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## Critical Success Factor of SMEs During Economic Recession

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### Abstract

The recession has caused many SMEs to close their doors, but some still found ways to survive and even thrive during these difficult times. This study intends to identify the critical success factors for SMEs in Malaysia to survive during an economic recession. The research methodology used in this study was a questionnaire survey and several semi-structured interviews. The data was collected from July through August 2020. Some three hundred surveys were sent out to the public using email, WhatsApp, and Telegram. Personal contacts were used to disseminate the surveys to respondents from SMEs across Malaysia. The findings focus on the sustainability strategies used during a turbulent environment like the current economic recession in Malaysia. The findings of this study concluded that improving access to finance and other support from government and financial institutions, human resources strategy, product innovation, and network strategies were also other factors to Malaysian SMEs' success during an economic recession. Adopting downscoping as a sustainable strategy help improve company profitability and stability as this will help sustain market competitiveness. Focusing on long-term strategies to sustain competitiveness in the market is also suggested as a critical success factor for Malaysian SMEs during an economic recession. It is in line with the government's strategy to successfully help Malaysian SMEs compete in a global market.

**Keywords:** SMEs, Malaysia, Critical Success Factors, Economic Recession, Sustainability

### Introduction

The Global Economic Recession has negatively impacted the economy, with SME businesses no exception. The recession has caused many SMEs to close their doors, but some still found ways to survive and even thrive during these difficult times. One of the most important factors contributing to the success of SMEs during this hard time is their ability to be flexible and adaptable. These businesses are typically more nimble than larger businesses and are better able to react quickly to changes in the market. They also tend to focus more on their customers and needs, making them more likely to find new ways of generating revenue or reducing costs.

In the fast-changing and increasingly competitive global business environment, SMEs exert a strong influence on the economies of many countries and are considered the engine of economic growth and technological progress (Storey and Tether, 1998; Bruque and Moyano, 2007; Schiersch, 2009; Yap and Rashid, 2011). SMEs have become more important to the world because of their flexible and compatible structures (Kayadibi et al., 2013). These SMEs play a significant role in economies by providing a large portion of production due to their adaptability features. They can be established for all kinds of activities of every business and are considered a backbone of a country's economy, especially in the underdeveloped and developing world (Radam al., 2008; Yap and Rashid, 2011). They provide jobs, stimulate economic growth, and instil creativity in the economy (Storey, 1994). As much of the literature pointed out, SMEs are considered the engine of technology improvement and innovative activity, at least in certain industries (Acs and Audretsch, 1988). SMEs often face different challenges and barriers than larger companies (Wuest et al., 2011; OECD, 2019, Garbellano et al., 2019).

SMEs make up the majority of Malaysian enterprises and contribute significantly to employment, GDP, and exports. According to the Department of Statistics of Malaysia (2021), SMEs constitute 48 per cent of all Malaysian enterprises, contributing to 38.2 per cent of national employment, 38.5 per cent of overall gross domestic product (GDP), and 13.5 per cent of the nation's exports. Since SMEs are a key driver of economic growth and job creation in Malaysia, they need to be successful during times of recession. Robbins & Pearce (1993) affirm that SMEs (small and medium-sized enterprises) are important for the growth of an economy and that their innovative capacity is essential in times of recession. Robbins & Pearce (1993) argue that SMEs play a key role in job creation and are responsible for about two-thirds of total private sector employment in OECD countries. As a result, they are likelier than larger firms to create jobs indirectly through spin-offs or subcontracting. In periods of economic recession, SMEs tend to be the first to suffer as output falls and employment contracts (Che Omar et al., 2020; Santana et al., 2017).

An economic recession can significantly impact SMEs, as they are typically more reliant on external sources of finance and tend to be less resilient than larger businesses (Freeman et al., 1983; Hong et al., 2012). Wirnasih et al (2021); Nicola et al (2020) stated that quarantine had reduced the economic flow through all kinds of enterprises, even for countries with strong economies, such as the United Kingdom. The study showed that there is a contagion effect in the business world. When one company suffers from a downturn, other companies will likely follow suit. In a turbulent environment, organisations need to continuously sense opportunities, seize their value, and periodically reconfigure resources to proactively reposition to encounter threats and explore opportunities (Teece, 2018).

### **Literature Review**

SMEs are important for economic development and growth in Malaysia. They provide goods and services that contribute to GDP and create jobs, exports, and investment opportunities (Ibrahim et al., 2016). SMEs play a vital role in the Malaysian economy, and during an economic recession, they are often the first to suffer. However, supportive policies from the government and Bank Negara Malaysia have helped many SMEs to survive and even thrive during difficult times. These policies include increased access to financing through programs such as the Special Relief Facility (SRF), Micro Credit Scheme, and Credit Guarantee Malaysia Berhad, as well as guarantees from SJPP. These measures have helped to improve the competitiveness of Malaysian SMEs and support their growth during a crisis. In sum, these

policies have been successful in helping Malaysian SMEs to overcome the challenges of a recession and maintain their economic viability. According to the World Trade Organization, SMEs constitute the backbone of many economies, accounting for 95 per cent of all businesses globally and 60 per cent of employment (Hasin et al., 2021). In Malaysia, SMEs constitute most of all Malaysian enterprises, contributing to 48 per cent of national employment. When an economic recession hits, many employees will be affected. In order to help mitigate the social impact of an economic recession, SMEs need to implement policies that help to keep and attract talented employees.

It is difficult to overcome the economic recession; many firms must choose the measure to cope with it. However, an immediate reaction may be needed to survive the crisis. For example, some firms try to reduce costs, lay off workers, and sell assets.

One of the critical success factors that can affect an SME's sustainability during an economic recession is its financial stability. A strong financial position allows a business to withstand tough times and maintain operations while other businesses may go bankrupt. For example, when a company faces financial distress, the first and most typical reaction is downsizing the workforce (Che Omar et al., 2020; Santana et al., 2017). In order to maintain a strong financial position, SMEs need to have sound accounting practices and effective management of their finances.

Another key success factor is human resources. A strong human resource pool allows a business to maintain its competitive edge, while other businesses may lose key employees due to the downturn. To maintain a strong human resource pool, SMEs need to ensure that they can attract and retain talented employees. The quarantine has also led to an increase in the unemployment rate and the closure of businesses, making social inequality more evident (Kuriakose et al., 2021; Blustein et al., 2020; Nicola et al., 2020; O'Connor et al., 2020). About 26.5 million jobs have been lost in the US since April 2020, a significant increase from the previous year, and many struggles to find work and support their families (Lambert, 2020). Within a month, over 22 million employees were unemployed, representing an unemployment rate more than double that of Austria (Schnitzer et al., 2020).

Another critical success factor that can affect an SME's sustainability is its product innovation. Cowling et al (2015); Senderovits et al (2016); Dias et al (2021); Meutia et al (2018) stated that product innovation can help a business to differentiate itself from its competitors and move on to the company's performance. To maintain a strong product, SMEs must ensure that they can keep up with technological changes and market trends. Another critical success factor affecting an SME's sustainability during an economic recession is its network. A strong network can help a business find new customers and maintain relationships with existing customers. To maintain a strong network, SMEs must invest in marketing and sales strategies. So, SMEs need to strengthen their digital technologies to sustain the industry.

Robbins & Pearce (1993) suggest that government interventions supporting SMEs are essential during periods of recession to stimulate aggregate demand and help cushion the blow for firms and employees. These interventions might take some forms, including financial assistance, such as interest-free loans or low-interest credit facilities, tax breaks or exemptions for investment in innovative technology, subsidies for research and development, support for training and skill development, and assistance in the form of technical advice or mentoring, guarantees or insurance against business failures, for example during Covid-19 crisis. The government and Bank Negara Malaysia have allocated an additional RM4.5 billion to help Malaysian SMEs, particularly micro-enterprises. It includes adding RM3 billion to the Special Relief Facility (SRF) for SMEs, decreasing the overall fund's interest rate from 3.75 per

cent to 3.5 per cent, and increasing the money available under the Micro Credit Scheme from RM500 million to RM700 million for soft loans. These measures will improve SMEs' access to funding and help them during the economic recession.

Additionally, the Credit Guarantee Malaysia Berhad's BizMula-i and BizWanita-i schemes will provide financing of up to RM300,000 under the BizMula-i and BizWanita-i schemes. It will help smaller businesses with difficulty securing loans. Finally, SJPP will give RM5 billion in guarantees to help more SMEs. In addition, it will increase coverage from 70% to 80%. These measures will help Malaysian SMEs during the economic recession and support their growth (Hasin et al., 2021). In Canada, the Canadian government (2020) offers some financial assistance measures to businesses to help cover operating costs during the COVID-19 pandemic. In addition, it includes employee wage subsidies, interest-free loans, and direct payments to businesses to purchase essential goods.

According to Gertler & Gilchrist (1994), one of the main reasons why SMEs are more likely to experience recessionary periods is their relatively low technological capabilities. It, in turn, may lead to a decline in business productivity and an increase in costs, which can negatively impact the overall economy. For example, during the recession, as mentioned by OECD (2009), there was a drop in demand for goods and services and a tightening in credit terms for SMEs at a global level. It has led to the closure of businesses and the loss of jobs. Tan & See (1997) stated that, during a recession, the demand for products and services from small businesses declines as consumers take their spending elsewhere.

According to Asel et al (2010), short-term action might damage the long-term growth potential of SMEs. They argue that credit availability and productivity might be critical for the sustainability of SMEs during a recession, as firms with limited access to credit or inefficient production could quickly go out of business. Furthermore, when customers face a glut of products, they might switch to more cost-effective options such as supermarkets and discount stores rather than patronise small businesses.

Therefore, this study intends to identify:

- The critical success factors for SMEs in Malaysia to survive during an economic recession

### **Research Methodology**

The research methodology used in this study was a questionnaire survey and several semi-structured interviews. The data was collected from July through August 2020 (two months). Some three hundred surveys were sent out to the public using email, WhatsApp, and Telegram. Personal contacts were used to disseminate the surveys to respondents from SMEs across Malaysia. Only fifty-one completed google forms were received and used to run the analysis. In addition, the questionnaire asked about the sustainability strategies used by SMEs to continue their operation during an economic recession. The questionnaire was developed through consultations with sustainability, business management and economics experts. To collect responses, we used google forms. The participants were SME business owners who had experienced an economic recession.

The face-to-face interview was conducted with 20 SMEs in Malaysia that agreed to be interviewed. During the interviews, the following questions were asked (1) Operation Strategies, (2) Financial Strategies, (3) Human Resources Strategies, (4) Product of the Business Strategies, (5) Network Strategies and (6) Which of the sustainability strategies firm has adopted? Each interview lasted between 20 to 30 minutes, and the conversations were recorded and later transcribed. The interviewees were asked to answer questions about their



businesses, how they had responded to an economic recession and what sustainability strategies they had used. The research team then analysed the data and drew conclusions based on the findings.

## Findings and Discussion

### Demographic Background

The demographic background of the small firm Table 1 provides an overview of the small firm's demographics. Respondents from sole proprietorship males made up 31.40 % of the sample in the survey. Partnership businesses with male and female partners account for 31.4%, while sole proprietorship female and partnership male businesses account for 19.6% and 17.6%, respectively. Most of the small firm businesses (47.1%) are in the services business, followed by retail businesses (33.3%), manufacturing businesses (15.7%), and the remainder in the wholesale and construction business. Most SMEs participating in this study (37.3%) earned an annual turnover of less than RM300,000, while 23.5% earned up to RM3 million.

Table 1

*Demographic Background of Small Firm*

Indicator	Item	Proportion
Ownership of Business	Sole Proprietorship – Male	31.4%
	Partnership - Mix	31.4%
	Sole Proprietorship – Female	19.6%
	Partnership – Male	17.6%
Nature of Business	Service	47.1%
	Retail	33.3%
	Manufacturing	15.7%
	Construction	1.95%
	Wholesale	1.95%
Annual Turnover	Service and other sectors – <RM300,000	37.3%
	Service and other sectors – RM300,000 to RM 3 mil	23.5%
	Service and other sectors – RM300,000 to RM 20 mil	15.7%
	Manufacturing - RM 300,000 to RM 15 mil	11.8%

As shown in Table 2, for top management (Chairman/Director/ CEO) positions, 39.2% in the survey have only one top manager, 21.6% have two top managers, 9.8% have three top management, 5.9% have five top management, 2% have eight top management, 2% have top management, and 15.7% do not have top management. Meanwhile, for the middle management level, consisting of managers and the head of the department, the study found that 25.5% have only one middle management, 15.7% have two middle management, 3.9% have three middle management, 7.8% have four middle management, 9.8% have five middle management, 2% have eight middle management, 3.9% have ten middle management, and 21.6% do not have middle management. Finally, most SMEs only have one operational staff member (23.5%).

Table 2

*Number of employees at the different staff levels*

Indicator	Numbers of Top Management (Chairman/Director/CEO)	Item	Percentage
Top Management	0		15.7%
	1		39.2%
	2		21.6%
	3		9.8%
	5		5.9%
	8		2%
	10		2%

Indicator	Number of Middle-Management (Managers/Head of department)	Percentage
Middle Management	0	21.6%
	1	25.5%
	2	15.7%
	3	3.9%
	5	7.8%
	8	9.8%
	10	2%

Indicator	Number of Non-Management (Operational staff)	Percentage
Operational Staff	0	7.8%
	1	23.5%
	2	3.9%
	3	7.8%
	4	5.9%
	5	2%
	8	2%
10	2%	

### Critical Success Factors

#### Focus on Sustainability

Based on figure 2, the data we gathered, the focus on sustainability increased by 33.3%. SMEs pay more attention to environmental and social factors when making business decisions. In addition, these businesses intend to make continuous improvements in their operations by striving for sustainable practices. On the other hand, 33% of SMEs decreased their focus on sustainability. As a result, these businesses may have become less proactive about environmental concerns or have decided that they can no longer afford to implement sustainable practices. The decrease in focus may be because of the recessionary environment, which makes it difficult for small businesses to secure funding or find qualified employees with Environmental awareness and skills. Lastly, another 33% of the firms under study remained the same regarding their focus on sustainability. These businesses may have been

unaffected by the recession, or they may have decided that they do not need to make any changes to remain competitive. While the recession has impacted some businesses, others are still managing effectively.

Overall, our findings suggest that although the focus of SMEs on sustainability has remained constant during this recessionary period, there is a concern among some about how sustainable practices will be able to cope with future economic challenges. While these concerns may be warranted, it is clear that businesses are still striving to make positive changes to improve their environmental and social impact.

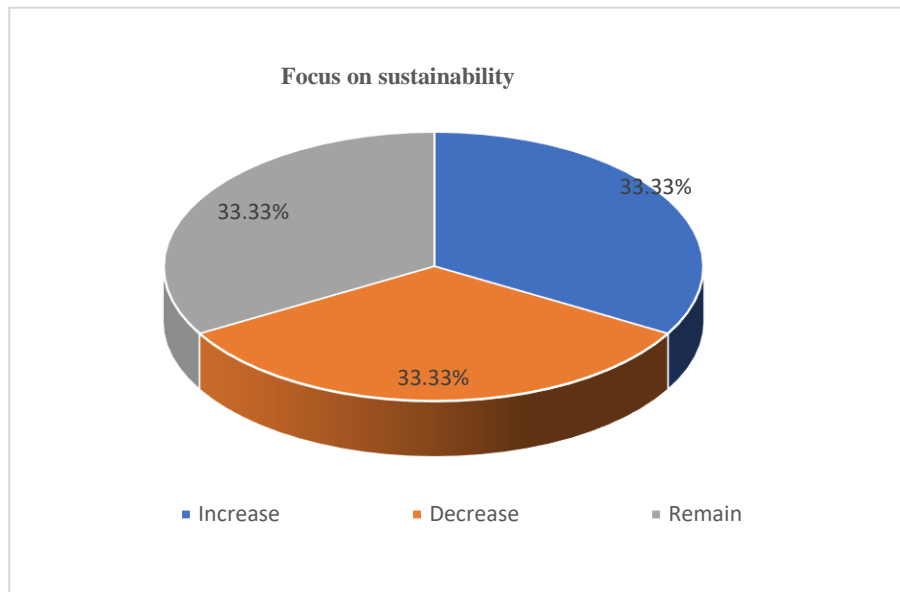


Figure 2  
Focus on sustainability

### The Expectation of the Firms' Goals to Change

Another section of the findings is about the expectation of the firms' goal to change due to economic recession. As shown in figure 3, about 86.3% agreed that the sustainability goals of small businesses would change because of the recession. Most SMEs feel that due to the current economic conditions, sustainability goals will change to focus on more practical and achievable targets. The findings suggest that sustainability is about making pragmatic adjustments to remain operational for many businesses. In addition, many of these firms believe it is important to have a short-term and long-term strategy for environmental and social initiatives.



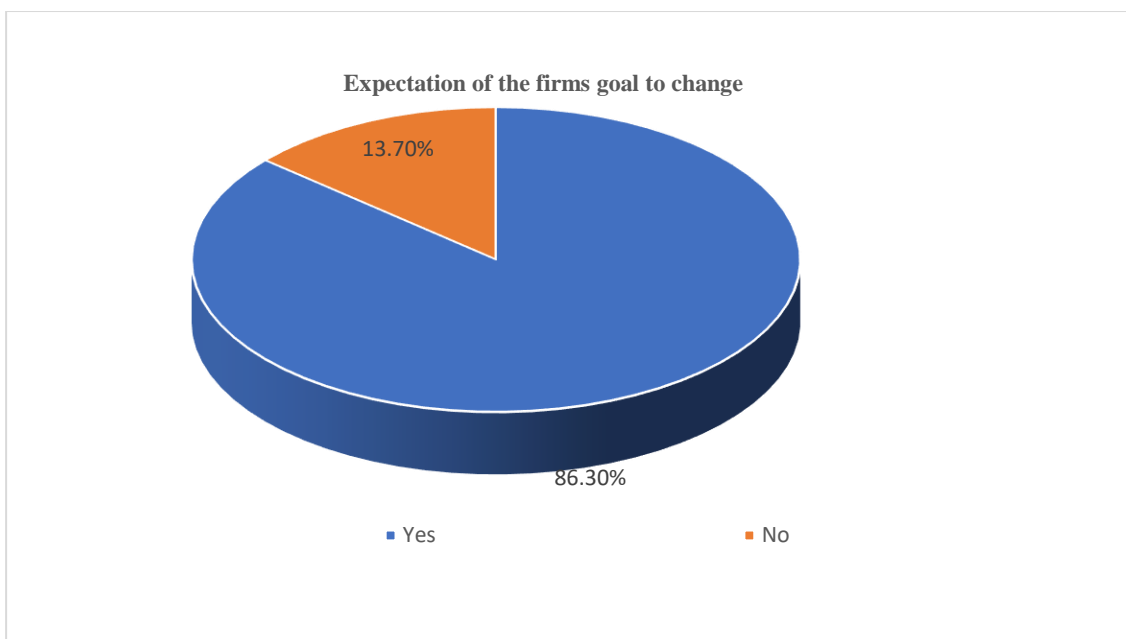


Figure 3

The expectation of the firms' goal to change

The survey explained the operation strategies, with about 43.1% having no changes in the operation hours and producing standard operating procedures to avoid the infections of COVID-19. About 31.4% shorten their business operation hours.

Table 3

*Operation Strategies of SMEs*

	Item	Percentage
1.	No changes in the operation hours	43.1%
2.	Shorten the hours of operation	31.4%
3.	Get advice on a company continuity strategy	31.4%
4.	Procedure standard operating procedures to avoid infection to sustain company operation	43.1%

One of the sustainability strategies implemented by SMEs is financial strategies, including cost reduction, government loans, and repayment rescheduling. Cost reduction was the most successful strategy, with 84.3% of participants achieving cost savings; when a company faces financial distress, the first and most typical reaction is downsizing the workforce (Che Omar et al., 2020; Santana et al., 2017). Whilst a government loan was also successful, 35.3% of participants received a Loan that helped them repay their debt more quickly. Repayment rescheduling also proved successful, with 49% of participants being able to adjust their repayment schedule to better suit their circumstances. These findings suggest that financial strategies focusing on cost reduction and government loans are the most successful in helping people repay their debt. The findings also suggest that it is important for participants to have a good understanding of their obligations when it comes to repayment. It is because, without a clear understanding of what they need to do to repay their debt, it can be difficult for them to make any effective changes. In addition, having an accurate estimate of how much they owe can also be very helpful in making timely and effective repayment decisions. Finally, it is also important to be open to different financial strategies regarding debt repayment to find one that works best for them.

Table 4

*Financial Strategies of SMEs*

	Item	Percentage
1.	Cost reduction in operating costs	84.3%
2.	Apply for a government loan for SMEs	35.3%
3.	Accept the moratorium given by the bank	49.0%
4.	Deferring payments of utilities, taxes etc.	29.4%

Under the human resources strategies, it was found that 64.7% of participants had timely communication at the management level. It suggests that good communication between managers and employees is critical to ensure that both parties are fully aware of their obligations and goals related to debt repayment. Furthermore, 51% of participants reported having a flexible HR strategy that allows for various responses regarding employee stressors or issues. In addition, it suggests that organisations should be proactive in addressing potential problems before they become issues that can have a negative impact on employee productivity. Finally, it was also found that 23.5% of participants provided training for their workers to help them understand the importance of debt repayment and how to go about achieving successful results. Finally, it suggests that education is an important component of any effective human resources strategy related to debt repayment.

Table 5

*Human resources of SMEs*

	Item	Percentage
1.	Timely communication at the management level	64.7%
2.	Flexible HR strategy and stress management for employees	51.0%
3.	Provide training for online workers	23.5%
4.	Receive legal advice on the implementation of labour regulations during the time of Covid 19	25.5%

For the product of the business, the top three areas of focus are reducing inventories (62.7%), investigating a new product or new market (31.4%), enhancing products (37.3%) and expansion of marketing channels (58.8%) (Cowling et al., 2015; Senderovits et al., 2016; Dias et al., 2021; Meutia et al., 2018). These strategies help the business meet customer demands while reducing its environmental impact. Additionally, marketing channels are expanded to reach a larger audience and promote the company's sustainability initiatives. These findings suggest that a strong business strategy focused on sustainability is necessary to maintain competitive advantage and long-term success. Additionally, marketing channels are expanded to reach a larger audience and promote the company's sustainability initiatives. Finally, it demonstrates that a strong business strategy focused on sustainability is key to remaining competitive and sustainable over the long term.

Table 6

## Product of SMEs

	Item	Percentage
1.	Minimise inventories	62.7%
2.	Investigating new products or markets	31.4%
3.	Enhancement of products	37.3%
4.	Expansion of marketing channels	58.8%

The network strategies found to be the most sustainable for businesses were customer relations (78.4%), increased publicising and promotion (52.9%), and allowing rebates/discounts (47.1%). These strategies help businesses build stronger relationships with their customers, promote their products and services more effectively, and provide training on business management skills. Together, these findings suggest that network strategies are key to business sustainability. However, while network strategies are generally very effective at promoting sustainability, they should not be used in place of more sustainable business practices. For example, companies that allow rebates/discounts should ensure that customers benefit from these offers. Businesses that publicise and promote their products and services should do so responsibly (for example, by avoiding misleading advertising). Network strategies can be a useful way to promote sustainability for businesses. However, they should not be used as the only type of sustainable strategy employed by businesses – instead, they should be combined with other more sustainable practices. Finally, it will maximise network strategies' impact on promoting sustainability.

Table 7

## Network of SMEs

	Item	Percentage
1.	Customer relation	78.4%
2.	Increase publicising and promotion	52.9%
3.	Allow rebate/Discount	47.1%
4.	Extend credit period with suppliers	17.6%
5.	Provide online business management training	35.3%

The sustainable strategy that SMEs adopt the most is downscoping (Che Omar et al., 2020; Santana et al., 2017), which refers to reducing the scope of business operations to make them more sustainable. This strategy is adopted by 76.5% of SMEs. Downsizing, or reducing the size of the workforce, is the second most popular strategy, adopted by 11.8% of firms. Finally, 19.6% of firms adopt both downsizing and downscoping strategies. There are various reasons why small businesses may choose to downsize or reduce the scope of their operations. For example, some businesses may feel they cannot afford to maintain a large operation. In contrast, others may believe that this will allow them to operate sustainably and with less waste. Regardless of the reason, downscoping strategies are likely to be successful in making small businesses more sustainable.

Table 8

*Sustainability strategies that the SMEs adopted*

	Item	Percentage
1.	Downsizing (Retrenchment of staff)	11.8%
2.	Downscoping (Eliminating unprofitable business)	76.5%
3.	Both	19.6%

These findings suggest that SMEs adopt various sustainability strategies to make their operations more sustainable.

According to Robbins & Pearce (1993), the types of government support that sustainability strategies need most are funding and regulatory support. Sustainability strategies that received less government support tended to be those that downsized or went through a downsizing process. The study found that government support is key to sustaining a sustainable strategy over time. Government support can come from funding, regulations, and other initiatives. Funding can help sustain a sustainability strategy by providing financial resources to continue implementing the strategy. Regulations can help protect a sustainability strategy from being undermined or abandoned by competitors. Other initiatives, such as public awareness campaigns or green procurement policies, can promote a sustainable strategy and improve its chances of success. Government support is important for sustainability strategies because it helps maintain the strategy's implementation and success over time.

Table 9

*Which option should SMEs prioritised*

	Item	Percentage
1.	Skilful staff and diversified supply chains	51.0%
2.	To recover quickly from difficulties	58.8%
3.	Accept new normal and enhance sustainability strategy focus on	76.5%
4.	long-term planning	56.9%

In response, governments around the world released massive stimulus packages. The US so far approved \$2 trillion to combat the economic downturn (Emma & Scholtes, 2020), and EU finance ministers recently approved €500 billion in stimulus measures (Riley, 2020).

**Conclusions and Recommendation**

This study aims to identify the critical success factor of SMEs in Malaysia during an economic recession. This study focuses on how SMEs maintain their position in an economic recession. Based on the findings of this study, it can be concluded that improving access to finance and other support from government and financial institutions, including cost reduction and repayment rescheduling the good communication between managers and employees, is part of the human resources strategy, where this can ensure both parties are fully aware of their obligations. Product innovation and network strategies were other factors to Malaysian SMEs' success during an economic recession. Adopting downscoping as a sustainable strategy help improve company profitability and stability as this will help sustain market competitiveness. Focusing on long-term strategies to sustain competitiveness in the market is also suggested

as a key success factor for Malaysian SMEs during an economic recession. It is in line with the government's strategy to successfully help Malaysian SMEs compete in a global market. Further research is needed to explore how these success factors can be improved and tailored specifically for Malaysian SMEs. Further study is needed on how other countries have fared during economic recessions and how these factors have affected SMEs. It will help to identify any areas where Malaysian SMEs can improve their competitiveness in the global market

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