



## THE USE OF INFORMATION TECHNOLOGY IN INCREASING SMALL BUSINESS PRODUCTIVITY

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### Abstract

Small and Medium Enterprises (SMEs) play an important role in the economic and industrial growth of a country. Almost 90% of the total businesses in the world are contributed by SMEs. In addition, SMEs contribute to the absorption of labor. Empirical studies show that SMEs on an international scale are a source of job creation. The contribution of SMEs to the absorption of labor, both in developed and developing countries, including Indonesia, has a significant role in overcoming the problem of unemployment. In the current era of the global economy, SMEs are required to make changes to increase their competitiveness. One important factor that will determine the competitiveness of SMEs is information technology (IT). The use of IT can increase business transformation through the speed, accuracy and efficiency of exchanging large amounts of information. Case studies in Europe also show that more than 50% of productivity is achieved through investment in IT. SMEs are said to have global competitiveness if they are able to run business operations that are reliable, balanced, and highly dependent.

**Keywords :** SMEs, Information Technology, Competitiveness

### Introduction

Small and Medium Enterprises (SMEs) play an important role in the economic and industrial growth of a country (Husband and Purnendu, 1999; Mahemba, 2003; Tambunan, 2005). Small businesses are important to study because they play a crucial role in economic growth on a national and regional scale. Almost 90% of the total businesses in the world are contributed by SMEs (Lin, 1998). In addition, SMEs contribute to labor absorption (Tambunan, 2005). Empirical studies show that SMEs on an international scale are a source of job creation (Olomi, 1999; Lin, 1998; Westhead and Cowling, 1995). The contribution of SMEs to labor absorption, both in developed and developing countries, including Indonesia, has a significant role in overcoming the problem of unemployment. In Indonesia, SMEs have a strategic role in development, this is shown in the National Long-Term Development Plan (RPJPN) 2005-2025 which states that to strengthen the nation's competitiveness, one of the long-term development policies is to strengthen the domestic economy based on the advantages of each region towards competitive advantage. One of the realizations of this policy can be done through the development of SMEs. In addition, the issuance of Presidential Instruction Number 6 of 2007 concerning the Acceleration of the Development of the Real Sector and Micro, Small and Medium Enterprises (MSMEs), shows the increasingly strong position of SMEs in national development policies. The fundamental problem of this is how to implement these policies, so that SMEs in Indonesia truly become economic actors who have a major contribution in strengthening the domestic economy. Based on research by The Hongkong and Shanghai Banking Corporation (HSBC) in 2007, SMEs in Indonesia are very optimistic to continue to be developed because around 64% of SME entrepreneurs in Indonesia have the intention to increase investment in business development and around 44% of SME entrepreneurs in Indonesia have plans to increase the workforce. This study concludes that SMEs in Indonesia

are a barometer of a country's economic health. This study further reaffirms that SMEs in Indonesia have shown their role in the creation or growth of employment opportunities and as one of the important sources for the growth of Gross Domestic Product (GDP).

According to the Ministry of Cooperatives and SMEs (2007), in 2006 the contribution of SMEs to the creation of national added value was IDR 1,778.75 trillion or 53.3 percent of GDP . national with GDP growth rate in 2005-2006 was 5.40 percent ( SNATI 2009) ISSN: 1907-5022 Yogyakarta, June 20, 2009 B-12work, which is more than 50% of total national absorption. This contribution shows that SMEs in Indonesia have the ability to strengthen the national economic structure (Prawirokusumo, 2001). Meanwhile, based on research conducted by AKATIGA, the Center for Micro and Small Enterprise Dynamic (CEMSED), and the Center for Economic and Social Studies (CESS) in 2000, it was shown that the characteristics of SMEs in Indonesia are that they have the resilience to survive and have the ability to improve their performance during the economic crisis. Basri (2003) stated that SMEs in Indonesia were able to survive during the economic crisis due to 4 (four) reasons, namely: (1) Some SMEs produce consumer goods, especially those that are not durable, (2) The majority of SMEs rely more on non-banking financing in terms of business funding, (3) In general, SMEs carry out strict product specialization, meaning they only produce certain goods or services, and (4) The formation of new SMEs as a result of the large number of layoffs in the formal sector. However, to face the global economic crisis and multilateral free trade (WTO), regional (AFTA), informal cooperation APEC, and ASEAN Economic Community (AEC) in the year, SMEs are required to make changes to increase their competitiveness so that they can continue to run and develop. One way is by using information technology (IT). The use of IT can increase business transformation through the speed, accuracy and efficiency of exchanging large amounts of information. Case studies in Europe also show that more than 50% of productivity is achieved through investment in IT. SMEs are said to have global competitiveness if they are able to run their business operations reliably, balanced and with high standards.

### Research Methodology

Focuses on an in-depth understanding of small business owners' experiences with information technology (IT). Suitable for exploring social, cultural, or behavioral factors. Measuring the impact of IT usage on productivity through numerical data such as increased revenue, time efficiency, or production volume.

### Result & Discussion

Several institutions or agencies and even laws provide a definition of Small and Medium Enterprises (SMEs), including the Ministry of Cooperatives and Small and Medium Enterprises (Menekop and UKM), the Central Statistics Agency (BPS), and Law No. 20 of 2008. According to the Ministry of Cooperatives and Small and Medium Enterprises (Menekop and UKM), what is meant by Small Enterprises (SMEs) is a business entity that has a maximum net worth of IDR 200,000,000, excluding land and buildings for business premises, and has annual sales of a maximum of IDR 1,000,000,000. Meanwhile, Medium Enterprises (UM) are business entities owned by Indonesian citizens that have a net worth of more than IDR 200,000,000 to IDR 10,000,000,000, excluding land and buildings. The Central Statistics Agency (BPS) defines SMEs based on workforce quantity. Small businesses are business entities that have 5 to 19 workers, while medium businesses are business entities that have 20 to 99 workers. On July 4, 2008, Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises was enacted. The definition of SMEs conveyed by this Law is also different from the definition above. According to Law No. 20 of 2008, what is referred to as a Small Business is an entity that has the following criteria: (1) net assets of more than IDR 50,000,000.00 (fifty million rupiah) up to a maximum of IDR 500,000,000.00 (five hundred million rupiah) excluding land and buildings for business premises; and (2) has annual sales results of more than IDR 300,000,000.00 (three hundred million rupiah) up to a maximum of IDR 2,500,000,000.00 (two billion five hundred million rupiah). Meanwhile, what is referred to as a Medium Enterprise is a business entity that has the following criteria: (1) net assets of more than IDR 500,000,000.00 (five hundred million rupiah) up to a maximum of IDR 10,000,000,000.00 (ten billion rupiah) excluding land and buildings where the business is located; and (2) has annual sales results of more than IDR 2,500,000,000.00 (two billion five hundred million rupiah) up to a maximum of IDR 50,000,000,000.00 (fifty billion rupiah).

### *Classification of SMEs*

From a development perspective, SMEs can be classified into 4 (four) groups, namely: (a) Livelihood Activities, are SMEs that are used as job opportunities to earn a living, which are more commonly known as the informal sector. An example is street vendors (b) Micro Enterprise, is an SME that has the characteristics of a

craftsman but does not yet have entrepreneurial characteristics (c) Small Dynamic Enterprise, is an SME that has an entrepreneurial spirit and is able to accept subcontract and export work (d) Fast Moving Enterprise, is an SME that already has an entrepreneurial spirit and will transform into a Large Enterprise (UB) Equality.

### *Information Technology*

The term information technology (IT) began to be popular in the late 70s. In the past, the term information technology was commonly called computer technology or electronic data processing. Information technology is defined as the technology of processing and distributing data using hardware and software, computers, communications, and digital electronics. Information Technology is a technology used to process data, including processing, obtaining, compiling, storing, manipulating data in various ways to produce quality information, namely relevant, accurate and timely information, which is used for personal, business and government purposes and is strategic information for decision making. This technology uses a set of computers to process data, a network system to connect one computer to another according to needs, and telecommunications technology is used so that data can be distributed and accessed globally. Thus, in general information technology can be interpreted as a broad subject concerning technology and other aspects of how to manage and process data into information. This information technology is a subsystem of the information system. Especially in terms of its technological perspective.

### *Concept of Competitiveness*

Competitiveness can be defined as the ability to maintain market share. This ability is largely determined by timely supply and competitive pricing. In stages, timely supply and competitive pricing are influenced by two other important factors, namely flexibility (the ability to adapt to consumer desires) and product differentiation management. Likewise, product flexibility and differentiation can be achieved as long as there is the ability to innovate and effectiveness in the marketing system. The correlation between the above factors is presented in Figure 1. In addition, based on the figure above, competitiveness has a significant influence on increasing company productivity and expanding market access. This will lead to an increase in sales turnover and company profitability.

### *Examples of it Applications in SMEs*

Based on the results of research on the use of IT in SMEs, including (a) the number of computers owned by SMEs, (b) the field of IT use in SMEs, and (c) the level of internet use in SMEs. Related to point (a), basically every SME has a computer to help its business processes with a composition of 1 to 3 around 69%, 4 to 10 of 11%, more than 10 of 18%, and only 2% of SMEs do not have a computer. SMEs that have computers to help their business systems, means that they have understood the importance of IT to increase SME productivity which will eventually lead to the formation of competitive SMEs. The percentage of this is presented in Figure 2. The field of IT usage is quite varied. Almost all SMEs have used IT for IT usage for product design and marketing is also quite widely used, while its use for the production process is still relatively low compared to other fields. The classification of fields that use IT in SMEs can be seen in Figure 3 below. In terms of the use of internet technology, many use it for browsing, while SMEs in the craft and automotive components sub-sectors use email more. Most KM in each sub-sector use email, especially in communicating with consumers. The classification of IT use in SMEs can be seen in Figure 4 below. The function of using the internet as an information technology medium to support SME business processes is as follows: communication is used as a medium of communication with various parties. For example, here between SMEs and suppliers. For example, SMEs in the field of chicken farming. The owner can use e-mail to his animal feed supplier, for example, to make an order or vice versa, the supplier who communicates with SMEs. Communication here can vary, one of which has been discussed earlier, for example, the use of e-mail.

### *Promotion*

The internet can be used as a means of promoting services or products offered by SMEs. For example, SMEs in the rent car sector can promote their services through websites or through mailing lists. Promotion via the internet here can be done in various ways, namely:

1. Website , SMEs can create a website for the services or products they want to sell and enter the website into search engines.
2. Mailing list, SMEs can send promotions for your services or products in the form of e-mails to mailing lists that are relevant to what is being offered.

3. Chat, SMEs can use chat facilities to offer products or services.

### Conclusion

Another function of the internet that is no less important is to conduct research and comparison. SMEs must utilize the internet for research in order to find out how far their product is superior to other similar products that already exist. The research function here can also be used to find new formulas to strengthen the quality of products or services. Research is also useful for finding out what competitors are doing with similar products. SMEs need to utilize IT to improve their competitiveness, considering that in this era of globalization the competition arena is increasingly competitive and global in nature. As explained above, one strategy to improve the competitiveness of SMEs is through the utilization of IT. The utilization of IT will encourage SMEs to obtain export opportunities and other business opportunities.

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