

The Empowering Model of Small Medium Enterprises in Society 5.0

Teti Chandrayanti - Ekasakti University, Indonesia

Article Info

Volume 83

Page Number: 751 - 757

Publication Issue:

May - June 2020

Abstract:

Small Medium Enterprises (SMEs) in Indonesia plays an important role in the economy. SMEs spread covers all provinces in Indonesia. In the period of 5.0, SMEs should be aware to anticipate the changes that occur in terms of mobility, infrastructure, health care, and financial technology. In this situation, the human is the main subject (human controlling society) in controlling the science and technology advance in the business sectors. The purpose of this paper is to find an appropriate model for empowering small business in Indonesia in society 5.0 that is adapted to local characteristics and policies that are culturally appropriate. The Analysis will be done by using literature studies. The research question from this paper is what factors must be considered to increase the empowerment of SMEs in order to increase their contribution to the Indonesian economy. The study revealed that the right strategy is needed to empower small and medium businesses that suit to SMEs condition both internally and externally. The strategy can be done by identifying the dominant factors that impact on the surviving and sustaining of small and medium business in its industry both in the short term and in the long term.

Keywords: *Small Medium Enterprises (SMEs), Empowering Model, Society 5.0*

Themes : *Small Business, Entrepreneurship*

Article History

Article Received: 11 August 2019

Revised: 18 November 2019

Accepted: 23 January 2020

Publication: 09 May 2020

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) in Indonesia play an important role, not only in economic aspects but also in social aspects. The majority of businesses in Indonesia, as well as in other developing countries, are still dominated by MSMEs. The MSME sector in Indonesia absorbs 97% of the total workforce with a contribution to the Gross Domestic Product (GDP) of 60.34% and a total investment of 50.28% of the national investment (Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia (Kementerian Koperasi & UKM, RI) 2019). SMEs have some limitations in managing their business. According to Tambunan (2008), they are limitation in working capital, limitation in marketing, limitation in management and in adopting technology, therefore it will impact on their productivity. According to Delloite Access Economic data, in Indonesia, there are around 64

million MSME units. Regarding the use of technology in managing their businesses, 36% are still offline, 37% have very basic capabilities such as computers and broadband access. Only a small percentage, 18 percent, have intermediate online capabilities, namely using the web or social media. Whereas only 9% of businesses do online business with e-commerce capabilities. This means that there are still many MSMEs that have not utilized digital technology in their activities. It is expected that with the presence of digital technology and expected to encourage MSMEs to grow faster and move up the class. So that the digital go target for MSMEs can be achieved. The idea of Society 5.0 was presented by Japan at the 2019 World Economic Forum in Davos Switzerland. Society 5.0 offers a human-centered society that makes a balance between economic progress and the resolution of social problems through a system that is highly connected through cyberspace and the real world. This will be suitable to be applied in developed countries with high

technology levels and the number of workers which tend to decline. In Indonesia, which is a developing country, the concept of society 5.0 must be evaluated and applied carefully and gradually. Specific conditions and culture of Indonesian society require special consideration in empowering small and medium businesses. When we move to Society 5.0 all life will be more comfortable and sustainable because people are only given products and services in the amount and time needed. According to Pranoto (2019), society 5.0 is a super-smart society where cyberspace and real space are highly integrated, where data collected by IoT (Internet of Things) will be converted into new types of intelligence by artificial intelligence (AI) and will reach every corner of society. In Indonesia, the use of information technology by the businesses is still low, there is also a gap in the use of technology and infrastructure in areas that far away from the capital city. This paper is to find a model of empowerment of small and medium businesses that is appropriate in Indonesia in the era of society 5.0, which requires adjustments to the conditions and characteristics of small and medium businesses in Indonesia, because the conditions of SMEs in Japan and Indonesia is very different, especially the characteristics side of the entrepreneurs.

LITERATURE REVIEW

Business Performance

According to Islam et al. (2011), business performance refers to the firms's success in the market which may have different outcomes Wheelen & Hunger (2015) stated that the performance of the business is the final result of empowering resources through efficient and effective strategies. Lingensiya (2012) noted that performance is the ability of a business to use its own resources in competition and its readiness to face external pressure, including globalization. Adebisi, Alanemen & Ofuani (2015) stated that there were two kinds of performance measurement which financial and non-financial measurement. Financial measurement can be seen

based on the financial statement, and nonfinancial measurement focused on how to maintain customer satisfaction, waiting time and workforce turnover.

Internal Factor

According to Nyoni & Bonga (2018) technology is categorized as enterprise factors that impact business success. The reason for this was that technology is now part and parcel of the day to day operations of literally all business throughout the world. Nowadays, small businesses are still hindered by their lack of technological implementation despite great technological advancement globally. The same opinion was stated by Bouazza, Ardjouman & Abada (2015) who stated that technological capacities were internal factors. They revealed that the low of technological capacities are one of the main internal factors responsible for the unstable and limited growth of SMEs in Algeria. Technological capabilities are considered as tools for strengthening the competitiveness of SMEs because by improving their capabilities, SMEs can improve their production and profitability. In regards to technology capacities, SMEs have to invest more in Research & Development activities and technology and know-how agreements with a foreign firm to improve their technological capacities.

External Factor

External factors are an environment that uncontrollable by the organization/the business (Fatoki, 2014). They are factors that arise from the external environment of an organization and uncontrollable by the business (Ayandibu & Houghton, 2017). Chittithaworn et al. (2011) stated that the external environment is a significant factor that influences the business success. The same finding was given by Muzenda (2014) that the external environment had a significant effect on the performance of small-medium enterprises.

Empowering

Implementation of business empowerment must be carried out through several activities. The first is to

create an atmosphere or climate that enables the business potential to develop. Second, to strengthen the potential or power of the business (empowering). Third, empower means to protect. The objectives of empowering MSMEs are three. The first is to realize a balanced national economic structure, developing and equitable. Furthermore, efforts to grow and to develop the ability of MSMEs become a strong and independent business. The last is increasing the role of MSMEs in regional development, job creation, income equality, economic growth, and alleviating people from poverty.

RESEARCH METHOD

This research use descriptive research methodology. Descriptive research is research which provides information about conditions, situations and events that occur in the present. The main goal of this research is to describe the alternative strategies in empowering SMEs. Analysis will be done by using literature studies

RESULTS AND DISCUSSION

Some previous studies have included technology variables as one the factor that influences business performance. Nyoni & Bonga (2018) and Bouazza, Ardjouman & Abada (2015) entered technology as an internal factor. However, Lampadarios (2017) and Indarti & Langenberg (2004) treated technology as an external factor. Although, there is a different perception about the availability of technology in

different variables, All agreed technology has an important role in the growth of SMEs. In other words, technology was considered both as an internal factors and also as an external factors. Arjouman (2014) stated that a high level of awareness of the importance of technology in management SMEs; Information Communication & Technologies (ICTs) and other technologies impact on SMEs' development, and technology is a veritable tool for sustainable development of SMEs. Pourkhani et al. (2019) stated that the use of social media has significantly impacted the business's reputation, sales even survival. In other words, the right strategy in adopting technology by SMEs influence business performance. Indarti & Langenberg (2004) stated that technology has a positive and significant correlation with business success. Technology has a close relationships with improvement of production process. The rapid changes in technology should be responded by SMEs to find alternative ways to sustain their competitive advantage by deploying new processes and new growing methods. In their research, technology was classified as one of factors in the contextual factor/environmental. The same opinion was given by Lampadarios (2017) who stated that technological was part of the business environment had an impact on small business growth and success. Therefore, the model of empowering SMEs can be seen as figure 1

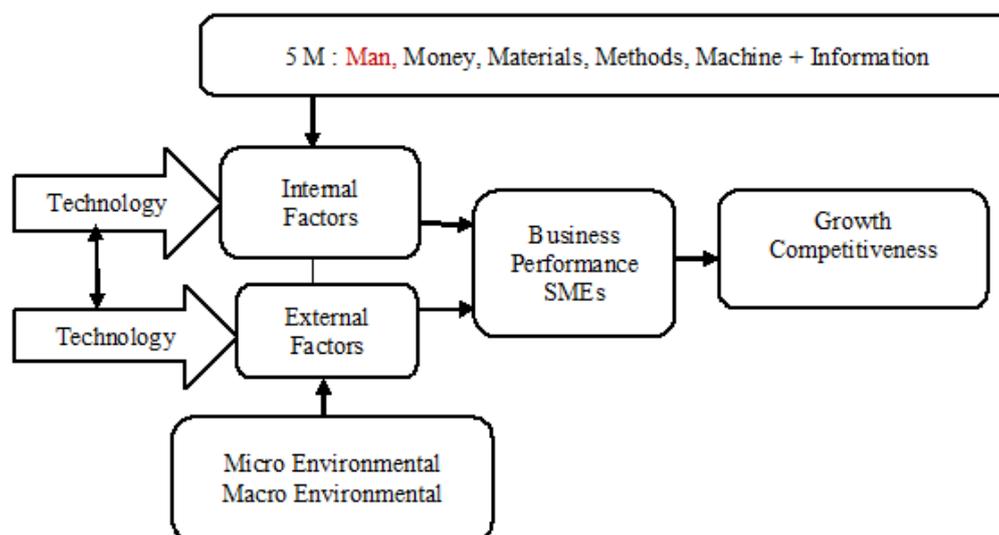


Figure 1. Empowering Model of SMEs

According to Azzam & Quaddus (2012:58) the partner organization such as suppliers or customers that have already adopted internet based digital technology expect their peers and associated organization would use the technology to acquire the full advantages and utility of technology. In other words, it becomes compulsory for SMEs to use digital technology, otherwise they will lost the opportunity to cooperative with them. It means micro environmental will force SMEs to adopt properly and suitable technology according to their need. It will improve SMEs competitiveness. In the society 5.0, technology comes both from internal and external factors. The use of technology by SMEs should be followed by readiness of the organization to adopt it properly. According to Sule & Saefullah (2015) in the digital technology, Information is one of the organizational resources including 5 M (Man, Money, Methods, Material, and Machine). Nowadays, some transaction uses e-money/Cashless. To register transactions SMEs can use a smart machine. To check and to order can be done by on-line. Therefore, special application/program for SMEs to support their activities should be introduced and applied in order to increase their sales and their profit. Ismail, Khater & Zaki (2017) stated that to improve competitive positioning of successful firms does not depend sole on the technology they adopt,

but more importantly, builds on the strategies that leader deploy. Most of leader of SMEs are owners and managers of business. Their characteristics in the business will impact on the mission and vision of the business. According to Islam et al.(2011) entrepreneur characteristics influence on business success. Okreglika (2015) revealed that there were three groups of factors that must be considered to improve business performance. First the factors related to business behavior as individuals concerning interpersonal, communication and managerial skills, motivation, determination and decision-making skills. Second are specific factors of small businesses such as learning capability, potential for innovation, strategic management approaches, customer-oriented policies, efficient use of human resources, adequate financial and technological resources, as well as the ability to enter specific markets. Finally, there are environmental factors related to the ability of dealing in changing law, political and economic environments. It means that entrepreneurs have the ability to use business resources optimally. This is in accordance with the goal in society 5.0 that humans as controllers of all activities are included in the decision and use of relevant technology. The use of appropriate technology will make small businesses easier to manage their business. Therefore managing business based on natural resources must be changed

into knowledge based. It include technology and entrepreneur (technopreneur) that give a business opportunity to optimize the use of technology. Stankovska, Josimovski & Edwards (2014) stated that the technology actually has become user-friendly, cheap, standardized, ubiquitous, interactive and easily accessible. Entrepreneurs should be technology knowledgeable (Aldino, 2017). In other

words, integrated among human capital and entrepreneurship. According to Hull, Hung, Hair & Perotti (2007) there are 3 level of digitization that are entrepreneurs could have are mild, moderate and extreme. The differencies of that level can be seen from table 1.

Table 1. The category of Digital Entrepreneurship

Activity	The category of digital entrepreneurship		
	Mild	Moderate	Extreme
Marketing	Website as supplement	Digital marketing is primary mode	Digital marketing is only mode
Sales	Product may be available for sale digitally	Product can be purchased digitally, possible exclusively	Product is only available for sale digitally
Product	Product is non digitally	Product may or may not be digital	Product is digital
Distribution	Product is delivered by physical means	Product may be delivered physically or digitally	Product is delivered digitally
Stakeholder Management	Traditional interaction, may include email	Significant level of digital interaction; traditional interactions also common	Digital interactions are primary; traditional interactions seldom or never occurs
Operation	Primarily physical location (s), traditional interactions, may include some virtual team interaction	Primarily physical location(s), traditional interaction, probably includes some virtual team interaction	Strong virtual presence, physical location and traditional interactions possible but not required.

Based on table 1, It can be seen that the majority of the owners or managers of SMEs in Indonesia are still in the range between mild – moderate digital entrepreneurship. This condition cannot be separated from micro external factors such as the characteristics of customers, suppliers, partner strategies and also competitors, also macro internal factors. The availability of infrastructure in rural areas become a limitation in using digital technology. However, the existence of society 5.0 in

the business sector in the future at Indonesia should be anticipated. It concluded that digital technology impacts on many activities of SMEs such as marketing, sales, product, distribution, stakeholder management, and operation. Mubaiwa (2019) stated that the marketing area is the area of business that potentially in the digital period, because with digital marketing business can reach more people than any other method and at a much lesser cost. Sule & Saefullah (2015) Managers had to have some skills such as technical skills, human relation skills,

conceptual skills, decision- making skills, and time management skills. Nowadays, there are other skills that are important in the business competition in globalization which are global management skills and technological skills. In other words, SMEs had to keep updating technology for managing their business that is suited to the internal and external condition of SMEs.

CONCLUSION

The use of digital technology for small and medium enterprises in society 5.0 is compulsory. It impacts on SMEs growth and improves their competitiveness. However, the use of digital technology must be suited to the characteristics and conditions of SMEs in Indonesia. The small business should prepare their resources to anticipate the rapid change in technology especially their human resources. The Conducive external condition should be supported by the ability & the capability of SMEs in adopting it. Integrated in sharing information and activities among shareholders and SMEs themselves is become appropriate strategies.

ACKNOWLEDGMENT

The author would like to express gratitude to University of Ekasakti for giving the opportunity to author to give contribution in this international conference and providing the fund of the research.

REFERENCES

1. Adebisi,S.A., Alaneme, G.C., & Ofuani, A.B. (2015). Challenges of Finance and the Performance of Small and Medium Enterprises (SMEs) in Lagos State. *Developing Countries Studies*,5(8), 46-57.
2. Aldino, A., 2017. Zaman Baru: Era Digital Ekonomi dan Tersisihnya “Middle man”. Accessed May 20, 2018. Available at <https://indonesiana.tempo.co/read/108914/2017/03/09/arjunaputra00.1/zaman-baru-era-digital-ekonomi-dan-tersisihnya-middle-man>.
3. Ardjouman, D. 2014. Factors Influencing Small & Medium Enterprises (SMEs) in Adoption and Use of Technology in Cote d’Ivoire. *International Journal of Business and management*. 9(8);179-190.
4. Ayandibu, A.,O., & Houghton, J. 2017. External Forces Affecting Small Business in South Africa A Case Study. *Journal of business and Retail Management Research*. 11(2); 49-64.
5. Azam, M.,S., & Quaddus, M. 2012. Effect of Internal & External Factors on Internet Based Digital Technology Usage by SMEs in a Developing Country. *Communication of IIMA*, 12(4);41-70.
6. Bouazza, A.,B. Ardjouman, & D. Abada,O (2015) Establishing The Factors Affecting The Growth of SME in Algeria. *American International Journal of Social Science*, 4(2).
7. Chittithaworn , C., Islam, M.A., Keawchana, T., & Yusuf, D.,H.,M. 2011. Factors Affecting Business Success of Small Medium Enterprises (SMEs) in Thailand. *Asian Social Science*.7(5), May: 180-190.
8. Fatoki, O. 2014. External Environmental Factors Impacting Access to Debt Finance by Small and Medium Enterprises in South Africa. *Mediterranean Journal of Social Science*. 5 (2): 1013-1018
9. Hull,C.E.K., Hung,Y.T.,C.,Hair,N., & Perotti, V. 2007. Taking Advantage of Digital Opportunities: A Typology of Digital Entrepreneurship. *International Journal of Networking and Virtual Organization*. 4(3); 290-303.
10. Islam, M.,A, Khan, M.,A.,Obaidullah, A.,Z.,M., & Alam, M., S. 2011. Effect Of Entrepreneur and Firms Characteristic On the Business Success of Small Medium Enterprise (SMEs) in Bangladesh. *International Journal of Business and Management*. 6(3): March. 289-299.
11. Ismail, M.,H., Khater, M., & Zaki, M. 2017. Digital Business Transformation and Strategy : What Do We Know So Far. University of Cambrige; Cambridge Service Alliance. 1-29.
12. Indarti, N. & Langenberg, M. 2004. Factors Affecting Business Success Among SMES: Empirical Evidences From Indonesia. Proceedings of The Second Bi-Annual European Summer University (19) 20 & 21 September.

- University of Twente Enschede, The Netherlands.
13. Kementrian Koperasi & Usaha Kecil dan Menengah RI. 2019. Sinergitas Pengembangan KUMKM Melalui Penguatan Peran Antar Lembaga. Disampaikan dalam acara Rapat Kerja Nasional oleh Prof. Dr. Rully Indrawan, M.Si. Sekretaris Kementrian Koperasi & UKM., Sanur, 23 Agustus 2019.
 14. Lampadari, E. 2017. An Insight Into Entrepreneurial Success Factors For SMEs: The Case of The UK Chemical Distribution Industry. *International Journal of Small Business and Entrepreneurship Research*. 5(2);1-20.
 15. Lingsiya, Y. 2012. Identifying Factors to Indicate The Business Performance of Small Scale Industries : Evidence From Srilanka. *Global Journal Of management and Business Research*. 12(21), 74-82.
 16. Mubaiwa, K.. 2019. Profile of Small Business Ownwr in Digital Age. <https://www.ebusinessweekly.co.zw/profile-of-small-business-owner-in-digital-age>.
 17. Muzenda, A. 2014. A Conceptual Model of the Determinants of Performance of Tourism Sector Small and Medium Enterprises (SMEs). *International Journal of Business and Management Invention*. 3 (1): 30-35.
 18. Nyoni, T., & Bonga, W.,G. (2018) Anatomy of the Small & Medium Enterprises (SMEs) Critical Success Factors (CSFs) in Zimbabwe: Introducing the 3E Model. *Dynamic Research Journal- Journal of Business & Management*, 1(2), 01-18.
 19. Okreglicka, M.2015. Key Factors of Small Business Success : Literature Review. *Journal of Social and Development Science*. 6(4); 30-36.
 20. Pourkhani, A., Abdipour, K., Baher, B., & Moslehpour, M. 2019. The Impact of Social Media in Business Growth and Performance : A Scientometrics Analysis. *International Journal of Data & Network Science*.3;223-244.
 21. Pranoto, I.,H. 2019. Cyber Campus For Society 5.0. Team Leader Binjai Smart City. Politeknik Kesehatan Tanjung Karang.
 22. Stankovska, I., Josimovski,D., & Edwards, C. 2014. Digital Channels Diminish Barrires: The Case of the UK. *Economic Research-Ekonomiska Istrazivanja*. 29(1);217-232.
 23. Sule, E.T., & Saefullah, K. 2015. Pengantar Manajemen Edisi Pertama. Prenadana Media Group-Jakarta.
 24. Tambunan, T. 2008. SMEs Development in Indonesia: Do Economics Growth & Government Support Matters. *IJAPS*. 4(2).
 25. Wheelen, T., & Hunger, W. 2015. Strategic management and Business Policy : Toward Global Policy Thirteen Edition, New Jersey: Pearson.