

MEDIA RELEASE

From Survival to Scale: Digitalisation among Malaysia's Micro and Small Enterprises remains broad but shallow

25 May 2026, Kuala Lumpur – Digitalisation among Malaysia's Micro and Small Enterprises (MSMEs) has expanded significantly in recent years but remains largely broad at the surface and shallow in depth. While most firms have achieved basic levels of connectivity and digital presence, fewer have progressed towards integrated, data-driven, and productivity-enhancing use of digital technologies. As a result, digital adoption has yet to fully translate into sustained improvements in efficiency, resilience, and growth.

These findings emerge from a new discussion paper by the Khazanah Research Institute (KRI) in collaboration with the Malaysia Digital Economy Corporation (MDEC), which examines how MSMEs engage with digitalisation in practice and why progression beyond basic adoption remains limited. The study provides an indicative view of digital maturity, constraints, and opportunities across Malaysia's MSME landscape.

Digital adoption that connects, but does not yet transform

Evidence from national statistics and firm-level assessments points to a consistent pattern. Digital adoption among MSMEs is widespread, particularly in areas such as online presence, digital payments, and basic communication tools. However, this adoption is often concentrated in front-facing and transactional activities, with limited integration across core business functions.

Digital tools are often implemented in isolation and used reactively, driven by immediate operational needs rather than longer-term strategic planning. As a result, productivity gains remain constrained, and digitalisation does not consistently translate into improved decision-making or business performance. For many firms, it improves visibility and market access but does not fundamentally reshape operations, leaving a persistent gap between connectivity and capability.

A fragmented path to digital maturity

The study draws on multiple analytical lenses to understand how digitalisation unfolds among MSMEs. Firm-level assessments show that MSMEs are clustered at early stages of digital maturity, where adoption is limited in scope and oriented towards essential functions such as sales, marketing, and basic financial management. While some firms have begun experimenting with more advanced tools, the progression towards integrated and data-driven systems remains uneven.

Benchmarking data further indicates that digital adoption among smaller firms is characterised by limited investment, weak integration, and underdeveloped enabling conditions such as skills, governance, and digital planning. Technology use is typically confined to basic infrastructure and standalone applications, with minimal use of analytics, automation, or enterprise systems. At the same time, emerging evidence suggests growing momentum in digital payments, rising online sales, and growing interest in technologies such as AI, although these gains remain uneven across firms and regions.

Structural constraints shaping digital outcomes

The findings highlight that the key barriers to deeper digitalisation are primarily structural rather than technological. Financial limitations, capability gaps, and informal business practices constrain firms' ability to invest in and effectively utilise digital tools. Many MSMEs operate with limited documentation, weak record-keeping, and constrained access to financing, which in turn restricts their ability to adopt more advanced systems.

Digital adoption is also shaped by reactive pathways, with firms often adopting tools incrementally in response to immediate pressures, resulting in fragmented systems where customer-facing functions are digitised while back-end processes remain manual. Without integration, productivity gains remain limited. In addition, fragmentation across programmes and agencies increases the cost of access for smaller firms, while spatial disparities contribute to uneven outcomes, with firms in urban and platform-based ecosystems benefiting more than those in underserved areas.

From access to capability: evolving the digitalisation agenda

The study argues that Malaysia's approach to MSME digitalisation must evolve beyond expanding access to digital tools towards enabling progression along the digital maturity spectrum. Key priorities include strengthening data infrastructure through more timely and accessible tracking of MSME digitalisation, addressing spatial inequalities through targeted and place-based interventions, and providing tiered support aligned with firms' levels of readiness.

In addition, capability-building measures such as mentoring, peer learning, and community-based support models are critical in helping firms move from basic adoption towards more integrated and strategic use of digital technologies. Improving coordination across agencies and simplifying access to support programmes will also be essential in reducing fragmentation and enhancing effectiveness. Across these recommendations, a common principle emerges, with unlocking the full potential of digitalisation requiring the reduction of structural barriers that limit firms' ability to move beyond survival-oriented adoption towards sustained and scalable growth.

What this study highlights

This discussion paper establishes an evidence-based understanding of how digitalisation is experienced by micro and small enterprises in Malaysia, and why progression beyond basic adoption remains uneven. By bringing together multiple data sources and stakeholder insights, the study provides a clearer picture of the structural and behavioural factors shaping digital outcomes across firms.

The findings underscore that improving digital adoption is not only about expanding access to digital tools but also about enabling more effective and integrated use of those tools in everyday business operations. Addressing constraints related to financing, capability, and coordination will be central to ensuring that digitalisation translates into meaningful gains in productivity, resilience, and growth.

The discussion paper, *From Survival to Scale: Digital Empowerment for Malaysia's Micro and Small Enterprises*, was prepared by Shazrul Suhaimi (Khazanah Research Institute) and Maryam Halim (Malaysia Digital Economy Corporation). The study draws on multiple datasets, including the Digital Maturity Assessment (DMA), Business Digital Adoption Index (BDAI), and CPA Australia's Small Business Survey, complemented by stakeholder insights from a dedicated roundtable.

All outputs are available for download at: www.KRIInstitute.org

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ABOUT KHAZANAH RESEARCH INSTITUTE (KRI)

The Khazanah Research Institute, sponsored by Khazanah Nasional Berhad, is a not-for-profit organisation and is incorporated as a company limited by guarantee. The objective of the Institute is to undertake analysis and research on the pressing issues of the nation and, based on that research, provide actionable policy recommendations. For more information on KRI, visit new.krinstitute.org.

Among the Institute's roles are

- carrying out rigorous impartial research and analysis that is founded on facts and data
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Malaysia Digital Economy Corporation (MDEC) is the national agency under the Ministry of Digital, championing Malaysia's digital economy. Celebrating 30 years of accelerating digital transformation, MDEC leads the Malaysia Digital (MD) initiative, fostering innovation, attracting investment, and enabling inclusive growth across the digital ecosystem.

Guided by the pillars of digital rakyat, digital economy, and digital government, MDEC is championing Malaysia's vision of becoming an AI-driven nation by 2030. It also collaborates with global partners to build a resilient and competitive digital ecosystem.

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