

BUSINESS DIGITALISATION FOR SMALL AND MEDIUM-SIZED ENTERPRISES (SMES)

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ABSTRACT

SMEs play an important role in the Malaysia economy. SMEs contribution to the country's gross domestic product rose to 38.3% in 2018 from 37.8% in 2017. A critical challenge faced by SMEs as a consequence of the covid-19 pandemic crisis is adopting of digital business model. The lack of technological adoption could be the main problem facing entrepreneurs or small and medium-sized enterprises in Malaysia (MOHE Guide to Entrepreneurship Integrated Education (EIE), 2021). There is a paucity of research examining how SMEs drives successful alignment between systematic sales strategy with business sustainability performance. SMEs will have a leading role to play in meeting the most "economic" SDGs: promoting inclusive and sustainable economic development (Goal 8) and promoting sustainable industrialization and supporting innovation (goal 9). This is in line with the 11th Malaysian Plan to speed up the adoption of innovation and technology among SMEs, boost productivity and compete globally. This study explores the significance of embedding digital technology in business models, which has proven to be a boon for long-term productivity and sustainability, particularly during times of crisis such as the COVID-19 pandemic. Adoption of technology will aid in closing the productivity gap between SMEs and large corporations by increasing capacity and capability for greater competitiveness and innovation.

Keywords: Small-Medium Enterprise (SME); Digitalization; Business; Resource Based View; Performance.

INTRODUCTION

SMEs play an important role in the Malaysia economy. SMEs contribution to the country's gross domestic product rose to 38.3% in 2018 from 37.8% in 2017. A critical challenge faced by SMEs as a consequence of the covid-19 pandemic crisis is adopting of digital business model. The lack of technological adoption could be the main problem facing entrepreneurs or small and medium-sized enterprises in Malaysia (MOHE Guide to Entrepreneurship Integrated Education 2021). There is a paucity of research examining how SMEs drives successful alignment between systematic sales strategy with business sustainability performance. To address this gap, a sales and customer tracking will be developed in this project. We developed a theoretical model initially on resource-based view theory (RBV). This provides a theoretical basis on how digitalization can be harnessed by SMEs in support of their business strategy that will enable sustainable growth. SMEs will have a leading role to play in meeting the most "economic" SDGs: promoting inclusive and sustainable economic development (Goal 8) and promoting sustainable industrialization and supporting innovation (goal 9). This is in line with

the 11th Malaysian Plan to speed up the adoption of innovation and technology among SMEs, boost productivity and compete globally.

The lack of technological adoption is perhaps the most significant problem confronting Malaysian entrepreneurs or small and medium-sized enterprises in Malaysia (MOHE Guide to Entrepreneurship Integrated Education (EIE), 2021). There is a paucity of research examining how SMEs drives successful alignment between systematic sales strategies with business sustainability performance.

Furthermore, SMEs in particular will be encouraged to continually improve dynamic capabilities as well as accelerate the adoption of technology to grow at a faster rate and expand market outreach. The Sustainable Development Goals (SDGs) launched by the United Nations in 2015 can only be attained if countries are able to build up compelling SMEs. SMEs will have a leading role to play in meeting the most "economic" SDGs: promoting inclusive and sustainable economic development (Goal 8) and promoting sustainable industrialization and supporting innovation (goal 9). This is in line with the 11th Malaysian Plan to speed up the adoption of innovation and technology among SMEs, boost productivity and compete globally. To validate, advance and justify our theoretically driven mode, an in-depth empirical study will undertake interviews with leading Malaysian SMEs.

SMEs are Malaysia's key drivers of job creation and economic growth. About 99 per cent of Malaysia's overall business establishments are SMEs. In order to continue accelerating the digital economy, it is important to allow Malaysian SMEs to move towards digitalization. Measures to be taken in line with the 11th Malaysia Plan include harnessing the potential of the Fourth Industrial Revolution (4IR) which provides new opportunities for business and wealth development. Through adopting 4IR, producers need to catalyze the introduction of relevant Industry 4.0 innovations to stay competitive in the global value chain. In addition to the relatively large stock of SMEs in Malaysia, they are wholly or partially informal entrepreneurs and typically necessity-driven entrepreneur. Cervelló-Royo et al. (2020) applied a necessity-driven entrepreneur label to people who had no better work options, while opportunity-driven individuals would benefit from business opportunities. Following this pandemic outbreak, they should turn this need into an opportunity-driven enterprise. Opportunity driven means they usually run on fast-digitized business models. Opportunity driven entrepreneurship is expected to have a longer-term positive effect than necessity-driven entrepreneurship.

Digitalization of SME Business

The concept of digitalization is a new phenomenon that is believed to have changed the way things are done currently, such as in trade, commerce, agriculture, manufacturing and even government services. In Malaysia, the digitalization in micro business is not new. The adoption of digital technologies by the SMEs is significant as currently SMEs make up about 98.5 per cent (907,065) of business establishment in the country. SME Corporation Malaysia is intensifying its efforts to assist micro business in Malaysia to embrace digitalization in their business operations within five years compared with the current 32 per cent (The Star, 2019).

The 'digitalization' covers a wide range of possibilities regarding the extent of digital technology adoption. This can range from basic elements (such as using computers or the Internet) and the use of modern technology (such as cloud computing or big data) to advanced applications, such as adopting a business model based on digital products and services, or using elements from Industry 4.0 (Zimmermann, 2016).

Digitalization of business is not only a mechanism by which micro organizational leaders improve the efficiency and effectiveness of their business processes, as well as transform existing business models (Rahayu & Day, 2017) but also for micro business to survive in the new business economy (Jones et al., 2014). Jones et al. (2014); Rahayu & Day (2017); and Tarutè and Gatautis (2014), also buttressed the point that the adoption and use of ICT has helped micro organizations achieve growth and this has made them to become more efficient, effective, innovative and globally competitive. Goldfarb and Tucker (2017) highlight the important role of digital technologies in reducing costs of search, replication, transportation, tracking, and verification. In particular, lower search costs widen the potential for scope and quality of search, replicability of digital goods often occurs at zero cost (non-rivalry), their cost of transportation is also very low and they enable easier tracking of individual's behaviours, allowing to easily verifying the reputation and trustworthiness of information. Thus, this would facilitate entry, upscaling, but also productivity-enhancing creative destruction and a more dynamic business environment (Calvino & Criscuolo, 2019).

However despite this digitalization transformation process, SMEs in the country fail to keep the pace due to lack of knowledge on new technologies, insufficient funds and poor infrastructure, Inefficient Regulatory Framework, Lack of competent management with ICT skills and Governance challenges. These anomalies need to be addressed as study clearly show that digitalization in micro business plays an important role in the increase of productivity and economic activities, positive impact on the performance of business, increases the growth rate of the economy, serves as a poverty alleviation tool, boosts employment opportunities and also provides business opportunities for micro business home and abroad (Shettima & Sharma, 2020).

Challenges Faced By SME on Adoption of Digitalization

The lack of technological adoption or digitalization could be the main problem facing entrepreneurs or small and medium-sized enterprises in Malaysia (MOHE Guide to Entrepreneurship Integrated Education (EIE), 2021). Entrepreneur cannot be limited to one-way contact on digital channels. The short period of learning among the young generation requires a creative curriculum for entrepreneurship that will meet the needs of the new generation.

It is important to affirm problem-based learning and customised learning to stimulate the entrepreneur's thought process. Thus, it is possible to further explore technical innovation-based industries using recent or evolving technologies. According to the 2030 National Entrepreneurship Strategy, technology & innovation has become one of the ecosystems of entrepreneurship that enhances entrepreneurship. Other than that, there is a lack of existing awareness and the effective implementation of technical instruments. Educators need to be proactive and adjust to current and recent technical and digital developments. In the technology augmentation and digitalization described in the MOHE Guide to Entrepreneurship Integrated Education, 2021, most of the new business landscape has evolved.

The Covid-19 pandemic is sweeping the world at a fast pace, affecting not only global financial markets but also micro-enterprises. According to MDEC (2020), many small and medium-sized enterprises are experiencing interrupted movements in the supply chain, delays in business processes requiring documents, limited tools to engage their interested parties, constraints on non-cash transactions and challenges in managing high-volume workers. On the other hand, while large corporations have contingency plans to minimize the impact of Covid-19, many SMEs and micro-enterprises may not be able to overcome the global pandemic. One way

forward is through automation sales tracking system.

Digitalization is having a major impact on the way businesses work. Unfortunately, due to high costs, lack of understanding and lack of digital talent in the workforce, half of Malaysian SMEs are not yet prepared for the adoption of digitalization. In addition, SMEs are still behind the technological transition curve and this will affect the organization's performance. In Malaysia, the uptake of digital services and applications has increased rapidly and the rapid spread of mobile broadband has, in particular, made it possible for more and more people and companies to connect to the communication network. Nearly 28.7 million Internet users in Malaysia at the end of 2017, an increase from 24.5 million in 2016, and nearly three-quarters (70.4%) of Internet users are employed, including self-employed (MCMC, 2018). Digital transformation offers an unprecedented opportunity to address the barriers to systematic sales and customer tracking system faced by SMEs. Indeed, emerging innovations are opening up new opportunities that have a positive effect on the sustainability success of SMEs.

Impact of Covid-19 and SME Business

The outbreak of Covid-19 coronavirus is a human tragedy affecting billions of people in the world. The outbreak also imposed negative impacts on the global economy, industries, corporations and small and medium-sized enterprises (SMEs) economists predict a slowdown in the momentum of economic activity that began in March 2020 without a specific end date. The severity of COVID-19's impact on corporations is unparalleled. Most economies, including Malaysia, are challenged by weak economic and financial results, demand cuts, supply chain disruptions, and the impact of troubled sectors on employment.

The impact of coronavirus on business activities for SMEs worldwide is tremendous. Most businesses are exposed to negative effects in either the short or the long term. Major hurdles are cash flow problems, closure of operations, and lay-off of workers, retrenchment and dilution of future expansion capacities.

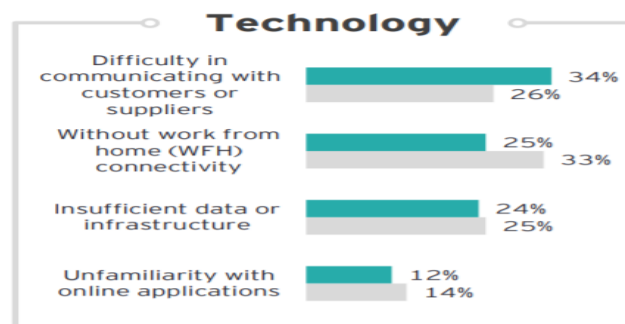


FIGURE 1

GOVERNMENT POLICY ON DIGITALIZATION

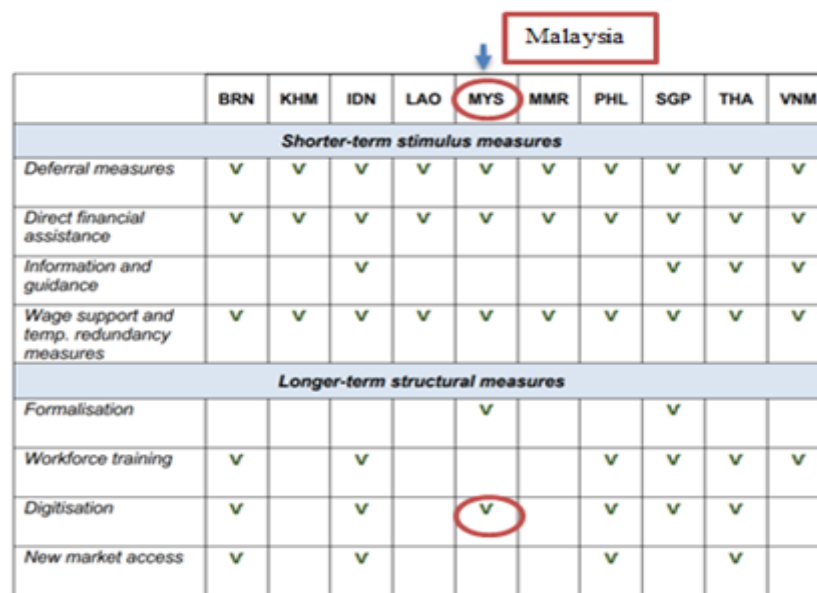
Source: Ernst & Young (2020)

Ernst and Young (2020) survey indicated that technology solutions to enable new ways of working are important for business sustainability. Covid-19 has in fact succeeded in changing the attitude of Malaysia's corporate toward digital transformation where previous efforts have

failed. Further, financial support for transition to technology-enabled processes and systems is important for the sustainability of entrepreneurship in SMEs. Furthermore, Small and medium-sized enterprises are currently switching their business to online business due to changes in consumer behavior during the MCO period. The understanding of their survival strategies is equally important to explore in order to complement quantitative insights Figure 1.

Bank Negara Malaysia (BNM) provide special financing program for SME entrepreneurs affected by the COVID-19 outbreak. One of the financing facilities is SME Automation and Digitalization Facility (ADF), with an allocation of RM300 million. ADF is to incentivize SMEs to automate processes and digitalize operations such as purchasing equipment, machinery, ICTs (hardware, software, IT solutions and services) to improve productivity and efficiency.

In many businesses, the crisis can accelerate the adoption of digital technologies. Social distancing measures have forced many companies to consider the benefits of automation. Closed markets have encouraged many businesses to move online. Malaysia has established a new Automation and Digitalization facility that provides lower interest rates for SMEs to purchase related equipment. The facility is linked to its overarching digital transformation plan by requiring recipients to complete a digitalization training and certification round covering aspects of digital transformation, cyber security, and new market expansion (OECD, 2020) Figure 2.



	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM
Shorter-term stimulus measures										
Deferral measures	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Direct financial assistance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Information and guidance			✓					✓	✓	✓
Wage support and temp. redundancy measures	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Longer-term structural measures										
Formalisation					✓			✓		
Workforce training	✓		✓				✓	✓	✓	✓
Digitisation	✓		✓		✓		✓	✓	✓	
New market access	✓		✓				✓		✓	

FIGURE 2

OVERVIEW OF ENTERPRISE POLICY RESPONSES TO COVID-19 IN ASEAN

Source: Organisation for Economic Cooperation and Development (OECD, 2020)

Resource Based-View Theory (RBV) and SMEs

The structure is suitable for the implementation of integrated approaches that tackle the internal and external viewpoints of strategic business decisions at the same time. More

importantly, researchers argued that sustainability of small and medium-sized enterprises depends on innovation capability, financial capital, networking and technology (Mahani & Suraiya, 2019). Strategy is known as a focal organizational tool for the determination of firm decision-making, skills, competitive advantages and success during the time of crisis (Mahani & Suraiya, 2019; Azmi et al., 2020). Resource Based View Theory (RBV) has recognized the role of individual strategies, firm resources and specific internal factors as firm resources in improving the company's performance and sustainability (Barney, 1991; Warnier et al., 2013). The company's strategic objectives are to build and deploy a mix of valuable, unique, inimitable and non-replaceable resources (VRIN) to reach their maximum economic potential (Warnier et al., 2013). The structure is suitable for the implementation of integrated approaches that tackle the internal and external viewpoints of strategic business decisions at the same time. More importantly, researchers argued that sustainability of small and medium-sized enterprises depends on innovation capability, financial capital, networking and technology (Mahani & Suraiya, 2019). According to RBV, organizations can improve their competitive position, for example, in terms of costs, quality, or other differentiating factors, if they have and use resources and capabilities that are valuable, rare, inimitable, and non-substitutable. The RBV seeks to comprehend the relationships between various resources and how those resources can be combined to maintain a competitive advantage.

CONCLUSION

The ongoing Covid-19 pandemic has called on businesses to rethink how they conduct their daily activities. SMEs will have a central role to play in emerging from the crisis. SMEs are likely to be more vulnerable to the crisis because they tend to have fewer internal resources, less capable of weathering liquidity gaps and adapting their business models, working methods and marketing channels quickly. Policymakers could help businesses become more competitive by providing low-cost, basic digital business diagnostics tools by encouraging businesses to digitalize. Digitalization is important for the long viability of SMEs in the new economy. As digitalization accelerates around the world, it is critical for Malaysian SMEs to embrace the digital economy not only to avoid falling behind, but also to help spur economic growth. E-commerce is a game changer for SMEs with an online presence, allowing them to break free from the constraints of a small market and enter a world market with billions of customers. Digitalization can also facilitate businesses' formalization by providing easier ways to register with government. SMEs must have some degree of strategic resources and be flexible enough to mobilize in times of crisis, as modern businesses are exposed to various unpredictable global crises. As a result, in the unpredictable future of the Covid-19 pandemic crisis, investment in technology, apps, online marketing and new delivery system is needed to keep the economic running and ensure it is as dynamic and adaptable as possible.

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Received: 30-Dec-2021, Manuscript No. JMIDS-22-10700; **Editor assigned:** 03-Jan-2022, PreQC No. JMIDS-22-10700(PQ); **Reviewed:** 05-Jan-2022, QC No. JMIDS-22-10700; **Revised:** 27-Feb-2022, Manuscript No. JMIDS-22-10700(R); **Published:** 02-Mar-2022