

Digital Transformation in MSMEs in Indonesia: The Importance of Commitment to Change

Tekad Wahyono

Universal Institute of Professional Management, Indonesia

Email: redjaningrat.tekad@gmail.com

Keywords

*Digital Transformation, MSMEs,
Commitment to Change.*

ABSTRACT

The current landscape of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia faces a critical challenge in the form of digital transformation, necessitating a unified commitment from all organizational stakeholders. This research endeavors to explore the pivotal role of commitment to change in facilitating digital transformation within Indonesian MSMEs. By scrutinizing existing literature and delineating the positive outcomes associated with commitment to change, this study aims to unearth key factors influencing the successful implementation of digital transformation initiatives in MSMEs. Employing a combination of case study and survey methodologies, our research seeks to not only enhance theoretical insights but also contribute practical understandings to support MSMEs in their pursuit of digital transformation. Through an in-depth analysis, this study aspires to provide strategic recommendations that can guide MSMEs toward effective and sustainable digital transformation. Ultimately, this research contributes to the broader discourse on organizational change and digitalization, offering valuable insights for policymakers, academics, and practitioners alike.

INTRODUCTION

A survey conducted by the Status of Digital Literacy in Indonesia 2022 by the Ministry of Communication and Information shows that the level of knowledge about the technology of MSME actors in Indonesia is generally relatively low (The MSME Empowerment Report, 2022). The application of digital marketing by MSMEs in Indonesia is limited to 3 platforms: social media, instant messaging, and e-commerce. The application of digital technology to MSMEs in Indonesia finally had a severe impact when the COVID-19 pandemic occurred (Kurnia Sari et al., 2023). MSME business models that tend to be conventional make adapting and surviving during the pandemic challenging. Compared to large-scale businesses, MSMEs experienced a more profound decline in sales during the pandemic (Hernawan & Kusdiana, 2020).

The unfortunate situation lies in the fact that MSMEs, which have emerged as a crucial pillar of the nation's economy, substantially contribute to the gross domestic product and foster employment within communities. This is evident in the statistics provided by the Ministry of Cooperatives and Small and Medium Enterprises. Indonesia hosts a staggering 65.4 million MSMEs, employing 114.7 million individuals, constituting approximately 56% of the country's workforce. Moreover, MSMEs play a pivotal role by contributing over 60% to the nation's GDP, as highlighted in The MSME Empowerment Report of 2022. The data from the Ministry also reveals a concerning trend. While the contribution of MSMEs to the Gross Domestic Product had been steadily increasing before the onset of the pandemic, it experienced a decline to 37.3% during the pandemic period (The MSME Empowerment Report, 2022).

Research by Bouwman et al. (2019) shows that the digitalization of MSMEs affects performance with more resource allocation to conduct business model experiments and more involvement of human

resources in business strategy implementation practices. Meanwhile, Viswanathan and Telukdarie's (2021) research shows that the digitalization of MSMEs can increase productivity, reduce costs, and expand the scope of innovation through new business models.

In facing digitalization, MSMEs must implement various strategies that fit their context and needs. These strategies include keeping businesses updated with technology, optimizing content through SEO practices, utilizing social media platforms, using analytics tools, implementing financial technology, digitizing human resources, and ensuring quality digital infrastructure. In addition, it is essential to adopt digital literacy, train employees on e-commerce, expand internet networks, raise awareness of social issues, and optimize technologies that support environmentally friendly practices. Collaboration with external parties, government support, and continuous learning are essential factors (Evangeulista et al., 2023).

A critical success factor in MSME digitalization is the solid commitment of human resources to embrace change and undergo digital transformation. Herscovitch and Meyer (2002) define commitment to change as a mindset binding individuals to necessary actions to implement change initiatives successfully. Research indicates that commitment to change positively influences company performance, as Tse et al. (2020) demonstrated in the context of employee performance. Moreover, Strumsky et al.'s (2010) research underscores the fundamental and explicit impact of commitment to change on increasing innovation capacity.

The specific objective of this research is to identify concrete solutions for enhancing the digitalization of MSMEs in Indonesia. By delving into the challenges faced by MSMEs and evaluating the impact of digitalization on their performance, this study aims to provide actionable insights that can contribute to developing effective strategies for MSMEs navigating the digital landscape.

METHODS

The literature review method employed in writing this article involves tracing research results from various journals related to digitalization in Micro, Small, and Medium Enterprises (MSMEs) and commitment to organizational change. In the process of literature search, selection criteria were applied to choose literature based on publication year, topic relevance, and research methodology. The relied-upon sources for literature exploration included recent publications and studies with significant impact on understanding digital transformation in MSMEs.

Critical analysis of the reviewed literature has been incorporated, identifying the weaknesses and strengths of each study and providing a critical perspective on its contribution to the understanding of the topic. Additionally, literature synthesis was conducted to summarize the main findings and explain how these research outcomes shape a profound understanding of the impact of digitalization on MSMEs and the role of commitment to organizational change in that context. This approach allows the research to access and integrate diverse relevant research findings, providing a solid foundation to support the arguments and conclusions presented in the article. With these additional details, the research method offers a more detailed and comprehensive insight into the literature base for this study.

RESULTS

Definition of Digital Transformation

Digitalization involves the conversion of analog information into a digital format through devices like analog-to-digital converters, including image scanners or digital audio recording tools. With the increasing prevalence of internet usage since the 1990s, the adoption of digitalization has also grown. However, digital transformation encompasses more than merely converting existing processes into digital formats. It involves a comprehensive examination of how new digital technologies can bring about significant changes to products, processes, and organizational structures (Matt et al., 2015). In a review from 2019, Hess et al. (2016) proposed a definition for digital transformation as "a process that

aims to enhance an entity by triggering significant changes to its properties through a combination of information technology, computing, communication, and connectivity" (Vial, 2021). Digital transformation is often viewed as a socio-technical program (Hartl & Hess, 2019).

Digital transformation refers to using service domains, namely Product Supporting Services (SSPs) and Customer Supporting Services (SSCs). Digitalization introduces a new generation of SSPs and SSCs, as highlighted by recent field research (Paiola, 2018). In many industries, the use of data comes from sensors embedded in machines and products that enable new forms of relationships with key clients.

Digital transformation is driving a "two-front war" in manufacturing (Macaulay et al., 2015): first, companies must maintain traditional business heading into a new world heavily dominated by services. In addition, digital disruption increasingly requires manufacturers to become technology companies, as companies that use data best will be the most successful. As a result, companies urgently need digital capabilities to manage larger volumes and variations of data and leverage data analytics to create new business insights (Noventum, 2015). Companies must also manage additional service orientation, which requires developing new services similar to those used in service companies (Gebauer et al., 2005).

Mergel et al. (2019) provide several essential points related to the term digital transformation, namely:

1. The empirically grounded definition of digital transformation focuses on the holistic process of transforming products and cultures.
2. Digital transformation goes beyond digitalization and digitization by involving the entire organization.
3. Digital transformation is changing bureaucratic and organizational culture and relationships with stakeholders.
4. Focus short-term output on measurable improvements in new digital services.
5. Long-term impact and focus result in increased effectiveness and satisfaction.

The concept of digital transformation, borrowed from the private sector, is predominantly associated with the necessity of employing new technologies to stay competitive in the Internet era, where both services and products are offered through online and offline channels. The transformation of online services is perceived as enhancing customization and automation by implementing standardized processes (Andal-Ancion et al., 2003). Alternatively, some describe digital transformation as a strategy to reconstruct business models based on customer requirements using innovative technologies (Berman, 2012).

Meanwhile, Morakanyane et al. (2017) said that the definition of digital transformation could be seen in terms of strategy, process, Business Model and Paradigm Shift, which is characterized by radical, disruptive, evolutionary/continuous and complex changes. Furthermore, it was conveyed that digital transformation requires Digital Technologies, Digital Capabilities, Strategies, Business Models, and Value Chain.

Digital Transformation Process

The digital transformation process requires several stages, as summarized by Zaoui and Souissi (2020), namely:

1. Digital transformation evaluation

This stage is related to the existing digital conditions of a particular company. The evaluation should be multi-dimensional, as some studies advocate (Zaoui et al., 2019; Zaoui & Souissi, 2018, 2020). At this stage, it is essential to go through an evaluation to reflect on the company's digital maturity and question how efficient the adopted processes are. This will help sensitize different

stakeholders to the need for an engaged and more agile approach to the digital transformation process.

2. Define the strategic orientation of the company's digital transformation and set strategic goals.

At this stage, the process is to unite some categories and separate others. Henceforth, it is necessary to define the strategic orientation of digital transformation and derive it from specific objectives. This stage includes goal setting, internal and external diagnosis, and goals for an action plan. Meanwhile, two main variables must be considered: the size of the company and its activities. This phase is critical to completing the rest of the process.

3. Implement digital transformation

The successful execution of digital transformation in a particular domain demands substantial preparation and direction. The implementation phase stands out as the most tangible aspect of the entire transformative initiative. Various stakeholders will experience and observe the changes. The speed at which these changes materialize is contingent on the motivation and commitment of stakeholders toward the shared objective of digitalization.

Commitment to Change

Meyer and Allen (1991) define commitment as the psychological condition or perspective enabling an employee to sustain affiliation with an organization. They categorize commitment into affective commitment (the inclination to stay), continuance commitment (perceived costs of departure), and normative commitment (perceived obligation to stay). While each facet of organizational commitment diminishes the probability of employees leaving the organization, the key rationale for distinguishing between these components lies in the distinct implications they can have on their work behavior. Commitment to change refers to an employee's willingness to take the actions necessary to affect change individually and significantly impact the success of organizational change (Herscovitch & Meyer, 2002).

Coetsee (1999) contends that when employees hold favorable attitudes toward organizational change, it implies a state of commitment. This commitment to organizational change plays a role in enhancing employee motivation, elevating employee performance, decreasing absenteeism, and ensuring that employee turnover rates stay low. A similar viewpoint is articulated by Kreitner, Robert, and Kinicki (2014), who posit that commitment involves a dedication to undertaking actions for one's own benefit, as well as for others, groups, or organizations.

In the course of organizational change, numerous individuals encounter feelings of uncertainty and anxiety related to potential difficulties in adapting to new work circumstances (Cummings & Worley, 2014). These sentiments and actions can influence an employee's dedication to organizational change and its connection to providing behavioral support for the change process. Consequently, commitment stands out as one of the paramount elements influencing employee conduct in facilitating change (Armenakis et al., 2007). Based on the preceding, commitment to organizational change can be concluded as a positive attitude that supports organizational change, consisting of affective, normative and continuous commitment.

Discussion and Follow-up Suggestions

In the present landscape, incorporating organizational change into corporate strategy has become indispensable for most businesses, including MSMEs. This transition has introduced both fresh challenges and prospects. The widespread adoption of information and communication technology has led to a significant inclination towards digital transformation. Organizations must reevaluate their procedures, objectives, and mission to stay competitive. Nonetheless, implementing digital transformation introduces uncertainties, induces stress, and sparks apprehensions about future work. The commitment to the organization, particularly affective commitment to change, becomes crucial in navigating these transformations (Ibragimov & Berishvili, 2023).

Meyer and Allen (1991) argue that employees with affective commitment attend work regularly, perform assigned tasks to the best of their ability, and do little extra to help. Those who remain out of a sense of obligation (normative commitment) can do the same only if they see it as part of their duty or as a means of recompense for benefits received. Thus, MSME actors who are highly committed to change show behaviour that supports the change efforts made, including in the digital transformation process.

Commitment to change affects retention rates, work attendance, performance in performing work, and employees' organizational citizenship behaviour (OCB), which affects the success of change implementation (Herscovitch & Meyer, 2002). Employee commitment also helps overcome change-related discomfort and stress that can affect the success of change (Packard, 2012). If this is implemented during digital transformation for MSMEs, then all human resources will support the success of this program by showing the best performance.

Huy (2002) said that employees collectively support organizational change programs when there is a sense of trust and attachment to the organization. Considering this, change agents must create a strong sense of trust and attachment to the organization when digital transformation occurs in MSMEs. Taking into account some of the research results mentioned above, in the process of digital transformation in MSMEs, a commitment to change must be created so that the changes made are successful. Suggestions for research are as follows:

1. Include variables such as acceptance of the impact of technological change in the workplace, support factors from the organization, and individual conditions of all MSME employees,
2. Distinguish the types of digitalization carried out in MSMEs so that the digital transformation can be accepted gradually.

CONCLUSION

The key challenge in advancing Micro, Small, and Medium Enterprises (MSMEs) in Indonesia centers around digital transformation, necessitating commitment from all organizational stakeholders. This research aims to underscore the significance of commitment to change in supporting digital transformation within MSMEs, emphasizing its positive impact on implementation success. The definition of digital transformation involves a comprehensive examination of how new technologies can bring about significant changes to products, processes, and organizational structures. The concept is associated with the necessity of employing new technologies to stay competitive in the Internet era. The digital transformation process, outlined in stages, requires a thorough evaluation of the existing digital conditions, strategic goal setting, and effective implementation. As defined by Meyer and Allen (1991), the commitment to change becomes crucial in navigating uncertainties and stress associated with the transformation, influencing employee behavior and organizational success. The commitment to change affects retention rates, work attendance, performance, and employees' organizational citizenship behavior, which is essential for the success of digital transformation in MSMEs. To enhance research in this area, it is suggested to include variables such as acceptance of technological change impact, organizational support factors, and individual conditions of MSME employees. Additionally, distinguishing types of digitalization in MSMEs can contribute to a gradual and successful acceptance of digital transformation. Ultimately, incorporating a commitment to change is crucial for MSMEs to thrive in the evolving digital landscape.

REFERENCES

- Amponsah-Tawiah, K., Boateng, A. K., & Tetteh, S. D. (2020). Safety climate and employees' voluntary work behaviours: the moderating role of employees' voice. *International Journal of Workplace Health Management*, 13(5), 561–581.

- Andal-Ancion, A., Cartwright, P. A., & Yip, G. S. (2003). The digital transformation of traditional business. *MIT Sloan Management Review*.
- Armenakis, A. A., Bernerth, J. B., Pitts, J. P., & Walker, H. J. (2007). Organizational change recipients' beliefs scale: Development of an assessment instrument. *The Journal of Applied Behavioral Science*, 43(4), 481–505.
- Berman, S. J. (2012). Digital transformation: opportunities to create new business models. *Strategy & Leadership*, 40(2), 16–24.
- Bouwman, H., Nikou, S., & de Reuver, M. (2019). Digitalization, business models, and SMEs: How do business model innovation practices improve performance of digitalizing SMEs? *Telecommunications Policy*, 43(9), 101828.
- Cummings, T. G., & Worley, C. G. (2014). *Organization development and change*. Cengage learning.
- Evangeulista, G., Agustin, A., Putra, G. P. E., Pramesti, D. T., & Madiistriyatno, H. (2023). Strategi Umkm Dalam Menghadapi Digitalisasi. *Oikos Nomos: Jurnal Kajian Ekonomi Dan Bisnis*, 16(1), 33–42.
- Gebauer, H., Fleisch, E., & Friedli, T. (2005). Overcoming the service paradox in manufacturing companies. *European Management Journal*, 23(1), 14–26.
- Hartl, E., & Hess, T. (2019). *IT projects in digital transformation: a socio-technical journey towards technochange*.
- Hernawan, W., & Kusdiana, A. (2020). *Biografi Sunan Gunung Djati: Sang Penata Agama Di Tanah Sunda*. LP2M UIN Sunan Gunung Djati Bandung.
- Herscovitch, L., & Meyer, J. P. (2002). Commitment to organizational change: extension of a three-component model. *Journal of Applied Psychology*, 87(3), 474.
- Hess, T., Matt, C., Benlian, A., & Wiesböck, F. (2016). Options for formulating a digital transformation strategy. *MIS Quarterly Executive*, 15(2).
- Huy, Q. N. (2002). Emotional balancing of organizational continuity and radical change: The contribution of middle managers. *Administrative Science Quarterly*, 47(1), 31–69.
- Ibragimov, Y., & Berishvili, N. B. (2023). Analysis of intrinsic motivation influence on employee affective commitment during digital change. *London Journal of Social Sciences*, 6, 1–11. <https://doi.org/10.31039/ljss.2023.6.97>
- Kurnia Sari, A., Kesuma, S. A., & Muda, I. (2023). MSMEs Upgrade with The Concept of Green Accounting and Digitalization (Study Literature Review). *International Journal of Social Service and Research*, 3(3), 763–767. <https://doi.org/10.46799/ijssr.v3i3.302>
- Macaulay, J., Connell, K. O., & Delaney, K. (2015). The Digital Manufacturer Resolving the Service Dilemma. *Cisco*, November, 1–20.
- Matt, C., Hess, T., & Benlian, A. (2015). Digital transformation strategies. *Business & Information Systems Engineering*, 57, 339–343.
- Mergel, I., Edelmann, N., & Haug, N. (2019). Defining digital transformation: Results from expert interviews. *Government Information Quarterly*, 36(4), 101385.
- Meyer, J. P., & Allen, N. J. (1991). A three-component conceptualization of organizational commitment. *Human Resource Management Review*, 1(1), 61–89.
- Morakanyane, R., Grace, A. A., & O'reilly, P. (2017). *Conceptualizing digital transformation in business organizations: A systematic review of literature*.
- Packard, T. (2012). Organizational change in nonprofit organizations: Implications for human resource management. In *Human Resource Management in the Nonprofit Sector* (pp. 221–240). Edward Elgar Publishing.
- Paiola, M. (2018). Digitalization and servitization: Opportunities and challenges for Italian SMES. *Sinergie Italian Journal of Management*, 36(107), 11–22.
- Sinding, K., Waldstrøm, C., Kinicki, A., & Kreitner, R. (2014). *Organisational behaviour*.

- Strumsky, D., Lobo, J., & Tainter, J. A. (2010). Complexity and the productivity of innovation. *Systems Research and Behavioral Science*, 27(5), 496–509.
- Vial, G. (2021). Understanding digital transformation: A review and a research agenda. *Managing Digital Transformation*, 13–66.
- Viswanathan, R., & Telukdarie, A. (2021). A systems dynamics approach to SME digitalization. *Procedia Computer Science*, 180, 816–824.
- Zaoui, F., Assoul, S., & Souissi, N. (2019). What are the main dimensions of digital transformation? Case of an industry. *International Journal of Recent Technology and Engineering*, 8(4), 9962–9970.
- Zaoui, F., & Souissi, N. (2018). Onto-digital: An ontology-based model for digital transformation's knowledge. *Innovation*, 5, 6.
- Zaoui, F., & Souissi, N. (2020). Roadmap for digital transformation: A literature review. *Procedia Computer Science*, 175, 621–628.
-

Copyright holder:

Tekad Wahyono (2024)

First publication rights:

International Journal of Social Service and Research (IJSSR)

This article is licensed under:

