

## Challenges in digital adoption

IF there is one lesson to be learnt from the Covid-19 pandemic, it is that adoption of digital technologies is no longer optional for businesses.

The closure of brick-and-mortar stores and risk of infection made consumers shift towards online purchasing, which supported the growth of Malaysia's e-commerce market.

**In 2020, Malaysia's e-commerce value soared by 33% to RM896bil after registering an income of RM675bil in 2019, according to the latest data from the Department of Statistics.**

Nonetheless, the overall rate of digital adoption by Malaysian businesses has not been really encouraging. World Bank data shows that before the pandemic, Malaysian businesses were under-performing in their digitalisation efforts when compared to most of their regional peers in Thailand, Philippines, Vietnam and Singapore. Around 77% of SMEs in Malaysia remain at the basic digitalisation stage, according to estimates by consulting firms.

This lag in business digital adoption can be observed in the web presence of the companies. Only 53.9% were represented in the World Wide Web in 2019 (37.8% in 2017).

For those that have adopted technologies, only a small minority explored frontier technologies like data analytics (6.3%).

A survey commissioned by SME Corp and Huawei Technologies showed that usage of IoT, cloud computing and data analytics is uncommon among micro, small and medium enterprises (MSMEs).

There is also a large digital divide between firms and regions. While anecdotal evidence may suggest that more businesses are adopting digital technologies because of the pandemic, this is more likely for larger firms.

Many SMEs are still ill-equipped to make the transition towards digitalisation.

Furthermore, digital adoption also appears to be concentrated only in certain sectors and states. For example, incomes from and spending on e-commerce have been significantly contributed by the manufacturing and services sectors. At state level, digital economy measured by certain indicators (i.e. e-commerce) is driven by Selangor, Federal Territory of Kuala Lumpur, Johor and Penang.

It is becoming more crucial for the numerous stumbling blocks to be addressed to ensure the sustainability of Malaysia's businesses in the post-pandemic world and beyond.

Financing or digitalisation cost remains one of the top challenges. These include costs associated with Internet connectivity, digital hardware as well as software subscription fees.

Low level of awareness and knowledge about financing and technologies also plays a big role in making decisions on business digital transformation. Findings of the survey conducted by SME Corp and Huawei showed that 60% of business owners do not know about financing options and 34% thought that cloud computing is expensive.

Another stumbling block is the shortage of digital talent, a key driver in the adoption of frontier technologies. Looking at the rate of digital literacy among Malaysians, only 15% are equipped with advanced ICT skills.

Gaps in digital infrastructure must also be tackled. A Siemens Malaysia study last year found that 50% of SMEs are not prepared to adopt new norms of remote working due to difficulties related to infrastructure and systems, including Internet connectivity.

The longer we wait to address these stumbling blocks, the more Malaysian SMEs will be held back from reaping the benefits of digital technologies.

Many of our businesses will continue to lack wider and quicker access to market information and resources as well as integration into regional and global markets.

Another missed advantage would be higher productivity. Research suggests that SMEs that leverage social media experienced a rise in productivity by 26% while those that penetrated into e-commerce saw productivity grow by 27%.

There needs to be an ecosystem that holistically supports digitalisation of businesses not only in the short term but also in the long run.

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