

The Current State of Digital Transformation Development for SMEs Domestically and Internationally

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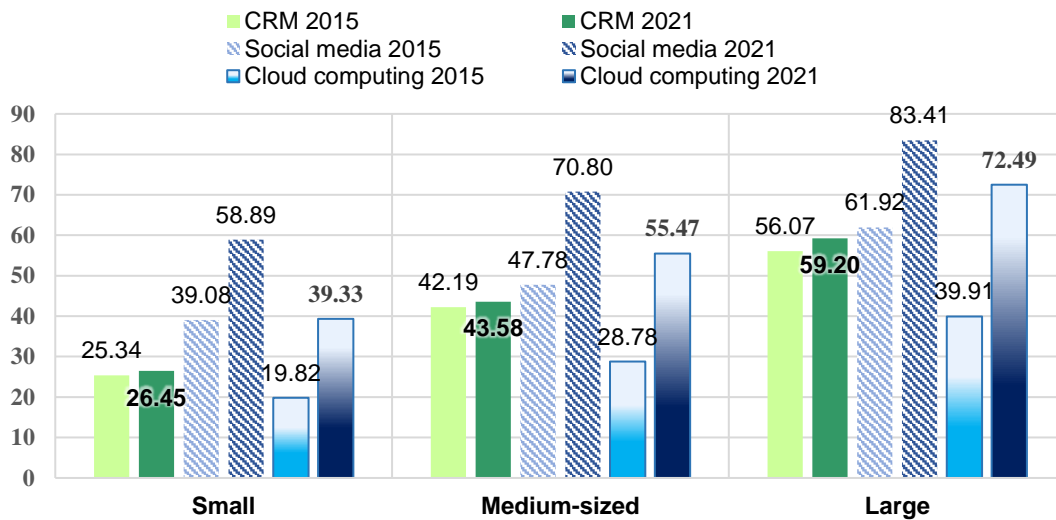
In recent years, the world has faced numerous developmental challenges, such as the Russia-Ukraine war, the Israeli-Palestinian conflict, and inflation, all of which have exerted unprecedented pressure on businesses, especially small and medium-sized enterprises (SMEs). Digital transformation has become a crucial strategy for overcoming these development obstacles. This article draws on PwC's 2023 report, "2022 Taiwan SME Digital Transformation Survey," and the OECD's 2023 "SME and Entrepreneurship Outlook" to understand the current state of digital development and the challenges faced during the transformation process for SMEs both domestically and internationally.

Since the outbreak of the COVID-19 pandemic in 2020, the way people interact in their daily lives and work has changed dramatically, accelerating the development and application of digital technologies worldwide. The Russia-Ukraine war in early 2022 and the Israeli-Palestinian conflict in 2023 have forced SMEs to navigate a rapidly changing environment. As a result, more SMEs are embracing digital transformation with a more proactive approach.

According to the OECD survey, approximately 70% of SMEs in member countries increased their utilization of digital technologies during the pandemic. Many of them adopted hybrid business models that combine virtual and physical elements. However, SMEs face several challenges in digital transformation, including a lack of information and awareness, insufficient funding, and a shortage of digital skills and talent. In contrast, Taiwanese SMEs face similar challenges, particularly regarding financial constraints and a lack of digital skills and talent. The "White Paper on Small and Medium Enterprises in Taiwan, 2019" indicates that the level of digitalization among SMEs increases with the scale of the enterprise. Various industries exhibit different approaches to developing digital capabilities. For instance, the service industry excels in using social media and online sales, while the manufacturing industry

demonstrates superior internal digital management and company website establishment.

The OECD survey reveals that while SMEs have a high adoption rate of social media, they lag behind larger enterprises in the utilization of cloud computing and customer relationship management (CRM) systems. However, there has been significant growth in the number of SMEs using cloud computing since 2015 (see Figure 1). PwC's survey highlights that the primary digital tools currently used by Taiwanese SMEs are "email/communication/social tools," "cloud-based document processing," and "cloud storage." Furthermore, SMEs plan to adopt more specialized cloud tools in the next three years.



Source: OECD (2023), Annex Figure 5.A.2

Figure 1: Average Adoption Rates of Digital Tools in OECD Countries

To accelerate the digital transformation of SMEs, governments around the world have implemented proactive policies and measures. For example, the Singaporean government launched the "SMEs Go Digital" program to help SMEs leverage digital technologies to improve operations and enhance competitiveness. Similarly, the Japanese government has established the "Digital Transformation Promotion Index (DX Promotion Index)" to guide enterprises in their digital transformation. This initiative provides a variety of resources to address business pain points, guides the adoption of appropriate digital tools, and assists in formulating digital transformation strategies. The European Union, through the "Digital Europe Programme," has set up

European Digital Innovation Hubs (EDIHs) across Europe to offer one-stop services to SMEs, enhancing their digital capabilities and skills.

As technology continues to advance and various innovative business models emerge, digital transformation has become an irreversible trend. The government of Taiwan is also actively assisting SMEs in their digital transformation efforts by providing subsidies, organizing training courses, and advocating for data-sharing applications. The "Cloud Generation Small and Micro Enterprise Digital Transformation and Innovation Service Program" has been launched to provide tailored cloud solutions based on the specific needs and industry types of enterprises. This initiative aims to enhance SMEs' digital marketing capabilities and increase their opportunities for cross-border orders through digital approaches.

The inherent limitations in resources, talent, and funding are persistent challenges that SMEs face. Therefore, it is crucial for businesses to fully understand their current situation and needs, and to effectively utilize emerging technologies and government resources. This approach will enable them to achieve digital transformation and strengthen their competitiveness.

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