

## **Post-Covid growth – address barriers to business digital transformation**

SINCE the onset of the Covid-19 pandemic, businesses all over the country have had to weather the economic impacts of physical distancing and lockdown measures. But if there is one key lesson to be learnt, it is that for businesses, the adoption of digital technologies is no longer optional.

The pandemic has helped accelerate the digitalisation of front-end business processes like digital marketing and e-commerce as movement restrictions changed consumer spending behaviour.

The closure of bricks-and-mortar stores and risk of infection have led consumers to gradually shift towards online purchases, which, in turn, supported the growth in Malaysia's e-commerce market.

**Last year, Malaysia's e-commerce value soared by 33% to RM896 billion after registering an income of RM675 billion in 2019, according to latest data from the Department of Statistics Malaysia.**

Nonetheless, the overall state of digital adoption among Malaysian businesses has not been really encouraging.

Even before the pandemic, World Bank data shows that Malaysia's businesses have underperformed in terms of digitalisation relative to most of its Asean peers such as Thailand, the Philippines, Vietnam and Singapore.

Around 77% of small and medium enterprises (SMEs) in Malaysia remain at the basic digitalisation stage, according to estimates from consulting firms.

One of the measures showing the lag in business digital adoption can be observed from those with web presence. While there has been an increase in share, only 53.9% of overall establishments has web presence in 2019 (2017: 37.8%).

For those that have adopted technologies in their businesses, a majority of them use technologies on social media (60%) and mobile internet (63.8%) while only a small minority explored frontier technologies like data analytics (6.3%). This is supported by a survey commissioned by SME Corporation and Huawei Technologies, which reveals that usage of internet of things, cloud computing and data analytics is uncommon among micro, small and medium enterprises.

Moreover, there exists 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 the large firms. Many SMEs are still ill-equipped to make the transition towards digitalisation.

Indeed, according to news reported by Malaysiakini, a study conducted by SME Association of Malaysia reveals that only 26% of SMEs had chosen digital technologies as their main post-pandemic growth strategy. The majority of SMEs (57%) have not even started efforts towards digitalisation.

Additionally, 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 manufacturing and services sectors.

On state level, digital economy measured by certain indicators (that is, e-commerce) is driven by the developed states – Selangor, Kuala Lumpur, Johor and Penang.

In view of these shortfalls in the digitalisation of Malaysia's businesses, it is becoming increasingly crucial for the numerous stumbling blocks to be addressed to ensure the sustainability of Malaysia's businesses in the post-pandemic world and beyond.

First, financing or digitalisation costs remain one of the top challenges. These include costs associated with internet connectivity, digital hardware and software subscription fees.

As many small businesses barely managed to stay afloat given the severe impacts of the pandemic, unprecedented cashflow shocks have possibly hindered their abilities to take on digital transformation.

Second, low level of awareness and knowledge about financing and technologies also plays a big part in suspending business digital transformation.

Findings from the survey conducted by SME Corporation and Huawei show that 60% of the firms do not know about financing options and 34% thought that cloud computing is expensive.

Third, another stumbling block is the shortage of digital talent – a key driver in the adoption of frontier technologies.

Almost half of the firms surveyed by SME Corporation and Huawei stated not having employees with the right skills, namely in sales and marketing, business management and IT technical skills.

Looking at the state of Malaysians' digital literacy, although 75% of the population possess basic information and communications technology (ICT) skills, only 15% are equipped with advanced ICT skills.

Finally, gaps in digital infrastructure are another huge barrier to consider. Based on findings from Siemens Malaysia last year, 50% of SMEs are not prepared to adopt new norms of remote

working due to difficulties related to infrastructure and systems – that is, issues with reliable internet connectivity affecting communications with customers and suppliers.

The longer we wait to address these key 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 on social media experienced a rise in productivity by 26% while those that penetrated into e-commerce saw productivity growing 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.

Policy measures need to be centred around an inclusive digital adoption that can benefit firms regardless of their size and industry. – October 19, 2021.

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