

SMEs' Compliance Cost in Malaysia

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Introduction

Small and Medium Sized Enterprises (SMEs) are a vital part of the Malaysian economy, comprising nearly 40% of Gross Domestic Product (GDP). Not only that, but many among the B40 (Bottom 40%) income groups are employed in SMEs. Government regulation can have a significant impact on these SMEs and to comply with government regulation constitutes a major burden in terms of increased cost to operate businesses for the SMEs in Malaysia. If the burden of regulation can be reduced, this will therefore translate into a boost of income for the B40.

In this paper we detail out the results of a survey involving SMEs in Klang Valley, conducted to understand the burden of compliance with government regulation. The objective of this report is to identify how compliance with regulation contributes to the cost of doing business, as well as to inform further discussion about how to reduce these compliance costs.

SMEs' Landscape in Malaysia

SMEs play a crucial role in the Malaysian economy. In 2017 alone, SMEs contributed 37.1% to Malaysia's GDP. A robust growth of 7.2% GDP in 2017 indicates that SMEs' performance has exceeded both Malaysia's and non-SMEs GDP growth that grew at 5.9% and 5.1% respectively in the same year. On top of that, 98.5% of total business establishments in Malaysia are SMEs.

As of 2016, there were a total of 907,065 SME establishments in Malaysia, of which 89.2% of them are in the service sector concentrated in industries ranging from wholesale and retail trade, food and beverages, transportation and storage, personal services, professional services, and others. The breakdown of the SMEs' sector and sub-sector can be summarised in the table below:

Table 1: Number of Establishment and percentage of total SMEs by sector

Sector	SMEs Establishments	% of SMEs to total SMEs
Services	809,126	89.2%
Manufacturing	47,698	5.3%
Construction	39,158	4.3%
Agriculture	10,218	1.1%
Mining & Quarrying	865	0.1%
Total	907,065	100%

Source: Department of Statistics Malaysia

Table 2: Percentage Share of SMEs in Service Sector by Sub-Sector

Services Sub-sector	% Share of SMEs in Service Sector
Wholesale & Retail Trade	51.2%
Food & Beverages	20.4%
Transportation & Storage	6.6%
Personal Services	5.6%
Professional Services	4.2%
Others	12%

Source: Department of Statistics Malaysia

SMEs and B40

The creation of SMEs is a derivation from entrepreneurship as suggested by Lucky (2012). Entrepreneurship is a process where an entrepreneur is willing to take a certain number of risks and innovate to produce goods and services that can provide a return on investment (Darren & Conrad, 2009).

It was suggested that entrepreneurship have the income earning potential that could drive households out from the bottom 40% of the population (B40) income category. South Growth Policies Board (2011) contended that entrepreneurship could be the vehicle for leveraging existing community strengths and diversifying local economies. With entrepreneurship, B40 households may create more jobs in the economy, creating better opportunities for B40 households to have access to the labour market (Karem, 2015). Karem (2015) further argued that entrepreneurship would create social mobility for the B40 households and consequently increase their income level and standard of living.

Given a perfect scenario, if a B40 household manages to establish a micro business, they will be able to create a job and increase their income level in the long run. This theory is supported by Wooldrige (2002) where the relationship between the level of per capita income and the rate of self-employment is U-shaped because of the development of entrepreneurship activities.

To look at how B40 households benefited from the growth of SMEs, we should take a look at the individual story that portrayed the impact of entrepreneurship. Jasbindar (2019) described a Malaysian named Ramly bin Mokni, one of the most successful entrepreneurs who established a micro-business in 1978 by selling burgers with his wife, Shala Siah binti Abdul Manap and branded it Ramly Burger. From an initial capital of RM2,000 and processing their burger at their low-cost flat, Ramly burger annual revenue is now worth RM1 billion.

How Much Can B40 Gain by Starting a Micro Business?

SMEs is categorized into three sizes of businesses, namely micro-business, small business and medium business. SME Corp Malaysia (2018) stipulated the distinction in their annual report where the detailed definition can be summarised as follows:

Table 3: SMEs definition

Size of SMEs	Manufacturing		Services and Other Sectors	
	Sales Turnover	Employees	Sales Turnover	Employees
Micro	<RM300,000	< 5	<RM300,000	< 5
Small	RM300,000 – RM15 million	5 – 75	RM300,000 – RM3 million	5 – 30
Medium	RM15 million – RM50 million	75 – 200	RM3 million – RM20 million	30 – 75

Source: SME Corp. Malaysia

If any of the B40 household possesses entrepreneurship skills, it is expected that most of them will start a micro business. In all sectors, micro businesses is defined as businesses that have less than RM300,000 sales turnover or having less than five employees. Therefore, extracting data on micro-businesses may be useful in estimating the potential gain of B40 households if they decided to engage in micro-entrepreneurship. The data can be summarised as follows:

Table 4: : SMEs’ Principal Statistics on Micro-businesses

2015	Micro-Business
Number of Establishment	693,670.00
Value Added (RM Million)	78,489.64
Value of Fixed Assets Owned (RM Million)	174,890.50
Value added as Average Revenue Proxy (RM)/Establishment	113,151.27
Average Fixed Assets Owned (RM)/Establishment	252,123.49
Total Gross Worth (RM)/Establishment	365,274.76

Source: Department of Statistics Malaysia, author calculation

Based on data published by the Department of Statistics Malaysia on SMEs, the average gross worth per one SME establishment in 2015 could be estimated. Referring to Table 4, micro businesses created value-added worth about RM78.489 billion and owned fixed assets worth RM174.89 billion in 2015. Value added is a form of enhancement by the SMEs in providing goods and services in the economy before selling it to the market. Assuming that every value added by the SMEs is sold to the market, then the worth of the value added can be a proxy for the SMEs’ revenue. Therefore, given the total number of micro businesses establishments is 693,670 in the same year; we can consequently estimate the amount of average revenue and average fixed assets owned per establishment.

Based on the assessment made based on Table 4, we then take the summation of average revenue per establishment and average fixed asset owned per establishment which will be derived as the total average gross worth per establishment. In 2015, micro businesses had an overall average gross value of RM365,274.76. Hence, we estimate that if B40 households are equipped with effective entrepreneurship trainings and incentives to establish a micro business, they have the potential to increase their total gross worth to RM365,274.76.

Since we have been emphasising the importance of SMEs to the B40 household, it is crucial for policymakers to enhance the business environment in Malaysia especially in promoting more micro business establishments by the B40 households to improve their standard of living. Therefore, reducing any unnecessary cost in doing business is a crucial step for policymakers to make in ensuring the wellbeing of the Rakyat. This paper will contribute to the discussion by revealing some of the costs incurred by SMEs in Malaysia.

Government Regulation and the Cost of Doing Business

Government regulations often impose time, effort and costly conditions to start up a business and the regulation continually impose additional costs on the ongoing business operations as well. It is necessary to know which regulations pose the most substantial burden on business owners especially cost-wise in order to reduce the overall business costs for B40 business owners. For owners of SMEs, the relative burden of regulations is the largest, as compliance costs are often fixed costs that do not change with firm size, or do so at a decreasing rate, implying economies of scale (Bickerdyke and Lattimore, 1997).

Any regulation imposed by the government will be associated with certain costs. Sapiei and Abdullah (2014) explained that there are three broad additional costs other than the tax liability itself when the government is imposing business regulation. These additional costs are administrative costs, efficiency costs, and compliance costs. The administrative cost is a cost borne by the government to administer and collect taxes (Sapiei & Abdullah, 2014). An instance for the administrative cost is the salary paid to the tax department to allow civil servants to collect tax is part and parcel of the administrative cost. The efficiency cost is where the changes in taxpayer behaviour impacts the tax collection process (Sapiei & Abdullah, 2014). An example could be when a taxpayer has less motivation to pay the taxes due to the higher tax burden, a paradox occurs - the government is expecting a tax revenue, but due to over-regulating, less tax revenue received instead. Therefore, the higher the tax burden, probability for smaller tax revenue is high, creating a leakage in the economy.

This paper will put most highlight on the third category which is the compliance cost. Saipiei and Abdullah (2014) described compliance cost as a cost where the value of resources expended by the taxpayers in complying with a particular regulation. In other words, whenever a taxpayer is incurring his own resources such as time and money just to comply with a specific regulation, it is defined as a compliance cost. In Malaysia, Loh, Ariff, Ismail, and Ali (1997) found tax compliance costs to be regressive, making it a substantial burden especially on SMEs. Though Loh et al. (1997) consider only tax compliance costs, it does implicate and confirm the suspicion raised by Bickerdyke and Lattimore (1997) that regulations can impose a relatively higher cost on SMEs due to economies of scale.

Although Malaysia has progressed from the 24th to 15th place in the World Bank Ease of Doing Business ranking over the last year, it still ranks 5th place on the TMF Group's Compliance Complexity list, implying there are definitely rooms of improvements to be made. Several lines of research have estimated the compliance cost of taxation in Malaysia over the past decade, primarily focusing on GST, Personal Income Tax and the Self-Assessment System (Adam & Mohamed Yusof, 2017; Hanefah, Ariff, & Kasipillai, 2001; Palil, Ramli, Mustapha, & Abu Hassan, 2013; Pope & Abdul-Jabbar, 2008a; Pope & Abdul-Jabbar, 2008b; Sapiei & Abdullah, 2014). Though no consensus has been reached, and inevitably many changes in tax policy have been made over the past years, research between 2001 and 2017 has calculated the mean compliance cost of taxation to be between RM20,000 and RM30,000 annually. This is per SME and relates only to tax-related compliance costs; therefore it is certain that the total cost of compliance with regulations is expected to be at a higher value.

In this paper we have sought to understand the nature of compliance costs or government regulation more broadly, beyond tax compliance.

Survey Methodology

The method for this research is survey interview and analysis¹. To achieve the purpose of this study, we interviewed a total of 120 micro and small businesses around the Klang Valley area.

Based on Table 1 above, majority of SME establishments fall under the services sector. Therefore, given the limited number of samples for this study, we decided to narrow down the sample size to interview only micro and small businesses that fall under the services sector category.

The survey sample then further narrowed into the type of services and sub-services according to the percentage share of SMEs in the services and sub-services sector reported in Table 2. Hence, we have interviewed 120 respondents representing each SMEs divided as follows:

Table 5: Number of respondents and percentage share

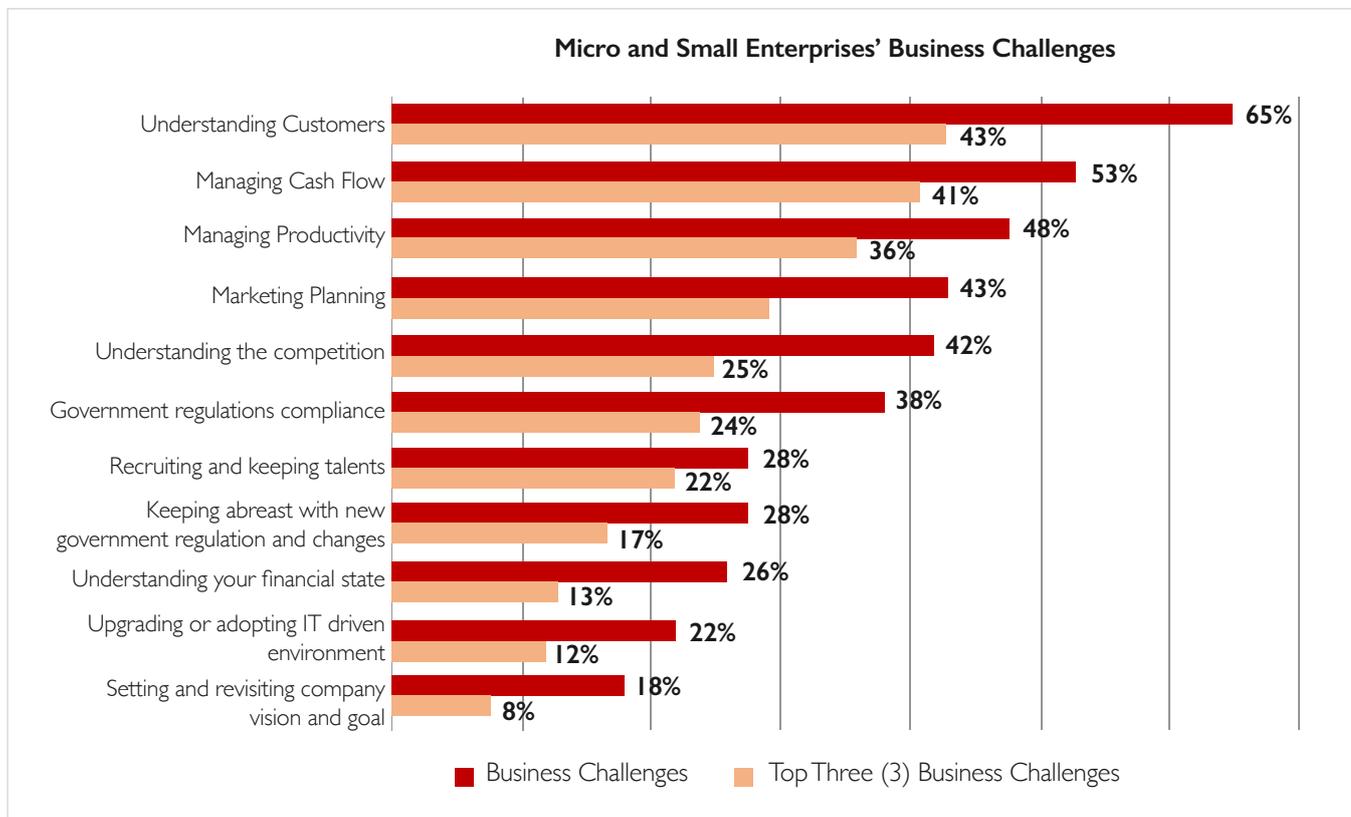
Services and sub-services sector	Number of respondents	Total percentage of respondents (%)
Wholesale and retail trade	62	52%
Food and beverages	24	20%
Other services	34	28%
Total	120	100

We also narrowed down the sample only for micro and small services business as defined in table 3 above. A total of 84 respondents or 70% of the enterprises interviewed were micro establishments whereas the remaining 36 respondents or 30% of the businesses interviewed were small establishments.

¹ This survey was prepared and conducted by Dynamic Search Sdn Bhd

Result Findings

Chart I: Micro and Small Enterprises' Business Challenges



Our survey found that the most challenging aspects for small and micro businesses were understanding the customer. Based on Chart I, 65% of the small and micro firms ranked understanding customers as a business challenge but only 43% of them felt that it is one of the top three challenges. Besides that, 53% and 48% of the businesses surveyed categorised managing cash flow and productivity respectively as a challenge. Meanwhile, 38% and 28% of the companies classified government regulation compliance and keeping abreast with new government regulation and changes respectively as a challenge. This result indicated that over one third of businesses considered government regulation a challenge, and a quarter of SMEs ranked it to be among their top three challenges.

Which Regulations Affect SMEs?

Our survey found that three broad regulation categories most applied to SMEs in the service sector. These are labour law related regulations, land-related regulations, and tax compliance. In each group, the respondents were asked to list specific regulations which most applied to them. Note that the respondent can list more than one regulation. Hence, there is a possibility that a respondent may record a few specific regulations under the same regulation category. The findings on which regulations are most applied to SMEs in the service sector can be summarised as follows:

Table 6: Government regulations which are most applied to the micro and small enterprises in selected service sector around Klang Valley

Regulation Category	Percentage of SMEs	Specific Aspect of Regulation	Percentage of SMEs
Labour law related to regulation	67%	Policy regarding minimum wage	42%
		Policy related to worker's visa and permit	29%
Land-related regulation	57%	Regulation on company billboard/signboard	52%
		Regulation in relation to the advertisement	23%
Tax compliance	52%	Issues relating to corporate tax	43%
		SST Implementation	13%
		Changes in the list of goods for SST	11%

Cost and Time Spent on Compliance

Out of these regulations, four specific regulations costed the most in terms of ringgit and time spent to comply with the regulations as summarised below:

Average cost/ time per company per year	Corporate tax regulation	Minimum wage regulation	Company billboard regulation	Worker's visa and permit regulation
Average Cost	RM4,585.66	RM6,242.86	RM1,038.49	RM1,540.68
Average Time	44 days	40 days	21 Days	14 days



Corporate Tax Regulation

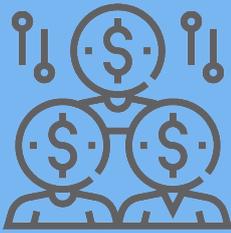
Companies in Malaysia are taxed based on the territorial tax system. A territorial tax system imposes taxes on individuals and businesses on any income earned within a particular countries' border. Only a company's taxable income is subject to taxation. A company's taxable income includes all its earning derived from Malaysia. For big companies, 24% will be taxed from their income, but for SMEs, they will tax 17% of their income.

In managing corporate tax regulation, SMEs must create a particular financial account for the company and they must register this account in Companies Commission of Malaysia (SSM). Each cash flow involving a company's affairs must go through this account.

On top of that, SMEs must establish an accounting period/duration and SMEs have the authority to determine the duration. At the end of each year, SMEs must provide an annual financial report, and the report must be submitted to a qualified auditor to ensure that all arrangements are based on the correct audit principle.

The appointed auditor must be a third party and have no relationship with the SMEs. Financial reports must be completed and the auditor must review the report. Note that all financial matters must be halted to ensure no overlapping or unbalanced sheet occurring during the audit process. After the audit report is completed, the SMEs can appoint a tax agent to manage corporate tax with the Inland Revenue Board of Malaysia (LHDN).

To comply with this regulation, we interviewed these businesses and found that the average cost spent for this compliance per company in one year is RM4,585.66 and the average time taken to comply to this regulation per company in one year is 44 days.



Minimum Wage Regulation

The definition of the minimum wage is the basic wage excluding any allowance or other payments. For minimum wages, all local and foreign employees have entered into a contract of service with an employer which entitles them to receive the minimum wage. Some groups of workers are not covered by minimum wage, such as maids, cooks, guards, gardeners, personal drivers and apprentices who undergo training for a period not less than two years. Every SMEs is required to pay their employees under the purview of minimum wage regulation.

To comply with this regulation, the interviewed businesses reported that the average cost spent for this compliance in one year is RM6,242.86 with average time period of 40 days.



Company Billboard Regulation

Most companies will use billboards to enhance their brand or corporate image. To get an approval of the billboard, several conditions and conditions must be met, with varying regulations according to region and state. Every entrepreneur agrees billboards are excellent advertising options which can be used to capture the attention of viewers for a short while.

Every SMEs that are based in Klang Valley must follow the rules whenever they decided to setup their billboard on their store. According to the requirement set by Dewan Bandaraya Kuala Lumpur (DBKL), the first step is to download the billboard licence application document from DBKL's website. In the application form, SMEs must fill up all the information about their company and must state the type of billboard that they want to use. There are six types of billboards where each billboard has different regulations for compliance. Note that this document is only available in the Malay language.

Then, the SMEs also need to prepare a design for the billboard, location picture and the location plan for the billboards. While designing the billboard, it is essential for the SMEs to comply with the requirement in terms of language and structure of the billboard. For instance, the Malay words must be 30% bigger from the company's name and other languages. They also required to give priority based on position. On top of that, the grammar for the billboard must be precise. SMEs are not allowed to put immoral and sensitive information on the billboard, and every company needs to put their company's registration number on the billboard.

After the entire document is filled up, applying SMEs need to submit these documents to DBKL in hard copies. After the DBKL approval, SMEs then can take the approval letter from the counter and can start to hang or plug the billboard to location as approved.

To comply with this kind of regulation, we interviewed these businesses and found that the average cost spent for this compliance per company in one year is RM1,038.49 with average regulatory time cycle of 21 days.



Worker's Visa and Permit Regulation

Every foreign worker that is working inside Malaysia is required to have a visa and permit to work. However, any foreign workers aged less than 18 years old and more than 45 years old are not allowed to apply for a visa or permit and ultimately are not permitted to work in Malaysia. Before applying for the Visa and permit to work in Malaysia, the subjected employee needs to do a check-up at the medical centre to confirm their fitness and health status. Once they are deemed as able

to work by the doctors, the company then can apply for the visa and permit for their foreign workers. Lastly, the foreign workers must originate from the approved list of countries accessible through the Immigration Department of Malaysia's website.

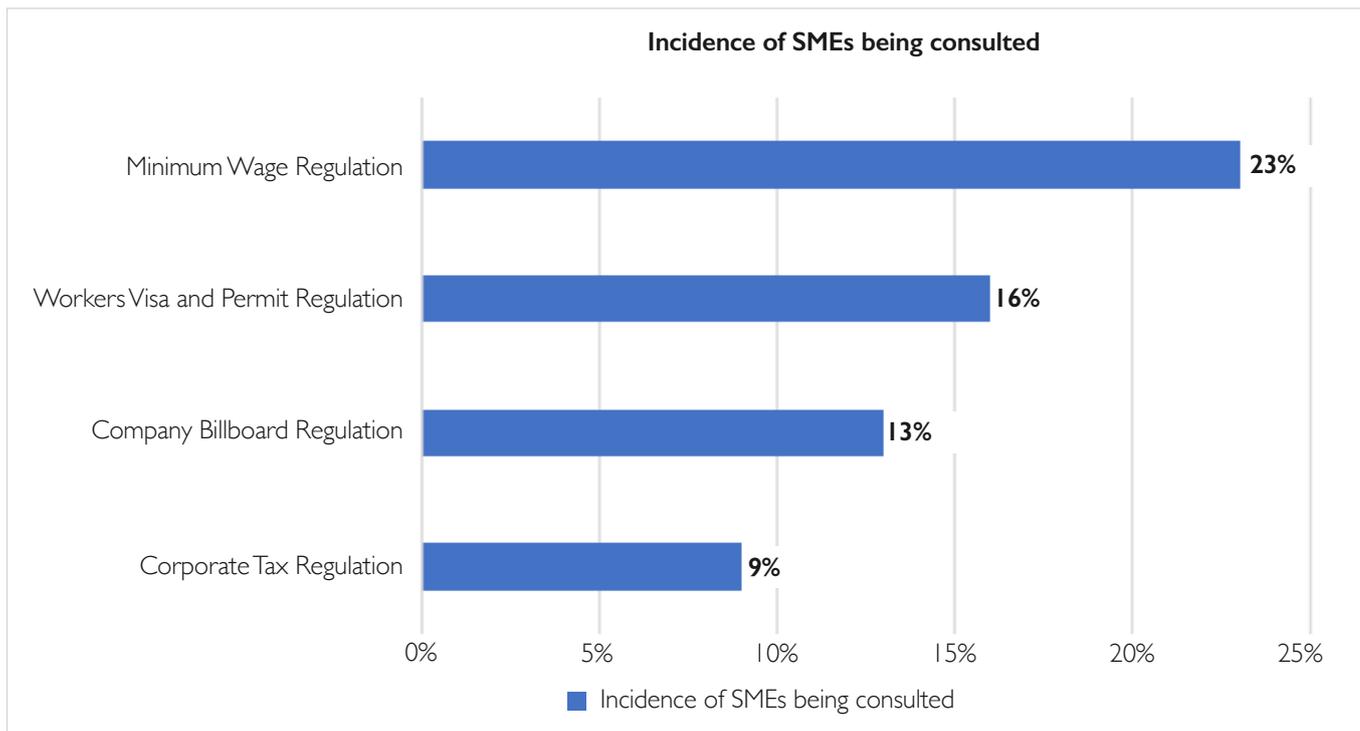
Application process of worker's visa and permit in Malaysia can be divided into four stages. For the first stage, any company wishing to employ foreign workers must register an account at the Expatriate Services Division's (ESD) website. SMEs must fill up all the information required, such as the background of the company, business activities and organisational structure. The second stage requires the company to set an appointment with ESD's office to submit a copy of Letter of Undertaking (LoU) and one of the company's director as stated in the SSM is required to attend during the appointment. The director needs to bring MyKAD/ passport for identification purpose and the Letter of Undertaking need to be signed and witnessed by the immigration officer. For foreign companies registered with SSM, if the directors are not in Malaysia, the company can produce Power of Attorney (POA) attested by registered and licenced solicitors in Malaysia. For the third stage, SMEs need to register their expatriates through Expatriate Service Division's website. The list of the document can be downloaded from ESD's website, such as the documents' Professional Visit Pass, Dependant Pass and Employment Pass. There are three categories for Employment pass and each category for different types of the expatriates, especially in terms of salary and the contract's duration. The final stage is about passport endorsement and collection at MYXpats Centre. In this stage, applying SMEs need to use over the counter payment as the mode of payment. After the ESD approves the SMEs' application, SMEs need to print the approval letter online. All the relevant documents can be retrieved from Expatriate Services Division's website, and all the details guideline document for this process is also available through the website.

To comply with this regulation, we interviewed these businesses and found that the average cost spent for the said processes in one year per one company is RM1,540.68 and the time spent for the regulations are 14 days.

Government Consultation with the SMEs

Based on our survey, we found that the incidence of being consulted on the changes or implementation of any regulation is low among microenterprises and small SMEs. Below is the summarised table on government consultation:

Chart 2: Incidence of SMEs being consulted on a selected aspect of regulation



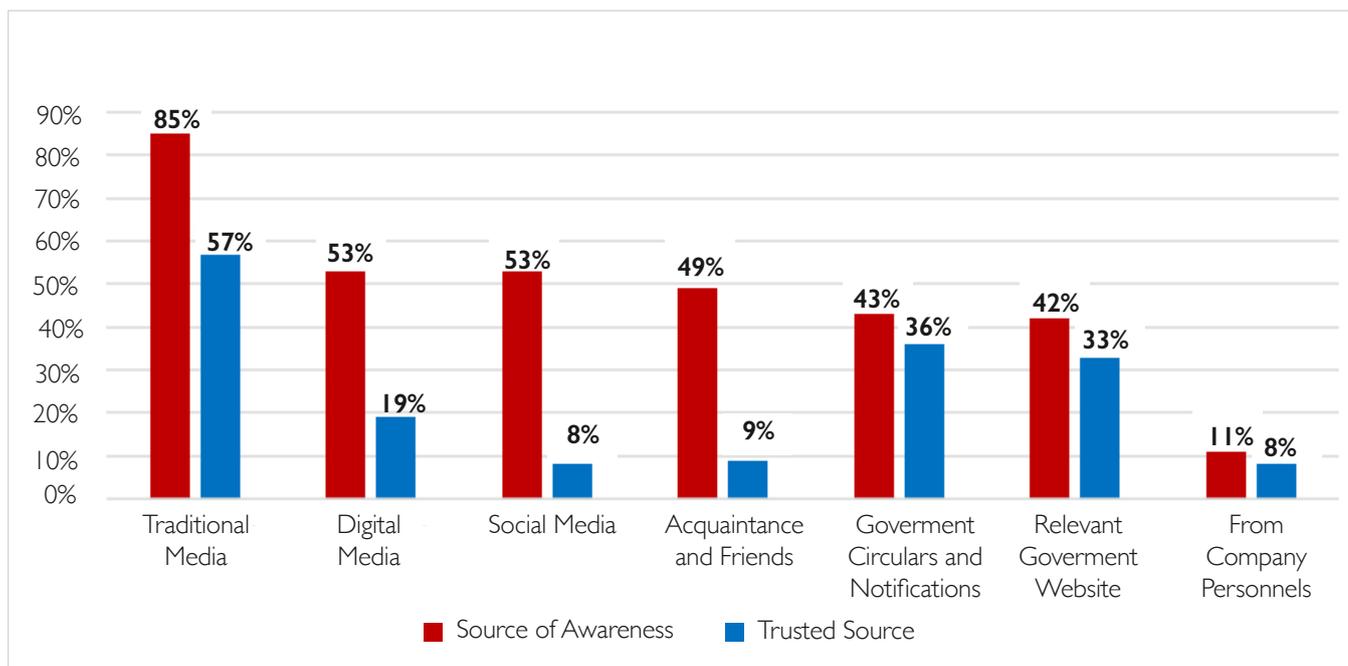
Based on Chart 2, we can conclude that for the top four most impactful regulations to SMEs, only 23% or less of them were consulted. Government consultation with the SMEs before implementing any given regulations is essential to prevent any negative impact on the economy. If the government intends to impose regulations without consulting the business community, this may create an uneven playing field in the market and the ones that will be affected the most will be the micro and small enterprises.

Any changes in regulation are essential for any SMEs to take note to prevent higher compliance cost. Since less than 23% are being consulted on the regulation mentioned above, it is crucial for the government to find ways to ensure that the small and micro businesses' voice is being heard.

SMEs Awareness for Government Regulation

Based on our survey, we found that traditional media is most used by the SMEs to educate themselves on government regulation. 85% of SMEs uses traditional media as a medium to gain access to information about certain government regulations and 57% of them consider traditional media as a trusted source. The summary of the findings are presented below:

Chart 3: Sources of Awareness for Government Regulations and Trusted Sources

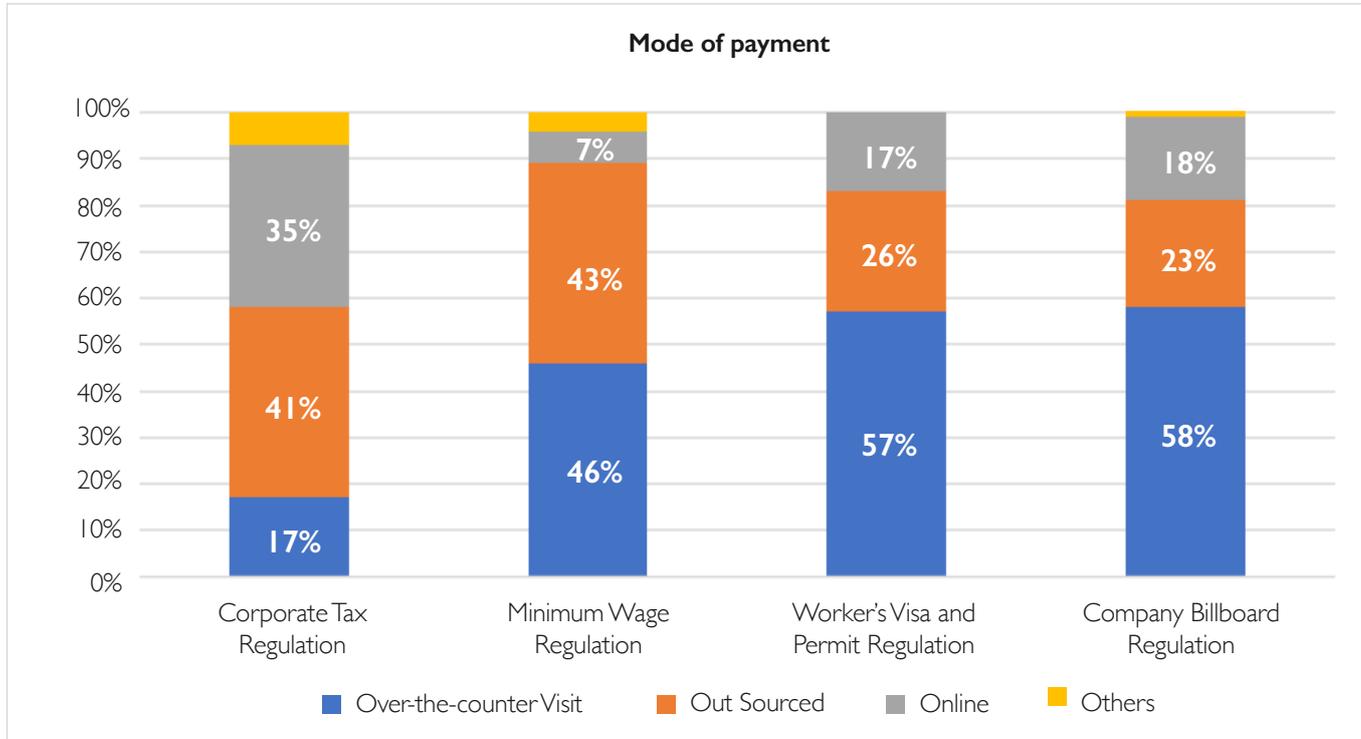


Based on Chart 3, it is interesting to note that only 43% and 42% of the SMEs are aware of any particular government regulation through government circulars and notifications, and relevant government website respectively. Whereas 53% of SMEs access information about any government regulation through the digital media and social media but only 19% and 8% of those SMEs respectively trusted the source.

This begs the question of how can government best disseminate information regarding its government regulation to the small and micro businesses since only 43% and 42% of the business refers to government circulars and website respectively. One of the ways that the government can look at is the usage of social media platforms. This method is being widely used by the United States government to spread the latest information to small business (Meske & Stieglitz, 2013). Since 53% of the SMEs use social media to access any given information regarding business regulation, it may become a powerful tool for the government to utilise to assist the SMEs in providing useful information regarding any business regulation.

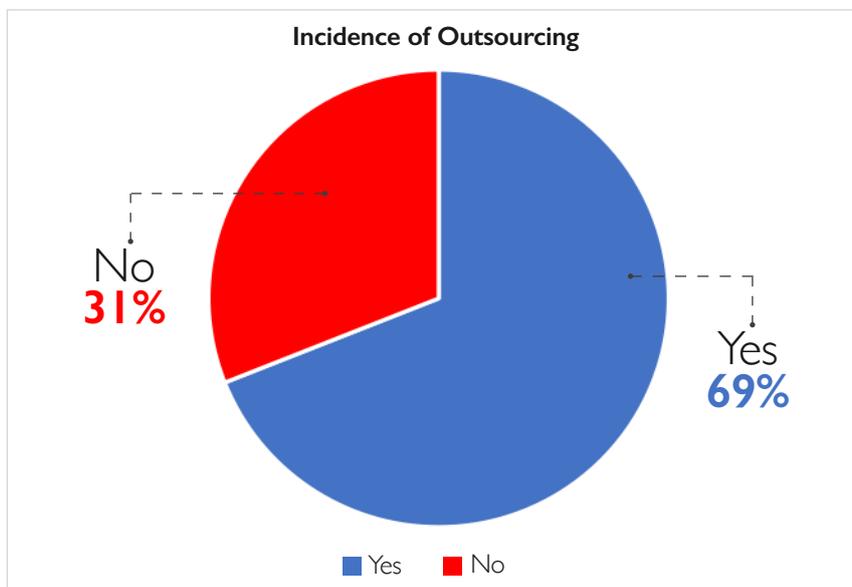
SMEs Mode of Payment Preference

Chart 4: SMEs Mode of Payment Preference



Based on Chart 4, we found that more than half of the SMEs prefer an over-the-counter visit to pay for regulation related to worker's visa and permit regulation (57%), as well as company billboard regulation (58%). Meanwhile for corporate tax regulation and minimum wage regulation, micro and small businesses decided to outsource the work to third-party and it constitutes 41% and 43% of the SMEs respectively. In summary, the online platform is still not the most preferred mode of payment by the SMEs.

According to Kiong (2004), part of the reason for low usage of the online platform among SMEs in Malaysia is because of low merchant acceptance. It is reported that the online system is unready for business activities in some cases due to its infancy stage. However, Wei and Tsu (2018) contended that Bank Negara Malaysia had established waves of reform to encourage more online payment within Malaysia. Although we can see various efforts have been made by the government, it is still an important thing to note that increasing awareness for SMEs to use the online platform as a mode of payment is crucial because online platform is considered relatively cheaper than a conventional platform. The online transaction may remove the unnecessary cost for SMEs in the long run and it is a way forward since quick transaction clearing is possible within one or two working days, depending on the traffic. This way, SMEs can have better estimation of liquidity and manage their cash flow more accurately. On top of that, the online transaction will require less time, hence, making SMEs more efficient through minimization of the administrative cost in the long run.

Chart 5: Incidence of outsourcing to comply with a regulation

On the other hand, Chart 5 shows that 69% of the SMEs decided to outsource to comply with at least one or more business regulations. This indicates two possibilities; (1) the regulation is too complicated to be handled by the SMEs themselves, hence outsourcing it is the best and fastest way; or (2) The compliance cost of outsourcing to comply specific regulation is relatively lower compared to the compliance cost of handling it themselves.

Besides that, Chart 4 captured 41% and 43% of the SMEs outsourced to comply with corporate tax regulation and minimum wage regulation respectively. Whereas only 26% and 23% of the SMEs outsourced to comply with worker's visa and permit regulation and company billboard regulation respectively. Outsourcing to comply with business regulation may be cost effective. However, it raises an interesting question as to what is the main reason that an SME decided to outsource a given business regulation.



Result Discussions

To strengthen our findings, we went to interview six small businesses in Klang Valley area in different service sub-sectors which are wholesale and retail trade, food and beverages and personal services, to inquire on their opinion regarding our preliminary findings. We found that most of them agree that understanding customers is the most challenging aspect of their business. To provide a high-quality service to their customers, they must first understand their customer's needs and exceed their expectations. However, for specific sub-sectors, managing cash flow and productivity is the biggest challenge for them.

Furthermore, most of the businesses interviewed agreed that the government rarely meet with small and micro-businesses for consultations with regards to business regulation. However, they did admit that the only way for them to voice out their opinions on a particular business regulation is by speaking out to their respective business associations. For example,

the introduction of zero single-use plastic bags is an excellent initiative for green environment; however without the right consultation and implementation, it grows confusion among some businesses, incurring more cost to the businesses. More incentives should be provided by the government to prepare themselves with given regulation especially those regulations that may increase the direct cost of the businesses.

Next, most of them prefer digital media and social media as their source of awareness for government business regulation. However, they still opt for traditional media for the trusted source, as suggested in our findings in the previous section. To be more precise about any regulation imposed, they preferred to visit relevant government website due to its authenticity.

Surprisingly, most of the SMEs that we interviewed would prefer to choose online payment mode rather than over-the-counter payment mode because of the efficiency. With regards to our previous findings we found out that most of the SMEs preferred over-the-counter payment mode, the feedback that we received was that paying over the counter is more reliable and trustable as acknowledged by some of the businesses we interviewed. They feel more confident about the payment they made, and on top of that they would be able to get extra information related to business regulation at the counter compared to paying it online.

In summary, some business regulation does affect small and micro-businesses. The government should simplify the regulation process to reduce the compliance cost to ensure SMEs can be competitive and proliferate in the long run. One of the better ways to improve awareness regarding business regulation, the government may consider collaborating with business license provider to include all related business regulation in each sector so that when a business is renewing their license, they may have access to the business regulation easily. On top of that, the businesses themselves need to play a proactive role in understanding the regulation by accessing the right and trusted channel accordingly.

Conclusion



Business regulations would consequently impose time, effort and costly conditions on starting a business as well as making it more costly to pursue, which then interferes with the market forces and further interferes with the free market of doing business. Our findings shed some light on the compliance cost of doing business by SMEs in the service sector around Klang Valley area.



Our findings have shown that regulations that related to local authority tend to be the most time consuming for SMEs such as the company billboard regulation. Complying to a billboard is not as simple as starting a business in Malaysia. Every local authority in a different state will have different requirements on how SMEs can put up their billboard publicly. We found that on average, SMEs compliance cost on company billboard regulation is about RM1,038.49 and it requires up to 21 working days to comply. Friendly business regulation is where SMEs spend less time complying with given regulations. Hence, it is an essential matter for local authorities to revisit this regulation to improve the business experience in the long run.



Business regulation related to employees also cost higher compliance cost for the SMEs per revealed by our findings. Minimum wage regulation and worker's visa and permit regulation is the best example for higher time-consuming regulation where it required up to 40 working days and 14 working days respectively for SMEs to comply. The average cost for complying these two regulations are RM6,242.86 and RM1,540.68 respectively.



We also found that there is a lack of government consultation with the micro and small businesses especially on the top four most time-consuming regulation for SMEs. Less than 23% of the SMEs were consulted on these four regulations and there is a need for local authority and the federal government to revamp their communication approach to reach at least 50% of the small and micro companies being consulted.



In terms of the mode of payment, we found that the online platform is still the least preferred option for SMEs. This raises several questions either the online system is yet to be fully functional within the business community or the existing business community is just not tech-savvy. Whatever the reason is, it is vital to ensure local SMEs migrate to an online system to provide better efficiency and ability to compete in the market in the long run. We found that for top four most time-consuming regulation, between 7% - 35% of the SMEs is using the online platform as a mode of payment while the rest is either on an over-the-counter visit or outsourced.



Lastly, we deduced that there is a mismatch of information about the cost of doing business by SMEs in Malaysia. Most SMEs have understanding on the direct cost but possess little understanding of the compliance costs such as time taken to comply given regulation being considered as an essential cost for doing business. Therefore, exposure of the importance of compliance cost is essential for the SMEs in ensuring better growth among micro and small enterprises in the long term.

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