



Catalysing the People's Economy in the Era of Global Transformation: Innovation and Digitalization of MSMEs

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Abstract - This research employs a Systematic Literature Review (SLR) to investigate the involvement of MSMEs in supporting people economy focusing on inclusiveness, innovation, and digitalization aspects and explores the primary challenges faced by MSMEs towards accessing technology and innovating for global market. This study clearly has significant implications, including that MSMEs play a key role in driving people's economy; notably most of these developing countries whose economies have reached steady state growth periods and also create jobs—results also. Regular posts of new-generation features is another factor that causes the figure to grow, something innovation and digitalization have also worked on in order to drive an efficiency curve further upward. Second, numerous obstacles encountered by MSMEs parties such as infrastructure issues are still less evenly distributed, access to capital constraints for MSMEs actors and complexities in the regulation for MSMEs actors. This study is useful for supporting the government to design adequate regulations and policies that can drive people economy through accommodating of MSME actors in the capital market as efficient prospective fund Chanel.

Keywords Digitalization, Inclusivity, Innovation, MSMEs

1. INTRODUCTION

The existence of advanced Micro, Small and Medium Enterprises (MSMEs) supports the improvement in the economy of developing countries (Afonasova et al., 2019; Alraja et al., 2021; Nasiri et al., 2023). Based on data from the Ministry of Cooperatives and SMEs in 2023, the existence of MSMEs can reduce the unemployment rate in Indonesia by providing 97% of job opportunities and 60% of Indonesia's GDP comes from MSMEs (SMEs, 2023). MSMEs also have an important role in maintaining economic stability during the COVID-19 period (Martins, 2023; Roba & Milos, 2023; Winarsih et al., 2021). During the COVID-19 period, MSMEs also experienced considerable challenges where there were restrictions on space for movement which resulted in decreased sales (Clauß et al., 2021; Guo et al., 2020; Winarsih et al., 2021). This condition requires MSMEs players to innovate in sales methods by utilizing technological advances and digitalization to maintain their business and compete in the global market (Martins, 2023; Roba & Milos, 2023). MSMEs providing adaptive responses to technological changes, digitalisation and delivering creative products that

can accommodate fastness & flexibility in keeping up with customers' changing demand can ensure their survival and both operate successfully (Belyaeva & Lopatkova, 2020; Drori et al., 2024; Kádárová et al., 2023; Michael, 2018; Radicic & Petković, 2023). However, the technology divide is still deep-rooted within MSMEs, particularly those in rural areas or with insufficient digital infrastructure (Kuncoro, 2019).

Number of research have shown that MSMEs are able to create jobs and increase the welfare community (Iskandar & Arifin, 2021; Suparno, 2020; Suryani, 2018). It highlights the exploratory study of impact on country economy and competitiveness their in global market but above address has no in his such area correlation found how from SME may changes to improve its dealing with effect of digital transformation when era make globalize innovative paper now focusing how can be beneficial for small medium enterprises (SMEs), into enhance a business process with transforming near future. To be able to provide innovative products, and offer speed and flexibility to respond to changes in demand from customers, innovation is needed both in terms of technology and non-technology to encourage economic inclusiveness (Carranza et al., 2020; Sharif et al., 2024). The development of technology and digital transformation in MSMEs has a huge impact, especially the opening of a wider market share and access to new markets (Ramdani et al., 2022; Xie et al., 2022; Yousaf et al., 2021).

Due to the gap in research results, researchers intend to conduct a more in-depth study related to MSMEs towards improving the people's economy through the perspectives of inclusiveness, innovation, and digitalization. This research aims to identify the role of MSMEs in supporting the people's economy through the perspectives of inclusiveness, innovation, and digitalization and identify the main challenges MSMEs face in accessing technology and innovating in the global market. This research is a literature review study. To review the literature related to the role of MSMEs in the populist economy and provide a more holistic understanding, the researcher used a comprehensive approach that integrates three important elements, namely inclusiveness, innovation, and digitalization, in the study. Previous studies have generally only addressed single components of these. The results of this study are expected to give a contribution to academic literature and provide inputs for consideration of policy-making as well as useful information and avenues for businesses in drafting strategies conducive to digitalization, creativity, participation of MSMEs (qualitative) towards more inclusive

economic growth which leads the way toward greater sustainability of the people's economy.

2. METHODS

This study aims to analyze in a general manner the importance MSMEs as both innovators and as an inclusive force towards digitalization to support the development of peoples economy. For this reason, the investigators performed a qualitative method with an SLR (Systematic Literature Review) approach to investigate it deeply and comprehensively. Employment of this method enables researchers to investigate the position MSMEs in advancing economy well-being through innovation, inclusiveness and digitalization in a more profound and holistic way by preparing an extensive literature review covering varied literatures sources to identify the trends, challenges, and research gaps on this issue (Tranfield et al., 2003). An SLR is a rigorous and systematic approach to synthesizing the fragmented findings from individual research studies, bringing together all high quality evidence (Higgins, 2019; Snyder, 2019).

1. Data Collection Process

We searched scientific articles through the literature review indexed in academic repositories such as Scopus, ScienceDirect, Web of Science, Google Scholar, ResearchGate, Springer Link, Taylor & Francis and ProQuest. To search for appropriate literature, the researcher typed the main keywords in the search for relevant literature including SMEs, innovation, digitalization, economic inclusion, and globalization. The publication period used in the literature review study in this study is between 2010 and 2024 to obtain information related to the latest trends in the development of MSMEs in the digital economy era. The following steps need to be taken in collecting data sources using the SLR approach according to Higgins (2019) dan Tranfield et al. (2003):

- a. Identification of literature sources: done by selecting literature based on the main keywords that have been determined.
- b. Study selection: selecting literature that meets the inclusion criteria, namely published in reputable international journals and accordance with the research topic.
- c. Classification and coding: Each article was identified based on key elements such as the role of MSMEs in the populist economy, innovation, digitalization, and challenges and opportunities.

This process was conducted using Endnote software to assist with reference management and more structured literature analysis.

2. Inclusion and Exclusion Criteria

There are two criteria to ensure the quality and relevance of data sources that will be used as literature sources that will be reviewed to answer the questions in this study, namely inclusion and exclusion criteria. The inclusion criteria set are articles or scientific papers published in Scopus, ScienceDirect, Web of Science, Google Scholar, ResearchGate, Springer Link, Taylor & Francis, and ProQuest-indexed journals with a research focus on MSMEs, innovation, digitalization, and populist economy as well as research that uses an empirical or qualitative approach with clear primary or secondary data. The exclusion criteria were articles that did not meet academic quality standards, such as opinions or reviews that were not based on empirical research; research conducted in developed countries without clear relevance to developing countries, and literature that did not discuss aspects of innovation or inclusiveness in the context of MSMEs.

3. Data Analysis

The themes that will arise from the literature are reviewed by analyzing the data with content analysis techniques, for which MSMEs and the people's economy were identified as main topics. Content analyses could be conducted on the different types of literature used to explore themes and relationships (Krippendorff, 2019), it follows that a content analysis demonstrates all aspects of the subject. Articles are classified under sub-themes like MSMEs as job creators, economic inclusion and empowerment, poverty alleviation, technology adaptation to expand market reach, and business innovation. Results from each study are summarised, discussed and compared in order to identify trends or commonalities, contrasts and gaps within the research. The findings are in turn synthesized to understand the holistic role of MSMEs in peoples economy in digital era..

4. Data Validity

To enhance the dependability and credibility of the research outcomes, peer review and cross-checks by two researchers were provided in which the inclusion/exclusion criteria developed was used to check for bias and added asurement for fidelity leading to less bias result(Saliunas et al., 2016) utilizing source triangulation where different sources and perspectives have been brought together effectively assist in transforming conclusion from weak base (Denzin, 2012).

5. Synthesis and Interpretation

After the data has been analyzed, the results from various literature will be synthesized using thematic synthesis by Thomas and Harden (2008) to identify the main patterns and critical issues that can be used as a basis for developing policies or strategies related to the development of MSMEs in the digital era. The focus on aspects of innovation, digitalization, and inclusiveness will be the main guide in data interpretation. The resulting conclusions are expected to contribute significantly to the academic literature and assist policymakers in designing more effective programs to support MSMEs.

3. RESULTS AND DISCUSSION

The Role of MSMEs in the People's Economy

In populist economic development, MSMEs have a very large role in improving the economy for all levels of society, especially for people who have not been reached by the formal sector through wider economic access (Chavez et al., 2022; Dethine et al., 2020; Fabian et al., 2024; Gherghina et al., 2020). In addition, the existence of MSMEs in many developing countries can open up quite extensive employment opportunities so that local people's income increases and will also have an impact on reducing socio-economic inequality (Kääriäinen et al., 2020; Khrais & Alghamdi, 2022; Madhavan et al., 2022; Somohano-Rodríguez et al., 2022; Yousaf et al., 2021). As many as 60 percent of job opportunities are opened due to the rapid development of MSMEs in developing countries (Huda & Rejito, 2020; Pfister & Lehmann, 2023; Sassanelli et al., 2021; Tambunan, 2011) country, especially in developing countries, has a very important role in the country's people's economy. The results of research conducted by Asiedu and Freeman (2009) show that MSMEs in African countries have a very important role in improving the welfare of the community especially rural communities by employing up to 80%. MSMEs tend to absorb labor with medium to high skill levels, thereby encouraging the economic growth of community inclusion (Ardito et al., 2021; Beck et al., 2005; Brodny & Tutak, 2022; Carranza et al., 2020). This creates a positive chain effect on domestic consumption and stimulates broader economic growth (Drori et al., 2024; Gavrilă & de Lucas Ancillo, 2021; Hartmann et al., 2021). Difficult access to capital and technology creates challenges and obstacles for MSMEs, especially in developing countries, which can hinder business expansion and technological innovation to keep up with the times (Bajkó et al., 2022; Beck & Demircuc-Kunt, 2006; Holl &

Rama, 2024; Kawung et al., 2022). In addition to reducing the unemployment rate by providing employment, MSMEs also serve as a means of wealth distribution, strengthening the main economy in rural areas and reducing economic inequality between regions (Amin & Motta, 2023; Andersen et al., 2022; Costa et al., 2023; Eller et al., 2020). In the context of a populist economy, this concept emphasizes the active participation of the community in the economy through small business units that are more equitable than the dominating large companies. Thus, MSMEs have such an important role in encouraging the improvement of the people's economy because MSMEs are decentralized, community-based, and easily accessible to all communities (Del Giudice et al., 2021; Hassan et al., 2024; Mangifera et al., 2022) and currently MSMEs are one of the main sources of people in improving their lives and welfare.

Innovation in MSMEs

In the global and dynamic market competition, MSMEs players are required to be able to adapt and thrive in these conditions. Innovation is necessary for MSMEs to raise productivity, quality of products and services, and explore new markets (Cerezo-Narváez et al., 2019; Kallmuenzer et al., 2024; Kalpaka et al., 2020; Khan et al., 2021; Julian M. Müller et al., 2021). The performance of MSMEs can also be modernized and made more efficient by adopting innovation, which fundamentally improves their ability to compete and reach local as well as global markets (Abudaqa et al., 2022; Albats et al., 2023; Hoerlsberger, 2019; Nasiri et al., 2023). Innovation enables MSMEs to respond creatively to the limitations in production and marketing resources, which results on more innovative products, efficient operations, and better economic outcomes of communities (Hendriarto, 2021; Latifi et al., 2021; North et al., 2020; Suciú et al., 2021). However, many MSMEs encounter several hindrances to innovation particularly low levels of knowledge and skills lack of human resources limited access to financing and technological-infrastructure ceasing their progression in the recent economy (Anwar et al., 2024; Baumane-Vītoliņa et al., 2022; Clemente-Almendros et al., 2024; Telukdarie et al., 2023; Teoh et al., 2022).

Digitalisation of MSMEs

In the present digital age, using these digital tools is critical to growing MSME. According to Gromova et al. (2020), Marcysiak and Pleskacz (2021), Mika (2020), Thrassou et al. (2020), the utilization of e-commerce platforms and social media provide companies with opportunities to extend their business reach further but at a lower overall

operational cost as compared to mainstream brick-and-mortar commerce models, including Wu et al. (2022), Research by Kraus et al. (2019) shows that by adopting technology, MSMEs can cut costs and expand their consumer base without the need for direct or intermediary interactions. E-commerce also plays an important role in the digital economy era. Abebe (2014) and Vuorio et al. (2020), mentions that with the development of technology, MSME may expand its market share and reduce costs without having to face customers directly or through intermediaries. E-Commerce in The Digital Economy Era The same study, Gao et al. (2023) also stated that e-commerce has a significant relationship with the performance and financial sustainability of MSMEs amid a pandemic. So MSMEs that find obstacles in marketing because they can be resolved with the application of digitalization in the sales process to be able to reach a wider market (Arranz et al., 2023; Bilal et al., 2024; Bouwman et al., 2019; Happonen et al., 2020; Imgrund et al., 2018). By achieving wider market access, it will have an impact on increasing people's income and ultimately encourage the growth of the people's economy.

Inclusivity and Economic Democracy

Inclusiveness is a characteristic of a populist economy where all levels of society including marginalized groups have equal opportunities to participate in economic activities in a country (Carranza et al., 2020). Inclusiveness in a country's economy has an important role in opening up business opportunities and employment opportunities for all groups of people including groups of people who do not have access to the formal sector (Carranza et al., 2020). According to Adom and Williams (2012), MSMEs also act as avenues for young people, women, and the rural population to acquire some skills, more so in the economic or entrepreneurial sphere. Tambunan (2011) has also observed that the surge in women founded and managed MSMEs attests to their importance in the fight for women's equality. These findings have shown that MSMEs are relatively successful in lowering social barriers and gender issues benefiting the economy and improving the wellbeing of people for many economic classes (Julian Marius Müller et al., 2018; Popović-Pantić et al., 2020; Romero & Mammadov, 2024; Viswanathan & Telukdarie, 2021).

The Main Challenges Faced by MSMEs in Supporting the People's Economy

Many of the MSMEs in Indonesia encounter various challenges which inhibit business expansion and this has negative impact on the economy in general. For example, one of the major risks related to MSMEs is the lack of ability to get funding from the

formal financial system due to lack of financial education and collateral by most of the owners of MSMEs (Beck & Demirguc-Kunt, 2006; Blatz et al., 2018; Chen et al., 2022; Hervé et al., 2022). In fact, as little as 30 % of the Indonesian MSMEs do have access to formal financial services (BPS, 2021). Another acute challenge in the era of digital transformation is the fact that many MSMEs are unable to use advanced technology in improving their productivity and compete effectively in the global market due to poor infrastructure as well as lack of digital education (Association, 2020). In the same way, unfriendly policies regarding the licensing and taxation of MSMEs also make it extremely hard for the enterprises to survive which slows down their growth (Arafah et al., 2020).

4. CONCLUSION

The MSMEs sector provides a key factor to economic advancement due to the widespread nature of its operations. They are also important to solve the problem of unemployment as many jobs are created. This is prone to bring about change in economic disparity and enhance wealth amongst the people. The presence of advanced technology and innovation today involves positive aspects to the players in MSMEs such as enhanced productivity, enlarging new market horizons, improving competition on the international market, and being able to hone in on a larger market without the need for personal contact. In addition, innovation and digitalization can provide efficiency in the costs that are amplified. In addition, the lack of equitable infrastructure development, difficult access to formal financing, complicated regulations, and bureaucracy as well as the lack of community digital skills and literacy challenges and obstacles that must be faced by MSME actors today. To overcome these obstacles and challenges, the role of government is needed to make policies by making regulations that are not burdensome for MSME actors, equitable infrastructure development, guarantees, and equitable access to formal financing so that MSME actors get formal capital loans to be able to develop their businesses and provide training to improve the skills of MSME actors in the digital field so that they can take advantage of technological advances in supporting their business activities. Thus, it can lead to the achievement of people's economic inclusiveness, increase the distribution of community wealth, and improve people's welfare.

5. LIMITATION

The limitation of this research is the use of secondary data which allows for bias from the data sources used and the generalization of findings may not be accurate due to not collecting data directly from MSME actors. In addition, this research also does not distinguish each MSME sector in more detail even though each sector faces different challenges. Therefore, future research can use primary data collected or obtained directly from MSME actors either through surveys or in-depth interviews and divide MSMEs more specifically by sector to explore and analyze more deeply the dynamics of MSME actors in the digitalization era in an effort to improve and sustain the people's economy so that more comprehensive research results will be obtained.

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