


# Chapter 16


## Harnessing the Power of Digital Finance: The Malaysian SME Perspective

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### ABSTRACT

*This study aims to examine the factors that facilitate the adoption of digital finance for achieving business success, specifically for SMEs. The challenges and barriers that hinder digital finance adoption and identifies relevant opportunities to harness these tools were discussed. 7 SME business owners registered in Selangor, Malaysia were interviewed. The results revealed that access to finance, improved efficiency, and enhanced customer engagement are among the factors that lead to digital finance adoption, while technological barriers, lack of digital literacy, cybersecurity threats, and resistance to change are among the challenges and barriers that hinder the adoption of digital finance among SMEs. This study also found that market expansion, scalability, opportunities for innovation and support for sustainable*

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*practices were the opportunities for SMEs. This study provides valuable insights into the digital finance landscape, serving as a comprehensive guide for businesses, policymakers, and stakeholders aiming to harness the power of digital finance for sustainable success.*

## **INTRODUCTION**

Small and medium enterprises (SMEs) are the backbone of many nations' economic growth and stability, including Malaysia. SMEs generate employment, foster innovation, and contribute to the nation's gross domestic product (GDP). It was reported that SMEs account for two-thirds of business employment in advanced economies—and almost four-fifths in emerging economies (Madgavkar et al., 2024). In Malaysia, SMEs make up roughly 97% of the Malaysian economy, accounting for 48% of employment and contributing 38% of total GDP (Yap, 2024).

Despite the high contribution of SMEs to the country, SMEs often face numerous challenges, particularly in accessing the financial resources necessary to expand their operations and compete effectively. According to Bank Negara Malaysia (2023), banking institutions are SMEs' primary source of financing, providing more than 90% of total financing. The emergence of digital finance, however, has opened new doors for SMEs by offering innovative solutions that provide alternative financing and pathways for sustainable growth. In Malaysia, where SMEs account for nearly 97% of total business establishments, adopting digital finance tools is pivotal in accelerating their growth. This is particularly crucial in the nation's transition towards a digital economy, as outlined in Malaysia's Digital Economy Blueprint. Various actions have been implemented to enhance the digital financial service infrastructure. For example, mobile payment systems (e.g., PayPal, Apple Pay, Google Pay) and real-time payment systems (e.g., Malaysia's DuitNow, Singapore's FAST and India's UPI) are becoming more popular. Banking and lending platforms are mushrooming, and financial management and accounting tools such as cloud accounting software and AI-powered financial analytics were developed. However, it was reported that despite a relatively well-developed digital financial service infrastructure, the financial sector has not effectively translated this into an ability to cater to the needs of vulnerable groups, including SMEs (Consumers International, 2024).

In Malaysia, specifically, despite the significant benefits digital finance might offer, the integration of digital finance among SMEs in the country has been uneven, with many businesses encountering barriers such as limited digital literacy, regulatory challenges, and concerns over cybersecurity (Faruque et al., 2024; Krajčák et al., 2023). Understanding these obstacles is essential for creating supportive ecosystems that enable SMEs to leverage digital finance effectively. By addressing these

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