

The Effectiveness of Additional PRIHATIN SME Economic Stimulus Package (PRIHATIN SME+) in Malaysia Post-COVID-19 Outbreak: A Conceptual Paper

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Abstract

Purpose: The outbreak of coronavirus disease 2019 (COVID-19) pandemic has shown devastating effects on the Malaysian economy, which critically and disproportionately impacted smaller businesses and vulnerable groups such as lower-income individuals and workers. In light of the emerging risks, this study aims to propose a model that is relevant in assessing the effectiveness of the Additional PRIHATIN SME Economic Stimulus Package (PRIHATIN SME+) in facilitating the financial burden for SMEs and subsequently ensuring the SMEs to remain resilient in the face of economic pressures associated with COVID-19.

Design/methodology/approach: Data were collected through literatures search on SMEs business performance in Malaysia during post-COVID-19.

Findings: The core journals in business performance show various measurements for business performance. Yet, the SMEs business performance during COVID-19 still needs to be considered by measuring using accounting-based measures of performance and market-based measures of performance. This study proposed a model which is aimed to facilitate the SMEs direction in aligning the national SMEs outlook during post-COVID-19.

Research limitations/implications: This concept paper is based on previous research only.

Practical implications: The outcome of this study will provide a mechanism for SMEs to continuously monitor the progress of recovery by focusing on SMEs business activities that need to be prioritized during the recovery process. This study is expected to formulate a monitoring tool that will be useful for SMEs in guiding them to be on the right track in the post-COVID-19 period.

Originality/value: The proposed model in this paper is relevant to SMEs affected from COVID-19 and that received Additional PRIHATIN SME Economic Stimulus Package (PRIHATIN SME+), which shows different results when compared to the situation before COVID-19.

Keywords: SMEs, COVID-19 pandemic, PRIHATIN, Business performance

Introduction

In the face of this uncertainty, many Small Medium Enterprises (SMEs) are struggling to maintain their financial stability, especially with COVID-19 pandemic sweeping across the globe, and Malaysia's Movement Control Order (MCO) in place, some SMEs are seeing close to a 50% drop in income. The outbreak of the coronavirus has slowed the global economy and most companies are in a state of flux. As this epidemic evolved into a pandemic, it is projected that this ordeal may last for at least a year. Although COVID-19 pandemic impacts everyone, those most adversely affected are workers who are paid on a daily basis, and small medium enterprises (SME), (Mahendhiran, 2020).

A survey by an online home services platform, Recommend.my, has found that 68.9 per cent of local SMEs have suffered more than 50 per cent drop in business within one week of the movement control order (MCO). The survey which studied SMEs sentiments one week prior to the lockdown and one week after, found that almost 100 per cent of local businesses have a negative outlook for the Malaysian economy for the rest of the year with more than half having a negative outlook on their own businesses (Azril Anuar, 2020). Accordingly, several areas have been gazetted as red zones, namely Selangor, Kuala Lumpur and Johor, and large number of SMEs is in operation in these areas as follows: Selangor with the highest number of SMEs (19.8 %), Kuala Lumpur (14.7 %) and Johor (10.8 %). SMEs in these areas will therefore have an extensive loss (Shahidan Shaari, 2020).

As we know, COVID-19 coronavirus outbreak is a human tragedy affecting billions of people in this world. The outbreak has also imposed negative impacts on the global economy, industries, corporations and small and medium enterprises (SMEs) (Segal & Gerstel, 2020). EY (2020) revealed that the biggest challenges faced by SMEs during this outbreak is in financial issues include cash flow, liquidity, delays in receivables and declines in revenue. It is suggested for SMEs to have cost-cutting measures by having cash flow management, re-prioritizing of business activities and investments, and adjusting wages or applying for wage subsidies. This is consistent with the government announcement of Prihatin SME Economic Stimulus Package during COVID-19 pandemic. This initiative aims to ensure that SMEs remain resilient in facing economic pressure due to COVID-19 pandemic. This package will help to ease financial burden of SMEs and subsequently ensure that two third of Malaysian workforce will remain employed. Thus, this study aims to propose a model to assess the effectiveness of the PRIHATIN SME Economic Stimulus Package in assisting SMEs in facing financial burden due to COVID-19 pandemic.

Literature Review

SME Malaysia

The definition of a small and medium-sized enterprise (SME) varies across the world. Several guidelines have existed to assist firms or organizations to a better understanding of SME. In Malaysia, the definitions of "small" business are largely qualitative and vague as of today. There is no agreed definition of an SME although some key criteria are commonly recognized by various governments such as independent and legal status, capital investment, turnover, and employment, resulting in different countries to have different definitions of SMEs (Tan, 2009). The definition of SMEs varies from industry to industry and from country to country. The definition is mostly based on the number of people employed, turnover and/or ownership structure of the business (Beck, Demircuc-Kunt, & Martinez Peria, 2008; Harrigan, Ramsey, & Ibbotson, 2011). This study will adopt the definition of SMEs used by the National SME Development Council as the sample of the study, and this study will

include the three main sectors that have been identified by the Council of SMEs (refer Figure 1).

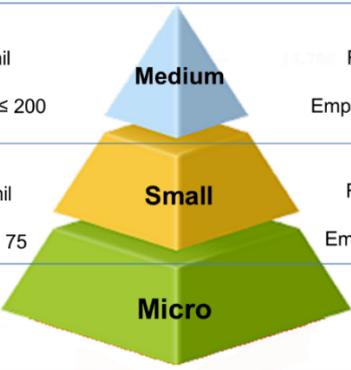
Manufacturing		Services and Other Sectors
Sales turnover: RM15 mil ≤ RM50 mil <u>OR</u> Employees: From 75 to ≤ 200		Sales turnover: RM3 mil ≤ RM20 mil <u>OR</u> Employees: From 30 to ≤ 75
Sales turnover: RM300,000 < RM15 mil <u>OR</u> Employees: From 5 to < 75		Sales turnover: RM300,000 < RM3 mil <u>OR</u> Employees: From 5 to < 30
Sales turnover: < RM300,000 <u>OR</u> Employees: < 5		Sales turnover : < RM300,000 <u>OR</u> Employees: < 5

Figure 1: SMEs definition

Source: SME Corp. Malaysia, 2018

Throughout the world, the role of SME is becoming increasingly prominent (Veskaisri, Chan, & Pollard, 2007). SMEs can be established in any locality for any kind of business activity in an urban or a rural area (Khalique, Isa, & Nassir Shaari, 2011). In the present era of globalization, SMEs cover a wide scale of industries and play an important role in both developed and developing economies. For nearly 20 years, SMEs have been accounted for more than large enterprises of Malaysia's GDP. The contributions of SMEs are significant that even total exports and total employments found increments of economic success in this country (SME Corporation Malaysia, 2016).

Contribution of SMEs towards Economic Development and Growth

SMEs in Malaysia have become an important driver of the Malaysian economy (Hussain, 2012). SMEs are recognized as the backbone of a country's economy in Malaysia and represents 99.2% of the total business (Abdul, Ismail, Mustapha, & Kusuma, 2013). In Malaysia, 98.5% of business establishments are SMEs, and they are considered as the backbone of the nation's economy. SMEs have been a vital player in the economic growth of both developed and developing countries through innovation, being flexible and efficient and in creating job opportunities (Santos, Romero, & Fernández-Serrano, 2012; Zonooz, Farzam, Satarifar, & Bakhshi, 2011). Based on Figure 2, most of these SMEs (89.2%) are engaged in the services sector, while another 5.3% and 4.3% is respectively in the manufacturing and agriculture sectors. This study has selected SMEs as the target of the study since it is one of the major sectors in Malaysia.

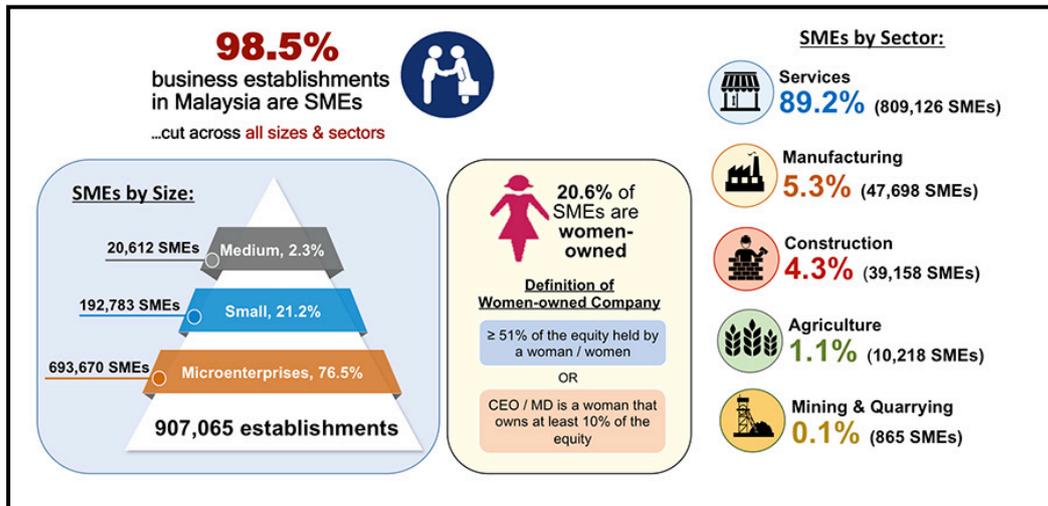


Figure: Contribution of SME
Source: SME corporation 2018

Worldwide SMEs are acknowledged by the government, especially, in developing countries whereby they contribute in the economic growth and stability in employment, new job creation, social cohesion and development (N. A. B. Hashim, Raza, & Minai, 2018; Ratten, 2014). In most developing and developed states, small and medium firms are recognized as a central part of any industrial structure (Ahmad & Pirzada, 2014; Umar, Sasongko, & Aguzman, 2018). Consistent with other countries, Malaysia's SMEs also play a vibrant component in economic development. Despite the gross domestic product (GDP) growth, the contribution of SMEs to employment, export, and productivity is essential for economic development (Ibrahim, Keat, & Abdul-Rani, 2017; Saleh & Ndubisi, 2006).

The SME sector has importance in surviving the economic recession. In Malaysian perspectives, the numbers of SMEs are growing as reported by Chelliah, Sivamurugan, Sulaiman, and Munusamy (2010) and SMEs are also expected to contribute around 50 per cent of the Gross Domestic Product (GDP) in the year 2020 (Hashim, 2000) Globally, small and medium enterprises accounted for 90% to 95% of the businesses, and they generate between 60% and 70% of job opportunities in most of countries (Minai, 2016). Mainly in developing countries, SMEs have great importance. Following these global impacts of SMEs, both theoretical and empirical opinions, suggestions and results supporting the significant contribution of SMEs to the economic growth of all the nations in the world including Malaysia are abundant (Abdullah & Rosli, 2015; Khan & Khalique, 2014; Madanchian, Hussein, Noordin, & Taherdoost, 2016). Thus, the Malaysian Government has also recognized the importance of SMEs for the economy and has implemented various policies, action plans, and program to assist SMEs (Muhammad, Char, bin Yaso, & Hassan, 2010).

SME during Pandemic Outbreak

The novel coronavirus, now known as COVID-19, was first discovered in the city of Wuhan, China, in December 2019. In the short span of three months, it has spread like wildfire. Concerned by the alarming levels of spread and severity, the World Health Organization (WHO) has declared COVID-19 a pandemic. The strict restrictions introduced by the Chinese government to control the spread of COVID-19 have so far caused a significant reduction in economic activity, particularly to Wuhan and Hubei province. SMEs have been hit hard by the epidemic, which led to mandatory closure of most businesses from late January to February 2020. Besides, IMF (2020) projects the declination of GDP in 2020 and only partial

recovery in 2021. This will result in unemployment between 5.3 million to 24.7 million which signals the challenges for SME in survival. A decline was reported in global GDP by 4.9 percent in 2020, 1.9 percentage points below the April forecast, followed by a partial recovery, with a growth at 5.4 percent in 2021 (ILO, 2020). Even after the government had allowed companies to resume operations, many manufacturers have found it difficult to reopen amid a shortage of workers, disrupted supply chains, and sluggish demand (Luo Guoping, Zhao Xuan, & Denise Jia, 2020).

In Malaysia, the country's first recorded case was in January 2020, and the number has recently placed Malaysia as the most affected country in South East Asia. In response, Malaysian authorities issued a two-week Movement Control Order (MCO) on 18th March 2020. Businesses and services deemed to be non-essential were shut down. Interstate travel was curtailed. Public sporting, religious events, and public gatherings were cancelled. Small and medium-sized enterprises (SMEs) also inevitably fell prey to the spread of COVID-19. SMEs play an important role in boosting economic growth. In 2018, SMEs contributed 38.3% of total GDP, and it increased by 6.2% compared to the previous year. These SMEs will tremendously affect economic growth. The service sector contributes the largest share of SME GDP at 62.4%, followed by the manufacturing sector (20.15%), agricultural sector (10.1%), construction (5.5%) and mining and quarrying sector (0.9%). SMEs also provide a large number of employments. During the MCO, only shops selling necessity goods are allowed to be opened. Other businesses remain closed until the MCO is lifted. Yi (2020) revealed that different SMEs have different challenges during MCO. Large SMEs may have cash reserve, but it may not be so for micro SMEs that need to pay salaries and rent. This impact implies that the government decision has a direct impact on SMEs and an indirect one on the economy (Shahidan Shaari, 2020).

Due to this, the Prime Minister Tan Sri Muhyiddin Yassin announced additional initiatives SMEs as part of the PRIHATIN economic stimulus package, known as Additional PRIHATIN SME Economic Stimulus Package (PRIHATIN SME+). This includes a special grant, as below:

- I. Introduction of wage subsidies for companies that employ local workers earning RM4,000 or less,
- II. Special PRIHATIN Grant of RM3,000 for each micro company, which will benefit nearly 700,000 micro SMEs nationwide,
- III. Abolishing the 2% interest rate for the Micro Credit Scheme amounting to RM500 million under Bank Simpanan Nasional (BSN); the easy loan scheme for micro SMEs will also be extended to TEKUN Nasional with a maximum loan limit of RM10,000 per company at a 0% interest rate.
- IV. Waiver or discounts for rentals to SMEs in the retail sector, which are operating on premises owned by Government-Linked Companies (GLCs).
- V. Reducing the levy on foreign workers by 25% to all companies with work permits that will expire in the period of 1 April to 31 December 2020.

SME Business Performance

The term "performance" is used in foreign research and academic literature to describe the results of companies' business activities (Kotane & Kuzmina-Merlino, 2017). Business performance can be measured by several actions that can be broadly divided into financial performance and nonfinancial performance. Some other common measures are profitability, productivity, growth, stakeholder satisfaction, market share and competitive position (Bagorogoza & de Waal, 2010; Garrigós-Simón & Marqués, 2004). However, financial elements are not the only indicator for measuring firm performance. It needs to be combined

with non-financial measurement in order to adapt to the changes in internal and external environments (Rosli & Sidek, 2013). However, in SMEs limitations, the subjective measurements are more valuable than objective measurement due to the lack of availability and reliability of information (Tayeh, Al-Jarrah, & Tarhini, 2015). Thus, this study will be using the following measures to measure SMEs performance:

Accounting-based measures of performance:

- I. Sales revenue growth
- II. Cash flow
- III. Operating cost

Market-based measures of performance:

- I. Number of complaints
- II. Number of customers
- III. Number of orders

Accounting-based measures of performance of SMEs will be measured using (i) sales revenue growth, (ii) cash flow and (iii) operating cost. Sales growth remains an important representation of corporate financial performance, including for SMEs. The ability to access to financial services, especially access to credit at affordable and lower costs will increase the sales growth of the business (Lee, Che-Ha, & Alwi, 2020). During COVID-19, businesses are struggling for profitability due to low cash reserves or unstable cash flows (Deloitte, 2020). Businesses need to have action plans in the near term on their cash flow management due to the risk from COVID-19. Amidst falling revenues and tightened cash flows, SMEs are also grappling with a sudden increase in operating cost due to additional requirements on Movement Control Order (MCO) and tighter supply as they try to maintain their business in the wake of COVID-19 outbreak (Lee et al., 2020).

Market-based measures of performance of SMEs will be measured using (i) number of customers, (ii) number of orders, and (iii) number of complaints. A business will generate customer satisfaction and a loyal customer when the business is able to take care of customer needs. Besides, shopping online has become a significant alternative for business operators during the MCO, and it is expected to turn into a novel business landscape for post-MCO (Mahalingam & Ganesan, 2020). This method of purchase indirectly affects the number of orders by customer and sales volume from a single customer (Lee et al., 2020). However, there will be an increase of complaints from customer due to dissatisfaction concerning the customers' requirements on product quality, delivery times, supply, and sale prices of goods. Accordingly, the Ministry of Domestic Trade and Consumer Affairs reported receiving 1,569 complaints and 8,643 enquiries during MCO. However, based on EY (2020), SME owners agreed that the key challenges for them during MCO is on customer where they received lower demand from customer due to insufficient access to their potential and existing customer and delay in receiving supplies from supplier.

Resource-based view theory

The resource-based view (RBV) was put forth originally by Wernerfelt (1984) and popularized by (Barney, Wright, & Ketchen Jr, 2001). This theory provides a framework for understanding the importance of organizational resources and offers an explanation that the performance and sustainability of an organization depend on the resources owned and controlled by the organization. Resources are the inputs that help the daily operation of the organization (Thornhill & Amit, 2003). The categories of firm resources include (a) physical resources, (b) financial resources, (c) technological resources, (d) human resources, and (e) organizational resources (Hoskisson, Gambeta, Green, & Li, 2018). Stacey (2011) advanced the use of the framework by stating that financial resources enable organizations to acquire

other resources. According to RBV, businesses achieve a sustainable competitive advantage when they effectively manage the resources owned or obtained (Barney, Della Corte, Sciarelli, & Arikan, 2012). The application of RBV may be helpful in letting the participants understand how obtaining financial and non-financial resources may contribute to the SMEs success and achieve SMEs financial sustainability.

Conceptual Model

Figure 3 below depicts the proposed model on assessing the effectiveness of the Additional PRIHATIN SME Economic Stimulus Package (PRIHATIN SME+) in facilitating the financial burden for SMEs. This model, as in Figure 3 below, will be assessed through the accounting-based measures of performance based on the (1) sales revenue growth, (2) cash flow and (3) operating cost and market-based measures of performance based on the followings: (1) number of complaints (2) number of customers and (3) number of orders.

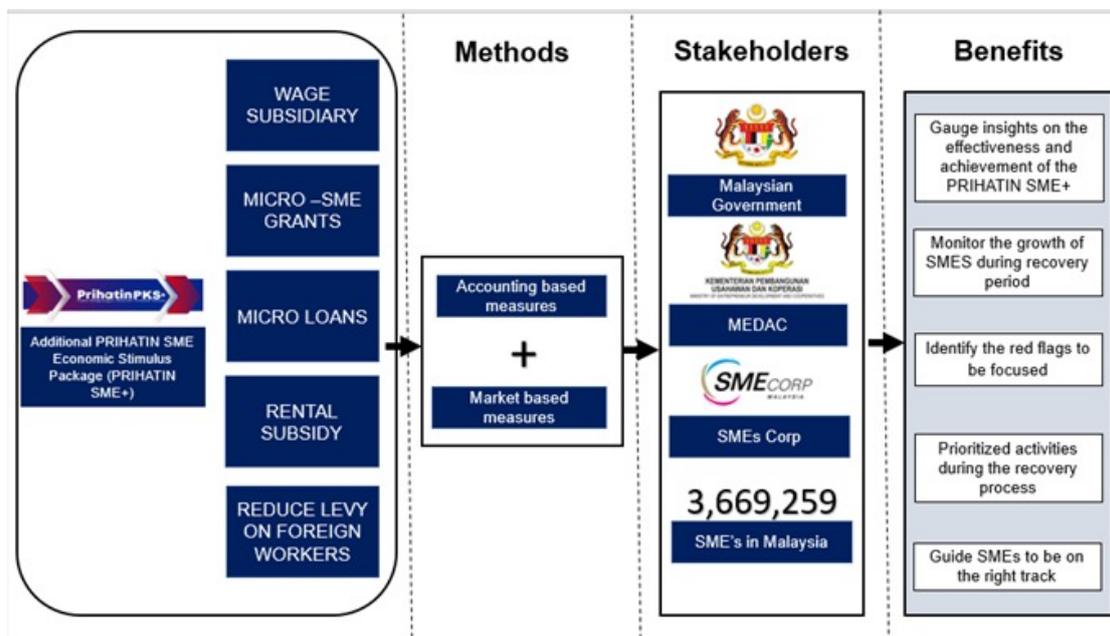


Figure 3: Research model

Conclusion and Further Study

The objective of this study is to introduce a research model which is aimed to facilitate the SMEs direction in aligning the national SMEs outlook during post-COVID-19. As shown in Figure 3 above, this research model may benefit the stakeholders, in terms of monitoring the growth of SMEs during recovery period, guiding SMEs to be on the right track, assessing the achievement and effectiveness of the Additional PRIHATIN SME Economic Stimulus Package (PRIHATIN SME+) in assisting SMEs to recover in the post-COVID-19 period and lastly, in introducing a new objective tool for SMEs to monitor their performance based on the incentives received through the PRIHATIN SME+. Further study shall be conducted in future by using the proposed research model to see the effectiveness of the PRIHATIN SME Economic Stimulus Package in assisting SMEs facing the financial burden due to COVID-19 pandemic.

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