

## STRATEGY FOR INCREASING THE COMPETITIVENESS OF SME IN THE ERA OF SOCIETY 5.0

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### *Abstract*

*The emergence of Society 5.0 has ushered in a new era of heightened competition, urging Micro, Small, and Medium Enterprises (MSMEs) to navigate challenges creatively across realms spanning product innovation, marketing, product packaging, human resource development, and technology adoption. This study aims to delve into comprehensive strategies tailored to bolster the competitiveness of MSMEs within the context of Society 5.0. With a primary focus on countering the intensified competition induced by this paradigm shift, the research investigates key facets including product innovation, marketing strategies, product presentation, workforce development, and technological integration. Employing a qualitative research methodology grounded in literature study, this research endeavors to unravel potent strategies capable of equipping MSMEs with the tools not only to withstand but also to excel within the dynamic landscape of Society 5.0. By examining these strategies through the lens of qualitative analysis, this study contributes valuable insights for MSMEs seeking to thrive amidst the transformative currents of Society 5.0, fostering sustainable growth and resilience in an era characterized by unprecedented competition and innovation.*

**Keywords:** Competitiveness, MSME, Society 5.0, Strategy

### 1. INTRODUCTION

Economic growth is an indicator that shows the progress or success of a country in carrying out development. Economic growth is the Gross Domestic Product (GDP) on the basis of constant cumulative prices up to a certain quarter compared to the same cumulative period in the previous year. Gross Domestic Product is the total added value generated by all business units of a country or the total value of final products (goods and services) produced by all economic units. Indonesia is a developing country with an economy that is still growing and developing today. Indonesia's economic growth was 5.32% in the second quarter of 2020 compared to the second quarter of 2019 (BPS 2020). This development is supported by growing business units in Indonesia that produce end products that have economic value. The business units in Indonesia are divided into two, namely UMKM (Micro, Small and Medium Enterprises) and UB (Large Enterprises).

Micro, Small and Medium Enterprises (UMKM) is a business carried out by a person or business entity that meets the criteria set out in Law No. 20 of 2008 (Anggraeni et al., 2013). MSMEs have an important role in a country including distributing people's income, being able to maintain and develop elements of tradition and culture of the local community because of the creation of creativity, and assisting in absorbing labor so as to reduce unemployment problems (Anggraeni et al., 2013). Judging from the benefits and roles, the existence of MSMEs needs to be considered so that they can become a good place to work. In 2010, 50% of GDP came from the SME sector while 10% came from the export sector (Hapsari et al., 2014). This shows that the number of small and medium enterprises is not small. In actual conditions, in general, MSMEs face various obstacles in developing their business. Some of the obstacles faced by MSMEs include: capital,

marketing, raw materials, technology, management, bureaucracy, infrastructure, and partnerships. Decreased performance can make organizations produce ineffectively and inefficiently and cannot achieve their goals optimally, so it is necessary to improve performance to improve the quality of MSMEs (Widayanti et al., 2017).

MSMEs have advantages that can be opportunities for development. MSMEs have advantages or strengths in carrying out their operational activities, namely having the freedom to act in changing products and new technologies quickly and according to circumstances, being flexible in adjusting production needs, and not easily shaken because raw materials and resources are obtained locally (Kurniati, 2015). However, SMEs also have potential weaknesses to be improved. The weaknesses of MSMEs include structural weaknesses such as weaknesses in management, organization, quality control, and mastery of technology; and weaknesses in access to information and communication networks in obtaining materials, facilities, partnerships, and sources of capital.

The presence of society 5.0 is expected to provide a positive value for MSMEs to develop independently and be empowered by the Government, Universities, NGOs and the general public. The convenience of digital technology in the industrial revolution can be utilized by the community to develop MSME activities that occur in rural areas far from urban areas that are not touched by communication technology infrastructure. The government through the Ministry of Communication and Informatics launched the 2015-2019 Strategic Plan in the form of National Broadband connectivity, one of which was the Implementation of the Village and Area Information System Application (SIDEKA) to 1,000 villages. It is hoped that rural areas can be reached by communication technology so that the era of society 5.0 will provide opportunities for the development of MSMEs and develop potential in villages, especially local wisdom. The presence of society 5.0 has the impact of intense competition, MSMEs must be able to overcome these challenges creatively, product innovation, marketing, product packaging, human resource development and technology. Advances in information also cause rapid changes in various fields of life, especially science and technology. The description above has explained that globalization involves all countries, both developed and developing countries. In fact, it has created a world that is increasingly open and interdependent between countries and between nations. In empowering MSMEs, a strategy is needed to increase the competitiveness of MSMEs in facing the era of society 5.0.

## **2. LITERATURE REVIEW**

### **2.1. Strategy**

The word "strategy" comes from the Greek, namely "strategos" (stratos = military and ag = lead), which means "generalship" or something that is done by war generals in making plans to win the war. In general, strategy as a way to achieve goals. Strategy is a long-term plan to achieve goals. Strategy consists of important activities needed to achieve goals (George, 1979).

Michael Porter in his article entitled Competitive Strategy in the Harvard Business Review (1996), states that strategy is a set of different actions or activities to deliver unique value. As for experts who emphasize that strategy consists of activities that are full of competitiveness and business approaches to achieve satisfactory performance (according to targets) (Rachmat & Si, 2014).

## **2.2. Competitiveness**

Competitiveness is the ability to produce goods and services that meet international standards, and at the same time maintain a high and sustainable level of income, or the ability of a region to generate high levels of income and employment opportunities while remaining open to external competition.

The World Economic Forum (WEF), an institution that regularly publishes the "Global Competitiveness Report" defines competitiveness as the ability of a national economy to achieve sustainable high economic growth. Its components include appropriate policies, appropriate institutions, favorable economic character. other supports, the realization of high and sustainable economic growth.

## **2.3. MSME**

The definition of MSMEs is regulated based on Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises. Micro Enterprises are productive businesses owned by individuals or individual business entities that meet the criteria for micro-enterprises and have a maximum business capital of Rp. 50,000,000.00 (fifty million rupiah). While small Business is an economic business carried out by individuals or business entities that are not subsidiaries or not branch companies and business capital of more than Rp. 50,000,000.00 (fifty million rupiahs) with a maximum of Rp. 500,000,000.00 (five hundred million rupiah).

Medium Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or become part of either directly or indirectly with Small Businesses or Large Businesses by having more business capital. from IDR 500,000,000.00 (five hundred million rupiah) up to a maximum of IDR 10,000,000,000.00 (ten billion rupiah). However, MSMEs are productive economic enterprises that receive attention and privileges mandated by law, including low interest rates, ease of business license requirements.

## **3. RESEARCH METHODS**

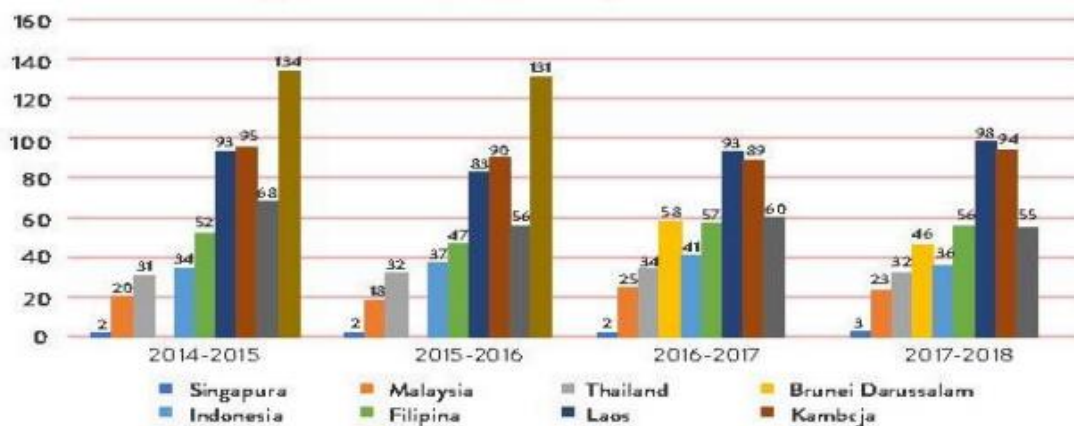
This study employs a hybrid research approach that combines literature study research with qualitative methodologies. The literature study research involves a systematic collection and analysis of existing literature relevant to the research objectives. By scrutinizing a diverse array of scholarly articles, reports, and other relevant sources, this method ensures a comprehensive understanding of the subject matter. The primary data source employed in this research comprises pertinent data concerning Micro, Small, and Medium Enterprises (MSMEs) in Indonesia, particularly focusing on their competitiveness within the context of Society 5.0.

Furthermore, secondary data sources drawn from previous research contribute to enhancing the robustness and credibility of the acquired data. The utilization of secondary sources adds depth to the research findings, as it integrates insights and conclusions from prior studies that align with the current research's scope. This multifaceted approach to data collection, encompassing both primary and secondary sources, enables a more comprehensive examination of the research topic. The strategic deployment of a literature study research approach augments the quality of the research results by ensuring that the conclusions are well-informed and substantiated by a wide array of reputable sources.

## 4. RESULTS AND DISCUSSION

### 4.1. Indonesian MSME competitiveness

In facing the era of society 5.0, MSMEs must have global competitiveness so that they are able to compete with other countries, an appropriate strategy is needed to win the tough competition. Indonesia's Position According to the World Economic Forum (WEF), Indonesia's global competitiveness ranking in 2019 is 50 out of 141 countries surveyed. This global competitiveness ranking survey is conducted annually. In 2015 - 2016, Indonesia's ranking was 37th. Furthermore, for 2017 - 2018, Indonesia's ranking increased to 36th. Compared to 2019, it experienced a downgrade. Thus, a downgrade at the ASEAN level, Indonesia's ranking is better than that of Vietnam (55th), Philippines (56th), Brunei (46th) and Cambodia (94th). However, Indonesia is under Singapore.

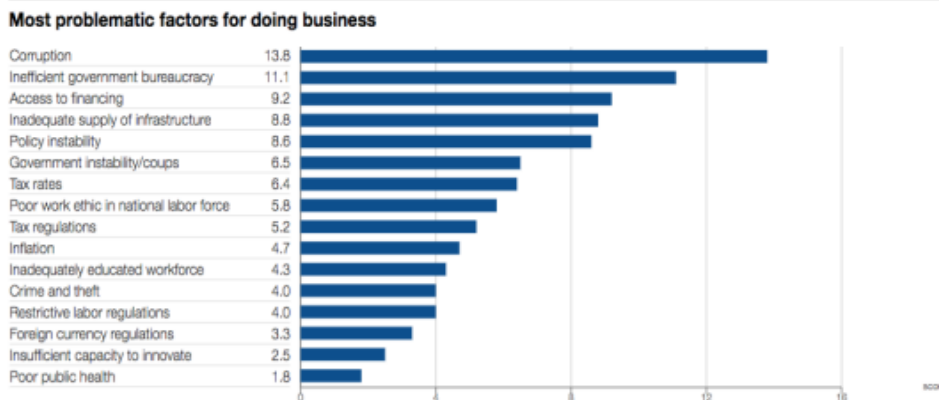


**Figure 1. Level of Competitiveness of ASEAN Countries**

From the picture above, the competitiveness of Indonesian MSMEs is relatively low. The low level of competitiveness is caused by domestic goods being unable to compete with goods from abroad. MSMEs have a strategic position in contributing to Indonesia's GDP revenue which is one of the references in determining national economic growth, MSMEs' contribution to state revenue is greater than other countries in the ASEAN region. Indonesian SMEs were able to contribute 57.6 percent, while SMEs in Brunei Darussalam, Malaysia, the Philippines, Singapore and Thailand respectively amounted to 24; 33.1; 36; 45; and 37.4 percent. However, the contribution of MSMEs to exports is still relatively lower compared to Thailand and Malaysia. MSMEs in Thailand contributed 25.5 percent to exports, while Malaysia contributed 19 percent to exports, while Indonesia accounted for 15.7 percent of total exports.

### 4.2. Factors Inhibiting MSME Competitiveness in Indonesia

The five main problems that hinder business competitiveness in doing business in Indonesia are corruption, inefficient government bureaucracy, access to finance, unstable infrastructure and policies. The main obstacle at the top is corruption with 3.8. and the second order is the government bureaucracy. The government has attempted to improve its ranking to reduce the level of corruption by strengthening the role of the KPK in eradicating corruption.



**Figure 2. Factors Inhibiting Business Competitiveness in Indonesia**

### 4.3. Competitiveness Improvement Strategy for MSMEs in the era of society 5.0

The development of a conducive business environment for Micro, Small and Medium Enterprises (MSMEs) is intended to increase the competitiveness of MSMEs in the era of society 5.0 by creating the widest possible business opportunities, as well as ensuring a healthy market mechanism. In order to foster a conducive business environment for MSMEs, a series of macroeconomic policies, sectoral policies and regional development policies are needed which are complementary, aligned and synergized in order to empower MSMEs.

For this reason, integrated strategies are needed to increase the competitiveness of MSMEs in the era of society 5.0. These efforts must reduce the weaknesses possessed by SMEs. The steps that can be taken are:

- a. Increasing Business Insights and Knowledge of Business Management.

Business actors who have good business insight will be able to quickly capture and take advantage of existing opportunities effectively. This business ability cannot be increased quickly, but through a gradual process, especially if it is related to the culture of society. Efforts to increase business insight and knowledge of business management, can be done by providing knowledge and learning through education and training with two sub-headings of material mastery, namely:

- Increasing competitiveness through strengthening business insight and business governance
  - Increasing competitiveness through prioritizing superior quality products.
- b. Determination of Development Priorities for Leading Sectors

The potential utilization of Indonesian MSMEs needs to be optimized through the synergy of government policies and business actors so that upstream and downstream linkages are built that make MSMEs in Indonesia have strong competitiveness in global competition. Economic development cannot be carried out broadly without the synergy of forces. Prioritizing the Development of Leading Sectors, especially MSMEs, will encourage the synergy of all the national economic potentials. Superior products are products that have the potential to be developed in an area (region or sub-district) by utilizing local natural and human resources, as well as bringing in income for the business community and the government. Superior products are also products that have competitiveness, are market-oriented and environmentally



friendly, so as to create competitive advantages that are ready to face global competition.

The characteristics of superior products are: a) Using local raw materials; b) In accordance with the potential and conditions of the area; c) Has a broad market; d) Able to absorb a relatively large number of workers; e) Is a source of community income; f) Relatively large and continuous production volumes; g) Is a regional characteristic; h) Having relatively high competitiveness; i) Has a relatively high added value; j) Can spur the development of other commodities.

c. Increased Productivity.

The competitiveness of the MSME sector will be truly strong and sustainable if implemented through a productivity improvement program to increase added value in the form of increasing output and minimizing input carried out by business actors, the government and the general public. The concept of work productivity can be seen from two dimensions, namely the individual dimension and the organizational dimension. The individual dimension sees productivity in relation to individual personality characteristics that appear in the form of mental attitudes and implies individual desires and efforts to always strive to improve the quality of life. Meanwhile, the organizational dimension looks at productivity in terms of technical relations between inputs and outputs. Therefore, in this view, the increase in productivity is not only seen from the quantity aspect, but can also be seen from the quality aspect. The two notions of productivity contain certain measurement methods or methods which are difficult to implement in practice.

d. Strengthening Competitiveness in the Domestic Market

Building the competitiveness of MSMEs in Indonesia needs to start with strengthening their competitiveness in the domestic market through strengthening domestic MSME business actors and providing a conducive business climate. Strengthening competitiveness in the domestic market requires the involvement of business actors, the government, consumers and the people of Indonesia. Strengthening competitiveness begins with strengthening the business vision of business actors. Business vision is defined as "having insight and views about what the business wants to achieve in the future and being able to determine which direction to take to make it happen". To achieve this meaning, the orientation needs to be accompanied by a proactive attitude, creative (search for new options), and fast and precise action (prompt action).

e. Increasing Marketing-Based Competitiveness

The competitiveness of Indonesian MSMEs in the global market requires business actors and government facilitation to strengthen export penetration and marketing in general. It is necessary to change the attitude and priority of programs that encourage increased marketing-based competitiveness, especially to increase export market penetration.

Marketing is the action that causes the transfer of ownership of goods and services from the seller to the buyer, which gives rise to the physical distribution of the goods. Marketing Management is the analysis, planning, implementation and control of programs designed to create, build and maintain favorable exchanges with the market, so that organizational goals are achieved.

In the business and marketing activities of MSMEs, they must always apply: a) Idealism, which is able to build a healthy business, both the organization and the business. b) Market/consumer orientation, requires the ability to seek breakthroughs to anticipate consumer tastes. c) Profitable sales volume d) Coordination and integration/marketing activities.

f. Improving Competitiveness Through Strengthening Business Networks

Business networks can be seen based on several functions, which are among others:

- The company's business functions include marketing network, production/operations network and financial network
- Linkage of supply chain functions and positions, including vertical and horizontal cooperation
- Business partnerships, including partnerships between MSMEs, between MSMEs and large businesses
- Network formal/solidity, including soft network and hard network
- Determination of objectives includes business networks to increase economies of scale, business networks for efficient business management, business networks to increase bargaining position.

## 5. CONCLUSION

The competitiveness of Indonesian Micro, Small, and Medium Enterprises (MSMEs) faces significant challenges that have resulted in a relatively low standing on the global stage. Factors such as corruption, inefficient government bureaucracy, restricted access to finance, unstable infrastructure, and inconsistent policies have collectively hindered their growth and ability to compete effectively in the international market. To navigate these obstacles and propel Indonesian MSMEs towards competitiveness in the era of Society 5.0, the integrated strategies outlined in this study offer a comprehensive roadmap.

By prioritizing the augmentation of business knowledge, focusing on key sectors, enhancing productivity, solidifying domestic market competitiveness, leveraging marketing-driven approaches, and fostering robust business networks, MSMEs can position themselves for success in the rapidly evolving business landscape. It is imperative that stakeholders including government entities, business leaders, and relevant organizations collaborate to implement these strategies while simultaneously addressing the systemic issues affecting MSMEs. By cultivating an environment of transparency, efficient governance, and stable infrastructure, Indonesia can empower its MSMEs to flourish, contributing not only to economic growth but also to the overall advancement of the nation.

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