

Chapter 8

Analyzing Digital Transformation in Brazilian SMEs

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ABSTRACT

The COVID-19 pandemic promoted a sudden impact on businesses across the globe, leaving strong concerns about how it will affect SMEs that contribute with 40% of GDP in emerging economies, where they already operate in challenging circumstances due to institutional voids and scarce resources, in a continuous struggle to survive. In this scenario, Brazilian SMEs accelerated their digital transformation (DT) to maintain their economic activity, moving from physical stores to the virtual environment using websites, social networks, and messaging applications, in a context where effective digital inclusion becomes essential, with the effective appropriation of digital technologies. The purpose of this work is to examine in 20 Brazilian SMEs, challenges, strategies, and activities they had faced to deal with this digital transformation. This chapter is expected to fill a gap in literature as studies into SME development through social media are still in the early stages and to be a practical contribution by demonstrating true challenges and results faced in this process.

INTRODUCTION

The COVID-19 pandemic promoted a sudden and violent impact on businesses across the globe, leaving strong concerns about how it will affect SMEs that contribute 40% of GDP in emerging economies, where entrepreneurs already operate in challenging circumstances because of institutional voids and scarce resource environments, in a continuous struggle to survive (M. A. Dionisio, 2021; Ionescu-Somers & Tarnawa, 2020; Klein & Todesco, 2021). In this scenario, many Brazilian SMEs, following a global trend, accelerated their digital transformation to maintain their economic activity, moving from physical stores to the virtual environment using websites, social networks, and messaging applications, in a

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context where effective digital inclusion becomes essential to the continuity of their businesses (Klein & Todesco, 2021; Priyono & Moin, 2020; Sebrae, 2021).

Digital transformation (DT) is defined as “the initiative of firms to use new capabilities by leveraging digital technologies to transform organizational strategies and operations” (Priyono & Moin, 2020; p.1). Hence, the transformation of SME’s business model supported by digital technology has been perceived as a suitable response to the disruptive changes caused by the COVID-19 pandemic, which triggered a race for fast digitalization to adapt to the new market realities including new consumer habits, and new ways to market and sell products, where transactions using technology are practical, easy, flexible, and no longer need, as before, to rely on face to face transactions (Klein & Todesco, 2021; Nguyen, Sukunesan, & Huynh, 2021; Priyono & Moin, 2020; Rizka, Hida, & Dewi, 2021).

What is seen in Brazil is the wide use of social networks (e.g., Instagram, Facebook, and WhatsApp) to promote and directly sell products and services, with the use of bank apps to receive payments (Klein & Todesco, 2021; Sebrae, 2021). But, although companies have been able to successfully adapt and grow with the support of digital technologies, the journey to becoming digital is challenging, most of all for small and medium enterprises (SMEs), especially considering the lack of necessary resources, skills, commitment, and proper understanding of digital opportunities (Matarazzo, Penco, Profumo, & Quaglia, 2021; Priyono & Moin, 2020). To overcome these difficulties entrepreneurs must build various capabilities, requiring a change in management and vision, with the acquisition of new organizational and marketing capabilities to adequately advance in this new and challenging scenario (Matarazzo et al., 2021). Nevertheless, studies into SMEs development through social media are still in the early stages, with few studies analyzing the evolution of SME’s management and innovation aspects, especially the adoption process, considering that SMEs face increased difficulty in adopting new technologies along with the urgency to reach sales results (Matarazzo et al., 2021; Nguyen et al., 2021; Roth Cardoso, Dantas Gonçalves, Dambiski Gomes de Carvalho, & Gomes de Carvalho, 2020). Hence, to fill this literature gap, we propose the following research questions:

RQ 1: How does digital transformation change the processes of SMEs?

RQ 2: What are the most important capabilities necessary for the success of DT in SMEs?

RQ 3: How did the emergency adoption of DT help in the development of activities and increase sales?

To address these questions, we utilized a multiple case study approach, considered appropriate for understanding how phenomena develop in an organizational context (Yin, 2014). The research was conducted with 20 Brazilian SMEs that went to DT to promote and sell their products and services, through semi-structured interviews with their founders. Then all cases were analyzed and classified into five groups adapted from a typology proposed by Walley & Taylor (2002) that identifies four types of entrepreneurs: innovative opportunist, visionary, Ad hoc, and maverick. We also included an additional type that we identified as unrealistic to complete our analysis. This work aims to examine the challenges, strategies, and activities these entrepreneurs have faced to deal with this digital transformation. We expect to offer a theoretical contribution considering that studies into SMEs development through social media are still in the early stages, along with a practical contribution by analyzing the effectiveness of the use of social media, by demonstrating true challenges and results in these SMEs faced in this process.

This chapter is structured as follows: we present a brief literature review of the transition from SMEs to DT and dynamic capabilities, followed by a detailed description of our research method, including the description of our cases and their classification, to proceed with a discussion and finalizing with concluding remarks.

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