



Indonesia's MSEs on the Path to Digital Transformation

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Abstract. Micro and Small Enterprises (MSEs) have a strategic role in the national economy. In the current era, MSEs can take advantage of digital platforms in various aspects of their business, which include activities to get suppliers for production purposes, ease of access to capital to financial institutions, use of technology in financial management and promotion, and use of marketplaces in marketing activities. This research aims to identify and examine aspects of digital transformation administered by MSEs in Indonesia. Thus, this research can support RIRN in the Social Humanities, Culture, and Education sector, a sub-study of Entrepreneurship, Cooperatives, and MSMEs. So that MSMEs can contribute to Indonesia's blue digital-based economic development. The data collection method in this research is qualitative research. The results of this study show that MSEs in Indonesia are at the pre-core and core stages, and some are at the adjacent and transform stages, but their numbers still need to be increased. The digital transformation aspect in this study includes four aspects, namely: financing aspect, marketing aspect, payment aspect, and financial transaction recording aspect. Among these four aspects, which most implemented by MSEs are marketing and payment aspects (more than 90% of respondents), while for financing and financial transactions aspects (around 37% of respondents).

Keywords: Digital transformation · marketplace · digital payment · MSEs

1 Introduction

Micro, Small, and Medium Enterprises (MSMEs) have a strategic role in the national economy by three aspects; the number of business units, employment, and contribution to Gross Domestic Product (GDP). Based on data from the Ministry of Investment/Investment Coordinating Board (BKPM), in 2020, MSMEs contributed 61.97% of the total national GDP or the equivalent of 8,500 trillion rupiahs with a percentage of employment of 97% of the entire workforce [1]. MSMEs in Indonesia also have high resilience in dealing with various crises, such as during the Global Financial Crisis (GFC) in 2009. As documented, the growth of MSMEs' GDP remain high at 13.6% (yoy) [2]. According to Kuncoro [3], the resilience of MSMEs to the global crisis caused by two things, first, it is not affected by the increase in the dollar against the rupiah and the increase in interest rates.

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T. T. Y. Alabdullah et al. (Eds.): ICIGR 2022, ASSEHR 750, pp. 549–556, 2023.

https://doi.org/10.2991/978-2-38476-052-7_60

Different from the previous crisis, the Covid-19 crisis had a multidimensional impact. Social distancing policy hugely affected the decrease in demand. A survey from the Katadata Insight Center (KIC) conducted on 206 MSMEs in Jabodetabek showed that 82.9% of MSMEs felt the negative impact of the Covid-19 pandemic, and 63.9% of the affected MSMEs experienced a decrease in turnover of more than 30% [4]. A survey from BPS conducted in October 2020 of 35,992 business actors showed almost the same results, as 67.77% of micro and small-scale companies admitted that they still experienced a decrease in income in the third quarter of 2020 [5]. This slackening has put considerable pressure on it, causing a very significant impact on MSMEs [2].

Even though most MSMEs have been negatively affected by the Covid-19 pandemic, some MSMEs have survived and even experienced improvements. There are 5.9% of MSMEs experiencing positive growth, and 3.8% of MSMEs experiencing an increase in turnover [4]. Most efforts made by MSMEs in dealing with business constraints are changing their marketing model by utilizing information technology and the internet [5]. This method is advantageous because Covid-19 has changed people's consumption model.

Not only that, the development of digital technology also plays a role, so any activities carried out by society today cannot be separated from the use of digital media, in addition to the activities performed by organizations, the community, and the government [6]. This rapid development has spawned various digital platforms that propound innovation in production, consumption, collaboration and sharing activities [2]. Under current conditions, MSMEs must adapt to technological changes to maintain their business. Digital transformation in the opinion of Lozic [7] is a process of integrating digital technology into all aspects of business, which include technology, culture, and operations.

Digital transformation is one of the five priority strategies of the ASEAN Comprehensive Recovery Framework (ACRF) that was compiled as an endeavor by ASEAN countries to rise from the crisis caused by the pandemic of Covid-19 [5]. The results of research conducted by Dias [8] on some small businesses in Australia, Germany, and the United States show that digital transformation helps small businesses overcome limited resources and become more innovative. The government, through Bank Indonesia, has consistently encouraged the development of MSME digitization. Three policy stanchions have been implemented to accomplish this development agenda [2]. This study aims to analyze digital transformation in micro and small businesses, especially those that have occurred after the Covid-19 pandemic, focused on three point: process, factors, and aspect of digital transformation.

1.1 Digital Transformation Process

According to Keays [9], the levels of the digital transformation process can be interpreted as follows:

1. Pre-core stage. The company has begun to realize the necessity of the organization's procedure transformation.
2. Core stage. The company tries to see which innovations can evolve from its current business model.

3. Adjacent stage. The company tries to analyze a new business model that can be developed based on organizational expertise.

Stage transformation. In this final stage, the company operates transformation, sees future goals, and then plans further changes.

1.2 Digital Transformation Factors

The factors that affect small businesses in implementing digital transformation can be divided into internal and external factors. Internal factors include resources, capabilities, culture, business processes, organizational structure, and business models. External factors include location, market, industry, and competitors [8]. This is in line with research conducted by Andriani [10], the adoption of digital business platforms by SMEs is also influenced by internal and external factors.

1.3 Digital Transformation Aspect

Around 70% of MSMEs in the world intensified their use of digital technology during the Covid-19 pandemic [11]. MSMEs can take advantage of digital platforms in various aspects of their business, which include activities to acquire suppliers for production purposes, ease of access to capital to financial institutions, use of technology in financial management and promotions, and use of marketplaces in marketing activities.

2 Methodology

The method used in this research is descriptive qualitative, which aims to describe findings in the field from various implementations of digital transformation for micro and small businesses in Indonesia. This research identifies, describes, and understands various digital transformations of MSEs in Indonesia including funding, marketing, payments, and finance. Furthermore, the findings of digital transformation are realized through theoretical interpretation. The object reserved is micro and small business units in Indonesia. The primary data used is information obtained from micro and small business unit owners who become informants. Information was collected by filling out questionnaires for 45 respondents, depth interviews-as the predominant informants to acquire data, observation, and documentation. Secondary data used was obtained from books, articles, official publications from ministry websites, regulations, and laws.

3 Results and Discussion

The respondents came from various business sectors, namely; (1) Agriculture, Livestock, Forestry, and Fisheries; (2) the Processing/Manufacturing Industry; (3) Trade, Hotels, and Restaurants; and (4) Services. The discussion in this study covers three things, videlicet stages in the digital transformation process, the supporting factors of digital transformation, and aspects of digital transformation.

Table 1. Digital transformation process in micro and small businesses in Indonesia

Digital transformation process	Percentage
The use of digital media in business management is needed	100%
The use of digital media makes business management easier	100%
Looking for information related to digital applications that can be used to manage business	88,9%
Has analyzed the impact of using digital media in managing business	60%
The use of digital media will make businesses more able to survive the crisis	93,3%
Need to make changes towards digitalization to achieve business goals	84,4%

3.1 Digital Transformation Process

The process of digital transformation in micro and small businesses in Indonesia has presented in Table 1.

This research shows that the SME actors in this study are aware of the need to make changes to the way the organization works, from a manual system to a digital system. This shows that business actors have gone beyond the pre-core stage. Respondents in this study tried to see what innovations could be elaborated from the current business model and go through the second stage of the digital transformation process, which is the core stage. There are quite a number of business actors who have tried to analyze new business models that can be developed based on organizational expertise. Regarding business resilience, although many business actors have not tried to analyze new business models that can be developed based on organizational expertise, they have seen their future goals to plan further changes. Digital transformation has also started, but most of it is still in one or two aspects, so it is not certain that business actors are at the transformation stage.

3.2 Digital Transformation Factors

Internal and external factors influence adoption of the use of digital business platforms by SMEs. The results of internal factors show that the most common reason why entrepreneurs do not use digital media in running their business is because business actors lack/cannot use online media. This study also shows the external factors affecting digital transformation in a business include four things, namely government support, internet providers support, pressure from competitors, and pressure from suppliers as well as customers, similar with research by Andriani [10]. Competitors' use of digital platforms is also very influential for business actors. As many as 91.1% of respondents already knew this. Pressure factors from suppliers and customers are also becoming substantial factors for a business in utilizing digital media.

3.3 Digital Transformation Aspects

This research focuses on four aspects of digital transformation in micro and small businesses, namely: funding, marketing, payment, and financial aspects.

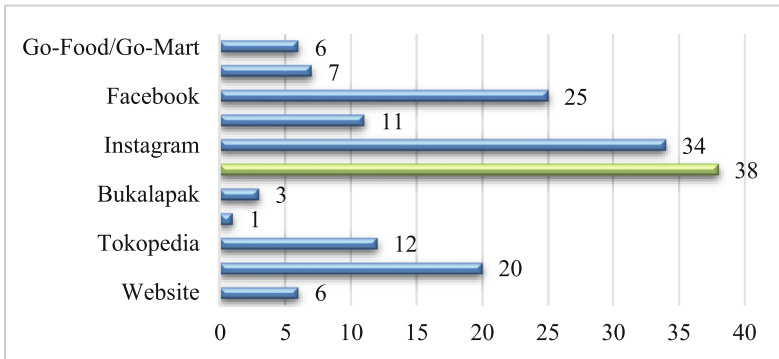


Fig. 1. Digital marketing platform used by micro and small businesses.

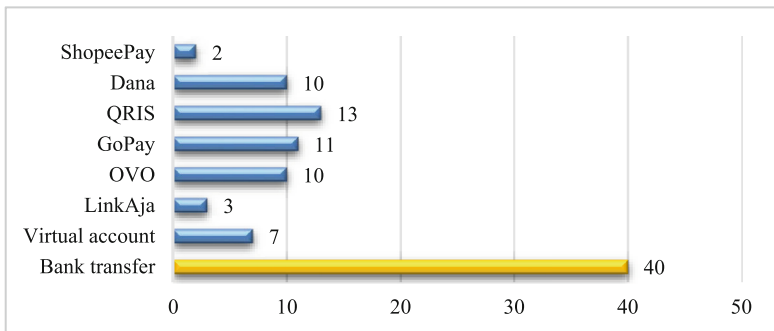


Fig. 2. Digital payment platform used by micro and small businesses.

1. Funding Aspect. Based on the results of this study, the number of respondents who did not know about digital financing was more, namely 60% compared to those who knew as much as 40%. Respondents obtained more of this information from websites and social media, so they still used little digital financing for business capital. Many business actors state that the process and requirements for obtaining digital funding are not complicated.
2. Marketing aspect. Respondents in this study almost used digital media to promote their products. As can be seen in Fig. 1, the digital marketing media used are WhatsApp, Instagram, Facebook, Shopee, Tokopedia, and TikTok. Respondents carried out this digital marketing media before the Covid-19 pandemic. Respondents do this because it can increase business turnover.
3. Payment aspects. The results of this study indicate that the majority of respondents (91.1%), have received digital payments from buyers or consumers. Of the 41 respondents who have received digital payments, the media or platforms most used are bank transfers and QRIS, as can be seen in Fig. 2. One respondent can use more than one digital payment medium.

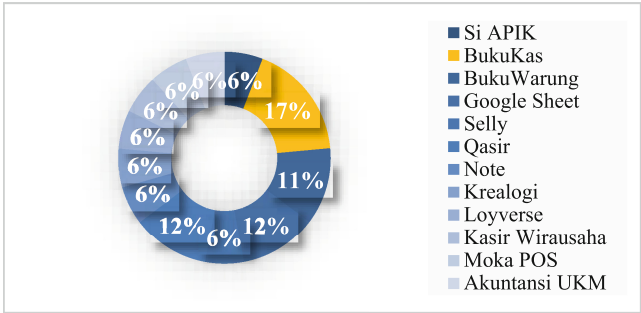


Fig. 3. Digital financial and accounting platforms used by micro and small businesses.

A total of 27 respondents stated that they had used digital payments before the Covid-19 pandemic, and 14 respondents used them after the Covid-19 pandemic. Business actors consider that secured in receiving payment transactions from consumers using digital media. According to research by Widyayanti [12] in 2020 on 30 MSME actors in Yogyakarta, many factors motivate MSME actors to embrace the digital payment system, including faster transactions, simpler and simpler and more systematic recording, accurate databases, and increased business revenue.

4. Recording financial transactions aspect. In terms of using digital media for recording business financial transactions, as can be seen in Figure 3, the results of this study indicate that not many business actors use it (28 respondents), and only 17 respondents have used online applications or digital media in recording their business transactions.

According to Fahrizal [13], the number of MSMEs using the cash book application from January to March 2020 has grown 20 times, and the number of transactions has increased 60 times. The BukuKas application helps MSME actors record all transactions in detail, monitor cash flow, and business performance, and plan business finances. The BukuWarung application is also widely used by MSME players because by using this application businesses can save time and expenses. Those are usually spent on manual bookkeeping and receive receivable payments three times faster with the payment reminder feature. One of the reasons for this increase in users is that business people think that online applications can be used easily.

4 Conclusion

Digital transformation in this study is seen from three points; processes, influencing factors, and aspects. The digital transformation process at MSEs shows that business actors have gone beyond the pre-core stage. At this stage, the company realizes the need to transform organizational procedures. Internal factors that influence digital transformation in MSEs are mostly due to capability; this is supported by results that show why entrepreneurs do not use digital media in running their businesses because business

actors cannot use online media. This study also shows that external factors that affect digital transformation in business include four things, namely government support, internet provider support, pressure from competitors, and pressure from suppliers and customers. Based on this study's results, many MSEs still do not understand digital financing. While in the marketing aspect, most MSEs have used digital media to promote their products. Digital payments have been mostly made by MSE consumers, while MSE actors have not widely used the recording of business financial transactions.

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