

# Digitalization of Micro, Small and Medium Enterprises And Its Implications for Social Mobility

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## Abstract

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in the Indonesian economy. However, challenges such as limited market access and resources often hinder their development. Digitalization is one solution to improve competitiveness and social mobility. Micro, Small, and Medium Enterprises (MSMEs) are productive businesses owned by individuals or small business entities with certain limitations in terms of assets and turnover, in accordance with Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises (MSMEs). They serve as the backbone of the Indonesian economy, contributing significantly to Gross Domestic Product (GDP) and providing employment. MSMEs still face various challenges, such as low digital literacy and difficulties in marketing and product innovation. The use of technology can be a solution for MSMEs to increase competitiveness and expand markets. This study aims to analyze the role of digitalization in driving the development of Micro, Small, and Medium Enterprises (MSMEs) and its implications for social mobility of entrepreneurs. This study uses a qualitative method with case studies of several MSMEs that have implemented digitalization. Data were collected through in-depth interviews with MSME owners and analysis of related documents. Digitalization is understood as the use of digital technology, particularly e-commerce platforms, social media, and digital financial services, which can open wider market access, increase business efficiency, and strengthen competitiveness. Using a qualitative approach and in-depth interviews with MSMEs, this study found that digitalization contributes significantly to increased income, expanded social networks, and changes in the socioeconomic status of the community. However, the study also revealed gaps in access to technology and digital skills that can widen the social gap between adaptive MSMEs and those left behind. The results of this study indicate that digitalization functions not only as an economic instrument but also as a crucial factor in encouraging social mobility, provided there is support from policies and programs to improve sustainable digital literacy.

## 1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in the Indonesian economy. However, challenges such as limited market access and resources often hinder their development. Digitalization is one solution to increase competitiveness and social mobility. MSMEs are productive businesses owned by individuals or small business entities with certain limitations in terms of assets and turnover, in accordance with Law Number 20 of 2008 concerning MSMEs. Micro, Small, and Medium Enterprises (MSMEs) serve as the backbone of the Indonesian economy, contributing significantly to Gross Domestic Product (GDP) and providing employment. However, MSMEs still face various challenges, such as limited access to capital, low digital literacy, and difficulties in marketing and product innovation.

In the digital era, the use of technology can be a solution for MSMEs to increase competitiveness and expand markets. Therefore, this study aims to analyze digitalization strategies and product innovation in improving the sustainability and competitiveness of MSMEs in Indonesia. Micro, Small, and Medium Enterprises (MSMEs) act as the backbone of the Indonesian economy with a large contribution to Gross Domestic Product (GDP) and job creation (Aftitah et al., 2025; Kholifah & Andini, 2023). Micro, Small, and Medium Enterprises (MSMEs) play a very strategic role in the Indonesian economy (Sofyan, 2017; Sri Wahyunti, 2020).

One of their primary roles is as job providers, with MSMEs absorbing approximately 97% of the total national workforce. Extensive community involvement in this sector has helped reduce unemployment in

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Indonesia. Furthermore, MSMEs play a role in introducing local products to domestic and international markets, opening new market opportunities, and contributing to Gross Domestic Product (GDP) and the balance of payments. MSMEs are a driving force for national economic growth and contribute to a more equitable distribution of income (Hapsari et al., 2024). However, MSMEs still face various challenges, such as limited access to capital, low digital literacy, and difficulties in marketing and product innovation (Syah & Asrofi, 2025).

Based on data from Databoks (2024), the main challenges faced by Micro, Small, and Medium Enterprises (MSMEs) in Indonesia are limited financing and a lack of digital training. It was recorded that 57% of MSMEs experienced obstacles in accessing financing, while another 49% faced obstacles in digital training. Information from the Indonesian Fintech Joint Funding Association (AFPI) in 2020 showed that approximately 77.6%, or 46.6 million of the total 64 million MSMEs, had not yet obtained access to financing from formal financial institutions, both banks and non-banks. Furthermore, data from the Ministry of Cooperatives and SMEs in 2024 showed that approximately 35% of MSMEs had not optimally utilized digital technology in their business operations. Despite a slight improvement from the previous year, the digital divide remains a crucial issue in the development of MSMEs in Indonesia.

In the digital era, utilizing technology can be a solution for MSMEs to increase competitiveness and expand markets, especially since many traders are still reluctant to digitize products and transactions due to technological illiteracy (Noviani Hanum & Sinarasri, 2018). Therefore, this study aims to analyze digitalization and product innovation strategies to improve the sustainability and competitiveness of MSMEs in Indonesia.

## 2. Method

This research uses a qualitative method with case studies on several MSMEs that have implemented digitalization. Data were collected through in-depth interviews with MSME owners and analysis of related documents, Creswell (2003) states that a study using a qualitative model approach will focus on constructive results, whether it strengthens existing theories or actually finds something new from a theory, a research approach with a qualitative model is an interpretative result where there are multiple interpretations of various related issues, researchers in a qualitative approach cannot rely on themselves, but also explore the deep meaning of various participants in their research. The sources used can also vary, ranging from observation, interviews to history (Fikri et al., 2025).

The purpose of research using qualitative methods is to gain a deep understanding of the research's focus, described objectively or as is, rather than based on what should be. To obtain comprehensive data, a limited trial or FGD (Forum Group Discussion) was conducted with the following flow:



Figure 1: Data Collection Flow

The research will be conducted on MSMEs in the Bojonegoro region with a sample size of 10 MSMEs. Data Collection Techniques:

1. Questionnaire: To measure the level of digitalization and product innovation in MSMEs.
2. In-depth interviews: With MSMEs, government, and digital economic experts.
3. Field Observation: To directly observe the implementation of digitalization in MSME operations.

Qualitative data were analyzed using SWOT analysis to evaluate the strengths, weaknesses, opportunities, and threats faced by MSMEs. SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. SWOT analysis is a method used to evaluate the strategic position of a business or project by identifying these four factors (Robinson and Pearce, 2013). 1) Strengths: These are positive internal aspects possessed by a business or project, such as human resources, technology, or competitive advantages.

2) Weaknesses: Negative internal aspects that can hinder a business or project, such as lack of capital, lack of skills, or outdated technology. 3) Opportunities: Positive external aspects that can be utilized to develop a business or project, such as market changes, industry growth, or technological developments. 4) Threats: Negative external aspects that can threaten a business or project, such as competition, regulatory changes, or economic crises. SWOT analysis helps in planning strategies, making decisions, and improving business or project performance by understanding the strengths, weaknesses, opportunities, and threats faced. The initial digitalization mechanism is carried out by transferring technology to MSME actors such as downloading, registering and using digital payment systems (Barcode, QRIS). Training involves formal partners such as MSME communities or the Cooperative Office to strengthen the collaborative and sustainable side.

### 3. Result and Discussion

This study involved 10 MSMEs operating in various sectors, such as culinary, fashion, handicrafts, and services. These MSMEs operate in Bendo Village, Kapas District, Bojonegoro Regency, East Java Province, Indonesia, and have been established for at least 2 years. The majority of MSMEs have secondary or higher educational backgrounds and have tried to utilize digital technology in their business activities. From the results of in-depth interviews, the 10 MSMEs that participated in the FGD (Forum Group Discussion) with the theme Strengthening MSME Competitiveness Through Digitalization and Product Innovation in Improving the Local Economy fully understand the importance of digitalization as shown in the diagram below:

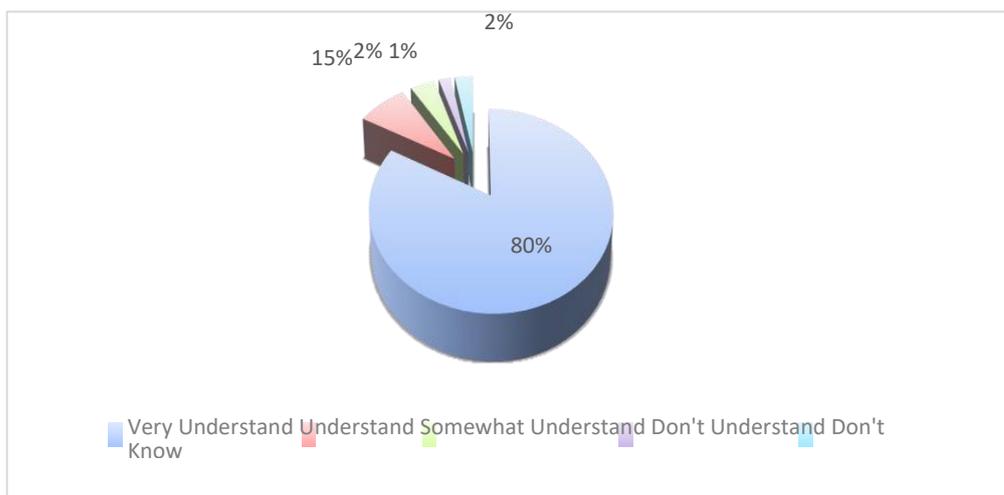


Figure 2: Understanding of MSME Actors

After participating in the Focus Group Discussion (FGD), they began to be willing to use digitalization in the form of digital payments, namely QRIS (Quick Response Code Indonesia Standard) as a promotional tool and to increase the number of potential customers. Eight out of 10 MSMEs admitted to having implemented product innovations, whether in terms of packaging, flavor/color variations, or developing services based on customer needs. Innovations were made based on direct customer feedback or through social media. However, only four MSMEs implemented innovations regularly and in a structured manner.

Most MSMEs reported increased turnover and market reach after implementing digitalization and product innovation. For example, three culinary MSMEs managed to increase daily transactions by 40% through QRIS. Another fashion MSME managed to reach buyers from outside the region after uploading a product catalog to a marketplace. Increased MSME activity has had a positive impact on the surrounding environment, such as absorbing local labor, using raw materials from local producers, and creating a more active supply chain. Two MSMEs even collaborated with village youth groups for production and distribution.

The following are the results of research using SWOT analysis:

STRENGTHS	WEAKNESSES
<ol style="list-style-type: none"> <li>1. Unique and locally based products: The majority of MSMEs have products with local characteristics, such as traditional foods and handicrafts based on regional culture.</li> <li>2. Proximity to local markets: Emotional and social connections with local consumers create customer loyalty.</li> <li>3. Flexibility in decision making: MSMEs are able to quickly adapt to market changes due to their simple organizational structure.</li> <li>4. High innovation spirit: MSME actors have high motivation to develop, despite limitations.</li> </ol>	<ol style="list-style-type: none"> <li>1. Limited digital literacy: Most MSMEs do not yet understand how to optimize digital platforms such as e-commerce, SEO, or digital advertising.</li> <li>2. Limited business capital: Lack of access to capital hampers product development and overall digitalization.</li> <li>3. Limited human resources and multitasking: Business actors often have to cover many roles (production, marketing, finance), so that management is not optimal.</li> <li>4. Lack of continuous innovation: Some MSMEs only innovate when turnover decreases, not as a continuous process.</li> </ol>
OPPORTUNITIES	THREATS
<ol style="list-style-type: none"> <li>1. Support from government and private institutions: Digital assistance and training programs are increasingly being offered to MSMEs.</li> <li>2. Growth of internet users and e-commerce: Increasing online shopping behavior opens up new markets for local products.</li> <li>3. Collaboration with digital communities: Opportunity to partner with local influencers, creative communities, or tech startups.</li> <li>4. Consumers now prefer local, organic, and handmade products.</li> </ol>	<ol style="list-style-type: none"> <li>1. Competition from products from outside the region or abroad: Cheaper mass products from abroad can threaten the local market.</li> <li>2. Rapid changes in consumer behavior: MSMEs have difficulty keeping up with digital market trends that are changing very dynamically.</li> <li>3. Dependence on third-party digital platforms: When social media algorithms change or there are new policies from marketplaces, MSMEs can be affected.</li> </ol>

Based on the SWOT analysis, it was found that:

1. Increased Market Access: Digitalization enables MSMEs to reach wider markets, not only locally but also nationally and internationally.

2. Increased Revenue: With digitalization, MSMEs experience a significant increase in revenue thanks to the ability to market products online.

3. Increase Efficiency: Business processes become more efficient with the use of technology, saving time and operational costs.

4. Social Mobility: Increased income and business reputation contribute to improving the social status of MSME owners and their families.

#### 4. Conclusion

The digitalization of MSMEs not only improves the economic aspect but also has a positive impact on social mobility. With the right support, MSMEs can become the main drivers of economic growth and community welfare. Digitalization and product innovation have been proven to be able to increase the competitiveness of MSMEs in the Bendo Area, Bojonegoro Regency. Although the implementation is not yet evenly distributed, initial results show an increase in turnover, market expansion, and a positive contribution to the local economy. Most MSMEs stated an increase in turnover and market reach after implementing digitalization and product innovation. For example, three culinary MSMEs managed to increase 40% of daily transactions through QRIS. The results of the SWOT analysis show that: 1. Strengths Unique and locally based products, Proximity to the local market: Emotional and social relationships with surrounding consumers create customer loyalty. High enthusiasm for innovation. 2. Weaknesses Limited digital literacy: Most MSMEs do not yet understand digital platforms such as e-commerce and digital payments. 3. Opportunities (Opportunities) Growth of internet users and e-commerce: Increasing online shopping behavior opens up new markets for local products. 4. Threats (Threats) Competition from products from outside the region or abroad: Cheaper mass-produced products from abroad can threaten the local market.

Appropriate training and policy support will accelerate the overall digital adaptation of MSMEs. MSMEs in Bendo Village, Bojonegoro Regency, have significant potential for growth through digitalization and product innovation. However, strategic interventions are needed to address limitations in digital literacy and access to capital. Digital market opportunities and external support must be maximized, while threats must be mitigated through human resource capacity building and long-term business strategies. Increased MSME activity has a positive impact on the surrounding environment, such as absorbing local labor, using raw materials from local producers, and creating a more active supply chain. Two MSMEs even collaborate with village youth groups for production and distribution. Descriptive analysis shows that 1) MSMEs that actively use social media and carry out product innovation show better business performance. 2) Digitalization and innovation make a real contribution to increasing turnover, expanding markets, and local competitiveness. 3) Digitalization training and ongoing product development support are still needed to maximize the impact.

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