

THE NECESSITY TO DIGITALIZE SMES BUSINESS MODEL DURING THE COVID-19 PANDEMIC PERIOD TO REMAIN SUSTAINABLE IN MALAYSIA

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ABSTRACT

This paper is to review the importance of small and medium enterprises (SMEs) in Malaysia to re-evaluate their business model by featuring digitalization and automation in their business operations. The Covid-19 pandemic has been a global issue where every entity in the world was badly impacted by it directly or indirectly. Individual and household lifestyle has change significantly with adoption of the new norm globally due to lockdown or implementation of circuit breaker by the local government. Many businesses especially SMEs are suffering from liquidity problems and severe deterioration in their business volume due to the negative economic effect arising from the spreading of the Covid-19 pandemic. To reduce the severity of the economic downturn in Malaysia, various incentives and rescue packages have been introduce by the government to rescue and survive the SMEs which play a big contributing role in growing the economy. One of the major initiatives by the Malaysian Government under the PENJANA program include increasing the annual allowance to 40% for capital expenditure spent on ICT equipment. This attractive tax incentive is to encourage more business organization especially SMEs to invest in ICT equipment as part of their digitalization journey to thrive in today's challenging business environment. It is critically important for this study to determine and ascertain the importance of SMEs to adopt digitalization within their business during this "contactless" pandemic period, identifying the barrier and challenges of digitalization process in Malaysia.

Keywords: Small Medium Enterprises (SMEs), COVID 19, Digitalization, Lockdown, Government Incentives

INTRODUCTION

Since the emergence of the Covid-19 pandemic, the global economic outlook has been completely changed unexpectedly with many countries expected to suffer an economic recession. Here in Malaysia, the economic situation is of no better and is also equally affected due to the fear and uncertainty caused by the deadly virus. With the government's decision to impose the Movement Control Order (MCO) to curb the spread of the pandemic, many businesses in particularly those small and medium enterprises (SMEs) have come to a complete stand-still.

According to the SME Association of Malaysia, up to one-quarter of Malaysia's SMEs are at risk of closure over the next few months because of the spread of Covid-19 pandemic. Many SMEs have started to face the possibility of being wound-up, adding it is unfortunate that the second wave of Covid-19 infections has come just after the six-month moratorium ended. Based on a survey conducted by the SME Association in August among 1,713 members disclosed that 20% of the respondents were considering permanently shuttering their business in the next six months. The survey also found that 22% of the respondents have sufficient cash flow to last them for a month, while 27% can sustain till November and 31% until December (The Edge, 2020). The Entrepreneurship Development and Cooperatives Ministry recently disclosed a total of 32,469 have been folded since March when the movement control order (MCO) was first implemented to stem Covid-19 (The Star, 2020).

In fact before the critical pandemic period, many SMEs are already facing common problems in respect of their survival or to remain competitive. Based on resources available, more than 50% of SMEs are collapsing within the first five years of operation. (Ahmad and Seet, 2009). Challenges like increasing competition, rising costs of goods and market uncertainty are the main issues confronting many SMEs. These clearly indicate that SMEs in Malaysia are facing serious issue and plenty of obstacles to stay as competitive enterprise in Malaysia.

As the severity of the Covid-19 pandemic is unprecedented that weaken the economy, cutting back demands and disrupting supply chain that adversely affecting the performance of SMEs in Malaysia. Since SMES play an important role to the growth of the country's GDP and being the hardest hit by the disease, it must show great resilience and agility to remain adoptable and relevant to this adverse condition. Changes in the business strategies, operations and business conduct, as well as pressure to search for new sources and opportunities for development are considered as critical survival strategies for most SMEs (Syed, 2019).

According to Konstantinos (2020), because of Covid-19 organisations are now facing numerous challenges and uncertainties. SMEs will have to develop several simulations on the strategy. Digitalisation is needed to speed operations of an organization. SMEs have to look at manager awareness and capabilities to do so.

It is timely and most appropriate in this unprecedented period for SMEs to re-calibrate and re-set its business model to incorporate digitalization as part of its core strategies. Digitalization or digital transformation process involving the usage of technology within the business to drive and improves efficiency, competitiveness and economies of scale. The crisis caused by Covid-19 pandemic

has prompted SMEs to adopt technology as the solution to remain sustainable, be competitive, reaching out and be engaged with more customers and for management to make strategic decisions.

Digitalization have proven to be beneficial to SMEs as it can assists in avoiding a complete economic halt to the business during the Covid-19 crisis. Many SMEs which demonstrated their desire and ability to change their business model survived, many others could not stay afloat. Realizing the importance of digital transformation, The Malaysian government has introduced various initiatives to encourage SME digitalization which include the financial aid under the PERIHATIN Economic Stimulus Package specifically targeted at SMEs (Prime Minister’s Office of Malaysia, 2020).

The business landscape of today is fast evolving and dynamic. It has also become a borderless marketplace and as such it is vital for SMEs to equip themselves with the appropriate digital solution and digital technologies to optimize operational efficiency and cost.

Table 1 – The contributions of SMEs in Selected Economies

Region/country	Percentage of total business	Gross Domestic Product (GDP)
European Union	99.0	58.1
United States	99.0	50.0
Singapore	99.0	50.0
Korea	99.0	47.7
Malaysia	97.3	35.9

Sources: United States International Trade Commission (2010), Small and Medium Business Corporation (2012), Department of Statistics Malaysia (2012), SPRING Singapore (2012), Chung-Hua Institution for Economic Research (2012), Wymenga, Spanikova, Barker, Konings and Canton (2012), SME Corp. Malaysia (2015),

Table 1 illustrates SMEs’ contributions in selected economies - European Union, United States, Singapore, Korea and Malaysia. Malaysian SMEs percentage of total business is at 97.3% however the comparison reflects the relatively low GDP contribution of 35.9 out of total GDP by SMEs in Malaysia. This is an alarming reason to conduct a study in Malaysia setting to further understand and boost the growth of SMEs.

Research Problem

According to Anuar (2020), SMEs play an important role in our economic, they contribute about 37% of our country Gross Domestic Product. (www.nst.com.my) Unfortunately during the MCO period, many SMEs unable to implement work from home policy due to their lacking in digitalization. Hence, SMEs unable to ride on the e-commerce wave during the pandemic period. Especially many initiatives have been pushed to market by PENJANA during recovery stage such as RM50 e-wallet. (www.thestar.com.my)

Nonetheless, the slow adaptation of SMEs to digitalization also due to the founder or owner lack of awareness on important of digitalization. Many of them lack of knowledge on specific technology which is relevant to their business particularly on assisting borderless trade.

They also may not be aware of the significance and benefits of the digitized game-based learning practice. Also known as serious game, this learning mechanism leveraging digital and computer technologies to teach, captivate and engage end-users to develop new skills, concepts and knowledge. It enables learners to undertake tasks and experience situations which would otherwise be impossible. Training activities and any knowledge-seeking initiatives will be significantly improved from its application. Ideally to be adopted within the SME businesses to cultivate teamwork, communication, collaboration, motivation and common goal identification among the staff team member.

Another obstacle face by SMEs in moving toward digitalization are limitation in usable resources such as finance and human capital. Due to their small capital size and limitation to secure funding, it is difficult for them to make a drastic change in digitalization. Hence it has limited the entity potential to growth.

Research objective

SMEs in Malaysia to urgently re-set their business model by means of digitalization in order to survive the negative impact that arises from the spreading of Covid-19 pandemic as well as equipped themselves with e-commerce knowledge for post pandemic. Without proper study on re-set their business model, it will impact to our country GDP and sustainability of SMEs. This study will also examine how and in what manner the process of digital transformation can lead to long-term business sustainability and at the same time, identifying those challenges and obstacles currently faced by SMEs in embracing digitalization such financial and human capital hazard.

LITERATURE REVIEW

SMEs Business Model

As an entrepreneur in SMEs, they want to see the business growth to become a multinational company (MNC) in long run. But the journey will not be easy due to many obstacles such as sustainability of their business, acquired by other well-established entity or lack of resources to growth further.

Refer to Hitt, et al. (2011), resource base view model is important model for SMEs because the business able to know their internal resources, capabilities, and core competencies. Those are the fundamental of competitive advantage of any business entity could lead to competitive edge. Internal resources could craft an entity competitive edge when the SMEs able to utilize it comprehensively to combat the challenge from other competitors as internal crafted resource is unique and won't be easily duplicated by a current or potential competitor (Gordon, Lee and Lucas, 2005).

However, many SMEs facing problem on derive from managerial and technical skills for the entity to progress (Rahman and Ramos 2010, Hossain, 2015). Particularly, they facing limitation to secure sufficient resources on functional matter such as marketing, production and finance. A thorough study on the SMEs found that some SMEs have problem to establish their own brand of their product. Another functional problem face by the SMEs is Production. Most of them still not venture into automation in their production, hence this will limit their revenue and productivity. Lack of digitalization caused many limitation to SMEs such as predicting production level or even ride on tide of globalization.

According to Korankye, B. (2020) information gathered in his studies exhibited that small and medium enterprises have in mind to restructure their operations and activities in order to remain in business. Many responded that, there was a business restructuring. Some small and medium enterprises may opt for merges, change the nature of business, and develop new methods of working. Refer to Carayannis et al. (2011) mention that SMEs business model are form via the entity ability to response to rapid change in the market. In addition, SMEs achievement are based on the growing particularly in terms of its ability to adopt to new technology and the urge for product innovation after applying technological innovation processes. However, SMEs face more than just technology constraint, many other barriers such as globalization challenge, unable to secure financial aid, established international partner, and unable to conduct big scale research due to lack of researcher.

For Tidd and Bessant (2018) if an organization less success in leading innovation and rather focus on their current business model by ignoring the market trend is unlikely to be able to sustain their position. Even though, formation of business model essentially important to create competitive advantage for an entity but sustainable is always a challenge for long term achievement. It is important for the entity to seek and survive in a circumstance to seek opportunity via technological skills and experience to the creation of novelty.

However, Lindgren (2013) wrote that no doubt SMEs contribute significantly to a country GDP as well as foreign exchange and job. However, majority of the SMEs business model resist to adaptation of new policy, new technology and knowledge due to their limited resources. Hossain (2015) highlighted in their publication stated that main hazard for SMEs are managerial and technical skills for their effectiveness rather than financial resources. Many of the SMEs still emphasize on labour rather than automation, hence it contributes to planning and forecasting the production.

Often many SMEs businesses facing obstacles derive from their geographical drawback which puts them under siege by their bigger peer. Even though many substantial obstacles, but this does not limit the growth contribution to national economies particularly job creation. Although continue facing weaknesses by SMEs, it does not hold back their intention to move toward globalization and regional integration. Those entrepreneurs need to move out from the locality to sustain their business in the long run. (Harvie and Charoenrat 2015)

Yoshino and Taghizadeh-Hesary (2015) describe that information is intrinsically. But, in any economic, it is impossible to have perfect information to flow in the cycle. In general, it is important to have information infrastructure or a proper digital network to aid the problem and make a bridge for SMEs to move to future. As many researchers mention that most serious problem face by SMEs is the financial resources to build strong capital structure. The researcher believes that many financial institutions willing to offer financial package to SMEs either from local, international or even offshore financial institution. But the problem mainly due to information imperfection which subsequently fail to meet the supply and demand. As many of the SMEs fail to sustain competitiveness mainly due to financial constraint that limit their organization to move into digitalization and research and development.

According to Malaysia Economic Report 2019/20, prepared by Ministry of Finance, which disclose that local SMEs find it difficult to finance their business from financial institution. Those financial institution set high criteria which is beyond their reach such as tight collateral demand and inadequate cash flow to meet high repayment. The proportion of capital structure of local SMEs is more than 70% of SMEs' financing needs are internally finance or owner personal savings, whereas only about 30% managed to secure loan from financial institution.

In the same report, the Ministry admit that it is important to secure appropriate financial aid for SMEs to growth and developed. But with only 30% manage to do so, hence digitalization and technology change in SMEs remains low and worrying. The situation mainly derived from low level of research, inadequate access to the talent pool, and lack of capital for strategic planning and

technological utilisation. As stated in the report, about 98.5% of registered business are SMEs, accounting for 37.1% of gross domestic product and 66% of total employment, data provided by SME Corporation Malaysia showed.

According to Deloitte, many SMEs interpret digitalisation mean implementation of ICT to enhance the productivity of a company. No doubt productivity is important especially during the COVID-19 pandemic period. However, it is equally important for SMEs to look not just production but also on key element to safeguard business during disaster period. The immediate action would be strategy to be in place as to enable business as usual during the pandemic period and able to survive during hard time. Although digitalization is an amount of money need to spend but entrepreneur should think the consequences what if no digitalization. In spite of uncertainty in during pandemic, it is important to plan for post pandemic or recovery phase where the business need to equip well with a holistic and sustainable digitization strategy.

According to Tong and Gong (2020), When the Malaysia Government first implement lockdown, all non-essential businesses had been order to temporarily stop operation and only re-operate in stage few weeks later hence the Order has directly hit SMEs where about 70% of them report decline by 50% for the first week. However, according to Malaysia Digital Economy Corporation (MDEC), e-commerce business has growth by 53% to 144% for online shopping to good delivery services and forecast e-commerce will growth by 20% in 2020. During the same time, those conventional businesses were the worst hit with some businesses totally no income.

As refer to Ernst & Young (2020), digitalisation of SMES should look at wider perspective, not just focus on front-end business operation, e-commerce, and necessary to focus on the digitalization of office administration and ICT for communication. From their survey, 84% of SMEs complaint they went through hard time particularly on communications with customers and suppliers because they lack in investing on ICT. The issue also includes poor work-from-home (WFH) connectivity. All this issue could be easily overcome if SMEs are on the digitalisation foot step before the pandemic hit globally.

Guo et al. (2020) found that digitalization is positively associated with SMEs' public crisis response strategies and performance, which indicates that SMEs with a higher degree of digitalization are more likely to adopt effective public crisis response strategies and achieve better performance during the COVID-19 outbreak. It is important to note that, the role digitalization activities play in firms' crisis responses. The more a firm is digitalised the faster they can respond to the crisis. Their studies is consistent with Vial (2019); Warner and Maximilian (2018); Yoo (2010), which means these firms are more likely to respond to crises quickly and effectively

Digitalisation

As refer to Xerox market survey indicate that huge number of SMEs have been searching to move into paperless office environment. During 2017, 81% of the SMEs considering to be paperless on next 12 months (Lobel, 2017). However, there were no further result to show about the digital transformation from the earlier study on implementation of digitalization. With digitalization, it will offer new hopes for SMEs such as open new market, product development and growth. Despite small payment to be invested by SMEs but it able to provide new dimension of knowledge and crafting new competitive edge for their products and services. The investment in digitalization will beyond product, it will able to provide SMEs with big data which can be an essential asset for the business at any time regardless during or post pandemic.

The digitalization era come in line with the Industry Revolution 4.0, if the SMEs failed to ride on this wave, many of them unlikely to sustain in the long run. (Brynjolfsson & McAfee, 2011) (Valenduc & Vendramin, 2017). According to Autio (2017), the worldwide digitalization is lead to digital disruption, where the traditional business will be push aside by digitalization business. If the traditional businesses fail to ride on the wave of digitalization, it will be difficult to maintain their position example like Grab and Uber have change the taxi industry. Chen, (2016), in his publication mention that the consequences of digitalisation can be seen in short run-in term of productivity & efficiency but bigger issue is the uncertainty in the long run. The lack of human capital employability by SMEs also contribute to the slow adoption of digitalization as current employee won't be easily accept the change as they worry about, they being replace in the digitalization. The employees, especially those of operation, commonly will reject resistant towards change and are feeling more comfortable with the existing system, probably fear of losing their jobs.

According to OECD report (2018), although SMEs entrepreneur aware and acknowledge important of digitalization but it is not as easy as it could be due to various limitation such as financial and human resources. Adaptation level of digitalization varies significant between each country, but obviously multinational companies are much dominant in digitalization compare to SMEs. Hence the competitiveness of Multinational Company become more ahead compare to SMEs. In the same report, as refer to members countries owning of Enterprise Resource Planning (ERP) for MNC at 78% compare to only 28% for SMEs. If SMEs without digitalization, eventually will be disregard from the competitive mapping particularly during the COVID 19 pandemic lockdown period. (www.nst.com.my)

According to Hynes (2016), there is huge gap between SMEs and Multinational companies in term of adoption of ICT and digital technologies in Europe. But it is important to identify and overcome the shortcoming in the SMEs so that both sectors could narrow the gap and contribute effectively to the economic. The less develop nations are more reluctant to embrace the changes due to financial limitation and lack of confident about the ability of digitalization able to give a return. The doubt in adopting digital technologies in SMEs can be relate it to an in-depth issue because the entrepreneur and workforce are in comfort zone of current situation, nonetheless no thanks to the fear they have on digital knowledge and security. Majority of SMEs owners and decision makers don't 'see the benefit of digitalization will generate handsome return compare to their outlay on investment on it. But if

the organization have venture into digitalization particularly during this period, even lockdown but business can be as usual too, derive from the e-commerce.

With the digitalization, many business models have been changed, to avoid the business from been irrelevant and uncompetitive. The change is from internal to external, from procurement to the finished good delivered to the customer. (Venkatesh & Kumari 2015) SMEs aware about the current market condition, fast and reach out to every angle, multinational company are just like big fish swim in the ocean and SMEs just a small fish in the ocean which may sacrificed in this ocean. To avoid such situation, SMEs need to change their culture and policy to start their journey to join big fish in the ocean. Many studies done have proven that organization which manage to transform their business into digitalization manage to record a higher sales & profitability due to wider market as well as able to source for a better supplier in term of raw material and logistics management. Even with many successful stories, it is still high number of SMEs reluctant to adopt digitalisation. Entrepreneur in SMEs still in doubt about the initial investment in digital world will it able to be compensated and productivity. In reality, without the initial investment, they won't be able to commence their digital business opportunity especially people are concern about their health.

Digital Economic

Many researches have emphasized on important of a business entity to combine different types of resources and skills to craft unique competitive advantage for the long-term business sustainability. (Ferrier, Wiltbank, 2010). According to Adamik (2016), the challenge is to craft competitive advantage as it is difficult task for an organization to identify and employ relevant resources and skills in the company, but this is unavoidable because the digital economic, global business and technological structures with ICT only can be reach out and beyond (Kiron, Shockley, 2011). In view of the borderless trade, to optimize the market share, unavoidable the company to make wise and sharp decision on new technologies, promoting inter-organizational cooperation and relationships developing knowledge partnering is necessary (Adamik and Flaszewska, 2015). According to many researchers such as Hermann, Pentek, Otto (2015) Qin, Liu, Grosvenor (2016) where they stress on the Industry Revolution 4.0 would be big arena for digital economic and beyond ICT. They believe the concept will change the way of doing business, digital world will take center stage in the digitalization. They also highlighted the concept of technical and technological progress, role of cyber-physical systems, robotization and digitalization in the network economy. As majority of the country in the world have been under lockdown or circuit breaker initiative during the pandemic, if SMEs without digitalization will be hard to survive with few weeks or months under lockdown.

As refer to Casalino (2020), Tit is important to implement correct digitalization strategy to ensure the SMEs are on the right pathway to achieve their business goal. Right implementation of ICT is crucial to avoid the company invest wrongly and unable to recover their investment. Proper implementation of digital resilience is also another point to consider as it able to neutralize between taking advantage of chances and managing digital risks faced. To start an e-commerce platform is not necessary to be a heavy investment to create or owning an ICT, with many service providers willing to let and assist SMEs to start their platform. During the pandemic, Malaysia Government has provided financial grant to assist SMEs to move their business to adopt digitalisation in line with Industrial Revolution 4.0 particularly on operation. The government has allocated RM500million for this initiative with collaboration with Bank Simpanan Nasional (BSN), SME Bank and Malaysia Digital Economy Corporation (MDEC) to manage these grants. (www.thestar.com.my)

RESEARCH METHODOLOGY

This study will encompass two stages of research to examine the effect on the long-term business stability through the process of digital transformation; as well as to identify the revolving challenges and obstacles faced by SMEs in employing digitalization. The first stage of the research is a desk research by reviewing and critically analysing the existing literature by previous research work. During this stage, the literature search is further zoomed into specific literature of books and journal articles narrowing down to performance of SMEs and adoption of ICT systems by SMEs. The findings served to support the theoretical background in the literature review.

The second stage of this research is gathering primary data through questionnaire distribution. Random sampling of 500 SMEs will be done from the SMEs database. This will provide a quantitative and descriptive analysis of the digitalization of business process and business stability.

DISCUSSION AND CONCLUSION

A business needs to manoeuvre to ensure they still remain competitive; entrepreneur need to be dynamic in managing their business to sustain it competitiveness in the market. They need to peep for opportunity and sharp in decision making for business future. (Demil and Lecocq, 2010). Assessing the business risk either internally or externally are crucial to know where an organization stand in a market, then forecast risks and uncertainties that may able to minimize failure to the business models. (Cortimiglia et al., 2016; Chesbrough, 2010; Teece, 2010). Normally, SMEs will begin their business with simple business model, due to their limited resources and with intention to survive. Hence, the organization set up are simpler and employ limited resources. (Cortimiglia, 2016).

According to Fitrisari (2020), it is crucial for SMEs to deploy correct digitalization strategy to ensure it is able to move on the right pathway. Digitalisation able to assist SMEs to enhance it product development or providing better services. It is required the correct testing of digital infrastructure. Technology is developing rapidly and will continue to become more and more sophisticated in the future.

Hence if SMEs still reluctant to move into digitalization, it may not be able to sustain for long in the industry. During the COVID 19 partial-lockdown period, the Malaysia Government allocated a sum of RM750 million through PENJANA Economy Recovery Plan to boost the economy. Part of the program include the allocation of RM50 e-wallet credit redeemable to each eligible Malaysian for e-commerce business transaction purposes. In the recent Budget 2021 proposal, another amount of RM75 million is allocated to our youth aged between 18 – 20 years old in the form of e-wallet credit of RM50 each. The main aim of this assistance is to encourage more Malaysians to shop online and to move into a cashless society. (www.nst.com.my). This initiative indicates the seriousness of our government in promoting the adaptation of e-commerce transactions among SMEs in particularly during this economic crisis period.

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