

DIGITAL TRANSFORMATION OF MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMES) DURING THE PANDEMIC: CHALLENGES AND STRATEGIES

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Abstract

Digital transformation of Micro, Small and Medium Enterprises (MSMEs) during the pandemic has become a vital step to ensure business survival and growth. The COVID-19 pandemic has accelerated the need for digital technology adoption due to physical restrictions that reduce face-to-face interactions. While this offers various opportunities such as market expansion and improved operational efficiency, MSMEs also face various challenges, including financial limitations, low digital literacy, and uneven internet infrastructure and connectivity. To overcome these challenges, a comprehensive strategy is needed, including improved digital literacy, utilisation of digital platforms, and collaboration with external parties. Digital transformation is not only a short-term solution during the pandemic, but also a long-term strategy to improve the competitiveness and sustainability of MSMEs in facing the industrial era 4.0. With the right support from the government and other stakeholders, MSMEs can continue to grow and contribute significantly to the economy.

Keywords: Digital Transformation, Micro, Small, and Medium Enterprises, Pandemic.

Introduction

The COVID-19 pandemic has had a major impact on many sectors of life, including the global economy. Social restrictions and lockdown policies implemented to curb the spread of the virus have led to a sharp decline in trade, tourism and manufacturing. Many companies have been forced to scale down their operations, and some have even had to close their businesses, which has resulted in increased unemployment rates and a decrease in people's income (O'Brien et al., 2020) . Declining consumer demand also depressed overall economic growth. In addition, global uncertainties and supply chain disruptions add to the burden on the industrial and trade sectors (Mushani . , 2024)

In Indonesia, the Micro, Small and Medium Enterprises (MSMEs) sector has been significantly impacted by social distancing and changing consumer behaviour. MSMEs, which previously relied on face-to-face interactions and traditional trade, are faced with

huge challenges to maintain their operations and business continuity (Huseynova, 2024).

Digital transformation is a crucial solution for MSMEs to remain competitive and relevant amidst these changes. Digital technology allows MSMEs to reach a wider range of consumers, improve operational efficiency, and create new product and service innovations. However, this transformation process is not easy and is burdened by various challenges (Metia, 2022).

One of the main challenges is the limited technology infrastructure. Many MSMEs, especially those in remote areas, still face limited access to stable and fast internet. In addition, the hardware and software required to run a digital business is often a heavy burden for MSMEs with limited capital. This makes the digitisation process not easy and comprehensive, with various technical obstacles that need to be overcome (PUSPITA & RAHAYU, 2023).

On the other hand, the lack of digital skills among MSME players is a significant barrier. Not all MSME owners have sufficient knowledge or expertise to utilise digital technology effectively. Training and education that focuses on digitalisation needs to be improved to empower MSME players with new capabilities. Other challenges include government regulations that may not fully support the digitisation process and the spirit of adaptation from the MSME players themselves. To successfully transition to digital platforms, MSMEs need to overcome these barriers through collaboration with various parties, such as government, technology service providers, and educational organisations (Kelkar, 2022).

Some of the challenges faced by MSMEs in moving to digital platforms include limited technological infrastructure, lack of digital skills among MSME players, lack of capital for technology investment, and government regulations and policies that do not fully support this adaptation. On the other hand, opportunities are wide open for MSMEs to reach a wider market and improve competitiveness if they can overcome these challenges.

Therefore, this study aims to identify the main challenges faced by MSMEs in the digital transformation process during the COVID-19 pandemic and analyse the strategies that can be implemented to overcome these obstacles, so that MSMEs can achieve maximum benefits from this digital transformation.

Research Methods

The study in this research uses the literature method. The literature research method is an approach that involves the collection, evaluation, and analysis of written sources relevant to the research topic. This process includes reviewing and synthesising different types of literature, such as books, scientific journal articles, research reports, theses, and official documents (Sanusi, 2015); (Wekke, 2020). The aim is to understand recent developments in the field under study, identify trends, discover research gaps,

as well as gain an in-depth perspective on the subject being studied. Literature research not only helps strengthen the theoretical and conceptual foundations of the research to be conducted but also provides the historical and empirical context necessary to properly interpret the study findings (Syafri & Erlina, 2018).

Results and Discussion

Challenges Faced by MSMEs in the Digital Transformation Process

The digital transformation process for MSMEs (Micro, Small, and Medium Enterprises) faces various complex and multidimensional challenges. One of the main challenges is the limited technology infrastructure. Many MSMEs, especially those in remote areas, still face limited access to stable and fast internet. This limitation hinders the ability of MSMEs to access digital platforms, manage online transactions, and adopt digital tools needed to improve operational efficiency (Maulana, 2024). In addition, the cost of investment in hardware and software is often a heavy burden for capital-constrained MSMEs. Without adequate infrastructure support, digital transformation becomes difficult to implement effectively (Sareen & Rani, 2024).

In addition to infrastructure limitations, the lack of digital skills among MSME players is also a significant barrier. Many MSME owners and employees do not have sufficient knowledge or expertise to optimally utilise digital technology. This includes the ability to operate digital devices, use business software or applications, and understand e-commerce and digital marketing concepts (Purnamasari et al., 2023). Without adequate education and training, MSME actors will find it difficult to adapt to rapid and dynamic technological changes. Therefore, training and digital competency development programs are needed to empower MSMEs in the digitalisation process (Christanto, 2021).

Another challenge is the readiness or preparedness of the organisation's culture in the face of change. Many MSMEs are still comfortable with traditional ways of doing business and hesitate to adopt new technologies due to uncertainty of results or fear of risk. Changes in organisational culture require a rethinking of how business is conducted, including adjustments in decision-making processes, management, and customer service. Digital transformation requires full support from all elements of the organisation, from top management to operational staff, to create an environment that is innovative and adaptive to technological change (Kumari & Kumari, 2021).

In addition to internal factors, external challenges such as government regulations and market competition also play an important role. Unsupportive regulations or a lack of clear policies regarding the digitalisation of MSMEs can hinder the process. For example, lack of clarity regarding data protection and privacy, taxation rules for online transactions, or licensing procedures for digital platforms can be barriers for MSMEs looking to transform. Competition with large companies or established e-commerce platforms is also a challenge for MSMEs that are trying to build their online

presence. They have to compete in terms of product quality, price, and the customer experience provided (Adetunji, 2023).

Finally, sustainability and financial support are also important issues. MSMEs often struggle to gain access to sufficient funding to finance digital transformation. Banks or financial institutions may perceive MSMEs as high-risk investments, making them reluctant to lend (Akram, 2023). Without access to adequate sources of financing, many MSMEs are trapped in a cycle of limited capital and difficulty innovating. Therefore, special financing schemes or incentives from the government and private sector are needed to support the digital transformation of MSMEs, so that they can survive and compete in the rapidly evolving digital era.

MSME Strategies in the Digital Transformation Process

In facing the challenges of digital transformation, MSMEs need to adopt effective and well-planned strategies. One of the key strategies is to improve digital literacy among owners and employees. Digital training and workshops can help improve skills and knowledge on the use of digital technology. MSMEs should work with educational institutions or technology companies to organise training programmes tailored to their business needs. By providing access to educational resources, MSMEs can equip their workforce with the skills needed to adapt to technological change (Alhassan, 2023).

The next strategy is to utilise existing digital platforms, such as e-commerce and social media, to expand market reach. These platforms offer accessible infrastructure at a low cost and provide opportunities for MSMEs to sell their products online. By joining e-commerce platforms, MSMEs can increase product visibility and access a wider market, both nationally and internationally. In addition, a presence on social media can be used to interact directly with customers and build a loyal community (Arani, 2023).

MSMEs also need to utilise data for better decision-making. By implementing the right data management system, MSMEs can collect, analyse, and use customer and operational data to improve efficiency and enhance customer experience. The use of data analytics allows MSMEs to understand market trends, customer behaviour, and product performance so that they can create more effective marketing and operational strategies. The development of data analytics capabilities is an important asset in the effort to win the competition in the digital era (Aspiranti., 2023)

Collaboration with external parties is also a strategy that MSMEs can adopt. Engaging in the larger digital ecosystem will help MSMEs acquire additional resources, such as knowledge, technology, and market access. MSMEs can partner with technology solution providers, logistics companies, or financial institutions to support their digitisation efforts. In addition, partnerships with tech startups can give MSMEs access to the latest innovations and the potential to develop new products or services (Bakator, 2024).

Finally, MSMEs should consider sustainability in every step of digitisation. This means not only focusing on short-term gains but also paying attention to how investments in technology can support long-term growth. Creating a flexible and adaptive strategy allows MSMEs to adjust to future technological developments or market changes (Baker, 2023). By paying attention to sustainability, MSMEs can ensure that they remain relevant and competitive in an ever-changing business ecosystem. In this process, support from the government and other stakeholders is important to provide a conducive environment for the successful digital transformation of MSMEs.

Conclusion

Digital transformation of MSMEs during the pandemic has become an urgent need to survive and thrive. The pandemic has accelerated the adoption of digital technologies due to physical restrictions that hinder in-person interactions. The main challenges faced by MSMEs in this process include limited financial resources and access to technology, low digital literacy, and limited internet infrastructure and connectivity. However, digital transformation provides great opportunities for MSMEs to expand markets, improve operational efficiency, and adapt to the needs of increasingly digitalised consumers.

In order to overcome these challenges, MSMEs need to develop a comprehensive strategy. Improving digital literacy through training and education is an important first step. Utilisation of digital platforms such as e-commerce and social media can help MSMEs reach a wider market effectively. In addition, the utilisation of data for strategic decision-making and more efficient business management also plays an important role in this transformation process. Collaboration with external parties and support from the government and various other stakeholders can help MSMEs reduce the burden and gain access to better technology and markets.

Digital transformation is not only a short-term solution to the pandemic, but also a long-term strategy to ensure the sustainability and growth of MSMEs. With the implementation of the right strategy, MSMEs can improve their competitiveness and adapt to market changes and ongoing technological developments. Investments in digital technology and digital skills development are key to facing challenges and capturing opportunities in the industrial era 4.0 and beyond. Proper support from all parties involved will enable MSMEs to continue to thrive and contribute significantly to the economy.

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