

MSMEs and Sustainable Business Model in Malaysia

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Introduction of MSMEs in Malaysia

Micro, Small and Medium Enterprises (MSMEs) are important and substantial backbone of the Malaysian economy. According to the SME Corporation of Malaysia (2020), MSMEs represent 97.4 percent of the total business establishments in Malaysia. In the country, there are a total of 1,226,494 MSMEs, with 78.6 percent from micro businesses followed by small and medium establishments at 19.8 percent and 1.6 percent respectively. The majority of MSMEs are in the services sector (83.8 percent), and others (16.2 percent) from the construction, manufacturing, agriculture, and mining sectors.

MSMEs in Malaysia have been resilient and survived the 1998-1999 Asian Financial Crisis and the 2007-2008 Global Financial Crisis. However, they are not spared by the several Coronavirus nationwide lockdowns between 2019 and 2021. Chew (2021) reported that 150,000 MSMEs were faced with closure and 1.2 million jobs were lost during the times when the country was fighting against the spread of the virus. Nonetheless, the opening of the country's borders on April 1, 2022, sheds hope for the surviving MSMEs, especially those in the tourism and hospitality sectors to rejuvenate their businesses. A report by the World Bank (2016) reckons that small is the new big as MSMEs can help energise and drive the recovery of the economy in months to come.

If not for the Coronavirus pandemic, MSMEs are expected to contribute to 41 percent of the country's GDP and share of country's export to 23 percent by 2020 (World Bank, 2016). MSMEs was expected to recover in 2021 with manufacturing topping the list as reported by News Straits Times Business (2021). This expectation is short-changed as reported by SME Association of Malaysia (The Malaysian Reserve, 2022a) that most MSMEs in 2022 are performing worse than in 2020. This worse performance is due to the uncertainty of supplies of raw materials, labour shortage and transportation resulting in many rejections of orders. However, it is too early to make a conclusion that MSMEs will have a gloomy year as we are only at the first quarter of 2022 and that the Malaysian borders will be opened in early April 2022.

The Malaysian government has been giving considerable attention to MSMEs since the inception of the National SME Development Council in 2004. The council changes its name to the National Entrepreneur and SME Development Council in 2019 to reflect the importance of entrepreneurship amongst MSMEs. During the Coronavirus pandemic times, the government offered qualified MSMEs hardship assistance such as wage subsidies to ease their financial burdens and ensure the continuity of businesses. With the country preparing to enter the Coronavirus endemic phase, the government is hopeful to revive the MSMEs as planned in the Budget 2022 and the 12th Malaysia Plan (2021-2025).

While MSMEs are anticipating for a better year ahead, it is also timely for them to consider having a long-run sustainable business model. MSMEs are strongly recommended to play their small but significant roles in the achievement of the United Nations Sustainable Development Goals (UN SDGs) by 2030. MSMEs can consider engaging Goal 1 No Poverty by creating more jobs for the lower- and middle-income groups, Goal 8 Decent Work and Economic Growth since they make up most of the business entities in Malaysia and Goal 12 Responsible Consumption and Production by engaging green best practices from sourcing of raw materials to producing the end-products and delivering them to the end-users. And of course, MSMEs are welcome to engage with the other 14 goals.

With the said background, the sustainability of MSMEs is crucial to support not only the economic growth of Malaysia but one, which is sustainable. The following section entails a green business model developed by the author of this article.

Sustainable Business Model for SMEs: The GEM Framework

Malaysian MSMEs are encouraged to go green to raise economy and compete internationally. The author of this article would like to share the **GEM** framework, a green supply chain management entailing ways MSMEs can stay sustainable with **Green** economics, **Eco-innovation**, and **Marketing** eco-innovation. Rozar, Razik and Zakaria (2019) reported that environmental pollution in Malaysia is due to the failure of green supply chain management among the MSMEs in Malaysia. This framework as shown in Figure 1, can be a good reference for MSMEs to go green in the supply chain. Green economics guides sourcing of inputs, which are environmental-friendly and recyclable. These resources will be managed through Eco-innovation to produce green products/ services for the market. The products/ services produced will then be marketed through Marketing eco-innovation to reach the consumers.

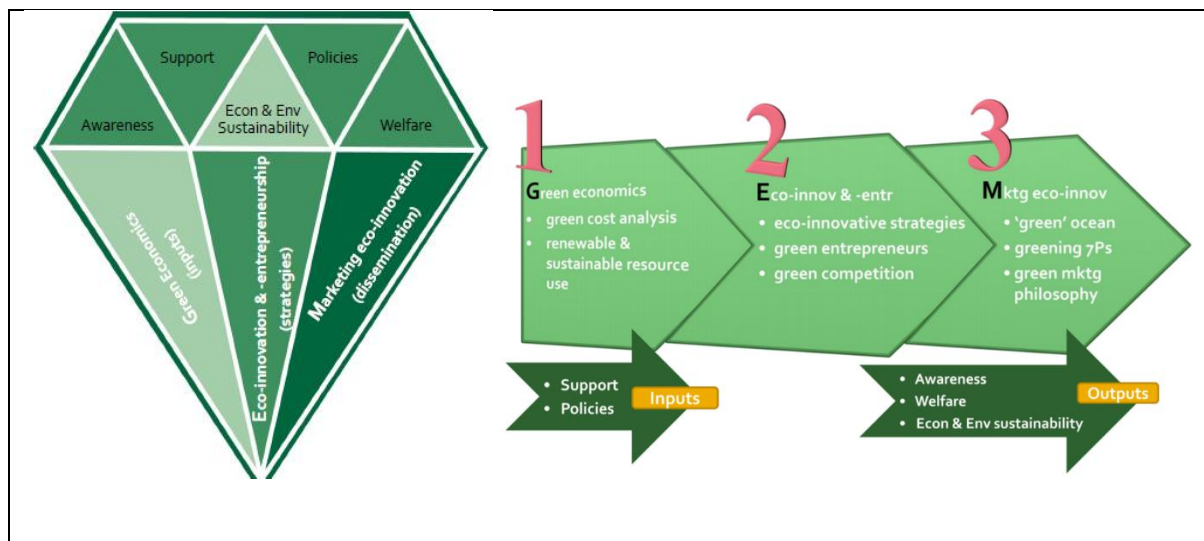


Figure 1: The GEM Framework

The MSMEs can be assisted by the government through green policies and support such like green loans and financing at a lower interest rates and government grants for expansion and growth. Green cost analysis that incorporates cost of externalities to the environment are recommended to ensure efficient production units using renewable and sustainable resources. All goods can be recycled and reused. In terms of managing eco-innovation and -entrepreneurship, MSMEs can craft eco-innovation strategies that can enhance their green entrepreneurial skills to face green competition in the red ocean with many competitors. Any green innovations are expected to be marketed through greening of the 7Ps in marketing while embracing the green marketing philosophy. Concurrently, MSMEs can create a green ocean, which competes on the magnitude of green practices in their businesses. With these green efforts and initiatives, the market will have more awareness of the importance of going green and the wider goals of the UN SDGs. The welfare of the people can also be increased by production at the efficient level incorporating both the marginal external benefits and costs, respectively. With all these practiced, the MSMEs shall anticipate economic and environmental sustainability, which will minimise the environment pollution accrued by them.

Contribution and Condition of MSMEs in Malaysia

The Department of Statistics, Malaysia reported on 29 July 2020 that the contribution of MSMEs to the Gross Domestic Product (GDP) has increased to 38.9 percent compared to 38.3 percent as recorded in 2018. The growth of MSMEs has continued to outperform the overall national GDP since 2004 (Ministry of Entrepreneur Development and Cooperatives, 2020). Besides, MSMEs in Malaysia contributes to 48.4 percent of total employment and 17.9 percent of the nation's total exports in 2019.

The statistics discussed hereafter are sourced from the latest publication, *The SMEs in the New Normal: Rebuilding the Economy 2019/2020 Economic Performance and Outlook*, by the National Entrepreneur and SME Development Council. In 2019, the services sector contributed the most to the MSMEs' GDP and national GDP at 63.3 percent and 57.7 percent, respectively. The contribution from the other sectors are as follows: manufacturing (19.8 percent; 22.3 percent), agriculture (9.7 percent; 7.1 percent), construction (5.6 percent; 4.7 percent), and mining and quarrying (0.5 percent; 7.1 percent).

In 2019, MSMEs employed 7.3 million workers compared to 7.1 million in 2018, showing an increase of three percent. This growth was higher than the national total employment growth, which stood at 2.1 percent. The total employment of MSMEs was supported by all sectors except the construction sector, which had a negative growth in 2019. This was largely contributed by less and delaying of construction projects. In terms of the composition of total employment, 63.2 percent worked in the services sector, 16.3 percent in manufacturing, 10.6 percent in agriculture, 9.7 percent in construction and 0.3 percent in mining and quarrying.

MSMEs continued to contribute growth to exports at 2.6 percent in 2019 but lower compared to 3.4 percent in 2018. This drop was accrued to the tension of trade war between China and the United States of America and weaker external demands. The MSMEs' services sector contributed 50.7 percent to the nation's exports, followed by 48 percent from the manufacturing sector and 1.3 percent from the agricultural sector in 2019. The main destinations of the MSMEs' exports were Singapore (18.4 percent), China (9.3 percent) and the United States of America (7.5 percent).

The emergence of the Coronavirus in Malaysia in the early January 2020 have altered the positive scenario entirely. The Malaysian Reserve (2021b) reported that local MSMEs suffered a negative growth and contracted by 7.3 percent in 2020 due to the Coronavirus pandemic. Razak, Isa and Latiff (2020) reported that almost 87 percent of the MSMEs in Malaysia were badly affected by lower profits, heavier debts to suppliers and the inability to conduct sales during the two nation-wide lockdowns between March 18 and May 3, 2020, and June 1 to June 28, 2021. The GDP of Malaysia fell into negative at -17.1 percent in the second quarter of 2020 (Q2/2020), -2.6 percent in Q3/2020 and -3.4 percent in Q4/2020. Jalil (2021) reported an estimated 37,000 MSMEs had ceased operations because of the pro-longed movement restriction orders. Nonetheless, the gloomy days shall be restored. The economy is expected to pick up gradually, since the nation returned to normalcy in phases during the second half of 2021.

With the opening of the borders from this month (April, 2022), MSMEs will get a huge boost and better acceleration of business and trade. The Chairman of Small and Medium Enterprises Association of Malaysia, Datuk William Ng opined that with the lifting of restrictions related to the curbing of the spread of the Coronavirus, the expected economic growth between 5.5 percent and six percent in 2022 will be more realistic (Lim, 2022). The government understands the hardship faced by the MSMEs and has announced a MYR (Ringgit Malaysia) 40 billion financing package to help MSMEs return to business (Jalil, 2021). The Malaysian government has put forth several initiatives to assist MSMEs in times of the Coronavirus pandemic. Some of the initiatives implemented are initiatives to mitigate the impact of the pandemic through PRIHATIN Economic Stimulus Package, Relief Measures for SMEs affected by Coronavirus, Disaster Relief Fund through SME Emergency Fund, and incentives for merger and acquisition of SMEs.

Conclusion

The time is just right for MSMEs to start afresh and move into greener ways of running the businesses after the recovery from the Coronavirus lockdowns in the country and the to be opened international borders to receive tourists, expatriate, and investors. The GEM framework suggested by the author of this article can be a reference for MSMEs to design a green supply chain management. As the important backbone of the Malaysian economy, MSMEs can benefit from the generous incentives given by the government, rejuvenate their businesses in a greener way and continue to be small is the new big (World Bank, 2016) to boost the economy of Malaysia as we move into the Coronavirus endemic phase starting from April, 2022.

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