

## BOX ARTICLE

# Digitalisation Survey of SMEs in 2018



Digital technologies continue to influence enterprises and individuals alike and its application amongst businesses is widespread. A lot of studies recognise and establish the key role that digital technologies play in improving the business landscape by creating unparalleled opportunities to boost growth, expand jobs and accelerate innovation. Given a shift towards the digital environment, a myriad of technological trends, in particular, the Mobile Broadband, Cloud Computing, Big Data Analytics and Internet of Things (IoT) can elevate business growth and open up new business opportunities in various different industries.

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Embracing digital can be broadly categorised into computerisation and digitalisation where computerisation means adoption and usage of digital devices however more towards individual usage and limited business usage, and digitalisation is defined as business process transformation including customer management, transaction, services and feedback in a complete digital environment. As the pace of digitalisation picks up around the world, it is extremely imperative for Malaysian SMEs to accelerate the adoption of digital technologies to spur economic growth, as they represent 98.5% of the total establishments. Nevertheless, analyses reflect that SMEs often struggle with digital developments. Barriers to infrastructure, regulatory and administrative burdens, insufficient access to finance and digital skills in the workforce are some issues facing SMEs. Accordingly, SME Corp. Malaysia together with Huawei Technologies (M) Sdn. Bhd., and supported by IDC Malaysia and University Consortia (UC) collaborated in conducting the Malaysia Digital SME Study.

As part of the Study with the aim to accelerate the development of Malaysian SMEs towards embracing digital culture effectively, a Digitalisation Survey of SMEs was conducted during the period of May to June 2018. The Survey is part of the work plan in assessing the technology

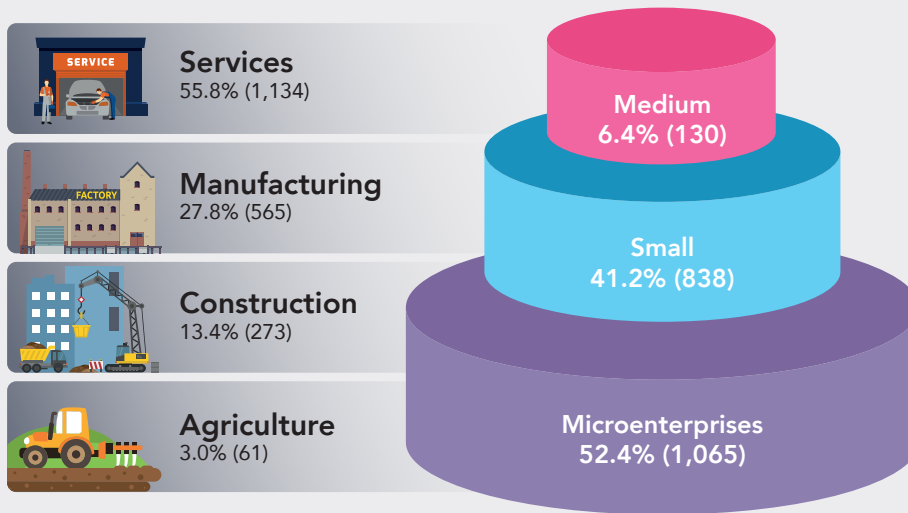
adoption landscape of Malaysian SMEs and identifying opportunities to enhance SME productivity and business growth. Among the areas explored in the Survey are ecosystem status and gaps, infrastructure, skill set development and e-business. The Survey was conducted through interview, phone call and face-to-face as well as online platform and physical distribution. Likewise, the feedback of the Survey was also gathered from the relevant stakeholders, such as various Government Ministries and agencies, SME-related associations and SMEs through engagement sessions and focus group discussions. The coverage is broad, encompassing SMEs across all economic sectors and industries as well as establishment size throughout the country.

The Study also included analysis of few benchmarked countries like Spain, Czech Republic and Singapore where specific initiatives had assisted nations overcome the challenges of digitalisation faced by their respective SMEs and can act as good reference for Malaysian SME ecosystem.

### Profile of Survey Samples

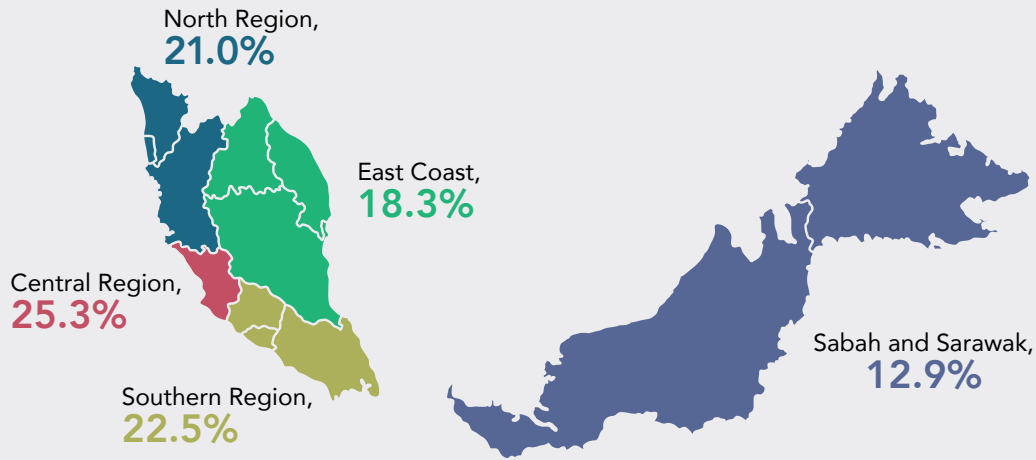
The comprehensive Survey cuts across all economic sectors, industries, business sizes and regions, with a total respondents of 2,033 SMEs.

**Chart 1:** Number of Respondents and Percentage Share by Sector and Business Size



Source: Digitalisation Survey of SMEs in 2018, SME Corp. Malaysia & Huawei Technologies (M) Sdn. Bhd.

The services sector (55.8%) makes up the largest group of respondents followed by manufacturing (27.8%), construction (13.4%) and agriculture (3.0%) sectors. Microenterprises, which are mostly business operators with less than five full-time employees constituted 52.4% of the total respondents. Meanwhile, about 41.2% of the respondents are small-sized firms and the balance 6.4% are medium-sized firms (refer to Chart 1).

**Chart 2:** Distribution of Respondents by Region (%)

Source: Digitalisation Survey of SMEs in 2018, SME Corp. Malaysia & Huawei Technologies (M) Sdn. Bhd.

Geographically, Central Region accounted for 25.3% of total respondents surveyed, followed by South (22.5%), North (21.0%) and East Coast (18.3%) Regions as well as Sabah & Sarawak (12.9%) (refer to Chart 2).

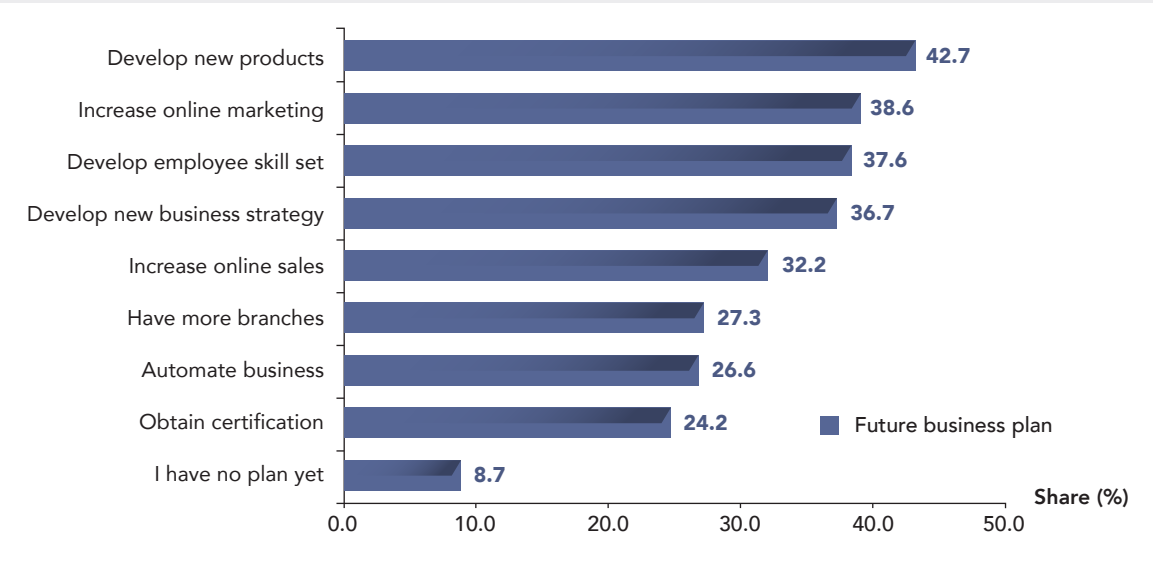
## Main Findings of the Survey

### Business Outlook and Strategy

The Survey done during the period of May - June 2018 highlighted that majority of SMEs are bullish about the near-term business outlook, with 66.7% of total respondents anticipated that their businesses to improve in the next financial year. However, almost one-third of respondents across all regions are worried about their businesses, particularly those in the manufacturing and construction sectors. In the near term, given the expected business shift in the digital environment, most of the respondents are planning to develop new products or services and increase online marketing, particularly SMEs in manufacturing and services sectors, across all regions. Meanwhile, respondents from South and East Coast Regions as well as Sabah & Sarawak are more focused on developing employee skill sets in order to improve their businesses (refer to Chart 3).

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**Chart 3: Business Strategy in the Near Term (%)**

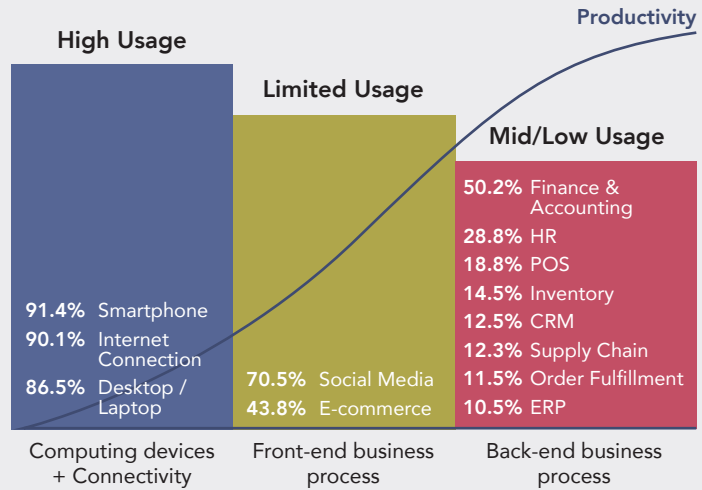


Source: Digitalisation Survey of SMEs in 2018, SME Corp. Malaysia & Huawei Technologies (M) Sdn. Bhd.

**ICT Adoption**

Overall, about 79.7% of the total respondents realised the importance of ICT adoption and its role in improving business productivity and efficiency. Interestingly, detailed findings revealed that productivity is rising following utilisation of different types of digital tools. For instance, SMEs that utilised data management services which help organise, store, display data of business operation, sales and customer information were able to increase their productivity up to 60.0%, as compared to SMEs that utilised e-business and social media initiatives leading to increase in productivity to only about 27.0% and 26.0%, respectively.

**Chart 4: ICT Tools or System Usage (%)**



Source: Digitalisation Survey of SMEs in 2018, SME Corp. Malaysia & Huawei Technologies (M) Sdn. Bhd.

Presently, ICT usage among SMEs predominantly comes from personal devices, such as smartphone (91.4%), basic internet connection (90.1%) and computer or laptop (86.5%). The usage of back-end business processes, such as Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM) are very low among SMEs (refer to Chart 4). Likewise, limited usage of social media and e-commerce also showed that SMEs have achieved high computerisation but struggle to cross the chasm to digitalisation that could significantly enhance business and productivity gains.



### Usage of Social Media and E-commerce

In the Survey, about 70.5% of the total respondents utilised social media for their businesses, with WhatsApp, Facebook and Instagram being the most used social media platforms mainly for engagement or interaction with customers. Looking at the findings in detail, utilisation of social media for customer engagement is generally high in Malaysia, except for the Northern Region, whereby almost one-third of the total respondents do not plan to use social media. With regards to e-commerce, about 43.8% of the total respondents were adopting e-commerce, of which, about 89.6% of them were using online banking transaction, such as Maybank2u and CIMB Clicks, whereas about 70.2% were using cash for payment and only about 22.8% were using integrated payment gateway like PayPal and AliPay. It is also noteworthy that about one-third of the total respondents still do not plan to use e-commerce, mainly SMEs in the manufacturing and construction sectors. Among the reasons cited by the respondents for not embarking on e-commerce were that it is not necessary for their businesses and that they prefer traditional ways of doing business. With the immense opportunities that come with having a reliable online presence, the usage of social media and e-commerce can be seen as important business tools to expand SMEs' businesses through innovative strategies. From the Survey, respondents are using the social media mainly for communicating with customers for online marketing instead of really introducing more ICT tools to transform their businesses for greater gains. These findings showed that SMEs are highly computerised but they face difficulties to digitalise their businesses which requires mindset change and development of digital workforce as key focus areas for industry ecosystem to work upon.



### Access and Infrastructure

Moving on to the usage of transformation enablers like Cloud services and Internet of Things (IoT), Survey findings showed that the utilisation of the services among SMEs were relatively low. Although about 54.0% of the total respondents reported that they used some form of data analytics, majority of them were only using spreadsheets on their computers. On the utilisation of Cloud services, about 44.0% of the total respondents used the services, which are largely driven by online storage demand, such as Dropbox and Google Drive. Meanwhile, only about 35.0% of the total respondents utilised IoT in their businesses that is mainly used for security and surveillance as well as for fleet management. Although 90.1% of the respondents have internet connection, they are still faced with issues, such as high price, low internet speed and poor connection.

In terms of affordability, majority of respondents in the

Northern Region and East Coast cited that the cost of internet is relatively expensive. Apart from that, low internet speed remains a common concern, highlighting the need to strengthen broadband infrastructure, as broadband remains an issue holding back SMEs digitalisation. Survey findings discovered that fixed broadband, such as Streamyx, Unifi and Time is a preferred broadband channel in all regions in Malaysia. Meanwhile, mobile broadband which is wireless internet access through smartphone is more preferably by the respondents outside the Central Region.

### Key Challenges

Besides poor broadband quality, other key challenges faced by SMEs in crossing the digitalisation chasm are lack of understanding of digital tool usage, lack of technology knowledge, lack of awareness on financing options and limited access to technology. In order to build a conducive ICT ecosystem for SMEs, majority of the respondents require assistance in financing, followed by technology and development of employee skill set. Besides, about one-third of the respondents also require networking and regulatory assistance, highlighted the need of a more engaging and collaborative ecosystem.

### Awareness and Participation in SME Programmes

In the Survey, about 51.0% of the total respondents are aware of the availability of SME assistance programmes. However, the participation rate of SMEs in the programmes are low. Of those participated in SME assistance programmes, majority of them (71.0%) participated in programmes organised by SME Corp. Malaysia, whereas about 25.2% of them participated in programmes organised by Malaysia Digital Economy Corporation (MDEC). With regards to programmes related to innovation and digitalisation, most of the respondents participated in programmes such as Program eUsahawan by MDEC, 11street Workshop by 11street, HIP 6: Inclusive Innovation and HIP 2: Technology Commercialisation Platform by SME Corp. Malaysia. Respondents who did not participate in any of the SME assistance programmes cited that they did not have information on the programmes. This finding suggests that organisers or implementers of any programmes need to put more emphasis on promoting or creating more awareness of all the programmes for SMEs.

### Way Forward

In line with the objective of the Study, a Whitepaper on digitalisation of SMEs will be published by SME Corp. Malaysia and Huawei Technologies (M) Sdn. Bhd., and it will be presented to the Government of Malaysia. The Whitepaper will cover details of the Survey findings together with the recommendation on policies to increase digitalisation of SMEs, which will be beneficial for SMEs, policymakers and researches alike.

