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The Impact of Covid-19 Pandemic towards the Resilience of Small Medium Enterprises (SMEs) in Malaysia

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Abstract. The Covid-19 pandemic has impacted the entire world dramatically. The unprecedented Covid-19 pandemic has widely impacted on Malaysia's economy, especially towards the small-scale economic activities related to the small medium enterprises (SMEs). Therefore, this paper aims to determine the impact of the Covid-19 pandemic towards the resilience of SMEs in Johor, Malaysia. The research methodology employed a quantitative method through a survey method via questionnaire sampling of 60 owners involved in SMEs operators across the case study. The research finding indicated that the Covid-19 pandemic had a massive influence on the economy of the majority of SMEs operators, especially on their income generations which average losses in revenue of more than 50 percent during the Covid-19 pandemic compared to 2019. This resulted from the shutdown of their business activities to curb the spread of the Covid-19 pandemic. Other findings highlighted that the government's initiatives to address the economic impact of SMEs yet insufficient to sustain business activities and income generations for instance access to financing facilities, product marketing opportunities and others. Therefore, required immediate initiatives should be made by all the stakeholders to reduce the economic impacts among the SMEs.

Keywords: Covid-19 pandemic, SMEs

1. Introduction

The Covid-19 pandemic had a significant influence on the entire world. This pandemic is an unexpected global phenomenon that has caused economic instability. In Malaysia, this pandemic has affected most businesses, including small and medium enterprises (SMEs) which make up a significant 98.5 percent of Malaysian businesses [1][2]. Approximately 73 percent of SME's operators in the country recorded losses in 2020 [3]. This situation led to the issue of unemployment where the Department of Statistics Malaysia (DOSM) reported on the rising levels of unemployment in Malaysia which may eventually give way to social woes such as higher rates of crime. Immediate measures should be taken place to empower a significant role by the SME sector to be a buffer for the national economy as they are more dependent on domestic demand, compared to the main sector which is dependent on external demand.

The Malaysian government responded to this Covid-19 threat by introducing the "Prihatin Rakyat Stimulus Package" (PRIHATIN) which aims to alleviate the financial burden of people and businesses during the pandemics especially with the enforcement of the Movement Control Order (MCO) for almost two years [4]. The continuous effort by the Malaysia government under the "National Economic Regeneration Plan" (PENJANA) supported by 24 initiatives with an allocation of RM14.5 billion has a direct impact on SMEs including financial assistance and a moratorium on financing payments to ease



pressure on cash flow in 2021 [5][8][18]. With various measures taken for the SME's resilience during the pandemic, the majority of the SME's operators especially the micro-SMEs will not be able to recover in less than a year due to several challenges in terms of cash reserves, business operation, financial commitment and others. Therefore, this paper aims to determine the impact of the Covid-19 pandemic towards the resilience of SMEs in the state of Johor, Malaysia as this state is one of largest number of registered SMEs operators in Malaysia and its proximity location advantages to the Singapore.

2. Literature Review

2.1. *Introduction to Small and Medium Enterprises (SMEs)*

In Malaysia, Small and medium enterprises (SMEs) are divided into three categories, namely micro, small and medium [6]. In 2020 before the pandemic occurred, Malaysia recorded 907,000 SME's operators. SMEs have contributed a lot to developing the country's economy. The contribution of SMEs in 2019 recorded 38 percent of Gross Domestic Product (GDP) in Malaysia [1][2][14]. The Covid-19 pandemic hit Malaysia suddenly had a lot of impact on the country's economy, especially on the SMEs as they are the most important enterprises in the national economy.

It was a major disaster towards the SMEs in Malaysia especially during the MCO implementation on 18 March 2020, as the majority of the SMEs were severely affected in terms of declining sales and revenue, the shutdown of business activities and others. The MCO implementation has paralyzed the country's economic sector for a while and many industries and businesses have also been affected. The majority of SME's operators also receive impacts when their businesses are unable to operate normally. A vulnerable SME's operators are defined as a business with expenses exceeding income and having a cash balance below operating costs. A total of 37,415 businesses were reported to have gone bankrupt following the effects of the COVID-19 pandemic. A total of 26,007 are micro-SMEs followed by another 2,738 involving small and medium SMEs [3].

2.2. *Issues, Challenges and Impact towards SMEs*

The protracted health crisis has triggered economic uncertainty for the whole world including Malaysia [17]. The majority of SMEs in Malaysia are at risk of closing their businesses if the uncontrollability management of the Covid-19 pandemic and the implementation of the any restriction movement approaches such as MCO are implemented continuously [7][19]. During the MCO period for almost two years, 72.4 percent of SMEs closed their business operations temporarily, while 58.6 SMEs did not record any sales [5]. The majority of SME's operators from various economic sectors are worried about the continuity of their business operations. However, in the post-MCO, the rate of decline in sales decreased from 62.5 percent to 49.6 percent. Retrenchment also declined from 14.2 percent to 12.0 percent while the closure of business operations fell from 1.6 percent to 1.4 percent, aided by the economic stimulus package by the Malaysian government [5][16]. It is a good sign for SMEs to recover from this health crisis and economic instability.

The data shown by the Department of Statistics Malaysia [5] highlighted that 54 percent of SMEs operators especially the micro-SMEs only able to survive for three to six months if this situation is continuous without any immediate measures where it could contribute to job loss to more than 3 million people in Malaysia. A survey conducted by the Ministry of Entrepreneur Development and Cooperatives [3] found that employees working in the private sector are those most at high risk for retrenchment. SMEs in Malaysia contribute significantly to the socio-economic development of the country. It contributes to almost half of the country's employment of 7.3 million people [7][20]. Although the value of economic contribution given is relatively small, the number of SMEs and informal entrepreneurs are among the largest in the country [18]. Hence, the importance of SME's resilience and survival should be prioritized as the issues and challenges faced by SMEs are different based on their category. These include time recovery, financial commitment, business operation, readiness on new ICT applications and e-commerce platforms.

2.3. Measures by Government and Way Forward

The Covid-19 pandemic and the implementation of any nationwide restriction movement approach such as MCO have adversely affected the people and businesses especially SMEs. Several sectors are unable to operate normally due to movement restrictions and changes in consumer behavior, thus affecting employment and economic resilience [15][19]. In this regard, the Malaysian government has provided a large amount of assistance to reduce the burden on the people and businesses especially SMEs. Assistance worth RM662.5 billion has been provided through eight economic assistance and stimulus packages since March 2020 [7][9]. The implementation of the economic stimulus package and the 2020 Budget and 2021 Budget helps SMEs alleviate cash flow constraints and increase business resilience.

The expected increase in external demand, the manufacturing and commodity production sectors as well as the continued implementation of infrastructure projects by the government are expected to drive the recovery, growth of SMEs in the manufacturing, construction and agriculture sectors. Continued financing measures and low interest rates can support SME growth. To mitigate the impact of the pandemic and aid economic recovery, a total of RM662.5 billion has been allocated by the government with a total of RM143 billion to benefit SMEs, directly or indirectly [11].

This pandemic period has revealed the importance of the adoption of technology and digitization to ensure the survival and resilience of SMEs especially during the post-pandemic era [20]. SMEs need to immediately shift and optimize the use of modern technologies and business digitization platforms to remain relevant. Therefore, the Government encouraged this transition through the promotion of the national digitization agenda especially among B40 and M40 households by providing entrepreneurship or self-employment platforms as an alternative source of income [10][21].

Immediate actions through various programs and initiatives to promote digitalization among SMEs including aiding the business processes based on digital and automated systems covering procurement and inventory management, accounting, digital marketing, e-commerce and digital payment systems. The efforts to rehabilitate and strengthen SMEs continued as the sector played an important role in the economic and employment ecosystem. The government also needs to shape the digital economy ecosystem by involving local SME's operators especially for e-commerce, logistics, financial-tech and academics as a whole to further support the local SMEs [12][13][22].

3. Methodology

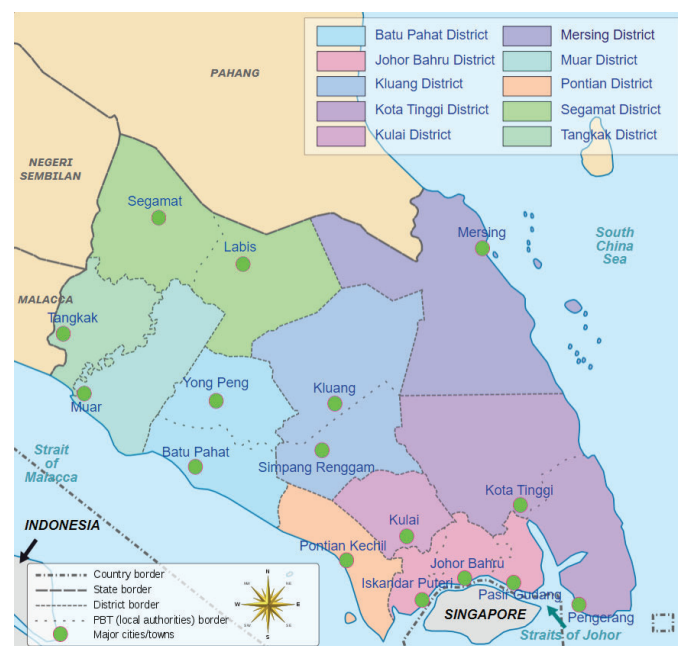


Figure 1. State of Johor as a study area.

Source: Google Earth Pro

The primary data is obtained from a field study by employing the interview method. It aimed to understand the current scenario, impacts and resilience of SME's operators especially in four major sectors in SMEs such as services, manufacturing, agriculture and construction. The study area selection is the state of Johor, the southern part of Peninsular Malaysia (Figure 1). Johor is considered one of the major economic catalysts for Malaysia as Johor's economy is mainly based on the tertiary sector (services) supported by the secondary sector (manufacturing and construction). Another selection indicator is Johor's location in close proximity to Singapore which helps the growth of main economic sectors such as services and manufacturing.

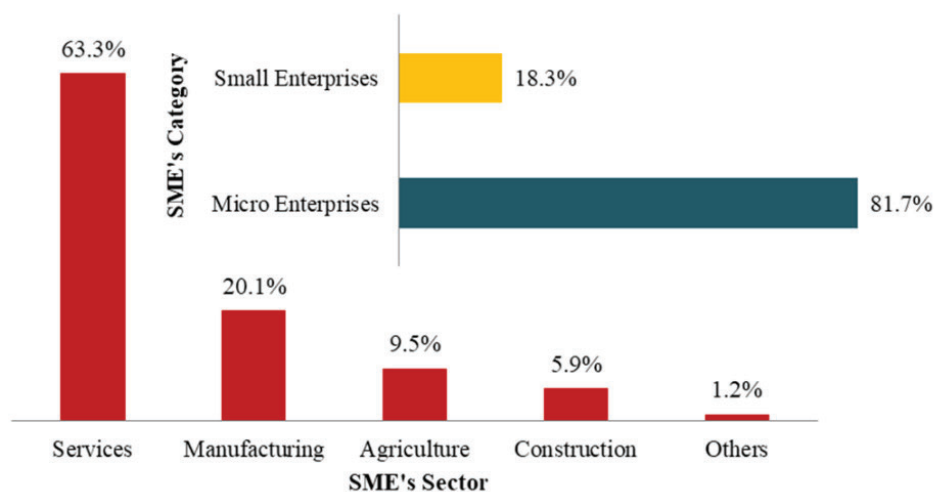


Figure 2. SME's operator's profile by sector and size.

The total number of 60 SME's operators was selected as respondents where the majority of them registered their businesses under the SME Corp. Malaysia (Figure 2). The data analysis method used in this study is a descriptive analysis using percentage and mean as well as the use of inferential analysis, which is an analysis of variance (ANOVA) using the F-test to evaluate the significance level of the impacts towards the resilience of the SME's operators in Johor.

4. Discussion of Analysis and Findings

The average monthly income of SMEs in Johor decreased by 60 percent due to restriction movement approaches such as MCO and strict standard operating procedures (SOPs). Meanwhile, for the extended period of operating hours, the average monthly income of SMEs only experienced a lower reduction in income of 49 percent during Malaysia's National Recovery Plan (PPN) period (post-movement restrictions), especially in the services and manufacturing sectors. Nevertheless, SME's income in Johor increased and decreased according to the degree of restriction of economic and social activities.

Table 1. Level of impact on SME's resilience.

Impact	Percentage (%)					Mean	ANOVA (F-test)
	Strongly Not Agree	Not Agree	Uncertain	Agree	Strongly Agree		
Business Operation							
Losses suffered by SMEs	3.3	5.0	20.0	60.0	11.7	0.74	0.008*
Business is forced to shut down	1.7	6.7	33.3	50.0	8.3	0.71	0.019*
Burden of business operation costs	1.7	6.7	21.7	60.0	10.0	0.74	0.008*
Retrenchment	1.7	1.7	50.0	20.0	25.0	0.72	0.015*
Material Supply							

Impact	Percentage (%)					Mean	ANOVA (F-test)
	Strongly Not Agree	Not Agree	Uncertain	Agree	Strongly Agree		
Increasing raw material prices	3.3	1.7	26.7	36.7	31.7	0.78	0.001*
Shortage of raw material stocks	3.3	8.3	23.3	38.3	23.3	0.72	0.015*
Waste of raw materials due to business closure	1.7	20.0	10.0	36.7	31.7	0.75	0.005*
Business Income							
Loss of source of income	3.3	5.0	11.7	40.0	40.0	0.82	0.000*
Reduction of products/services demand	1.7	3.3	21.7	38.7	34.6	0.80	0.000*
Reduction in sales revenue	3.3	3.3	21.7	46.7	25.0	0.77	0.001*

*Significant value at 0.05

In terms of the impact on SME's resilience, majority of SME's operators in Johor suffered severe losses, and their businesses were forced to shut down (Table 1). Moreover, the majority of SME's operators are uncertain about laying off their employees during this pandemic as most of them were self-sustained and the business operations were run by their family members. In addition, the findings also explained that most respondents have a negative perception of the raw material stock supply. It has been proved that most SME's operators agreed that the pandemic has negatively impacted the supply of raw materials. This indicates that these SME's operators expect that the price would increase and shortages of raw material supply. In terms of business income highlighted that the SME's operators experienced a drastic loss of sources of income, reduction of products/services demand and declining in sales revenue. For example, wholesale and retail sectors could not survive due to limited time of operation and restrictions on people's movement.

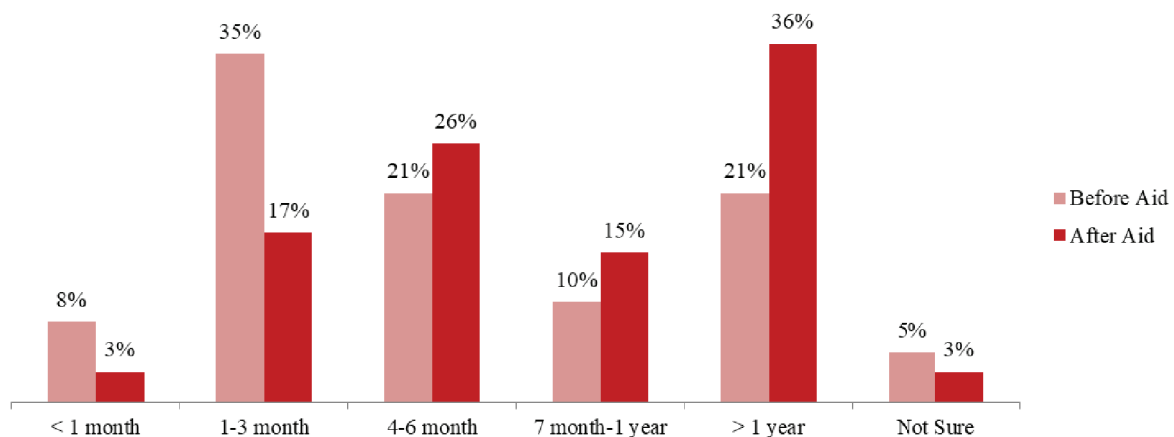


Figure 3. Survival of SMEs before and after government aid.

Overall, this research found that the number of vulnerable SMEs operators decreased to 40 percent during the post-movement restrictions compared to 58 percent during the movement restrictions implementation. It was driven by the improvement of the financial situation due to the SOP's loose especially in terms of operating hours and business space capacity. Another main factor contributing to this reduction is the government assistance provided by the various agencies from federal, state and local government, as the majority of SME's operators (36 percent) highlighted that the assistance had benefited significantly their business survival and resilience for more than one year (Figure 3).

5. Conclusion

There are several important findings gained through the study. Among them are the Covid-19 pandemic and the movement restrictions implementation such as MCO adversely affecting SME's operators with

some parties being more affected than others especially micro-SMEs. In addition, the SMEs operators in Johor is able to recover the fastest from the economic impact of the Covid-19 pandemic because of their agility and resilience to adopt different strategies to survive in business such as digital adaptation, minimizing business operation and new marketing strategies. The reopening of more sectors and phase changes for the National Recovery Plan (PPN) as well as the relaxation of travel restrictions are expected to support the country's economic growth trajectory. This will boost business activities as well as production, especially in the SMEs sector which has started operating. This in turn will have a positive impact on SMEs businesses in increasing their income as well as creating new employment opportunities. The importance of digital adaptation in the SME's business could be one of strategy in coping with the impact of economic instability and health crisis.

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