

## **MSME PERFORMANCE IN THE DIGITAL ERA: THEORETICAL STUDY OF THE ROLE OF LITERACY AND SKILLS**

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### ***ABSTRACT***

This study uses a theoretical research approach to create proposition regarding the performance of Micro, Small, and Medium Enterprises (MSME) in the digital era. This study elaborates several findings from previous research as a reference. Resource Based View Theory and Human Capital Theory are used as supporting theory. To develop a research reference model that explains the relationship between literacy and abilities and MSMEs' performance in the digital era, qualitative research methods utilizing literature studies were conducted. This study also provides suggestions for developing variables and indicators in measuring performance and other variables that influence MSME performance. The result of the study provide recommendations that literacy and skills as references in the development of Micro, Small, and Medium Enterprises in the digital era have an important role in the performance of MSMEs to improve national economic prosperity.

**Keyword: Micro Small Medium Enterprises, digital literacy, entrepreneurial skills.**

### **ABSTRAK**

Penelitian ini menggunakan pendekatan penelitian teoritis untuk membuat proposisi mengenai kinerja Usaha Mikro, Kecil, dan Menengah (UMKM) di era digital. Tulisan ini mengelaborasi beberapa temuan dari penelitian terdahulu sebagai rujukan. Resource Based View Theory dan Human Capital Theory digunakan sebagai teori pendukung. Metode penelitian kualitatif dengan study literatur dilaksanakan untuk memperoleh model rujukan penelitian dalam menjelaskan faktor-faktor yang mempengaruhi kinerja UMKM di era digital. Kajian ini sekaligus memberikan usulan pengembangan variabel dan indikator dalam pengukuran kinerja dan variabel lain yang mempengaruhi kinerja UMKM. Hasil kajian memberikan rekomendasi bahwa literasi dan skill sebagai rujukan dalam pengembangan Usaha Mikro Kecil dan Menengah di era digital memiliki peran yang penting terhadap kinerja UMKM untuk meningkatkan kesejahteraan ekonomi nasional.

**Kata kunci: Usaha Mikro Kecil dan Menengah, literasi digital, entrepreneurial skills.**

## INTRODUCTION

In developing countries, Micro Small and Medium Enterprises (MSMEs) are considered the backbone of the economy. MSMEs are considered important as a means of creating jobs, expanding the local economy, improving the quality of society, and opening new markets (Dionysus & Arifin, 2020). Micro Small and Medium Enterprises (MSMEs) are responsible for half to 60% of all economic activity in member countries of the Organization for Economic Cooperation and Development (OECD). MSMEs are considered to help mitigate the depression in these countries. Even during the recession in 2009 in OECD countries, 95% of all businesses in these countries, MSMEs contributed income to the economy (Octasyilva et al., 2022). Law no. 20 of 2008 about Micro, Small and Medium Enterprises, explains that the aim of empowering MSMEs is to create a balanced, developed and just national economic structure. Expanding and developing the capacity of MSMEs is one of the government's tasks in increasing the competitiveness of MSMEs to create jobs and develop the national economy.

Limited availability of resources, low quality of resources, low productivity, and lack of competition are the problems faced by MSMEs in Indonesia (Adisaksana, 2022). MSMEs need the role of digital technology to improve performance and productivity. Economic digitalization is a topic that continues to develop until now. Everyone must be ready to face these changes along with technological developments and an increasing understanding of economic competence (Firmansyah & Dede, 2022). The increasingly rapid development of technology allows MSMEs to develop and use technology (Wolok et al., 2022). By increasing digital literacy, economic agents can overcome obstacles to modern development. This can lead to more business owners growing. Information technology is sufficient capital to become a winner in global competition in the era of globalization (Nasir et al., 2019). In running their business, business owners usually want their products to sell well, this is due to tight competition in the market. Therefore, it is necessary to use the right strategy to build and develop effective and successful marketing. By relying on information technology such as e-wallets and social media, this will expand market share for business owner. However, not all management regarding knowledge and skills regarding digital information and its use reaches every business owner. So there is a need for training or outreach to use information technology for business owners.

Successful MSMEs that manage resources effectively will have a competitive advantage that can improve their performance. Studying entrepreneurship is essential to achieving social prosperity. This is because in entrepreneurship learning there is learning about running a business well, gaining knowledge, and running a business in the digital era which is useful for realizing financial success. Entrepreneurial learning also makes it possible to train, hone, and build entrepreneurial abilities and develop human resources (Sariwulan et al., 2020). The MSME sector plays an important role in Indonesia's sustainable economic growth. This is because the MSME sector is considered flexible because it easily adapts to changes in the economic environment and has greater advantages in developing local resources. This is supported by the statement of former Minister of Cooperatives and Small and Medium Enterprises Anak Agung Gede Puspayoga at the International Council for Small and Medium Enterprises (ICSB) meeting, where he said that during the 1998 crisis, the Indonesian economy experienced negative growth of 13.6% . However, thanks to small and medium businesses, economic growth grew slowly, reaching 4% (Winosa, 2016).

Business performance is a topic of interest to many researchers and is considered the most important measure of the success of a managed business (Mehralian & Khazaei, 2022). Entrepreneurship is synonymous with the ability to manage resources, face difficulties, problems, speculation, and make business decisions for profitable ventures (Suparno et al.,

2022). MSME players aim to provide superior performance for their business because performance is considered an important requirement for the survival of MSMEs. Digitalization is a source of new challenges for the resilience of socio-economic systems, but it also presents opportunities. Digitalization can also bring new risks and unintended consequences (Satalkina & Steiner, 2020). The fundamental goal of technology in the Industry 4.0 era is to transform the chain and management of all industries, including finance and digital banking.

It is important for MSME actors to understand the strategy and evolution of the business environment over time. With the development of digital technology, MSME actors must be able to utilize it as effectively as possible to compete in international markets. The MSME development process also requires human resources who have the skills and competencies to develop innovation and creativity. Technology is the result of knowledge and technical skills that humans learn and acquire about how to do things well (Hakim et al., 2022). Referring to the explanation above, this research aims to examine the role of literacy and skills in developing MSMEs which focuses on business performance to achieve goals. This research discusses the RBV theory and human capital theory as the supporting theory to complete the study discussion to make it more interesting and comprehensive.

## LITERATURE REVIEW

### Resource Based View Theory

According to Penrose (1959), RBV theory argues that an organization is nothing more than a collection of resources. According to Barney (1991), unusual and valuable organizational resources can be utilized to gain competitive advantage and increase productivity. Wernerfelt (1984) shows that performance is a manifestation of resources that determine the limits, strengths and weaknesses of an organization or company based on the RBV theoretical approach. Based on the developed literature, resources can be defined in various ways. Wernerfelt (1984) states that resources are defined as what is considered to be the strengths or weaknesses of a particular company. Wernerfelt also formally states that resources are defined as company assets, both tangible and intangible. Barney (1991) added that resources that have a sustainable competitive advantage and have an impact on performance have four characteristics of the VRIN criteria criteria (Valuable, Rare Inimitable, and Non-substitutable. Organizational capabilities which include routines, organizational mechanisms, organizational structure, and organizational processes are other terms for an organization's capacity to use resources (Widjaja & Yuga, 2020).

### Human Capital Theory

Human capital for individual scope is related to the capital of each human being in winning the competition in order to increase added financial value for workers (Nurjanah, 2014). Human capital is the study of investments, organizations, individuals, or countries that accumulate stocks of productive and cognitive skills or technical knowledge (Becker, 1962). Human capital is considered the main contributor to an entrepreneur's success. This is supported by arguments which explain that human capital and knowledge play an important role in entrepreneurship. First, this shows that human capital is an important aspect in the exploration and creating of opportunities. Second, human capital also helps in raising capital and starting a business. Third, human capital helps build new knowledge and generate new business profits (Marvel et al., 2016). Romer (1990) considers human capital to be a fundamental source of economic productivity. Human Capital is said to be an investment made by society to increase their productivity.

Frank & Bernanke (2007) argue that human capital is a combination of education, experience, training, skills, habits, health, energy and initiative that influence human productivity.

### **The Performance of Micro Small Medium Enterprises**

MSMEs are defined as a company that is managed and operated by one or more people. MSMEs play an important role in creating jobs related to economic expansion throughout the world, as well as innovation to meet needs (Telukdarie et al., 2022). According to Article 1 of Law no. 20 of 2008 about Micro, Small and Medium Enterprises, it is stipulated that the micro enterprise class is Micro Enterprises are productive enterprises owned by individuals/individual scale business entities that meet the statutory criteria which meet the wealth criteria of IDR 50,000,000.00 (fifty million rupiah) up to a maximum of IDR 300,000,000.00 (three hundred million rupiah). Meanwhile, small businesses are productive economic businesses that stand alone, on the scale of individuals or business entities that are not subsidiaries that meet the criteria for net business 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). Then medium businesses are stand-alone productive economic businesses carried out by individuals or business entities that are not subsidiaries that meet the criteria for net business 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).

Mutegi et al. (2015) defines small and medium enterprise performance as the work results achieved by individuals who have adapted to their respective roles or duties within a certain period of time, relating to certain values or standards of the company in which each company operates. Factors that can influence MSME performance are divided into two, internal and external. Internal factors that influence MSME performance such as: human resources (HR), intellectual capital, natural resources, sources of financing such as capital or loan funds, manufactured products, marketing strategies, facilities owned, location or place business, and profit levels. Meanwhile, external factors that influence MSME performance include: information technology, global markets, government policies, customers, competitors, suppliers, social conditions, and the influence of institutions or organizations (Johan et al., 2020). The performance of MSMEs can be measured by several indicators (Ratnawati, 2020): workforce growth which is defined as the number of workers working for the MSMEs, profit growth which is used to find out how much achievement growth the company/business has achieved over a certain period of time, market share growth which is defined as a marketing strategy that covers a broad target market into a collection of several small parts among consumers, and sales growth which is defined as an increase in sales from year to year that occurs in a company/organization. Micro Small and Medium Enterprises (MSMEs) are encouraged to improve their company performance by increasing market share and revenue through the rapid growth of digital technology. Regarding the entry of the industrial revolution into Indonesia, the Ministry of Industry expressed opinions on a number of topics such as increasing the productivity and competitiveness of MSMEs to enter the global market, maximizing the use of digital, increasing skills in using technology, and developing innovative technology products. In order for MSME performance to improve and achieve competitive advantage, these four things must be implemented to increase human resource competency (Edward et al., 2023).

## Digital Literacy

According to Bawden (2001), the expression digital literacy first appeared in literature in the mid-1990s as a way to characterize how reading and writing were changing due to internet mediation. The concept of digital literacy has evolved over time to encompass a skills-based approach, particularly in relation to accessing and using digital tools (Feerrar, 2019). The emergence of digital literacy brings attention to digital technology. Although the potential of digitalization is seen as creating new dangers and unpredictable impacts, it is also seen as presenting new challenges to the resilience of socio-economic systems (Sataalkina & Steiner, 2020). Economic literacy is also important for entrepreneurial success. Knowledge of economics plays an important role in helping individuals make choices, especially those related to costs and benefits. Analysis of opportunities and investment, use of resources and priority scale in allocation, customer analysis and production expansion, demand trends, and available resources greatly influence the performance of Micro, Small and Medium Enterprise entrepreneurs (Sariwulan & Suparno, 2020). It is important for everyone to apply and understand economic literacy, because economic literacy encourages everyone to become rational consumers in using their money to meet their needs (Nurjanah et al., 2018).

Digital literacy focuses on cognitive difficulties related to the integration of analog media into new literacies. Gilster (1997) defines digital literacy as the capacity to understand and use information in various forms and sources. Gilster believes that there are four core competencies that can be used to measure digital literacy, including internet searching which is defined as a person's ability to use the internet in various activities, hypertextual navigation which is defined as the skill of reading and understanding the hypertext environment dynamically, content evaluation which is defined as the ability to critical thinking in providing assessments of online findings accompanied by the ability to identify the validity and completeness of information referenced by hypertext links, and knowledge assembly which is defined as the ability to organize knowledge and build a collection of information obtained from various sources with the ability to collect and evaluate facts and opinions well without any prejudice.

## Entrepreneurial Skills

Skills are an individual's abilities and talents used to complete tasks required in the workplace. skills include various concepts and things such as making assumptions or guesses, controlling or guiding risks, or developing new products or services (Suparno & Saptano, 2018). The ability to complete a task is referred to as a skill. The skills in question can be someone's knowledge or hobbies (Klusek & Bornstein, 2022). McLarty and Duosions (2006) provide the view that the term skills includes ideas related to competence, proficiency and the ability to do something well and is closely related to knowledge, skills and abilities. Educational background, related industry experience and entrepreneurial experience have a direct effect on sales and employment growth (Morales & Marquina, 2013).

Resources, entrepreneurial skills, and business environment possibilities are considered important catalysts for the entrepreneurial process. Previous research conducted by Kirby (2004) shows that a variety of skills are needed to build a successful business venture launch. Management of the knowledge and abilities of each business owners is thought to be the main source of competitive advantage. Entrepreneurial skills have four dimensions, including

(Lyons et al., 2020): 1. Technical skills, which are specifically used to create products or services in the industry. 2. Managerial skills, including skills for managing a business (marketing, sales, finance, legal and administration management). 3. Entrepreneurial skills used to recognize and create opportunities for action by business people. 4. Personal maturity skills, these skills consist of self-awareness, skills to reflect on what is happening, recognize and correct weaknesses, be responsible for solving problems and be able to produce solutions. Even though many people can show the characteristics of an entrepreneur, only those who have an entrepreneurial spirit can contribute to the success of a business (Akbar & Nefrida, 2021). An entrepreneur actively seeks and pursues new opportunities, is proactive, and dares to take risks (Cho & Lee, 2018).

## **METHOD**

This research uses qualitative research methods which aim to provide preposition regarding research on the performance of MSMEs in the digital era. This research provides a concept regarding the performance of MSME entrepreneurs as a practice and theory development of Research Based View Theory and Human Capital as supporting theory. The data collection technique in this research uses a literature survey, so the data in this research comes from library research. This is in line with the opinion of Bordens & Abbot (2005) where a literature survey is said to be a process of locating, obtaining, reading and evaluating research literature. Entrepreneurial skills tend to be widely studied, but the skills and behavior of entrepreneurs in Industry 4.0 are still limited to literature related to digital literacy. This article outlines several reference findings from previous research and explores the Research Based View Theory and Human Capital Theory. The following will explain the relationship between each variable in the performance of MSMEs in the digital era.

## **RESULTS AND DISCUSSION**

### **Digital Literacy on the MSMEs Performance**

Digital literacy as an important source of knowledge is considered capable of improving and speeding up operational environmental processes to produce benefits in business development that have a positive impact on business performance (Rofiqoh et al., 2023). Laudon & Laudon (2014) provide an understanding of digital technology which has a significant influence on business performance, this is because digital technology can create large networks between businesses because digital technology is unlimited in nature so this can provide higher productivity regarding the flow of information obtained to make the right decisions as well. Digital technology creates a collaborative environment to create innovation, research development, and create visionary leadership for organizations to improve economic performance (Rvspk et al., 2020).

Another study by Widiastuti et al. (2021) stated that digital literacy has a positive effect on the performance of MSMEs. This is said because the use of digital services is considered to provide many benefits. After MSMEs utilize and implement online media in their business activities, they can increase their business profits. MSME businesses can be widely known and able to survive amidst market competition. Ominunu (2019) states that digital literacy refers to the collection of skills needed to fully participate in social knowledge. This includes knowledge, skills, habits and behaviors related to the effective use of digital tools for communication, expression, collaboration and advocacy in the digital world. Thus, this set of skills is very necessary in expanding business in the digital era.

*Proposition 1: There is a positive and significant impact of digital literacy on the MSMEs Performance*

### **Entrepreneurial Skills on the MSMEs Performance**

The importance of managing the knowledge and skills possessed by business owners has been considered the main cause of competitive advantage. In a competitive market, the success of a business depends on the quality of knowledge that the market establishes on the business processes they carry out. Management of knowledge and entrepreneurial skills has become an important strategy in every organization as an advantage obtained by increasing competition (Hassan & Raziq, 2019). There is a need for training or outreach to use information technology for business owners. If the knowledge and skills regarding digital information have been mastered well, then with a relatively good product this can reach a wider market and help the survival of the business owner. It is important for every entrepreneur to determine what skills and knowledge are needed to increase their knowledge because there are no limits to developing knowledge.

Sambo et al. (2015) strengthens this statement where seminars and workshops conducted by SMEs can improve the abilities of SME entrepreneurs, resulting in a significant influence between entrepreneurial skills and SME performance. Claudia & Rusniati (2021) in their research stated that entrepreneurial skills have a positive and significant effect on business performance. The results state that the higher the entrepreneurial skills a business person has, the higher the influence on business success. According to research by Eunice (2018), entrepreneurial skills have a significant impact on the expansion of SMEs in the UK and Nigeria. To increase sales and compete profitably, respondents from Nigeria and the UK said that creative thinking, problem solving and communication skills were essential.

*Proposition 2: There is a positive and significant impact of entrepreneurial skills on the MSMEs Performance*

### **Digital Literacy on Entrepreneurial Skills**

Research by Winarsih et al. (2018) stated that MSME businesses will generate increased income if they have strong competitiveness, this is associated with increased technological literacy which aims to create entrepreneurial skills. Another study conducted by Suri et al. (2022) regarding digital literacy in developing entrepreneurship skills where in this research the topic is that technology can be considered as an opportunity or challenge for business people and MSMEs. Digital literacy is considered capable of supporting MSME players in understanding business skills which will later be useful in the sustainability of their business. Sariwulan et al. (2020) in their research presented the results that digital literacy has a positive and significant influence on entrepreneurial skills, which means that the higher the knowledge about digital literacy, the greater the entrepreneurial skills owned by SMEs.

*Proposition 3: There is a positive and significant impact of digital literacy on entrepreneurial skills*

### **Digital Literacy on the MSMEs Performance through Entrepreneurial Skills**

Yanto et al (2022) stated that to improve business sustainability, MSMEs need to develop digital capabilities aimed at developing entrepreneurial skills. This is because digital capabilities can also help MSMEs improve operational efficiency. By understanding digital tools, MSMEs can manage internal processes efficiently and save time and operational costs. Digital literacy also helps MSME owners develop entrepreneurial skills to adapt with changing business environments and enable them to better address challenges and opportunities. In line with the Resource Based View (RBV) theory proposed by Barney (1991), this theory states that scarce and valuable organizational resources can be used to achieve competitive advantage,

thereby enabling organizations to achieve superior performance. The resources in question include organizational assets (both visible and invisible), skills, and knowledge. In this discussion, digital literacy and entrepreneurial skills are interpreted as resources. The United Nations (2016) states that the development of entrepreneurial skills is critical to increasing social cohesion, reducing inequality and creating opportunities for everyone. As a way to accelerate the development of productive capacity and encourage the creation of businesses that give everyone the opportunity to participate in and benefit from sustainable economic development, the UN recognizes entrepreneurial skills as a factor that contributes to social outcomes.

*Proposition 4: There is a positive and significant impact of digital literacy on the MSMEs Performance through entrepreneurial skills.*

Based on the literature review and discussion above, MSME performance variables are proposed in relation to literacy and skills. In this research, variables that influence correlatively include digital literacy and entrepreneurial skills. Figure 1 shows the relationship between each proposed construct, as follows:

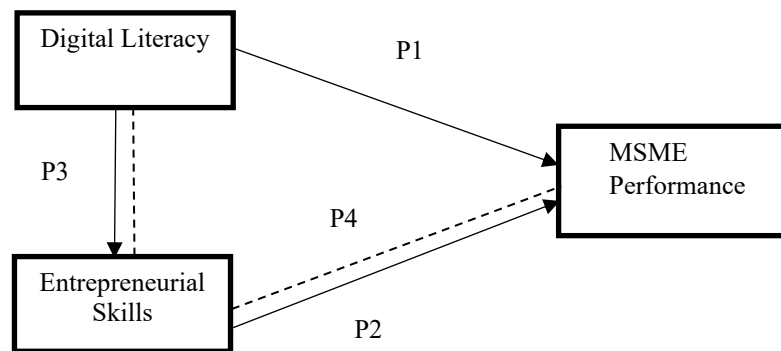


Figure 1: Relationship between each construct

## CONCLUSION AND RECOMMENDATION

Based on the results of the performance study of Micro, Small and Medium Enterprises above, the research study regarding the performance of MSMEs in the digital era offers variables as a reference and analysis. Digital literacy and entrepreneurial skills variables have a direct and indirect relationship to MSME performance. In the literature review, challenges in the digital era have become a necessity in improving national economic prosperity. Education and training in understanding entrepreneurship is needed to grow and develop businesses in the digital era. Digital literacy must be utilized properly to increase opportunities and resource utilization. Digital literacy is considered to be important in the world of industrial center development and even in the development of small and medium enterprises at the national level. Entrepreneurial skills are an important aspect of the skills owned by a business actors. This research study offers a model proposition for MSME performance researchers. It is hoped that future researchers will be able to discuss the performance of MSMEs in the digital era in more detail and comprehensively. It is also hoped that further research using confirmatory factor analysis (CFA) or exploratory factor analysis (EFA) methods can further develop the model above.

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