

ANALYSIS OF THE IMPACT OF DIGITALIZATION ON THE ECONOMIC GROWTH OF MSMEs IN INDONESIA

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Abstract

Digitalisation has changed how businesses operate, including in Indonesia's Micro, Small and Medium Enterprises (MSMEs) sector. This study aims to analyse the impact of digitalisation on the economic growth of MSMEs. Qualitative research is the method used in this research, and data is collected through literature studies and relevant previous reports on the effect of digitalisation on MSMEs. Once the data is collected, the analysis process is conducted through several stages, including data filtering, presentation, and conclusion drawing. The results obtained explain that digitalisation has a positive impact on the economic growth of MSMEs in Indonesia. Digitalisation has great potential to help improve the economic growth of MSMEs by expanding markets, improving operational efficiency, and encouraging innovation in products. However, to maximise these benefits, MSMEs face various challenges in the digitisation process, such as limited access to technology and a lack of skills in using digital technology. Thus, there is a need for collaboration between the government, businesses, and the community to overcome these challenges so that MSMEs in Indonesia have the potential to become the main pillar of the national economy.

Keywords: Impact of digitalization, economic growth, MSMEs, Indonesia

Introduction

Digitalization has emerged as an important element influencing transformation in various sectors of the economy. Rapid advances in communication, computing, and connectivity technologies have driven the evolution of digital technology, leading to major changes in organisational behaviour, structure, practices, values, and beliefs (Aristocracy, 2023). In today's digital era, information and communication are crucial in helping to increase national competitiveness. Countries that successfully incorporate digital technologies into various sectors of their economies are more likely to gain a competitive advantage in an increasingly digital global landscape (Zaelani, 2019).

Changes triggered by digitalization also affect the Micro, Small, and Medium Enterprises (MSMEs) sector in Indonesia (Yudhinanto & Helmita, 2023). Along with the

increase in internet access and digital technology, many MSMEs are starting to take advantage of e-commerce platforms, social media, and other technologies. Therefore, MSMEs need to adapt to technology to reach a broader market because changes in consumer habits that tend to choose online shopping encourage business actors to continue to innovate through online platforms (Yuwana, 2020).

In Indonesia, micro, small, and medium enterprises (MSMEs) are important in the national economy. MSMEs are the main pillar contributing to the Gross Domestic Product (GDP) and have become the main source of employment. MSMEs provide jobs for more than 97% of the workforce throughout Indonesia. Based on information from the Central Statistics Agency (BPS), MSMEs provide more than 60% of GDP, making it a crucial element in national economic growth (Hakim, 2024). Digital transformation for MSMEs is very important and not only limited to the sales function. Digital technology also plays a role in various aspects of business, including marketing, communication with customers, delivery of product information, customer retention, and after-sales service (Astuti & Wulandari, 2023). Therefore, it is important to understand how digitalization affects the economic growth of MSMEs in Indonesia in terms of increasing productivity, competitiveness, and business sustainability.

Previous research by (Nurul Amalia Sari, 2019) showed that the digital economy impacts the income of MSME actors in Makassar City. Various factors that support and hinder the development of MSMEs from the perspective of the digital economy include the level of insight related to the use of technology media, which is an important criterion for success in this domain.

Another study by (Astuti & Wulandari, 2023) revealed that digital technology makes it easier for MSME actors to communicate and convey information quickly. This technology also facilitates the presentation and marketing of the products or services produced and helps to expand market share. From a financial perspective, digital technology can potentially increase business income, especially for MSMEs still in the early stages and with limited capital. The use of digital technology in online marketing directly impacts increasing MSME income.

Meanwhile, research by (Mokodaser, Maramis, & Tooy, 2022) highlights that digitalization has been applied in various aspects, especially operations and sales. Digital marketing encourages MSMEs to get more consumers through websites and social media at a relatively low cost. In addition, applying digitalization to business operations makes everything more practical and efficient at a lower cost, thanks to a centralized system.

The novelty in this study lies in a more comprehensive approach than previous research which generally only focuses on the impact of digitalization on increasing MSME income. This research offers a comprehensive approach by exploring the impact of digitalization on productivity and revenue aspects and business competitiveness and sustainability in the long term. The findings of this study can provide valuable insights for MSME actors on how to utilize digitalization to improve operational efficiency. In addition, the research results can also be a benchmark for stakeholders in making rules that support digital transformation in the MSME sector. Appropriately designed policies

will encourage the birth of an environment that helps the growth and development of the MSME sector, so this study aims to identify the extent to which digitalization plays a role in encouraging the economic growth of MSMEs in Indonesia.

Research Methods

Qualitative research aims to investigate and understand certain conditions in the real-life field. Qualitative research aims to answer questions about what happened, why, and how the process occurred. This means this research focuses on in-depth exploration and case-oriented studies, either through analysing several cases or a single case (Fadli, 2021). Data collection is carried out through literature study techniques, which involve activities such as collecting, reading, recording, and processing research materials. A literature study is a method of collecting data from various sources, including books, magazines, and other relevant literature to the problem and research objectives. The results of this literature study serve as a reference in the discussion of research results. After the data collection is complete, the analysis process is carried out through several stages, including filtering the data or selecting the most relevant information from the data set that has been collected. Once the data is filtered, the selected information is organized and presented in a clear and organized format. After the data is presented, the researcher draws conclusions based on the analysis.

Results and Discussion

The era of digitalization refers to a period of transformation marked by the integration of digital technology in various aspects of human life, including communication, education, business, and entertainment. This phenomenon is triggered by the rapid development of information and communication technology, such as the Internet, mobile devices, and digital-based applications, which allow instant and global access to information. In this era, data is one of the most valuable assets, and data analysis is used to improve efficiency and decision-making in various sectors (Lamato & Halim, 2024).

Digitalization positively impacts various fields, especially the economic sector, by increasing efficiency, accessibility, and innovation. The application of digital technology allows companies to automate business processes, lower operational costs, and increase productivity. E-commerce is gaining popularity, allowing businesses, including micro, small, and medium enterprises (MSMEs), to access global markets without geographical restrictions, thereby increasing competitiveness and creating new jobs (Adha, 2022). Additionally, big data analytics allows companies to gain deeper insights into consumer behaviour, helping them develop more effective products and marketing strategies. Business model innovations, such as sharing platforms and subscription-based services, are also emerging due to digitalization, creating a more dynamic and inclusive business ecosystem. Thus, digitalization accelerates economic growth and creates wider opportunities for society (Mukhlis, Arsad, Mukhsin, & Said, 2024).

Digitalization has changed how businesses operate, and digital marketing is one of the important adaptations of this phenomenon. By using digital marketing, companies can leverage digital technology and platforms to reach a wider audience more cost-efficiently than traditional marketing methods (Ade Kurnia Sari, Syahputri, & Nurbaiti, 2024). Businesses can develop more targeted and personalised marketing strategies by leveraging tools such as social media, search engines, and email. This allows them to analyze consumer behaviour in real-time, optimize marketing campaigns, and improve customer interactions. Thus, digitalization and digital marketing complement each other to create a better consumer experience and encourage business growth (Santy Permata Sari, 2020).

The push for developing information and communication technology (ICT) has significantly encouraged Micro, Small, and Medium Enterprises (MSMEs) adoption of digital marketing. With increasingly affordable access to the internet and digital devices, MSMEs now have the opportunity to market their products and services more widely and effectively. Digital marketing allows MSMEs to use social media, websites, and mobile applications to reach new customers and interact with them directly (Sirodjudin & Sudarmiatin, 2023). Additionally, using data analysis tools allows MSMEs to understand consumer behaviour better, identify market trends, and adjust their marketing strategies. Thus, adopting digital marketing not only increases the visibility and competitiveness of MSMEs but also helps them adapt to changes in consumer behaviour in the digital era, which in turn can support the growth and sustainability of their businesses (Arifqi & Junaedi, 2021).

MSMEs stand for Micro, Small, and Medium Enterprises. This term describes business categories based on size, number of assets, and turnover owned. MSMEs have an important economic role, especially in creating jobs, supporting local economic growth, and contributing to gross domestic income (GDP). These businesses are often more flexible and able to adapt quickly to market changes, thus becoming the backbone of the economy in various regions (Windusancono, 2021). Here are some of the impacts of digitalization on the economic growth of MSMEs in Indonesia:

Wider market access

The digitalization of Micro, Small, and Medium Enterprises (MSMEs) has opened up wider market access, allowing business actors to reach consumers in various locations without geographical restrictions. Through e-commerce platforms and social media, MSMEs can market their products and services to a larger audience, both at the national and international levels. This increases brand visibility and makes it easier for consumers to find and buy the products they want (Maria et al., 2024). In addition, digitalization allows MSMEs to reach market segments that were previously difficult to access, such as the younger generation, which is more active online. Thus, wider market access increases sales volume and overall MSME business growth (Syafitri, Nusantara, Febriyanto, Zamardha, & Wahyudi, 2024).

Increased sales

Digitalization in Micro, Small, and Medium Enterprises (MSMEs) significantly increases sales by utilizing various online platforms to market products and services. Through e-commerce and social media, MSMEs can reach more customers, eliminating time and place restrictions that usually hinder sales (Sumadi et al., 2022). The ease of online transactions allows consumers to buy products anytime and anywhere, increasing convenience and impulsivity in shopping. In addition, digital marketing provides opportunities for MSMEs to conduct more effective and targeted promotions, such as paid advertising and social media campaigns, which can attract the attention of more specific audiences. With all this, digitalization not only increases sales volume but also expands the market potential for MSMEs, thereby contributing to the growth and sustainability of their businesses (Aditya & Rusdianto, 2023).

Operational efficiency

Digitalization in Micro, Small, and Medium Enterprises (MSMEs) contributes to operational efficiency by automating various business processes that were previously carried out manually. Technology, such as inventory management software and digital accounting systems, allows MSMEs to manage their resources better, reduce human error, and save time in data processing (Safitri et al., 2024). Additionally, digitalization facilitates faster and more effective communication within the team and with customers, accelerating decision-making and response to market demands. Thus, the operational efficiencies resulting from digitalization reduce costs and increase productivity, allowing MSMEs to focus on developing better products and services (Khairunnisa et al., 2024).

1. Product and service innovation

The existence of digitalization helps encourage product and service innovation by providing business actors with access to the latest information and technology. Through digital platforms, MSMEs can conduct real-time market research, monitor consumer trends, and collect direct customer feedback, all of which are the basis for product development that is more relevant and by market needs. Additionally, digital technology allows MSMEs to experiment with new business models, such as subscription-based sales or customization services, which can increase their bargaining value (Gultom & Rokan, 2022). MSMEs can create and launch new products faster by utilizing digital tools such as graphic design and online prototyping. All of these factors contribute to the ability of MSMEs to innovate and compete more effectively in an increasingly competitive market (Muhyidin, 2020).

Digitalization has significantly impacted the economic growth of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. Through digital technology, MSMEs can improve operational efficiency, expand market access, and optimize product marketing. E-commerce platforms allow MSMEs to reach consumers in various regions, even internationally, without having a physical store. In addition, digitalization also facilitates access to information and resources, such as online training and financing through fintech, which supports capacity building and innovation. Thus, digitalization not only increases

the competitiveness of MSMEs but also contributes to overall national economic growth, creates jobs, and reduces poverty

Conclusion

Digitalization positively impacts the economic growth of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. Digitalization offers great potential to increase the growth of MSMEs through several ways, such as expanding the market. The presence of digitalization no longer makes distance a barrier to marketing products or services so that MSMEs can reach consumers in various regions. In addition, digitalization also helps to improve operational efficiency, as many administrative and operational tasks can be automated, reducing labour costs and time required. In addition, digitalization encourages product innovation because MSMEs can access a broader range of market information, facilitating companies to develop products or services that are more in line with consumer needs. However, to maximize this potential benefit, MSMEs face several challenges in the digitalization process. Some of these challenges include limited access to technology and a lack of skills in using digital technology. The recommendations that emerge from these findings are the need for collaboration between various parties, including governments and businesses, to provide better access to technology and digital skills training. Through the right support, MSMEs in Indonesia have the potential to become the main pillar of the national economy.

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