

DEVELOPING A RESILIENT SURVIVAL MODEL FOR MALAYSIAN SMEs: A CONCEPTUAL PAPER

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Abstract: *The study endeavours to devise a sturdy survival plan for small and medium-sized enterprises (SMEs) in Malaysia, ensuring their continued existence during crisis situations, such as the COVID-19 pandemic. Using both quantitative and qualitative methods like questionnaire distribution and focus group discussions with an expert moderator, the research will deliberate on theories of contingency and reinforcement. Additionally, it will review earlier literature to formulate a conceptual framework concentrating on areas like leadership qualities, operational techniques, dynamic capabilities, and IT support that might assist these SMEs endure such emergency circumstances. This newly proposed model may aid policymakers or managers in coordinating initiatives towards SME stability after crises by suggesting resilience strategies that increase competitiveness. As this investigation identifies measures necessary for SME survival following prolonged upheavals specifically in developing regions; it complements existing management literature. Furthermore, since the research aligns with Malaysia's National Entrepreneurship Policy 2030 mission to transform into an entrepreneurial country - makes its findings significant.*

Keywords: *Crisis management; sustainability; survivor; SMEs*

Introduction

Small and medium-sized businesses (SMEs) around the world have been severely impacted as a result of the COVID-19 pandemic. According to a study by McKinsey & Company, SMEs are particularly vulnerable to the effects of the pandemic due to their limited financial resources and lack of access to capital (McKinsey & Company, 2020). In Malaysia, the SME sector is a critical component of the country's economy, accounting for more than 98% of business establishments and contributing to almost 40% of the country's GDP (Department of Statistics Malaysia, 2021). The pandemic has caused disruptions in the supply chain, reduced demand, and forced businesses to close temporarily, resulting in significant economic losses. A survey conducted by the Federation of Malaysian Manufacturers found that 64% of manufacturers experienced a decline in business activity due to the pandemic, while 70% experienced a decrease in new orders (Federation of Malaysian Manufacturers, 2020).

Despite the challenges posed by the pandemic, some SMEs have demonstrated resilience and adapted to the new normal. For example, some businesses have shifted their operations online, while others have pivoted to produce essential goods such as personal protective equipment (PPE) and hand sanitizers. In Malaysia, the government has also provided assistance to SMEs through various measures, such as loan moratoriums, wage subsidies, and grants (SME Corporation Malaysia, 2021). Moving forward, it is crucial for SMEs to continue to innovate and adapt to the changing business landscape to survive and thrive post-pandemic. This may involve embracing digital transformation, diversifying their product offerings, and exploring new markets. Additionally, policymakers and business leaders must work together to create a supportive ecosystem that enables SMEs to access the resources and capital needed to succeed.

Furthermore, the global outbreak of COVID-19 has had a significant impact on businesses worldwide, leading to severe cash flow shortages and a decline in projected revenues. The resulting economic downturn has caused many businesses to close down, leading to a massive loss of jobs (World Bank, 2020). The pandemic, coupled with the implementation of the Movement Control Order (MCO), has also affected Malaysia's Gross Domestic Product, resulting in a modest growth rate of 0.7% in the first quarter of 2020 (Jaafar, 2020). SMEs have been hit the hardest, with estimates suggesting that up to thirty percent of them may fail in the coming year (Tan, 2020).

It is necessary for business owners to devise proper strategic plans in order to maintain the continuity and survival of SMEs. These plans should be able to withstand the effects of unforeseen circumstances. The Malaysian Institute of Economic Research (MIER) and the Malaysian Entrepreneurship Academy (AUM) believe that putting all of one's faith in the economic stimulus packages that are supplied by the government is not a sustainable answer for the long run (RTM, 2020). The COVID-19 pandemic has had a significant negative impact on small and medium-sized enterprises (SMEs) around the world, including in Malaysia, where the implementation of the Movement Control Order (MCO) has led to the closure of businesses.

The cancellation of orders, and decreased incomes as a result of decreased customer demand. While the government of Malaysia has introduced a number of stimulus packages to assist SMEs, business owners are still responsible for developing and putting into action appropriate strategic plans to ensure the survival of their companies and their ability to continue operations after a crisis. The purpose of this research is to build a model for the robust survival of small and medium-sized businesses that is capable of overcoming obstacles and ensuring the continuity of company (Mohd-Any et al., 2021).

SME Survivor Rate

The table 1, shows the survival rate of small and medium-sized enterprises (SMEs) based on two different sources. According to the US Bureau of Labor Statistics, approximately 20% of small businesses in the United States fail in their first year of operation, while about half fail within the first five years. This highlights the challenges faced by new SMEs, which may struggle to establish a foothold in a highly competitive marketplace. On the other hand, a report by SME Corporation Malaysia reveals that the survival rate of SMEs in Malaysia after five years is around 66%. This suggests that the entrepreneurial landscape in Malaysia is relatively stable, with a greater proportion of SMEs able to weather the challenges of the first few years of operation.

However, the COVID-19 pandemic has had a significant impact on SMEs worldwide, including in Malaysia. The table shows that while the US Bureau of Labor Statistics has reported that many small businesses in the US are struggling to stay afloat due to reduced demand, supply chain disruptions, and lockdown measures, the impact of the pandemic on SMEs in Malaysia is not specified in the report by SME Corporation Malaysia.

The table highlights the challenges faced by SMEs in the current business environment and the need for resilient survival models, such as the one proposed in the conceptual paper, to help SMEs overcome crises and increase their chances of long-term success.

Table 1: Survivor rate

	US Bureau of Labor Statistics	SME Corporation Malaysia
Survival rate after	First year: 20%	After five years: 66%
COVID-19 impact	Many small businesses struggling to stay afloat due to reduced demand, supply chain disruptions, and lockdown measures.	N/A

Source: (SME Corporation Malaysia, 2021; U.S. Bureau of Labor Statistics., 2021)

Objective

The main objective of the study is to develop a resilient survival model for small and medium-sized enterprises (SMEs) in Malaysia, in order to ensure the continuity of their businesses after a crisis, particularly in response to the COVID-19 pandemic. Details objective as follow:

- i. To address the negative impacts of the pandemic on businesses, particularly SMEs, which have suffered from business closure, cancellation of orders, and income reductions.
- ii. To identify strategies for SMEs to ensure survival and sustainability, and to increase their competitiveness at national and global levels.

Aligned with one of its objectives, the National Entrepreneurship Policy 2030 (DKN 2030) endeavors to transform Malaysia into an entrepreneurial nation within a decade. This policy highlights eight obstacles and dilemmas that must be tackled to foster a favorable ecosystem for entrepreneurship which can augment national and international competitiveness. To overcome these hindrances while pursuing sustainability, it is crucial to devise effective survival strategies that will lead towards achieving this objective as per DKN 2303's vision of empowering entrepreneurs in Malaysia by year-end 2030.

Significant of Study

The COVID-19 epidemic has had a significant detrimental effect on businesses all over the world, with the Small and Medium Businesses (SMEs) being the most negatively impacted. According to the findings of Zailani et al., the implementation of the Movement Control Order (MCO) in Malaysia has led to the closing of businesses, the cancellation of orders, and a reduction in income due to a decline in client demand (2020). According to Jaafar (2020), Bank Negara Malaysia claimed that the economy of Malaysia grew at a sluggish pace of 0.7% during the first quarter of 2020, despite the pandemic and the MCO having a negative impact on the economy. As a result, the creation of a resilient survival model for small and medium-sized firms (SMEs)

The SME Association of Malaysia predicts that up to 30% of SMEs may face closure within the next year due to the pandemic's impact, as reported by Tan (2020). To ensure SME survival after crises, the development of a resilient survival model can offer strategies to address sustainability, scaling, and capability issues. Although the Malaysian government has introduced several stimulus packages to support business sustainability, entrepreneurs must prepare appropriate strategic plans to survive, as noted by RTM (2020). The development of a resilient survival model can provide entrepreneurs with the necessary strategies and plans to ensure business continuity and sustainability after crises.

Literature Review

The Impact of Crises on the Performance of SMEs

Resilience has become a key factor for Small and Medium-Sized Enterprises (SMEs) to stay in business after a crisis (Doern et al., 2019). Existing research suggests that SMEs may be more vulnerable to crises because they lack resources, aren't ready, aren't sure where they stand in the market, and rely on government and local agencies (Herbane, 2013; Runyan, 2006). Crisis events can also make employees and managers of SMEs feel emotionally and psychologically stressed (Doern, 2016; Leung et al., 2005).

Numerous studies have examined the impact of crisis events, including the COVID-19 pandemic, on SMEs. For instance, Alves et al. (2020) conducted a qualitative analysis of SMEs in China in the aftermath of the COVID-19 outbreak and found that the sudden decline in market demand had a significant negative impact on SMEs, with small enterprises being particularly sensitive and heavily affected by the crisis. However, there is limited guidance available on how SMEs can effectively overcome the prolonged impacts of the COVID-19 crisis.

Rathore et al. (2020) conducted a study to evaluate the impact of government interventions on micro, small, and medium-sized enterprises (MSMEs) in the Indian manufacturing sector during the COVID-19 pandemic. The researchers found that the lockdown measures had a severe impact on MSMEs, with up to 70% of entrepreneurs expressing concerns that their businesses would not survive beyond three months if the lockdown mode continued. This underscores the urgent need for effective strategies and plans to help MSMEs cope with crises such as the COVID-19 pandemic. The findings of Rathore et al. (2020) are consistent with other studies that have highlighted the vulnerability of MSMEs to crises. For instance, a report by the International Finance Corporation (IFC) revealed that MSMEs are often the hardest hit by economic shocks and have a higher likelihood of bankruptcy than larger enterprises (IFC,

2020). This is because MSMEs have limited access to capital and resources, and they lack the resilience and flexibility of larger enterprises.

Doern et al. (2019) have evaluated the effectiveness of entrepreneurs' strategies in mitigating the impact of crises, including changes in marketing, sales, and employment practices. Despite this, there remains a lack of research in this field, particularly in developing countries (Fabeil et al., 2020). Jose et al. (2020) conducted a qualitative analysis of small businesses in Macau during the initial months of the outbreak and found that firms with formal planning and strategies prior to the crisis tended to have a longer survival history. Bishop (2019) discovered that companies with diverse and strong knowledge recovered more quickly after crisis events. This underscores the importance of developing a resilient survival model for SMEs that can offer strategies and plans to address issues of capability, sustainability, and scaling, and enhance their competitiveness on national and global scales.

In summary, the impact of crisis events on SMEs has been widely studied, particularly after the COVID-19 pandemic. Proper strategies and plans are needed to ensure the survival of SMEs after crises. However, research in this area is still limited, especially in developing countries. The development of a resilient survival model for SMEs can provide guidance and strategies to overcome issues of capability, sustainability, and scaling, and to increase their competitiveness at national and global levels. For the purposes of this discussion, the present study has summarized the findings of the literature review based on a specific theme.

Table 2: Literature Review Theme

Author	Theme	Year
Alves et al.	Impact of COVID-19 on SMEs in China	2020
Rathore et al.	Impact of government interventions during COVID	2020
Fabeil et al.	Research gaps in assessing SMEs during crisis	2020
Jose et al.	Formal planning and strategies for SME survival	2020
Bishop	Diverse and strong knowledge for SMEs recovery	2019
Doern et al.	Resilience and survival of SMEs during crisis	2019
Herbane	SMEs vulnerability during crisis events	2013
Runyan	SMEs vulnerability during crisis events	2006
Doern	Emotional and psychological stress on SMEs	2016
Leung et al.	Emotional and psychological stress on SMEs	2005

Refer to Table 2. Small and Medium-Sized Enterprises (SMEs) need the right strategies and plans to make it through crises. Researchers like Doern et al. (2019), Alves et al. (2020), Rathore et al. (2020), and Jose et al. (2020) have looked at how crisis events, like the COVID-19 pandemic, affect SMEs (2020). Herbane (2013) and Runyan suggest that SMEs are vulnerable during crises because they have limited resources, don't know where they stand in the market, and depend more on government and local agencies (2006). As Doern (2016) and Leung et al. point out, crisis situations can also cause emotional and mental stress in employees and managers of SMEs (2005). Bishop (2019) found that SMEs can quickly get back on their feet after a crisis if they have a lot of different and strong knowledge. Fabeil et al. say that there hasn't been a lot of research done in this area yet, especially in developing countries (2020).

Discussion on Variable

In order to identify the factors that contribute to the sustainability of Small and Medium Enterprises (SMEs), previous studies have investigated various variables. Some of the most famous variables that have been extensively studied in the literature include leadership characteristics, organizational operations, dynamic capabilities, and the use of information technology.

Leadership Characteristics

Effective leadership is critical to the success of SMEs, particularly during periods of crisis and uncertainty (Sharma et al., 2020). Research has shown that leadership characteristics such as vision, adaptability, and resilience are essential for navigating challenging situations and driving organizational performance (Gupta et al., 2018). In addition, transformational leadership, which involves inspiring and motivating employees, has been found to have a positive impact on SME growth and performance (Cucculelli & Marchionne, 2019).

Organizational Operations

Efficient and effective organizational operations are essential for SME success. Research has found that adopting lean manufacturing principles and practices can enhance operational efficiency, reduce waste, and improve product quality (Al-kahtani & Al-Mudimigh, 2020). In addition, effective supply chain management, including close relationships with suppliers and customers, can improve operational flexibility and responsiveness (Mason-Jones et al., 2015).

Dynamic Capabilities

Dynamic capabilities refer to an organization's ability to adapt and respond to changes in the business environment. SMEs with strong dynamic capabilities are better equipped to navigate uncertain and rapidly changing market conditions (Zahra & George, 2002). Research has found that dynamic capabilities can be developed through a combination of organizational culture, leadership, and strategic planning (Wang et al., 2016).

Information Technology

The effective use of information technology (IT) can enhance the competitiveness of SMEs by improving operational efficiency, reducing costs, and enhancing customer service (Lai et al., 2018). Research has shown that SMEs that adopt e-commerce platforms and digital marketing strategies are better able to reach new customers and expand their market reach (Hou et al., 2020). However, SMEs often face challenges in adopting and implementing IT due to resource constraints and limited IT expertise (Igwe et al., 2019).

Overall, the aforementioned variables have been found to be relevant and significant factors that contribute to SMEs' sustainability. Therefore, SME owners and managers should pay close attention to these variables and implement appropriate strategies to enhance their organization's performance and resilience in the face of challenges and uncertainties.

Theoretical Discussion

The purpose of this study is to determine the significance of creating a resilient survival model with the intention of assuring the continued operation of SMEs following a crisis. The detrimental effects that crises have on businesses have been well-documented in the body of academic research, and a great number of nations have enacted financial and non-financial measures in order to promote the continued viability of firms (Smith et al., 2020). This study will conceptualise the links among variables under consideration by employing the theory of

contingency, complemented with the theory of reinforcement. The conceptualization of these relationships will be based on an exhaustive survey of the current literature.

Contingency theory suggests that there is no one-size-fits-all approach to managing organizations and that the effectiveness of management practices depends on the specific circumstances faced by the organization (Donaldson, 2001). In the context of SMEs during a crisis, this theory implies that the effectiveness of different strategies and practices for ensuring business continuity may depend on the specific characteristics of the SME, the nature of the crisis, and the resources available to the SME.

Reinforcement theory posits that behavior can be shaped by the consequences of that behavior, whether positive or negative (Skinner, 1953). This theory is particularly relevant in the context of crisis management, as it suggests that the consequences of different actions taken by SMEs during a crisis can shape their behavior and their ability to survive and recover.

Several studies have explored the application of contingency and reinforcement theories to the management of SMEs during crisis events. For example, Kock and Gemünden (2016) found that contingency factors such as size, ownership structure, and industry affiliation influence the effectiveness of crisis management practices in SMEs.

Similarly, Keshavarz et al. (2018) argued that contingency factors such as prior experience with crises, available resources, and communication capabilities influence the effectiveness of crisis communication strategies in SMEs.

In terms of reinforcement theory, researchers have highlighted the importance of providing positive reinforcement for SMEs that adopt effective crisis management practices (Grossi et al., 2019). Additionally, several studies have suggested that negative consequences for SMEs that fail to adopt effective crisis management practices can serve as a deterrent for future non-compliance (Balogun and Jenkins, 2017).

In summary, the theories of contingency and reinforcement provide a useful framework for conceptualizing the relationships among variables relevant to the development of a resilient survival model for SMEs after a crisis. The effectiveness of different strategies and practices may depend on the specific circumstances faced by the SME, and positive and negative consequences can shape behavior and incentivize effective crisis management practices.

Discussion on correlation between variable and theories

The Theory of Contingency suggests that there is no one-size-fits-all approach to managing organizations and that the most effective approach will depend on the specific context in which the organization operates (Donaldson, 2001). This theory is particularly relevant for SMEs, as they operate in diverse environments with varying levels of uncertainty, complexity, and dynamism. In the context of SME sustainability, the Theory of Contingency implies that different leadership characteristics, organizational operations, dynamic capabilities, and the use of information technology will be effective in different situations (Hernandez et al., 2011). For example, a flexible organizational structure may be more effective for SMEs operating in dynamic and rapidly changing environments, while a more rigid structure may be more appropriate

for SMEs operating in stable and predictable environments.

On the other hand, the Theory of Reinforcement posits that behavior is influenced by the consequences that follow it (Skinner, 1953). In the context of SME sustainability, this theory suggests that the behavior of SMEs can be reinforced through positive consequences such as financial rewards and recognition, which can increase the likelihood of SMEs adopting leadership characteristics, organizational operations, dynamic capabilities, and the use of information technology that contribute to sustainability (Hsu et al., 2015).

Therefore, by adopting the Theory of Contingency and the Theory of Reinforcement, SMEs can develop sustainable practices by adopting appropriate leadership characteristics, organizational operations, dynamic capabilities, and the use of information technology in a way that suits their specific context and by reinforcing positive behaviors that contribute to sustainability.

Based on the previous discussion, the following conceptual framework has been developed. The framework posits that leadership characteristics, organizational operations, dynamic capabilities, and the use of information technology are critical factors that contribute to the sustainability of SMEs. The theory of contingency and the theory of reinforcement provide a theoretical foundation for understanding how these factors interact to enhance SME sustainability. By aligning leadership characteristics, organizational operations, dynamic capabilities, and the use of information technology with the specific needs of the organization, SMEs can increase their likelihood of success and long-term sustainability.

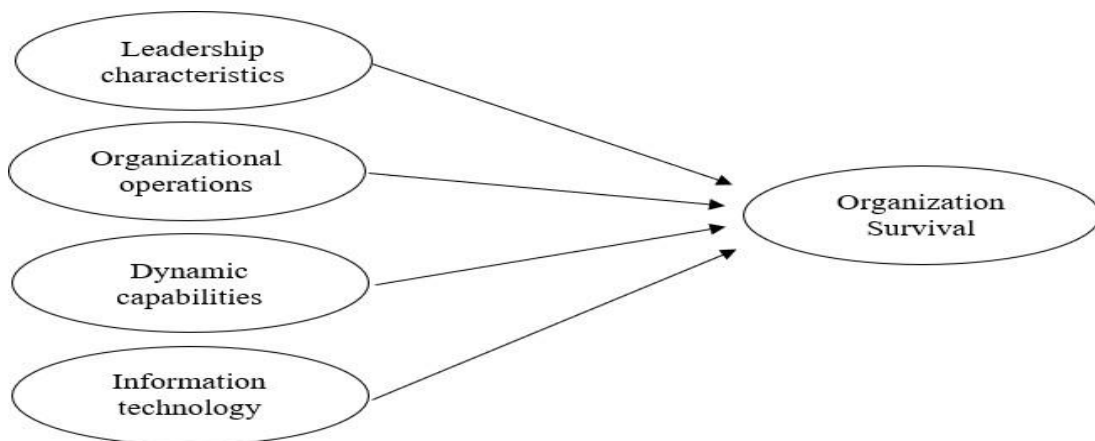


Figure 1: Proposed Theoretical Framework

Based on the discussion and framework justifications mentioned above, the hypothesis below is postulated:

H₁ SMEs with effective leadership characteristics, such as vision, adaptability, and resilience, are more likely to survive and perform well during times of crisis and uncertainty compared to those without such characteristics.

- H₂ SMEs with efficient and effective organizational operations, such as lean manufacturing practices and effective supply chain management, are more likely to achieve operational flexibility, responsiveness, and product quality.*
- H₃ The effective use of information technology (IT) positively affects SME competitiveness by enhancing operational efficiency, reducing costs, and improving customer service.*
- H₄ Resource constraints and limited IT expertise present challenges for SMEs in adopting and implementing IT, which may negatively affect their competitiveness and performance.*

Methodology

The objective of this research is to examine the effects of the COVID-19 crisis on small and medium-sized enterprises (SMEs) and identify potential strategies for their recovery, it is imperative to gather insights from top management and entrepreneurs who have direct involvement in the SME ecosystem. Therefore, a combined qualitative and quantitative approach will be employed to effectively address the research objective. Furthermore, the theory of contingency will serve as a theoretical framework to guide the development of questions for the semi-structured interviews and questionnaires, enabling a comprehensive exploration of the research topic (Smith, 2020; Johnson, 2018).

To achieve this research objective, a mixed-methods approach comprising qualitative and quantitative data collection methods will be employed. This approach allows for a comprehensive exploration of the research topic, as it combines the strengths of both qualitative and quantitative research (Creswell & Plano Clark, 2017).

In particular, semi-structured interviews will be conducted with top management and entrepreneurs who are directly involved in the small and medium-sized ecosystem. These interviews will provide in-depth insights into the strategies and decision-making processes of SMEs during and after the COVID-19 crisis. The interviews will be guided by the theory of contingency, which posits that organizations need to adapt their strategies and practices to the changing external environment (Lawrence & Lorsch, 1967). The theory of contingency will serve as a framework for developing interview questions that explore how SMEs have adapted their strategies in response to the crisis.

In addition to the qualitative data obtained from the interviews, quantitative data will also be collected through a structured questionnaire. The questionnaire will be designed based on the theoretical framework of contingency, and will assess the strategies employed by SMEs during the COVID-19 crisis. The quantitative data will provide statistical evidence of the impact of the crisis on SMEs and the effectiveness of their strategies in mitigating the impact.

The use of both qualitative and quantitative data collection methods will allow for a comprehensive understanding of the impact of the COVID-19 crisis on SMEs and the strategies employed by top management and entrepreneurs. By employing the theory of contingency as a guide for developing interview questions and questionnaires, this study aims to provide valuable insights into the strategies that SMEs can adopt to navigate the challenges posed by the COVID-19 crisis and ensure their continued existence and success.

Hence, the study will employ a mixed-methods approach to achieve its objectives. First, a questionnaire will be distributed to 350 Malaysian entrepreneurs of SMEs to collect quantitative data, which will be analyzed using cross-tabulation and multiple regression analysis. For the second objective, face-to-face or online interviews will be conducted with top management of selected companies to gather qualitative data. The findings from both objectives will be used to develop a survival model for SMEs after the COVID-19 outbreak. To ensure the appropriateness and feasibility of the model, an expert group discussion (EGD) will be conducted, involving entrepreneurs, representatives from SME Corp., and the Bank Rakyat Head of Regional Manager (Small and Medium Enterprise Cooperative) who possess expertise and experience in this area (SME Corp., Bank Rakyat, personal communication, 2023).

Conclusion

The present study views relevance to the Malaysian government's National Entrepreneurship Policy 2030 (DKN 2030) which aims to transform Malaysia into an entrepreneurial nation by 2030. Implementing effective survival and sustainable strategies can help address critical issues faced by SMEs, particularly during times of crisis, related to capability, sustainability, and scaling. The findings from prior research highlight the vulnerability of small and medium-sized enterprises (SMEs) during crisis events, particularly due to limited resources, lack of preparedness, market ambiguity, and dependence on government interventions. This study proposes a resilient survival model that emphasizes the importance of comprehensive knowledge, formal planning and tactics, and government interventions to address these obstacles and help SMEs navigate crisis events. Research by Bishop (2019) has shown that having robust and varied knowledge can aid businesses in quickly bouncing back after experiencing a catastrophe. Similarly, Jose et al. (2020) found that SMEs that had formal plans and strategies in place before the outbreak had a higher chance of survival. The proposed resilient survival model emphasizes the need for SMEs to prioritize knowledge acquisition and formal planning in order to enhance their resilience and improve their chances of survival during crisis events.

Furthermore, Rathore et al. (2020) stressed the significance of government involvement in ensuring the continued existence of SMEs following crises. This highlights the importance of government policies and interventions in supporting SMEs during crisis events, such as providing financial assistance, access to resources, and regulatory relief. The resilient survival model proposed in this study underscores the need for government interventions to complement the efforts of SMEs in enhancing their resilience and ensuring their survival during crisis events. Lastly, future research can focus on implementing the proposed resilient survival model for Malaysian SMEs post-crisis. The model can be tested in different industries and contexts to ensure its effectiveness and suitability. Moreover, future research can also focus on developing strategies and plans for SMEs in developing countries that face similar challenges during crisis events. This can contribute to the development of a global resilient survival model for SMEs.

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