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Digital Transformation and Business Model Innovation in Vietnamese Small and Medium Enterprises: Strategic Implications for Sustainable Competitiveness

Dong Quy An[1]
[1] East Asia University of Technology, Vietnam.

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Corresponding Author:
Dong Quy An

Abstract:

Digital transformation has become a strategic imperative for small and medium enterprises (SMEs) in the context of Industry 4.0 and the rapidly evolving digital economy. This study examines the role of digital transformation in reshaping SME business models, enhancing operational efficiency, and strengthening long-term competitiveness. Using a qualitative research approach based on theoretical synthesis, comparative analysis, and secondary data evaluation, the study investigates the applications, challenges, and strategic implications of digital transformation in SMEs. The findings indicate that digital transformation contributes significantly to business model innovation through omnichannel distribution systems, cloud-based operations, data-driven decision-making, digital customer relationship management, and supply chain integration. However, SMEs continue to face substantial barriers related to financial constraints, technological infrastructure, cybersecurity risks, organizational resistance, and limitations in digital capabilities. The study further proposes an integrated strategic framework that links digital transformation capabilities with sustainable competitive advantage and organizational adaptability. This research contributes to the growing literature on digital transformation and SME management by emphasizing the strategic and long-term nature of digital transformation beyond temporary environmental disruptions.

Keywords: digital transformation; SMEs; business model innovation; digital economy; sustainable competitiveness

1. Introduction

The rapid development of digital technologies has fundamentally transformed global business environments, organizational structures, customer behavior, and competitive dynamics. Technologies such as cloud computing, artificial intelligence, big data analytics, the Internet of Things (IoT), blockchain, and digital platforms are increasingly reshaping the mechanisms through which enterprises create, deliver, and capture value. In this context, digital transformation is no longer considered a technological trend but rather a strategic necessity for organizational survival, adaptability, and long-term competitiveness.

Small and medium enterprises (SMEs) play a critical role in national economic systems by contributing significantly to employment generation, innovation, local economic development, and supply chain integration. In emerging economies such as Vietnam, SMEs account for the majority of enterprises and contribute substantially to gross domestic product (GDP), employment, and industrial support activities. However, despite their importance, SMEs frequently face structural limitations including restricted access to financial resources, weak technological infrastructure, insufficient managerial capabilities, and limited digital competencies.

The emergence of Industry 4.0 and digital business ecosystems has intensified the need for SMEs to redesign their business models and operational systems. Digital transformation enables SMEs to improve operational efficiency, reduce transaction costs, optimize customer experiences, and establish flexible business processes. According to Vial

(2019), digital transformation refers to a process through which organizations trigger significant changes in organizational properties by integrating information, communication, computing, and connectivity technologies. Similarly, Verhoef et al. (2021) emphasized that digital transformation extends beyond technology adoption and requires strategic organizational change, digital culture development, and business model innovation.

Consequently, there is a growing need for conceptual research that critically examines digital transformation from a strategic management perspective while integrating business model innovation and dynamic capability theory. Existing studies frequently emphasize technology adoption and operational implementation, whereas limited attention has been devoted to explaining how SMEs develop long-term digital capabilities for sustainable competitiveness in emerging economies.

This study aims to analyze the role of digital transformation in SME business model innovation, identify major barriers affecting digital transformation processes, and propose strategic recommendations for sustainable competitiveness. The study contributes to the literature by integrating digital transformation theory, business model innovation theory, and dynamic capability perspectives into a comprehensive conceptual framework for SME transformation.

2. Literature Review

2.1. Digital Transformation

The concept of digital transformation was born in the era of the Internet boom. However, a decade ago, the pace of digital transformation was generally slow and revolved around the content of improving processes, products or the employee experience. The process of applying digital transformation will be different in each different field, so the concept of digital transformation can be emphasized in each aspect depending on the interest in each field. In business, digital transformation is understood as the integration of digital technologies into all areas of an enterprise, taking advantage of technologies to fundamentally change the way of operation, business model and business model. provide new value to your customers . In general, all the concepts of argument passing have one thing in common, which is to transfer human activities from the real world to the virtual world in the network environment on the basis of applying modern development. Technology's deepening into all aspects of life, economy and society, fundamentally and comprehensively changes the way we live, work and relate to each other. As the application of innovation and rapidity of technology to solve problems, argument transfer is considered a powerful and comprehensive reform in the way of operation on the basis of application of science and technology. into all aspects of management, production, and supply activities, establishing supply and demand relationships with operational methods that bring speed, convenience, time and cost savings.

Bharadwaj et al. (2013) argued that digital technologies have transformed traditional business strategies into digital business strategies characterized by agility, connectivity, and platform integration. Matt et al. (2015) further emphasized that digital transformation strategies involve coordinated organizational activities aimed at creating value through digital technologies.

Vial (2019) defined digital transformation as “a process that aims to improve an entity by triggering significant changes to its properties through combinations of information, computing, communication, and connectivity technologies.” This definition highlights the strategic and organizational nature of digital transformation rather than simply technological implementation. Digital transformation affects organizational structures, managerial processes, customer interactions, and value creation systems.

Recent studies suggest that digital transformation involves both technological and socio-organizational dimensions. Verhoef et al. (2021) noted that successful digital transformation requires organizational agility, digital leadership, customer-centric innovation, and dynamic adaptation capabilities. Furthermore, digital transformation often requires substantial changes in organizational culture, human resource management, and governance mechanisms.

The literature also indicates that digital transformation can generate multiple organizational benefits, including enhanced operational efficiency, improved customer experience, innovation capability development, cost optimization, and competitive advantage creation. However, transformation outcomes depend significantly on managerial capabilities, technological readiness, and organizational adaptability.

2.2. Business Model Innovation

Business model innovation has gained increasing attention in strategic management research because organizations operating in digital environments must continuously redesign their mechanisms for value creation and value capture.

According to Osterwalder and Pigneur (2010), a business model describes the rationale through which an organization creates, delivers, and captures value. Similarly, Teece (2010) emphasized that business models represent the architecture of organizational value generation and commercialization processes.

Digital transformation has significantly influenced business model innovation by enabling organizations to develop platform-based ecosystems, omnichannel distribution systems, personalized customer experiences, and data-driven decision-making mechanisms. Amit and Zott (2012) argued that business model innovation is increasingly associated with digital connectivity, collaborative ecosystems, and integrated value networks.

In SMEs, business model innovation is particularly important because smaller firms often possess greater organizational flexibility and adaptability than larger organizations. Digital technologies allow SMEs to access broader markets, improve supply chain coordination, reduce operational inefficiencies, and establish closer relationships with customers.

Moreover, digital business model innovation enables SMEs to shift from traditional linear value chains toward network-based and platform-oriented systems. Such transformations enhance organizational responsiveness and facilitate rapid adaptation to changing customer demands and market conditions.

2.3. Dynamic Capability Theory

Dynamic capability theory provides an important theoretical foundation for understanding digital transformation in SMEs. Teece, Pisano, and Shuen (1997) defined dynamic capabilities as the organizational abilities to integrate, build, and reconfigure internal and external competencies in rapidly changing environments.

Digital transformation requires enterprises to develop dynamic capabilities related to sensing technological opportunities, seizing digital market potential, and reconfiguring organizational structures and resources. Warner and Wäger (2019) suggested that digital transformation success depends heavily on strategic renewal capabilities and organizational learning processes.

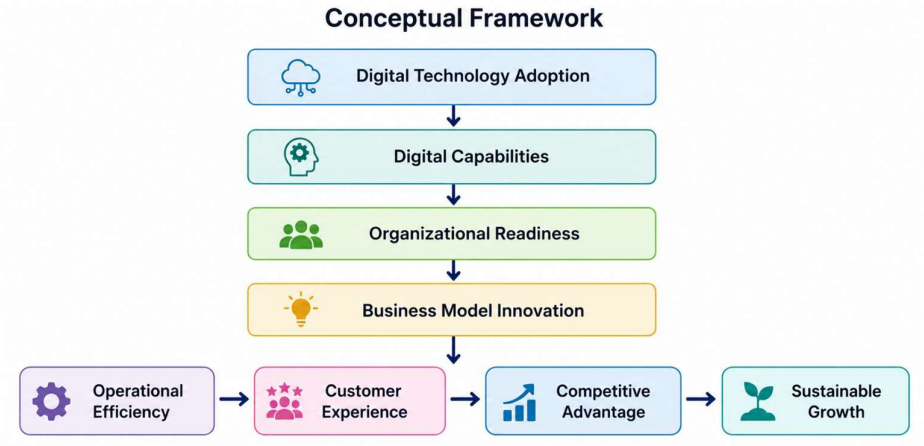
For SMEs, dynamic capabilities are essential because limited resources require firms to continuously adapt and optimize their operational systems. The ability to learn, innovate, and respond rapidly to technological changes can significantly influence transformation success.

Furthermore, dynamic capability theory explains why some SMEs achieve successful digital transformation while others fail despite similar technological access. Organizational leadership, strategic vision, innovation culture, and employee capabilities play crucial roles in determining transformation outcomes.

2.4. Conceptual Framework

Based on the reviewed literature, this study proposes a conceptual framework linking digital transformation drivers, business model innovation, and SME competitiveness. The framework suggests that digital transformation capabilities positively influence business model innovation, which subsequently enhances organizational performance and sustainable competitiveness.

Figure 1: Conceptual Framework of Digital Transformation in SMEs



3. Research Methodology

3.1. Research Design

This study adopts a conceptual research design based on theoretical synthesis, systematic literature integration, and secondary data evaluation. Rather than employing empirical qualitative interviews or case-study methods, the research develops a conceptual framework explaining how digital transformation capabilities influence business model innovation and sustainable competitiveness in SMEs. Academic literature indexed in Scopus and Web of Science, institutional reports, and international policy documents were critically reviewed to identify major theoretical perspectives, strategic transformation drivers, and organizational barriers affecting SMEs in digital environments.

3.2. Data Collection

Secondary data and theoretical materials were collected from multiple academic and institutional sources, including peer-reviewed journal articles indexed in Scopus and Web of Science, OECD and World Bank reports, Vietnam White Paper on Enterprises, VCCI surveys, and industry studies on digital transformation. To improve analytical reliability, the study prioritized highly cited publications published in internationally recognized journals related to strategic management, innovation management, information systems, and SME development.

- Journal articles indexed in Scopus and Web of Science;
- Reports published by the Ministry of Planning and Investment;
- Vietnam White Paper on Enterprises;
- OECD and World Bank reports;
- Cisco and VCCI digital transformation surveys;
- Previous studies on SMEs and digital transformation.

The use of multiple sources enhances the reliability and comprehensiveness of the analysis.

3.3. Analytical Methods

The study applies critical literature synthesis, comparative theoretical analysis, and conceptual evaluation methods. The analytical process consisted of three stages: (1) identification of dominant digital transformation theories; (2) comparison of existing findings related to SME competitiveness and business model innovation; and (3) development of an integrated conceptual framework linking digital capabilities, organizational readiness, and sustainable competitiveness. This methodological approach is appropriate for conceptual research seeking to extend theoretical understanding rather than test causal hypotheses empirically.

- Comparative analysis;
- Theoretical synthesis;

- Descriptive interpretation;
- Conceptual evaluation;
- Thematic analysis.

These methods enable the study to evaluate transformation drivers, identify organizational barriers, and propose strategic recommendations for SMEs.

4. Research Findings and Discussion

4.1. The Strategic Role of SMEs in the Digital Economy

SMEs represent the dominant form of business organization in many economies and contribute significantly to employment generation, industrial support activities, and regional economic development. In Vietnam, SMEs account for approximately 97% of all enterprises and contribute substantially to GDP and labor market development.

The strategic importance of SMEs extends beyond economic contribution. SMEs also serve as innovation incubators, flexible manufacturing units, and supply chain partners for larger corporations. Due to their smaller organizational structures, SMEs frequently demonstrate greater adaptability and responsiveness to changing market conditions.

From the resource-based view perspective, digital transformation enables SMEs to develop strategic intangible assets including customer intelligence, digital platforms, organizational knowledge, and data management capabilities. Such assets contribute to sustainable competitive advantage by enhancing organizational flexibility and innovation capacity.

Furthermore, digital transformation supports SME integration into global value chains and digital ecosystems. Through digital technologies, SMEs can overcome geographical limitations, access international markets, and establish direct communication with customers and business partners.

However, SMEs also face structural disadvantages compared to large enterprises. Financial limitations, restricted technological expertise, and managerial capability constraints frequently reduce transformation effectiveness. Consequently, strategic digital transformation planning becomes essential for sustainable development.

4.2. Digital Transformation Applications in SME Business Models

4.2.1. Omnichannel Distribution and Digital Marketing

Digital technologies have transformed traditional distribution systems into omnichannel business models that integrate physical and digital customer interactions. Modern customers increasingly rely on online platforms, mobile applications, and digital marketplaces when searching for products and services.

SMEs are increasingly adopting digital platforms such as Shopee, Lazada, Amazon, Alibaba, Facebook Marketplace, and TikTok Shop to expand market access and customer engagement. Omnichannel strategies improve customer convenience, strengthen brand visibility, and enhance customer experience consistency.

According to Lemon and Verhoef (2016), customer experience management has become a critical source of competitive advantage in digital environments. Digital marketing tools such as search engine optimization (SEO), social media advertising, customer analytics, and personalized recommendation systems allow SMEs to improve customer targeting and market responsiveness.

Furthermore, digital communication channels facilitate real-time customer interaction, feedback collection, and service personalization. Such capabilities improve customer loyalty and strengthen long-term customer relationships.

4.2.2. Supply Chain Digitalization

Supply chain management has become increasingly dependent on digital technologies. Cloud computing, IoT systems, enterprise resource planning (ERP), and SaaS platforms enable SMEs to coordinate inventory management, production planning, procurement, and logistics operations more efficiently. Digital supply chains improve operational

transparency, reduce coordination costs, and enhance organizational responsiveness. Ivanov et al. (2019) argued that digital supply chain systems increase organizational resilience and adaptability in uncertain business environments.

The integration of cloud-based systems enables SMEs to synchronize workflows, share operational information, and improve collaboration with suppliers and distribution partners. Additionally, IoT technologies support real-time monitoring of production and logistics activities. Digitalization also enhances supply chain visibility and predictive analytics capabilities, enabling SMEs to forecast demand more accurately and optimize inventory levels.

4.2.3. Digital Accounting and Financial Systems

Digital transformation significantly influences accounting and financial management processes. Online accounting software, electronic invoices, digital banking systems, and automated financial reporting platforms improve operational efficiency and reduce administrative costs. Digital financial systems support faster transaction processing, greater transparency, improved data accuracy, and enhanced regulatory compliance. Automation also reduces manual errors and strengthens managerial decision-making capabilities.

Furthermore, financial digitalization enables SMEs to monitor business performance more effectively through real-time financial analytics and performance dashboards.

4.2.4. Data Management and Cybersecurity

Data has become a strategic organizational resource in digital business environments. Effective data management systems support organizational learning, market intelligence, customer analytics, and strategic planning. SMEs increasingly rely on centralized databases and cloud infrastructure to manage operational information. However, increased digitalization also raises cybersecurity concerns. Data breaches, cyberattacks, and privacy violations represent significant risks for SMEs with limited cybersecurity capabilities.

Consequently, SMEs must invest in cybersecurity policies, data protection systems, and employee awareness programs to minimize digital risks and maintain stakeholder trust.

4.3. Challenges of Digital Transformation in SMEs

4.3.1. Financial Constraints

Financial limitations remain one of the major barriers to digital transformation in SMEs. Unlike large corporations, SMEs often rely on internal funding and face difficulties accessing external financial resources. Digital transformation requires considerable investment in software systems, cloud infrastructure, employee training, cybersecurity, and consulting services, which may exceed the financial capacity of many SMEs.

In addition, uncertainty regarding return on investment discourages managers from implementing large-scale digital projects. As a result, many SMEs adopt fragmented digital solutions that reduce transformation effectiveness and long-term competitiveness.

4.3.2. Technological Infrastructure Limitations

Weak technological infrastructure significantly restricts digital transformation processes. Many SMEs still operate with outdated information systems, manual procedures, and disconnected operational platforms. Such limitations reduce organizational efficiency and complicate technology integration.

Furthermore, limited access to reliable digital infrastructure and technological support services in some regions further constrains transformation capacity. Rapid technological change also creates continuous pressure for SMEs to update systems and adapt to new technologies.

4.3.3. Human Resource and Digital Capability Challenges

Digital transformation requires employees with digital literacy, technological expertise, and adaptability. However, many SMEs experience shortages of digitally skilled workers and lack structured training programs for capability development.

Employee resistance to technological change also represents a major challenge because digital transformation often changes traditional workflows and organizational routines. In addition, SME managers with limited digital knowledge may struggle to develop effective transformation strategies and implementation roadmaps.

4.3.4. Organizational Resistance and Cultural Barriers

Organizational culture strongly influences digital transformation success. SMEs with traditional management structures and centralized decision-making systems may resist innovation and strategic change. Many organizations continue to rely on conventional operational methods and are reluctant to adopt digital business practices.

Successful transformation requires leadership commitment, organizational learning, and innovation-oriented culture. Without managerial support and cultural adaptability, digital transformation initiatives may become fragmented and ineffective.

4.3.5. Cybersecurity Risks

Increasing digital dependence exposes SMEs to cybersecurity threats such as ransomware attacks, phishing activities, data breaches, and operational disruptions. Many SMEs lack sufficient investment in cybersecurity systems and formal risk management frameworks.

Limited employee awareness regarding cybersecurity practices further increases organizational vulnerability. Consequently, cybersecurity weaknesses may reduce customer trust, create legal risks, and negatively affect digital transformation outcomes.

4.4. Strategic Implications for SMEs

4.4.1. Managerial Implications

SME managers must recognize digital transformation as a strategic organizational process rather than a purely technological project. Transformation strategies should align with long-term business objectives and customer value creation. Leadership commitment is essential for successful transformation. Managers should promote innovation culture, organizational learning, and employee adaptability.

Additionally, SMEs should prioritize phased digital transformation approaches by implementing practical and scalable solutions before investing in complex technological systems.

4.4.2. Human Resource Development

Digital transformation success depends heavily on human resource capabilities. SMEs should invest in employee training programs, digital literacy development, and technological skill enhancement. Organizations should also establish flexible organizational structures that encourage creativity, collaboration, and continuous learning.

4.4.3. Policy Implications

Governments and public institutions play critical roles in supporting SME digital transformation. Policy support should include:

- Financial incentives;
- Digital infrastructure development;
- Digital training programs;
- Technology consulting support;
- Innovation ecosystem development.

Public-private partnerships may further strengthen digital transformation ecosystems and improve SME access to digital resources.

4.4.4. Technological Implications

SMEs should prioritize technologies that generate immediate operational value and scalability. Cloud computing, customer relationship management systems, digital accounting software, and e-commerce platforms represent practical starting points. Organizations should also emphasize cybersecurity preparedness and data governance to ensure sustainable digital development.

5. Discussion

The analysis supports existing literature emphasizing that digital transformation should be understood as a strategic organizational transformation process rather than merely technological adoption. Consistent with Vial (2019) and Verhoef et al. (2021), the study demonstrates that sustainable digital transformation requires organizational restructuring, leadership commitment, capability development, and customer-centric innovation. The findings further indicate that SMEs in emerging economies face greater structural constraints than large enterprises, particularly regarding financial access, digital skills, and technological infrastructure. Existing studies have largely concentrated on technology adoption behavior, whereas limited attention has been devoted to the strategic relationship between dynamic capabilities and business model innovation in SMEs. Therefore, this study contributes by integrating these theoretical perspectives into a unified conceptual framework applicable to SME transformation in developing economies.

The study also confirms the relevance of dynamic capability theory in explaining SME transformation outcomes. SMEs with stronger learning capabilities, organizational flexibility, and innovation-oriented leadership demonstrate greater transformation success.

Furthermore, the findings align with Verhoef et al. (2021), who emphasized that digital transformation influences customer experience, organizational agility, and value creation systems. In the SME context, digital technologies facilitate closer customer relationships, faster market adaptation, and improved operational efficiency.

However, the study also reveals that transformation challenges remain substantial, particularly in developing economies where SMEs frequently face institutional and financial limitations. Consequently, successful transformation requires coordinated efforts among enterprises, governments, educational institutions, and digital ecosystem stakeholders.

The study contributes to the literature by integrating digital transformation theory, business model innovation perspectives, and dynamic capability frameworks into a unified conceptual model applicable to SMEs.

6. Conclusion

Digital transformation has become a fundamental strategic requirement for SMEs operating in increasingly technology-driven and competitive business environments. This conceptual study examined the strategic relationship between digital transformation capabilities, business model innovation, and sustainable competitiveness in SMEs. The analysis indicates that digital technologies such as cloud computing, digital platforms, omnichannel systems, and data analytics significantly enhance operational efficiency, customer engagement, organizational flexibility, and market responsiveness. Nevertheless, SMEs continue to face substantial barriers including financial limitations, cybersecurity risks, weak digital infrastructure, and shortages of digitally skilled human resources. The study contributes theoretically by integrating digital transformation theory, dynamic capability theory, and business model innovation perspectives into a comprehensive conceptual framework. Practically, the findings provide strategic implications for SME managers and policymakers seeking to strengthen digital competitiveness and organizational adaptability in the digital economy.

The findings indicate that digital transformation contributes significantly to operational efficiency, customer experience enhancement, supply chain integration, and sustainable competitiveness. Technologies such as cloud computing, digital platforms, omnichannel systems, and data analytics enable SMEs to improve organizational performance and adapt more effectively to changing market conditions.

Nevertheless, SMEs continue to encounter substantial barriers including financial limitations, weak technological infrastructure, cybersecurity concerns, and shortages of digital capabilities. Therefore, successful transformation requires strategic planning, leadership commitment, organizational adaptability, and institutional support.

This study contributes theoretically by integrating digital transformation, business model innovation, and dynamic capability perspectives into a comprehensive analytical framework. Practically, the study provides strategic recommendations for SME managers and policymakers seeking to strengthen digital competitiveness.

Several limitations should be acknowledged. The study relies primarily on secondary data and qualitative analysis. Future research should incorporate quantitative methodologies, empirical case studies, and cross-country comparisons to evaluate transformation outcomes more comprehensively.

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