

## The Role of Digitalization in Supporting Micro, Small and Medium Enterprises in the Digital Economy Era

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### ABSTRACT

The development of digital technology has brought significant transformation in the economic sector, including for Micro, Small, and Medium Enterprises (MSMEs). In the era of the digital economy, digitalization is the key to increasing the competitiveness, productivity, and sustainability of MSMEs. This literature study aims to examine the role of digitalization in supporting MSMEs, including opportunities, challenges, and necessary policies. The results of the study show that the use of e-commerce, social media, and other digital tools allows MSMEs to expand their markets, increase operational efficiency, and optimize business management. However, challenges such as limited knowledge, infrastructure, capital, and digital security are still major obstacles. Collaboration between the government, private sector, and society is needed to create an inclusive digital ecosystem through training, funding, and supportive policies. With the adoption of the right technology, MSMEs can not only survive but also grow and contribute more to the economy. This study provides recommendations to strengthen the digital transformation of MSMEs in a sustainable manner.

**Keywords:** digitalization, SME's, small businnes and economic growth

## 1 Introduction

The development of digital technology has brought significant transformations in various aspects of life, including the economic sector. In today's digital economy era, digitalization is one of the main keys to increasing the competitiveness and productivity of businesses, including Micro, Small, and Medium Enterprises (MSMEs). MSMEs as the backbone of the economy of many countries, including Indonesia, require technological adaptation to face the challenges of global competition. This literature study aims to examine in more depth the role of digitalization in supporting the growth and sustainability of MSMEs amidst the rapid development of the digital economy(1).

Digitalization provides a great opportunity for MSMEs to expand their markets, improve operational efficiency, and strengthen relationships with consumers. By utilizing e-commerce platforms, social media, and other digital tools, MSMEs can reach wider consumers without being limited by geographical distance.(2). In addition, digital technology also allows MSMEs to optimize financial management, marketing, and logistics at a more affordable cost. However, behind these opportunities, many MSMEs still face obstacles in adopting technology, such as limited knowledge, infrastructure, and capital.(1).

This research is important to conduct because MSMEs play a vital role in creating jobs and driving inclusive economic growth. By understanding how digitalization can strengthen MSMEs, policy makers, business actors, and academics can formulate appropriate strategies to encourage more equitable adoption of technology. In addition, this literature study will also identify the challenges and obstacles faced by MSMEs in the digital transformation process, so that effective solutions can be found.

The method used in this study is a literature review by analyzing various sources, such as scientific journals, research reports, and articles related to the digitalization of MSMEs. This approach allows researchers to explore previous findings and identify knowledge gaps that need to be filled. Thus, the results of this study are expected to contribute to the development of MSMEs in the digital era, as well

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as being a reference for further research.

Through this study, it is expected to obtain a comprehensive understanding of how digitalization can be a solution for increasing the capacity of MSMEs. With the support of the right technology, MSMEs can not only survive in the midst of competition, but also grow and contribute more to the national economy. Therefore, collaboration between the government, private sector, and society is very necessary to create an inclusive and sustainable digital ecosystem for MSMEs.

## 2 Literature Review

Tabel 1. Literature Studies

No.	Writer	Year	Heading	Topics Covered	Methodology Used
1	Bambang Arianto	2022	Development of Digital MSMEs During the Covid-19 Pandemic	MSME business actors change sales strategies through digitalization schemes	Literature Study
2	Alfonz Lawrenz Kilay, Bachtia H. Simamora, Danang Pinardi Putra	2022	The Influence of E-Payment and E-Commerce Services on Supply Chain Performance: Implications of Open Innovation and Solutions for the Digitalization of Micro, Small, and Medium Enterprises (MSEMs) in Indonesia	The impact of the use of e-payment and e-commerce services on the performance of the MSME supply chain, as well as suggesting innovations and open solutions to accelerate the digitalization of MSMEs.	Quantitative Methods
3	Devie Wianda Rohmana	2023	The Role of Digital Economy in Increasing MSME Growth: Opportunities and Challenges	Discussing insights into opportunities and challenges for MSMEs to develop through the digital economy.	Literature Review
4	Ahmad Agung, Dede Husni Mubarak, Jihandika Nurul Timorani, Seassy Fitriani, Bayu Komahara, Fauzia Rifna Putri	2024	Strengthening the Potential of Micro, Small and Medium Enterprises (MSMEs) Based on Digital Business in Mekarharja Village, Ciamis	The impact of implementing digital-based businesses on strengthening the potential of MSMEs	Qualitative descriptive
5	Elsa Beatriz Gutierrez Navas, Jaima Enrique Sarmiento Suarez, Julio Ramirez Montanez, Yanyn Aurora Rincon Quintero	2025	Determining factors for the digitalization of micro, small, and medium-sized enterprises (MSMSe) in Ibero-America	Determining factors influencing the digitalization of MSMEs	Quantitative methods

### 3 Research Methods

This study uses a literature review method, namely by reviewing and analyzing the results of previous relevant research related to the role of digitalization in supporting MSMEs in the digital economy era. This approach was chosen because it is able to provide a comprehensive picture of theories, empirical findings, and best practices from various contexts and locations. Literature studies allow researchers to identify general patterns, without having to collect primary data which often requires large costs and time. The literature sources used in this study come from various scientific publications, including international journals, and relevant conference articles. The criteria for selecting literature are based on relevance to the research topic, recency (publication period between 2022 and 2025), and the quality of academically recognized publications. Thus, the literature used includes theoretical approaches as well as practical implementation reports in the field.

The literature search process was conducted using various electronic databases such as Google Scholar, Scopus, and PubMed. Keywords used in the search included digitalization, SMESe, small business and economic growth. In addition, a combination of keywords with Boolean operators such as AND, OR, and NOT were used to narrow or expand the search results to suit the research needs. The search results were then filtered based on the relevance of the abstract and the suitability of the content to the research focus. After the initial selection stage, an in-depth review process was carried out on the selected articles. Articles that entered this stage were read in full to identify information related to the role of digitalization in supporting MSMEs. In addition, the project context such as location, type of intervention, and characteristics of the community involved were also recorded to understand differences in context that might influence the findings.

Data analysis was conducted using a thematic analysis approach. This thematic analysis helps researchers to organize findings systematically and facilitates the preparation of evidence-based conclusions. By using the literature study method, this study not only explores information from one case or region, but is also able to provide a broader picture of digitalization practices in MSMEs in various parts of the world. The results of this analysis are expected to enrich existing literature, provide practical insights, and be a reference for further research in related fields.

## 4 Results and Discussion

### 1. Transformation In Digital Economic Growth

The advancement of the digital economy has created significant changes in various fields, including trade, financial services, and public services. Technological innovations such as big data, artificial intelligence (AI), and cloud computing have encouraged conventional businesses to change to become more modern and effective. The presence of e-commerce, fintech, and various digital services not only makes transactions easier, but also opens up new job opportunities and expands market reach to the international level.(3). This development also increases financial inclusion, allowing people in remote areas to enjoy digital banking and payment services more practically.(2).

However, behind the rapid growth of the digital economy, there are a number of challenges such as inequality in access to technology and digital security threats. There are still many people who have not been reached by the internet network or do not have adequate skills in using technology, so infrastructure development and increasing digital literacy are needed.(4). In addition, the increase in cybercrime such as daring fraud and personal data breaches requires stricter regulatory oversight and user readiness in maintaining information security. With synergy between business actors, government, and society, digital transformation can run evenly and sustainably, becoming a solid driver of economic growth in the future.(5).

### 2. The Influence of Digital Economy on MSMEs

By implementing the right marketing strategy, businesses can optimize the profits they have achieved. To achieve maximum results, the strategy must be implemented effectively, considering that small and medium enterprises (SMEs) are increasingly adept at balancing price factors, product quality, and service to consumers.(1).

The development of internet usage in Indonesia which continues to soar is a strong indicator of the potential of the e-commerce market in the country. This phenomenon opens up wide opportunities for

business people to develop their wings in the digital world.(4). By utilizing this momentum intelligently, SMEs can expand their market reach while increasing their business competitiveness.

### **3. Challenges and Opportunities in Digital Transformation of MSMEs**

Digital Transformation is a complex and limitless process. Although digital technology offers many new opportunities, Firewalls face several challenges that hinder their digital transformation. To overcome these challenges, it is necessary to have control over several complementary resources while accepting several changes from the environment.(6).

Other challenges faced by MSMEs are financial limitations for technology investment, lack of knowledge and skills in digital technology and resistance to environmental changes. In addition, some inconsistent government policies in supporting the adoption of digital technology can hinder the development of small businesses.(7).

Despite the many challenges, MSMEs that are able to adopt digital technology into their operations will have a competitive advantage in terms of efficiency, flexibility and product innovation. Digital technology allows MSMEs to personalize products and services according to customer preferences, as well as optimize their supply chain. In addition, digitalization also allows MSMEs to utilize consumer data in determining more targeted business strategies.(8).

### **4. Government Policy and Support for Digital Economic Transformation**

The legal basis for strengthening Micro, Small, and Medium Enterprises (MSMEs) in Indonesia is strictly regulated in Law Number 20 of 2008. This regulation requires both the Central and Regional Governments to create a conducive business climate through various forms of supporting policies. Specifically in terms of funding, the government at both the central and regional levels provides various financing schemes and capital loans. This policy is specifically designed to assist MSMEs in strengthening their capital structure and developing their business scale.(9).

The Indonesian Ministry of Communication and Information has launched various strategic initiatives to encourage digital transformation of micro, small and medium enterprises. One of the leading programs is 'Go Digital' which focuses on increasing the capacity of MSMEs through intensive training and technical assistance in utilizing digital devices.(3). Medan City Government through related agencies has implemented a digital solution in the form of E-Catalog as a form of support for MSMEs. This application is an effective means for micro and small businesses to expand their product marketing. On the other hand, this policy requires local government agencies to prioritize purchases through the platform, creating synergy between government needs and empowerment of local business actors(9).

## **5 Conclusion**

Digitalization has become a key factor in supporting the growth and aspirations of Micro, Small, and Medium Enterprises (MSMEs) in the digital economy era. Through the use of e-commerce platforms, social media, and other digital tools, MSMEs can expand their markets, improve operational efficiency, and strengthen relationships with consumers. However, the application of digital technology by MSMEs still faces various challenges, such as limited knowledge, infrastructure, and capital.

This literature study shows that digital transformation brings great opportunities for MSMEs, including increasing financial inclusion, expanding market reach, and optimizing supply chains. On the other hand, challenges such as limited access to technology, digital security, and financial constraints need to be addressed through collaboration between the government, private sector, and the community. Government policies, such as training and funding programs, play an important role in creating an inclusive digital ecosystem for MSMEs.

With the right technology support and consistent policies, MSMEs can not only survive in global competition but also make a greater contribution to the national economy. Therefore, continuous efforts to improve digital literacy, infrastructure, and access financing are needed so that MSMEs can fully utilize the potential of digitalization.

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