Chapter SIX
FUTURE PROSPECTS,
RECOMMENDATIONS &
CONCLUSION

6.1 Introduction

So far we have looked at the readiness of SMEs in adopting electronic commerce, the various impediments and challenges faced by these companies and also the efforts made by the government and its various bodies to assist and guide SMEs in their efforts to embrace electronic commerce. From the evidence we have seen, it is clear that Malaysia's SME needs plenty guidance and a lot of 'hand holding' to assist their passage into the world of electronic commerce.

We have identified the lack of funds, manpower and most of all knowledge and awareness on the part of our local SMEs as one of the major obstacles that needs to be addressed. A lot of effort has been invested in providing the necessary
environment for electronic commerce to develop in Malaysia as discussed in Chapter 4. However it is clear that the rate of adoption amongst SMEs is still far from satisfactory. This section aims to highlight and recommend some areas that need specific attention in order to expedite the rate of adoption of Electronic Commerce amongst SMEs in Malaysia.

6.2 Future prospects

History is littered with instances where the potential impact of new technology was not foreseen, for example the mainframe computer and the fax machine, as well as instances where the impact of new technology was overestimated such as the 'paperless office' and telephone shopping. Myhrvold (2001) said that the impact of electronic commerce would only be apparent decades from now.

According to Barras (1990), the future growth of electronic commerce is likely to follow the reverse product cycle of innovation in services: the initial phase: incremental process increase efficiency; the second, more radical process innovations lead to substantial improvements in quality; and in the third, product rather than process become dominant, new industries emerge and the overall impact on output and employment is expansionary.

Looking at the statistics, Asia has a high growth potential when it comes to both Business to Consumer and also Business to Business Electronic Commerce. In Malaysia it is likely to be first felt in B2B Electronic Commerce, where growth
and diffusion is expected to be significant, whereas the growth of B2C segment is likely to be more modest. Malaysia must ensure its industries keep up with the technology as our main competitors in Taiwan, Hong Kong, Singapore and Korea are enthusiastically promoting electronic commerce in their countries.

The trend of Electronic Commerce is clear. The staggering value of trades transacted through the Internet should not be ignored. Malaysia's industries must seriously pay attention to the Internet boom and embrace it in order not to be left behind by other economies. If electronic commerce flourishes in Malaysia, specifically amongst the SMEs, the digital economy could accelerate Malaysia's economic growth well into the next century.

SMIDEC 1998 forecasted that the value of economic transactions to grow at an average of 93% per annum for the next 5 years from 1,490 million in 2000 to 39 billion in 2005.

From a global point of view, electronic commerce is set to become a major component of cross border flows, with estimates ranging between 10-25 percent of world trade by 2003. The biggest catalyst of Electronic Commerce would come from foreign buyers of Asian products.

IDC Electronic Commerce Report (2000) said that Malaysia's Internet population rate is expected to grow at an average rate of 20% per annum over the next 5 years to 6 million users by 2005 from 2.5 million in 2000, Subsequently the
countries internet population is expected to reach 25% by 2005 from 14% in 2000. This is still relatively small, as it is expected to make up only 3% of the total number of users in the Asia Pacific.

The Internet revolution is relevant not just to the high tech, information intensive sectors, but also to the whole organization of economic life that its positive effects are spilling over more quickly into most sectors of the economy and that developing countries like Malaysia stand a better chance of sharing its benefits earlier than in previous technological revolutions.

The aftermath of the dotcom crisis has taught us that the value of ICT for development lies not so much in the share of the global economy that this sector represents, but in the changes that ICT will introduce in the functioning of enterprises that assimilate them.

Asian electronic commerce participants late entry has allowed them to learn from the mistake of their US and EU counterparts. The Asian boom is not limited only to hi-tech economies, despite the scarcity of computers, the fastest growth is reported in Indonesia, India and China, where more and more industries are going online to find new export markets. In South Korea, the automakers are planning to put parts buying online. B2B Electronic Commerce is beginning to link Asian suppliers behind the scenes in factories, stores and western importers.
Survey by McKinsey (2000), found that Asian electronic commerce sites are more cost efficient in attracting visitors and attracting customers than their US or EU counterparts, but the key to profitability is to combine clicks with bricks, or target niche markets. The survey that was made up of interviews with more than 50 Electronic Commerce sites in Asia found that Asian B2C sites spend on average 10 cents in marketing expenses to attract a visitor each month compared to USD 1.50 for European customers.

The reach of Electronic Commerce and reduction in transaction costs associated with it also enable an aggregation of demand, creating markets which can sustain new niche products; where in the past, the small market potential would have made it economically unfeasible.

Information technology has opened up new opportunities for electronic commerce. The network of businesses conducted throughout the Internet knows no boundaries and national borders. Organizations can now deploy resources and operations around the world. Information about corporate earnings, sales patterns, material requirements can be shared instantaneously via the Internet.

Countries that have an insufficient supply of skilled workers will struggle to meet the needs of the fast growing industries. Perhaps one of the greatest challenges is to place human resource policies for the digital economy. We are likely to see millions of jobs created whilst millions of others will be lost. Competitiveness in
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the digital economy requires a workforce that is equipped with the skills to master change rather than to undergo it.

The significant usage of Electronic Commerce by the government, a major supplier, distributor or competitor could provide the necessary encouragement and leverage for many businesses to become far more active in adopting electronic commerce. Market competition will play a pivotal role in increasing the adoption of electronic commerce by SMEs in the Malaysian economy.

In considering investment strategies to equip themselves to participate in electronic commerce, the governments and enterprises of developing countries should keep in mind that neither computers or the Internet, by themselves, can make a country or a company radically more productive. It is when its potential to allow more efficient business processes to operate is exploited that ICT makes a real difference.

The impact of the Internet on many key productive sectors in the country will depend on the linkages industries establish between the information and the physical components of their activity. The efforts of SMEs in adopting electronic commerce will be futile if supplies spend weeks in a warehouse waiting for customs clearance, or the goods are not up to quality, or they cannot be brought to the market because they lack reasonably priced transport.
Results have shown that when developing nations fall behind technologically, in general the macroeconomic gap between developed and developing countries would increase. Electronic Commerce and Development report 2001 found that Electronic Commerce could constitute an additional factor increasing the gap between developed and many developing nations.

Convergence in productivity takes place when the countries that lag behind the technological frontier grow more rapidly in productivity than the leading countries. For example, it is expected that in the next few years the productivity gap between European Countries and the United States will close rapidly a European productivity growth increases faster than that of the United States.

The same could be true for Malaysia. The impact of electronic commerce on developing countries could be even stronger than that of developed countries because the scope for reducing inefficiencies and increasing productivity is much larger than in developing countries. The results from the Electronic Commerce and development report 2001 also show that by increasing the productivity of services, Electronic Commerce could offer the possibility of increasing welfare in developing countries.

Advances in computers and communications hold great promise for reducing transaction costs between businesses. Productivity gains may result from the automation of transactions, the potential economic advantages of intermediation, the organization of centralized exchanges and the reorganizations of firms.
The economic significance of intercompany transactions suggest that even small enhancements in the efficiency of transactions will eventually produce extremely large cost savings in the economy. Businesses that use the Internet today to buy sell and distribute the main products and services are realizing significant cost savings and increased sales opportunities. The benefits will surely increase as the network of businesses conducting electronic commerce grows. The greater efficiencies companies are experiencing from electronic commerce are likely to diffuse through the economy in the years to come.

6.3 Recommendations

6.3.1 Manpower: IT Literacy and Awareness

The most important barrier to overcome when it comes to electronic commerce adoption amongst SMEs is Information Technology literacy. Therefore the most critical success factor is still the people. The Government should be investing heavily on training to educate the public on electronic commerce. Training and skills development involves important costs to SMEs, but it builds awareness of electronic commerce and can facilitate the shift from awareness to implementation.

The lack of skilled manpower for SMEs need to be addressed if they are to adopt electronic commerce as a primary means of conducting businesses. Electronic
commerce is a very new field and has only begun to grab the attention of SMEs. There is a huge lack of knowledge capital in this subject amongst the workforce employed by these SMEs.

The issue of manpower should be addressed with urgency. For the long term, as per the efforts of the government presently is to have educational systems that will produce human resource with required skill as well as intellectual capital. However for the short term, the government should encourage the inflow of skilled foreign workers. For the long term, the level of awareness of Electronic Commerce has to stepped up through roadshows, mentoring programs, and training programs.

6.3.2 Fostering better Inter-firm relationships

Another key factor in influencing the adoption of Electronic Commerce is increasing the awareness and understanding of the benefits of electronic commerce. Apart from the current practices of training and seminars, it is important for Malaysia to develop new and stronger forms of relationships between firms and institutions.

Inter-firm relationship between large firms is still weak and rooted in older modes of organizations. In the industrialized world, production organization is moving toward flatter hierarchy between firms, increased coordination, more sharing of knowledge and networking between them. The lack of coordination
and sharing is underlined by the fact that only 400 or 0.4% of local s are members of the Association.

It is important to promote Electronic Commerce successes, which would require early adapters of Electronic Commerce to act as Electronic Commerce champions where they should highlight the lessons they have learnt and the successes they have gained. By publicizing success stories on SMEs in different sectors that have successfully set up a viable Electronic commerce business model, SMEs would then have access to the good and bad practices in setting up business on the Internet.

6.3.3 Mentoring Programs

Amongst programs that should be created and enhanced are:
1) mentoring program,
2) shared resource centers,
3) the establishment of a dedicated electronic business association for SMEs which would provide a basis for co-ordination of Electronic Commerce activities, whereby large corporations or government agencies share their Electronic Commerce experiences and 'hold the hands' of SMEs when they venture into electronic commerce.

Electronic Commerce programs designed for SMEs should recognize the following:
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1) Differences in size and motivation of SMEs
2) Difference in electronic commerce technologies and business applications of these technologies.
3) Significance of SME business networking.
4) The need for cooperative arrangements between government and private sector centers and expertise.

SMEs cannot be viewed as a homogeneous whole as there are marked differences between the readiness of different sectors with respect to the uptake of electronic commerce. The business processes of these organizations are different in different sectors – ranging from sectors where products are easily digitized (e.g. services) and sectors where the output is a physical product (e.g. agriculture).

Amongst the aims and benefits of the aforementioned programs are:

1) This should promote the business benefits of Electronic Commerce,
2) assist to address the resistance to change in SMEs,
3) encourage more EC capable trading partners and provide educational and communication channels that are appropriate to collective groups of SMEs,
4) facilitate networking amongst SMEs,
5) provide flexibility of training delivery,
6) assist in selection of appropriate Electronic Commerce technologies for SMEs to implement,
7) provide opportunities for the private sector organizations to show leadership introduction and usage of ICT.

6.3.4 Stimulus: Funding Grants

Adequate funding must be made available as typically online business needs to scale up in both size and scope much faster than their counterparts in the physical world. It is essential to get large quickly enough to satisfy market demand as failing to do so could put a potentially successful SME into a downward spiral.

Incentives to encourage electronic commerce adoption should be introduced such as the provision of taxation incentives for installing Electronic Commerce technologies and the allowance of businesses a price surcharge to offset the costs of installing integrated electronic commerce technologies.

Most companies surveyed in the Electronic Commerce Masterplan 1999 mentioned that government subsidies could provide the necessary stimulus for these companies to go on-line at least the next three years.

6.3.5 Critical Mass

Critical mass is most important since the adoption of electronic commerce on a wide scale depends on network externalities. The significant use of electronic commerce by one major supplier distributor or competitor could provide the
necessary encouragement for many businesses to become more active in adopting Electronic Commerce.

Firms with expanded capabilities to facilitate Electronic Commerce transactions are looking more and more to the government as a potential business/Electronic Commerce partners. The PWC APEC SME Electronic Commerce Study (2000) found that many firms identified governmental use of Electronic Commerce for purchasing and procurement as an important priority and potential driver for the wider adoption and use of Electronic Commerce by SMEs.

The Government should lead by example by accelerating its own efforts with its e-government initiative, where government procurement and provision of government services should be stepped up, and progressively withdraw non-electronic commerce method of doing business with the government.

In the United States, the Department of Defense (DOD) has responded for the need for electronic commerce training by SME manufacturing companies who supply the department through the development of Electronic Commerce Resource Centers (ECRC). Eleven ECRCs provide services to assist SMEs keep pace with the rapidly evolving technologies and business practices in the supply chains throughout government and industry.

The purpose of ECRC is to help suppliers implement electronic commerce and related technologies to meet their customers' needs for world class
responsiveness. A similar initiative for Malaysia may be feasible with a focus on all suppliers to the government.

The Government should stimulate the early adoption of electronic commerce by SMEs by determining a recommended software/hardware package configuration that would be suitable for use by SMEs to be part of electronic commerce initiatives of the Government.

6.3.6 Infrastructure

World-class infrastructure at reasonable cost should continuously be developed. Improved access, affordability and dependability of Internet and other telecommunications services through liberalization and regulatory reform is necessary to increase effective competition. Greater competition in telecommunications and broadcast industries should be encouraged so that high bandwidth services could be brought to homes and offices and so that the new converged marketplace of broadcast telephony and the Internet operate based on laws of competition and consumer choice rather than those of government regulation.

The government must commit to creating and continuously upgrading a world class telecommunication infrastructure that has high bandwidth, high reliability and most of all affordability. It has been universally recognized that deregulation
of the telecommunication sector is crucial to achieving lower costs, instigate innovation and increase the quality of services.

However it is important that after deregulation, telecom operators do not totally absolve themselves from providing the same high quality services to rural areas so that SMEs in these areas are not put at disadvantage.

6.3.7 Payment and Security

Security issues also need urgent addressing, especially on the confidence and trust in domestic and international transactions. The government should support the development of appropriate electronic payment systems like SET (Secured electronic transfer) and SSL (Secure Socket Layer). There also remains the challenge of persuading consumers and businesses, particularly SMEs that these solutions provide adequate levels of protection, commensurate with the risks involved.

The availability and promotion of convenient payment systems such as Cybercash, ATS Bank in the US, represent an essential prerequisite for widespread Electronic Commerce.
6.4 Conclusion

By cutting costs and increasing efficiency Electronic Commerce could become an important tool for development in Malaysia. The wholeheartedness of adopting Electronic Commerce could give rise to potential catch up with the leading countries. Results of a recent study by Sachs and Warner support the idea that appropriate economic and legal frameworks give developing countries the potential to catch up with leading countries.

The best time to make full use of Electronic Commerce is now. It is important to start early and have an edge over competition, as it is too late to embark on Electronic Commerce only when the enterprise has all the answers. There are bound to be challenges but no one should escape the learning process. Electronic Commerce is the enterprises business strategy embedded with technology. It is about rethinking and relearning business strategies evaluating and revisiting traditional practices.

Most still talk about Electronic Commerce as if it is some kind of technology craze. Electronic Commerce is really about business survival. Electronic Commerce is not necessarily and ends by itself. Many people view that going into Electronic Commerce is a money earner, but rather, they should view Electronic Commerce is an enabler for business.
The government can provide all the incentives in the world but still people may not do much about it but the consumer will wait for something to happen. The stimulus must come from the sellers, the people who have the products and services. Electronic commerce must be allowed to grow in an environment driven by markets, not burdened by extensive regulation, taxation or censorship. Where possible rules for the Internet should result from private collective action, not government regulation.

Because Electronic Commerce is driven by business, cost should not become an issue. The business enterprises should be creative enough to put the cost structure together to offer Electronic Commerce. If they are too worried about technological issues, cost and infrastructure, Electronic Commerce will never take off. The challenge of Electronic Commerce is about speed and global business. The merchants should be the drivers for Electronic Commerce.

In line with various incentives and assistance provided development and enhancement of the SMEs need to adopt effective strategies in acquiring knowledge and upgrading skills, manage appropriate technology, enhancing global competitiveness searching new markets and expanding industrial networking.

It must be understood that Electronic Commerce will not totally replace traditional commerce but instead will complement their traditional businesses. Whilst IT has not fundamentally changes business; it has certainly enhanced the
way businesses are operating. Electronic Commerce is an enabler, and not the cause for success. The ‘brick and mortar’ businesses must take advantage of the Electronic Commerce to beef up their organizations.

SMEs must have the commitment to compete, to survive and to succeed. Moreover they must have a vision of their own evolution and be prepared to change their mindset in line with new opportunities and challenges. They must be willing to learn and unlearn and be totally committed to continuous improvement.

An organization that finally decides to go online must expect to make a substantial initial investment against which it can expect no immediate return, and it must hang on against time Electronic Commerce becomes a norm. Without such a commitment, and a full understanding of the full implications for business, SMEs may become disillusioned and will not put in the necessary investment. Darlington (1998) described this as ‘The Death Spiral’. A laissez faire approach towards electronic commerce will result in Malaysia falling further behind due to ‘network effects’, which favor early movers.

Malaysia is currently on the fringes of global developments in electronic commerce, i.e. it is not an active participant nor is it a pacesetter. Internet users in Malaysia now only account about 3% of the total population, Therefore growth of online access is crucial to generate and expand online revenues and export activities
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Malaysian SMEs have the potential to embrace electronic commerce in a big way provided they are given the right stimulus to move their business online.