

Turning Digital Progress Into Business Value

The State of Digital Maturity Among Malaysia's MSMEs

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Foreword

Digital adoption is just the beginning for Malaysia's MSMEs

Malaysia's micro, small and medium enterprises (MSMEs) are the heart of everyday life across the country. From neighbourhood kedai and multi-generational family businesses to growing manufacturers and service providers, they bring real character and energy to communities nationwide. They create jobs, support livelihoods and contribute to the country's growth.

Over the years, they've adapted whenever change has been needed. Today, they're navigating rising costs and changing customer expectations. And many are turning to digital tools to manage more of their day-to-day operations, from handling payments and invoicing to tracking expenses and managing customer relationships. That's a strong start. The next step is making those tools work together to get a holistic sense of the business, so owners can make informed decisions to help them thrive.

Malaysia has recognised the importance of closing the gap between technology adoption and business value. Through national initiatives like Thirteenth Malaysia Plan (13MP) and Malaysia Digital Action Plan 2030 (MD2030), the country is working to strengthen productivity, competitiveness and its digital economy. That can't be achieved without MSMEs, which make up around 96% of commercial entities in Malaysia[1]. They'll need the right skills, systems and support to make their digital investments count.

At Xero, we believe technology should make running a business easier, giving owners more time to focus on what matters, better visibility of how their business is performing and greater confidence in the decisions they make. We hope this report provides a useful benchmark for business owners, policymakers and industry partners, helping them understand where Malaysian MSMEs are today, and where greater investment, collaboration and support can make a difference in creating business value for tomorrow.



Koren Wines
Managing Director, APAC, Xero

[1] SME Corporation Malaysia. (2025, August). Profile of MSMEs in 2015-2024. Retrieved from https://smecorp.gov.my/index.php/en/policies/2020-02-11-08-01-24/profile-and-importance-to-the-economy

Chapter 1:
The state of digital maturity among MSMEs

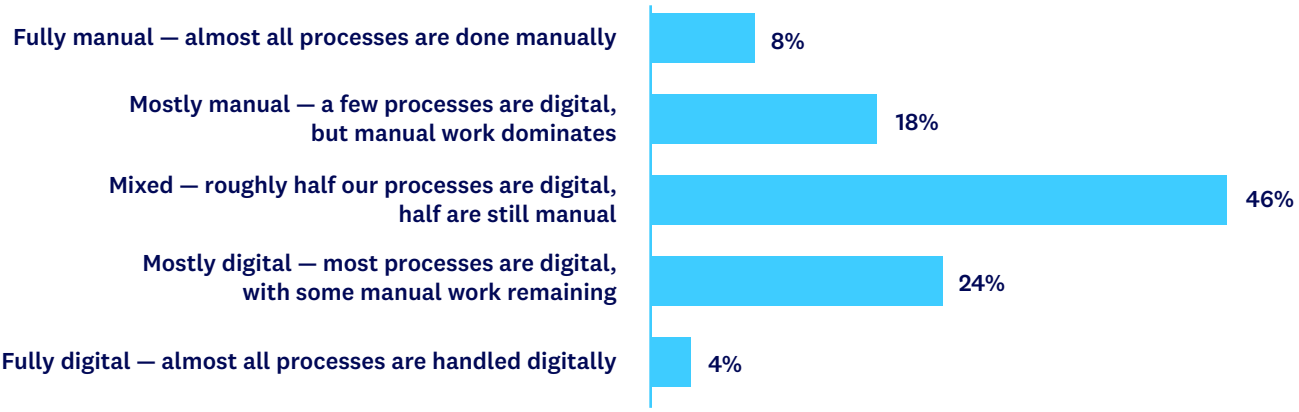
Digital tools are now a familiar part of running a business in Malaysia. MSMEs use them to manage accounts, communicate with customers, take payments and track stock. But adopting technology and becoming a digitally mature business aren't quite the same thing.

As businesses introduce technology to address different needs, they can end up with a patchwork of systems that don't always connect. Individual tasks may become easier, but manual processes can remain elsewhere in the business, limiting the benefits of digitalisation.

As Malaysia continues to advance its digital economy ambitions, the next challenge for MSMEs is making technology work harder across the business. That means looking beyond individual tools to consider how systems, information and people work together to support more efficient operations and better business decisions.

Digital maturity is still a work in progress

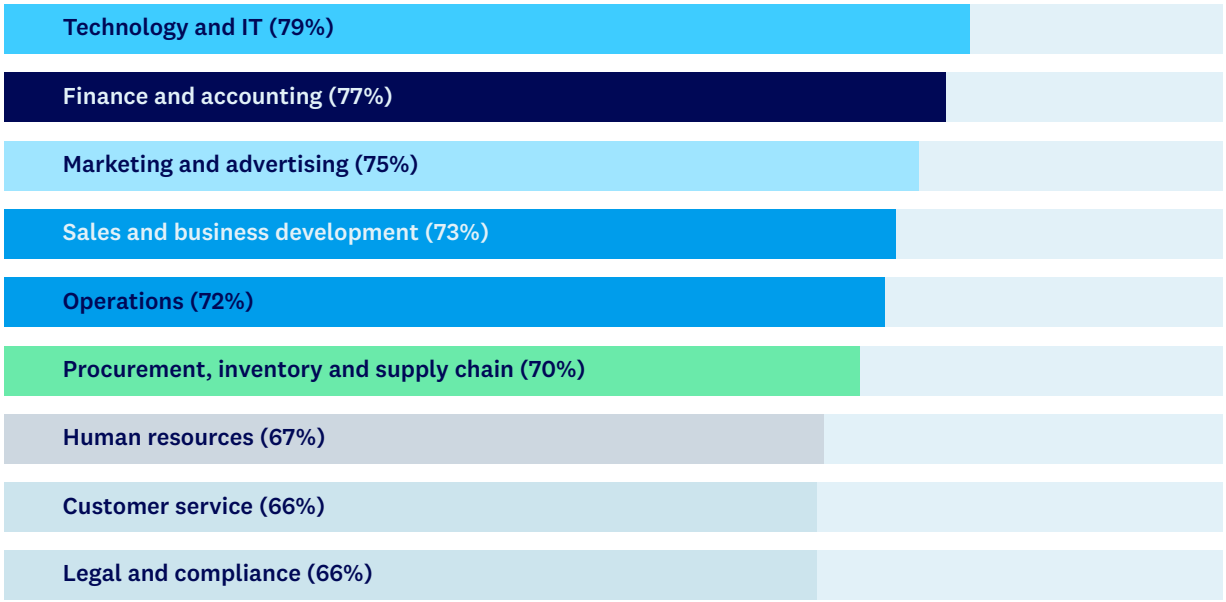
Malaysia's MSMEs are at different stages of their digitalisation journey. While some have embraced digital tools across much of their business, others are still relying on a combination of digital and manual processes.



Q: Which statement best describes how digitalised your business is today? (n = 1,049)

Just over a quarter (28%) of MSMEs describe their business as mostly or fully digital, while 46% say they use a mix of digital and manual processes. The remaining 26% are mostly or fully manual.

Adoption also varies across business functions. IT (79%) and finance and accounting (77%) are the areas where digital tools are most widely used, suggesting that many businesses have made progress in digitising core activities, particularly those involving information and administration.



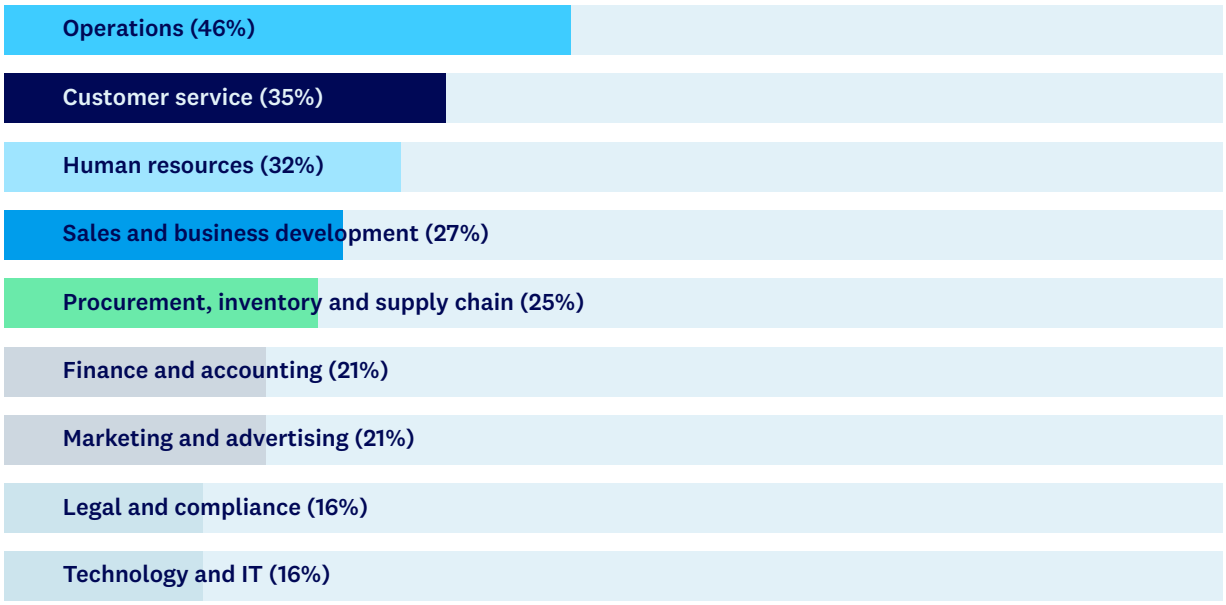
Q: How digitalised is each of the following areas of your business? (n = 1,049)

However, adopting technology in individual functions doesn't necessarily mean those systems are connected or that the business is operating digitally as a whole. For MSMEs, the opportunity now is to build on the tools they already have. Rather than simply adding more platforms, businesses can look at where systems could work better together, making it easier to share information, reduce duplication and get a clearer view of what's happening across the business.

Manual work remains part of the picture

Even as digital adoption grows, manual work continues to take up time across many Malaysian MSMEs. The survey showed manual work is most common in operations, cited by 46% of respondents. Customer service (35%) and HR (32%) follow, with sales and business development (27%) and procurement, inventory and supply chain (25%) also requiring significant manual input.

Using digital tools doesn't necessarily mean everyday processes are fully digitalised. Businesses may use accounting software, for example, while still relying on spreadsheets, paper records or manual data entry elsewhere.

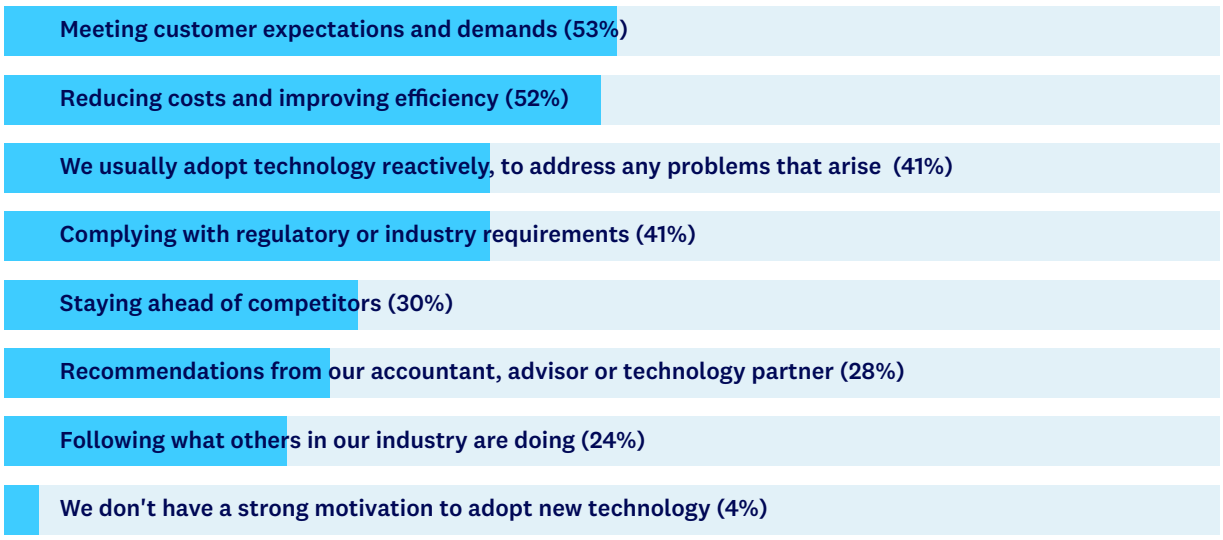


Q: Which area of your business still requires the greatest amount of manual work? (n = 1,049)

The result can be a fragmented way of working that limits the time-saving benefits businesses expect from digital tools. When systems don't connect, employees can end up duplicating work or switching between platforms to find the information they need.

Meeting immediate business needs drives digital adoption

For many MSMEs, digital adoption is driven by practical business needs. More than half of survey respondents say customer expectations (53%) and the need to reduce costs or improve efficiency (52%) are key motivations. Others point to solving immediate business problems (41%) and meeting compliance or industry requirements (41%). Fewer cite staying ahead of competitors (30%) or recommendations from an accountant, advisor or technology partner (28%).



Q: What are the main reasons your business adopts new technology? (n = 1,049)

Malaysia's e-Invoicing initiative is one example of how regulatory requirements can encourage businesses to adopt digital processes. For many MSMEs, meeting e-Invoicing requirements may be the immediate priority, but the transition can also be an opportunity to review how invoices are created, processed and recorded, and how financial information moves through the business. When digital invoicing is connected with accounting and other business systems, it can help reduce manual data entry, improve record-keeping and make information easier to access. In this way, a change introduced to meet a compliance requirement can also support more efficient ways of working.

The opportunity for MSMEs is to move from adopting digital tools to making them work together. When systems become more connected and information becomes easier to access, businesses can build a stronger foundation for understanding their performance and making informed decisions.

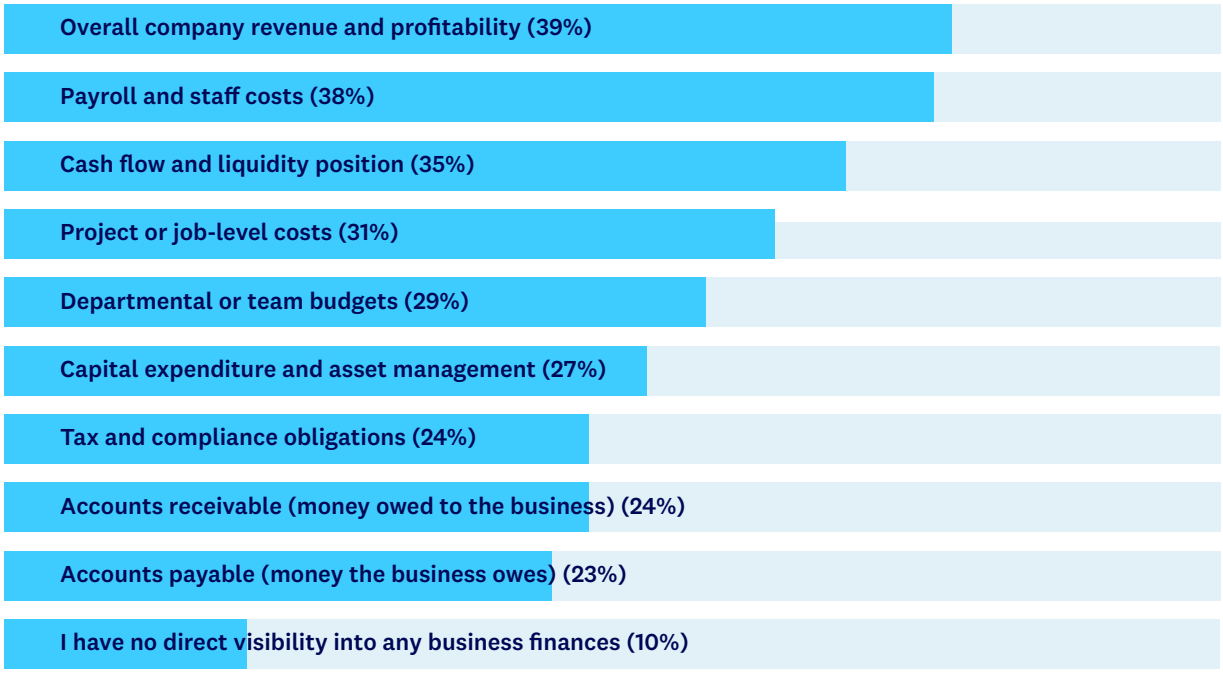
Chapter 2:
The real value of digitalisation is financial visibility

For many Malaysian MSMEs, having access to financial information doesn't necessarily mean having a clear picture of how the business is performing. Revenue, costs and cash flow may all be tracked, but the information is often spread across different systems or needs to be brought together before business owners can use it.

This can make it difficult to see the full financial picture in time to act. When owners have to piece together information from multiple sources or wait for reports to be prepared, they may be making decisions based on figures that are incomplete or already out of date.

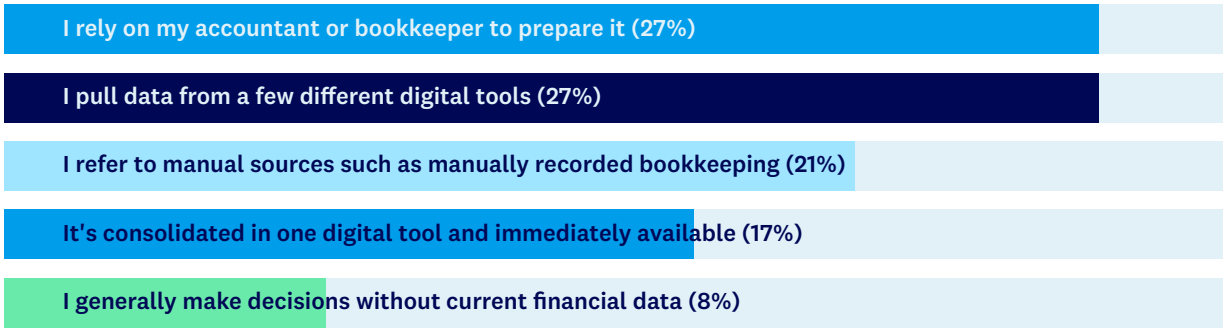
Financial visibility depends on having the right information at the right time

Having a clear view of business finances is essential to making informed decisions, but visibility isn't always consistent across different areas of the business. While 39% of MSMEs say they have direct visibility into revenue and profitability, fewer have the same level of insight into payroll and staff costs (38%) or cash flow and liquidity (35%). One in ten (10%) say they have no direct visibility into any of their business finances.



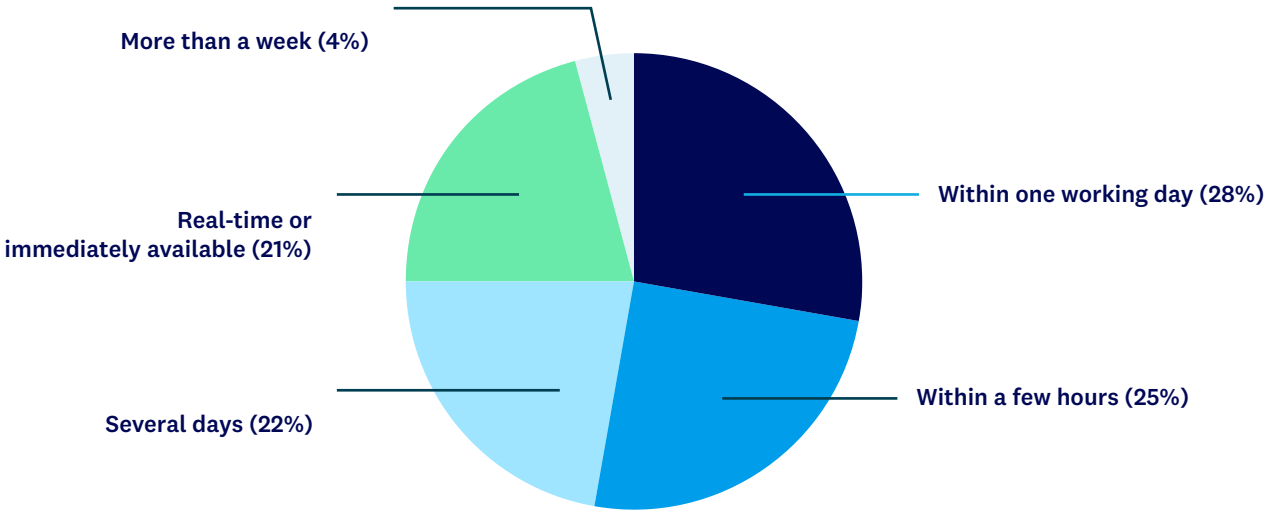
Q: Which of the following best describes your visibility into your business's finances? (n = 1,049)

Further adding to this challenge, our research found that for many Malaysian businesses, financial information is rarely consolidated in one place. Only 17% of MSMEs say their financial information is consolidated in a single digital tool and immediately accessible. Another 27% gather information from multiple digital tools, while 21% rely on manual sources such as spreadsheets or records. 27% depend on an accountant or bookkeeper to prepare the information for them.



Q: When you need financial information to make a business decision, how do you typically access it? (n = 947)

Even when financial information is available, getting an accurate and complete view of business performance isn't always immediate. Just 21% of MSMEs say they can access an accurate picture of their finances in real time. A quarter (25%) can do so within a few hours, while 28% need up to one working day. For the remaining businesses, it takes several days (22%) or more than a week (4%).



Q: How long does it typically take to obtain a complete and accurate view of your business finances? (n = 1,049)

Without a clear view of these fundamentals, it can be harder to understand how the business is performing, anticipate cash flow pressures or identify where costs are affecting profitability.

Moving from instinct to data-led insights

Taken together, these findings highlight how difficult it can be for business owners to get a timely, reliable view of their finances. When information is fragmented across different platforms, it may need to be collected, reconciled and checked before it can be used. And when access is delayed, business owners risk making decisions based on an outdated picture of their finances.

Ultimately, this can mean making decisions based more on instinct than on reliable financial insight. Cash flow can fluctuate, unexpected costs can arise and new opportunities may need a quick response. Without up-to-date figures, it's harder to judge what the business can afford or decide how best to respond.

Connected systems can help address this challenge by bringing financial information together and reducing the need to manually compile figures from different sources. This gives business owners and their advisors a more consistent view of performance and makes it easier to work from the same information.

This is particularly evident when comparing businesses that have consolidated their financial information with those relying on multiple systems or manual sources. The findings suggest that having financial information in one accessible place can make a meaningful difference to how confidently and quickly businesses make decisions.

	Consolidated in one tool	Multiple / manual sources
Average confidence accessing financial information	**70%**	**55%**
Get a complete financial view within a few hours	**70%**	**41%**
Use real-time data for most or all business decisions	**79%**	**53%**

Base: respondents with direct financial visibility, excluding those who make decisions without current financial data (n = 872). Consolidated in one tool, n = 165; multiple digital tools, manual records or accountant-prepared, n = 707.

Business owners don't need to monitor every figure constantly, but they do need reliable, up-to-date information when making decisions about cash flow, investment or taking on new work.

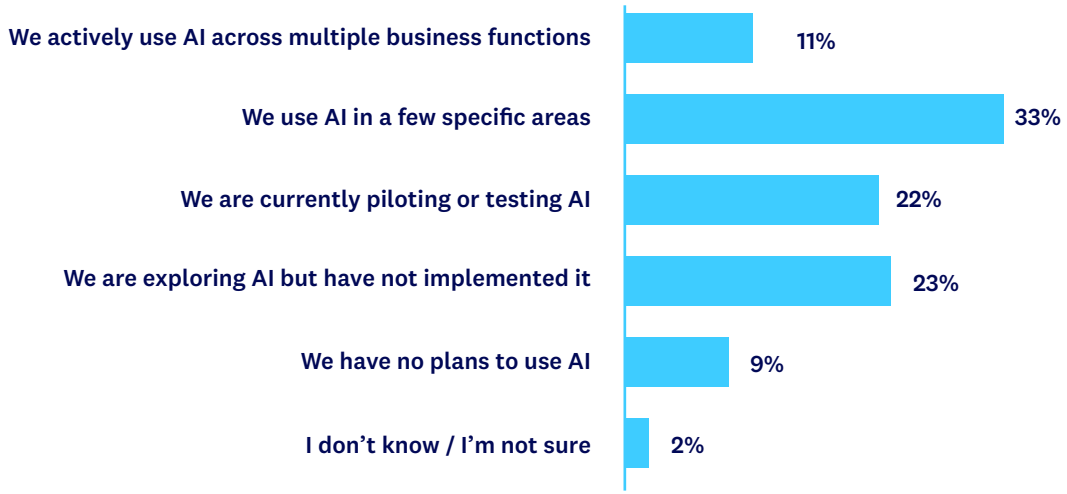
Chapter 3:
AI ambition needs strong foundations

AI is attracting interest among Malaysian MSMEs, but many businesses are still working out where it fits and what it can realistically deliver. Our findings suggest that readiness is about more than choosing an AI tool. Businesses also need reliable digital processes, connected systems, usable data, relevant skills and a clear understanding of the value they hope to achieve. Building these foundations can help MSMEs move from experimentation towards more purposeful use of AI.

Privacy concerns, a lack of skills and the cost of adoption are also holding businesses back. As Malaysia advances its National AI Action Plan 2026–2030, these considerations will shape how MSMEs approach AI. Having the right tools matters, but so does having reliable systems, accessible data and the confidence to use the technology effectively.

AI adoption is growing, but businesses are at different stages

AI is already helping some Malaysian MSMEs with specific business tasks. Others are still testing tools or exploring how the technology could be useful. Just over four in ten (44%) say they actively use AI, either across multiple business functions or in specific areas. Another 22% are piloting or testing AI tools, while 23% are exploring the technology but have yet to implement it.

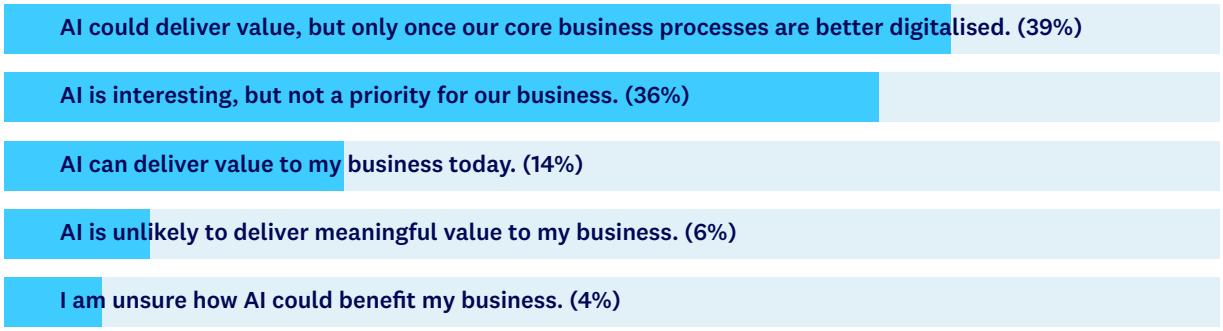


Q: Which statement best describes your organisation's use of AI today? (n = 1,049)

Adoption alone doesn't necessarily mean businesses are using AI strategically. The next step is to identify where AI can make a practical difference. Whether that's reducing time spent on repetitive tasks, supporting customer service or helping teams work with information more efficiently, businesses need a clear idea of what they want to achieve before deciding which tools are right for them.

Stronger digital foundations can unlock AI's potential

While some Malaysian MSMEs see potential in AI, many aren't yet convinced they're ready to make use of it. Just 14% believe AI can deliver value for their business today. A further 39% say it could deliver value once their core processes are better digitalised, while 36% find AI interesting but don't see it as a current priority.

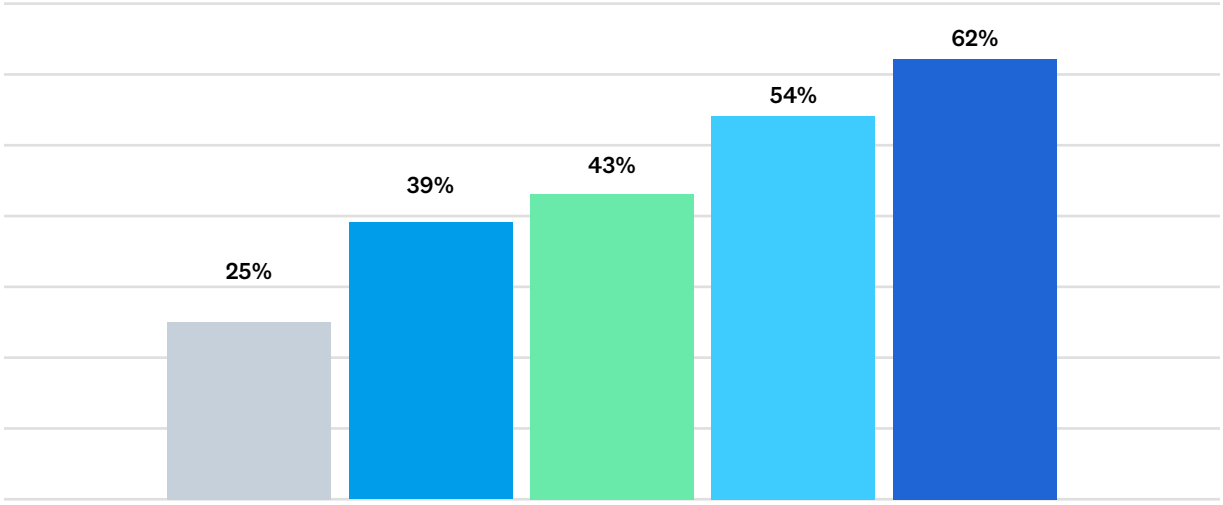


Q: Which statement best reflects your view on AI and your business? (n = 1,049)

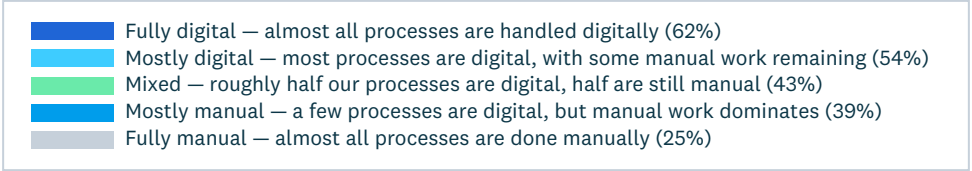
It's important to understand why the foundations matter. If information is spread across different systems, teams are still relying on manual processes or important data is difficult to access, bringing in AI won't necessarily make things easier. Businesses need reliable information and connected processes to give new tools something useful to work with.

Digital maturity and AI adoption appear to move together, according to the survey results. Among fully manual MSMEs, just one in four (25%) actively use AI, compared with 62% of fully digital businesses. The proportion rises steadily across each stage of digital maturity.

This suggests that businesses with stronger digital foundations may be better positioned to explore and integrate AI. While the findings don't establish a causal relationship, they reinforce the importance of building digital capability as part of the journey towards more effective AI use.

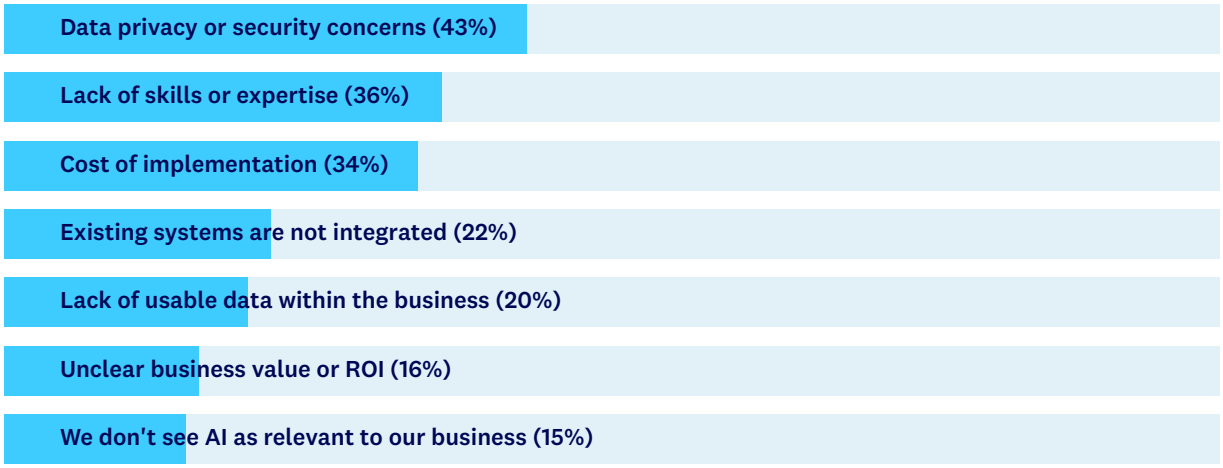


Base: active or targeted AI use, by current digitalisation maturity (n = 1,049)



Privacy, skills and cost remain barriers

For Malaysian MSMEs, the biggest hurdles to putting AI into practice are practical ones. Privacy and security concerns top the list, cited by 43% of businesses, followed by a lack of skills or expertise (36%) and the cost of adoption (34%). Others point to disconnected systems (22%) and a lack of usable data (20%).

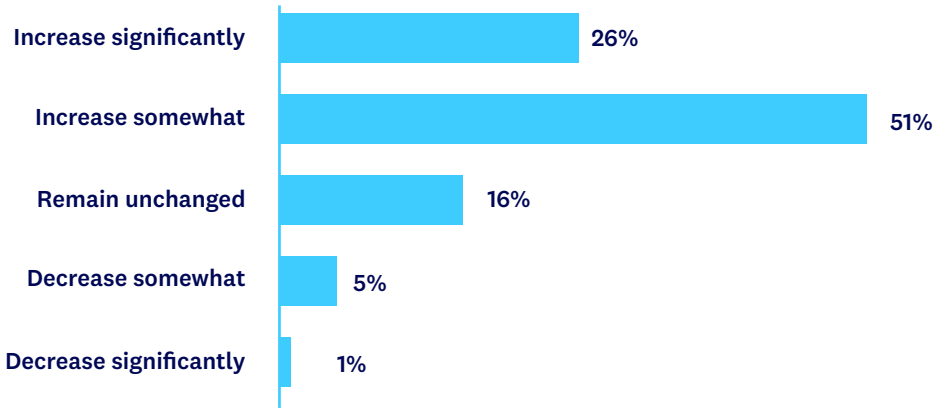


Q: What are the biggest barriers preventing your business from adopting AI more widely? (n = 1,049)

These concerns underpin the groundwork involved in adopting AI. Businesses need to know their data is protected, have people who can use the technology confidently and ensure new tools work with their existing systems. As Malaysia advances its AI ambitions, helping businesses adopt the technology with confidence will be just as important as encouraging its uptake.

Chapter 4:
Making digital investment work harder

Malaysian MSMEs are ready to invest more in technology, but deciding where that money will make the biggest difference isn't always straightforward. While 77% expect their digital technology investment to increase over the next 12 months, businesses want to see tangible returns. Productivity, revenue growth and better decision-making all feature among the outcomes that would justify spending more.

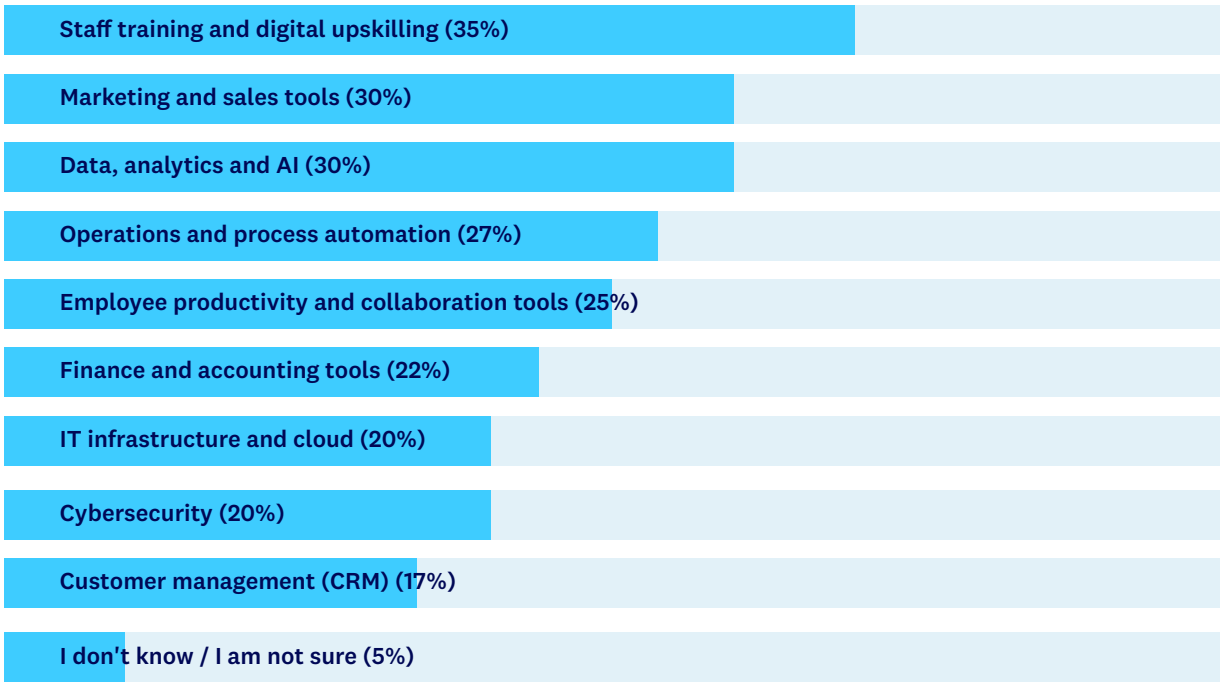


Q: How do you expect your digital technology investment to change over the next 12 months? (n = 1,049)

As Malaysia continues to advance its digital economy, government initiatives can help businesses access support and build their capabilities. But making digital investment count also comes down to the decisions each business makes: identifying where improvements are needed, giving people the skills to use new tools and choosing investments that deliver practical, measurable benefits.

Skills are a priority for future investment

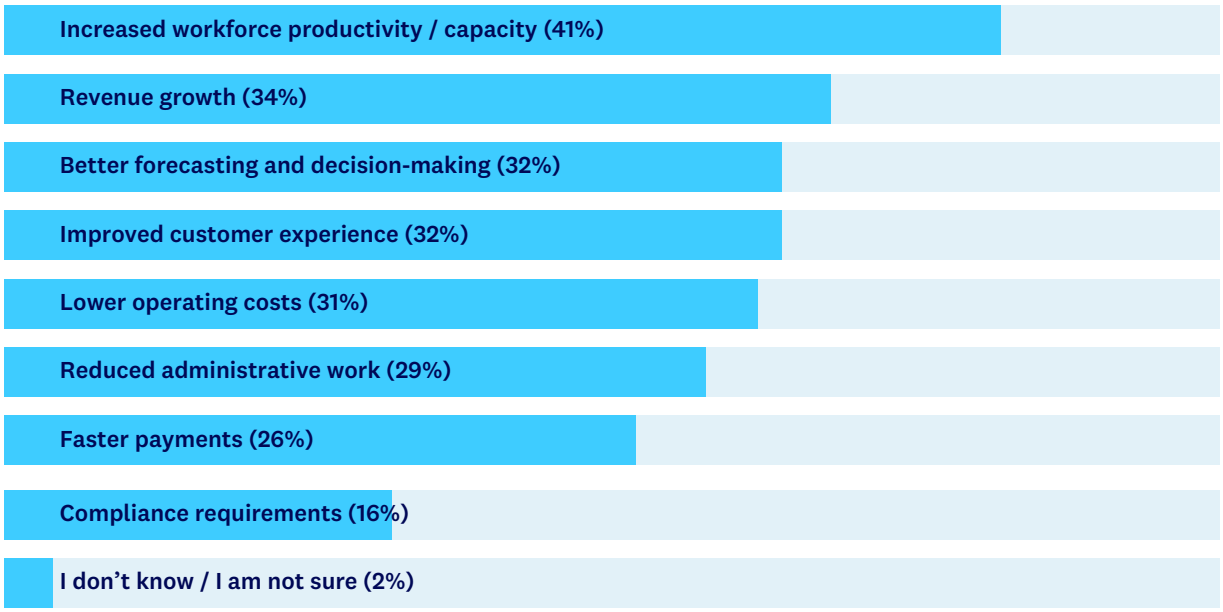
People and skills will play an important role in making digital investments pay off. Training and digital upskilling is the leading planned investment area, cited by 35% of MSMEs. Marketing and sales, and data, analytics and AI follow, both at 30%.



Q: Which areas is your business planning to invest in over the next 12 months? (n = 1,049)

Businesses want to see returns

Our survey results show that the value of digital investment comes down to what it helps MSMEs achieve. Four in ten (41%) say improved productivity and capacity would justify greater investment; revenue growth follows at 34%, while around a third point to better customer experience (32%), improved forecasting and decision-making (32%) and lower costs (31%).



Q: What would 'value' from digitalisation look like for your business? (n = 1,049)

These priorities show that businesses are looking beyond technology for its own sake. They want investments to help them work more efficiently, serve customers better and make informed decisions about growth. The key is to start with the outcomes that matter most to the business, then choose the tools and skills that can help deliver them.

Conclusion:
Moving from adoption to intentional growth

Malaysian MSMEs have made a solid digital start and the appetite to invest further is strong. But the next stage of growth isn't about buying the next shiny app or investing in more software. It's about making technology work better across the business, connecting systems and information, and focusing investment on the improvements that matter most.

Real progress happens when you move from simply using digital tools to strategically orchestrating them. Here is how MSMEs can turn digital progress into business value:

Start with business needs. Don't buy technology for its own sake. Map out your biggest operational headaches, whether that's manual data entry, isolated systems or blind spots in performance, and invest only in tools that solve those specific problems.

Make financial information easier to use. Connect your digital tools so key financial information flows automatically. Clear, real-time visibility over cash flow, profitability and upcoming obligations gives leaders the clarity to make bold, informed decisions quickly.

Invest in people as well as technology. Technology only works if your team uses it confidently. Invest in upskilling your workforce, invite them to help fix broken workflows and introduce AI where it delivers clear value, backed by sound guardrails.

Use available support. You don't have to navigate digitalisation alone. Tap into key government initiatives like MDEC's Business Digitalisation Initiative, leverage trusted channels like the Xero Advisor Directory and collaborate with tech partners for training, funding and hands-on guidance.

