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# A design framework for SMEs resilience in Malaysia

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**Abstract.** Over a years SMEs in Malaysia have had a significant impact on city growth by producing successful entrepreneurs as well as enhancing the competitiveness and efficiency of the business market. In Malaysia, the government and the private sectors are important entities in attracting potential entrepreneurs to venture into SMEs, especially among rural entrepreneurs. The contribution of the SME sector is very significant to the country's business market growth by producing successful entrepreneurs through their involvement in this sector throughout the years. However, the challenges of global market uncertainty due to the protracted health crisis that has struck the world's business market, including Malaysia, particularly the small and medium enterprises (SMEs). Hence, this paper aims to identify the factors for SMEs' resilience in facing the business market challenges in Malaysia. Besides that, this paper also provides an overview of the business market challenges Malaysian SMEs entrepreneurs in terms of movement restrictions, business operation, revenue uncertainty, people's purchasing power and others. Finally, this paper recommends an appropriate framework that integrates the factors for SMEs' resilience with the identified business market challenges in Malaysia.

**Keywords:** framework, resilience, SMEs

## 1. Introduction

Malaysia has been hit by the Covid-19 pandemic which has resulted in the country continuing to face economic uncertainty from early 2020 until today. Many sectors of employment and business are affected by this pandemic challenges. The impact of Covid-19 on the Malaysian economy, especially during the movement restriction period known as Movement Control Order (MCO), was so severe that the country's economic growth was negatively affected [1][2]. Due to the implementation of MCO, economic activities in various sectors are either slowed to a halt or only moves at a slower than it was previously. During the MCO period beginning in March 2020, small and medium-sized enterprises (SMEs) were particularly hard hit by the decline in demand and difficulty of sourcing materials for production [3]. It also has a negative impact on employees who are laid off as a cost-cutting measure or when the company closes down [4]. Later, the economy began to revive again after the government announced the termination of MCO implementation in December 2021.

Despite the fact that a full recovery was still a long way off, demand for goods and services began to increase, particularly domestic demand, providing an opportunity for businesses, particularly SMEs to breathe a sigh of relief [2][5]. However, several waves of Covid-19 that occurred over the past two years brought back challenges to the country's economy. The financial position of SMEs that remain unstable will be more difficult. Various efforts have been undertaken by all important parties, whether SMEs entrepreneurs or the government, in reducing the economic impact such as new business methods,



financial assistance, operational cost reduction, and others [3][5]. However, the post-pandemic economic challenges of the Covid-19 are very bitter for SMEs despite various initiatives being implemented by the government over the past two years as the majority of the SME entrepreneurs, especially the micro SMEs are struggling to recover from this health crisis and the uncertainty of economic challenges [6]. Therefore, this paper aims to identify the factors for SMEs' resilience in facing the economic challenges in Malaysia.

## 2. Literature Review

### 2.1 Background of SMEs in Malaysia and its contribution

SMEs have the ability to increase national production and job creation, facilitate integration between firms, generate exports, and assist in the production process of a variety of medium and large-scale industries. SMEs in Malaysia operate in a wide range of industries. It also provides a wide range of activities and can act as a catalyst for the growth of new areas and further expand the basic activities of the economy. The activities classified under economic sectors involving SMEs include agriculture, manufacturing, services, construction, and mining [6][7]. In 2020, the agricultural sector was the major contributor to SMEs economic performance, with 54 percent of Malaysia's gross domestic product (GDP) [8]. Malaysia's SMEs contribute significantly to the country's GDP and total business in various sectors. It was reported that SMEs contributed approximately RM512.8 billion or 38.2 percent of the national GDP [8].

The role of SMEs is often discussed as one of the agents of the economic development of the country. It is not only the backbone of the country's economic development but also a site to hone one's entrepreneurial talents. It was reported that 907,000 SMEs entrepreneurs were registered under SME Corporation Malaysia (SME Corp. Malaysia) in 2020, which was categorized into three levels of business size, namely micro (78.4 percent), small (20.0 percent) and medium enterprises (1.6 percent) [8]. Therefore, Malaysia has recognized the significance of SMEs development because it plays a critical role in economic development and has the potential to achieve rapid economic growth while also creating employment opportunities.

The contribution of SMEs to the country's development can be categorized into several levels, namely national interest and SMEs significance. For the national interest, the SME's contribution includes being a supporter of the country's industrial process, assisting in the country's economic development, and contributing to the development of rural areas. The SMEs significance, SME's contribution can be identified through providing a foundation for larger enterprises, providing entrepreneurship training opportunities, having a positive impact on income distribution, helping the production of goods more efficiently, avoiding waste and encouraging austerity, as well as playing a role in social formation.

### 2.2 Economic challenges toward SMEs

The performance of the global economy is heavily influenced by the impact of the Covid-19 pandemic. Several economic challenges were faced by the SMEs in Malaysia from globalization, political, social, economic, and technological changes (Table 1). The current economic crisis confronting the country is distinct from previous crises. While the previous crisis was generally caused by deteriorating economic fundamentals, this time, the crisis was caused by non-economic external factors, specifically Covid-19, the presence of which caused the country's economic fundamentals to deteriorate. Furthermore, the previous crisis has largely focused on certain sectors only, especially the financial sector in 1997-1998 and its impact on demand has usually focused only on either internal or external demand [9]. However, the crisis this time affected most sectors and reduced demand in both the internal and external sectors.

It has been two years since the outbreak of the Covid-19 pandemic hit the world and no one could have expected that it would leave a huge impact on the world economic landscape. As a result of the implementation of movement restrictions, the country's economy experienced a recession due to the supply chain being affected due to the temporary cessation of manufacturing and trade activities, border

closures, and limited movement of people. Hence, this measure has paralyzed the country's economic sector and many industries and businesses especially the SMEs were also affected as their business cannot operate normally. The decline in economic activity was also influenced by the decline in consumer demand and at the same time, the rising unemployment rate [10].

**Table 1.** Economic challenges toward SMEs

| No. | Issue/Challenge  | References  |
|-----|--|-------------|
| 1   | Impact of the health crisis  | [1][2][3]   |
| 2   | Movement restrictions through border closures and limited movement have caused the recession | [2][3]      |
| 3   | SMEs business cannot operate normally  | [4][11]     |
| 4   | SMEs business is forced to shut down their operation   | [4][11]     |
| 5   | Limited economic activity due to the decline in consumer demand                              | [5][11]     |
| 6   | Rising unemployment rate   | [17]        |
| 7   | Challenges to youth groups in starting a business  | [11]        |
| 8   | Reduction in revenue and decline in average annual sales                                     | [6][10][12] |
| 9   | Unpreparedness on the new business methods through digital platforms                         | [13][18]    |

SME entrepreneurs in particular are an affected group as they have to face current challenges to continue their business especially youth groups who are just starting a business. A survey on the impact of the Covid-19 pandemic on youth entrepreneurs found that 94.7 percent of youth entrepreneurs aged 18 to 40 were affected by the current situation of the Covid-19 pandemic [11]. The most significant direct effect of Covid-19 contagion on the SME's business was the reduction in revenue compared to before the MCO implementation. The decline in average annual sales in 2020 is reported as approximately 45.1 percent compared to the average annual sales in 2019 due to shortage and absence of customers as well as limited business activities [10][12]. This situation can also indirectly contribute to the increase in unemployment among Malaysian youths as some of the youth SMEs entrepreneurs are also forced to shut down their businesses and lose their jobs.

There is an interesting concept where this pandemic had two distinct impacts on SMEs entrepreneurs where some recorded soaring sales, and some had to swallow bitterness when sales plummeted. SME entrepreneurs were shocked by the MCO announcement in March 2020, which was made in a short amount of time. Most of them were not ready for it. The sales of small business owners who follow the current cycle are thought to be going up higher than usual. For example, SMEs involved in selling food and beverage use digital platforms as their sales are increasing compared to usual. However, for SMEs who are still using the old business method, their sales declined.

### 2.3 Factors for SMEs resilience

As a countermeasure, SMEs entrepreneurs were adopted several approaches to remain resilient in coping with the health crisis and uncertainty of economic challenges, namely human resource development, good management practices, optimizing capital savings, resizing business scale and new business methods like digital platforms to reduce the operational costs; and financial assistance from the three-tier of government level namely federal, state and local government to support the survival of business during the health crisis and uncertainty of economic challenges [10][11][12] (Table 2). In order for SMEs to remain resilient, entrepreneurs need to review their business operations and adjust them according to current suitability and needs. In addition, the world is now watching the "brick and mortar" businesses (physically) shift to "click and order." The emergence of the digital platform enabled by ICT has significantly altered the business environment and the manner in which business activities including SMEs, are conducted [13]. Hence, it is necessary for SMEs to adopt a digital platform in the new environment of the post-pandemic era to overcome the economic challenges and remain resilient.

The government is also committed to assisting the affected entrepreneurs to ensure the sustainability of their businesses. Financial assistance from the government is one of the critical factors for SMEs to stay afloat. The government plays a very important role in supporting the recovery of a country's economy through the provision of various types of assistance as well as the formulation of government policies in addressing this pandemic crisis. Various continuous efforts by the government for SMEs such as PRIHATIN “Prihatin Rakyat Stimulus Package,” PENJANA “National Economic Regeneration Plan,” PERMAI “Economic and People's Protection Assistance Package,” PEMERKASA “Strategic Program for People and Economic Empowerment,” PEMULIH “People's Protection and Economic Recovery Package” and others were introduced as an inclusive and holistic approach to Malaysia's economic recovery [14].

**Table 2.** Factors for SMEs resilience

| No. | Factor  | References   |
|-----|---|--------------|
| 1   | Good management practices   | [16]         |
| 2   | Optimizing capital savings  | [1][12]      |
| 3   | Human resource development  | [4][12]      |
| 4   | Resizing business scale for cost savings  | [1][16]      |
| 5   | A new business method like digital platforms (digital transformation and adaptation)  | [12][15][18] |
| 6   | Review their business operations and adjust them according to current suitability and needs                                 | [1][16]      |
| 7   | Improving marketing and advertising strategies  | [13][15]     |
| 8   | Transition to new business areas  | [1][15]      |
| 9   | Product diversification   | [1][7]       |
| 10  | Obtaining funds and financial assistance from the three-tier of government level namely federal, state and local government | [1][12][17]  |

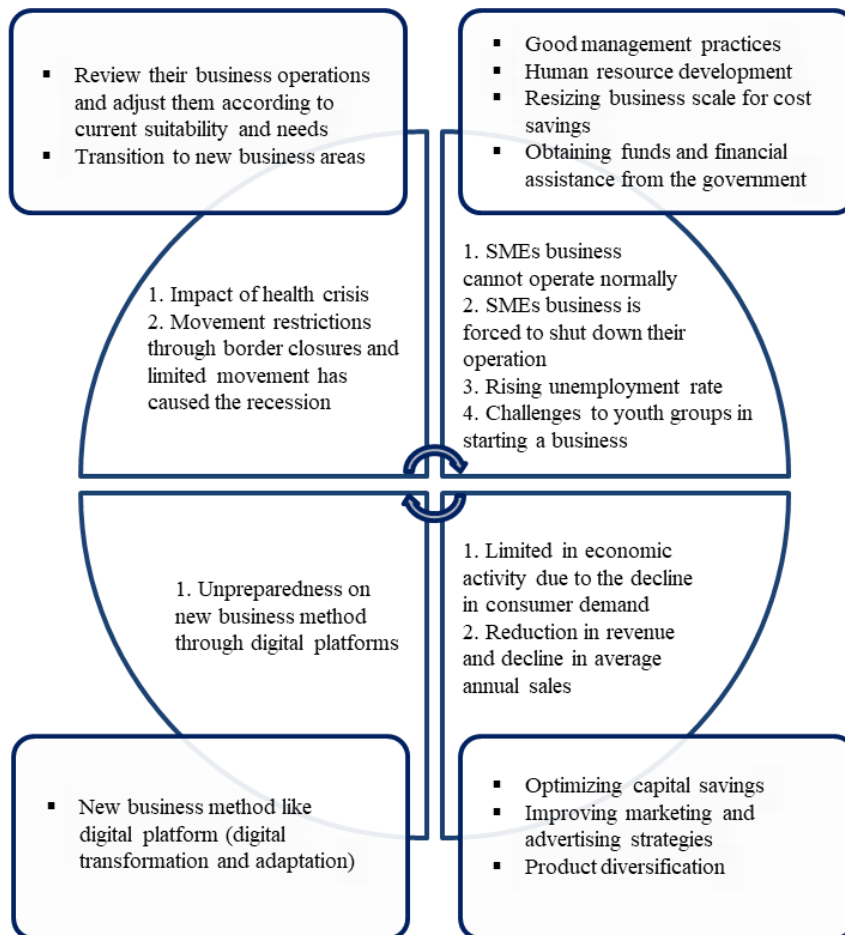
Among the actions used by SMEs entrepreneurs to face current and post-pandemic challenges include improving marketing and advertising strategies, digital transformation and adaptation, obtaining funds and assistance, transition to new business areas, cost savings, product diversification and others. Therefore, SMEs businesses in the future need three main attributes, namely agility, sustainability and resilience, especially in a disrupted economic situation due to a health crisis like the Covid-19 pandemic [15][16]. SMEs with high resilience are SMEs that show good internal qualities that can help them achieve success despite having to go through various obstacles and barriers. SMEs with strong resilience will be able to bounce back from a difficult life and be able to deal with the problems faced by using the best solution mechanisms [17]. The ability to reinvent, relearn and transform is essential for SMEs to respond to emerging risks especially uncertainty of economic challenges and remain relevant in the future.

### 3. Theoretical Framework and Discussion

Based on the literature review, the theoretical framework is developed through the integration of the challenges and factors for SME's resilience (Figure 1). The resilience of SMEs to the various challenges namely health crisis, the uncertainty of economic challenges and others can be achieved through the identification of factors for the SMEs to continue to survive and withstand any challenges especially for the SMEs that were successful in coping with these challenges and remain exists.

The Covid-19 pandemic has given a huge impetus to the adoption of digital technology among SMEs entrepreneurs across Malaysia [18]. The shift to a digital economy will help businesses stay afloat where e-commerce will help to reduce the contagion impact of the Covid-19 pandemic following the movement restrictions and border closures. Hence, the e-commerce sector is currently one of the fastest-growing industries in Malaysia and has contributed major significance to Malaysia's digital economy. This will

lead to the improvement of the human resource development aspect through re-skilling, up-skilling and nurturing talent as it's crucial for the digital economy to thrive.



**Figure 1.** The theoretical framework for SME's resilience.

Besides that, various types of assistance provided by various parties, especially the government can help to alleviate the financial burden among micro SMEs, especially on financial capital such as to replenish inventory, purchase raw materials and increase cash savings. On-going assistance to SMEs will impact the recovery of the country's chain, albeit slowly. Hence, SMEs businesses need to review their business strategies and how they can maintain their current business models as the business landscape is constantly changing rapidly where SMEs businesses need to be able to accept new solutions and understand the needs of their customers in order to succeed in the long run and remain resilience throughout the health crisis and uncertainty of economic challenges.

#### 4. Conclusion

In conclusion, Malaysia has recognized the importance of SMEs development as it plays an important role in economic development. Therefore, this paper has identified nine main economic challenges for SMEs and ten factors for SMEs to remain resilient from any challenges. Besides that, this paper is able to propose an appropriate framework that integrates the identified economic challenges and factors for SMEs' resilience in Malaysia. This framework is essential for any SMEs entrepreneurs in Malaysia to be applied if they are heavily facing one of the challenges that were highlighted in the framework with identified approaches based on SMEs resilience factors.

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