bodies to synergise resources and share critical findings on pertinent topics in today’s business landscape. We trust that this report will be a useful resource that supports policy-makers and business leaders in developing forward-looking strategies to drive sustainable growth for nation building.

About MIA
Established under the Accountants Act 1967, MIA is the national accountancy body that regulates, develops, supports and enhances the integrity, status and interests of the profession in Malaysia. MIA accords the Chartered Accountant Malaysia or C.A. (M) designation to a professional in accountancy, business and finance with a recognised qualification and relevant work experience.

Working closely alongside businesses, MIA connects its membership to an unmatched range of information resources, events, professional development and networking opportunities. Presently, there are more than 36,000 members making their strides in businesses across all industries in Malaysia and around the world.

MIA’s international outlook and connections are reflected in its membership of regional and international professional organisations such as the ASEAN Federation of Accountants (AFA), and the International Federation of Accountants (IFAC).

About ACCA
ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world.

ACCA supports its 219,000 members and 527,000 students in 179 countries. ACCA works through a network of 110 offices and centres and 7,571 Approved Employers worldwide. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

ACCA has introduced major innovations to its flagship qualification to ensure its members and future members continue to be the most valued, up to date and sought-after accountancy professionals globally. Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability.
MIA and ACCA are delighted to jointly present the Business Outlook Report 2020, echoing the collective inputs and reviews from the accounting and finance professional community in Malaysia. This report will give you insights into the business landscape in 2020, the major drivers, challenges and future trends affecting commercial activities locally from the perspective of those who play key roles in supporting and driving the growth and transformation of Malaysia’s business eco-system.

Below are some key report highlights:-

- **Positive revenue and profit growth trends**
  
  Overall, the report reverberates positive sentiments from the respondents on projected business performance for 2020. This point of view continues to strengthen as revenue and profit growth is projected to trend further upwards for Malaysia in the medium term.

  From the report, 83% of respondents are forecasting increased revenue for 2020, of which 48% expect growth of 5% or more. This growth momentum is expected to be maintained over the medium term, with more than three-quarters projecting increased revenue growth for the next three years.

  In terms of profit outlook for 2020, 86% of respondents are expecting it to be positive with about half of them anticipating a growth outlook of 5% or more. Over the medium term, this growth is expected to be maintained as majority of respondents in this study are projecting a steady profit growth over the next few years.

  This bodes well for corporate earnings going forward as it fosters an attractive climate for investment and stimulates more employment opportunities in Malaysia. It is thus timely to seize the prospect to embark on digitalisation and explore new technologies that will help raise productivity and create opportunities in accessing new pipelines, products and services in the market. Additionally, businesses as well as the public sector should continually invest heavily on upgrading the skills and capabilities of its workforce in a world of IR4.0.

- **Driven by domestic factors**
  
  Although Malaysia is a highly open economy, the survey indicates domestic drivers – both positive and negative – have the most impact on Malaysian businesses. Malaysia’s economic growth and confidence in government policies to stimulate growth were seen as the top positive drivers, while rising cost of living and low wage growth, and uncertainties caused by government policies were seen as the top negative drivers going forward.

- **ASEAN – a potential not to be missed**
  
  Only 41% of respondents have plans to invest in an ASEAN market over the next 3 years. This increases slightly to 52% if only respondents from public listed companies (PLCs) are taken into consideration. We believe this leaves significant room for more Malaysian businesses, including small and medium-sized enterprises (SMEs), to consider tapping on the ASEAN growth potential. Accounting and finance professionals clearly have a vital role to play in strategically supporting their businesses as they evaluate and navigate these opportunities. Key factors that have held back such investment include clarity on local laws, rules and regulations, ease of doing business as well as a stronger ringgit. We are confident that the articulation of these factors by the accounting and finance professionals will enable policy-makers in Malaysia to work with their counterparts in other ASEAN markets to address these factors and pave the way for increased intra-ASEAN trade and investment going forward.
- **Addressing regulatory changes and compliance**
  Regulatory changes and compliance concerns are repeatedly called out as the leading challenge for organisations, signalling a need for policy-makers to address the design, communication and implementation of policies going forward. MIA and ACCA will continue to support the accounting and finance professionals to develop relevant competencies and capabilities and support businesses in dealing with such challenges.

- **Leading digital transformation and future-proofing talent**
  To the best of our knowledge, the findings of our survey provide for the first time, insights on the level of digital and technology investment in Malaysia. Here, 25% of respondents report that their organisations are allocating more than 10% of their budget on technology spending and digital transformation over the next 3 years. This represents a significant catalyst for driving the digital and technology transformation of Malaysian businesses, in general.

  In terms of technological capabilities, 64% of respondents reported plans to build analytical and big data capabilities to support the larger business transformation agenda or delivery of services to clients (for public practitioners) over the next 3 years. This is followed by cloud computing (57%), machine learning and artificial intelligence (33%) and robotic process automation (27%).

  Interestingly, despite these technology adoption plans in the finance function, 70% of respondents have either no plans to reduce headcount or in fact plans to increase headcount over the next 3 years. 60% of respondents have plans to evolve and improve existing employees’ digital skills and competencies. This clearly demonstrates tremendous opportunities for professional accountants to raise their game and increase their relevance to the organisations and clients they serve.

  As advocates for digital transformation, MIA and ACCA will continue to exhort the profession to play a lead role in digital-led business transformations through our respective programmes and continuing professional education events aimed at improving the digital competencies and skills sets of accounting and finance professionals.

- **Addressing sustainability challenges**
  Sustainability challenges (including climate change) are identified as a future trend that will affect businesses over the next 5 years. In line with the International Federation of Accountants’ stance, MIA has identified climate change as an area for ongoing advocacy to promote sustainable development. At ACCA, we believe that social and environmental value creation should take centre stage in all organisations – businesses and public sector. Professional accountants will need to be sustainability trailblazers as we lead our organisations in responding to this defining imperative of our age.

  MIA and ACCA are continually committed to providing value-added insights to our stakeholders and articulating the voice of the profession in responding to contemporary business issues. Moving forward, we will strengthen the purpose, value and relevance of accounting and finance professionals by leveraging further on technology and digital transformation to drive sustainable development in the IR4.0 economy.

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Chief Executive Officer  
Malaysian Institute of Accountants

**Edward Ling**  
Country Head  
ACCA Malaysia
This report is based on a survey jointly commissioned by MIA and ACCA, and presents viewpoints from accounting and finance professionals on Malaysia’s immediate business outlook in 2020 and for the next few years.

The report’s findings cover the following areas:

- Overall business outlook
- Domestic and external growth drivers
- Key challenges faced by Malaysian businesses
- Future trends affecting the business outlook over the next five years

Survey Respondents

The survey was conducted online from 20 November to 2 December 2019. A total of 743 responses were collected from accounting and finance professionals of varying ages and in diverse organisations and roles. This survey was intentionally timed during the last two months of the year to leverage on the insights emerging from the annual strategy and budget planning processes typically conducted by businesses in Malaysia during this period.

Based on the profile of survey participants, 88% are members of MIA, and 39% are also members of ACCA. Nearly 70% of respondents are aged between 31 and 50 years old.

Significantly, the survey successfully tapped the views of leaders and decision-makers in business and the profession. Collectively, leaders in finance and public practice accounted for 43% of the total respondents, representing a statistically significant group. Top-level finance professionals (finance directors, CFOs and other equivalent roles) comprised 28% of total respondents, whereas public practice leaders (partners or directors) comprised 15% of respondents. Public practice senior managers, finance managers, accountants, and those ranked below comprised 46% of total respondents. The remaining respondents comprised accountants serving in non-finance related roles.

The majority of respondents (50%) work in the corporate sector, with 21% of these employed in public listed companies (PLCs). Another 31% are employed in public practice.

In terms of industry, corporate sector respondents were from services (15%), manufacturing (11%), construction (7%) and financial services (6%).

With regards to company size, 36% of respondents work in small-sized enterprises (1-50 employees), 31% in medium-sized enterprises (51-300 employees) and 33% in large companies (301 employees and above).

It is important to appreciate that the number of respondents to the survey does not necessarily correspond to the number of organisations as some respondents may be from the same organisation.

MIA and ACCA would like to thank all members who participated in this important survey.
Going into 2020, survey respondents are optimistic about revenue and profit growth. The outlook is even more bullish when considering the projected revenue and profit growth in the medium term on a compounded annual growth rate (CAGR) basis signalling an uptick in corporate earnings going forward.

From the report, 83% of respondents are projecting increased revenue growth for 2020, with 48% expecting positive growth of 5% or more. Over the next 3 years, revenue growth is expected to trend upwards, with 86% of respondents projecting improved revenue, and 60% projecting growth of 5% or more.

In terms of profit growth, 86% of respondents are projecting increased profit for 2020, with 47% expecting positive growth of 5% or more. Over the next 3 years, profit growth is expected to trend upwards as well, with 85% continuing to project improved profit and 56% growing at 5% or more. This indicates that the revenue growth strategies being pursued will not be at the expense of margins.

**What Leaders Think.** Leaders in finance and public practice are likewise upbeat on revenue and profit growth estimates.

For 2020, 47% of top-level finance professionals and 48% of public practice leaders are projecting revenue growth of 5% or more. This rises over the three years with 58% of top-level finance professionals and 62% of public practice leaders projecting revenue growth of 5% or more.

In terms of profit growth for 2020, 46% of top-level finance professionals and 41% of public practice leaders are forecasting profit growth of 5% or more. For the next three years this rises to 57% of top-level finance professionals and 56% of public practice leaders projecting profit growth of 5% or more.

<table>
<thead>
<tr>
<th></th>
<th>Revenue Growth for 2020</th>
<th>Revenue Growth for next 3 years (CAGR)</th>
<th>Profit Growth for 2020</th>
<th>Profit Growth for next 3 years (CAGR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negative growth of more than 10%</td>
<td>5%</td>
<td>3%</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Negative growth of 10% or less</td>
<td>12%</td>
<td>6%</td>
<td>10%</td>
<td>6%</td>
</tr>
<tr>
<td>Positive growth of less than 5%</td>
<td>35%</td>
<td>26%</td>
<td>39%</td>
<td>29%</td>
</tr>
<tr>
<td>Positive growth of 5% to 10%</td>
<td>32%</td>
<td>37%</td>
<td>34%</td>
<td>37%</td>
</tr>
<tr>
<td>Positive growth of more than 10% to 20%</td>
<td>11%</td>
<td>17%</td>
<td>9%</td>
<td>15%</td>
</tr>
<tr>
<td>Positive growth of more than 20%</td>
<td>5%</td>
<td>6%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>We do not plan beyond 12 months</td>
<td>N/A</td>
<td>5%</td>
<td>N/A</td>
<td>6%</td>
</tr>
</tbody>
</table>

**Table 1: Revenue and Profit Growth for 2020 and next 3 years (CAGR)**
The Ministry of Finance (MoF) projects the GDP growth for Malaysia in 2020 to be 4.8%, up 0.1% from 2019. However, the World Bank Group revised downwards its 2020 GDP growth forecast for Malaysia to 4.5% in December 2019 from 4.6% previously. Malaysian businesses are largely influenced by domestic drivers, citing the economic growth rate as the top driver of positive business performance this year (77%), compared to last year (40%).

In addition to GDP growth, Malaysian businesses continue to have confidence in government policies to stimulate growth, which was cited by 73% of respondents as opposed to 68% respondents in 2019.

An increase in consumer spending (cited by 60% of respondents) and government spending on public infrastructure (51%) are also named as key factors shaping a positive business outlook.

In line with the stronger focus on domestic growth factors, fewer respondents cited robust growth in the ASEAN region, spillover benefits from the US-China trade conflict or a weak ringgit facilitating export competitiveness, as potential drivers of growth.

### Chart 1: Key positive factors impacting business performance

<table>
<thead>
<tr>
<th>Factor</th>
<th>2020 (%</th>
<th>2019 (%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia’s economic growth rate</td>
<td>40</td>
<td>77</td>
</tr>
<tr>
<td>Confidence in government policies to address economic issues</td>
<td>40</td>
<td>73</td>
</tr>
<tr>
<td>Increase in consumer spending</td>
<td>35</td>
<td>51</td>
</tr>
<tr>
<td>Increase in government spending on public infrastructure</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Strong growth in ASEAN countries</td>
<td>34</td>
<td>43</td>
</tr>
<tr>
<td>Low interest rate environment</td>
<td>21</td>
<td>42</td>
</tr>
<tr>
<td>US-China Trade War</td>
<td>20</td>
<td>36</td>
</tr>
<tr>
<td>Weak ringgit boosting export competitiveness and dollar-denominated revenue</td>
<td>33</td>
<td>40</td>
</tr>
</tbody>
</table>

*new selection in 2020
Domestic factors also feature heavily as key negatives dragging down business growth. Rising cost of living and low wage growth (79%) suppressing domestic demand is seen as the top negative factor for the second year running (2019: 61%).

Although confidence in government policies rank second as a positive growth driver, respondents also express increased concerns over the effects of changes in government policies (from 33% last year to 71% this year). These concerns are aligned with regulatory changes and compliance being ranked as the top challenge for business organisations in 2020 (page 11).

Respondents also highlight concerns that austerity measures to reduce public sector investment expenditure (49%) and scaled-down infrastructure projects (43%) would dampen 2020’s business outlook.

![Chart 2: Key negative factors impacting business performance](image-url)
External Drivers

Although Malaysia is a highly open economy, interestingly respondents rank global and regional factors below domestic drivers in terms of importance.

**US-China Trade Conflict.** US-China trade tensions dominated the global business and trade landscape in 2019, and Malaysia was not insulated.

Finance Minister Lim Guan Eng noted that approved foreign investments across all sectors in Malaysia roughly doubled to RM49.5 billion during the first half of 2019 from RM25.1 billion in the first half of 2018, with China accounting for RM4.8 billion. However, he emphasised that despite the short-term gains, in the long run, there are no winners in trade wars but only losers. If the trade tension persists and worsens, the global pie would shrink and worryingly, no amount of trade and investment diversion would suffice to counter the potential loss in global output³.

This is in line with our survey findings where nearly half of the respondents (47%) indicated that their business results in 2019 were adversely affected by the US-China trade conflict in 2019. Approximately 15% of respondents reported a significant drop in financial results, while 32% reported a marginal drop. Over the next three years, the situation is expected to worsen with the number of respondents expecting a significant drop in financial results increasing to 24%.

![Chart 3: Impact of US - China trade conflict](image)

**Belt and Road Initiative (BRI).** Optimism over BRI projects creating the anticipated benefits has reduced. Respondents who claim that BRI has little or no impact has increased from 25% last year to 39% this year, whilst those who are positive on BRI benefitting their businesses over the next 3 years has declined from 53% last year to 41% this year. Concerns of a Chinese economic slowdown and how this might impede BRI’s momentum could be tempering clarity on prospects for BRI host countries and connected businesses.

Leveraging ASEAN’s growth potential

ASEAN’s growth potential continues to astound, backed by a combined GDP of US$2.9 trillion⁴ and a 650 million population⁵. As the region embraces digitalisation, ASEAN’s internet economy is estimated to be worth US$300 billion by 2025⁶.

ASEAN’s lucrative prospects are cited by 43% of respondents as a positive growth driver. More respondents from PLCs (52%) have indicated their intention to invest in one or more ASEAN markets over the next 3 years, compared with 46% of SME respondents.

Top-level finance professionals view regional expansion more favourably with 51% indicating their organisations’ intention to invest into one or more ASEAN markets in the next 3 years compared to public practice leaders with 28%.

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⁴ https://data.aseanstats.org/indicator/AST.STC.TBL.1
⁵ https://data.aseanstats.org/indicator/AST.STC.TBL.1b
⁷ International Monetary Fund 2019, World Economic Outlook: October 2019.

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**Chart 4: Plan to invest in ASEAN**

![Chart 4: Plan to invest in ASEAN](image)

**Chart 5: Favoured ASEAN market to invest into**

PLC respondents with regional aspirations are targeting the Vietnamese (55%) and Indonesian (55%) markets for their high GDP growth — projected to hit above 5% in 2020⁷.
Those with no immediate or medium-term plans for expanding operations into ASEAN would reconsider provided that there is improved clarity on laws, rules and regulations for foreign entities (50%); improved ease of doing business (48%); and a stronger ringgit (47%) to support investment. Other factors would include linking up with a local business partner or network to smoothen expansion, along with access to financing options for expansion.

Public practice firms are less likely to invest into ASEAN because practitioners will instead rely on using affiliated or network firms present in respective ASEAN markets to service businesses that intend to expand regionally. Business networks are a frequently cited resource for small and medium practitioners (SMPs) to advise and support SMEs participating in international trade⁸.

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⁸ ACCA, 2018, Growing globally: How SMPs can unlock international ambitions

**Chart 6: Factors to be considered to invest in ASEAN market**

- Clarity on local laws, rules and regulations in foreign markets: 50%
- Ease of doing business including setting up a company and getting license to operate: 48%
- Stronger ringgit: 47%
- High growth potential: 47%
- Local business partner or business network familiar with local business landscape and regulatory requirements: 45%
- Funding or access to affordable finance: 44%
- Access to professional services that can help navigate around local laws, rules and regulations: 36%
- Foreign government policies that are friendly to foreign companies: 35%
- Cheaper local labour and talents: 22%
Overall, the top-ranked challenge for Malaysian businesses in 2020 is regulatory changes and compliance (53%), followed by local economic conditions (48%) and rising operating costs (40%) of respondents. However, there is divergence across sectors with respondents in the corporate sector singling out local economic conditions (50%) and regulatory changes and compliance (47%) as their top organisational concerns, while public practice respondents feel more challenged on regulatory changes and compliance (64%) and staff costs (56%).

Concerns over the design, communication and subsequent implementation of government policies and increasingly complex regulations are likely making business strategies and execution as well as compliance tougher for organisations especially the smaller-size organisations with resource constraints.

Last year’s top challenge— hiring the right talent— was relegated to fourth position as voted by 37% of respondents. It is likely that as companies adopt technology, digitalisation and automation might be enabling organisations to move talent to higher value-added roles.

Nevertheless, in an agile business world with changing business model, talent attraction, development and retention will likely remain a strategic issue for most organisations.
Digital revolution and transformation, along with regulatory changes are expected to have the biggest impacts on businesses over the next five years.

Respondents also identify increasing automation and artificial intelligence (AI) use, future workplace mobility, and changes in generational expenditure pattern as pivotal trends that will affect business performance.

Sustainability challenges (including climate change) was also called out - recognising that these challenges are immense, complex and urgent. Environmental and social risks are increasingly impacting business operations - not just in Malaysia but throughout the world. Accounting and finance professionals have a role to play in helping businesses better understand these risks and transforming business processes to include a social and environmental focus.

### Diagram 1: Key trends impacting businesses over the next 5 years

- Digital revolution and transformation
- Regulatory changes
- Increase in automation / use of Artificial Intelligence
- Future workplace mobility
- Changes in generational (eg: Baby boomers, Gen-X, Millennials, etc) expenditure patterns
- Green / sustainability challenges
Digital transformation journey over next 3 years

Analytics (including big data) is the highest rated technology platform (64%) in terms of plans for adoption by the finance function as it looks to support the larger business agenda over the next 3 years. Top-level finance professionals rate this even higher at 71% - indicating strong leadership buy-in to develop faster and deeper business insights to enhance competitiveness and productivity.

Cloud computing (57%) is rated next highest overall in terms of plans for adoption. However, for public practice leaders, cloud computing is the highest rated technology platform at 72%. According to Gartner research, IT spending growth is being driven by the spending on cloud and that organisations with a high percentage of IT spending dedicated to the cloud will become the recognised digital leaders in the future9.

Over the next 3 years, plans for adopting e-payment systems (50%), cybersecurity (38%), machine learning (33%) and robotic process automations (27%) are significant. This bodes well for the profession in re-inventing itself and continuing to provide value to its stakeholders.

Importantly, SME respondents report no lag in adoption plans when compared to PLCs, indicating an equal desire to leverage on these technology platforms to drive business transformation.

Investments in Digital Transformation. 25% of respondents report that their organisations are allocating more than 10% of their budget on technology spending and digital transformation over the next 3 years.

Public practice leaders are more likely to allocate between 5%-10% of their budget, compared to top-level finance professionals who are more likely to allocate less than 5% of their budget. However, this could be attributable to the size and resources of their organisations, where the quantum of investment could be greater for larger entities.
Impact on Talent. Interestingly, despite these technology adoption plans, 70% of respondents have either no plans to reduce headcount or in fact plan to increase headcount over the next 3 years. Importantly, 60% of respondents have plans to evolve and improve existing employees’ digital skills and competencies reflecting significant opportunity for accounting and finance professionals to upscale and increase their relevance.

While some respondents foresee reduction in headcount, particularly 28% of respondents from PLCs, it is important to appreciate that this does not represent the magnitude of job losses.

The government recognise the advantages of digitally transforming Malaysian businesses and has allocated funds in Budget 2020 as incentives for eligible organisations:

- 50% matching grant of up to RM5,000 for subscription to selected/approved digital systems
- Allocation of RM550 million for Smart Automation matching grants worth up to RM2 million per company
- One-stop Digital Enhancement Centres
- Digital Social Responsibility (DSR)
- Widening SME access to digital financing options such as Equity Crowd Funding (ECF) and Peer-to-Peer (P2P) platforms¹⁰.

Way Forward

On overall, there are positive vibes from the accounting and finance professionals in steering the future plans for their organisations. Despite challenges cited in the report, we believed that they are well equipped in finding the solutions. Both MIA as a regulator and developer of the accountancy profession in Malaysia and ACCA as a global professional accountancy body are driving initiatives to support the needs of accounting and finance professionals in fulfilling their roles.