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# Empowerment Digital Strategies for Medium Small Enterprises

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**Abstract.** MSMEs have a strategic role in strengthening the local and national economy. MSMEs have advantages because business actors move in various business fields and directly touch the interests of the community. Especially in the Manado city, MSMEs play a role in increasing economic growth so that the optimization of the role of MSMEs will provide synergy and positive acceleration towards regional development. The aim of this study (1) find out the profile and problems of MSMEs, (2) To analyze MSME business and development strategies. Management of the MSMEs business, still has to get serious and very strategic attention, so it must be considered the local government, and related parties, considering the average MSMEs in the Manado city the business management is still simple, locally oriented, and have not business development plan, the reason that they are still oriented to survive competition and limited business capital.

## 1. Introduction

Micro, small and medium enterprises (MSMEs) are businesses that have a strategic role in the national economy. MSMEs are business actors engaged in various business fields, which touch the interests of the community [1]. The role of MSMEs for the economic development of the people and the national economy is in line with the ideals of the state to realize a just and prosperous society based on the 1945 Constitution and State Constitution of the Republic of Indonesia, through the development of a national economy based on economic democracy [2]. MSMEs are generally managed by the community and have advantages because business people are engaged in various business fields and directly touch the interests of the community, especially the middle and lower economic groups when viewed from the aspect of the purchasing ability of society as consumers. MSMEs have an important and strategic role in national economic development. In addition to playing a role in economic growth and employment, MSMEs also play a role in distributing development outcomes. Business process digitalization is an information system with the help of internet technology foundation that combines every aspect and process of an organization or company, such as business activities to customers and employees or others, which it includes every inter and intra company activity, including trade, collaboration, communication, connection and computing, so it can disclose the opportunities for personalization, price discovery and business capital, as well as expanding knowledge and increasing company innovation [3].



Data shows that MSMEs have a strategic role in the national economy [4]. Contributions of MSMEs in the Economy and Trade in Several Countries and their Data Contribution in Indonesia: 1) SME share of total employment, 97.2%; 2) SME Contribution to GDP 57.8% 3) SME shares of total exports 15%. Data from BPS (2017) shows that the population of small and medium enterprises (SMEs) is 42.5 million units (99.9%) of all business people in the country. SMEs contribute significantly to employment (99.6%) and the contribution of SMEs to Gross Domestic Product (GDP) 56.7% [5]. In comparison, Zimmerer and Scarborough (2005) stated that, out of 25 million businesses in America, about 99% of them come from small scale companies that employ less than 100 people per company. Small companies have created two-third to three-quarters of new jobs in the US economy. Small companies have contributed 51% of the country's private sector's Gross Domestic Product-GDP [6].

Based on BPS data (2017), the number of MSMEs was recorded at 41.36 million units or 99.9% of the total business units. Second; the potential is great in employment. Each investment unit in the MSMEs sector can create more employment opportunities compared to the same investment in large businesses [7]. The MSMEs sector absorbs 76.55 million workers or 99.5% of the total workforce employed. The contribution of MSMEs in GDP formation is quite significant at 55.3% of total GDP. MSMEs contribute to the stability of the national economy for both all the countries that are developing or developed countries. MSMEs has a strong resilience when Indonesia experiencing economic crisis [8].

The results of the preliminary survey, show that the main issues that are the current issue for MSMEs business actors, related to the difficulties in business capital and marketing of the results of MSMEs, also through news in the mass media are always conveyed the absorption of credit to MSMEs in a large number and value, this indicates a distortion information, on the one hand MSMEs entrepreneurs feel that getting credit is complicated and not easy. The other hand the bank lending continues to increase both for working capital and for investment capital. Meanwhile, at the corporate-oriented banks they have difficulty in lending to MSMEs. Information from the Financial Services Authority (OJK) that as many as 20% of banks have not fulfilled the rules for MSMEs credit ratios. The minimum rule of credit ratio for MSMEs (small and medium micro businesses) is 20%, coming into effect in 2018 [9].

In general, it can be seen that the development of cooperatives and MSMEs up to 2018 is estimated to still face fundamental problems and challenges as they did in previous years, such as low productivity, limited access to productive resources including sources of capital from institutions. National finance and banking, low quality of institutional and cooperative organizations, and the lagging performance of cooperatives compared to other business units. The phenomenon of slow business development is expected to be caused by weak financial management and business capital that is not supportive, or the understanding of MSMEs entrepreneurs towards weak financial management, so this needs to be immediately resolved because it will affect the sustainability of MSMEs businesses, because they will not able to compete with other businesses that have large capital strength, and excellent financial management support. For this reason the research problems are: 1) What is the profile of MSMEs Business in Manado City; 2) What is the management and development strategy.

## 2. Method

This research is comparative, conducting comparative analysis and descriptive quantitative. For the purpose of knowing the development of MSMEs in the Manado city, a descriptive analysis was conducted, so that it can be seen the business development prospects of MSMEs business actors, based on the amount of business capital and the length of time they did business. When the research was conducted for 9 (nine) months, from February to October 2018. Data collection was conducted by questionnaires and direct interviews with MSMEs business actors. The population is defined as the overall object to be studied [10]. The population of this research is all MSMEs business actors in the

Manado city. The study sample was 106 MSMEs entrepreneurs. Respondents spread in 9 sub-districts in the Manado city (Classification of Manado City, [11]). The sample is obtained by accidental sampling where the determination of samples is based on coincidence and compatibility according to the criteria of the researcher, and is included in non-probability sampling where according to Sugiono (2013) that is a sampling technique that does not provide equal opportunity or opportunity for each element or member of the population to be chosen become a sample [12]. In this study to determine the size of samples from unknown populations, the authors used convenience sampling. Sekaran (2006) states that the general reference for determining sample sizes of more than 30 and less than 500 is appropriate for most studies [13].

### 3. Results and Discussions

Manado is currently the second-largest city in Sulawesi after Makassar, a beautiful city and located on the beach. The area of Manado is 15,726 ha and is located in the northern part of Sulawesi Island. and is the largest city in North Sulawesi as well as the capital of the Province. Geographically located between 10 25'88" - 10 39'50" LU and 124 47'00"-124 56'00" BT, and administratively borders on: 1) North Side bordering North Minahasa Regency; 2) South Side with Minahasa Regency; 3) East side with North Minahasa Regency and Minahasa Regency; 4) West side bordering the Sulawesi Sea [14]. Some large ethnic groups from North Sulawesi inhabit the Manado city namely Minahasa, Bolaang Mongondow and Sangihe-Talaud and various religious groups with the majority of the population of Manado being Christian, the people of Manado city always live in harmony and peace. The slogan "Torang Samua Basudara" seems to strengthen the harmony of life of the people. So that some national figures say that Manado is a miniature of Indonesia. Manadokota (2017) states that although the Manado word comes from a local language, this almost extinct word is inherited from European documents [15]. The document states that the name Manado was discovered by a Portuguese sailor named Simao d'Abreu in 1523. Manado comes from the word Manarow or Manadou (Minahasa language), which means "far away"; a term that is almost the same as the Sangihe language, namely Manaro, which means also "far away" or "distant country".

To find out the latest conditions and the progress of MSMEs business in the Manado city, researchers have distributed questionnaires to research respondents with the aim of obtaining a detailed description of the problems in MSMEs. The results showed that out of 106 questionnaires distributed, the number returned 102 (96.23%) and the damaged/ failed 4 (3.77%) thus the rate of return (response rate) was (96.23%) so that the interest of MSMEs business actors to provide answers to questions that have been shared high. The research respondents were 102, spread across nine (9) sub-districts in Manado city, with the distribution: 1) Malalayang, 11 (10.78%); 2) Tuminting, 12 (11.76%); 3) Wanea, 15 (14.71%); 4) Mapanget, 8 (7.84%); 5) Wenang, 15 (14.71%); 6) Tikala, 15 (14.71%); 7) Singkil, 9 (8.82%); 8) Sario, 9 (8.82%); 9) Bunaken, 8 (7.84%). The research respondents were spread proportionally in nine sub-districts where the sub-districts of Wanea, Wenang and Tikala had the most respondents while Bunaken, Sario and Singkil were the smallest. The respondents in this study can be seen in the Table 1 below.

**Table 1.** Respondents Based on Length of Digital Business Running

Age (year)	Frequency	Percentage (%)
1 s/d 2	32	31.37
> 2 s/d 4,9	44	43.14
≥ 5 s/d 10	18	17.65
> 10 s/d 15	6	5.88
≥ 15	2	1.96
	102	100.00

Source: Processed data research, 2018.

Table 1. Shows that respondents who have just run the MSMEs business (1 to 2 years) are (31.37%). Experienced respondents (> 2 to 17 years) and made SMEs as their main business (68.63%). Thus this data illustrates that MSMEs as one of the prospective businesses to do and can provide certainty in meeting people's daily needs, daily data also shows that MSMEs are an attractive business for the community to pursue. (3). The respondents of MSMEs employees in this study can be seen in the Table 2 below.

**Table 2.** Respondents by Number of Employees

Employees (People)	Frequency	Percentage (%)
None	44	43.14
1 s/d 2	42	41.18
3 s/d 4	8	7.84
5 s/d 7	6	5.88
> 7	2	1.96
	102	100.00

Source: Processed data research, 2018.

Table 2. Shows the number of MSMEs employees, varies according to business needs and the amount of capital owned. Micro businesses (43.14%) on average do not use employees, which means that direct business is carried out by the owners. Small businesses employ 1 to 4 employees to help run their businesses, in this study the smallest businesses (49.02%) absorb labor to run a business. Medium Business (7.84%), has been able to employ 5 to 8 employees in business management. The existence of MSMEs become one of the alternatives to overcome poverty and create employment. Averages sales per month using digital media can be seen in the Table 3 below.

**Table 3.** Average Sales per Month by Using Digital Media

Sales (million)	Frequency	Percentage (%)
< 5	42	41.18
5.1 s/d 10	28	27.45
10.1 s/d 20	20	19.61
20.1 s/d 25	8	7.84
> 25	4	3.92
	102	100.00

Source: Processed data research, 2018.

Table 3. Average sales per month carried out by MSMEs businesses are still relatively small, sales made up to Rp.10 million/ month as much (74.51%), are the dominant number. For sales of Rp.10.1 to Rp.20 million/ month (17.65%), while sales are above Rp.20.1 million / month (7.84%). The amount of sales is relatively small, because management management is still simple, mostly from its own mode and has not implemented sales management carefully. Each business needs to improve its performance, Sugiarto (2008) defines performance as the achieved result from the efforts undertaken by the owners or managers in running their businesses. Furthermore, Nurhayati (2009) states performance as the success measurement or level to achieve the company objectives [16]. Then, Ferdinand (2000) states that market performance is a concept to measure marketing achievement upon a product. Table 4. Business performance is a construct (factor) which is typically used to measure the result of a company strategy [17].

**Table 4.** Average Net Business Profits

Profit	Frequency	Percentage (%)
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< 15 %	38	37.25
15.1 s/d 35 %	32	31.37
35.1 s/d 55 %	26	25.49
55.1 s/d 65 %	4	3.92
> 65 %	2	1.96
	102	100.00

Source: Processed data research, 2018.

The MSMEs business in Manado City shows that the highest net profit is in the range of 15.1 to 55% with a frequency of (56.86%). This data shows that MSMEs entrepreneurs carried out, prospectively gave net income above the bank's deposit interest rate (currently around 6-8% per year), the meaning of the business carried out was profitable and provided a covenant profit for a business when it was seriously pursued by emphasizing good business capital planning and financial management.

Access to finance is an important determinant in all countries, as it affects the creation of new business and the expansion of existing business [18]. The results study showed that the problems often faced by MSMEs in obtaining business capital loans from banks include: 1) Don't know the procedure 33.23%, 2) Difficulty in submitting procedures 5.40%, 3) Uninterested 25.34%, 4) Do not have collateral 31.48%, 5) Proposal rejected (0.92%) 6) Difficult to return 5.61%. Commercial banks that are the main source of finance is not willing to give loans to small business because these business units are often not able to provide collateral as a warranty and was considered MSMEs has a high level of uncertainty [19, 20, 21]. The results indicate that the potential for national banks, as well as regional governments or Dinas Koperasi and UMKM is very large for developing MSMEs businesses. The results of the study also management of MSMEs in Manado City still looks simple, where interaction with the world of finance is still very limited, and this becomes a great potential if the banks (Micro, Small and Medium credit facilities) are willing to work and interact with MSMEs managers.

North Sulawesi Province has a strategic role in national development. As one of the regions that has abundant natural resources, the proper utilization of regional potential is a prerequisite for accelerating development in the area both economically and from other aspects [22]. Digitalization in business processes has an influence on developing new products for companies and contributing to the development of SMEs. And, with a business system in SMEs, customers can be used to provide innovative products and services for OEMs and for the establishment of strong relationships between SMEs and OEMs [3]. Likewise, the development of MSMEs in the Manado city is very strategic to support development and reduce unemployment due to the high absorption of labor from the MSMEs sector so as to reduce unemployment among residents in the Manado city. Hosang (2016) State that MSMEs absorb a considerable amount of labor, so that it has a big impact on reducing unemployment, it is our duty to the North Sulawesi Provincial Government and the Manado Cooperative and UMKM Service to continue to support it [23]. Kansil (2015), also stated that economic growth in North Sulawesi, which was above the national average, could not be separated from the contribution of the Cooperative and MSMEs sectors. Moreover, seeing a significant number of Cooperatives and MSMEs in North Sulawesi Province continues to increase [24]. North Sulawesi MSMEs currently numbered 80,202 business units with annual turnover reaching an average of 4.95 trillion. It is expected to become a locomotive for the real sector, and can continue to accelerate North Sulawesi's economic growth.

The characteristics of MSMEs in Manado City, judging from the operational aspects of the business, are no different from other places of business. Most MSMEs are engaged in services and trade and culinary. Business management is still simple, this is because most MSMEs businesses are only locally oriented and have not paid attention to business development plans. Sales or sales volume

is still small but carried out in large quantities, so that in total it will absorb a lot of labor. Simple business management because most MSMEs in Manado are handled based on their instincts and habits in business, and the narrow market scope and entrepreneurial attitudes that are still low cause MSMEs in the Manado city, it is difficult to develop their business, especially formal businesses with legal entities. The results study showed that the main problem of MSMEs entrepreneurs was the lack of working capital and capital for investment, the average MSMEs entrepreneurs hoped to get local government assistance to get training and additional working capital for their businesses. Informal sector is a small scale business producing and distributing goods and services with the main objective of creating job opportunities for themselves, in which the business is greatly limited by the capital and skills. Furthermore, to face more competitive and complex global industry, skillful entrepreneur resources are greatly required.

Respondents' statement that they lacked working capital for business and capital for investment, explained that the author was in the wrong thinking orientation in trying, mostly profit-oriented and did not take into account funds for business development, or capital reserves, which caused them to be consumptive. and resulting in the absence of capital reserved for the business they do. On the other hand, many MSMEs business owners stated that they lacked working capital, but in their business, there was no increase in demand. Working capital needs are created because of the high demand from consumers, but entrepreneurs do not have operational costs (less liquid). In theory, in this condition, then the need for working capital becomes an important problem.

The results also show that it is often found that business owners do not know exactly what their working capital needs are each month (weekly or monthly working capital) as well as investment capital requirements so that the Regional Government is very necessary to provide training in business management, capital, and calculation of investment requirements. This finding is in line with the results of a survey conducted by Musaroh and Wijaya (2015) in some MSMEs in Yogyakarta, concluding that 87% of 117 MSMEs business practitioners expect government assistance and development according to the problems faced by MSMEs [25]. Government training assistance that can be provided to MSMEs business actors includes business management, capital management, investment fund requirements, business development strategies, managing markets, market development so that they can develop and maintain business sustainability and encourage economic growth and help reduce unemployment problems.

#### 4. Conclusion

The development of MSMEs in the Manado city is very strategic to support the development and reduce unemployment due to the high absorption of labor from the MSMEs sector to reduce unemployment in the Manado city. MSMEs business management is still simple, locally oriented and on average has not paid attention to business development plans. Likewise, the sales volume is still small and is usually carried out in large quantities, so that in total it will absorb a lot of labor. The activities and business characteristics of MSMEs tend to be homogeneous because MSMEs businesses have relatively similar characteristics of ownership and management as well as consumer coverage, so this tends to increase business competition among MSMEs business actors especially in fighting over consumers to shop for the products they offer. UMKM business actors feel that the attention of local governments is still lacking, guidance is not effective, it is still difficult to get additional capital, lack of knowledge of business management and MSMEs capital management, and some entrepreneurs have been quite satisfied with the current business conditions. As a solution for the development of the MSMEs business, three main strategies are needed to be able to develop and empower MSMEs in Manado City, namely: 1) Strategies to improve business capabilities through improving business management capabilities (short term) 2) Strategies to enrich products and services offered to consumers (medium-term) and 3) Strategy development of business incubators (long term).

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