

# THE ROLE AND IMPACT OF E-COMMERCE TO SMALL AND MEDIUM INDUSTRIES IN MALAYSIA

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## ABSTRACT

After the recession period in the year 1997 to 1998, and after the collapse of many big companies in Malaysia, the Small and Medium Industries (SMI) come into the picture in order to bounce back. E-Commerce is another strategy that Malaysian SMI could use in order to become more competitive with their business rivals, to compete globally and to be integral part of the Malaysian industrial development and hope to help economic growth of the nation.

**Keywords :** Internet, E-Commerce

## INTRODUCTION

The Internet is a revolution in communication. It can make geography irrelevant. In doing so, it removes the tyranny of distance, and the value of a good location. The Internet has come a long way. Once critic as being merely a new way to chat and games in cyberspace, it now offers the prospect of enhancing the traditional way of doing business. Website displays and advertising, business-to-business, business-to-government or business-to-customer communications, which are the fastest growing media of business communication, provide the opportunity to perform online sales, marketing, tender and administration process. This new way of doing business is called E-commerce (Powell, 2000).

E-Commerce is another strategy that many Malaysian Small and Medium Industries or SMI companies could use in order to become more competitive with their business rivals. Malaysian government has also realized the importance of E-commerce and as a result the 'E-commerce Grant' was introduced in July 2000 to assist SMIs to integrate themselves into the mainstream of information and technology in order to ensure their survival in a changing globalize market place (MITI report, 2000). SMIs can avail up to 70% of project costs or RM 10,000 whichever lower, for their electronic product e.g. cost to construct and publish web pages. In the latest Malaysia International Trade and Industry report 2000, it is indicated that the government had approved grant amounting RM 5.53 million.

## SMALL AND MEDIUM INDUSTRIES (SMI)

SMI is defined as a company with an annual sales turnover of not exceeding RM 25 million and with full time employees or not more than 150 people. It also has paid up capital less than RM 500,000. According to Small and Medium Industries Development Corporation (SMIDEC), the mission of Malaysian SMI's is to compete globally and to be integral part of the Malaysian industrial development and hope to help economic growth of the nation.

After the recession period in the year 1997 to 1998, and after the collapse of many big companies in Malaysia, the SMI come into the picture in order to 'start things over'. In order to bounce back, SMI need a competitive edge in order to survive. The traditional ways of 'brick and mortar' is out-of-date, as these traders could not afford to pay high rent and high salary cost. In addition, the customer's change in buying habits (prefer saving money in the bank rather than spending) has made things difficult to SMIs traders despite the government efforts to increase the buying power of Malaysian by creating more money at their disposal e.g. income tax rebates, decrease in E.P.F. contribution. As a result, E-commerce becomes very important for SMI's trader to go beyond political boundary and to go global instead on concentrating on the local market.

According to MITI report (2000), SMI involvement in various sectors such as agriculture, tourism, trading and manufacturing. From these, 90% of SMI involved in manufacturing and contributed to 24.2% of the year 2000 manufacturing sectors. In terms of employment, SMI contribute 29.2% of total employments in Malaysia.

### **ELECTRONIC COMMERCE (E-COMMERCE)**

There is no one definition for E-commerce that suits different group of people, such as economist, management, marketing and technology experts (O'Daniel, 2000). Different group of people define E-commerce in their own ways, but with this combination of definitions, E-commerce, according to Dr Ainin (2001), is a process whereby organizations or businesses share and exchange information, maintain relationship and conduct business transactions using technologies.

### **THE ROLE OF E-COMMERCE TO SMI IN MALAYSIA**

Teng T.T., Matzain M. and Ken Y.W. (2000), suggest that E-commerce helps to increase efficiency of the transaction. For instance, the SMI traders who are 'time poor' but technology literate want greater flexibility in managing their financial needs. The smart way is to use E-commerce to reach the customers 24 hours a day in every part of the world. In the viewpoint of the customers, E-commerce will increase the choices and strengthen their link with SMI traders.

E-commerce is definitely changing the way SMI do business. By using computers to market the goods and do the business transaction online, it creates potentials to accommodate a wide range of innovative applications such eye catching virtual stores, improved payment method i.e. secure the customers payment and 'speed up' the payment process and it also could accommodate customers with their custom made products. The SMI traders would also able to retent their customers more efficiently by e-mailing them the information on any new product available and any after sales service.

### **THE IMPACT OF E-COMMERCE TO SMI IN MALAYSIA**

As most SMI competing with each other, in both local and foreign market, the ability to get new customers is one of the benefits E-commerce could offer. This is an advantage for those SMI that are involved in E-commerce. Apart from that, the SMI could maintain their customer's loyalty at the same time increase their market share.

E-commerce had given great effect on how the traders do their trading. The traditional ways of trading usually involve middleman such as distributors, agents, stores, salesman and etc, which are non-interactive. Normally, it is hard for the customers to give their opinion on the product, as it is lost in the process due to middleman involvement. As suggested by Sleight (2001), E-commerce is the only sales channel that allows interactive communications between the customers and manufacturers.

Although E-commerce could bring good result to the companies involved, it also poses several negative outcomes. For example, the companies bear high cost of designing and publishing the website. Apart from that Johnson E.C. (2000) mentioned that only 20% to 25 % of the people who are online are willing to make a purchase online. This might limit the usage of the E-commerce, business-to-business only. The main reason for this phenomenon is the users are worried that they might become victims of electronic fraud.

The SMI trader also must not simply market their goods without any knowledge on customer's preference. Careful survey must be made and they must seek for consultant to know what products are suitable to be traded online. This is why E-commerce was said to be high cost practice. Past studies has indicated that toys, clothing, books, flowers, cards, electronics and video products are among the preferred goods to be traded online (Akautan Nasional, 1999).

## **CONCLUSION**

In order to increase SMI's participation in E-commerce, the government involvement is needed, in order to make E-commerce more affordable. 'E-commerce Grant' that was introduced by the government could be the beginning to encourage SMI involvement.

Although the government had tried its very best to promote E-commerce to SMI, recent study showed that the total value of transaction via E-commerce is still small. However, MIA is optimistic and expected the transactions to increase and to go beyond RM 500 million by the year 2002 (Akautan Nasional, 1999).

One reasons behind this low transaction volume is lack of trust from the customers. One suggestion made by Johnson E.C., (2000), to increase customers' trust is to ensure that online shoppers had similar information to what they would receive in a 'brick and mortar' store. By increasing the customers trust, E-commerce would likely helping more web's visitors to become the 'customers' and this practice would reduce the overall cost of maintaining its web sites.

Finally, the most important thing among all, is the SMI's traders must know the importance of knowledge and expertise in E-commerce. Government's involvement is useless if the SMI's traders are not equipped with the necessary knowledge and depend solely from consultant. As a result, E-commerce would be expensive and unaffordable and not considered as tools to become competitive in the fierce competitive and unpredictable market.

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