

Maintaining The Survival of Malaysian SMEs During Covid-19 Outbreak: Challenges and Suggestion for Management

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Abstract

The Covid-19 pandemic has brought a new phenomenon to human health and development across the globe. This unfavourable scenario is also a trigger to the world economic crisis, after the September 11 attack and the global financial crisis in 2001 and 2008 respectively. The impact of the outbreak has severely affected business owners particularly the small and medium entrepreneurs. This paper provides the setting of those considered as small and medium business organisations. Due to its unique characteristics, precisely in terms of size and capital, these small and medium enterprises are heavily affected in maintaining their businesses and surviving financially. Business challenges include government's policy on movement control order, shortage of cash flow and outdated marketing strategies which make these business owners' struggle to persist during the outbreak. This paper offers a few recommendations to be considered by those entrepreneurs during the period of the pandemic as well as in the recovery process. The suggestions comprise a demand to enhance technology-related skills and knowledge among members of the business, adopting technology as part of business strategy and tools, and engaging a technology-based marketing approach. It is expected that a proper process of transformation in the business operations could help those small and medium entrepreneurs to maintain their survival and sustainability in the market.

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1.0 INTRODUCTION

Small Medium Business Enterprises (SMEs) play a significant role in the economic development of almost all the countries around the world. SMEs represent approximately 90 percent of the world business population, and contribute around 60 to 70 percent of employment opportunities worldwide (World Trade Organization, 2016). It is estimated that nearly 40 percent of Growth Domestic Product (GDP) in emerging economies (World Bank, 2020) and 55 percent of GDP in developing countries (World Trade Organization, 2016) are derived from SMEs. Therefore, the impact of

business operations of SMEs on both developed as well as developing countries are extremely high and indisputable.

However, the outbreak of the Covid-19 pandemic at the end of 2019 has resulted in the world suffering a health crisis, leading to an economic crisis. A restriction of movement exercise has been done to prevent the spread of 2019 novel coronavirus (which is currently known as SARSCoV-2) that has become the main source of Covid-19 disease (Lipsitch et al., 2020). A series of restrictions starting from the process of curfews, quarantines, moving on to lockdown on all business activities (except those

considered as essential services) has been made by almost all the countries around the world, and the period is extended day by day until the present date, in the midst of 2020.

The economic impact has hit small businesses badly as their survival is embedded closely by the surrounding community. Inability to operate during normal business hours will eventually reduce their production and possibly result in layoffs among employees. Continuous extended series of Movement Control Order (MCO) will gradually result in more SMEs shutting down their business operations. The Chief Executive Officer of SME Corporation Malaysia (SME Corp Malaysia), Noor Azmi Mat Said highlighted that this worst scenario is possible as most of these SMEs especially microenterprises have a limited cash flow to survive (Zainuddin, 2020). This is supported by survey results which revealed that almost 81 percent of respondents admitted that they only had enough cash flow to survive up to a maximum of 3 months, and less than 1 percent of respondents said they could survive more than a year.

As most SMEs struggle to maintain their businesses during this Covid-19 pandemic, there are several measurements that the employers could consider, not only to deal with current business requirements but also to venture into a new business plan to be used during the period of recovery. Therefore, this paper will discuss some challenges as well as possible measurements that the management of SMEs, especially microenterprises could consider doing during as well as post MCO period.

2.0 BACKGROUND OF MALAYSIAN SMEs

Approximately, 98 percent of business establishments in Malaysia is derived from SMEs, which contributed RM521.7 billion (or 38 percent) of GDP in the year 2018. This contribution was expected to increase to 41 percent by 2020 since the local SMEs are supplying to many multi-national companies (Musa & Chinniah, 2016). SMEs in Malaysia are also expected to offer nearly 5.7 million jobs to 70% of the Malaysian workforce. According to Table 1, there are two types of business orientations of Malaysian SMEs, which are (1) manufacturing; and (2) services and other sectors. These two types of business orientations are differentiated by the sales turnover and the number of full-time employees.

Table 1: Types of SME business orientation

TYPES OF SME	SALES TURNOVER	NUMBER OF FULL-TIME EMPLOYEES
Manufacturing	Not exceeding RM50 million	Not exceeding 200 employees
Services & Other Sector	Not exceeding RM20 million	Not exceeding 75 employees

(Source: <https://www.smeinfo.com.my>)

Table 2: Different categories of Malaysian SMEs

SIZE		MANUFACTURING	SERVICES & OTHER SECTOR
Microenterprises	Sales Turnover	Less than RM 300,000	
	Employees	Less than 5	
Small	Sales Turnover	RM300,000 to RM15 Million	RM300,000 to RM3 million
	Employees	5 - 75	5 - 30
Medium	Sales Turnover	RM15 Million to RM50 Million	RM3 Million to RM20 Million
	Employees	75 - 200	30 - 75

(Source: <https://www.smeinfo.com.my>)

Table 2 highlights three categories of Malaysian SMEs, which include microenterprises, small, and medium. The difference in terms of sales turnover and the number of employees indicate that 'Microenterprise' is the smallest scale of SME category with sales turnover of less than RM300,000 and the maximum number of employees is 5. The second type which is 'Small' are those enterprises that achieve sales turnover between RM300,000 to RM15 million for manufacturing and RM300,000 to RM3 million for services and other sectors. The number of employees varies between the two orientations; manufacturing employ between 5 to 75 employees, and 5 to 30 employees for services and other sectors. The last category, which is 'Medium' are for the SMEs which obtain a sales turnover between RM15 million to RM50 million for

manufacturing; and between RM3 million to RM20 million for services and other sectors. In terms of the number of employees, manufacturing is expected to employ up to a maximum of 200 employees, whereas 75 employees for services and other sectors.

Based on the data shared by the Department of Statistics Malaysia, a majority, i.e. 79 percent of SMEs in Malaysia is microenterprises, 21 percent is small and only 2 percent is considered as medium (2019). Microenterprises are exposed to greater challenges compared to others during an economic crisis (Fabeil et al., 2020). This is because microenterprises have financial limitations where majority sources of funds are derived either from personal savings or contributions received from family members, relatives, or friends. Microenterprises are different from larger SMEs, where they prefer to use solely internal financing instruments as well as opting to apply for short term bank debt facilities such as credit card overdraft, credit line, and bank overdraft (Masiak et al., 2019). These financial constraints, together with the microenterprises' limited knowledge and management skills, will eventually force them to focus on short-term rather than long-term goals, thus inhibiting further development as well as the exploitation of new opportunities (Mohamad Radzi et al., 2017).

An announcement to enforce MCO by the Malaysian Prime Minister starting from March 18, 2020 (New Straits Times, 2020a) has resulted in an entire shift in the business environment, specifically to the SMEs. An online survey that was conducted to analyse the SMEs' sustainability and survival during MCO revealed that the micro is the most affected sector due to economic crisis (SME Association of Malaysia, 2020). This could be the scenario as a majority of SMEs in Malaysia consists of microenterprises. The survey revealed that there is a drop in revenue where 56.6% of them reported zero revenues during the MCO. This has led employers to make unfavourable decisions including cutting down the pay as well as forcing the employees to take unpaid leaves. A continuous execution of these moves could risk the survival of the SMEs in the future. Therefore, several measures need to be considered by the SMEs to ensure their survival during as well as after the MCO period.

3.0 CHALLENGES OF MALAYSIANS' SMEs DURING THE OUTBREAK

The Covid-19 pandemic which led to MCO has added business challenges to SMEs around the globe

irrespective of the business size, location, or source of funds. A fragile business structure of SMEs with restricted capital has caused more pains and difficulties to survive. Challenges which derive internally or from external business environment have impacted the business owners. Therefore, the remaining section will discuss a few challenges faced by the SMEs during the outbreak.

3.1 Loss of sales due to the closure of business operations

The MCO which started on March 18, 2020 extended until 9 June (Yin, 2020) to curb the spread of Covid-19 pandemic in the country. One of the precautionary measures of MCO was an instruction to shut down government and private premises, except those involved in providing essential services (Godwin et al., 2020). Essential services "include, amongst others, banking services, transportation (air/land/sea), telecommunication services, electricity and water services, food supply and preparation services, and e-commerce" (Prevention and Control of Infectious Diseases (Measures Within the Infected Local Areas) Regulations 2020, 2020). The closure of the premises hit the normal sales of the businesses, especially SMEs, badly; worse for those not providing 'essential services'.

SMEs characterised by a liability of smallness (Eggers, 2020), refer to smaller business entity, with less controllable resources, are typically more vulnerable to surrounding internal and external events. The Covid-19 containment policy which involve the complete closure of business operations, that emphasise social distancing between employees as well as minimising physical contact among customers (McGeever et al., 2020) is among the conditions that could affect the business performance of small businesses especially SMEs during the MCO period.

3.2 Shortage of Cash Flow to Survive

A disability to maintain a proper level of cash flow is one of the reasons for business failure. A business cash flow is different from business profit. Businesses need a cash flow to survive, not profit (Usahawan.com, 2020). A business that suffers from a poor cash flow shows slightly at an early stage of getting total closure, since cash is crucial to repay loans, payment disbursements, paying suppliers, and employees. The management of cash flow is vital for the survival and future growth of SMEs (Mohd Tahir & Mohd Ashhari, 2020). A successful business with high profit may also encounter a weak cash flow due to many factors, such as the case of Speedy Video Distributor. Speedy Video was among the major

distributors of copies of films, dramas, and physical music albums in Malaysia. The company which was established in 1989 has more than 90 outlets throughout Malaysia. However, the presence of high-speed broadband, satellite television, and the streaming site has affected the sales of DVD globally including Malaysia (Whitten, 2020). The Covid-19 pandemic had worsened the scenario, which led the company to close all its business outlets starting from June 2020 (Loheswar, 2020).

Michael Kang, the President of SMEs Malaysia highlighted that the biggest challenge for Malaysia SMEs during this Covid-19 pandemic is a tight cash flow (Tan, 2020). He expected the SMEs to survive up to a maximum of 3 months using whatever remains to pay for salary, rental, and some statutory expenses. Despite various government assistance through stimulus package and additional allocation for SMEs through subsidiary salary, nearly 78 percent of the respondents of the survey conducted by SME Corp Malaysia is yet to apply for the special relief, as they are afraid of committing in another financial commitment. The majority of them are taking alternative actions in regards to their business operations which include persuading their staff to utilise annual leave as well as initiating retrenchment of employees.

3.3 Outdated marketing strategy

Surina Shukri, the Chief Executive Officer of Malaysian Digital Economy Corporation (MDEC) highlighted that the prolonged MCO exercised on businesses has started to result in many SMEs experiencing an interruption in their supply-chain relationship, a delay in operations, and constraints to meet the stakeholders' requirements (New Straits Times, 2020b). There is a small number of SMEs that are unable to engage physically with customers since most of them are using traditional marketing strategies such as relying on print advertisements in newspapers or magazines, sending flyers in mailboxes and using commercials on television, radio or billboards, which were not effective during the MCO period. Ambad et al. (2020) highlighted that this outdated approach is found to have failed to neither attract new customers nor retain the existing ones.

The competitive advantage for a company that employed a traditional marketing strategy in delivering its product is gradually diminishing. The local retail industry that continues the adoption of traditional-based marketing ideas will not be able to survive in fierce competitions (Zhu & Gao, 2019). This could be because traditional marketing offers a limited medium of

interaction with customers which hinders feedbacks, costly marketing tools, techniques as well as unmeasurable marketing results (Cave, 2013). Therefore, the use of digital tools is important for SMEs to consider during this outbreak, as well as to maintain their survival in the future.

4.0 SUGGESTION FOR MANAGEMENT

As the government through Malaysian National Security Council, Ministry of Health, Ministry of Finance, together with other related government and private agencies are seriously planning and implementing competitive precaution measures to prevent the spread of coronavirus as well as restoring the economy, businesses are also expected to respond with the new environment. One of the strategies that SMEs could consider is to Go-Digital or move to an e-Commerce business platform. The following are some suggestions to ensure success in employing a digitalised business environment.

4.1 Enhance IT skills and knowledge

The Fourth Industrial Revolution or IR 4.0 has given a huge impact on businesses worldwide including SMEs by moving from the traditional 'brick and mortar' business style to a digitalised platform. The latest revolution which fully relies on a computerised system in performing business as well as handling the business data is expected to outline new job requirements among employees (Shirani, 2019).

SMEs need to be proactive in reshaping the relevant information technology (IT) skills and knowledge among their workers to ensure they are able to adapt to the latest technology. Proper planning to enhance employees' skills should be made, such as sending them to relevant IT training either in-house or at training centres to ensure their IT skills are improved. The government through the Human Resource Development Fund (HRDF) has allocated and developed various programs to facilitate companies especially SMEs in continuous training programs to enhance their employees' skills and knowledge. Though IT-related training is considerably expensive, the expansion of eligibility criteria for employers to be registered with HRDF is expected to promote more members to enable them to fully utilise training programs funded by HRDF (Lee, 2020).

4.2 Adopting technology in business

An organisational change is not easy, especially if it deals with the process of allocating fund, investing and adopting new technology in the business. However, the

decision to embrace technology is no longer a choice, as it is a fundamental agenda for a company to become more competitive in the industry. The use of technology will facilitate the SMEs to interact with their customers faster and potentially lead to an increase in their turnover (Faridi & Malik, 2019). Investment in digital technology is also seen as an opportunity for Malaysian SMEs to become global as it is expected to become the key enabler to drive new business orientation and provide various alternatives to consumers not only in Malaysia but across Southeast Asia (Digital News Asia, 2019).

However, financial and knowledge constraints might hinder the SMEs especially the micro businesses to immediately absorb the technology during this global pandemic, unlike large companies that might have proper business contingency plans to deal with this scenario. Therefore, SMEs need to aggressively look for alternative opportunities in adopting technology-based business operations to escape the impact of Covid-19 pandemic. The launching of the DigitalvsCovid campaign by MDEC will eventually support the idea of technology adoption among SMEs. MDEC is working together with local technology companies (namely DiGi Telecommunications, Masala On Wheels, Storehub,>HelloWorld Robotics, EasyParcel, LWE, Naluri, and Innov8tif) to provide digital solutions and services to affected businesses (Subramaniam, 2020). These technology leaders are willing to offer services to SMEs for free, as well as provide attractive discounts and opportunities to form strategic collaborations.

4.3 Engage in technology-based marketing

The increase in percentage among the Internet users from 77 percent in 2016 to 87 percent in 2018 (Malaysian Communications and Multimedia Commission, 2018) could eventually signify a new platform for delivering products and services to consumers. SMEs should fully utilise the Internet as a platform to promote their products by providing details of product offers, handling queries and answer sessions, and offering alternative payment methods without consumers having to be physically present at SMEs' premises. A simple website that provides details on SMEs' business background and a platform to initiate sales processes could become a starting phase for SMEs, especially for micro enterprises which have started to digitalise their business operations. There are many available platforms to start with, for instance by creating accounts on Facebook, Instagram, or developing own

websites or blogs, as well as promoting through e-commerce channels namely Lazada and Shopee.

The emergence of Lazada and Shopee is seen as a driving force for the transformation of business operations which create opportunities for the establishment of more delivery companies to cater e-commerce requirement; inspire the SMEs to trade online as well as shaping new shopping behaviour (Tran, 2019). A survey conducted by the Malaysian Communications and Multimedia Commission (MCMC) revealed that almost 93 percent of Malaysians use smartphones to go online (2018). Therefore, SMEs need to be agile in moving to a digitalised environment as it is believed that this platform not only provides an interactive channel to cater to consumer needs, but it also helps to create a simple database for SMEs to understand and handle customer interactions (Castronovo & Huang, 2012).

5.0 CONCLUSION

The Covid-19 pandemic has extremely impacted the survival of most SMEs. The unique business structure of SMEs particularly microenterprises, with the small scale of turnover and limited business profits, would eventually challenge these SMEs to remain in the business. The initial challenges began from the start of MCO period with the majority of SMEs experiencing loss of sales, leading to a harsh decision to cease business. This became eventually true as most of these SMEs have been struggling to cater to their business commitments as most of them suffered a shortage of cash flow. The adoption of a traditional marketing strategy would also bring negative impacts on business performance as affected companies will be removed out of the market.

Therefore, SMEs need to be agile with the business environment to ensure their survival is not only during the pandemic but also after the episode ends. SMEs should proactively react to internal and external factors that might influence them in continuously providing excellent service to their customers. The best measure to be adopted by SMEs during this Covid-19 pandemic is to redesign the business operations to facilitate digitalised infrastructure. However, to be successful in this digitalised environment, SMEs need to ensure they employ suitable IT experts as well as develop IT-related skills among existing employees. Having these will eventually help in smoothly adopting technology in business operations precisely in the marketing of products or services. It is expected that proper process of changes will help the SMEs to maintain

their survival and indirectly transform them to become agile business organisations.

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