

Assessment of Low Adoption of Digital Technology in Micro and Small Enterprises

SHARIFAH MUHAIRAH SHAHABUDIN

MASA POLICY DEVELOPMENT PROGRAMME

POLICY BRIEF 07

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Sharifah Muhairah Shahabudin

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PREFACE

Institut Masa Depan Malaysia (MASA) is an independent think tank that brings together experts in government and academia to provide quality research, policy recommendations, and analysis on the full range of public policy issues guided by the shared prosperity values.

Since its inception, MASA has been actively involved in shaping national policies and frameworks. MASA Policy Development Programme (MPDP) was introduced as a pioneering initiative aimed at promoting policy research among researchers from public and private universities across the country, in alignment with the Shared Prosperity Vision 2030 and the Sustainable Development Goals, which are integrated with the 12th Malaysia Plan.

Through the MPDP 1.0 initiative, 30 Policy Briefs have been successfully produced, encompassing policy input and recommendations across sectors such as economics, social issues, education, and sustainable development.

MASA expresses its gratitude to Dr. Sharifah Muhairah Shahabudin Syed Muhammad Shahabudin for the production of this policy brief. The commitment of the MPDP grant recipients, along with close cooperation with relevant stakeholders, is highly appreciated and is hoped to continue making a positive impact on national policy development.

Azril Mohd Amin

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ABOUT MASA

Institut Masa Depan Malaysia (MASA) is an independent think tank that brings together experts in government and academia to provide quality research, policy recommendations, and analysis on the full range of public policy issues guided by the shared prosperity values.

MASA was established in January 2019. The formation of the organisation was inspired and mandated by the Seventh Prime Minister, YABhg. Tun Dr Mahathir Mohamad and the Eighth Prime Minister, YB Tan Sri Dato' Haji Muhyiddin Bin Haji Md Yassin. It was founded out of a passion to forward the philosophy of shared prosperity in Malaysia and this region.

MASA also was commissioned by the government of Malaysia to author and develop the Shared Prosperity Vision 2030 plan as the new socioeconomic plan for Malaysia.

Our Vision

To be a thought leader on policy ideas and analysis guided by shared prosperity values.

Our Mission

To create a world where no one is left behind by influencing policymakers to develop data-driven policies that ensure equitable wealth distribution and continuous improvement of people's well-being.

ABOUT MPDP

MASA Policy Development Programme (MPDP) is a pioneering effort in promoting policy research that has become part of MASA's flagship project, in line with the 12th Malaysia Plan which is aligned with the Shared Prosperity Vision and the Sustainable Development Goals.

The research grant, introduced for the first time in 2021, received an encouraging response public and private institutions of higher learning as well as non-governmental organizations.

MPDP researchers have produced studies across various strategic areas, including multidimensional poverty, education for the B40 group, sustainable urban planning for low-income communities, regional inclusivity in Sabah and Sarawak, social enterprise models for Micro, Small and Medium Enterprises (MSMEs), green economy potential and food security.

Other strategic areas of studies include empowerment of the ecotourism sector, climate change, health preparedness and crisis resilience, addressing learning loss, business acceleration, affordable housing and social protection.

All these are reflections of the initiatives and aspirations, inspired by the 8th Prime Minister and Chairman of MASA, Tan Sri Dato' Haji Muhyiddin bin Hj. Md. Yassin.

LIST OF MPDP 1.0 POLICY BRIEFS

NO	TITLE	PROJECT LEADER
1.	Family Digital Citizenship in Pandemic Recovery: Prospects, Challenges, and Policy Considerations	Assoc. Prof. Dr. Nor Diana Mohd Mahudin
2.	Kajian Kelestarian Perusahaan Sosial di Malaysia: Perspektif Pasca Pandemik COVID-19	Dr. Abu Hanifah bin Ayob
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NO	TITLE	PROJECT LEADER
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20.	The Development of Youth Agropreneur Policy and Framework for Food Safety Sustainability and Poverty Reduction	Assoc. Prof. Dr. Sylvia @ Nabila Azwa bt Ambad
21.	Ketahanan dan Kapasiti Adaptasi Sektor Ekopelancongan Terhadap Pandemik COVID-19: Kajian Kes Komuniti Setempat di Pulau Tioman	Dr. Siti Nor Liyana bt Harun
22.	Input Polisi Bagi Penyelesaian Kemiskinan Situasi Untuk Keperluan Pelan Pemulihan Negara (PPN)	Assoc. Prof. Dr. Wan Ahmad Amir Zal bin Wan Ismail
23.	Ruang Hijau Bandar Sebagai Indeks Untuk Dasar Kesihatan Mental Mampan Semasa Pandemik	Assoc. Prof. Dr. Mohd Ramzi bin Mohd Hussain
24.	Assessing Organizational Resources for Post Pandemic Resiliency and Employees' Well-Being	Asst. Prof. Dr. Low Mei Peng
25.	Model T-Digital dalam Memupuk Perpaduan Masyarakat Majmuk di Malaysia	Dr Khairul Azhar bin Meerangani

NO	TITLE	PROJECT LEADER
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28.	Government and Corporate Social Responsibilities for Malaysians' Livelihoods During COVID-19: A Retrospective and Prospective Reflective Analysis of Initiatives in 2020 and Beyond	Dr. Cheong Huey Fen
29.	Sustainable Development Goals (SDG): From STEM to Employability	Prof. Dr. Teoh Sian Hoon
30.	Big Data Analytics (BDA) Capability Model for SMEs: Post COVID-19	Dr. Mohammad Falahat

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BIOGRAPHY

SHARIFAH MUHAIRAH SHAHABUDIN

Sharifah Muhairah Shahabudin is a Senior Lecturer in the Department of Development Studies at the University of Malaya. She has an extensive administrative background, including roles as Head of Department and various coordinator positions. Her academic qualifications include a PhD in Urban Poverty from the University of Malaya, an MSc in Administrative from Universiti Teknologi MARA, and a BA in Psychology from Canterbury University, New Zealand. Sharifah's expertise lies in Social Classes and Stratification, focusing on socioeconomic status, youth, development, behavior, and stress. She has taught numerous courses at various academic levels and has contributed significantly to publications in ISI-indexed and non-indexed journals. She has also engaged in research projects related to poverty, social protection, and migration, and has been involved in academic and professional services, as well as consultancy projects.

Key Points

- Many enterprises in Malaysia have not adopted digital technologies, and Malaysian businesses lag behind the global average.
- The impact of COVID-19 on micro and small businesses has taught entrepreneurs valuable lessons in diversifying their supply chains and adopting digital technologies for their businesses to be more resilient.
- Although 43% of businesses were still carrying out their business activities in physical stalls and shop lots, 81.5% of businesses were using social media to advertise their products and services.
- 77% of business owners felt that they were not proficient in using ICT, and 72% of owners felt that their employees were not proficient in using ICT
- 65% of entrepreneurs agreed that government agencies had not succeeded in creating awareness among entrepreneurs and delivering training programmes to those who needed them
- 62% of entrepreneurs felt that the lack of funding and grants was a barrier to acquiring digital technology.
- Compared to men, women were slightly more optimistic about the availability of funding and training and acquiring digital technology for their businesses.
- Some important policy recommendations include creating affordable and accessible internet infrastructure, facilitate in digital adoption, embed digitalisation culture through skill development and gender inclusiveness

Introduction

The adoption of digitalization in Micro and Small Enterprises (MSEs) has become increasingly important in today's technological age. Digitalization refers to the integration of digital technologies into various aspects of business operations to enhance efficiency, productivity, and competitiveness.

Digital tools and online platforms provide MSEs with opportunities to reach a wider customer base beyond their local markets. E-commerce platforms, social media marketing, and digital advertising allow MSEs to showcase their products or services to a global audience, increasing their market reach.

Moreover, digitalization can help MSEs reduce costs because there is less need for physical infrastructure and reduces IT-related expenses. Malaysia has made significant progress in promoting digital transformation at the national level, however there are still challenges faced by micro and small enterprises (MSEs) that hinder their adoption of digital technology.

The recent Covid-19 pandemic crisis has caused closure of non-essential businesses and restricted the mass through the movement control order (MCO). It was reported that 70 percent of SMEs reported a 50 percent drop in sales, although online businesses such as online grocery shopping, online food delivery and online shopping has increase between 50-144 percent in sales (Tong and Goh, 2020).

Realising the impact of such disruptions, awareness and promotion efforts for digital adoption should be escalated for business owners to sustain their businesses.

This policy brief discusses the current digital ecosystem used in MSEs, challenges in adopting digital technology, gender considerations in the adoption of digital technology and proposes a range of policies to ensure facilitation of digital adoption.

A quantitative approach using survey questionnaire was performed in 2022 on micro and small enterprises owners in Klang Valley with the financial support from the Institut Masa Depan Malaysia. This policy brief can be used as a guide for various stakeholders as it shed light on MSEs business owners' preferences and challenges in adopting digitalisation for their business.

Objectives of the Study

The study objectives were to assess the current digital ecosystem being used MSEs in the Klang Valley, evaluate the barriers and challenges of adopting digital technologies among business owners and recommend policy direction for inclusion of MSEs within the digital eco-system.

Key Messages and Recommendations

Recommendation 1

- To create an affordable and accessible internet infrastructure.

Recommendation 2

- To embed a digitalisation culture through skills development.

Recommendation 3

- To promote gender inclusiveness in adopting technology.

Problem Statement

(1) Low Adoption of Digital Technologies

Despite micro-enterprises making up 76.5 per cent of the Malaysian small and medium enterprises (SME) category, some challenges hinder micro-enterprises' sustainability. Many enterprises in Malaysia have not adopted digital technologies, and Malaysian businesses lag behind the global average.

For example, only 29 per cent of businesses have a web presence, while only 5.2 per cent of businesses engaged in e-commerce in 2015 (Tong and Goh, 2020). Youth among the B40 group are increasingly becoming familiar with and using e-commerce and digitalisation to start businesses (Johnlee Jumin, Mohamad Taha Ijab & Halimah Badioze Zaman, 2017).

However, the number is still low. Microbusiness owners in the B40 group are under-represented among digital entrepreneurs in Malaysia. Microbusiness entrepreneurs often face difficulties expanding their businesses because of a lack of innovation and capital and a lack of experience in marketing, management skills, and networking.

(2) Limited Awareness and Understanding

Many MSEs lack awareness and understanding of the benefits and potential of digital technology. They may not be fully aware of the ways digital tools can improve their operations, increase efficiency, and expand their market reach. Limited exposure to digital technologies and their potential applications contribute to the low adoption rate.

(3) Lack of Loans to Secure Digital Technologies

Access to loans for microbusinesses is still a problem, especially for entrepreneurs in rural areas. Generally, banks do not approve loans for micro-businesses because they pose higher risks than small and medium enterprises and larger businesses. Microcredit agencies, such as Tekun, SME Corp, Amanah Ikhtiar Malaysia, MARA, and SME Bank, are ways of solving this issue, but the outreach of these services and accessibility of the information and processes still need further improvement.

(4) Perception of Complexity and Risk

Some MSEs perceive digital technology as complex and risky, particularly for those with limited technical knowledge and experience. They may be hesitant to invest in digital tools due to concerns about implementation difficulties, data security, privacy issues, and the potential disruption to their existing operations. The perceived risks associated with adopting digital technology can deter MSEs from embracing it.

(5) COVID-19: A Threat to MSEs

The impact of the COVID-19 pandemic on micro and small businesses has been significant since the implementation of movement control orders (MCO) in Malaysia starting in March 2020. 89.9 per cent of micro and small businesses encountered sudden drops in sales due to disruption in the supply chain and low demand for goods and services (SME Corp, 2020).

A survey conducted by the DOSM from April to May 2020 found that businesses, particularly micro and small enterprises, had no income during the movement control order (MCO) period. Most of these businesses barely stayed afloat by taking out loans, using their working capital and reduced operating and payroll costs. Many micro and small businesses only managed to survive for around two months, and those that survived longer had to release the workers or implement pay cuts.

As an unprecedented event, the COVID-19 pandemic has prompted the government to provide RM10 billion in funding under the PRIHATIN scheme to support micro and small businesses. The crisis taught entrepreneurs valuable lessons about diversifying their supply chains and adopting digital technology to make their businesses more resilient.

Methodology

The study undertook a quantitative approach using a questionnaire survey involving micro and small entrepreneurs in Kuala Lumpur and Selangor.

Based on the convenient sampling method, 310 micro and small entrepreneurs from various industries, licensed and unlicensed, were approached using physical and online surveys. The methodology is used to investigate the adoption level of digital technologies and the barriers and challenges faced by MSEs.

Before the survey, a focus group discussion (FGD) was conducted with SME Corporation representatives to acquire knowledge concerning the government's assistance and policies regarding digitalisation for SMEs.

A representative from Winner's Innovative Entrepreneurial Network (WIEN) was also present to share some of the challenges micro-business owners faced in obtaining government assistance and digitalising their businesses.

Based on the valuable feedback from the FGD, the existing survey questionnaire was further improved to obtain more valuable information for data collection.

Profile of the Respondents

The study obtained responses from 100 respondents from micro and small businesses, of which 51 per cent were male entrepreneurs and 49 per cent were female entrepreneurs.

Figure 1 shows that the majority of the respondents (77 per cent) were within the age range of 31 to 50 years, and more than half of the enterprises (58 per cent) had been in operation for more than six years, as seen in Figure 2.

Figure 1
Age of Respondents by Percentage (%)

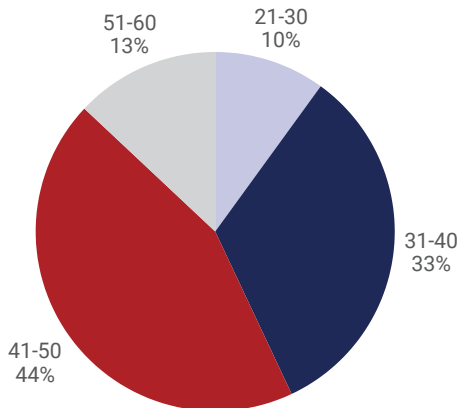
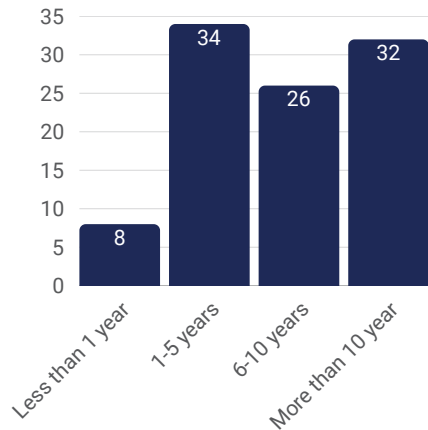
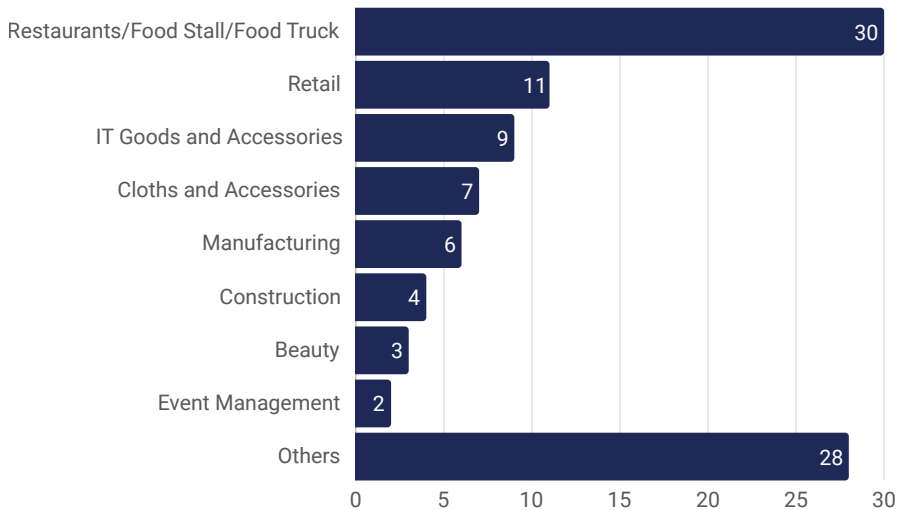


Figure 2
Years in Business (%)



The businesses included in this study were mainly in the food industry, followed by retail and IT goods and accessories, as illustrated in Figure 3. 28 per cent of the businesses belonged to a combination of smaller industries, such as; furniture, safety and hygiene and copywriting and translation. 57 per cent of the businesses were categorised as micro-enterprises based on their monthly sales of below RM20,000, while the rest were categorised as small enterprises with monthly sales of RM20,001 and above. The sample of respondents although small is sufficient to assess the objectives of study.

Figure 3
Type of Business (%)



Research Findings

(1) Current Digital Ecosystem Used in Micro and Small Businesses

The business owners were asked about the methods used to run their businesses, the approaches used in advertising their products and services and the payment methods accepted to gauge the level of digitalisation applied in their businesses.

With digitalisation, entrepreneurs can market their products and services online, and customers can easily access information about the most suitable products.

Figure 4
Methods of Business Operation (%)

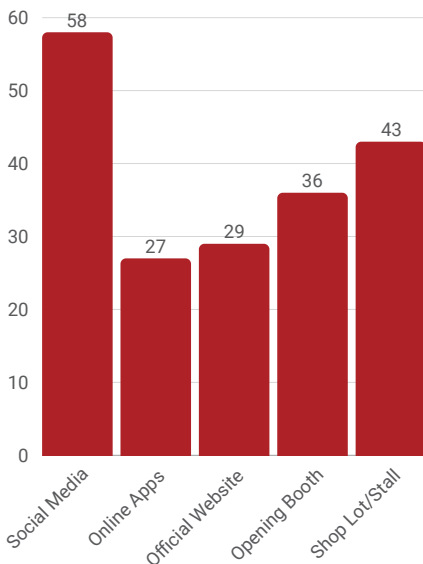


Figure 5
Advertising Strategies (%)

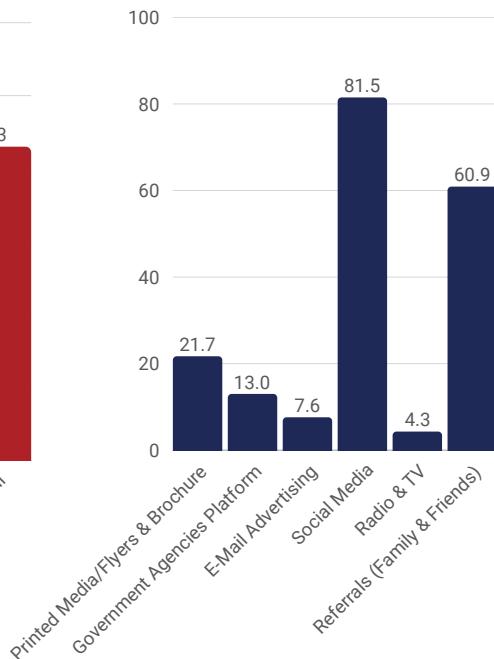
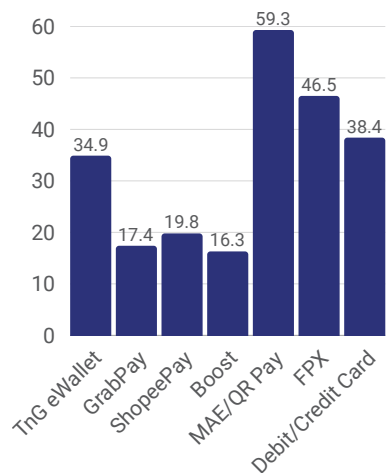


Figure 4 displays that more than half of the surveyed businesses were operating through social media (Instagram, Facebook, Twitter), while 43 per cent of the businesses were still carrying out their business activities from physical stalls and shop lots. Social media was also a platform for businesses to advertise their products and services. As shown in Figure 5, advertising strategies using social media was 81.5 per cent, while 60.9 per cent of businesses still relied on referrals from family and friends.

Based on the present study's findings, 14 per cent of the surveyed business owners were still only using cash as their payment method. They had not adopted cashless payments as these payment methods were unsuitable for their businesses. Many had not been exposed to using digital technology.

Hence it was too technical for them to apply it in their business. One of the respondents also mentioned that he had not taken the time to explore cashless payment methods for his business. For businesses that utilised cashless payments, 59.3 per cent preferred the MAE/QR method, followed by FPX (46.5 per cent), as shown in Figure 6.

Figure 6
Payment Methods Used by Businesses (%)



(2) Current Challenges in Adopting Digital Technology in Micro and Small Enterprise

Micro and small businesses have not fully embraced digital technology to enhance their businesses. The study found that 14 per cent of micro and small entrepreneurs still operate using conventional methods.

Based on the feedback from the entrepreneurs, they encounter difficulties in adopting digital technology due to several factors, as shown in Figure 7.

One of the greatest challenges in adopting digital technology is the lack of talent and skills in acquiring technology among employees and business owners.

Figure 7

Challenges in Adopting Digital Technology

High cost/Expensive (%)

Agree (57%)	Neutral (30%)	Disagree (13%)
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Too Technical (%)

Agree (58%)	Neutral (30%)	Disagree (13%)
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Lack of exposure to the usage of ICT (%)

Agree (68%)	Neutral (22%)	Disagree (10%)
----------------	------------------	-------------------

Owner not proficient in ICT (%)

Agree (77%)	Neutral (19%)	Disagree (4%)
----------------	------------------	------------------

Lack of skilled staff in ICT (%)

Agree (72%)	Neutral (20%)	Disagree (6%)
----------------	------------------	------------------

Lack of funding/grant (%)

Agree (62%)	Neutral (25%)	Disagree (13%)
----------------	------------------	-------------------

Lack of NGO support in ICT (%)

Agree (56%)	Neutral (37%)	Disagree (7%)
----------------	------------------	------------------

Lack of government support in ICT (%)

Agree (65%)	Neutral (31%)	Disagree (4%)
----------------	------------------	------------------

It was found that 77 per cent of business owners felt they were not proficient in using ICT, and 72 per cent of the owners felt their employees were not proficient in utilising ICT. The lack of ICT skills is reflected in the level of digital technology used in their business, as disclosed in Figure 7. Many entrepreneurs (68 per cent) felt that they are not exposed to the usage of ICT, and 58 per cent agreed that getting digitalised is too technical for their understanding.

The study also revealed that 62 per cent of the surveyed entrepreneurs felt that the lack of funding and grants was a barrier to acquiring digital technology. More than half of the entrepreneurs felt attaining digital technology for their businesses would incur high costs that they were unwilling to spend, especially as their businesses were still recovering from the effects of the movement control orders (MCO) during the pandemic.

Micro and small entrepreneurs have been seeking additional government assistance after the onslaught of the COVID-19 pandemic because 80 per cent of them have reported rising debts and dwindling profits, and 74 per cent of business owners continue to struggle to sustain their businesses.

Government support is pertinent in ensuring awareness and delivery of programmes regarding digital technology for micro and small enterprises. 65 per cent of the surveyed entrepreneurs agreed that government agencies had not succeeded in creating awareness among entrepreneurs regarding digitalisation and delivering training programmes to those who need them.

Many remain unaware of the training available for them, the process involved in applying for programmes and the criteria for admission.

Non-profit organisations (NGOs) can also advise micro-entrepreneurs on ways to register for government programmes and provide help in teaching practical ICT skills to entrepreneurs. However, 56 per cent of the surveyed entrepreneurs reported a lack of ICT support systems from the NGOs.

(3) Gender Considerations in Adopting Digital Technology

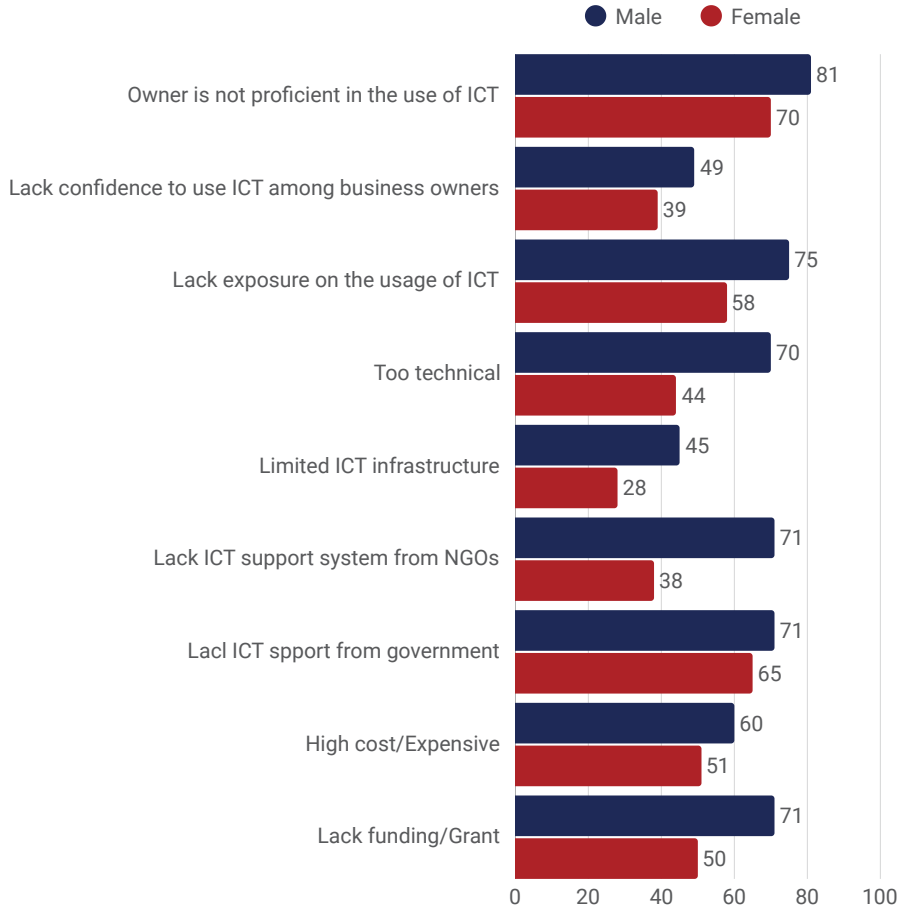
Compared to the men, the surveyed women were slightly more optimistic about the availability of funding and training and in acquiring digital technology for their business.

Based on Figure 8, women entrepreneurs were more confident about using ICT in their businesses, and they were more proficient and had exposure to using ICT. Women entrepreneurs felt that the government and NGOs did offer support and ICT infrastructure to entrepreneurs. Women entrepreneurs also felt that the cost of adopting such technology was costly but was within the level of affordability.

More women felt that government agencies offered available funding/grants compared to men. This outcome could be because of the recognition given to women entrepreneurs since the 10th Malaysian Plan to tap into women's potential in SMEs and encourage capacity building and technology through special programmes created for women entrepreneurs, such as; the Women Netpreneur Programme, Micro Connector programme and DanaNita.

Figure 8

Challenges in Digital Technology Adoption by Gender



Policy Recommendations

The findings of the present study have raised some important policy implications:

(1) Creating affordable and accessible internet infrastructure

The target is to have universal broadband service that is affordable, safe and high-speed using community networks and WIFI, particularly in areas that are unreachable by wired infrastructure. Having ICT resource centres with universal free internet access is also a practical proposition.

For this to occur, there must be a collaboration between the Ministry of Communication and Multimedia Malaysia, the Malaysian Communications and Multimedia Commission and network operators.

A good example is Thailand, where the government-initiated Thailand Digital Policy 2017-2021 emphasised deploying broadband to all villages, providing free WIFI at 10,000 locations and for 2,000,000 students and building 10,000 online community stores through digital community centres.

(2) Embed a digitalisation culture through skills development

For entrepreneurs to be productive, a minimum level of digital skills and innovation is required. Technical training in areas such as; creating a business webpage, and using social media for advertising and digital marketing, is useful for micro and small businesses. Entrepreneurs should be educated on; cybersecurity, data protection, consumer protection and digital identities for security.

Non-technical training in; financial planning, business compliance, increasing sales and productivity, and motivation are useful for skills development.

For example, in Thailand, government agencies provided digital skills training to 8,000 people in disadvantaged groups and the elderly, provided massive online courses (MOOCs) for the public in education and non-education settings, and produced 1,600 digital farmers.

Programmes for micro and small entrepreneurs should be offered more frequently (physical and online), consistently, and with shorter durations, such as 2-day courses, due to entrepreneurs' time constraints in juggling their hectic work schedules.

(3) Facilitate digital adoption

Direct subsidies for devices and internet subscriptions, rebates for devices, reductions of value-added tax and import duties on digital devices and cash incentives for local start-ups could be offered to micro and small businesses to attract digital adoption. Financial and funding programmes and training courses could be consolidated under a one-stop portal for easy access. Training courses should be allocated according to clusters' needs.

For example, food trucks and fashion retail have different digital needs. Courses and networking could be conducted at ICT resource centres and community facilities. Joint university programmes could be conducted between specific sectors and digital departments (e.g., agriculture and computer science).

(4) Gender inclusiveness

The various programmes created by government agencies and NGOs have encouraged and opened doors for more women to be involved in businesses. As can be seen from the findings, women microentrepreneurs in the Klang Valley were optimistic about building their businesses and adopting technology.

There is a need to promote innovative women entrepreneurs from small and medium enterprises as role models in the media to stimulate the number of female-led start-ups and sustain existing businesses.

One example is the success story of Puan Hajjah Padzilah Enda Sulaiman, the founder of Telekung Siti Khadijah, who successfully penetrated the competitive apparel market. Puan Padzilah started sewing and selling her telekung (women's prayer garment) from home. Her success has been highlighted in newspapers, television talk shows, Twitter and YouTube and has given hope to women from all groups.

The government could offer loan schemes specifically to industries that are popular among women, such as catering. For example, in India, the Annapurna Scheme helps small-scale businesses in food catering to buy equipment and utensils and set up trucks. The Cent Kalyani Scheme offers collateral-free loans with zero processing fees to expand their businesses.

Government, NGOs and private organisations could also offer provision for subsidised consultation with experts and internships with successful women entrepreneurs to motivate and educate upcoming entrepreneurs on decision-making and business skills.

For example, in 2016, Goldman Sachs initiated the 10000 Women program for women by connecting a network of over 100 academic and non-profit centres to offer women business owners requisite tools and training.

Conclusion

Overall, the adoption of digitalization in MSEs offers numerous opportunities for growth, competitiveness, and resilience in today's digital-driven business landscape. Digitalisation has become essential in driving Malaysia's shift towards a more circular economy, as they are indispensable for achieving genuine sustainability in a modern economy.

This study revealed that majority MSEs in the study use social media to promote their products and services, however the take-up of cashless methods in among MSEs are less than 60 per cent. Business owners disclosed that factors such as lack proficiency in ICT, lack exposure to the usage of ICT, lack of government and NGO support and costs as barriers to the adoption of digital technologies.

The findings of study highlights gender differences exist as women were slightly more optimistic and confident in adopting digital technology in their businesses.

By addressing these challenges and implementing supportive measures, Malaysia can enhance the adoption of digital technology in MSEs, enabling them to realize the benefits of digital transformation and remain competitive in the evolving business landscape.

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