



**DILEMMA OF SMEs IN BUSINESS DIGITIZATION:
A CONCEPTUAL ANALYSIS OF RETAIL SMEs IN MALAYSIA**

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ABSTRACT

Malaysia is one of the most avid countries in online shopping just behind Indonesia, the largest e-commerce market in ASEAN. Even though 2015 was a fruitful year for online business and e-commerce, however, total retail e-commerce market for Malaysia was only 2% of the total market share. Findings from the Department of Statistics for 2016 indicated that 73.1% of SMEs used a computer in 2015, but only 20.1% of them have their own company web sites. In addition, only 4.8% of them involve in e-commerce transactions. Many SMEs do not move fast enough to recognize the changing habits and preferences of their consumers. As a result, they do not evolve their business model to adapt to the changes. The purpose of this paper is to conceptually identify and explain why some retail SMEs hesitate to go online.

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1. INTRODUCTION

The rapid growth of the digital economy has captured the attention of many corporate organizations in recent decades. The digital economy consists of business using smart devices, such as e-commerce websites, mobile apps, mobile payment, e media and so on (Deloitte, 2016). The success of Alibaba in China as the e-commerce website further enhances the confidence of businesses to go online. Just in its single’s day alone, Alibaba sales hit USD 23.3 billion in 2017 (Bloomberg, Nov 2017) and increases to USD 30.8 billion in 2018 (CNBC, 2018).

In recent years, the digital economy has great potential in ASEAN. Close to 70% of the people in ASEAN connect to internet and mobile phone, the majority of these users are youths (BDG Asia, 2014). In fact, e-commerce and mobile apps have become the main choices for shoppers. The retail e-commerce market in just 6 countries of ASEAN (Malaysia, Indonesia, Philippines, Singapore, Thailand, and Vietnam) is estimated to worth USD 7.1 billion (The Economist, 2015).

The forecast shows that global online shoppers will grow up to 50% in 2018 (InternetRetailer, 2015), and Malaysia is one of the countries with fast online shopping growth. As for mobile wallet,

it is estimated that the amount of mobile payment in Malaysia is reaching USD142 million in 2017. This momentum is forecasted to have 58% of growth, which is USD927 million in 2021 (Statista, September 2017). Again, it is a new opportunity awaiting SMEs to explore.

Apart from that, Malaysia is ranked as one of the most avid countries in online shopping (Nielsen, August 2014), its online sales are just behind Indonesia, the largest e-commerce market in ASEAN (The Business Time, Nov 2018). Basically, it is essential for SMEs to embrace technology in order to advance in their business, one clear and direct way to achieve this is the integration of relevant talent with technology.

In addition, the digital economy breaks the dominance of monopoly power, static model of monopoly cannot be applied in digital businesses (Zekos, 2003). Results show that the digital economy is more ready to take place now than any other time in the past. Consumer purchasing pattern has changed, retail giants in the country, such as Tesco starts to provide delivery services based on online purchase or phone order. Having said that, are SMEs aware of the potential opportunities from digital economy? How do they prepare their workforce for these changes?

2. BACKGROUND OF THE ISSUE

Past researches carried out in overseas showed that SMEs with learning ability or competitive advantage reap more desirable results in organizational performance. SMEs which capture the changing trend and equip themselves appropriately, gain success in business performance. It has been exhibited that SMEs in the fashion industry which expand their businesses to neighboring countries reap good outcomes when they have adequate knowledge and competitiveness.

Even though 2015 was a fruitful year for online business and e-commerce, however, total retail e-commerce market for Malaysia was only 2% of the total market share (SME.org, 2016). Another research conducted by SME Corporation (2018) reveals that most SMEs stuck in a phase of computerization. They merely add computers to their operation but do not go beyond this (The star, 2018).

Findings from the Department of Statistics for 2016 indicated that 73.1% of SMEs used a computer in 2015, but only 20.1% of them have their own company web sites. In addition, only 4.8% of them involve in e-commerce transactions (The star, 2018). The slow responses among SMEs is a common situation all over the world. Many SMEs do not move fast enough to recognize the changing habits and preferences of their consumers. As a result, they do not evolve their business model and operating system to adapt to the changes. Due to this, they are less competitive than their competitors with more learning ability (Farquhar, 2019).

Although there are some studies abroad on the success factors of SMEs, there are very few which focus on reasons causing SMEs not digitize their business. There are some short surveys on reasons of SMEs do not participate in online business, but there are no further explanations about views and opinions from SMEs. Over the years, there are publications related to digital transformation of organizations, however, the majority of these studies carried out in the US, Germany, and China, with 21%, 19%, and 5% respectively (Reis et al., 2018), few are conducted in Malaysia, particularly those focus on SMEs. Thus, the purpose of this study is to investigate

barriers and challenges encountered by SMEs in digitalizing their businesses, specifically the business model in reaching out to consumers.

3. DIGITIZATION OF SMEs

Digitization is the adoption of digital devices and technology into the business model, administration and logistical processes of a firm. It aims to underpin the day to day operation so that it is more efficient and competitive (Farquhar, 2019). Westerman et al. (2011) further add that digital transformation is the use of technology to radically improve organizational performance. Digital transformation is supposed to coordinate and implement across with other strategies in a firm. IT strategies have to be aligned with business strategies to allow IT-enabled business transformation (Chaniyas and Hess, 2016).

Digitization at the advance level emerges the concept of digital business strategies, which goes beyond the technology-centric view. Digital technology is now incorporate with other concepts for the exploitation of business opportunities that arise from the use of digital transformation (Chaniyas and Hess, 2016). Reis et al. (2018) add that with the maturation of digital technology and their penetration into all markets, society is facing fast and rapid changes.

Regardless of the urgency to change, many SMEs are still operating in the traditional way, their involvement in the global market is poor (Fariza, 2015). The statement of Fariza (2015) is aligned with the study of Reis, et al. (2018), that despite all these changes, digitization in organizations is taking longer time than expected. If SMEs do not change the way they do businesses and digitize their businesses, not only they lose the advantage of expanding their market, they may face the risks of being obsolete. Past researches had examined the level of e-business among SMEs, the benefits of e-business; yet e-business continues to be less relevant to SMEs. Unlike larger organizations, many SMEs do not take advantage of ICT and e-business solutions in their businesses. As such, his research attempts to study the barriers which prevent SMEs from the utilization of ICT and e-businesses. He concludes that overall barriers can be divided into four, namely: lack of elementary digital experiences; shortage of material access; insufficient skills and lack of usage opportunities.

Zekos (2003) stresses that ICT which starts as an alternative communication and marketing channel, now it is part of the comprehensive economic system. The advantages using digital economy, these include low costs communication network; human capital needed to conduct network via this infrastructure; interconnected market network; wide range of digital products; policy and legal framework which encourage businesses in the digital world.

Comparing to traditional SMEs (non-knowledge intensive), knowledge-intensive SMEs have higher research and development (R &D) allocations, they have better adaptability and more proactive in the internationalization, flexible in responding to international customers. Based on these findings, it is highly possible and easier for knowledge-intensive SMEs in Malaysia to embark on the digital economy, compared to non-knowledge intensive firms, as they have an adequate skilled labour workforce.

The study of Kitsos et al. (2005) focuses on the factors which influence technical innovation

in Greece. In brief, they found that technical applicability, profitability, size structure of firms and managerial attitudes are the key factors towards innovation. This research is supported by Zhu et al. (2006), who emphasize that technology infrastructure is the foundation in which online business can be built. Firms equipped with IT infrastructure are in a better position to make use of online business technologies. Conversely, firms are less likely to be successful if they are lack of technological infrastructure. This is aligned with the resource-based theory that the competitive advantage of a firm is derived from its resources.

Bharadwaj (2000) adds on to the statements of Zhu et al. (2006), that IT-based resources consist of physical IT infrastructure, IT expertise (technical and managerial IT skills) and IT-enabled resources (function of IT, information operational system and consumer orientation system). Mere physical IT infrastructure alone cannot generate a competitive advantage. As such, the synergy of IT infrastructure with IT experts and IT-enabled resources are essential in order to produce desirable organizational performance. Firms will be able to leverage benefits from IT-related technology if there are IT capability, IT infrastructure, management practice and competitive environment.

Chen et al. (2016) aim to find out how the synergy of IT infrastructure, experts and IT-enabled resources bring out organizational performance, which will be assessed through financial benefits, strategic value, market value, and organizational efficiency. The study targets on the usefulness of internal IT portal, its effectiveness in connecting people and portal function. The result reveals that the service-oriented portal function is significant in contributing to organizational performance. The negative effect between portal training and organizational performance, show that many firms still hesitate in using new technology.

Not all researches prove that digital transformation will bring about profitability to firms. Studies of Strassman (1997), Chen et al., (2012) fail to find any direct relationship between IT-related technology investment and organizational performance. Instead, it is proposed that efficient utilization of information, people and IT practices lead to better business performance. Under the framework of Technology Organization Environment Theory proposed by Tornatzky and Fleischer (1990), an organization's decision to introduce new technology is affected by technological, organizational and environmental factors. Under these factors, IT infrastructure, internet skills, firm size, firm scope, CEO's knowledge, adoption cost, competitive pressure, government support, and consumer readiness are key determinants (Chatzoglou and Chatzoudes, 2016). This model explains various aspects and factors which organizations need to attend to, in order to go through technological transition. Anyhow, as most SMEs have various limitations in resources, they may not able to have all these factors simultaneously.

Considering all these conditions, initially, SMEs can give priority to factors which are more urgent or more affordable in selected departments, so that they can embark on the process of digitalization.

4. BUSINESS DILEMMAS IN BUSINESS DIGITIZATION

Based on the feedback of 30 SMEs, which operate in the business of fashion and accessories;

home electric and alliance; and daily supplies, it is found that majority of them not keen in online business and prefer walk-in businesses, although these industries have the highest online transactions in Malaysia. Out of these 30 SMEs, nearly 60% of them do not go online or have gone online but not getting the desired outcomes.

Below are the reasons why SMEs are not keen with digital businesses, these include lack of relevant manpower; financial constraints; the nature of their businesses; the issue of product warranty; preferences of cash transaction and lack of awareness about the urgency to go online.

4.1 LACK OF RELEVANT MANPOWER TO HANDLE DIGITIZATION

SMEs would like to have an online business, however, due to the small scale of operation, they do not have the relevant digital expertise to initiate the whole process. Most small scale SMEs only hire lower-skilled workers for the business routine. Higher skilled workers are not attracted to work in small scale SMEs due to a limited career path, they rather choose larger firms with attractive remuneration.

Past researches have indicated that SMEs constantly face high turnover rate among employees. SMEs always have the issue of getting the right staff, finding skilled staff and retaining good staff (Barrett and Mayson, 2007). Malaysia's SMEs recorded one of the highest numbers of turnover, which is 19% for small enterprises and 22% for medium-sized enterprises (Batra and Tan, 2003). In 2012, more than 36% of employees comment that they are likely to leave the organization within two years. Furthermore, 31% of highly engaged employees are saying that they may leave their organizations (Koh, 2015). If this situation persists, it will definitely bring more harm to SMEs, as they have to continuously recruit and train new staff, and difficult to proceed to another level of business expansion.

In the case of doing online business, firms definitely need internal staff with certain expertise. For firms which sell their product through an e-commerce website, the products will be linked to certain software and show order from buyers. Once they receive an online order, they will proceed with packaging and settle the logistic arrangement, so that the goods can be delivered on time. Hence, firms need employees who are equipped with digital knowledge and experience. In addition, manpower in effective digital marketing is also essential.

4.2 FINANCIAL CONSTRAINTS

SMEs are a shortage of fund to kick start their e-businesses. Most SMEs have their companies' websites, however, they never extend this to e-commerce web sites, e-wallet payment or have their own app due to costs involved.

Feedback given by some SMEs shows that it is too costly to post their products via an e-commerce website, as the charges are high, and they do not gain any results from these webs. For instance, to sell products at e-commerce websites, a firm has to be their member with certain charges, followed by that will be commission charge for each transaction (approximately 2-2.5%). For firms with a lower profit margin, they may find the charges to be expensive and less affordable. Also, transportation cost incurs is when orders are from overseas, firms require an arrangement for overseas logistics. Ultimately, buyers will bear the transportation cost, but this tends to increase the prices of the products.

As to build an app, the cost in Malaysia is approximately RM10,000 and above, depending on the types of the mobile app (hybrid or native), the function of the app, project management and even hosting environment (Getright, 2018). In a team for app development, it usually consists of 1 iOS developer, 1 android developer, 1 web developer, 1 project manager, 1 business analyst, 1 designer, and 1 QA tester. In total, to get this team it will require roughly RM28,000 (Getright, 2018).

However, these e-commerce websites, app, and other IT devices allow SMEs to reach out to over millions of consumers, they need a proper and effective business plan to ensure they reap much more return than the costs incurred.

The web traffic which takes place in various online business platforms is much more than SMEs can imagine. For example, web traffic from September 2016 to February 2017 for popular e-commerce web sites in Malaysia were: 7.11 million for 11 street, 22.7 million for lazada, lelong has 5.88 million, whereas, shopee has 1.32 million and so on (Webshaper, 2017). These figures continue to increase in the following year. In 2018, Lazada has 50 over millions of visitors, 11 street with more than 30 million visitors, Zalora has over 20 million visitors and so on (Ecommerce, 2018).

These findings show the huge potential for firms to reach out to these online buyers, a platform that effectively breaks the geographic barriers. A firm which merely relies on an outlet for its product can never reach this volume of potential buyers. Hence, online business is simply too attractive for SMEs to forgo.

4.3 THE NATURE OF THEIR PRODUCTS OR SERVICES.

Majority of SMEs who do not involve in online business, as the nature of the products which are some suitable for walk-in customers. These products require more customer services, rather than purchase online. It is found that most products that have active online transactions are products with less than RM300 values (SME.org, 2016).

For products which are at the middle range or high range prices, purchase through an outlet will be the first option of consumers, as they can view and assess the products directly. In the case of fashion and accessories, consumers can evaluate the quality of the products before making purchase decisions. Hence, for products more than RM300, consumers may not feel comfortable to buy online.

The behavior of consumers may be related to perceived risk. Perceived risk is the potential of losing the desire to purchase when shoppers engage in online shopping (Ko et al., 2000). From the perspective of perceived risk, shoppers may have less confidence in online purchase when they are unable to assess the product directly. This uncertainty may create anxiety and shoppers are reluctant to purchase online. Thus, this perceived risk reduce the willingness and desire of shoppers to have online transactions. Other reasons that may increase the perceived risk include the lack of trust that the online order will go smoothly.

4.4 PRODUCTS SELL ONLINE ARE WITHOUT WARRANTY, ALTHOUGH THEY ARE CHEAPER.

SMEs claim that consumers who purchase through an outlet not only can enjoy a certain

warranty period of the product (if they are applicable), also, consumers can enjoy after sales services for any inquiries or assistance needed. This is particularly relevant for electrical home appliance products, such as smartphone and tablet.

With regards to this concern, the issue of the perceived reputation of online sellers comes into play. Perceive a reputation is a form of assurance about the seller's ability, integrity, and goodwill (Jarvenpaa and Tractinsky, 1999). It also covers the word of mouth received by buyers through relatives, friends or e word of mouth. If shoppers have little or no direct experiences with the vendors, an opinion from the third party can be the main source of information about the trustworthiness of the vendors.

Apart from that, trust is another important element in online purchase, as consumers do not have direct control over the actions of vender (Muda et al., 2015). Lack of trust is one of the reasons consumers not engaging online. Besides the factors of perceived reputations and perceived trust, SMEs may need to provide some forms of warranty or assurance to encourage shoppers to purchase online.

4.5 CASH IS STILL KING

In Malaysia, there are many options of mobile wallet, payment app from retail banks, GrabPay, Boost, as well as China's AliPay, WeChat Pay. All these choices indicate the appetite of Malaysians to go cashless. However, it is still a long way before the consumer market can be called cashless. In most of the Asian Pacific countries, cash is still the most predominant mode of business transactions. About 55% of personal spending in these countries done by cash or cheque. Apart from that, only a handful of e-wallet providers able to provide users for more than one Asia countries.

However, as stated in the Financial Sector Blueprint, the central bank aims to speed up the transaction of e-wallet in the coming 10 years, it also provides SMEs more potential markets in South East Asia region. Sooner or later, SMEs still need to have this digital transaction in the near future. One of the local e-wallet providers is zeoniqqos, which not only provides the function of e-wallet but can use for inventory control, reporting, analytics and so on. With these facilities, SMEs can have an overall view of the development of their business. Information from analytics also allows firms to check areas which required more attention or improvement.

With the impact from the trade war and other factors, there are more indications of economic uncertainties in 2019 and years to come, it is truly crucial for SMEs to rethink and reinvent their businesses, in order to sustain and extend their organizations.

4.6 SMEs DO NOT SEE THE URGENCY TO CHANGE THEIR BUSINESS MODEL, AS CONSUMERS PREFER TO WALK-IN PURCHASE

Based on the Technology Organization Environment Theory (Tornatzky and Fleischer, 1990), consumers' readiness is one of the factors for technological changes in firms. Some SMEs comment that it is no urgency for changes, their main consumers are from a walk in. Thus, they are comfortable with the same pace and prefer to retain the old business model.

For this aspect, it is wise for SMEs to study the online purchase intention of consumers.

Among factors which influence buyers, online purchase intention includes perceived risk, perceived trust, perceived reputation and so on. If SMEs manage to build up a perceived trust and perceived reputation through the online platform, they are opening up the gateway to millions of potential buyers.

5. KEY DOMAINS IN DIGITAL TRANSFORMATION

In common, firms need to strengthen their digital capabilities for successful digital transformation. Indeed, digital transformation has to start with the change of mindset. It is inevitable for SMEs to rethink their business model, in order to be aligned with the change of business landscape. Marian, et al., (2016) comment that successful digital transformation requires an organization to develop a wide range of capabilities depending on its business contexts and needs. In this process, time and resources constraints can easily impede the efforts of an organization to develop multiple capabilities simultaneously.

Despite various factors which may impede the process of digitalization, SMEs may enjoy great harvest if they embark into online businesses. At the same time, those who retain the traditional business model may face more intense competition from online vendors. With online businesses platforms, such as e-commerce web sites, Malaysian SMEs no longer competing with local or national rivals alone, but companies across the region, as geographical barriers have been broken through digital connectivity.

SMEs may implement many strategies and put in resources in the propagation of products, online shoppers with purchase intentions may buy the product online through other online competitors but not from these particular SMEs. Therefore, despite all the hard work, SMEs will not reap any desirable sales result, when other online competitors may take away their consumers.

SMEs in Europe face the same challenges of digital transformation. The most agile transformation includes: reinventing their businesses, anticipating consumer's changing preferences and provide better services to consumers by applying relevant technology (Euro Commerce, 2017). Thus, it is essential for Malaysian SMEs to gain a competitive differentiation to sustain their growth. More importantly, SMEs need to unlock new opportunities.

Looking at the huge web traffic, as have mentioned earlier. It is simply too good for SMEs to miss the boat of online business. Moreover, some of these e-commerce websites allow firms to go to neighboring countries, such as lazada and shopee are connect to buyers within the ASEAN region. 11 street has buyers from Malaysia, Thailand, Turke, and Korea. Lazada is linked to the ASEAN market; whereas, Shopee connects buyers from ASEAN and Taiwan (Webshaper, 2017). Most of these e-commerce websites are connected to various social media too.

Now, even food and beverage (F&B) industry can go online, some local firms in Malaysia offer SMEs in F&B and retailers an e-commerce site, which displays the outlet details of SMEs. This eliminates any forms of uncertainty about perceiving risk or trust, as consumers can get direct access to these firms if they want to do so.

To achieve effective digitalization of business, there are few key aspects can be of great assistance to SMEs, namely: DFTZ, e-wallet, e-commerce, and logistic.

5.1 DIGITAL FREE TRADE ZONE (DFTZ)

Digital Free Trade Zone (DFTZ) was launched in March 2017, is a partnership between the government and Alibaba. It aims to promote the free flow of online goods, payment, and logistics within the region. Indeed, the government intends to enhance the contribution of the digital economy to GDP, from the current 17% to 20% by 2020, which is approximately USD 47.68 billion (The star, 2018; Matrade 2019).

DFTZ will facilitate and support SMEs in various aspects, such as logistic issues, insurance to export products overseas, other processes involved in cross-border trade and so on. This initiative also covers cross region shipments, so that they are more affordable for SMEs.

SMEs which intend to expand their businesses should utilize this platform as a gateway to penetrate into neighboring countries. Also, Alibaba has a wide range of buyers in China and other countries, these are opportunities for local SMEs. However, this platform is only limited to SMEs which are doing business to business (B to B) market and intend to export their products overseas. For SMEs that wish to start online business domestically, it may not relevant. Record from the pilot project of DFTZ, the participation of 70 SMEs from Nov 2017 to April 2018 has successfully generated total sales of RM 52.1 million, including export of RM18.1 million products to regions within DFTZ (The edge, 2018).

5.2 E-WALLET

In online business, SMEs should consider the use of mobile payment e-wallet), which refers to the payment made on any kind of personal smart devices. It is estimated that the amount of mobile payment in Malaysia is reaching USD¹⁴² million in 2017 and this momentum is forecasted to have 58% of growth, which is USD⁹²⁷ million in 2021 (Statista, September 2017). Again, many potential opportunities are awaiting SMEs to explore.

5.3 E-COMMERCE

Another important platform in the digital economy is e-commerce websites for firms to sell their products, it is particularly relevant to SMEs. As an example, Alibaba's gross merchandise volume has reached up to USD 17.8 billion in 2016 (CNBC, Nov 2016). These e-commerce websites allow SMEs to extend their sales to places that they normally unable to reach. Wise selection in a proper e-commerce website(s) can be of great help to SMEs.

In order to overcome the problems of perceived risk, perceived reputation and trust of online shoppers, the most ideal model will be the combination of online and offline business. This will lower the perceived risk of shoppers at the same time enhance their perceived reputation and trust. For this purpose, e-commerce websites which show the details of the outlets of vendors will be most effective. This allows shoppers to assess the quality of the product directly if they wish to visit the outlet. Furthermore, if shoppers purchase online, they know where to look for after-sales services if there is a further inquiry.

5.4 LOGISTIC

The proper logistic arrangement is an inevitable issue for a successful online business. In managing online business, a good flow of the process from the ordering of products, packaging,

and delivery of products on time are all essential. SMEs which intend embark into online business needs to pick up these strategies fast and efficiently.

Mathrani, et al. (2013) highlight supports from the top management, organizational culture, skill, and knowledge management, combined with data and technology, will produce the desirable outcomes, such as behaviors, initiatives, process changes, and financial impact. These are the most ideal situations when firms have sufficient resources to carry out changes and transformation. For SMEs which constantly facing the constraint of resources, it is rather difficult to come to such a situation. Nevertheless, they need to start somewhere in order to achieve sustainability in the long run and be competitive.

6. CONCLUSION

Long before the people were comfortable with the online business, we have suggested that organizations are able to realize business benefits through ICT. Although this article did cause arguments from two extreme responses, those who supported this statement and those who didn't. Nevertheless, through the test of time, it is proven that the world is moving towards the direction of online business, where many digital devices are used in various business transactions. Taylor and Murphy (2004) argue that the adoption of online business by SMEs is a crucial driver for the economic growth of a country.

The findings support that management should adapt to digital reality, by integrating technologies into their business models. This is not merely for the purposes of competitiveness and sustainability, it also enhances the efficiencies of firms, such as timesaving, less paperwork, improved customer services and easier to trace back areas with errors. Overall, it brings more advantages and benefits to SMEs if there is effective utilization.

7. DATA AVAILABILITY STATEMENT

The used or generated data and the result of this study are available upon request to the corresponding author.

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