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Redefining IT governance for MSMEs: A simplified and adaptive framework for digital growth

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) increasingly rely on information technology to support operational efficiency and innovation in the Industry 4.0 environment. However, existing IT governance frameworks have largely been developed for large organizations and often exceed the structural capacity and resource availability of MSMEs. This study examines how IT governance mechanisms contribute to IT value and business value in MSMEs by proposing and empirically validating a simplified IT governance framework tailored to resource-constrained organizational contexts. Using a quantitative approach, data were collected from 289 MSME owners and managers in Indonesia and analyzed using Structural Equation Modeling (SEM). The proposed framework conceptualizes IT governance as a set of interrelated components encompassing leadership engagement, workplace management, and operational governance practices. The results indicate that leadership engagement and workplace management play a central role in enabling IT value creation, which in turn exerts a significant influence on business value. These findings suggest that IT governance effectiveness in MSMEs is shaped less by formalized structures and more by contextual and behavioral factors embedded in daily organizational practices. This study contributes to IT governance and information systems research by extending governance theory beyond large-enterprise assumptions and providing empirical evidence from an emerging economy context. From a practical perspective, the findings offer guidance for MSME owners and policymakers by demonstrating that incremental and value-oriented governance practices can support sustainable digital transformation without requiring comprehensive adoption of complex governance frameworks.

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are commonly defined based on criteria such as workforce size, revenue, or access to financing. In Indonesia, MSMEs are legally regulated under the *Undang-Undang Kerja* and No (2020) and (Peraturan Pemerintah No. 07/2021), which classify micro enterprises as firms with initial capital below IDR 1 billion or annual revenue under IDR 2 billion. Operating under these constraints, MSMEs typically face limitations in financial capacity, organizational formalization, and technological resources, which directly affect their ability to adopt and manage information technology effectively.

Information technology has become a critical enabler of organizational competitiveness in the context of Industry 4.0, where digital infrastructure, data-driven decision-making, and platform-based services increasingly shape business performance. Within the information systems discipline, IT governance provides structured mechanisms to align IT resources with business objectives, manage risks, and ensure value realization from IT investments (De Haes & Van Grembergen, 2015; Weill & Ross, 2004). However, most established IT governance frameworks have been developed primarily for large and resource-rich organizations, assuming formal structures and dedicated IT functions.

Mainstream IT governance frameworks such as COBIT, ITIL, CMMI, and TOGAF are widely adopted in both research and practice. COBIT emphasizes governance principles and performance measurement, ITIL focuses on IT service management, CMMI provides a maturity-based approach to process improvement, and TOGAF offers enterprise architecture alignment between IT and business strategy (Westland, 2019). Despite their conceptual robustness, prior studies consistently report that these frameworks are difficult for MSMEs to implement due to their complexity, resource demands, and cost implications (He et al., 2019; Ramaswamy & Southern, 2019). As a result, their direct adoption often exceeds the operational capacity of small enterprises.