

## Strategy of Creative Economy Development on Small Micro Enterprises and Medium (SMEs) in Medan City

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### ABSTRACT

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This study shows how the implications of the strengthening strategy and recommendations for the SMEs development policy strategy in Medan City. This study is very important in the context of developing SMEs as creative economic activists in the future. This study uses a quantitative descriptive method. In general, qualitative research is not patterned with a design format consisting of three models, namely descriptive format, verification format, and grounded research format. The subjects of the study were 120 respondents of SMEs actors registered with the Medan City Cooperative and SMEs Service, which became the object of the study, namely about SMEs empowerment through strengthening the creative economy to accelerate poverty alleviation in Medan City. The sampling technique used was purposive sample with data collection using questionnaires. The results of the study stated that the development of creative economic handicrafts in Medan City was carried out by optimizing human resources through skills development and training. The right approach and strategy in developing handicraft innovation is with 5P (enabling, strengthening, protection, support, and maintenance). Because this strategy can cover all lines of the creative economy in handicrafts in order to increase local economic potential. The strategy for developing handicraft businesses in Medan City uses the SO strategy, where this strategy is used to utilize existing strengths and opportunities to minimize weaknesses and threats by relying on product advantages and expanding market networks outside the Medan City area. The novelty in this study is that this study is more comprehensive (comprehensive) in examining the acceleration of poverty alleviation in Medan City with the right strategy in increasing the selling value of SMEs products.

**Keywords:** *Strategy, Development, Creative Industry, SMEs*

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### 1. INTRODUCTION

Micro, Small and Medium Enterprises (SMEs) are one of the driving forces of economic development. The development of the number of SMEs in Medan City is quite good, which is around 2.8 million business units, this can provide a fairly good contribution to economic growth in Medan City. The role of SMEs in helping to reduce poverty, unemployment, and income equality is very good. So, the current problem is how to develop micro, small and medium enterprises to be more numerous and their contribution to the economy to increase [1], [2]. Then what is needed is government efforts to encourage the development of SMEs, because currently their capabilities are still limited while their role is very strategic.

The impact of the Covid-19 pandemic on SMEs is believed to be greater. This is because SMEs are still vulnerable and have limited access. In addition, there is a social restriction policy so that production process activities must be reduced. Meanwhile, demand has also decreased. As a result, many SMEs are not maximizing profits, so liquidity decreases [3]. The presence of the Cooperative and SMEs Service is considered to play a very important role in the development of micro, small and medium enterprises pursued by the people of Medan City, but this is not balanced

with optimal management. Therefore, the strategy formulation process is very necessary to achieve the goals that have been set.

Over a considerable amount of time, Indonesia's economic development is now confronted with a new economic era, which is known as the information era. This new era is accompanied by numerous new discoveries in the field of information and communication technology as well as economic globalization, both of which have led human civilization into a new arena of social interaction that has never been imagined before. The concentration of the world economy has now changed from Western countries to developing countries in the Asian region because they can no longer compete with the low costs in the People's Republic of China (PRC) and the industrial efficiency of Japan.

In the context of today's industrial policy, developing countries cannot rely on their competitiveness in the manufacturing industry, by utilizing comparative advantages in the form of lower labor costs and abundant natural resources. Because of this, a great number of nations around the world have begun to focus on fostering creative human resources. This transition finally took place in the 1990s, marking the beginning of a new economic era that placed a strong emphasis on creativity and information as the primary players. This new economic era is commonly referred to as the Creative Economy, and it is driven by the industrial sector known as the Creative Industry.

By relying on ideas and knowledge from Human Resources (HR) as the primary production element in its economic operations, the concept of Creative Economy is a part of the new economic age that empowers information, creativity, and technology. This is accomplished by utilizing the concept of the Creative Economy. Together with the expansion of the global economy, the structure of the global economy is experiencing a fast shift. Previously, it was based on Natural Resources (SDA), but it is now based on Human Resources (HR). Additionally, it has transitioned from the agricultural period to the industrial and information age.

In general, the most compelling reason why the creative industry needs to be developed is because the influence of each sector of the creative industry has a significant contribution to the economy of a country. This can help to create a favorable environment for business and strengthen the image and identity of a nation through the utilization of renewable resources that have a positive impact on society.

A sustainable economy is the economic state that Indonesia anticipates occurring in the future. The capacity to adapt to changing geographical conditions and economic problems is what we mean when we talk about sustainability. This ability eventually leads to sustainable growth. In a sustainable economy, the Creative Economy, which is comprised of industries that are involved in the creation of innovations, have a high level of bargaining power. This is due to the fact that its members own creative capital, which they employ to produce inventions.

As part of the optimism and ambitions to support the Master Plan for the Acceleration and Expansion of Indonesian Economic growth (MP3EI), which aims to materialize Indonesia as a developed country, the growth of the national economy toward the creative sector is a component of the aspirations. It contains ideas, ambitions, fantasies, and aspirations for the development of a society that is affluent, creative, and characterized by a good quality of life on the whole.

The Specific Objectives of this study are 1). To find the implications of the strategy for strengthening the micro, small and medium business sector in Medan City. 2). To provide

recommendations for strategies and policies for developing MSMEs in Medan City. This study is very important in the context of developing SMEs as creative economic activists in the future.

Every success attained by small and medium-sized enterprises (SMEs) is accompanied by inherent vulnerabilities that require immediate resolution. These vulnerabilities include insufficient capital, both in terms of quantity and source, inadequate managerial expertise, limited operational skills in organizing, and constrained marketing capabilities. These challenges are consistently encountered by all MSMEs when embarking on a business venture with the aim of achieving growth. Unhealthy business competition and economic pressures have resulted in the scope of business becoming narrow and limited. By conducting this research, it is hoped that the right strategy can be found in solving the problem of poverty through strengthening the creative economy through SMEs so that society is expected to be able to improve its economy.

## 2. LITERATURE REVIEW

### 2.1 *Definition of Creative Economy*

In Indonesia, the concept of the creative economy gained popularity during President Susilo Bambang Yudhoyono's tenure through the issuance of Presidential Instruction No. 6 of 2009. This instruction defined the creative economy as an economic activity that relies on creativity, skills, and individual talents to generate economic value and improve the welfare of the Indonesian people. Moreover, according to UNCTAD, the creative economy encompasses the activities of generating, manufacturing, and disseminating products and services that rely on creativity and intellectual resources as the primary factors of production.

### 2.2 *Micro, Small, and Medium Enterprises (SMEs)*

Micro, Small, and Medium Enterprises (SMEs) are self-sufficient and productive business enterprises operated by people or legal entities across many economic sectors. Entrepreneurs must possess the capacity to identify and seize business prospects. The distinction between micro firms (UMI), small enterprises (UK), medium enterprises (UM), and big enterprises (UB) is often determined by the original asset value (excluding land and buildings), average annual turnover, or number of permanent employees [4].

According to its development, micro, small and medium enterprises (SMEs) are groups with more members. In addition, SMEs have proven to be able to survive in various forms of economic crises. Therefore, SMEs are many groups that must be strengthened. Classification according to the development of SMEs includes businesses to earn a living, craftsmen, dynamic businesses, up to large companies [5].

According to the President's instructions to support the development of the creative economy on June 6, 2009. The support and welfare of rural communities will be guaranteed. Efforts to improve the people's economy are a manifestation of development with humans as the object of development and are based on universal values [6].

### 2.3 *Potential and Contribution of SMEs to the Income of the Surrounding Community*

The role of SMEs in helping to reduce poverty, unemployment, and income equality is very good. So, the current problem is how to develop micro, small and medium

enterprises to be more numerous and their contribution to the economy to increase. Then what is needed is government efforts to encourage the development of MSMEs, because currently their capabilities are still limited while their role is very strategic. With the existence of a business, there will be a demand for labor in accordance with the demand for the amount of production. The demand for labor is where there are job vacancies that require labor with various alternatives and then related to wages [7]. Therefore, the demand for labor is in accordance with the amount of demand for goods to be produced. Because the absorption of labor aims to facilitate the production process [8].

#### 2.4 *Obstacles and Challenges to Developing SMEs*

Difficulties in capital issues lead to fundamental problems that affect the innovation and transformation process of SMEs, also impacting on difficulties in marketing, especially in terms of market recognition, pricing, negotiation, and distribution and sales channels [9].

In addition, small entrepreneurs generally cannot promote their products through mass media, because the volume of production income is unable to cover promotion costs [10]. Challenges for the development of SMEs, namely:

1. The increasingly tight domestic market competition, SMEs products will increasingly compete with foreign products. Foreign competitors have relative advantages in technology management, human resources, finance, market access, and other access.
2. Competition is not only in the output market but also in the input market. With all its advantages, expatriates find it easier to utilize Indonesia's natural resource wealth, so that our natural wealth is enjoyed more by foreigners than by our own people.
3. The government cannot intervene to protect SMEs, either by providing subsidies or other protection.

#### 2.5 *Empowerment of SMEs*

The aim of developing a favorable business environment for SMEs is to enhance the competitiveness of these enterprises by expanding their business prospects and providing a robust market mechanism. To foster a favorable business climate for small and medium-sized enterprises (SMEs), it is necessary to implement a comprehensive set of macroeconomic policies, sector-specific policies, and regional development policies that work together harmoniously and synergistically to empower SMEs. The policy for developing a conducive business environment for SMEs is not in a particular agency, and tends to be spread across various agencies. Therefore, advocacy, persuasion and coordination capabilities with other agencies are needed to foster a conducive business climate for SMEs.

Numerous scholars have conducted studies and offered insights to support the growth of small and medium-sized enterprises (SMEs) in Indonesia. In his research, [11] concluded that small and medium enterprises (SMEs) have the potential to address the issue of poverty reduction in Indonesia. The development of small and medium-sized enterprises (SMEs) has significant potential for alleviating poverty. This is due to the

fact that the micro, small, and medium enterprise (MSME) sector plays a substantial role in providing employment opportunities, accounting for over 99.45% of the workforce, and contributing over 30% to the Gross Domestic Product (GDP). [12], observed that Small and Medium Enterprises (SMEs) in Indonesia made a significant contribution to the national GDP (Gross Domestic Product) of 55.56% in 2008, according to data from the Planning Bureau of the Ministry of Cooperatives and SMEs of the Republic of Indonesia. Researcher Darwanto (2013) [3] did a study on the economic growth of small and medium-sized enterprises (SMEs) in Indonesia. In order to enhance their competitiveness, small and medium-sized enterprises (SMEs) must engage in innovation, as they are an integral component of the economy. Prioritizing competitive advantages rooted on innovation and creativity is crucial due to its extended durability and longevity. Furthermore, researchers [13], conducted observations on programs rolled out by the government through the Jamkrida institution. Jamkrida provides credit guarantees for SMEs in an effort to help with capital for the continuity and development of businesses in the future.

The same thing was also done by researcher [2] by looking at the role of the government but in the banking sector, especially sharia, in developing its service products to help the development of SMEs. Sharia banking plays a strategic role in increasing SME businesses, especially in terms of funding and supporting technical and non-technical assistance. Foreign research that examines the impact of the Covid-19 pandemic on the economy and the sustainability of small and medium enterprises (MSMEs) includes [1], [13]–[15]. The research reviewed is the MSME development strategy after the Covid-19 pandemic.

Both domestic and foreign research have yet to examine the development and implementation of creative economic strengthening strategies to improve the welfare of MSME actors so that poverty in North Sumatra can be overcome quickly.

### 3. METHODS

This study employs a quantitative descriptive approach. Qualitative research typically does not adhere to a structured design framework that includes three specific models: descriptive format, verification format, and grounded research format. The subjects of the study were 120 SMEs actors registered with the Medan City Cooperative and SMEs Service, which became the object of the study, namely the empowerment of MSMEs through strengthening the creative economy to accelerate poverty alleviation in Medan City. The sampling technique used was a purposive sample with data collection using a questionnaire. The data used in this study is primary data. This research was conducted on several creative industry MSMEs in Medan City and several sub-districts, namely Medan Amplas, Medan Denai and Medan Polonia Districts, including souvenir keychain handicrafts (fine arts), bamboo weaving (crafts), Fashion (clothing), and Culinary. In this study, the creative industry that was the research sample was the creative industry of bamboo woven handicrafts. The research was carried out from September to December 2022.

### 4. RESULTS AND DISCUSSION

Researchers identify the SWOT of the handicraft industry based on the results of observations, interviews and documentation during the field that are synchronized. The reason researchers use SWOT analysis is because it can map each strength and weakness (IFAS) and

opportunities and challenges (EFAS) of the development of the handicraft industry so that it is able to formulate constructive policy strategies for stakeholders.

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#### 4.1 Strengths, Weaknesses, Opportunities and Threats in Handicraft Marketing

Based on direct field review of Handicraft SMEs towards increasing the creative economy according to several methods used. The first stage is the 'Data collection stage'. Then it can be seen what are the strengths, weaknesses, opportunities and threats that exist in Handicraft SMEs.

##### 1. Some weaknesses of Handicraft SMEs

- a) The sales system is only carried out at the surrounding production location
- b) There is no cooperative relationship with investors
- c) Does not have workers who have expertise in marketing
- d) Does not use visual or non-visual promotion or advertising services.
- e) Does not have branches outside Medan City

##### 2. Some strengths of Handicraft SMEs

- a) Strategic location, close to the eastern cross-country route of Medan City
- b) Product excellence (unique models, good quality and luxurious appearance)
- c) Having regular customers, such as traders from local and out-of-town areas
- d) Competitive selling prices offered, so they can compete with similar products
- e) Having a legal brand

##### 3. Several opportunities that may occur in Handicraft SMEs

- a) Possible public interest in more modern supermarket products
- b) The emergence of similar businesses
- c) Increased government regulations, which are a requirement for establishing a business must make various letters, such as Business Legality
- d) Existence of illegal levies
- e) Decreased consumer purchasing power

#### 4.2 Internal Strategy Factor Matrix (IFAS)

Table 1. Final Result of IFAS Analysis

Number	Internal Strategy Factors	Weight	Rating	Score (Weight x Rating)
1.	<b>A. STRENGTH</b>			
	1) Competitive selling price	3	0,12	0,36
	2) Product excellence	4	0,16	0,64
	3) Having regular customers	3	0,12	0,36
	4) Quite strategic location			
	5) e. Having a legal brand	3	0,12	0,36
2	<b>B. WEAKNESSES</b>			
	1) Does not have branches outside Medan City	1	0,04	0,04
	2) No cooperative relationship with investors			
	3) Does not have workers who have expertise in marketing	2	0,08	0,16
	4) Does not use promotional or advertising services	2	0,08	0,16

	5) e. The sales system is only carried out at the production location	2	0,08	0,16
		1	0,04	0,04
	<b>Total</b>	<b>25</b>	<b>1,0</b>	<b>2,92</b>

4.3 External Strategy Factors Matrix (EFAS)

Table 2. Final Results of EFAS Analysis

Number	External Strategy Factors	Weight	Rating	Score (Weight x Rating)
1.	<b>A. OPPORTUNITIES</b>			
	1) Possibility to control the monopolistic market	4	0,17	0,64
	2) Possibility to have many branches in the North Sumatra region	3	0,12	0,36
	3) Possibility to have many lovers of unique products	4	0,17	0,64
	4) d. Possibility to export abroad	3	0,12	0,36
2	<b>B. THREATS</b>			
	1) Public tendency towards Modern Products	1	0,04	0,04
	2) The emergence of similar businesses			
	3) The existence of illegal levies			
	4) Increased government regulations	2	0,08	0,16
	5) e. Declining consumer purchasing power	2	0,08	0,16
		2	0,08	0,16
		2	0,08	0,16
	<b>Total</b>	<b>23</b>	<b>1,0</b>	<b>2,68</b>

The SWOT Matrix Table is built according to the data obtained, namely external and internal factor data in the previous tables. Each of these factors is interrelated in maximizing strengths to obtain opportunities and minimizing weaknesses to reduce emerging threats. So that it produces other alternative strategies, SO strategy, ST strategy, WO strategy and WT strategy. The SWOT Matrix Table can be explained in Table 4.3. as follows:

Table 3. SWOT Analysis Results

Internal Factors	<b>Strength</b>	<b>Weaknesses</b>
	<ol style="list-style-type: none"> <li>Strategic location close to the Medan City cross-country route</li> <li>Product Excellence (unique, neat model and guaranteed quality)</li> <li>Has regular customers</li> <li>Competitive selling price offered</li> </ol>	<ol style="list-style-type: none"> <li>The sales system is only carried out at the production location</li> <li>There is no cooperative relationship with investors</li> <li>Does not have workers who have expertise in marketing</li> <li>Does not use visual or non-visual promotional or advertising services</li> </ol>
External Factors		

	5. Has a legal brand	5. Does not have branches outside Medan City
<b>Opportunities</b> <ol style="list-style-type: none"> <li>1. Possibility of controlling a monopolistic market</li> <li>2. Possibility of investors emerging</li> <li>3. Possibility of having many branches in the North Sumatra region</li> <li>4. Possibility of having many lovers of unique handicraft products</li> <li>5. Possibility of being able to export abroad</li> </ol>	<b>SO Strategy</b> <ol style="list-style-type: none"> <li>1. Relying on product excellence</li> <li>2. Expanding market networks outside the Medan City area</li> </ol>	<b>WO Strategy</b> <ol style="list-style-type: none"> <li>1. Using a door to door sales system (house to house) or using neon box advertising and creating company cash\</li> <li>2. Creating a very attractive and unique product diversification so that it has a difference with other competing UMKM products</li> </ol>
<b>Threats</b> <ol style="list-style-type: none"> <li>1. Public tendency towards Modern Products</li> <li>2. The emergence of similar businesses</li> <li>3. The existence of illegal levies</li> <li>4. Increased government regulations</li> <li>5. e. Declining consumer purchasing power</li> </ol>	<b>ST Strategy</b> <ol style="list-style-type: none"> <li>1. Develop channels to superstores</li> <li>2. Have a business legality certificate and register with a private organization that can guarantee freedom from illegal levies</li> </ol>	<b>WT Strategy</b> <ol style="list-style-type: none"> <li>1. Reducing production costs</li> <li>2. Searching for loans (banks) or establishing cooperative relationships with investors</li> </ol>

The final stage is the 'Decision-making stage' using the development method of SO, ST, WO, and WT strategies which aim to produce several policies, thus making them business development steps to be implemented in Handicraft SMEs. The policies in question are:

1. Relying on product excellence by:
  - a. Always innovating its packaging and taste quality
  - b. Maintaining health and the best possible service to consumers
2. Expanding the market network outside the region, so that the handicraft industry is increasingly well-known and the profits from sales and the use of attractive branding are greater
  - a. Promoting products through handicraft product retailers outside the region
  - b. Because the product is still relatively new, it is necessary to carry out a product introduction strategy to consumers by providing attractive discounts.
3. Develop channels to superstores by:
  - a. Cooperating with supermarkets or unique goods stores to sell handicraft products (as suppliers/distributors).
  - b. Merging with similar businesses



4. Registering with a private organization that can guarantee freedom from illegal distribution
5. Using a door-to-door sales system or using neon nox advertisements around the business location (on Jalan Medan Polonia) as information so that it is easier for other consumers to find handicrafts and also to create company cash
6. Creating a very attractive and unique product diversification so that it has a difference with other competing MSME products
7. Reducing production costs by:
  - a. Labor efficiency to achieve maximum production
  - b. Reducing excessive purchases of raw materials
8. Seeking loans (Banks) or guaranteeing cooperative relationships with investors, by:
  - a. Obtaining loans from banks or financial institutions in the form of micro business credit with competitive loan interest rates
  - b. Opening up opportunities as wide as possible to foreign investors

The process of strategic decision-making is inherently connected to the purpose and objectives. Therefore, it is imperative for strategic planning to thoroughly examine strategic elements and adapt to the prevailing circumstances. This process is referred to as scenario analysis. SWOT analysis is the prevailing model for examining problems. The Grand Strategy or major strategy in farming can be determined based on a SWOT analysis. To determine the company's performance quadrant (I, II, III, or IV), one must intersect the abscissa line (representing strengths minus weaknesses) with the ordinate (representing opportunities minus threats) on the SWOT analysis diagram.

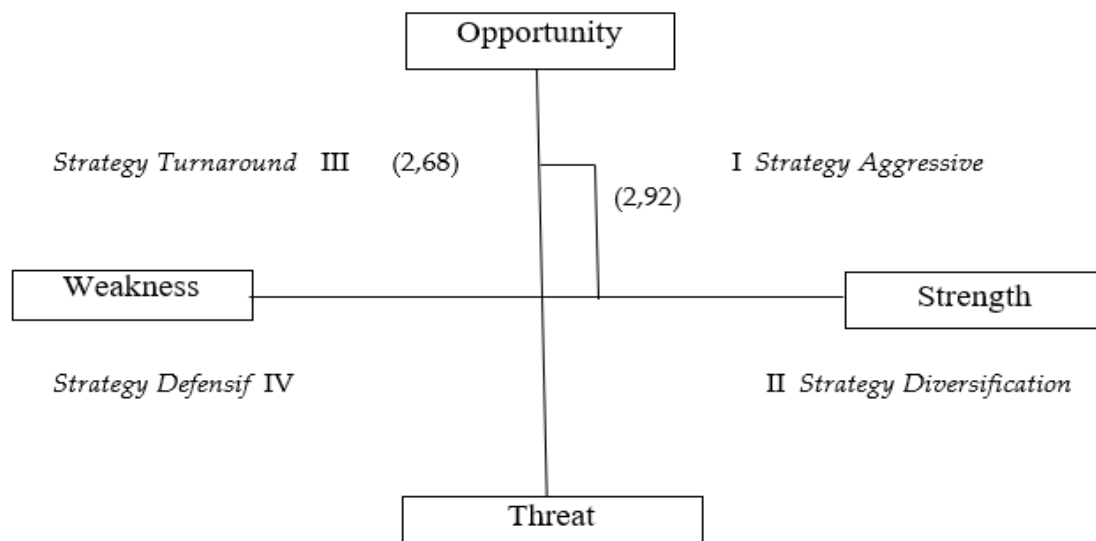


Figure 1. SWOT Analysis Diagram

**1. Quadrant 1:**

This is a very profitable situation. The company has opportunities and strengths so that the strategy implemented is to support an aggressive growth policy.

**2. Quadrant II:**

Despite facing various threats, the company still has internal strengths. The strategy implemented is to use strengths to overcome threats with a diversification strategy.

**3. Quadrant III:**

The company faces great opportunities, but on the other hand has internal weaknesses. The focus of the strategy is to minimize problems so that it can seize better market opportunities with a turnaround strategy.

#### 4. Quadrant IV:

The company is in an unfavorable situation because it faces various external threats and internal weaknesses. The right strategy to deal with this situation is a defensive strategy.

Based on the SWOT matrix shown in Figure 4.1, the analysis of the growth of Handicraft UMKM is positioned in quadrant three (III). Quadrant three (III) indicates that artisan small and medium enterprises (SMEs) have a significant market opportunity, but they also have several internal vulnerabilities. The primary objective of this organization, under the current circumstances, is to mitigate its internal challenges (handicrafts) in order to capitalize on more favorable market prospects. [16] explains that quadrant III involves using external possibilities while limiting internal flaws. The firm is presented with a substantial market potential, yet, it must also confront several internal impediments and shortcomings. An optimal approach involves evaluating the implementation of technology, either via the introduction of new items or through innovative practices.

Table 4. Sum of Strengths (S), Weaknesses (W), Opportunities (O), and Threats (T) score

SO Scor (S) + Scor (O) $2,36 + 2,00 = 4,36$	WO Scor (W) + Scor (O) $0,56 + 2,00 = 2,68$
ST Scor (S) + Scor (T) $2,36 + 1,08 = 2,84$	WT Scor (W) + Scor (T) $0,56 + 0,68 = 1,24$

Next, it is necessary to develop a plan that may be proposed or advised, namely by assembling SO (Strengths-Opportunities), ST (Strengths-Threats), WO (Weaknesses-Opportunities), and WT (Weaknesses-Threats) matrices. External and internal matrices are utilized as instruments to consolidate the various aspects that contribute to a company's strategic planning. The SWOT matrix provides a clear description of how the organization may align its internal strengths and weaknesses with the external opportunities and dangers it faces. This matrix has the capability to generate four distinct alternative tactics, which are:

- 1) SO Strategy, This strategy is made based on the company's way of thinking, namely by utilizing all strengths to seize and utilize opportunities as much as possible.
- 2) ST Strategy, is a strategy in using the strengths owned by the company to overcome threats.
- 3) WO Strategy, this strategy is implemented based on the utilization of existing opportunities by minimizing existing weaknesses
- 4) WT Strategy, this strategy is based on defensive activities and tries to minimize existing weaknesses and avoid threats.

## CONCLUSION

1. The development of creative economic handicrafts in Medan City is carried out by optimizing human resources through skills development and training passed down from generation to generation, both development from the craftsmen themselves and from the government and the business world. The right approach and strategy in developing handicraft innovation is with 5P (enabling, strengthening, protecting, supporting, and maintaining). Because this strategy can cover all lines of the creative economy in handicrafts in order to increase local economic potential.
2. The strategy for developing handicraft businesses in Medan City uses the SO strategy, where this strategy is used to utilize existing strengths and opportunities to minimize

weaknesses and threats by relying on product advantages and expanding market networks outside the Medan City area.

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