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Strategic Policy Directions of Micro Small Medium Business in The Digital Economy Era

Atsari Sujud[1] and Muhammad Ivan[2]

[1]*Fakultas Ekonomi Bisnis, Universitas Nasional, Jalan Sawo Manila Nomor 61, Pejaten, Pasar Minggu, Jakarta Selatan, Indonesia, atsari.sujud@gmail.com*
[2]*Muhammad Ivan, Kementerian Koordinator Bidang Pembangunan Manusia dan Kebudayaan, Jalan Medan Merdeka Barat Nomor 3, Jakarta Pusat, Indonesia, ivansky5981@gmail.com*

Abstract

Firms of all sizes, across all sectors, are increasingly equipping their staff with digital tools. Today, over half of firm's employees use computers with Internet access, including Micro, Small and Medium Enterprises (MSMEs). The purpose of this study is to determine the impact of digital economy on the MSMEs Performance in Indonesia. This study used a descriptive exploratory and literature review approaches. The theory construct is carried out by referring to several sources, such as books, scientific journals and papers. The results of the study shows that the rapid development of digital technology, apart from being a challenge for the business world, is also a huge opportunity and potential for increasing MSMEs Performance. Another finding is that the need for digital infrastructure development continue to be accelerated the process of using quality and sustainable digital technology. Digital infrastructure will linearly support inclusive and sustainable industrialization to encourage innovation. Recommendations for MSME business development require a long-term MSME development policy scheme to ensure that MSME performance continues to contribute optimally and have significant impact on improving the national economy even to the lowest ranks, namely rural communities.

Keywords micro; small and medium enterprises; digital economy

INTRODUCTION

The digital economy is a recently emerging phenomenon that is gaining importance given double-digit annual growth forecasts worldwide, with particularly strong growth in the global south (WEF, 2015). It is very reasonable, considering that digital platforms such as social media, for example, have the largest number of users sequentially from: India, the United States, Brazil, Indonesia and Mexico (Statista, 2020).

In the Digital Economy Era, information is no longer just a medium for transactions and communication, but is the main source that brings profit to the economy. The Digital Economy encourages changes in the mindset of individuals and organizations in making economic decisions, especially as a result of the development of the internet and mobile phone device technology. The digital economy is able to provide access to the procurement and supply of goods and services that support business (business) operations in the industrial and trade sectors.

Quoting China's G20 Report in Helmalia (2018), the digital economy refers to a variety of economic activities, which include the use of digital information and knowledge as key factors of production, modern information networks (modern information networks) as an important activity space and the effectiveness of the use of Information and Communication Technology (ICT) as an important driver of productivity growth and structural optimization of the economy. Therefore, in this context, important factors that must be considered in the digital economy are the interests, attitudes and abilities of individuals in using digital technology and communication tools such as smartphones (HP), tablets, laptops and desktop PCs to access, manage, integrate,

✉Correspondence to :
Atsari Sujud
atsari.sujud@gmail.com

analyze , evaluate information, build new knowledge, create and communicate with others in order to participate effectively in society

Indonesia is one of the Southeast Asian countries with the largest economic activity. Measured by purchasing power parity, Indonesia is the tenth largest economy in the world and a member of the G20 group of 19 countries with the largest economies in the world and the European Union. Indonesia's gross domestic product (GDP) continues to grow significantly every year, from $165.021 billion in 2000 to $932.259 billion in 2016 (World Bank, 2017). One of the digital economy actors that needs attention is the participation of SMEs in the digital economy.

The role of MSMEs in the national economy is very important. During the 2015-2019 period, every year the number of MSMEs increased where in 2015 the number of MSMEs was 59,262,772 units then became 65,465,497 units in 2019. An increase in MSME units means there has been an increase in investment as well. MSME business units are dominated by micro businesses, seen in 2019 the number of micro business units was 64,601,353 units or 98.67 percent. Meanwhile, small and medium enterprises respectively amounted to 798,679 units (1.22 percent) and 65,465 units (0.10 percent). When compared to large businesses, MSME units have a higher percentage than large business units. From 2015 to 2019 it can be seen that MSME business units account for 99.99 percent of the total business units for each year, the remaining 0.01 are large business units.

In the midst of Covid-19, there has been a significant shift in marketing MSME products, by generating a contact free economy and accelerating the transformation of consumer behavior by utilizing digital technology to interact and carry out economic and financial transactions. During the Covid-19 pandemic, consumers in Indonesia shopped more online and made non-cash transactions, which are predicted to continue after the pandemic ends (Google, Temasek, and Bain & Co, 2019). Responding to shifts in consumer behavior, MSMEs are increasingly leveraging digital platforms, with the drive to increase market access being the main incentive (ERIA, 2018).

MSMEs have a very important and strategic role in the economy, especially in developing countries. MSMEs that have formal legal entities can contribute up to 60 percent in creating jobs and 40 percent in the formation of Gross Domestic Product (GDP). This number will be much greater if MSMEs in informal form are also counted. The World Bank estimates that 600 million jobs will be created in the next 15 years in this sector, mainly in Asia and Sub-Saharan Africa (World Bank, 2017).

Digital-based MSMEs are inseparable from digital marketing or digital marketing which is a form of business promoting and marketing a "brand" using digital media, such as the internet. The entry of MSMEs in the e-commerce market creates an improved image and can bring up marketing networks more quickly (Jahanshahi, 2013).

In the 2018 economic report (Bank Indonesia, 2020), MSMEs have an important role in the economy and have the potential to continue to be improved in driving national economic growth. MSME business units in 2018 reached 99.99% of the total business units with employment of 97.0% of the total workforce. MSMEs also play a major role in driving economic growth, reflected in their share of GDP formation which reached 61.1%.

LITERATURE REVIEW

BPS (Central Statistics Agency) defines MSMEs based on the number of workers. Small businesses are businesses with a workforce of 5 to 19, while medium businesses are businesses with a workforce of 20 to 99.

Another definition is based on the Decree of the Minister of Finance Number 316/KMK 016/1994 dated June 27, 1994 that Small Businesses are individuals/business entities that have carried out activities/businesses that have annual sales/turnovers of a maximum of IDR 600,000,000 or assets of a maximum of IDR 600 ,000,000 (excluding occupied land and buildings).

As cited by Rupeika (2022), the importance of SMEs in national economic development is a fact that is generally recognized (OECD 2020; Everett 2021; Johnson et al. 2007). SMEs make up most of the world's businesses, providing a large proportion of jobs and tax revenues to state and local budgets (Saksonova and Papiashvili 2021; Denicolai et al. 2021; Mole et al. 2017). The same holds true for the role of digital transformation, as it is a key element in the progress and modernization of enterprises and economies (Morakanyane et al. 2017; Ziółkowska 2021; Cichosz et al. 2020).

The emergence of digital technology and the internet marked the start of the Industrial

Revolution 3.0. The process of this industrial revolution, if studied from the point of view of a British sociologist named David Harvey, is a process of compressing space and time. Space and time are increasingly compressed and culminate in the 3.0 stage revolution, namely the digital revolution. Time and space are no longer separated. At the stage of the previous industrial revolution, namely the second revolution (Revolution 2.0), with the presence of machine technology that can create a car (vehicle), time and distance are getting closer. Revolution 3.0 brings the two together. Therefore, the digital era now carries a real time side.

Then in the 4.0 generation industrial revolution, humans have found a new pattern when disruptive technology arrives so quickly and threatens the existence of incumbent companies. This era is marked by the presence of the Internet of Things, Big Data, Artificial Intelligence, Human Machine Interface, Robotic and Sensor Technology, 3D Printing Technology. History has recorded that the industrial revolution has claimed many victims with the death of giant companies.

The concept of the digital economy according to Zimmerman (Zimmerman, 2000), is a concept that is often used to explain the global impact on the rapid development of Information and Communication Technology which has an impact on socio-economic conditions. This concept becomes a view of the interaction between the development of innovation and technological progress that has an impact on the macro and micro economy. Affected sectors include goods and services when developing, producing, selling or supplying them depending on the extent to which digital technology can reach.

METHODS

The stages of this research refer to the research conducted by (Triandini et al., 2019). This study used a descriptive exploratory approach and was developed using a literature review or literature study approach. The theory or concept approach is carried out by referring to several sources, such as books, scientific journals, and the internet.

DATA ANALYSIS AND DISCUSSION

In the midst of the current global economic slowdown, Indonesia with its Micro, Small and Medium Enterprises (MSMEs) sector always appears as a savior, so that its role and contribution must be further increased. Therefore, the issue of MSMEs is interesting to study. Data shows that there are around 58 million independent business activities, and around 1.65 percent of the population have become entrepreneurs who used to come from startup businesses and were able to develop their businesses. The strategic role of MSMEs in the structure of the Indonesian economy is increasingly evident where around 99.9% of business units in Indonesia are MSMEs and absorb nearly 97% of Indonesia's workforce.

The 7th Credit Suisse Research Institute report for 2016 released data on the Indonesian economy with the fact that the economic gap in the country is still very wide. Mentioned, the total wealth of Indonesian households grew 6.4 percent in 2016 which reached USD 1.8 trillion. The problem is, 1 percent of Indonesia's 164 million adult population controls 49.3 percent of the total household wealth worth USD 1.8 trillion and places Indonesia as the 4th most sparse wealth distribution country in the world (UMKM Outlook, 2017).

THE EXISTENCE OF MSMES IN THE POST COVID-19 PANDEMIC

The Central Statistics Agency (BPS, 2022) noted that in February 2022 there were around 954.6 thousand people of working age who were forced to be unemployed due to the Covid-19 pandemic. Of these, the majority or 46.69% came from the early and middle-aged age group, namely between 25 and 44 years.

Then 40.05% came from the young age group, namely between 15 and 24 years. Meanwhile, another 13.26% is from the pre-retirement to old age group, namely 45 years and over. Overall, BPS noted that the number of people of working age who were unemployed due to Covid-19 in February 2022 had decreased by 40.74% from the previous year.

In contrast to the condition of the formal sector where many workers have experienced termination of employment (PHK). BKPM announced that there was a record for the highest NIB submission through OSS during 2020 in October 2020, namely reaching 377,540 requests that had been received by BKPM. Of course, this is proof that the interest in micro businesses will continue to dominate during a pandemic, considering that 93.6% of the total NIB applications came from the micro business sector, or to be more precise, as many as 353,478 applications. The record

recorded in October 2020 experienced an increase of 91.3% more than the number of NIB applications in the previous month, where there were 197,322 requests through OSS (indonesiainvest.go.id, 2020). Interest in micro businesses continued to dominate during the pandemic and grew positively in line with the government's efforts to issue various policies in the context of national economic recovery from the impact of the COVID-19 pandemic.

The trend of using digitalization in MSMEs has continued to show an increase in the last few years, although there is still room for acceleration and optimization of digitalization, especially in the aspects of MSME capability and supporting infrastructure. The capability aspect of MSMEs is needed to increase MSME access to digital ecosystems and their utilization for business activities. This is because MSME actors who have access to digital ecosystems do not necessarily have a strong understanding of the use of digitalization to develop business activities. Meanwhile, the infrastructure aspect can be directed at incentives to facilitate ownership of digital technology facilities and infrastructure for individual MSME actors as well as infrastructure to support information technology and internet connectivity. The space for accelerating the use of digitalization is also reflected in the Indonesia Digitalization Index which shows inequality, especially in regions outside Java, which are mainly influenced by MSME capability and infrastructure factors.

The growth of the internet, followed by the very rapid growth of e-commerce and social media, must also be followed by the government's efforts in the framework of an even distribution of internet use throughout Indonesia. Currently, the largest distribution of internet usage is on the island of Java with 52 million users and on the island of Sumatra with 18.6 million users.

Meanwhile, other regions have very few internet users when compared to the islands of Java and Sumatra. This unequal distribution of internet users in Indonesia is likely to occur because there is a gap in terms of coverage and quality of internet access speed.

Reportal Digital Indonesia (2020), explained that there were 175.4 million internet users in Indonesia as of January 2020, an increase of 17% from 2019, making internet penetration in Indonesia at 64%. The increase in the number of internet users is significantly related to the total users of digital platforms such as social media and marketplaces in Indonesia.

As of January 2020, of the 160 million users of digital platforms, namely social media in Indonesia as a medium of communication and network expansion with a penetration of 59%, while in the marketplace of total internet users in Indonesia, 80% of users use the digital marketplace platform to make sales transactions.

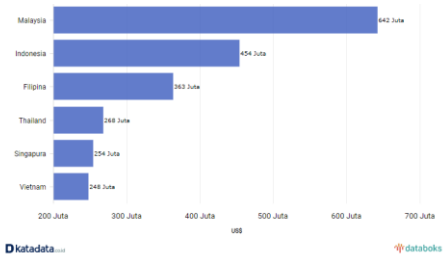
MSMEs AND DIGITAL INFRASTRUCTURE

Indonesia is a country that has great potential for the development of the digital economy. Google and TEMASEK (2018) in their research results, state that one of the things that supports the development of the internet economy in Indonesia is the large number of internet users in Indonesia. Several other facts that support the development of the digital economy in Indonesia include the following (McKinsey & Company, 2018):

1. Indonesia is estimated to have an online trading market of 5 billion for formal online trading, and more than 3 billion for informal online trading.
2. Indonesia is estimated to have 30 million online shoppers in 2017 with a total population of around 260 million.
3. By 2025, the digital economy in Indonesia is expected to create an additional 3.7 million jobs.
4. Generate up to 80% higher revenue growth for small and medium enterprises (SMEs).
5. Provide an additional 2% per year in GDP growth by increasing broadband penetration rates and digital technology adoption by SMEs

Digital infrastructure itself is often interpreted as a foundation that functions to support a computing system. But more than that, digital infrastructure development is the development of information technology-based infrastructure that aims to provide convenience, increase effectiveness, and time efficiency in carrying out various activities and the digital economy. The easiest examples to explain what is referred to as digital

infrastructure include backbone networks, data centers, and cloud computing (Febrianty, 2022).



Source: katadata.co.id, 2022

According to Google's research with Temasek and Bain, Indonesia is a country with the largest digital economic value in Southeast Asia. Nevertheless, investment in digital infrastructure development that enters Indonesia is lower in value than neighboring countries. Based on the ASEAN Investment Report released by the ASEAN Secretariat, during the 2020-2022 period Indonesia received investment for digital infrastructure projects of US$ 454 million. This value is less than Malaysia which received a similar investment with a total value of US $ 642 million. However, the investment value of digital infrastructure projects in Indonesia is still higher than the Philippines, Thailand, Singapore and Vietnam.

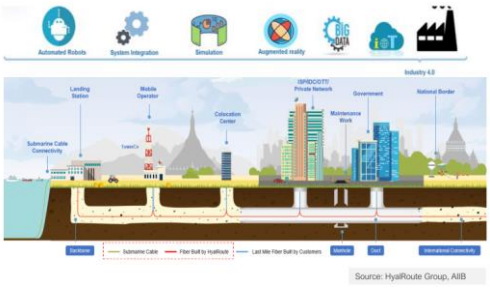
The Indonesian government ensures that infrastructure development is evenly distributed at all levels, the government has created a large internet infrastructure development project in 12,548 villages that have not yet been reached by internet access. This project is supported by the massive construction of fiber optic cables on land and at sea (Indonesia.go.id, 2021).

The government is paying serious attention to Indonesia's 64.2 million MSMEs to be able to go digital onboard, because of Indonesia's huge digital economic potential. In fact, the Government has targeted that by 2024, the number of MSME players joining the digital ecosystem can increase rapidly to 30 million actors through the National Proud Movement Made in Indonesia Program.

Through this roadmap, it is expected to produce new digital unicorns and startups in the digital financial services sector, industrial digitization, entertainment media (digital broadcasting), digital agriculture and fisheries, digital education, digital health, and digital real-estate or urban areas. This is a huge opportunity considering that in 2025 Indonesia's digital economy is projected to grow from USD 44 billion to USD 124 billion or equivalent to 40% of the value of ASEAN's digital economy.

Digital Infrastructure fully supports digital development for the country. Just like roads and rail, digital infrastructure is the foundation of digital economic activities and technology applications (AIIB, 2021).

- Digital Infrastructure serves as the basis. for “Industry 4.0” innovation, digital activities that add value, and a significant increase in productivity.
- Countries need international, regional and national backbone transport infrastructure to support local activities and international connectivity (eg 5G and fiber)
- For emerging markets, connectivity is a top priority.
- Once the connectivity infrastructure is built, local data center infrastructure can be added to support locally deployed digital services and growing local digital ecosystems.



MSMEs CHALLENGES IN THE DIGITAL ECONOMY ERA

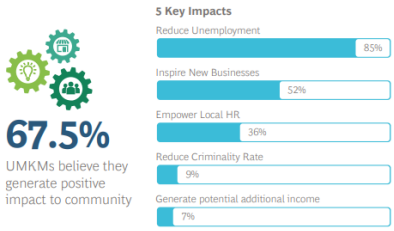
The problems experienced by most MSMEs in Indonesia, in terms of production and processing, marketing, human resources, design and technology, capital and climate. Of course, the development of SMEs in Indonesia requires the sustainability of innovative entrepreneurs to be able to compete both nationally and internationally. This should accelerate the creation of new businesses, with good results of course. The next problem, most SMEs usually do not have extensive knowledge and long-term business orientation.

An example is the digitalization of marketing which has not yet developed to the extent that it requires a website to meet the needs of MSMEs. Websites owned by small, medium and micro business producers as well as those owned by local governments are

media for advertising and "communication" between product producers and consumers. There is often a decrease in the function of the website, because the existing website cannot meet the development needs of small, medium and micro enterprises in the future. This happens because website owners are lazy to update information data related to MSMEs, communication between consumers/users and website owners is hampered, or website capacity and quality are low.

In research published by the Boston Consulting Group and Blibli (2022) it was revealed that 77% of MSMEs employ local communities, by opening between one and five jobs for local people. This multiplier effect proves that efforts to empower MSMEs with digital technology will pave the way for sustainable economic growth for Indonesia.

One of the main priorities and a fundamental part of MSME operations is the creation of an inclusive economy. Based on the survey results, 77% of MSMEs stated that their business goal was to empower local human resources (HR), while 69% of MSMEs wanted to reduce the unemployment rate. Some of the other business goals of MSMEs are reducing the distance to work (45%), inspiring new business models (19%), and regenerating local skills (18%).



Source: Kompas Data Quantitative Survey Results Survey on MSME Empowerment "Inclusive Growth Towards Sustainable Development" in June 2021.

The OECD in Policy Highlights: The Digital Transformation of SMEs (2021) provides suggestions for increasing the internal capacity of MSMEs, as follows:

- Providing SMEs with technology support and assistance, through targeted financial support (consultancy vouchers, grants), technology extension programmes (diagnosis, self-assessment tools, e-business solutions, guidance and package of learning material) or a mix of both;
- Encouraging SME training and upskilling, by reducing training costs (e.g. tax incentives, subsidies) and promoting workplace training (e.g. via employers networks and associations, or intermediary "brokers", apprenticeships programmes) or by pooling training investments, and strengthening management skills in SMEs (e.g. through training, workshops, coaching programmes and by raising demand for these programmes);
- Building a data culture in SMEs, by increasing awareness and capacity to manage and protect their data (e.g. though information dissemination, financial support or technical assistance);
- Raising the digital security profile of SMEs, through awareness campaigns, or providing them with guidance on useful digital security measures, toolkit, auditing, assurance framework, protocols and certification schemes, and training opportunities.

In determining policy direction, the government needs to have a long-term scheme so that there is continuity of work between government structures and with local governments. There are several things that need to be considered in developing this food-term policy scheme, namely:

- The government needs to establish high-level goals and principles, design national strategies and action plans, and coordinate investment and overall actions between the central government, local governments, down to the lowest ranks, MSMEs in the villages;
- Governance arrangements in emerging policy areas, such as AI or blockchain (eg coordinating bodies and structures) between Ministries and Agencies and private companies as well as involvement of professional organizations to strengthen governance (who does what).
- Establish consultative bodies, advisory groups and business competition bodies at the national and regional levels, involving experts, entrepreneurs, industry and academia, as well as local governments to promote ethical and more responsible digitization policies.

CONCLUSION AND POLICY IMPLICATIONS

Digital economic policies will determine the performance of Micro, Small and Medium Enterprises (MSMEs) in Indonesia. The problems that arise are that even though the internet penetration of the Indonesian population is good, it is not yet aligned with a qualified digital infrastructure. The government needs to build long-term policy and governance schemes to accommodate the interests of MSMEs which have a huge impact on the national economy, both nationally and to improve the economy of residents in the village.

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