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Implicating Digital Entrepreneurship to Augment Micro, Small and Medium Enterprises Performance

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Abstract

The goal of this research is to delineate and comprehend how digital entrepreneurship would assist micro, small, and medium enterprises (MSMEs) in Malaysia to improve their performance. This study examines digital entrepreneurship and its relevant components, such as entrepreneur characteristics, digital ecosystems, and digital entrepreneurial ecosystems, as the determinants of MSMEs' performance. This research will use the IBM Statistical Package for Social Sciences (SPSS) software tool and adopt a quantitative approach to validate and analyse research outcomes. MSMEs that are engaging in digital transformation programmes and existing young digital entrepreneurs will constitute the study sample. The proposed conceptual framework model is being used to construct research hypotheses. The outcomes of this study are expected to be beneficial to digital entrepreneur start-ups and existing digital entrepreneur enthusiasts in augmenting MSMEs' business performance and operational viability in the digital economy age industry that aligns with government economic strategies.

Keywords: Digital Entrepreneurship, Quantitative Approach, Digital Transformation, Msmes Performance, Digital Economy.

Introduction

Recent global economic development becoming increasingly difficult to ignore the existence of Micro, Small, and Medium Enterprises (MSMEs). MSMEs, as defined by the World Bank (2021), are micro-enterprises with 1–9 employees. However, the local definition of MSMEs varies by country and is based not only on the number of employees but also on other factors such as turnaround and assets. MSMEs play a pivotal role in the firm ecosystem. Start-ups and young firms, which are typically micro firms, are the primary sources of job creation in many countries and the private sector's dynamic forces of innovation and sustainability. According to The United Nations, Department of Economic and Social Affairs (UNDESA), Micro, Small and Medium sized Enterprises (MSMEs) and their role in achieving the Sustainable Development Goals report, currently there are an estimated 445 million MSMEs in emerging markets, of which 30 million are formal SMEs, 70 million are formal micro enterprises, and 345 million are informal enterprises.

In a slight difference to the World Bank definition, SME Corporation Malaysia interprets Micro, Small and Medium Enterprises (MSMEs) as having employees of less than five people or sales turnover of less than RM300,000 annually, and primarily it covers manufacturing, services and other business sector categories. Based on the Interactive Malaysia Statistical Business Register (i-MSBR), the Department of Statistics Malaysia (DOSM) noted that as of February 2022, there were 964,495 Micro, Small and Medium Enterprises (MSMEs) in Malaysia. The services sector remains the largest contributor to MSME activities with a share of 49.1%, followed by wholesale and retail with 37.1%. The construction sector contributed 7.1%, the manufacturing sector contributed 4.6%, the agriculture sector contributed 1.8%, and the mining and quarrying sectors contributed 0.4%.

As reported in the Economic Outlook (2022), Malaysia has begun to integrate digital technologies into all sectors of its economy in stages. However, since MSMEs account for more than 90% of Malaysian businesses, the economy will face challenges in fully transitioning to a digital economy. As a result, smaller businesses in various sectors must also be digitally empowered through the available assistance programmes. To date, the government has provided assistance through the SME digital accelerator grants, such as 100GoDigital, and the Smart Automation Grant to help MSMEs automate and digitalize their business processes.

Unfortunately, other digital entrepreneurs face a major emergent problem: most of them fail during digital start-ups before accomplishing their business potential. According to the data provided by CB Insight Research (2021), internal factors are the major reasons for digital start-up failures. Some of the reasons start-ups fail are: "failed to raise new capital" (38%), "no market need" (35%), "got outcompeted" (20%), and "flawed business model" (19%). Worse, during the COVID-19 pandemic, the Malaysian government imposed various types of Movement Control Orders (MCOs) across the country, severely impacting people and businesses, particularly MSMEs. Due to movement restrictions, some industries were unable to operate normally, and changes in consumer behaviour impacted employment and the economy's resilience (Economic Outlook, 2022)

Essentially, the context of this research focuses on implicating digital entrepreneurship as an enabler for MSMEs' distinctive performance in economic growth, especially in a developing country like Malaysia. This research attempts to clarify by exploiting the potential of the digital ecosystem, identifying specific entrepreneurial ecosystems and adapting digital transformation programmes that would benefit digital entrepreneurs to face the challenges of the economic digital age.

Literature Review

Digital Entrepreneurship (DE)

Digital Entrepreneurship (DE) is an essential component of growth in the economy, employment creation, and entrepreneurialism. The widespread adoption of information technology and digital infrastructures has created new and unrivalled opportunities for innovation and long-term growth. DE leverages traditional business models towards digital transformation. According to Rajain (2017), DE is similar to traditional entrepreneurship in that digital ventures aim at generating a profit and are directly entangled in the economic realm, such as the establishment of a new company or the commercialization of innovation.

There are significant differences in how a traditional and a digital firm operate. Entrepreneurs must concentrate on a variety of factors that will give them an advantage over traditional formats. Aside from that, Antonizzi and Smuts (2020) defined DE as entrepreneurial opportunities being created and pursued through the use of advanced technological platforms. As digitalization evolves, other business categories such as marketing, sales, products, services, operations, logistics, and new categories can potentially be developed.

Digital entrepreneurs must not only equip themselves with business knowledge but also be technically innovative in capitalising and manipulating digital technologies. Kraus et al (2018) stated that today's digital entrepreneurship presents a wide range of challenges. Besides digital technology advancements to help entrepreneurs, they must meet certain positive criteria to accomplish things in the digital age business arena. Antonizzi and Smuts (2020) described the characteristics of digital entrepreneurship and digital transformation, which are not mutually exclusive.

Digital Entrepreneur Characteristics

As noted by Sharma and Yadav (2020), successful digital entrepreneurship requires perfect knowledge quotient, environmental scanning, creative thinking, digital competence, technologically oriented and should adapt to the challenges of the business field. Seet et al., (2021) point out that entrepreneurial attitudes have also been shown to be important in regulating post-entry entrepreneurial behaviours. Attitude measures have been found to be particularly useful in the early stages of the entrepreneurial dynamic at the start-up stage, as this is when individuals decide whether or not to engage in entrepreneurial activities (Autio et al., 2018).

Acs et al (2017) define entrepreneurial characteristics as a socioeconomic level composed of subsystems and systems with self-organization, scalability, and sustainability. Besides, Sussan and Acs (2017) interpret entrepreneurial characteristics as individuals' entrepreneurial attitudes, abilities, and aspirations that interact in a dynamic institutionally that drives resource allocation through the creation and operation of new ventures. Soltanifar and Smailhodžić (2021) mentioned that a digital entrepreneurial mind set can be defined as the desire and ability to exploit opportunities while adopting digital technologies more quickly than the average entrepreneur. The process of identifying new digital opportunities entails carefully considering current products and services in the target market, as well as the role of digital technologies in their delivery. Overall, it can be argued that a digital entrepreneurial mind-set encompasses more than just the ability to integrate technology into daily operations.

Technological infrastructures are improving very fast, and digital technology is always bringing new developments to society. On the other hand, new challenges will be formed by technological advancements. Thus, digital entrepreneurs would face the challenges and opportunities that emerge as digitalisation transforms the interests of potential entrepreneurs to be skilful, information technology savvy, and furnish themselves with the required digital entrepreneurial characteristics.

Digital Ecosystem

Purbasari et al (2021) stated that digital entrepreneurship is coming into existence because of the development of the digital ecosystem. It is a "digital environment" inhabited by "digital species" or "digital components" which can be software components, applications, services, knowledge, business processes and models, training modules, contractual frameworks, laws, etc. Digital components are ideas that are useful, expressed in language, digitised and transported in ecosystems, and can be processed by humans or computers.

According to Wardaya et al (2019), the capability of digital technology is one of the functional capabilities in the process, practice, and connection with customers through digital media. There are four dimensions of digital technology capabilities, namely the ability to provide information, the ability to share information, context awareness capabilities, and tagging capabilities. All these dimensions together constitute the digital ecosystem.

In Nambisan (2017) interpretation of the digital ecosystem in the realm of digital entrepreneurship, it manifests as three distinct related elements: digital artefacts, digital platforms, and digital infrastructure. A digital artefact is a digital component, application, or media content that is part of a new product or service and provides a specific function. It can be either stand-alone software or hardware components on a physical device or those that operate on a digital platform. A digital platform is a shared, common set of functions and architecture that hosts parallel products or services. Digital infrastructure is referred to as digital technologies that facilitate innovation and entrepreneurship by providing communication, collaboration, and computing capabilities.

Digital Entrepreneurial Ecosystem

In their study, Elia et al (2020) mentioned that digital entrepreneurship and the entrepreneurship ecosystem are distinct subjects in the entrepreneurship literature. Sussan and Acs (2017) defined a digital entrepreneurial ecosystem as an integration of existing ecosystem literature between digital ecosystems that focus on digital infrastructure and entrepreneurial ecosystems that place emphasis on activities and the role of their organizations. This is where entrepreneurs form digital companies with innovative products and services for various types of consumers in the digital global economy.

Du et al (2018) stated that digital technologies offer new opportunities that support the growth of innovative start-ups as the combination of elements within a region by pursuing a digital entrepreneurial ecosystem. Another conducive digital entrepreneurship ecosystem, as stated by Trongtorsak et al (2021), is digital entrepreneurship training as a necessary process for digital entrepreneurs. Digital entrepreneurship is a subcategory of entrepreneurship that focuses on the transformation of business activities or digital transformation with the virtualization of all or a portion of existing business activities and processes. Internet technology is critical to the development of a business environment in which e-commerce is displacing traditional commerce.

Micro, Small and Medium Enterprises (MSMEs) Performance

Micro, Small, and Medium Enterprises (MSMEs) are micro-enterprises with 1–9 employees, according to the (World Bank, 2021). However, the local definition of MSMEs varies by country and is based not only on the number of employees but also on other factors such as

turnaround and assets. SME Corporation Malaysia interprets MSMEs as having employees of less than five people or a sales turnover of less than RM300,000 annually and primarily covers manufacturing, services and other business sectors.

MSMEs are essential to enhancing the economy of a country. They play a big role in the national economy in various ways by providing countless goods and services, developing regional markets and societies, offering job opportunities, boosting market competition and enhancing innovation (Husin & Haron, 2020). According to Mustapa et al (2018), not only well-diversified and specialised training programmes are essential, but flexible financial services focused on seasonal income-generating activities as well may be more relevant and effective in influencing the performance and sustainability of micro-enterprises.

Research Methodology

This research adopts a quantitative method by using self-administered online questionnaires. The population would be the existing MSMEs within the sampling frame who have transformed their business operations digitally. The output can then be analysed with various descriptive statistics and regression analysis techniques. The research employs the Statistical Package for the Social Sciences (SPSS) version 26 to assess the collected data and to delineate the outcome in relation to the defined hypotheses. The analysis is to investigate the hypothesised variables depicted in the proposed conceptual model. Later, perform an analysis of how the digital entrepreneurship determinant and its components regulate the performance of MSMEs in the Malaysian context. Finally, analyse and establish the potential outcome of the relationship between the determinant and MSMEs' performance.

Expected Findings

This research will help explain why, by implicating digital entrepreneurship towards MSMEs, they will augment their firm performance in today's digital economy. The defined determinant will be the initial guidelines for facilitating MSMEs' digital transformation by adopting and applying the concept of digital entrepreneurship. Thus, firms should acquire the crucial digital skill set and technology knowledge to remain competitive in the digital age economy. Also, MSMEs firms should realise the importance of transforming their business digitally while simultaneously improving their firms' performance financially and relevant resources.

A Conceptual Model

The proposed conceptual model for this research is depicted in Figure 1. It shows a positive relationship between digital entrepreneurship and the performance of MSMEs.

H₁: There is a significant and positive relationship between digital entrepreneurship and MSME performance.

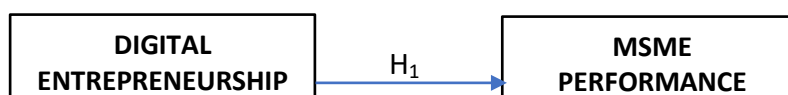


Figure 1. Conceptual Model

Contribution of the Study

The research aligns with the government's economic blueprint that anticipates digital entrepreneur growth, where an in-depth analysis of new entrepreneurship concepts needs to promote their implementation. Digital entrepreneurship associates the use of digital technology in all commercial transactions. Micro and small-medium enterprises shall concede that communication between customers and sellers is simplified, and purchasing goods online is the easiest way for consumers and potentially increases the number of clients because of its simplicity.

Establishing a digital business venture is simple compared to a traditional entrepreneurial firm. It takes less time for a new firm to migrate to an existing e-commerce platform that offers current goods and services. Virtually, digital entrepreneurship is advantageous because online business is financially inexpensive and widely marketable. For example, existing well-known platforms, such as Lazada and Shopee, provide platforms for small business operations in a short time. Hence, this would be a motivational factor for entrepreneurs whose businesses revolve around the digital economy. Thus, this research will proliferate the digital entrepreneur's involvement in the digital economy as a sustainable factor and firm performance.

Conclusion

Today, entrepreneurs should adopt and implement new technologies in their operations to adapt to the latest trends to remain competitive and sustainable in the volatile business world. The current COVID-19 pandemic is a lesson learned that a lot of enterprises are winding up their business operations, except a few e-commerce companies. Digital entrepreneurship is a way forward in enriching the digital economy. Entrepreneurs and the government could use the research findings as guidelines or policy development and provide a digital entrepreneurial ecosystem to promote digital economy growth.

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