

ROUNDTABLE DISCUSSION OF CPA AUSTRALIA'S SMALL BUSINESS REPORT 2022-23 - MALAYSIAN RESULTS



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Business, Technology, and ESG in Malaysian Small Businesses - A Report based on the Roundtable Discussion of CPA Australia's Asia Pacific Small Business Survey 2022-2023

Acknowledgments

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Preamble

CPA Australia's annual Asia Pacific Small Business (SBS) survey for 2022-2023, focused on business performance, technology adoption, cybersecurity, and ESG issues. To delve further into the findings from the Malaysian perspective, a roundtable was organised by the School of Business, Monash University Malaysia, in collaboration with CPA Australia, on 22 June 2023.

Leaders from policy organisations, SME associations, non-government organisations, and a variety of small businesses were invited to participate in the roundtable. The participants were:

1. Herbert Poh Cher Hian (Managing Director, Community Marketplace Technology Sdn. Bhd.)
2. John Loh (EXCO SAMENTA Central)
3. Surin Segar (CFO, Maybank Foundation)
4. Datuk Grace Chia (Vice President, SME Association of Malaysia)
5. Kalyana Mohan Teagarajan (Co-founder and CEO of Swipey)
6. Raja Segaran (Director, Strategy Research & Insights - Malaysia Digital Economy Corporation)
7. Professor Nafis Alam - Head of Business School, Monash University, Malaysia.
8. Priya Terumalay (CPA Australia)
9. Dr Moonyati Yatid (Senior Manager, Strategy – Malaysia Digital Economy Corporation)

Key findings from Malaysian respondents to the survey were shared with the participants. This was followed by a discussing of those findings and the potential policy implications. The insights from the roundtable discussion have been consolidated into this publication.

Business Performance

Business performance is of paramount importance for small businesses as it serves as a critical determinant of their sustainability and growth. The ability of a small business to effectively execute its operations and deliver value directly impacts its overall success. Despite this overarching importance, a notable concern emerged among participants in discussions about SMEs in Malaysia – a widespread dissatisfaction with the level of financial returns among these enterprises.

This dissatisfaction was attributed to a combination of factors, forming a challenging business landscape. Market competition has intensified, exacerbated by exchange rate fluctuations and the enduring impact of prolonged COVID-19 lockdowns. Inflationary pressures further strained the financial health of SMEs, compounded by what participants perceived as insufficient government support. The views expressed by participants closely mirrored the findings of the SBS report, where the top four negative influences on Malaysian SMEs included the repercussions of COVID-19, escalating costs, fluctuations in the value of the Ringgit, and heightened competition.

Delving deeper into the issue of government support, participants highlighted the cumbersome conditions attached to grants, a common sentiment among small businesses. For instance, the requirement for a matched grant—where the government matches a financial contribution to a capital investment on a one-to-one basis—proved challenging for most SMEs due to insufficient cash flow. Furthermore, participants noted a general lack of awareness among SMEs regarding the availability of grants tailored to their specific industries. This knowledge gap exacerbates the difficulties small businesses face in accessing valuable financial resources. The ability to secure a bank loan has also been hindered by the lingering effects of the pandemic, impacting the financial returns for SMEs.

As SMEs navigate the challenging aftermath of COVID-19 and grapple with high interest rates and inflation, there is a pressing need for timely and effective government intervention to ensure their continued growth. Recognising the multifaceted challenges faced by SMEs and addressing the barriers to accessing government support are pivotal to fostering a more conducive environment for the small business sector to flourish in Malaysia.

Technology

The importance of digital presence and utilisation for small businesses cannot be overstated in today's fast-paced and technologically driven business landscape. The SBS report underscores this by revealing that markets with high technology usage among small businesses generally outperform those with low technology use. In Malaysia, small businesses heavily rely on digital sales channels and social media to drive their operations, with more than half of respondents reporting improved profitability resulting from their technology investments.

However, despite growing technology adoption, participants noted a crucial gap in digital skills among workers. There is an urgent call to upskill and reskill the SME workforce to fully harness the benefits of digitalisation. Recognising this, the Malaysia Digital Economy Corporation (MDEC) is actively developing a program aimed at mapping the digitalisation journey of SMEs based on their personas. This initiative seeks to provide tailored assistance to each category, encompassing policy development, training programs, and incentives.

As digital transactions constitute a growing portion of SME sales, cybersecurity is a critical priority. The SBS report highlights that nearly half of businesses anticipate a cyberattack in the next 12 months, while only half have reviewed their cybersecurity protections in the past six months. Participants voiced concerns over the limited investments in cybersecurity. They attributed this to high costs and a lack of awareness among business owners as primary obstacles. Many SMEs, constrained by costs, resort to third-party service providers, introducing potential security vulnerabilities.

Addressing cybersecurity challenges requires proactive measures from government agencies. Clear guidelines for SMEs, encompassing breach reporting, regular cybersecurity practice reviews, and dedicated cybersecurity training initiatives, can contribute significantly. As over 70 per cent of SMEs acknowledge that more than 10 per cent of their sales are received digitally, effective government assistance becomes paramount to fortify cybersecurity practices and mitigate potential threats. Fostering a secure digital environment for small business is essential to business and the economy.

Sustainability

ESG, encompassing environmental, social, and governance factors, holds increasing importance for small businesses. By adopting sustainable practices, small enterprises can attract environmentally conscious consumers, reduce costs, and enhance their reputation. Aligning with ESG principles can facilitate access to capital and investment, as investors increasingly prioritise ethical and sustainable enterprises. Furthermore, a commitment to ESG values builds customer trust, loyalty, and long-term viability. It positions small businesses as responsible contributors to both local communities, the broader global landscape, and the global supply chain.

Despite the growing significance of ESG, the SBS report reveals that 29 per cent of Malaysian small businesses allocate no resources to practices that fit under a broad definition of ESG. Participants noted that SMEs often view ESG as a necessity only when complying with export market requirements. Transitioning products to be more sustainable is perceived as costly, particularly when SMEs don't see a clear value in return.

Participants emphasised the need to reshape ESG awareness among SMEs. For example, illustrating how ESG practices can enhance productivity, reduce costs, and open avenues for market expansion. Recognising the pivotal role SMEs play in the global supply chain, ESG adoption among them can also positively impact larger companies. Greater awareness initiatives are essential to portray ESG as a market opportunity, particularly in global markets, incentivising ESG adoption among SMEs. A simplified format for SME sustainability reporting is recommended, making it more accessible and cost-effective for SMEs to identify key ESG considerations for their business.

The intersection of digitalisation and ESG is crucial for supporting SMEs. The MDEC is actively promoting ESG among companies under its purview, recognising the collaborative potential of digitalisation and ESG in fostering sustainable business practices among small enterprises.

Future business dynamism

The SBS report underscores a concerning trend: small businesses in developed economies exhibit a lower propensity for growth, technology adoption, and innovation. A prevalent issue for those economies is where many small enterprises experience low or stagnate growth. Interestingly, the report suggests a correlation between younger business owners and heightened business dynamism, fostering increased growth.

Against the backdrop, participants shared their perspectives on how Malaysia, on its trajectory toward developed economy status, can ensure sustained growth for its small businesses and attract young talent to the entrepreneurial landscape. Participants emphasised the need for policy changes to enhance the ease of doing business in Malaysia. Streamlining processes and eliminating unnecessary red tape can significantly reduce costs and make starting and growing a small business more attractive.

Furthermore, simplifying government grants and loan procedures was highlighted as crucial for nascent small businesses during their risky formative years. Participants stressed the importance of timely government support and education for young entrepreneurs, acknowledging their pivotal role in fostering a conducive environment for business growth.

Recognising the importance of digitalisation in today's business landscape, participants advocated for government investment in improving the digital talent pool. This investment, coupled with efforts to enhance digital infrastructure nationwide, is seen as essential to equip emerging SMEs with the best tools to compete both domestically and internationally. Collaboration between government agencies and large corporations was also emphasised, as this can create a supportive ecosystem for SMEs, making them more appealing to young talent.

In essence, the path to sustained growth for small businesses in Malaysia involves a multifaceted approach encompassing policy reform, streamlined support mechanisms, digital empowerment, and collaborative efforts between government bodies and corporate entities. Such measures should aim to foster growth and attract and nurture an entrepreneurial spirit among the younger generation.

Conclusion

The imperative of government support for Malaysian SMEs in fostering growth cannot be overstated, particularly against the backdrop of a dynamic economic landscape. The insights gleaned from discussions underscore the pivotal role of government intervention in shaping an environment conducive to SME development.

By simplifying grant and loan procedures and offering timely support and education for young entrepreneurs, the government can play a fundamental role in mitigating the challenges faced by nascent businesses during their formative stages. This approach not only reduces barriers to entry but also stimulates a culture of entrepreneurship by providing the necessary resources and knowledge base.

Furthermore, the positive impact of digital adoption emerges as a transformative force for SMEs in Malaysia. Advocacy for government investment in enhancing the digital talent pool and fortifying nationwide digital infrastructure reflects a forward-looking approach. Digital empowerment equips SMEs with the tools needed to compete on both domestic and international fronts. The government's commitment to fostering a digitally savvy SME sector positions Malaysia to capitalise on the opportunities presented by the digital era, ensuring that small businesses remain agile and resilient in the face of technological advancements.

Moreover, the adoption of ESG principles among SMEs serves as a critical catalyst for sustainable growth. Government support in creating awareness, simplifying reporting processes, and offering incentives for ESG practices can significantly impact the ethos of small businesses. The positive correlation between ESG adherence and customer trust, loyalty, and long-term viability positions SMEs not only as responsible contributors to local communities but also as ethical players in the global marketplace. Government initiatives that promote and incentivise ESG practices align with the global shift towards sustainable business models, providing Malaysian SMEs with a competitive edge.

Ensuring future business dynamism in Malaysia requires a holistic approach that intertwines government support, digital adoption, and ESG principles. By embracing these interconnected elements, the government can lay the groundwork for a vibrant SME sector that propels Malaysia into the forefront of global economic innovation. The symbiosis of these factors not only fosters immediate growth but also lays the foundation for sustained dynamism, positioning Malaysian SMEs as agile, responsible, and competitive players in the ever-evolving global business landscape.