





**Research Article** 

# The Business Strategy of Small Enterprises in the Digital Period in West Sumatra

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**Abstract.** Small enterprises are an important part of the economy in the West Sumatra province in Indonesia. Small enterprises must be aware of the accelerated development of technology and communication. Business advances are influenced by both external and internal factors in the digital period. This research focused on the business strategy of small enterprises by considering a SWOT analysis. It used a qualitative approach to explore the digital business strategies. Internal factors (strength, weaknesses) were identified, as were external factors (opportunity, threats). The findings indicated that increasing performance increases competitiveness. Small businesses must be operated based on technology that is suitable for their needs and capacities. Technopreneurs will perform better in the digital ecosystem. Suitable strategies must be implemented in this digital period based on business strengths, weaknesses, opportunities, and threats in order to improve performance. The readiness of small businesses to adopt technology by preparing their resources is an important factor in this strategy, as is providing the best services according to customer needs.

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# **1. INTRODUCTION**

Small enterprises have significant meaning in the economy of West Sumatra Province-Indonesia. They consist of 74,410 units and 208,856 workers in this sector. The local government states policy make the first focusing on how to develop small businesses.

.According to Syarif (2004), In West Sumatra especially for small-scale industries consist of trading, crafting, agricultural and service sectors. However, only 34,559 of them were registered [1]. Most of them are informal enterprises.

In the digital era, the function of information technology for business is important and compulsory. In this period, humans enter a new lifestyle, namely a high dependence on all-electronic devices. Likewise, business dependence on technology is getting bigger in its operational activities, such as the wider use of the internet and the application of e-commerce in sales and purchase transactions. However, small enterprises have limited ability to take advantage of these digital opportunities. Recently, the marketing



sector is the majority of small enterprises use information technology such as online marketing.

According to Bekraf (2016), in West Sumatera, 5,149 out of 210,810 creative economy businesses utilize the internet [2]. This means that most creative economy businesses in West Sumatra have not yet optimized the use of internet media as a means of supporting business success. Meanwhile, of the 5,149 businesses that utilize internet media, only 2,646 businesses conduct transactions through e-commerce [2]. Even though the optimal use of information technology can make small businesses have high competitiveness in order to win in the global market.

According to El-Gohary (2010), communication and information technology will change the process of people to manage business sharply, fast, and differently [3]. Muhtarom (2016) described that there are some positive and negative effects of using information technology and communication technology for enterprises in the digital period [4].

Prior studies documented that internal and external factors determine business success. The differences this research among others is in this article propose the strategy of small enterprises in operating business in the digital period by considering internal factors (strength, weakness) and external factors (opportunity and threats). Even though small enterprises have some limitations in operating business such as the low human resources quality, low capital, low skill in marketing, etc., but on the other side, they have to cope with the development of technology. Therefore this article will focus on how small enterprises have to implement the right strategy to win in the competition in the digital age by considering their internal and their external factors.

# **2. LITERATUR REVIEW**

#### 2.1. Small Enterprise

The new regulation and definition of small business are informed by the Indonesian government according to Government Regulation number 7 in the year 2021. It states that small enterprises can be classified based on assets and based on sales annually. Business can be classified as a small enterprise if it has assets of more than Rp 1 billion up to Rp 5 billion. Then based on sales/year, small business has omzet more than Rp 2 billion up to Rp 15 billion. The Central Bureau of Statistics states that small business has 6-19 workforces [5]. Therefore the criteria for small businesses in this research are based on net assets and annual sales and also based on the number of workers.



## 2.2. Small Enterprises Characteristics

According to Setyawan et al. (2015), the condition of small businesses in Indonesia has still had restrictions in managing their business such as the small amount of capital, the low human resources quality, difficulty to enter the market, and the limitation in skills and technology [6]. The same opinion was stated by Tambunan (2008), that added the main limitation of small-medium enterprises in Indonesia are lacking capital, difficulties in getting raw materials, limitation in receiving relevant business information, difficulties in selling products and distribution, low technological capabilities, high cost in transportation, integrated communication problems, problems caused by cumbersome and costly bureaucratic procedures (especially in getting the required licenses) and policies and regulations that generate market distortion, but the most faced is lacking capital [7]. It can be stated one of the limitations of small businesses is low technological knowledge and low capability knowledge. However, in the digital period, technology is becoming a priority to accelerate business performance.

### 2.3. Internal Factors & External Factors

Nyoni & Bonga (2018) argued that technology is classified as an enterprise factor that determines business success [8]. The logical consideration for this was that technology is becoming a part of business operation daily especially in the digital age. Businesses should keep with the need and satisfaction of customers. While customers in the digital age use technology to make their life easier. Nowadays, small businesses are

still having limitations in technological applied although the development of technological rapidly in business occurs in many activities. Bouazza, Ardjouman & Abada (2015) added stated that technological capacities were internal factors in determining the success of a business [9]. They stated that in Algeria, small-medium enterprises have limitation in technological therefore the growth of businesses are low and unstable. Therefore, the use of the right technology for enterprises can be considered as a tool for strengthening the competitiveness of enterprises, because by improving their capabilities, enterprises can improve their production and increase profit.

Indarti & Langenberg (2004) found in their research that technology has a meaningful in relating to business success [10]. By using technology, the production process can be done better. The sharp development in technology should be adapted and adopted by enterprises to find the best solution ways to survive and to sustain their business in their competitive market. As a result that, they can apply better processes and better



methods for their business. In their research, technology was categorized as one of the elements in the external factor. Lampadarios (2017) described that technology was part of the business environment that influence the growth and success of the business [11]. In summary, the role of technology in managing the business can be seen as an internal and external factor. In other words, technology should be considered both as an internal and external factor.

#### 2.4. Digital Era

Nowadays, the rapid development in digital technology occurs in many sectors and many activities. creating, It affects to human life behavior. The digital period is a term for the use of digital, internet networks, especially in computer information. The readiness of the country in implementing information, technology and communication, will affect the readiness of that country in economical competition. The advancement of digital technology will influence the business greatly. Technology is a tool to support human activities so their life becomes better and easier. Digital Economy gives the new opportunity that connects businesses with customers and supports new services and new business models. The restriction of small businesses to enter the market due to small production scale, the shape of business and far location of business are not important anymore in the digital world due to some small businesses change to online businesses from offline businesses[12].

#### 2.5. Performance

According to Lingensiya (2012), business performance explains the ability of the enterprise to manage all of their resources efficiently, win in the competition and good preparation in facing business environment pressure in global market [13]. In conclusion , business performance describes the ability of the company to allocate all resources effect manageable. Business success is the final result of the way doing business and cooperation greatly. The other element for small business to be success is about cooperation. Cooperation with the supporting community will influence small business operation by improving its strategic position, focusing on core business, accessing the global market, decreasing transaction cost, exploring new skills and handling positively with rapid technology changed [14]



<b>Strength (S)</b> Identify small business internal strengths Weaknesses	Identify small business
 Strategy of SO Identify strengths to take advan- tage of opportunities	•••
 <b>Strategy of ST</b> Iden- tify strengths to avoid threats	

#### TABLE 1: Matriks SWOT

#### 2.6. SWOT Analysis

SWOT stands for Strong, Weakness, Opportunity, and Threats. SWOT analysis was first introduced by Heinz Weihrich in 1982. The SWOT analysis is the most popular and regular analysis tool in strategic management that can be applied not only to businesses but also to other organizations, both in developing and developed countries. SWOT analysis is used to provide an overview of the strengths, weaknesses, opportunities, and threats of the company or organization as a whole so that it can be used as the consideration for selecting alternative actions to relate to company strategies by integrating all functions in the company [15]. SWOT analysis can be implemented quantitatively and qualitatively. In this study, the SWOT analysis will be used qualitative analysis

SWOT analysis can be used as a strategic analysis with its advantages in the ability to determine the company's strategy in maximizing the role of strength factors and exploiting opportunities as well as a tool to minimize weaknesses in the organization and reduce the impact of threats that arise and must be faced, so that company policymakers can formulate and execute the right strategy. SWOT analysis is an analysis that can also be applied to small businesses because this analysis is easy, simple, and does not require a complex process. In other words, before a small business formulates its strategy, the business must be able to identify its 4 main components, both internal factors (strengths and weaknesses) and external factors (opportunities and threats). After the strategy implementation process through SWOT analysis, the next stage is small businesses can formulate and implement strategies. The SWOT matrix is as follows:



# **3. METHODOLOGY**

Based on the research problem above, the study used a qualitative analysis approach. Hastuti, Thoyib, Troena & Setiawan (2015) stated that the original qualitative study is that it can explore the reality of the phenomenon [16]. According to Moleong (2011), the purpose of qualitative research is to understand the phenomena experienced by research subjects such as behavior, perceptions, motivations, actions, and others holistically and thorough descriptions in the form of words and language, in a specific context experienced and with using various scientific methods [17]. In this study, the author will identify small business conditions commonly in four elements that are strength, weaknesses, opportunity, and threats to be entered in the SWOT matrix. Due to the characteristics of small enterprises are diversity, in this study the example of business to be described was limited only to 2 located of industries that are in Pariaman municipally (for creatives industry in making traditional wedding accessories) and in Pesisir Selatan /South Coast Regency (marine tourism). The purposive random sampling was used to select respondents according to some criteria. The majority of respondents are both the owner and also manager of their business. The information was collected in the field research by observation and in-depth interviews

# **4. RESULTS AND DISCUSSIONS**

The Utilization of information and communication technology by micro, small and medium business in Indonesia is still very low. Nationally, only 13% of micro, small and medium enterprises use digital platforms such as marketplaces and social media to promote and sell their products. Whereas business digitalization is the key to the success of natural businesses entering the global economy. The use of technology in business can improve the quality and quantity of products/services. The use of information technology can reach wider marketing so that sales and profits can increase. One of the problems is how to change the mindset of business owners/managers to apply technology for their business[18]. Another problem is that small business owners/managers in West Sumatra still have minimal knowledge in terms of knowledge and use of digital.

To change the mindsets of the small business owners/managers to have technological orientation can be done by supporting stakeholders. "good pressure" both from internal and internal factors of business can stimulate businesses to adopt digital technology smoothly. Many benefits from the use of digital that felt by business owners will



	business owner as business manager, so easier to be managed -decision process of	-Initially the use of technology is difficult -Limitation in education
in more using digital technology in business -Supporting from stakeholders, especially from the government (digitally Ecosystem) -the target consumers	and managers - technopreneur as the first ammunition to go further - beneficial of taking technology	communities in the umbrella of government or private institution -get benefits and information to manage business -the need of advis- ing/counseling/training from the expert institution
Threats -Duplicate strat- egy by other competi- tors -The rapid change of development of tech- nology -The trend of customers Preference - Fraud by costumers	information quickly by using information in many finction , especially in marketing - Be aware with the change of business environment especially	

TABLE 2: SWOT analysis of small enterprises in the digital period

support them to adopt it. Other supporting factors such as the availability of capital, the adequate other resources such as human resources will influence business decisions to go digitally. External factors such as government regulation, government supporting and also digital ecosystem will influence the number of enterprises that go digitally in business. However, it can be applied by considering the need and abilities of the companies themselves. So, business characteristics and entrepereneur characteristics are very important to determine the success of the enterprise.

Here is the SWOT analysis of small enterprises strategy in the digital age :

Even though the optimal use of information technology can make small enterprises have high competitiveness so that they have a competitive advantage. With digital technology, various groups have been facilitated in access information in many ways and can enjoy facilities of digital technology freely and in control. The utilization of information technology will provide positive benefits to the business so that its optimal use can increase productivity and small business competitiveness. In other words, the







level of using digital by small enterprises is still low, it can be seen from the involvement of small enterprises in the digital platform such as marketplace and social media to promote and sell their product only 13 percent. The use of digital technology for business will affect its performance if it is used with the right strategy [19].

According to El-Gohary (2010), there is some differences level of the use of technology in business. The bigger the cycle it means the dependency on technology becomes bigger [20]. It can be shown in Figure 1.

During the pandemic, micro, small, and medium enterprises sales decreased by 30%, this was due to decreased demand and sales, difficulty in obtaining raw materials, difficulty in the capital, so production was disrupted. But on the other hand, online sales have increased by 380%, especially for food products. This shows that there is a sales trend that is shifting from conventional sales to digital-based sales. Whereas in Indonesia only 16% of micro, small, and medium enterprises conduct digital sales through e-commerce, therefore small businesses in Indonesia must increase their productivity by



means of product innovation and also the use of technology and information to increase their income [21]

Digital transformation is one of the solutions for business existence in the digital era. The low business digitalization in West Sumatra is certainly caused by the accumulation of many factors. Factors of capital, human resources, and access to information are problems with the low level of business digitization. Not many businesses are aware of the importance of using digital for business, besides the lack of assistance from stakeholders, in addition to unsupportive external factors, such as uneven network strength in each region.

The different kinds of businesses will adopt technology differently. It depends on its capability and its needs. The marine tourism sector has a greater opportunity to market by using information and communication technology. By using information technology the scope of accessing business by customers became bigger, most of the customers come from wider areas as regional, national even international. A successfully integrated business concept should involve other stakeholders. The change of the lifestyle of consumers in the digital era should be considered in order to deliver the best services.

Another industry such as the traditional wedding accessories industry at Pariaman municipally is the next example. This industry has been set up for years, but its products are marketed limited only for Minang Costumers locally and nationally. The larger the area for marketing, the more important it in using technology for small business to promote their products. To produce their products is needed for innovation and creativity. Therefore in this industry, some of them have using the internet (to enlarge their knowledge in design), webs/blogs, and market their products online. In other words, the use of technology for this sector is only in few activities that are relevant to production and marketing.

In Pesisir Selatan Regency, marine tourism is a quite new industry in this area. Central and local governments are very supportive of the development of the marine tourism sector due to Pesisir Selatan regency has excellent natural resources to be explored. In the tourism sector, all stakeholders should integrate with one another in order to give satisfaction for customers as good accommodation must be supported by delicious food, and the price can be afforded by them. Nowadays, the marketing area become the main activity by using technology such as for promoting via social media. This industry can perform better if the appropriate technology is applied. Therefore based on those observations the level of using technology will differ among industries because of their business characteristics and also because of their entrepreneur characteristics.

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The technology implementation by Small Enterprises should be supported by the readiness of the organization to adopt it properly. Sule & Saefullah (2015) stated un the digital period, the resources of small enterprises consist of in 5 (five) M (Man, Money, Methods, Material, and Machine) and 1(one) I (Information). In this period, access to information becoming wider by applying digital technology [22]. The human factor is the most important and decisive thing because it is a living resource that can direct the business path through various decisions. Moreover, in small businesses, the human resources serve as owners, managers, and even employees. Therefore, in the digital era, the determining factor for the use of technology in the early stages is the business owner/manager factor. Furthermore, the decisions taken will greatly depend on the financial condition of the company, because investments in technology often require large costs and the results are not immediately visible, plus there must also be support for adequate facilities and infrastructure from other stakeholders such as from the Government. In other words, the digital ecosystem will support small businesses in implementing technology.

In Indonesia, some of the small business owners are also business managers. So they have high freedom and flexibility in managing their business, including their decision to implement technology in business. Therefore the business managers /business owners have to have the mindset to apply information technology in the first stage. In other words, They are not only entrepreneurs but technopreneurs, an entrepreneur who not only knows technology but also uses technology to advance his business optimally. In other words, the owner or manager of the small enterprise should have technology orientation in managing its business. The more appropriate technology used, the easier business management. The implementation of technology in small business should be done properly to increase its performance.

Managing enterprises based on natural resources should be changed into knowledge-based. In other words, technology and entrepreneur, or is called technopreneur gives a business opportunity to optimize the use of technology. It means entrepreneurship talent is important, but in the digital age, it must be combined with technological knowledge

Technopreneur is a combination of two words technology and entrepreneur which can be interpreted as a technology-based business. Technopreneur on how to take advantage of technological developments that are developing rapidly into a business opportunity Technopreneur is a term for someone who takes advantage of the latest technological developments to be optimized as a basis for developing business development. Simply put, a technopreneur is someone who manages a business on a





Figure 2: The readiness model of model of small enterprise in managing business in the digital period.

technology basis. The emergence of technopreneurs cannot be separated from the shift in the economic landscape from resource-based to knowledge-based. In other words, in the digital era, small business actors must have the technology and digital-based orientation for business development. Technology both from the internal and external side influences business performance [9,10,11,12]

Small enterprises need support in terms of technology implementation that be adjusted to the ability and willingness of their condition. At a higher level, having business partners that support small businesses using digital is something that should be done in the digital era. They invest in technology, can be accessed independently, or can also collaborate with other businesses to reduce financing for technology. The majority of small businesses have limited capital, so many small businesses are hesitant to invest their funds in technology, in addition, technology developments are also so fast so they should update the technology development must continue to be followed, in order to remain sustainable. Technological changes must also be followed by spending a lot of money. But most importantly, many small businesses do not understand the benefits or uses of technology in their business so they are reluctant to invest in it. Education and training programs/applications that facilitate business operations are the next target that must be carried out. So there needs to be integration from related parties or small business stakeholders involving associations, government, academics, and also users of business products/services. There must be collaboration and synergy between stakeholders and small businesses

The flow chart of the factors influence small enterprise in managing the business in the digital period can be seen in Figure 2.

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The purpose of business strategy is to achieve company mission and company vision especially in the long term Strategic management is the art and science of making, implementing, and evaluating decisions, strategic management focuses on the process of setting organizational goals, developing policies, and planning to achieve goals, and allocating resources to implement policies and plan the achievement of organizational goals. In small businesses, the owner/manager makes a business strategy that will be carried out both in the short and long term. The strategy made must implement in an integrated manner all functions of the business such as finance, human resources, marketing, operations, and others.

According to Abdulwase et al. (2020) business strategy influence business performance by competitive advantages. Business strategy leads to the business focussing on the primary goal by considering customers' needs. Enterprises focus on delivering the uniqueness, best quality of the products and services efficiently and effectively [23] The concept of marketing mix such as product, price, place, and promotion should be applied in order to increase sales. However, in the digital era, business strategy should be combined with digitalization so it is called digital business strategy. Digital strategy is the process to focus on the vision, goal, opportunity, and initiative of the organization to maximize benefit from the digital sector. The owners or managers of small businesses have to have technical knowledge besides entrepreneurial orientation in managing a business. The limitation in having it can be solved by keeping the spirit in themselves and find the solution to solve business problems by adopting and adapting appropriate technological strategies. It is called technopreneur. Technology is important, but it should be put in the soul of an entrepreneur. It is a tool to support business in order to increase competitiveness in the global market. It is good to have an entrepreneurship soul, but in the digital era, it should be combined with the ability to have technological knowledge and implement appropriate technology.

A Digital ecosystem must be created for small enterprises in the digital era. Small businesses have many limitations in their operating. Therefore stakeholders have to support their existence. The digital ecosystem will have many diverse models. All models show finally to give the excellent servicing so they can be satisfied by enjoying products/services. The ecosystem will be made up of diverse players providing digitally accessible multi-industry solutions. This ecosystem linkage will in turn enable companies to better meet customer expectations

In the digital era, the new small enterprises will have greater opportunities to develop as if they have and apply appropriate technology in operating their business. Recently, many start-up enterprises get more benefits due to technology becoming part of their



business and they are aware of the changes in technology in the short and long-term business operation.

Due to the development of rapid change in business technology, small enterprises are becoming a micro-multinational industry. Therefore, start-up enterprises have advantages in the global market because they have an innovative model business and firms grow rapidly (Prasetyono, 2017). He added the availability of infrastructure that makes business easier to access technology for business efficiently and effectively, will lead to the easiness of business to be managed. So they will win in the competition in the global market. The differences in facilities supplied by the government among regions in Indonesia in using technology are quite different. The understanding of small enterprises about regulation in the digital economy is weak. Small businesses in the countryside have difficulties accessing the internet. It means there are some provinces in Indonesia that have digital infrastructure development is still low.

Finally, small enterprises should apply for the right strategy. One way to develop business is SWOT(Strength, Weakness, Opportunity, and Threats) analysis. SWOT analysis can be used to analyze how business strategies must be run. SWOT analysis is the systematic identification of various factors to formulate a company's strategy. The main purposive of strategic planning is to analyze the competitive advantages of small enterprises and also to produce products/services suit to the customers' need and affords by using company resources optimally. Rangkuti (2019) stated that SWOT analysis is based on a logic that can maximize strengths and opportunities, but simultaneously can minimize weaknesses and threats [24]. Meanwhile, Nur'Aini & Fatimah (2016) added that SWOT analysis is a classical strategy planning instrument that provides a simple way to estimate the best way to determine a strategy [25]. This analysis can be done by qualitative analysis and quantitative analysis. Small enterprises should identify all aspects of their business in the internal aspect (Strength, Weaknesses) and External Factors (Opportunity and Threats) especially in recently and the future in relating of the use of technology business, Information technology is entered as an essential factor must be considered, and is integrated with all function in the business. Therefore it is called digital business strategy.

## **5. CONCLUSION AND RECOMMENDATION**

Small enterprises should be ready to adapt to the technology changes in the digital era by applying the right business strategy. From the internal factor side, in the digital era, the owner/manager of small business become one of some key elements for **KnE Social Sciences** 



implementing digital technology for its business. Entrepreneurs in the digital era should be technopreneurs. They have technological knowledge and technology mindsets to develop their business by applying them, they already feel and be sure the benefit of using information technology for the business. Other small business resources should be prepared such as capital, collaboration & synergizing with others, innovation, creativity in managing the business. The integration of small functions in business will support the development of small enterprises in the era digital. Based on an external factor, the digital ecosystem support optimizing the use of technology in business. The pressure from business environmental in implementing technology to small enterprises will force them to be ready in technology advanced. Therefore the right and appropriate strategy can be done by using SWOT analysis to win in the competition in the digital period.

It starts by identifying internal factors (strengths, weaknesses) and identifying external factors. Business strategy digital can be applied for small enterprises in West Sumatera by considering the owner/the manager of small enterprises as a technopreneur and digital ecosystem supported the existence of small business in the digital era such as collaboration and synergizing with other parties in terms of using the digital technology platform. The readiness of small enterprises to cope with digital technology will stimulate the success of the business. Small enterprises should satisfy their customers, in the way customers need and customers want. Therefore, the application of technology for small enterprises in the digital era is based on customers' interests.

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