

Transformation of micro small to medium enterprises towards small to medium industry

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Abstract: This research aims to explain the process of small and medium industries, starting from micro, small, and medium enterprises, with digital transformation in the logistics sector. The research was conducted in village micro, small, and medium enterprise centers in the Tegal district and Tegal City regions using the journal survey method and a hands-on engagement approach. Collaboration between micro, small, and medium enterprises (MSMEs) in one type of product has great potential to turn into an industry; the digital transformation factor is the main cause of MSMEs turning into SMEs; the change from UMKMs to SMEs is a trigger for increasing logistics business. This research only discusses MSMEs from the aspect of the process of SMEs and digital transformation. Hence, other aspects need to be investigated to determine how big the impact is when combined with these two aspects. This research contributes to scientific development, especially digital transformation, and practically to developing MSMEs and SMEs. The novelty of this research is that it explains in detail the industrial occurrence process that other researchers have not explained on MSMEs.

Keywords: Micro, Small and Medium Enterprises (MSMEs), Small and Medium Industries, Digital Transformation

INTRODUCTION

Micro, small and medium enterprises (MSMEs) are undergoing a digital transformation process. However, in this transition process there is a dualism, first digital transformation is a must for businesses throughout the world to be accessible to sellers and buyers so that easy transactions can occur, digital transformation is the key for entrepreneurs and business owners who want to be successful. Digital transformation is about changing the way a business operates (Kraus et al., 2022). However, secondly, digital transformation automatically creates business competition (Ellström et al., 2022), not only in Indonesia but with other countries.

Changes in regulations made by the government regarding MSMEs increase the burden of competition among MSMEs themselves. Based on Article 35 of PP No. 7 of 2021 concerning Facilitation, Protection and Empowerment of Cooperatives and MSMEs, it is stated that: Micro Business: Maximum capital of IDR 1 billion. Small Business: Minimum capital of IDR 1 billion, maximum IDR 5 billion. Medium Business: Minimum capital IDR 5 billion, maximum IDR 10 billion (Peraturan Pemerintah Republik Indonesia Nomor 7 Tahun 2021 Tentang Kemudahan, Pelindungan, Dan Pemberdayaan Koperasi Dan Usaha Mikro, Kecil, Dan Menengah, 2021). Micro and small businesses in Indonesia are the livelihood of poor people, income is limited to immediate consumption, but with changes in regulations regarding capital, medium and large communities are seizing their source of income indirectly.

The formation of MSMEs is a long process and there is no intention. High levels of unemployment, limited access to education and the lack of opportunities to work in desired



companies are one of the triggers for the emergence of micro and small businesses and developing to medium if they are lucky. After becoming a micro-small entrepreneur, challenges still have to be faced, namely the difficulty of accessing bank capital (Santoso, 2020), caused by the absence of administrative reports so that the business cannot develop to the medium level. The struggles and challenges of micro, small and medium enterprises as entrepreneurs in the product sector must be defeated by large investors. Owners of large capital set up industries easily getting capital from banking. The next challenge for MSMEs is digital transformation which is increasingly eroding their market share.

The increasing digitalization of the economy has an impact on the importance of digital transformation and how this can help the business world remain competitive in the market (Kraus et al., 2021). However, disruptive change does not only occur at the corporate level; they also have environmental, social, institutional implications and MSMEs. The emergence of online trading platforms, e-commerce and *technopreneurs is the result of digital transformation. Digital transformation eliminates national boundaries, regulations, currency, language and frees up competition. This has a negative impact on local MSMEs such as those in Indonesia. New MSMEs using online platforms are around 8 percent of the total MSMEs in Indonesia, namely 59.2 million* (Ammar & Satria, 2023).

The main challenge for Indonesian MSMEs is from large Chinese MSME investors who use digital transformation, cheaper prices, service, speed of goods reaching consumers, practicality and regular product innovation. Certain sectors of the economy, in particular, the small and medium enterprise (SME) sector, play an important role in further reform of China's national innovation system, which in turn could spur sustainable growth. (Yang et al., 2008). According to OECD data, the number of Chinese SMEs in 2020 reached more than 140 million. These SMEs contribute more than 60% of GDP, 50% of tax revenues, 70% of technological innovation and 79% of employment (Chen, 2023).

The wide gap in the number of MSME actors between Indonesia and China is caused by several things: MSMEs in China have become industries, the government's role in MSMEs, technological innovation and digital transformation. Many small-scale industries have demonstrated their existence. However, it is difficult for small industries to survive due to intense competition (Arya & Choudhary, 2015). All face problems such as low production and poor product quality. Industrialization is the path to development and that the market does not necessarily drive industrialization, especially in underdeveloped countries (Barbero & Rocchi, 2018). Industrialization does not only mean an increase in industrial output but also structural changes that are equated with modernization. Changing Indonesian MSMEs into small industries is necessary so that quality is guaranteed, marketing is focused, management is good and they are able to compete with MSMEs from other countries in the era of digital transformation.

LITERATURE REVIEW

Micro, Small and Medium Enterprises (MSMEs)

According to the World Bank, Micro, Small and Medium Enterprises (MSMEs) are defined as follows – micro enterprises: 1–9 employees; small: 10–49 employees; and medium: 50–249 employees (UNDESA, 2020). In Indonesia, MSMEs based on business capital are divided into: Micro: having **business capital** of a maximum of IDR 1 billion, not including land and buildings for business premises. Small: has business capital between IDR 1 billion - 5 billion, excluding land and buildings where the business is located. Medium: has business capital between IDR 5 billion - IDR 10 billion (Peraturan Pemerintah Republik Indonesia Nomor 7 Tahun 2021

Tentang Kemudahan, Pelindungan, Dan Pemberdayaan Koperasi Dan Usaha Mikro, Kecil, Dan Menengah, 2021). MSMEs plays an important role in the economic development of many countries. They are the main source of entrepreneurial skills, innovation and employment for most businesses around the world.

MSMEs are important contributors to job creation and global economic development, representing 90% of the business world and more than 50% of employment worldwide. (Pedraza, 2021). MSMEs in Indonesia-cover more than 99 percent of total companies in Indonesia-employ more than 99 million people (more than 97 percent of total employment)-contribute around 57 percent of Indonesia's GDP-only account for 0.24 percent of the population (Bellefleur et al., 2020). However, MSMEs have proven to be one of Indonesia's economic strengths that is able to survive in crisis conditions (Puspitarini & Setiawina, 2022). The economic crisis in 1998 (Prayitno, 2014) and the Covid-19 crisis (Rahmawati & Nahartyo, 2023).

Digital transformation

Digital transformation is occurring in the business world, becoming a need that must be met, including in micro, small and medium enterprises. Digital transformation requires a broader view of the factors that trigger or condition change within the organization, as well as the impact of that change on the broader operational context (Mikalef, 2022). Three main external factors drive the need for digital transformation ((Verhoef et al., 2021).

Firstly, since the advent of the World Wide Web and its implementation throughout the world, more and more technologies have come with it, Secondly, because of these new digital technologies, competition has changed dramatically, Thirdly, consumer behavior has changed in response to the digital revolution. Market figures show that consumers are shifting their purchases to online stores, and digital touchpoints have an important role in the customer journey that influences online and offline sales (Kannan & Li, 2017). With the help of new search tools and social media, consumers are becoming more connected, informed, empowered, and active (e.g., Lamberton & Stephen, 2016; Verhoef et al., 2017). Digital technologies enable consumers to co-create value by designing and customizing products, carrying out remote distribution activities, and helping other customers by sharing product reviews (Beckers, van Doorn, & Verhoef, 2018; Grönroos & Voima, 2013).

Industrialization

Competition between MSMEs by utilizing digital transformation has occurred throughout the world, especially in China, which has begun to spread its impact to Indonesia over the last two years, the platform they have brought is e-commerce. However, in Indonesia itself, MSMEs have not utilized it optimally. Several MSME actors have personally taken advantage of it, but organizationally (management) it has not yet happened. Management of MSMEs through joint management (collaboration) needs to be carried out between MSMEs of the same type so that strong industrialization occurs. Industrialization done for a reason (Damayanthi, 2008); (a) To provide employment opportunities for the population, especially from the agricultural sector, whose numbers are increasing, while employment opportunities are very limited; (b) Improve the standard of living, and often also; (c) To improve the balance of payments situation; (d) To increase the prestige of a nation so that there are often lighthouse projects (from an economic perspective it may not be profitable, but it can bring pride to a country).

METHODS

The research uses a qualitative descriptive analysis design, research journals sourced from reputable international journals and reputable national journals. Micro, small and medium

enterprises are the key to searches in reputable journals, including digital transformation and industrialization.

RESULTS AND DISCUSSION

National boundaries are disappearing in the era of free trade and digital transformation, making this condition worse for micro, small and medium businesses that are not ready to close their businesses. The mental condition of MSME players to compete and have a competitive advantage is needed in the Industrialization process (Amrullah et al., 2022). The role of government must be present in the Industrialization process as a supporter and amplifier in uniting similar businesses.

The initial stage of industrialization is the unification of similar MSMEs. Unification includes the same brand, size, type, material, and the same price. The aim of bringing together similar products is so that consumers do not experience confusion and orders from anyone who makes them. In the second stage, one-stop product sales, the goals to be achieved are what was planned in the initial stage. One door sales guarantees that the initial stage goals are achieved, sales fail if the product is not one door, the quality, size and price are not the same and ultimately harms MSMEs and consumers.

The third stage, Digital Transformation (Verhoef et al., 2021), the process consists of External Drivers of Digital Transformation, Phases of Digital Transformation and Strategic Imperatives of Digital Transformation. All organizations/companies (organizations, business networks, industry and society) have valuable digital assets, both in the form of data and functionality, but resources (human, financial and knowledge) and capabilities (digital capabilities and dynamic resources) are assets strategic for initiate or accelerate Digital Transformation , leverage, reuse, combine, and share with stakeholders (Pereira et al., 2022). The industrialization process (empiric model) in MSMEs is explained in Figure 1.

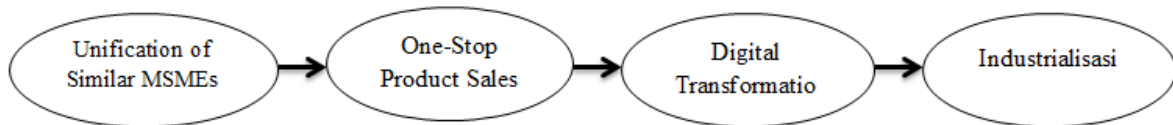


Figure 1. Industrialization Process

The initial stage of industrialization is the unification of similar MSMEs. Unification includes the same brand, size, type, material, and the same price. Pictured on Figure 2.

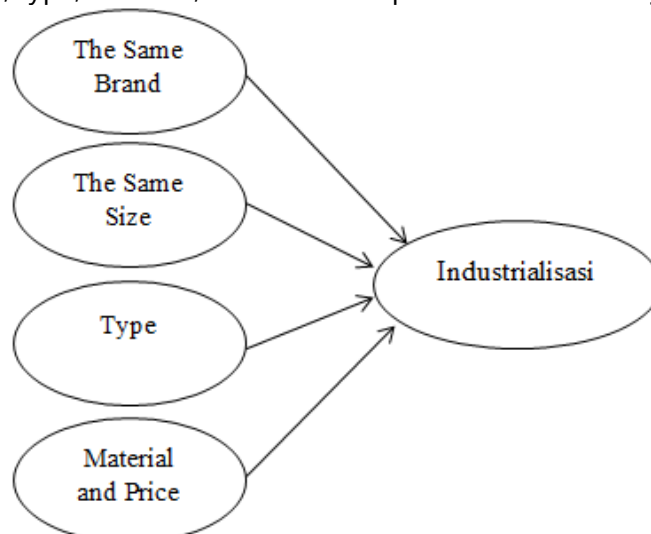


Figure 2. Industrialization Requirements

One-stop product sales stage depicted in Figure 3

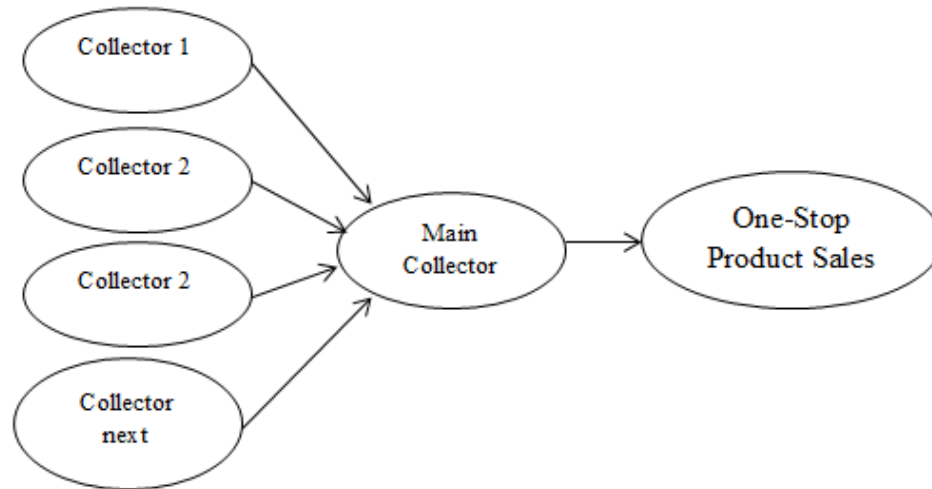


Figure 4. One-stop product sales stage

The process is carried out in stages but is committed and consistently tiered which requires participation from all parties, MSME actors.

CONCLUSIONS

The growth of micro, small and medium enterprises needs to be monitored and maintained so that growth will continue amidst the growth of digital transformation that is leading to industry. The challenges faced are not easily caused by external factors between countries that use technology, innovation and unlimited resources and internal factors that lack resources, capital and financial access. However, by changing into an MSME industry, it is hoped that cooperation will be stronger. This research discusses the process of changing MSMEs into Industry, but the concept of a research proof model in the world of MSMEs and Industry, future research requires what indicators influence the formation of industrial processes.

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