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# AN OVERVIEW OF SERVICE SECTOR IN MALAYSIAN ECONOMY: SURVIVAL OF SMEs

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## Abstract

This study provides an overview of the Small Medium Enterprises (SMEs) in the service sector. It mainly looks at how SMEs contribute to the Malaysian Economic, Sustainable Development Goals (SDGs) growth. The data analysis from various sources has shown the importance of SMEs in the service sector and indirectly to the Malaysian economy. The study also outlines the challenges and opportunity faced by the SMEs in Malaysia due to COVID-19.

**Keywords:** SMEs, service sector, Malaysian economy, survive.

## 1.0 Introduction

In general, there are three sectors in economic activities which are called a three-sector model. In-three sector model, it is divided by primary, secondary and tertiary sector. The primary sector involves the production or extraction of raw materials. In contrast, the secondary sector involves in manufacturing of raw materials into goods. The manufacturing is a type of good-oriented activities as the end goods are the tangible output. The tangible production is anything that we can touch or see, for example, automobile, computer, and television. Lastly, the tertiary sector is involving in the delivery of services to other businesses or consumers. The most straightforward theory proposed by the previous scholar on service was occurrence, procedure and achievement (Zeithaml & Bitner, 2018). The service sector is a type of act-oriented activities as the end product is intangible output.

The tour guide, maintenance, repairs, housekeeping and lawn mower services are the examples of the service sector. The majority of service sectors fall on the government, retail, financial services, health care, personal services, business services, and education. In the service sector, differentiation of product is challenging as they are in act-oriented service. Many services have high labour of content. The productivity or quality measurement is considered difficult to measure as there are various demand and requirements from job to job. From the previous scholar, the theory of service quality defines as an outcome from the differentiation of customer's projection on the service and their discernment on delivery of the service performed (Lehtinen & Lehtinen, 1982; Lewis & Booms, 1983, Gronroos, 1984; Parasuraman et al., 1985; 1988; Caruana, 2002). It also differs on the number of routine cases; one may have more, but the others may not. These are examples of the character in service operations.

In the Malaysian Economy, both the manufacturing and service sectors play a crucial role in economic contributor. The service sector has played a critical key role in economic growth in many countries globally, and Malaysia is one. Besides Malaysia, it is also the supreme sector in Gross Domestic Product (GDP) contribution for countries like US, Japan,

Brazil, India, and Singapore. Since the service sector is the primary contributor to economic growth, Malaysia's Government puts it as the primary focus for their economic planning. Not to say Malaysia's Government only but other countries also took the same action of focusing service sector in their economic planning. There are several ways been implemented by the Malaysian government. These action plans will be discussed at the end of this paper.

## 2. Current trend of the service sector in Malaysia

An International Monetary Fund (IMF) has ranked the Malaysia Economic as the sixth-largest in Southeast Asia and the thirty-ninth largest in the world from an economic perspective. For the year 2020, Malaysia economy has shown a downturn. This is due to the current pandemic situation of COVID-19. It is not just giving impact to Malaysia but to the nationwide too. The number of COVID-19 patients keeps increasing day-to-day. Due to this, the statistic of Malaysia economy is not showing a favourable record.

According to the Economic Census 2016, service sectors account for 800,307 of total business establishments in 2015. The statistical data from the Department of Statistics Malaysia (DOSM) for the second quarter of the year 2020 has shown RM 335.6 billion of total revenue in the service sector or equivalent to a decrease of -24 percent if compared to the same quarter in the year 2019. In the first quarter of the year 2020, before the pandemic crisis has a significant impact on Malaysia's economy, it has shown an increased value of total revenue. The year-on-year total revenue in the first quarter has recorded an increase of 1.5 percent. This huge decrease comes from Wholesale & retail trade subsectors, Food & Beverages and Accommodation that accumulated to -23.7 per cent.

The total number of persons engaged in the service sector was recorded at 3.7 million persons with salaries and wages paid for RM 23.5 billion only for the second quarter of 2020. Compared to the same quarter last year, year-on-year persons engaged have decreased by 3.1 percent. In comparison, salaries and wages decline by 6.4 percent for the second-quarter year 2020. The year-on-year for the first quarter for both; the number of persons engaged and salaries & wages is 1.0 percent and 1.4 percent.

The major subsector in service comprises wholesale & retail trade, food & beverages, and accommodation. Before the pandemic crisis, this subsector's year-on-year total revenue shows a positive value, an increase of 1.5 percent in the first quarter. The year-on-year for the number of persons engaged and salaries & wages paid is not bad. Both show positive value which is 1.1 percent (equivalent to 2,728,592 persons) and 1.9 percent (RM 14.4 billion).

The second highest revenue contributor to the service sector comprises information & communication and transportation & storage. Total revenue in the second quarter for this subsector was recorded at RM 51.9 billion, equivalent to a year-on-year of -21.3 percent compared to the first quarter at 1.4 percent. The number of persons engaged and salaries & wages paid have shown unfavourable result. Both were recorded at 462,637 persons and RM 4.2 billion amount paid. For the first quarter of year-on-year, it shows as 0.3 percent of persons then decrease to -3.9 percent of persons. The difference amount of salaries & wages paid was reduced by -17.5 percent from the first quarter to the second quarter.

Health, education & art, entertainment & recreation is the third-ranking subsector in the service sector. This subsector's revenue for the second quarter was recorded at RM 9.6 billion, which is equivalent to year-on-year of -41.7 percent lesser than the first quarter that recorded at year-on-year of -0.6 percent. The number of persons engaged was reduced to 281,159, equivalent to reduction to year-on-year of -0.6 per cent. In the first quarter, the persons involved was increased to 1.1 percent year-on-year. Salaries & wages paid year-on-year reduced from 4.1 percent to 0.1 percent with the final amount of RM 2.4 billion in the second quarter.

The last ranking of subsector revenue contributors in the service sector is the professional and real estate agent. Second-quarter revenue in this segment was recorded at RM 7.6 billion, equivalent to a year-on-year reduction from 5.0 percent to -20.9 percent. The number of persons engaged for the second quarter was recorded at 178,642 persons. The year-on-year number was reduced from 0.9 per cent to -0.1 per cent, while salaries & wages for year-on-year was reduced from 3.4 per cent to -2.2 per cent. Tables 1 and 2 represent the statistic values for the service sector's performance for the first quarter and second quarter, as mentioned above.

Table 1: Performance of the service sector as of Q1 2020

| Services   | Revenue | Number of persons engaged | Salaries |
|--|---------|---------------------------|----------|
|  | YoY (%) | YoY (%)                   | YoY (%)  |
|  | 1.5     | 1                         | 1.4      |
| Wholesale & retail trade, food & beverages and accommodation | 1.5     | 1.1                       | 1.9      |
| Information & communication and transportation & storage     | 1.4     | 0.3                       | -2.1     |
| Health education and arts, entertainment & recreation        | -0.6    | 1.1                       | 4.1      |
| Professional and real estate agent                           | 5.0     | 0.9                       | 3.4      |

Source from: <https://www.dosm.gov.my>

Table 2: Performance of the service sector as of Q2 2020

| Services   | Revenue |         |         | Number of persons engaged |         |         | Salaries |
|--|---------|---------|---------|---------------------------|---------|---------|----------|
|  | RM (B)  | YoY (%) | QoQ (%) | Persons                   | YoY (%) | QoQ (%) | RM (B)   |
|  | 335.60  | -24     | -23.4   | 3,651,030.00              | -3.1    | -2.6    | 23.5     |
| Wholesale & retail trade, food & beverages and accommodation | 266.5   | -23.7   | -23.3   | 2,728,592.00              | -3.4    | -2.8    | 14.4     |
| Information & communication and transportation & storage     | 51.90   | -21.3   | -18.9   | 462,637.00                | -3.9    | -2.7    | 4.2      |
| Health education and arts, entertainment & recreation        | 9.6     | -41.7   | -43.2   | 281,159.00                | -0.6    | -1.8    | 2.4      |
| Professional and real estate agent                           | 7.6     | -20.9   | -21.9   | 178,642.00                | -0.1    | -0.4    | 2.5      |

Source from: <https://www.dosm.gov.my>

### 3. Contribution of the service sector to Sustainable Development Goals (SDG)

The Sustainable Development Goals (SDG) or also can be called Global Goals was introduced in the year 2015 by the state members of the United Nations. They set an aim not to let anyone left behind by using the seventeen goals (refer table 3) which are consist of no poverty, zero hunger, good health & well-being, quality education, gender equality, clean water & sanitation, affordable & clean energy, decent work & economic growth, industry, innovation & infrastructure, reduced inequalities, sustainable cities & communities, responsible

consumption & production, climate action, life below water, life on land, peace, justice & strong institutions, and partnership for the goals.

Malaysia, as one of the United Nation, states members is also committed to implementing the SDG. The commitment proved when Malaysia presented the Voluntary National Report (VNR) to High-Level Political Forum, the United States, on Malaysia's SDGs progress. The SDGs achievement has resulted from the implementation of the 11<sup>th</sup> Malaysia Plan. Various participants involved in SDGs efforts are the states, government agencies, non-government organizations, the private sector, and civil society organizations.

The 11th Malaysia plan aims to enhance the bottom 40 (B40) quality of life and increase their income by 2020. Other than that government is also planning for accessibility of B40 for affordable housing, basic amenities, and good health service. The 5<sup>th</sup> SDG goal, which is gender equality is also one of the government aims. This is proven when the labour participation rate for female increased to 54 per cent. The government has acknowledged women's role as a decision-maker and in a top management position. The government concern on the environment element shows the government's plan to protect the natural environment & resources and lessen the effects of climate change.

### **3.2 Contribution to the service sector in SDG.**

The business & sustainable development report has found a linkage of the SDGs by sectors. Three categories relate to the SDGs and sectors: the single linkage, two or more linkage, and enabler across all SDGs. From the mapping, the service sector can be called a tertiary sector with the most linkage and enabler to all SDGs.

The utility service has the most linkage among all sectors under the service sector. The linkages are coming from the 6<sup>th</sup> (clean water & sanitation), 9<sup>th</sup> (industry, innovation & infrastructure) and 7<sup>th</sup> (affordable & clean energy) goals of the SDGs.

The telecommunication sector falls under the second-highest linkage to SDGs, comprising the 4<sup>th</sup> (quality education) and 9<sup>th</sup> (industry, innovation & infrastructure) goals. Next is the consumer services and technology, respectively, fall under the 12<sup>th</sup> (responsible consumption & production) and 4<sup>th</sup> (quality education) goals. It includes the food & beverages service providers, retailers, media, and travel & leisure under consumer services. This sector contributes to the opportunity of accessing affordable goods and services. In contrast, media services are given a chance of providing awareness of sustainability to the public. The technology sector consists of computer services and telecommunication service providers that allow market development, innovation, and digital access. Lastly, financial is an enabler to all SDGs. Under the financial sector, it includes banks, insurance providers, and real estate. They are providing financial and consulting services to the customer. The banks mostly involve in providing a fund to the SMEs companies to improve and sustain their businesses.

Table 3: Sustainable development goals



Source from: <https://en.unesco.org/sustainabledevelopmentgoals>

#### 4. Small Medium Enterprises (SMEs)

##### 4.1 SMEs in the service sector

The previous scholar has defined the Small Medium Enterprises (SMEs) as a feature that differentiates them from most of their bigger fellows (Storey, 1994). In the Malaysian economy, the Small Medium Enterprises (SMEs) can be classified into two broad categories: manufacturing, manufacturing-related services and agro-based industries for group 1 and group 2 consist of services, primary agriculture and information & communication technology (ICT). Both categories were distributed according to the annual sales turnover or the number of full-time employees classified as micro-enterprise, small-enterprise, medium enterprise.

In the service sector, SMEs contribute a large number of total establishments. According to the economic census 2011 (the data collected was for the year 2010), SMEs' total business establishments were 645,136 businesses equivalent to 97.3 percent. From these, SMEs are coming from the service sector, which accounts for 580,985 establishments or equal to 90 percent of SMEs' total establishment. Many subsectors in the service sector fall under wholesale & retail trade services, including motor vehicles & motorcycles repair services. Both are important in contributing to the Malaysian economy, but retail is much more critical as it involves the ultimate direct buyer & the buyer's satisfaction is evaluated accordingly by themselves. Then the balance falls under food & beverage services and transportation & storage services. Most of the SMEs are micro-enterprises that account for 79.6 per cent of total SMEs in the service sector. The micro-sized enterprises usually have not more than five workers. Therefore this sector plays a vital role in creating job opportunities and linking production & consumption. Small-sized enterprises accounted for 18.3 per cent while the balance is from medium-sized enterprises. According to the Data of Statistical Malaysia (DOSM), SMEs' GDP contribution for the year 2019 was led by the service sector at 63.3 percent.

#### **4.2 Issues, challenges and opportunity of SMEs businesses during COVID-19**

For the past eleven months, we have been shocked by the pandemic coronavirus, called COVID-19. This unforeseen pandemic has given the chaos and severe impact on businesses, mental health, social, and economy of individuals and countries. Most companies shut down. Many people have no jobs, resulting in many problems such as divorce and mental & health problems due to stress & financial crises. To prevent COVID-19 spread aggressively, the Malaysian government has activated the movement control order (MCO). During MCO, there are limited operating hours for businesses. It applies to essential business only such as financial services, retails, gas stations, delivery services and transportation, non-essentials are prohibited from operating. There is also a limitation of movement for the consumer, thus tricky for them to go out. The consumers' purchase behaviour shifted during the pandemic period as customers would like to take the necessary precautions. But this has given a great opportunity and growth in technology and e-business as the customer is more favourable to buy online due to movement limitations.

Different types or sizes of SMEs have other challenges. It will be less issue for larger SMEs. They have millions of cash to sustain for the outcoming payroll, business cycle, and expenses for a short period or maybe sustain for a more extended period. Simultaneously, the micro-sized enterprises are more struggle to survive as they do not have more savings. Even though they do not have high numbers of workers, they still commit the compulsory expenses such as staff salaries, rental expenses costing around RM 3,000 to RM 5,000 per month, utilities, and other fixed costs. The supply chain also impacts SMEs businesses as there are limited numbers of available suppliers locally and internationally, especially from China that are still in lockdown. The significant risk of cancellation tourists has exposed the tourism industry as Malaysia's tourists mostly come from Singapore and China. This also has a severe impact on the retail business's micro-sized enterprises (selling handicraft items, and souvenirs), foods and beverages, local tour guide services, tourist transportation, and homestay.

Meanwhile, the subsector of information and communication are growing by the high demand for technology services as employees are work from home during MCO and online shopping. The delivery services grab this crisis as an opportunity to sustain their business as there is an increase in online shopping. Online shopping is not limited to fashion or hobbies but also includes food & beverages, groceries, medical supplies &, etc.

#### **4.3 Strategic and action plans**

On March 26, the Malaysian government had launched the PRIHATIN economic stimulus package 2020 with a budget amounting to RM 3.3 billion to help SMEs businesses. The financial is responsible for handling and managing the funds as it will be allocated to them. Bank Negara Malaysia had allocated RM 3.0 billion Special Relief Fund for SMEs to lessen the SMEs burden in terms of working capital and short-term cash. It also includes financing packages offered at 3.75 percent of financing rate per annum with a guarantee from Syarikat Jaminan Pembiayaan Perniagaan Berhad (SJPP) or Credit Guarantee Corporation (CGC). Due to a prolonged pandemic crisis, the government has come out with a new scheme that provides an additional package for wages subsidies amounting to RM 600-1200 per month for maintaining the SME employees for the next six months. This is also an assurance and relief support to the SMEs workforces.

Meanwhile, micro-enterprises can apply for a new financing facility that the Malaysian government has allocated at RM 2.1 billion financing facility. These plans are considered a strategic rescue plan. The mutual motive is to limit the SMEs' bankruptcy risks and severe financial consequences. Apart from that, the Malaysian government is also concerned about

the social aspects. The government has announced a tele-counselling service for those who are needed. This is due to an increase in mental, marriage, and health problems in Malaysia during COVID-19.

It is not just the government's responsibility. Still, SMEs as the business operators should also find a way to sustain their business for a more extended period and during the crisis. There are two strategies that they can focus on, which are financial, technology, and marketing strategy. On the financial strategy, they should consider to review and explore new business models. Mostly, their businesses are not ready for a sudden and unforeseen risk like COVID-19. Therefore, they must plan for backup business models or shift to the new business models. This is to avoid tight on their businesses financial or cash flow. For example, suppose the current business model is focusing on product A only. In that case, they should innovate it to make it product A+ or create a new product. Suppose they specific on the customer's age, for example; their product is suitable for age 30. In that case, they should develop a product that suitable for other range of ages too. The managing of debts and cash flow during the early stage is much more critical. Without proper cash flow management, they can't survive during a crisis or for an extended period.

Next is the strategy for the adoption of technology. Most SMEs are reluctant to follow the market trend. It is sporadic for SMEs to adopt the technology in their businesses as they prefer to use traditional ways. Based on the above findings, during COVID-19, demand for technology and communication grows rapidly. Customer's behaviour has shifted to online mode. Technology usage can reduce costs such as hiring marketing staff, printing for advertisement, and rental costs to operate the business from home. This is also a value-added marketing strategy, as they can publish advertisements through social networks and the internet. The cash-less payments also can reduce the risk of cash transactions being stolen. SMEs can deal directly with the customer, get feedback, follow-up order with the supplier, online. From these, they can enhance the turn-around-time of their business activities.

## 5. Conclusion

It can be concluded that SMEs play a leading role in the Malaysian economy. Therefore, both parties (Malaysian government and business owner) must aggressively play the roles of SME's survival strategies. Since benefits are being offered, the government should strengthen the allocation mechanism and formalize SMEs' informal sector. It will help SMEs to keep informed on the new benefits provided by the government and to survive.

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