

ICMC 2023**The 3rd International Conference on Management and Communication****TALENT MANAGEMENT AND DIGITAL TRANSFORMATION IN
THE MALAYSIAN SMES' MANUFACTURING SECTOR**

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Abstract

This research was conducted to discover the viewpoints of SMEs and entrepreneurs on talent management and digital transformation in the manufacturing industry. Most SMEs in Malaysia's manufacturing sectors are in the textiles and apparel, food and beverage goods, fabricated metal, and machinery and equipment sub-sectors. This study included various SME owners, operators, and managers who consented to give insight into the business environment at the small and medium levels, which is increasingly having a significant influence on Malaysia's economic sector. The focus group discussion was the medium of this research data collection procedure. Because of the discussions, it was discovered that there are numerous viewpoints that necessitate the participation of several stakeholders in Malaysia in assisting the country's economic growth. It is essential and cannot be ignored to improve talent management and the transformation of digital applications, especially in Malaysia's manufacturing sector. The results show that to speed up the SME transformation, several issues should be prioritized for the SME talent management plan and digital policy.

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1. Introduction

Malaysia has become one of the Asian nations that is following the developed world's rise in digital transformation, notably in all commercial sectors (Hon, 2012; SME Corporation Malaysia, 2022). When evolutionary economics focuses on micro-level analysis to improve the effectiveness of innovation systems and capacities, SMEs tend to be the largest group in the economic system. They comprise 97.4% of all businesses, produce 37.4% of GDP, and employ 7.32 million people in 2021. Between 2016 and 2021, the landscape of Malaysian SMEs underwent a significant transformation. According to the Department of Statistics, Malaysia (DOSM), there were 1,226,494 SMEs in Malaysia in 2021, which represents 97.4% of all businesses, in accordance with the most recent statistics from the Malaysia Statistical Business Registry (MSBR). In comparison to 1,086,533 SMEs in 2016, the number of enterprises has climbed by 140,000 showing a 5.2% annual growth rate during the six-year period (Department of Statistics Malaysia Official Portal, 2022; and SME Corporation Malaysia, 2022). SMEs in the services sector are the largest at 83.8% (1,028,403 firms), followed by construction at 8.0% (98,274 firms), manufacturing at 5.8% (71,612 firms), agriculture at 1.9% (23,633 firms), and mining at 0.4% (4,572 firms) (SME Corporation Malaysia, 2022). Malaysia intends to increase the contribution of SMEs through a new national policy. SMEs need to seek acceptable institutional frameworks as systemic resources are considered an important predictor of competitive advantage (Deng, 2013; Deng et al., 2020; Martin, 2014; Witt & Lewin, 2007; Yamakawa et al., 2013).

Manufacturing SMEs have been highlighted as a vital industry for strengthening the Malaysian economy. By 2025, Malaysia must have a high-income economy, and to do so, the manufacturing sector must become more competitive to compete in the fast-paced global market. According to Trading Economics (2019), Malaysia's industrial output has been declining because of the output growth stalling and the failure of new orders to increase. Smaller and older businesses, however, are cautioned against attempting to improve performance through innovation. A set of metrics that SMEs can use to gauge and monitor the success of various sustainable innovation projects is provided by manufacturing research. Nevertheless, human resource practices for talent management in SMEs, and as SMEs expand into digital transformation, have needed to be more researched (Agrawal et al., 2019; Bengtsson & Raza-Ullah, 2016).

As SMEs integrate the concept of the sharing economy into the financial services sector, digital banking services, products, and features are being developed to enhance the customer experience. Digital transformation enables companies to better understand their customers' needs and offer them new value propositions. A value proposition leads to an elevated level of customer personalization. SMEs can create new value by changing and expanding their current product and service offerings. This is made possible by digital transformation (Karjaluoto & Huhtamäki, 2010; Karjaluoto & Ulkuniemi, 2015). Small and medium-sized manufacturing firms can build effective talent management structures, including shared recruitment, development, and retention procedures. Bengtsson and Raza-Ullah (2016) mentioned that designing creative talent management practices, learning, fostering partnerships, and improving business performance are additional outcomes that are pertinent in SMEs. It might be argued that effectively managed inter-organizational talent pools will increase the region's appeal to participants as well as to the

broader region and industry (Agrawal et al., 2019). Thus, it is necessary to consider this study in identifying the perspectives of SME managers on talent management and digital transformation in the SME manufacturing industry.

2. Talent Management and Digital Transformation in Malaysian Small and Medium Enterprise

In today's extremely competitive and uncertain market, one of the most significant strategic businesses levers a company may have been talent management. Businesses, and SMEs in particular, can increase performance and lower expenses by developing a solid talent management plan. Ideally, SMEs must forecast economic, technological, and demographic changes so that they will be prepared to face the challenges ahead. SMEs must consider the most crucial requirements, such as determining the crucial and uncommon abilities required for the company. This is important since SMEs in Malaysia are successful at developing their human capital while also contributing to the economic growth of the nation. How a business creates and upholds human resource policies that are essential to achieving its goals is the focus of talent management (Kaliannan et al., 2016). Larger enterprises are better managed in Malaysia, according to the World Bank report "Management Practices in Malaysia: The Good, the Bad, and the Ugly." Firms with 50 to 200 employees have much lower management scores than companies with more than two hundred employees. This suggests that certain SMEs do not implement best management practices in their operations (HRDF, 2020). It is crucial to make structural changes to the workforce of SMEs by increasing the share of higher-skilled workers. Dery and Sebastian (2017) identified four distinct approaches to managing talents: aligning, orchestrating, architecting, and curating, particularly for digital talents. With the gig economy and entrepreneurship poised to become the "new normal" for employment in a time of momentous change and uncertainty, it is especially imperative that Malaysia's young talents are prepared for professional success (TalentCorp, 2020).

A complete strategy to transform how an organization thinks, organizes, works, and acts is known as a "digital business transformation". According to the World Economic Forum (WEF) in The Future of Jobs Report 2020, eight of the top ten new professions in Malaysia require knowledge of digital expertise, including data scientists and analysts, Internet of things (IoT) professionals, digital transformation specialists, and cybersecurity experts (Malaysia Digital Economy Corporation, 2021). Rogers (2016) asserts that cybersecurity specialists and transformation specialists will rise in need in the digital era (Malaysia Digital Economy Corporation, 2021). Rogers (2016) believes that for organizations to thrive in the digital era, they must reconsider their basic principles in the following five areas of strategy: customers, competition, data, innovation, and value. Based on those areas, the digital transformation should be a stimulating experience with savvy adopters who may prosper and change their business models with the appropriate tools. The future of digitization and the fourth industrial revolution may be characterized in terms of changing lifestyles and values, flexible work arrangements, and remote working. According to a 2018 Randstad study (randstad.com.my), more than 90% of Malaysian employees claim to lack the skills required for a digital job, and graduate unemployment has increased because of the absence of digital skills. According to the findings of the Ministry of Education (MOE) Graduate Tracer Study 2018, one in every five Malaysian graduates is without a job, and enhancing digital capabilities has been

identified as a vital component of the solution (Malaysia Digital Economy Corporation, 2021). However, to achieve this transformation effectively, basic infrastructure must be provided. A national digital strategy's development and execution should also incorporate public feedback to jointly build policies and services. Some government agencies have developed online forums for citizen input on budget priorities and policy decisions, allowing citizens to have a say in the daily choices and issues that touch their life (The Edge, 2020).

Technology-related skills have the biggest year-over-year growth among SMEs, showing continued efforts to improve their goods, services, and operations (SME Corporation Malaysia, 2019). However, SMEs are often hesitant to accept recent technology and practices in the workplace, as seen here and here. Lack of thought on how these developments may benefit organizations is one of the primary explanations provided, as well as a lack of confidence in innovative technology (Jobstreet.com, 2022). It is critical for SMEs to devote effort to identifying skills gaps and developing a talent strategy. SMEs are on the lookout for new employees with certain talents and attributes that will aid in the creation or maintenance of an efficient, professional work environment. As the country becomes more digital by default, digital literacy and skills are now necessary across all strata and sectors of society, necessitating a multifaceted approach. Those seeking for work through digital upskilling and reskilling for future occupations are at the other end of the spectrum. According to Malaysia Digital Economy Corporation (2021), in the COVID-19 Impact Survey, 70 percent of Malaysian businesses would need to retrain in the post-pandemic era. Another 83 percent want to concentrate digital marketing and digital instruments for productivity, the latter from which will involve remote work. Talent, according to Dr. Sumitra Nair, Vice-President of Digital Skills and Jobs Division, Malaysia Digital Economy Corporation, is a vital component in the nation's digital ecosystem since digital competencies are catalysts for digitalization across SMEs, sectors, and the "rakyat" at large (New Straits Times, 2021).

3. Methodology

This study's approach includes a qualitative data collecting strategy via focus group discussions. Focus group discusses may be used to cover four distinct phases or stages of a scientific investigation, each having its own purpose, role, and aim (Barbour, 2005; Khan & Manderson, 1992; Seal et al., 1998). Twelve interviews were conducted with Malaysian SME owners, operators, and managers. They were selected based on their accessibility and willingness to participate in the interviews (Wrenn et al., 2013). The focus group discussion guides were developed and reviewed by the research teams based on the proposed research framework. Two major discussion topics were talent management and digital transformation in the manufacturing SME sector in Malaysia, which were covered in different sessions over three days. Utilizing an inductive thematic approach (Braun & Clarke, 2006), data (quotes) were evaluated for recurrent instances of some kind, which were then found systematically across the data set and grouped together.

4. Findings and Discussions

Focus group discussions with a set of semi-structured questions developed by research teams based on two important variables of this study which are talent management and digital transformation for the eligible respondents of this research provide varieties angles of opinions. The set of questions asked about digital transformational domains such as customers, competition, data, innovation, and value (Rogers, 2016) for SMEs as well as questions to explore the main predictors of talent management that are aligning, orchestrating, architecting, and curating for digital capabilities (Dery & Sebastian, 2017), focusing on the SME manufacturing sector in Malaysia. From the overall discussions, the researchers identified six important themes highlighted by most of the respondents. The themes are (a) the term digital transformation; (b) customers, competition, data, innovation, and value in digital transformation; (c) the importance of digital transformation for SMEs; (d) the importance of talent management for SMEs; (d) the importance of talent management for digital transformation; and (e) aligning, orchestrating, architecting, and curating for digital capabilities.

4.1. The term digital transformation

Previously, the major reason for the existence of a company organization was to earn profits for its shareholders. SMEs are being assessed against a wide range of environmental, social, and governance metrics in addition to their financial success. SMEs are beginning to recognize the significance of digital transformation, in addition to exploring the myriad of opportunities it provides.

To enable large improvements and breakthroughs, such as increased user services, optimizing new operations, or generating entirely new services, digital transformation is critical, for organizational, and cultural changes, as well as the usage of new digital technology associated with them... (Respondent 1)

and

Digital transformation is the application of digital technology to significant market and operational changes, for example, by improving customer experience, optimizing processes, building new business models... (Respondent 5)

and

Digital transformation should be the extent to which a company makes use of any IT activity. Utilizing cutting-edge digital technologies, for example, social networking, mobile, analytics, and embedded devices... (Respondent 9)

The industrial revolution technologies can and must impart gain efficiency, speed decision making, and enable the creation of new products and services. Technologies alone are not enough, and

expertise is fundamental to transforming the new chance offered by technology into a powerful tool for business growth.

4.2. Customers, Competition, Data, Innovation, and Value in Digital Transformation

Many of the fundamental tenets of the approach are being redefined by digital technology. The fact that many of their most fundamental presumptions now need to be updated must be acknowledged and addressed by SMEs that were well established before the technical tsunami of the Internet. There are five domains of corporate strategy that the digital world that will be highlighted in this study that are customers, competition, data, innovation, and value (Rogers, 2016). According to Rogers (2016), the strategy themes are as follows: (1) Customers - capture client associations (2) Competition - establish platforms, not just merchandise; (3) Data - transform data into valuable investments; (4) Innovation - innovate via creativity; and (5) Value - modify value proposition.

- i. Customer: Customers can utilize digital tools to discover, analyze, buy, and use products while also sharing and connecting with brands. They can influence others and affect brand views since they are dynamically connected... (Respondent 3)
- ii. Competition: Because there are no static industry boundaries nowadays, competition is one of the strategic digital transformation topics for your firm to consider... (Respondent 7)
- iii. Data: Currently, every conversation, transaction, or operation occurring within or outside of these organizations is being created by a flow of unstructured data from social media, mobile devices, and sensors on every item in a company's supply chain... (Respondent 11)
- iv. Innovation: Innovation is centered on careful testing and minimal viable products that maximize learning while cutting expenses. With the help of actual consumers, assumptions are tested, and products are built iteratively, saving time, lowering the risk of failure, and enhancing SMEs.... (Respondent 12)
- v. Value: Customer perception of a company's brand determines its value proposition. In an SME climate, the only definite answer is the route of constant evolution to extend and increase the value proposition to its consumers... (Respondent 8)

By undertaking digital transformation domains, businesses can better understand their consumers' demands and supply them with new value propositions. SMEs can add value by changing and expanding their existing product and service offerings. Digital transformation makes this possible (Karjaluoto & Huhtamäki, 2010; Karjaluoto & Ulkuniemi, 2015).

4.3. The importance of digital transformation for SMEs

Petrillo et al. (2018) define Industrial Revolution 4.0 as addressing three important areas: (1) Product and service offerings are becoming digitized, and detailed product and service descriptions are being offered via intelligent networks; (2) Vertical and horizontal value chains are becoming more connected through digitization and enhanced customization of products, automated data transmission, and integrated customer service systems; (3) Development of creative digital business models: New and integrated digital solutions are created as a result of the extensive system and technological interaction.

The foundation of the digital platform is the integrated availability and control of technologies in real-time across the business organization.

Digital transformation transforms the company's business through the introduction of digital technologies and brings benefits such as productivity increases, cost reductions, and innovation... (Respondent 2)

and

The digital infrastructure that everyone needs to connect with various network actors is provided by the meaning and importance of digital transformation for SMEs to generate competitive advantage and create sustainable value... (Respondent 6)

and

While bigger organizations have more rigid and formal processes, smaller businesses can function more freely and quickly. Through digital transformation, agility may speed up reaction time, support SME economic success, and boost profitability... (Respondent 10).

While the quick uptake of digital tools may have certain benefits, there is still a need for guidance from reliable sources to consolidate the change, manage risks, and realize the potential of the new technology (OECD, 2021).

4.4. The importance of talent management for SMEs

Searching for the exact people with the exact skills and experience in an uncertain and complex business environment is a great challenge faced by business organizations throughout the world.

Beyond the struggle for searching the high performing talent, talent management is crucial for SMEs. Although talent management strategies and practices in SMEs have not received as much attention as human resource management practices, which are crucial to the success of SMEs. All SMEs must realize that human capital determines a company's performance and competitive advantage... (Respondent 3)

and

Talent management should be a tactic and method for maximizing as many employees' talents as possible in SMEs for greater productivity. SMEs might not have the necessary experience to implement a strategic plan in this area and recruit talent, but they can learn the strategies to get the benefits... (Respondent 7)

and

The process of recruiting, selecting, and retaining talent demonstrates the advantages of talent management. Talent management may assist SMEs in identifying their competitive advantages. Through efficient talent management, high-performing talents may be found. In this situation, SMEs might benefit the company... (Respondent 11)

Business organizations such as SMEs should take attention to the important and bigger roles of developing resourceful individuals and make their future equipped by aligning them with the goals and objectives of the business.

4.5. The importance of talent management for digital transformation

The characteristic of the fourth industrial revolution is speed, and we need ever more qualified skills to manage change and contribute to business growth. To match client expectations, the industrial revolution 4.0 is a new level of organisation that monitors and regulates the whole value chain of personalized goods. Because it connects humans and technology, digitalization is the most important component of the industrial revolution (Varghese & Tandur, 2014).

The development of talent management in the digital economy should be considered to increase the efficiency of working practices and the overall transformation of SMEs in line with the industry 4.0 revolution... (Respondent 2)

and

Talent management practices that involve the process of attracting, selecting, recruiting, orientation, training and development, performance appraisal, rewards, and recognition, as well as employees' career development may give huge implications for businesses. It is high time that these processes should be implemented for SMEs like other bigger organizations and firms, to capture and move faster as the technological advancement through digital transformation in business ... (Respondent 6)

and

Digital talents use digital technologies to open new ways of creating value. Talent management plays a crucial role in one of the most fundamental issues businesses must overcome to adapt to the changing environment: renewing their human resource base to adopt and adapt to the latest transformation in the digital era... (Respondent 10)

According to Cardenas-Navia and Fitzgerald (2019), there is no agreement on what defines "digital talent", therefore there are many different interpretations of what it is and what it accomplishes, even though it is acknowledged that having access to digital talent would provide businesses a competitive edge. Also, managing digital talent is a challenge that firms frequently face. Organizations

are impacted because talent management has an impact on the reorganization, training, development, and recruitment tactics.

4.6. Aligning, orchestrating, architecting, and curating for digital capabilities

Dery and Sebastian (2017) employed four primary criteria in their study to manage talent for SMEs' digital transformation that are aligning, orchestrating, architecting, and curating.

SME companies should aim to maximize their digital potential, technology orientation, and technical skills when it comes to digital technology and commercial success. SMEs increasingly rely on their own internal innovation capabilities, and at the same time, firm-level and regional innovation drivers are strengthening. This mechanism should be advantageous for SMEs in terms of fostering innovative potential through aligning, orchestrating, architecting, and curating best talents... (Respondent 4)

and

The SMEs in the manufacturing sector believe that new business models and performance in business are two requirements for accurately expressing the advantages of the digital transformation. It involves good talents that are well-aligned, well-orchestrated, well architected, and well-curated... (Respondent 8)

and

Companies should operate their businesses in such a manner that it adopts a business-focused, outside-in strategy that SMEs should develop a digital enterprise. The platform offers a framework for the business where resources may be used in many ways to produce value... (Respondent 12)

The future is more uncertain than ever, and an organization's capacity to quickly adapt, reskill, and deploy personnel wherever the next opportunity occurs is becoming increasingly important to its success. This transition may be severely limited by the requirement for commitment. To enhance the effectiveness of talent management, a new perspective on direction must be adopted, comparable to the paradigm change brought about by digitalization. To ensure that all stakeholders have faith in this new development in SME company organizations, a broad shift in the way human resource recruiting is done is thus required. Table 1 explains the keynote from the interview based on the discussed themes. Digital labor platforms have made it possible for rivals to choose the finest personnel from their firms and given workers new means to make their presence known. The 3Es of talent management - engagement, enrichment, and empowerment are explored in a recent paper from the Asian Institute of Finance (AIF), which proposes a new strategy for managing and keeping personnel (Talent & Human Capital, 2017). Dery and Sebastian (2017) claims that test and learn environments are about more than simply novel approaches to how work is done; they are also about who is performing the job.

Table 1. Keynote from Focus Group Discussion

| Theme | Feedback | Keynote from the Interview |
|---|--|---|
| The Term Digital Transformation | Session 1 – Respondents 1 and 2 Session 2 – Respondents 5 and 6 Session 3 – Respondents 9 and 10 | The application of modern digital technology to facilitate significant business advances. Integration of digital technologies into business processes. The extent to which a company makes use of any IT activity. |
| Customers, Competition, Data, Innovation, and Value in Digital Transformation | Session 1 – Respondents 3 and 4 Session 2 – Respondents 7 and 8 Session 3 – Respondents 11 and 12 | <ul style="list-style-type: none">• Customers are dynamically interconnected, and their interactions with each other change and influence their relationships with companies and brands.• Direct rival because of a shared business model or difficulties• From conversations with customers, social media, mobile devices, and virtually every touchpoint with customers, data is being generated at an unprecedented rate.• The innovation process, in which businesses create, test, and sell new ideas.• A successful company has a clear value proposition |
| The Importance of Digital Transformation for SMEs | Session 1 – Respondents 1, 2, 3 and 4 Session 2 – Respondents 5, 6, 7 and 8 Session 3 – Respondents 9, 10, 11 and 12 | Changes the way companies work and is a key driver of growth, productivity, competitiveness, and innovation. Generate competitive advantages and create sustainable value. Digital transformation can promote the agility of SMEs. |
| The Importance of Talent Management for SMEs | Session 1 – Respondents 1, 2, 3 and 4 Session 2 – Respondents 5, 6, 7 and 8 Session 3 – Respondents 9, 10, 11 and 12 | <ul style="list-style-type: none">• Strategies and practices for talent management in SMEs have received little attention so far. It is human capital that determines the performance and competitive advantage of companies.• Strategies and practices for maximizing the skills of employees (whether there are many or few).• SMEs may lack expertise in attracting talent and applying a strategic approach in this area• Attracting, developing, and retaining talent to find out how they have managed to stay competitive.• Add value to the business. |
| The Importance of Talent Management for | Session 1 – Respondents 1 and 2 | The development of talent management in the digital economy should be considered to increase |

| | | |
|---|--|---|
| <p>Digital Transformation</p> | <p>Session 2 – Respondents 5 and 6 -</p> <p>Session 3 – Respondents 9 and 10</p> | <p>the efficiency of working practices and the overall transformation of SMEs in line with the industry 4.0 revolution</p> <p>Implications for businesses, as talent management influences attracting, developing, and retaining talent. - Digital talents to use digital technologies to open new ways of creating value.</p> <p>Crucial role in one of the most fundamental issues businesses must overcome to adapt to the changing environment: renewing their human resource base</p> |
| <p>Aligning, Orchestrating, Architecting, and Curating for Digital Capabilities</p> | <p>Session 1 – Respondents 3 and 4</p> <p>Session 2 – Respondents 7 and 8</p> <p>Session 3 – Respondents 11 and 12</p> | <p>When it comes to digital technology and organizational performance, firms are attempting to maximize their digital potential, technology orientation, and technological capabilities, as well as aligning, orchestrating, architecting, and curating potential digital talents.</p> <p>The industry acknowledges that performance and new business models are among the criteria for reflecting the benefits of digital transformation by aligning, orchestrating, architecting, and curating great talents.</p> <p>Businesses must operate in a way that is business-focused and from the outside in to develop a digital enterprise. The platform gives the company a base from which resources may be combined in many ways to add value.</p> |

5. Conclusion

It is becoming increasingly obvious that there is a definite need to train individuals, whether just graduated or now in the industry, for digital professions as digital experts have noticeably started to perform an even more dynamic part in the economy. SMEs must have greater agility, speed, and audacity. Small firms should carefully evaluate the potential to pick a lower performance but high fit candidate if it is not feasible to discover individuals who are both high performers and high fit since he or she may be developed to become a high performer. The goal of future research should be to create an efficient and competitive model of talent management based on the digital transformation of SMEs, particularly in the manufacturing sector, given the critical need for SMEs. This model will help the SMEs to utilize human capital and technology capital, in line with our government policy to Digital Government Transformation Action Plan and SMEs development as mentioned in the 11th Malaysia Plan. The input of this research hopefully might help in developing and driving innovative talent management initiatives for SMEs through important domains of digital transformation. SMEs should learn how to stay competitive in the battle for talent and understand the effect on the labor market especially when there is rapid development in the current industrial revolution.

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