



# SMES: WEATHERING THE STORM

Internationalisation, professional training and SMP (small and medium accounting practice) consultation are seen as key survival strategies for SMEs amid rising economic headwinds.

By Aliff Yusri

Change is in the air as #MalaysiaBaharu moves a step closer towards 2020, and with SME Corporation (SME Corp) Malaysia's 3 August announcement of its SME Masterplan 2.0 roadmap to chart the segment's development beyond 2020, entrepreneurs and small and medium enterprises (SMEs) are looking ahead to better position themselves amid economic headwinds, technology disruptors and consumer behaviour shifts closer to home.

As the segment contributes more towards the nation's gross domestic product (GDP), accounting for 37.1% of GDP in 2017, *Smart Investor* sits down with industry authorities and financial institutions to share their perspectives on rising costs, the SME financing gap and the future trajectory of the segment as SME Masterplan 2.0 comes together.

## Burgeoning Business Costs and Internationalisation

Based on its *SME Annual Report 2017/18*, SME Corp Malaysia found that out of 1,469 respondents, more than two-thirds (69%) of participants cited increases in operating costs, with an average annual increase of 20%. During the quarter under review, the industries primarily affected included the electrical & electronics, textile & wearing apparel, hotel & restaurants and private education services segments (see **Table 1**).

According to SME Corp Malaysia, these hikes were attributed to higher costs from raw materials and other inputs, as well as increased electricity charges and fuel and gas costs for transportation. Survey respondents reported that measures and business strategies adopted to address these concerns include intensifying promotional and training activities, introducing new products and services, and expansion into new markets.

**Table 1: Top 10 Malaysian Industries Hit by Higher Operating Costs**

Sector	Industry
Manufacturing	Electrical & Electronics
	Plastic Products
	Textiles & Wearing Apparel
	Machinery & Equipment
	Other Manufacturing Activities
Services	Computer & Other IT-related Services
	Hotels & Restaurants
	Private Education Services
	Private Personal Services
	Engineering Support Services

Source: SME Corp Malaysia's SME Annual Report 2017/18

The Association of Chartered Certified Accountants (ACCA) has positioned small and medium-sized accounting practices (SMPs) as key resources in managing rising costs, defined as practices with fewer than 250 employees. Their in-built agility is also seen as an advantage in the fast-moving international marketplace as more SMEs explore cross-border opportunities (see **Chart 1**).

"Internationalisation can potentially bring a range of growth benefits for both small businesses and the broader economy, whilst also driving productivity," says ACCA Malaysia Country Head Edward Ling.

In its July 2018 *Growing Globally* report, the global body identified foreign regulation, competition and foreign exchange issues as primary concerns for enterprises venturing overseas, according to 42%, 29%

and 25% of survey respondents respectively.

"As a leading member of the ASEAN Economic Community, SMEs in Malaysia are hopeful of ASEAN governments eliminating trade barriers to enable freer trade among the countries," says Ling.

"It is positive to see that Malaysian SMEs appear to have good access to government support when they do seek international expansion: more than half (51%) access government

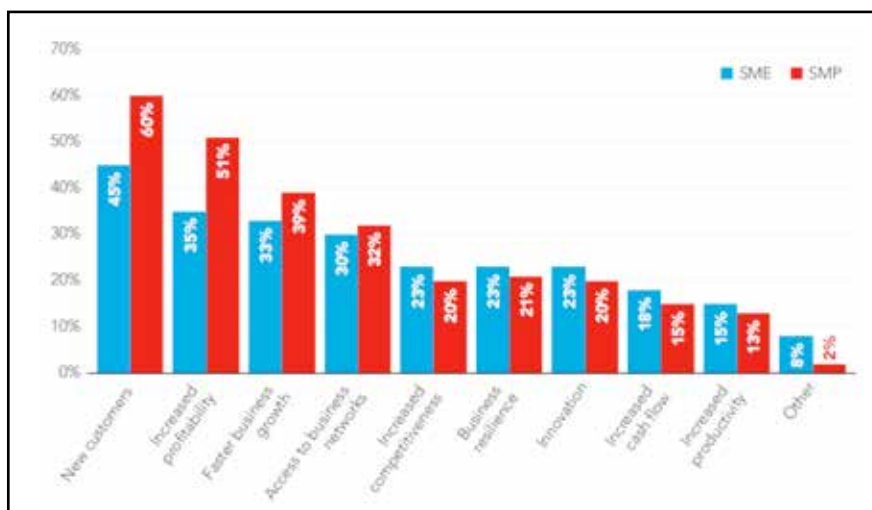
advice or support to do so – a higher proportion than the global average of 39%."

However, ACCA's research found that only 24% of SMEs exploring international markets leverage on SMP support, with this consultation focused on a limited number of areas, including international tax, regulatory compliance and foreign exchange.

The sentiment comes as SMP business models face challenges to core revenue streams, including changes in perception which threaten their reputation as leaders in professional advice and role as purveyors of financial guidance. To maintain their standing while adding value for internationalised clients, the global body developed several recommendations, such as specialisation and investment in professional development.

The ACCA survey compiled feedback from 510 SME and 398 SMP respondents over a one-month period from March 2018, with participants primarily comprised of ACCA members. Its findings were complemented by an external survey conducted by digital market research solutions firm Borderless Access.

**Chart 1: Factors for SME participation in international trade**



Source: International Trade Survey, ACCA 2018

## Planning for the Future

As SMEs and other enterprise operators in the country grapple with internationalisation as well as the rising costs of doing business, SME Corp Malaysia has announced the proposal of SME Masterplan 2.0, extending its current vision for

domestic SMEs beyond 2020. The key focus areas for this national initiative will revolve around Industrial Revolution 4.0 and digitalisation, as well as new business models arising from emerging financial technology, including gig and circular economy trends as well as inclusive business practices.

While SME Masterplan 2.0 is still in the planning phases, numerous accomplishments under the existing SME Masterplan have already been achieved. "SMEs recorded GDP growth of 7.2% in 2017 and continued to outperform the overall economy since 2004. The share of SMEs to employment improved from 57.2% in 2012 to 66% in 2017, surpassing Malaysia's 2020 target of 65%," says SME Corp Malaysia, responding to an email interview.



Edward Ling

"In addition, business formation has increased an average of 6% per annum, with the number of high growth and innovation firms expanding 10% per year.

Productivity has also been raised from RM47,000 per worker in 2012 to RM63,167 per worker in 2017."

Tracing its roots to the establishment of the Small and Medium Industries Development Corporation (SMIDEC) in 1996, SME Corp Malaysia is envisioned as a central coordinating agency under the Secretariat to the National SME Development Council to formulate overall policies and strategies for SMEs in Malaysia while coordinating the implementation of SME development programmes.

### Bridging the SME Financing Gap

Initiatives under SME Corp Malaysia have gone a long way towards addressing the issues facing SMEs in the current economic climate; however, a large financing gap exists for SME players in the country. According to Bank Negara Malaysia's (BNM's) report *The Role of Alternative Finance to Fund the Needs of a New Economy*, this gap stood at RM2.8bil in 2016.

"This financing gap could potentially be met by alternative financing models such as equity crowdfunding, peer-to-peer and investment account platforms. The development of alternative financing with the SME financing ecosystem can help bridge this gap by opening up new opportunities, particularly for innovative and early-stage SMEs," says SME Corp Malaysia.

Other avenues open to local players include BNM's

existing Special Funds, which have been consolidated into an omnibus fund renamed the Fund for SMEs. Channeled through participating financial institutions comprising licensed banks, prescribed development financial institutions and the Credit Guarantee Corporation (CGC) Bhd, the fund is designed to enhance SME access to financing across all economic sectors.

In addition, the CGC's imSME ("I am Micro, Small and Medium Enterprise") programme serves as Malaysia's first online referral platform for SME financing and loans, allowing them to find optimal financing solutions without going to multiple banks. This includes a profile review for comprehensive financial counselling and business coaching by the imSME Financial Advisory Team.

### Growth Factors Moving Forward

Despite economic headwinds and financing challenges, however, the outlook for the SME segment in Malaysia is rosy, particularly with the establishment of the Digital Free Trade Zone (DFTZ) centered around KLIA Aeropolis by MITI, the Malaysia External Trade Development Corporation (MATRADE) and Malaysia Digital Economy Corporation (MDEC) in collaboration with Alibaba.com last year.

"Serving as an e-commerce window to the world for SMEs and the preferred gateway for global brands and marketplaces into ASEAN, the DFTZ provides market access for SMEs and opportunities for global customers via e-commerce platforms," says SME Corp Malaysia.

Providing physical and virtual zones to facilitate SMEs in capitalising on the Internet economy and cross-border e-commerce activities, the DFTZ also simplifies and accelerates cargo clearance processes with the introduction of the DFTZ eServices Platform, while providing end-to-end support to businesses for networking and knowledge-sharing to drive information within the Internet ecosystem.

To date, the DFTZ has seen participation from more than 2,000 Malaysian SMEs, with most selecting Alibaba.com as a platform, facilitated by government assistance and support through initiatives such as MATRADE's eTRADE and SME Corp Malaysia's Business Accelerator Programme.

Aside from its catalysing effect on e-commerce and cross-border trade, the DFTZ benefits local SMEs through the development of efficient fulfillment warehouse facilities, and improvements on Customs and cargo clearance systems as well. 