

Box Articles



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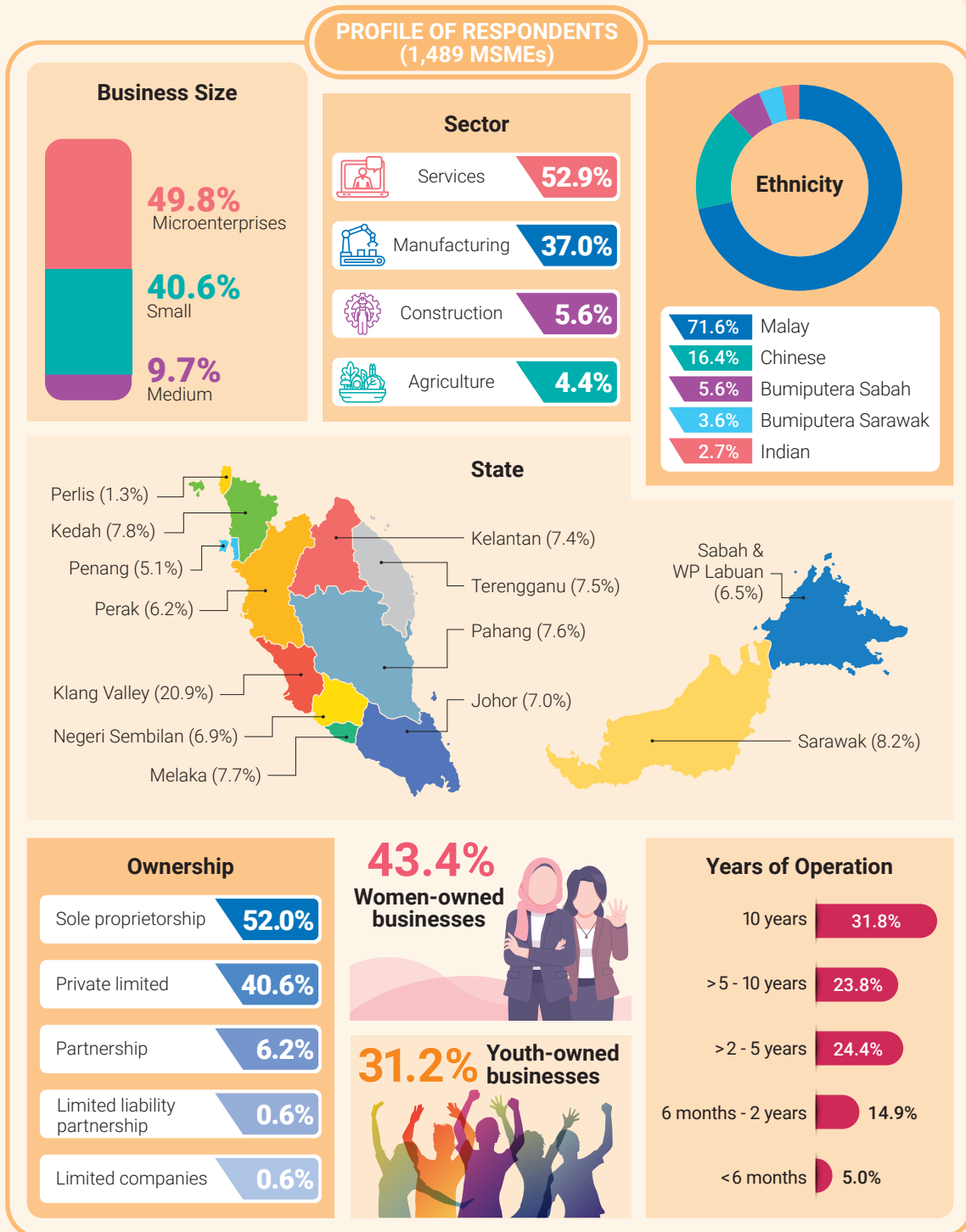
Findings of MSME Survey 2023

Over the years, SME Corp. Malaysia as the central point of reference for research and data dissemination on MSMEs has been conducting surveys under the leadership of Ministry of Entrepreneur and Cooperatives Development (MECD). These efforts complement the organisation's role in monitoring MSMEs' business performance and recognising emerging challenges within the present economic landscape. Aimed at understanding the whole MSME ecosystem, the implementation of these surveys has been comprehensive in nature encompassing qualitative and quantitative indicators.

For the MSME Survey 2023, an online survey was conducted in the period of January until February 2023 involving a total of 1,489 MSME respondents. The survey coverage was well represented in terms of economic sectors, geographical spread and size of establishment. As part of SME Corp. Malaysia's ongoing efforts to better comprehend the business needs, the findings shed light on key areas such as sales performance; cost of doing business; human capital; exports; environmental, social and governance (ESG) as well as adoption of information and communication technology (ICT).

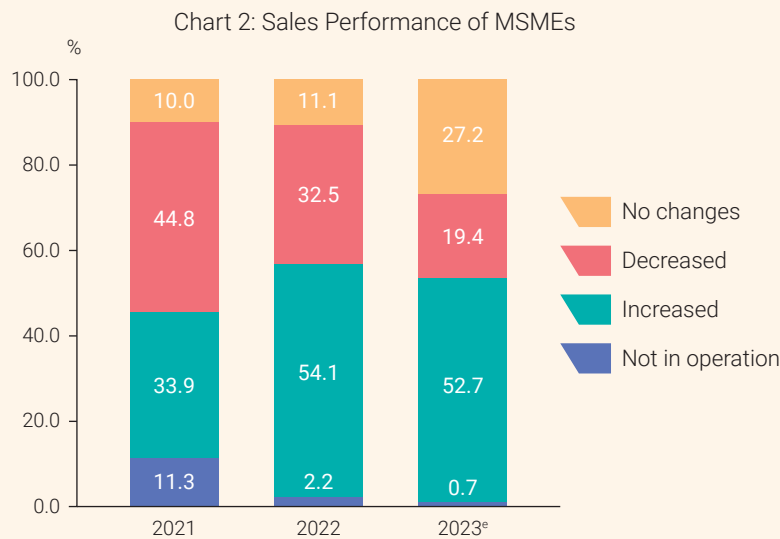


Chart 1: Profile of Survey Respondents



SALES PERFORMANCE

The survey findings unveiled a trend of which MSMEs encountered a decline in sales in 2021 but bounced back on a positive note in 2022, attributed to the economic reopening following the COVID-19 pandemic. Taking a close look into the data, the year 2022 witnessed a significant improvement in sales, of which 54.1% of respondents recorded an increase in sales as compared to only 33.9% in 2021 (refer to Chart 2). This upbeat trend was particularly pronounced among MSMEs engaged in the manufacturing of textiles and clothing; machinery and equipment; construction; wholesale and retail of vehicles; private education and accommodation. Also, it is worth to note that lesser number of MSMEs cited experiencing a decrease in sales, from 44.8% in 2021 to only 32.5% in 2022.



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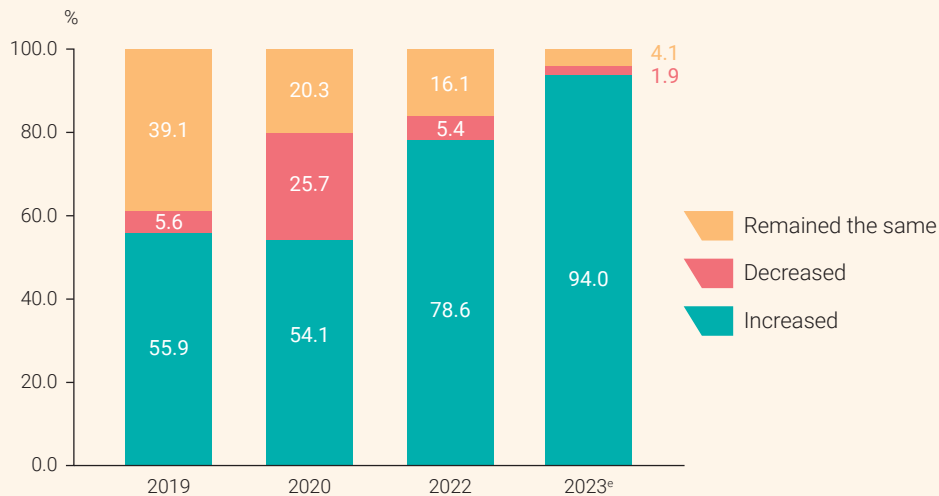
Meanwhile, the optimistic sales trajectory is expected to spillover into 2023. A higher optimism is evident especially among the small and medium-sized firms and MSMEs in the manufacturing of textiles and clothing; machinery and equipment; ICT services; private healthcare and private education. On top of that, an important finding to highlight is the gradual increase in the number of operational MSMEs, from 11.3% cited not operating in 2021 down to only 0.7% cited not operating in 2023, thus underscoring the resilience and revival of MSMEs.

COST OF DOING BUSINESS

Similar with previous survey findings, it is persistent that the high cost of doing business and insufficient cash flow remained the top challenges for MSMEs over the years. Nearly two-third of MSMEs were concern about the high cost and a total of 58.1% expressed their worries about cash flow. Among key factors affecting the MSMEs' business cash flow were the rising price of raw materials and packaging; late payment by debtors or payers; labour cost as well as rent and utility payments. This concern over high cost was further highlighted by the fact that more than three quarter of firms or 78.6% reported an increase in their cost of doing business in 2022 (refer to Chart 3).

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Chart 3: Operating Cost of MSMEs



e. estimate

Looking ahead, majority 94.0% of respondents anticipated further cost increase in 2023 with higher costs to be driven by raw materials and other input costs (82.3%); labour costs such as wages and levy (62.1%) and marketing & advertising (40.4%). With an overwhelming 82.3% respondents highlighted raw materials as a significant concern in the future, a close look at the manufacturing sector showed that two sub-sectors namely the food & beverages (F&B) and textiles & clothing, stood out prominently and found itself at the forefront of grappling with these cost pressures. Similar trend was mirrored in the services sector, whereby the F&B services and the wholesale & retail trade MSMEs too found themselves navigating the challenges in terms of rising cost of raw material and other inputs.

HUMAN CAPITAL

Taking into account the talents development required by MSMEs in running their business, it is shown that soft skills related to marketing & promotion (69.5%), communication (54.2%) as well as customer management (53.5%) are of higher priority (refer to Chart 4). However, realising the current landscape of a more digitalised business environment whereby traditional jobs are evolving to incorporate technology to increase productivity, safety and quality of work, survey findings highlighted the MSMEs' interest in equipping their workers with digital literacy skills (54.7%), technical & vocational skills (51.3%) as well as data literacy (42.1%).

Based on the Future of Jobs Report 2023 by World Economic Forum, technology literacy is ranked the third-fastest growing core skill. In light of this trend, there is a pressing need to train and upskill MSME workers to adapt to technological advancement as they may need to operate higher technology machines and systems instead of being replaced by these automated processes. Fostering a technology-adoption mindset and cultivating a digital-first culture would be a significant value for MSMEs in the long run.



Chart 4: Top Employees' Skills Required by MSMEs



On retrenchment of employees, there was a noticeable decrease in the number of retrenchments among MSME employees in 2022, from 27.8% reported in 2021 to 13.8% in 2022. The retrenchment was mainly driven by cost-cutting measure and slower business activity. For year 2023, the estimated retrenchment rate is quite low with only 5.6% of MSME respondents had the intention to lay off their workers. This signifies a more positive employment outlook with a reduced likelihood of extensive workforce reductions.

EXPORTS PERFORMANCE

Focusing on the external front, the survey showed that a total of 15.0% of respondents have exported their products & services abroad, primarily among the small & medium-sized firms. The exporters are mostly concentrated in Central and Northern Regions. Thus, there is a clear need to further promote MSME penetration into foreign market as internationalisation activity promises significant potential in enhancing MSME performance. In terms of exports destination, MSME exports activities were concentrated within the ASEAN region, mainly in Singapore, Indonesia and Thailand. Selection of these export destinations were stem from the high demand and purchasing power received from these markets.

If we were to look at the current non-exporters, more than half of them (51.8%) expressed optimism as they have planned to venture into international markets in the near future. A close look at the survey findings showed that among requirements needed to boost exports are building networking with people in the targeted export market (59.2%); conducting market research (52.8%); introducing new export-specific products or services (51.8%) and venturing into online business including e-commerce platform (49.8%) (refer to Chart 5).

Chart 5: Requirement by MSMEs to Boost Exports



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) PRACTICE

Delving deeper on sustainability agenda, ESG practices are currently not the focus of MSMEs but it is encouraging to see that awareness is picking up with more firms are gradually adopting it. Based on the survey findings, a total of 39.9% of MSMEs are now aware about ESG as compared to only 26.0% of MSMEs who did aware of green practices back in 2021 based on the Business and Economic Conditions Survey 2H 2021 and 1H 2022 by Associated Chinese Chambers of Commerce and Industry Malaysia (ACCCIM). The awareness level is higher among small & medium-sized firms and those in professionals, scientific & technical services; ICT; and manufacturing of electrical & electronics (E&E). Meanwhile, of those who are aware of ESG, majority 81.0% have adopted ESG in the business operation, especially the small-sized firms and MSMEs in professionals, scientific & technical services.

Focusing on the driving factors behind MSMEs' ESG implementation, the top three reasons being cited were that ESG helps to improve the firm's image (67.2%); remain competitive in the market (60.5%); and optimise cost efficiency and reduce operating costs (58.6%) (refer to Chart 6). Despite the added value ESG offers, challenges in embracing ESG are still there. A significant stumbling block is the lack of information and guidance on ESG implementation, which was highlighted by more than two-third of respondents. Moreover, the limited ESG experts and funds pose difficulties for MSMEs looking to adopt ESG practices. Overcoming these challenges would likely require collective efforts and support from key stakeholders to create a more conducive environment for ESG integration among MSMEs.

Chart 6: Factors and Challenges in Implementing ESG



One of the angles of sustainability is for MSMEs to place risk management measures to ensure business can continue to operate in any incidence of calamity and in uncertainty. Business insurance protects firms from potential losses and helps mitigate financial risks from natural disasters, employee injuries, premise damage and others. However, survey findings revealed that only 30.0% of MSME respondents have business insurance to protect their firms from natural disaster, which partly implies the low-risk management measures.

INFORMATION & COMMUNICATION TECHNOLOGY (ICT) ADOPTION

Consistent with past surveys, MSMEs exhibited strong computerisation given the high usage of personal devices such as smartphones, tablets and laptops and robust usage of internet connection, which is above 80.0%. Over the years, efforts by the Government including SME Corp. Malaysia have been successful in getting MSMEs to modernise their businesses, as reflected in this major utilisation of computers and internet. Despite the strong computerisation, MSMEs are still caught in computerisation trap, unaware that they are limiting potential productivity gains and sales growth by not investing further in digitalisation. These findings are in line with the findings from the previous SME Digitalisation Whitepaper conducted by SME Corp. Malaysia in collaboration with Huawei Technologies in June 2018.

While computerisation allows MSMEs to benefit from administrative processes, the true potential lies in digitalisation and automation as it offers greater and more sustainable benefits to the businesses. For instance, failing to fully leverage on the internet for e-commerce could lead to missed growth opportunities, stagnant sales productivity and hinder wealth creation for business and the economy in general. Based on the survey findings, it can be seen that online presence is trending upward with majority 80.6% have online presence via website, social media or e-marketplace platforms (refer to Chart 7). This statistic demonstrates improvement from 75.8% recorded in 2021 and much lower 35.3% recorded in 2019.

Chart 7: MSME's Digitalisation and Automation Activities



Moreover, investment in ICT tools and software empowers MSMEs to expand their business and enhance productivity. To be truly digitalised, MSMEs must re-engineer their operation by ensuring that their business strategies, processes and infrastructures are aligned and fully integrated to support their digital transformation. The survey highlighted the need for greater emphasis on the back-end digitalisation as only 53.8% of MSME respondents have access to back-end business processes. This process includes accounting and financial systems such as Universal Business Systems (UBS) and System Applications and Products in Data Processing (SAP); human resource management systems for salary and claims; point-of-sales; and operation management systems such as Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM).

COMPARISON OF FINDINGS BY STATES IN SELECTED AREAS

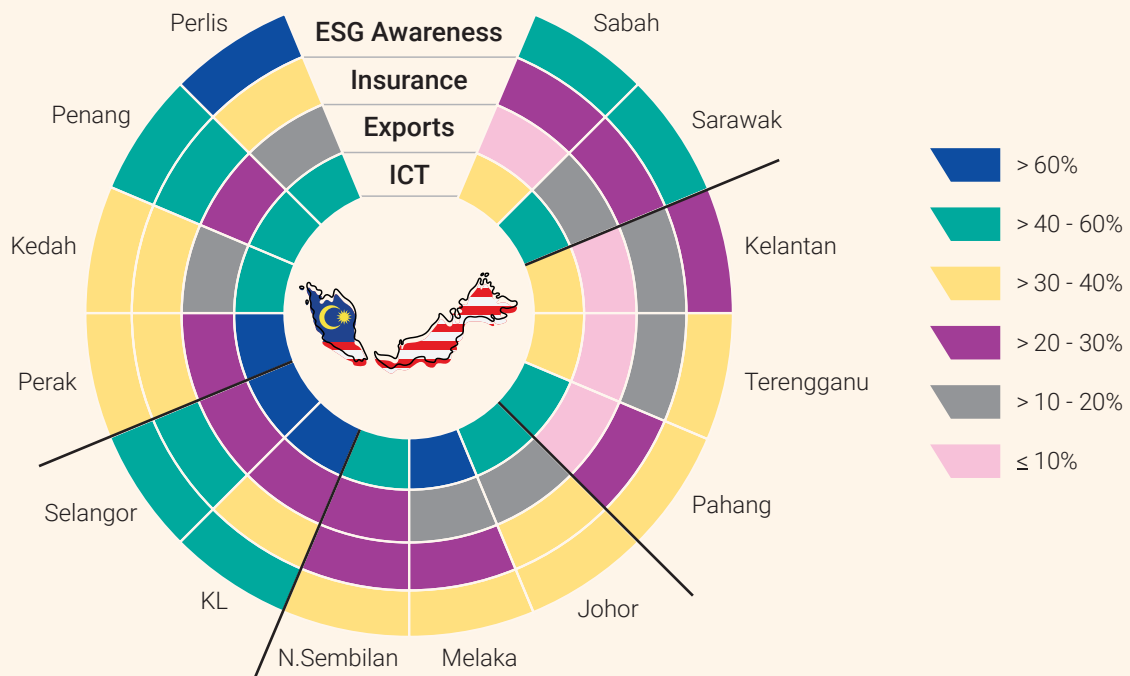
Looking at the MSME export activities nationwide, survey findings showed that exports penetration for MSMEs in Central and Northern Regions (Penang, Negeri Sembilan, Kuala Lumpur, Selangor and Perak) as shown in purple colour are relatively higher than other states in Malaysia (refer to Chart 8). There is a clear distinction with those MSMEs in the East Coast Region (Kelantan, Terengganu and Pahang) as well as in Sabah as they displayed a very low exports penetration (below 10%), partly due to infrastructure and logistics limitations.

On ESG awareness level, MSMEs in most of the states have generally moderate level of awareness in the range of 30 - 40% as shown in yellow colour, thus highlighting the need for further support in guiding the businesses through their sustainability endeavours. However, awareness of Kelantan MSMEs as shown in purple colour is below Malaysia's average of 39.9% and the lowest compared to other states in the country. This underscores the imperative need of a more focused and targeted ESG outreach for MSMEs in certain states.

Risk management is a strategic approach aimed at ensuring the viability of a business in the face of unforeseen events and uncertainty. Unfortunately, only 30.0% of MSME respondents have business insurance to protect their firms from casualties and natural disaster. Breaking it down to state level, important to note that MSMEs in the East Coast Region, namely Kelantan and Terengganu that are more prone to flood has the lowest rate of insurance purchase across the country that is below 20%, as depicted in grey colour.

As for utilisation of ICT, back-end business process is more prominent among MSMEs in Central Region and Perak, as reflected in blue colour. Notably, states with less access to connectivity tend to have lower rate of ICT utilisation, whereby Kelantan, Terengganu and Sabah utilised ICT in the range of 30 - 40%, lower than the Malaysia's average of 53.8%.

Chart 8: Comparison of Selected Areas by States in Malaysia



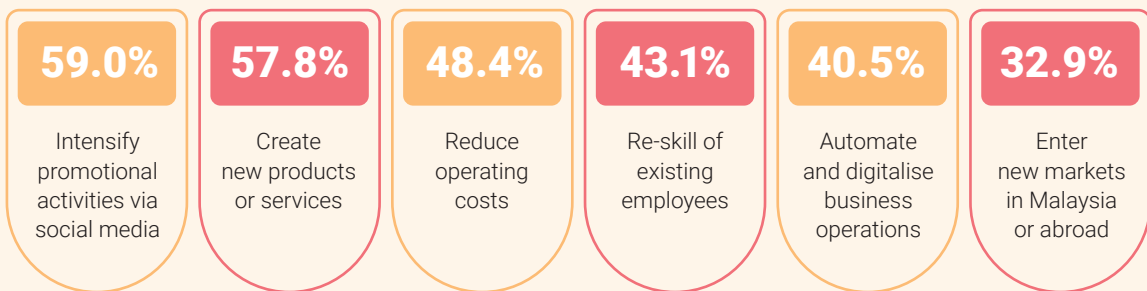
MOVING FORWARD

The survey findings depict a multi-faceted approach among MSMEs toward fortifying their market positions in the near term. One significant finding, MSMEs placed immense emphasis on integrating digitalisation into their core strategies. This focus on digitalisation emerges as a paramount approach in sustaining their growth and importance in the market landscape. Findings from the survey revealed that 59.0% of MSME respondents expressed their intention to intensify promotional activities via social media (refer to Chart 9). In addition, a total of 40.5% are actively seeking to automate & digitalise their business operations. These statistics underscore the priorities of MSMEs, showcasing their strategic orientation towards leveraging digital advancements to thrive in an increasingly competitive environment.

Furthermore, in maintaining a competitive edge over time, a total of 57.8% showed their keen interest in innovating and diversifying their offerings by creating new products or services. Simultaneously, nearly half of the MSMEs (48.4%) are resolute in enhancing their bottom line by strategically reduce the operational cost. This dual emphasis on both innovation and cost efficiency highlights the balanced approach to be undertaken by MSMEs, recognising the interdependent connection between resource management and the ability to bring cutting-edge products or services to market.

Moreover, the survey findings also shed light on another critical area of MSME strategies, namely skills development. A total of 43.1% cited the need to reskill their existing employees, thus signifying the crucial value of continuous learning and adaptation in the evolving business environment. Additionally, about 32.9% MSMEs would like to venture into new markets both within Malaysia and abroad, thus showcasing a desire for geographical diversification and growth beyond current boundaries. All of these diverse strategies highlighted a concerted effort by MSMEs to adapt, innovate and expand, while keeping a firm eye on business growth in the long run.

Chart 9: Strategies by MSMEs to Remain Competitive

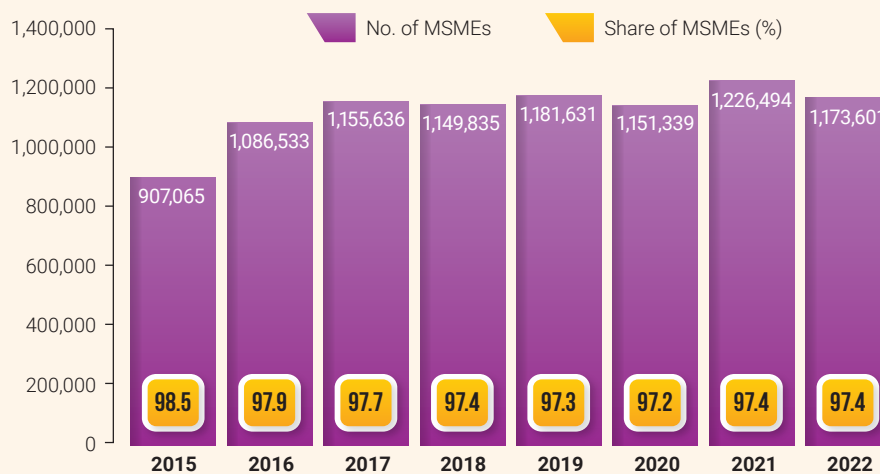


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Profile of MSMEs from 2015 until 2022

The structure of MSMEs has witnessed a significant growth from 2015 up to 2022. Examining the most recent statistical data for the year 2022, a total of 1,173,601 MSMEs are operating in Malaysia. These MSMEs constituted a majority 97.4% to the overall business establishments which amounts to 1,204,987 firms (refer to Chart 1). This marked a substantial increase of nearly 270,000 MSMEs when compared to the 907,065 MSMEs reported in 2015. From 2015 to 2022, the aggregate number of MSMEs expanded at an average growth rate of 3.7% every year.

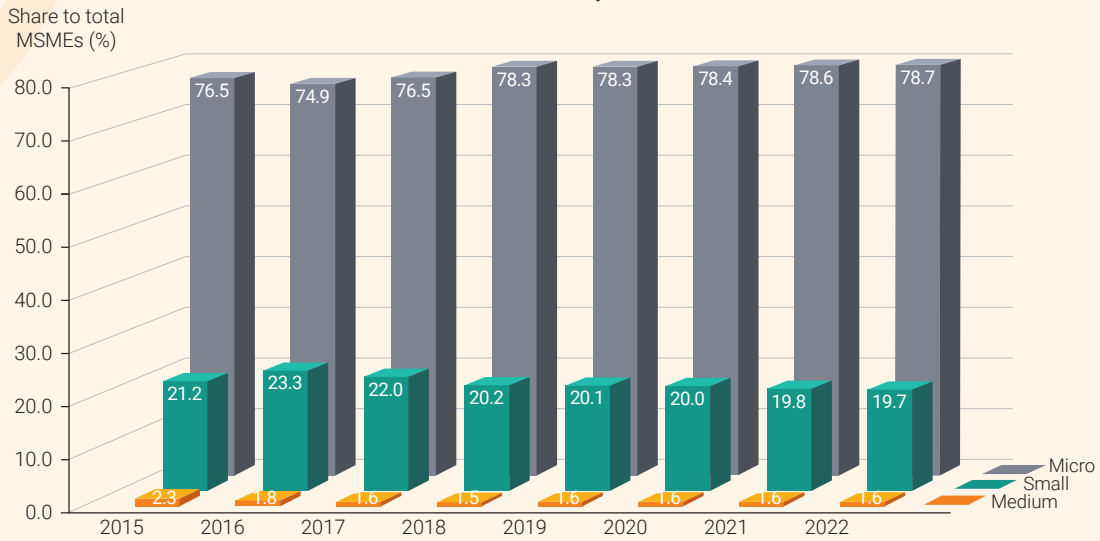
Chart 1: MSME Profile from 2015 until 2022



Source: Department of Statistics, Malaysia

In terms of business size, microenterprises were the largest component of MSMEs (refer to Chart 2). From 2015 until 2022, close to 230,000 new microenterprises were formed, registering an average growth rate of 4.2% every year. This accomplishment underscores the effectiveness of Government initiatives in fostering an entrepreneurial mindset among Malaysian citizens and staying committed to enhance business formalisation. Moreover, detailed analysis of the MSME landscape reveals that small-sized firms experienced a favourable growth in the number of establishments, with an annual increase of 2.7%. In contrast, medium-sized firms recorded a contraction of 1.6% over the same time frame. The reduced number of medium-sized firms in 2022 could be partly attributed to the progression of MSMEs advancing into becoming large players, thus signifying a fruitful result of MSME development efforts throughout the years. In summary, microenterprises accounted for 78.7% (923,667 firms) of the total MSME establishments in 2022, small-sized firms comprised of 19.7% (231,546 firms) and medium-sized firms constituted the balance 1.6% (18,388 firms).

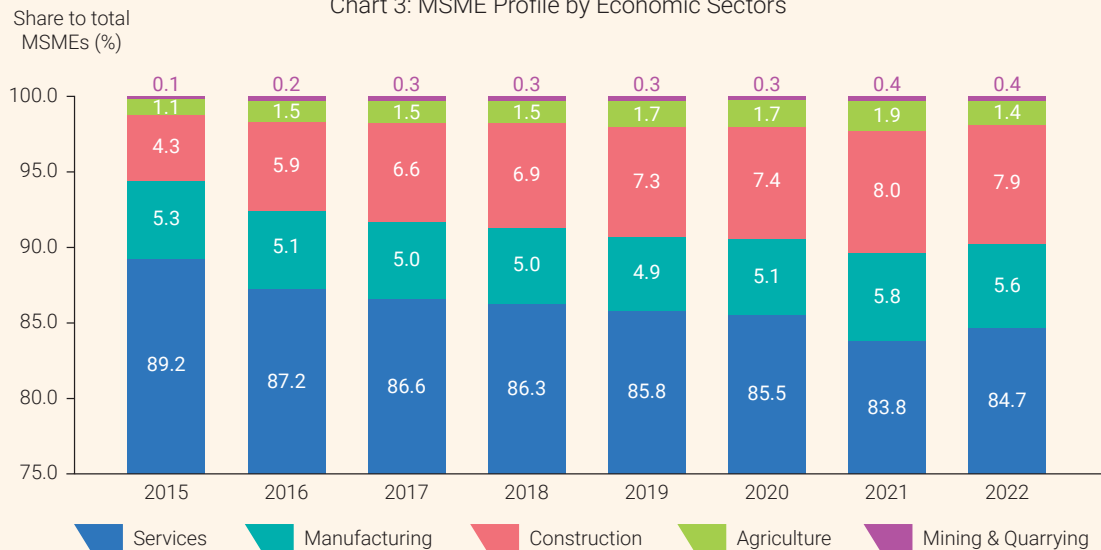
Chart 2: MSME Profile by Business Size



Source: Department of Statistics, Malaysia

Focusing on economic activities, the services sector which encompassing mainly wholesale & retail activities, has consistently contributed more than 80% of all MSMEs and expanded at an annual growth rate of 3.0% every year throughout the span of 2015 to 2022 period. Interestingly, a notable shift occurred in 2016 of which the construction sector emerged as the second largest until now (refer to Chart 3), surpassing the manufacturing sector which used to be ranked second previously. Furthermore, detailed findings across sector showed a double-digit growth in terms of MSME involvement in construction and mining & quarrying sectors during the period, at 13.1% and 25.4% per year respectively.

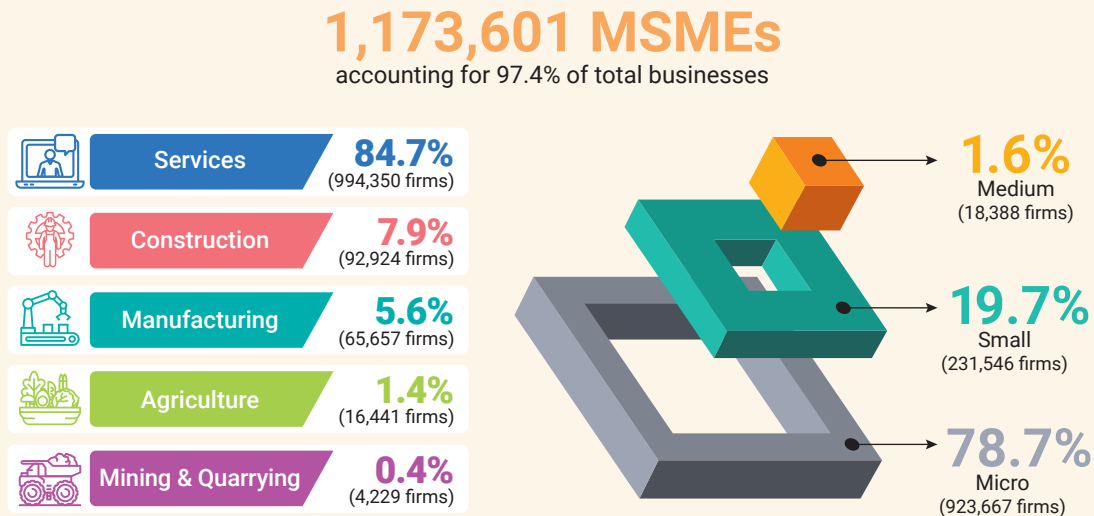
Chart 3: MSME Profile by Economic Sectors



Source: Department of Statistics, Malaysia

Zooming on to 2022 structure, services sector retained its position as the largest sector at 84.7% (994,350 firms) and construction sector at 7.9% (92,924 firms). About 5.6% of MSMEs (65,657 firms) were concentrated in manufacturing sector, followed by 1.4% (16,441 firms) in agriculture sector, with the remaining 0.4% (4,229 firms) in mining & quarrying sector (refer to Chart 4).

Chart 4: MSME Profile in 2022 by Size and Economic Sectors



Source: Department of Statistics, Malaysia

In terms of distribution of MSMEs across the country, all states experienced a surge in the number of MSME establishments from 2015 to 2022. The most notable annual growth rates were observed in Selangor, Sabah and Sarawak at 6.2%, 5.4% and 4.6% respectively. Comparing the state composition throughout the same period reveals the consistent pattern of higher growth, whereby there was a substantial increase in the shares of MSMEs in Selangor (+3.4 percentage points), Sabah (+0.7 percentage points) and Sarawak (+0.4 percentage points). Collectively, more than 55.0% of MSMEs are concentrated in the top four industrialised states namely Selangor (23.2%), WP Kuala Lumpur (14.3%), Johor (10.9%) and Penang (7.2%).

Table 1: Annual Growth and Composition of MSMEs by State

State	CAGR 2016 - 2022	Share to Total MSMEs (%)		
		2015	2022	Percentage Point Increase / Decrease
Selangor	6.2	19.8	23.2	3.4
WP Kuala Lumpur	3.3	14.7	14.3	-0.4
Johor	3.8	10.8	10.9	0.1
Penang	3.4	7.4	7.2	-0.2
Sarawak	4.6	6.7	7.1	0.4
Sabah	5.4	6.2	6.9	0.7
Perak	0.8	8.3	6.8	-1.5
Kedah	1.4	5.4	4.6	-0.8
Kelantan	1.1	5.1	4.3	-0.8
Pahang	3.4	4.1	4.1	0.0
Negeri Sembilan	3.3	3.6	3.5	-0.1
Terengganu	3.6	3.2	3.2	0.0
Melaka	1.5	3.5	3.0	-0.5
Perlis	1.5	0.8	0.6	-0.2
WP Labuan	1.1	0.3	0.2	-0.1
WP Putrajaya	1.3	0.1	0.1	0.0
Total MSMEs	3.7	100.0	100.0	

Note: Figures may not necessarily add up due to rounding

CAGR: Compounded Annual Growth Rate

Source: Department of Statistics, Malaysia