



## IMPROVING THE CAPACITY OF MSMEs THROUGH OPTIMIZING THE IMPLEMENTATION OF INSTITUTIONAL MANAGEMENT TOWARDS GLOBAL COMPETITIVENESS OF MSMEs

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### Abstract

*The aim of this paper is to look at increasing the capacity of MSMEs through optimizing the implementation of institutional management towards global competitiveness of MSMEs. Globalization makes competition increasingly fierce among business people throughout the world. The influence of globalization has an impact on domestic entrepreneurs, this condition makes the products they sell compete with foreign products entering the country. Globalization has positive and negative impacts, entrepreneurs are able to adapt in the era of globalization by maximizing its positive impacts. In order to compete with business products from abroad, MSME players must increase their capacity and capabilities. MSMEs play an important role in improving the performance of the Indonesian economy. Increasing the capacity and capability of MSMEs is important for the Indonesian Government in maintaining the existence and increasing the scale of MSME businesses. In order for MSMEs to advance in class, it is hoped that there will be good cooperation between the government, MSME owners and related stakeholders. By increasing the capability and capacity of MSMEs in Indonesia, there is a big possibility that MSME products will be successfully exported. Exports of MSME products will encourage an increase in the scale of MSME businesses which will of course increase income and employment. One of the factors that makes MSMEs successful in moving up a class is the existence of a well-defined organizational structure in their management. Apart from supporting the efficiency and effectiveness of achieving MSME goals, this structure also clarifies job descriptions. Then, to increase the professionalism of business management, institutional management is the implementation of management functions consisting of planning, organizing, directing and controlling in all areas of management. These areas include human resource management, financial management, operational and production management, and finally financial management.*

**Keywords:** *Increasing MSME Capacity, Optimizing the Implementation of Institutional Management and Global Competitiveness of MSMEs*

### 1. INTRODUCTION

Globalization makes competition increasingly fierce among business people around the world. The influence of globalization has an impact on domestic entrepreneurs, these conditions make their selling products rivaled by foreign products that enter the country. Globalization has positive and negative impacts, entrepreneurs are able to adapt in the era of globalization by maximizing the positive impact. In order to compete with business products from overseas, MSME players must enhance their capacity and capability. Businesses run by individuals or business entities on a small scale are the meaning of micro, small and medium enterprises or commonly referred to as MSMEs. The role of MSMEs in improving the performance of the Indonesian economy is very large, strategic and crucial. The number of MSME players in Indonesia reached 64.2 million with a contribution to gross domestic product (GDP) of 61.07 percent or IDR 8,573.89 trillion, which is data from the Ministry of Cooperatives and Small and Medium Enterprises (Ministry of KUKM) in 2021. MSMEs are also able to absorb 97 percent of the total labor force and are able to raise up to 60.4 percent of total investment in Indonesia.

Based on the data above, Indonesia is able to strengthen economic performance due to the large number of MSMEs with a very large labor absorption. Especially in Medan, with the

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regulation of the city government, the growth in the number of MSMEs has increased significantly. Based on data from [www.portal.pemkomedan.go.id](http://www.portal.pemkomedan.go.id). There are currently 38,343 MSMEs recorded in Medan MSME and Cooperative Data Collection System (SIMDAKOP) application. To make MSMEs upgrade, there are many factors that must be considered, including:

1. Improve Product Quality: MSME products must be able to compete with factory products. By adding product characteristics that are not owned by products produced by factories.
2. Innovation: MSMEs that are able to innovate products will increase competitiveness. Innovation in MSMEs can be carried out through product diversification activities, product modification, production process innovation, marketing activity innovation, and so on.
3. Complete product licensing: Legality for MSMEs is very important to improve product quality and public trust. MSME legalities that need to be completed include Business Identification Number (NIB), Household Industry Food (P-IRT), NPWP (Taxpayer Identification Number), IUMK (Small Micro Business Permit), SIUP (Trade Business License), and Intellectual Property Rights (IPR) for brands if the business has a brand. Halal certificate issued by BPJPH with approval from LPPOM MUI, and BPOM (Food and Drug Supervisory Agency) permit. For products that have export potential, of course, MSME entrepreneurs must complete several requirements related to customs procedures.
4. Go-Digital: Acceleration of digitalization of MSMEs is done to expand market access and improve competitiveness. Launching from [www.bi.go.id](http://www.bi.go.id), Digitalization for MSMEs can be carried out through MSME Digitalization Program activities including e-Farming with the use of digital technology in agriculture to increase production capacity and cost efficiency. e-Commerce includes strengthening capacity in digital marketing and marketing MSMEs to global markets through digital platforms. Supporting e-Financing in the form of digital applications for MSMEs (SI APIK). Also, digital payment facilities to facilitate MSME transactions (QRIS MSME).
5. Institutional Management for Improving MSME Professionalism, which is carried out through planning, organizing, directing and controlling activities in every aspect of business activities.

## 2. DISCUSSION

Management comes from the old French word *management*, which means the art of carrying out and organizing. Mary Parker Follet, defines "management as the art of getting work done through other people". This definition means that a manager is in charge of managing and directing other people to achieve organizational goals. Meanwhile, an institution is defined as a system of social or organizational bodies that carry out an effort to achieve certain goals. An institution is a social system that makes efforts to achieve certain goals that focus on behavior with the values, norms, and rules that follow, and has a form and area of activity where it takes place. Institutional management will encourage MSMEs to actively interact with the rules that surround the management of MSMEs in Indonesia. Institutional management will also help increase the knowledge of MSME actors and the competition faced by MSMEs must be utilized as best as possible to encourage the birth of strong MSME institutions. Furthermore, MSMEs will be strong if they apply the principle of professionalism and help MSMEs build an entrepreneurial mentality and a mentality of courage to fight for the fate of MSMEs to become strong and independent business organizations in Indonesia. To encourage the formation of good institutional management, the forming factors include:

## 2.1 Have an Organizational Structure



**Figure 1: Example of MSME Organizational Structure**

Source: <https://www.talenta.co/blog/struktur-organisasi-umkm/>

An organizational structure is a system that brings together different work activities to achieve organizational goals. The main purpose of an organizational structure is to help your business grow according to the needs and goals of the business to be achieved. In a study conducted by Harvard Business Review, a good organizational structure is needed by MSME players when they have reached the take-off stage. At the take-off stage, MSME businesses have found their market and started focusing on how to increase financial growth quickly. The organizational structure for MSMEs serves to accommodate management needs, assist in the decision-making process, increase productivity, create innovation, simplify bureaucracy, create values and culture and help businesses to expand.

## 2.2 Implementing Management Functions

Management functions are known as POAC (Planning, Organizing, Actuating, Controlling). In MSMEs, these management functions can be applied and implemented so that the management is directed and professional. MSME governance, starting from planning, production processes, company management. Planning is a very important element and is a fundamental function of management, because organizing, actuating and controlling must first be planned.



**Figure 2. Management Function**

Furthermore, organizing is a series of jobs that involve many people to occupy certain units, such as managerial, technical and so on. Boone & Kurtz describe the steps in the organizing process, which are as follows:

- 1) determine the specific work activities needed to implement plans and achieve goals.
- 2) group work activities into logical patterns or structures.
- 3) assign activities to specific positions and people and allocate the required resources.

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4) coordinating the activities of different groups and individuals.

5) evaluate the results of the organizing process.

The third function is actuating (directing), which is an effort to create a climate of cooperation among program implementing staff so that organizational goals can be achieved effectively and efficiently. This function involves the quality, style, and power of the leader (manager/owner) of the company. The directing function is inseparable from other management functions. The function of directing and implementing in other terms is motivating, directing, influencing, and commanding. The purpose of the Movement function (actuating):

1. Create more efficient cooperation.
2. Develop staff skills and abilities.
3. Fosters a sense of belonging and liking for the job.
4. Cultivate a work environment that increases staff motivation and work performance.
5. Make the organization develop dynamically.

The last function is controlling, a management function where the role of personal who already have duties, authority and carry out their implementation needs to be supervised so that it runs in accordance with the company's goals, vision and mission. Supervision is defined as an effort to determine what is being carried out by assessing the results or achievements achieved and if there are deviations from predetermined standards, corrective efforts are immediately made, so that all results or achievements achieved are in accordance with the plan.

### **2.3 Having fields in Organizational Management**

Professionalism in managing MSMEs is supported by various management fields consisting of:

1. **Human Resource Management:** The field of human resource management governs all matters relating to human resources. This field also regulate the ways that must be done to ensure that the workforce can work optimally and achieve the goals. Therefore, the activities of HR management are related to providing salaries, finding employees or recruiting according to company needs, to employee development.
2. **Financial Management:** This area discusses the correct way or managing finances. MSMEs need financial managers so that the business can run well. It is necessary to have a financial manager who takes care of the company so that their finances do not deteriorate.
3. **Operational Management:** The next area of management that has an important role is related to the operations in the company. Operations themselves are activities related to the production process, raw materials, tools used, and production methods used. So, the operational management field is a crucial thing that can affect the running of the company. Production is a risky thing and requires an effective way to make an item. This is because the production of goods requires capital costs so it needs to be considered. Do not let the production cost exceed the selling price. An operational manager will think about how the production process is structured to produce goods quickly.
4. **Field of Marketing Management:** The field of marketing management is concerned with the activity of introducing its products to target consumers. Marketing management is management related to promotion and sales activities so as to increase income. The activities are as follows:
  - Conduct market research related to consumer needs and promotional methods that will be applied.
  - Conduct marketing planning ranging from targets, methods, to market segments.
  - Conducting analysis. For example, applying the SWOT method which is useful for seeing the company's strengths and weaknesses as well as looking for opportunities and threats.
  - Plan effective promotions through various media.





### 3. CONCLUSION

MSMEs play an important role in improving Indonesia's economic performance. Improving the capacity and capability of MSMEs is an important thing for the Government of Indonesia in maintaining the existence and improving the scale of MSME businesses. For MSMEs to upgrade, good cooperation between the government, MSME owners, and related stakeholders is expected. By improving the capability and capacity of MSMEs in Indonesia, there is a possibility that MSME products will be successfully exported. The export of MSME products will encourage an increase in the scale of MSME businesses, which will certainly increase income and employment. One factor that makes MSMEs successful in upgrading is the presence of a well-defined organizational structure in their management. In addition to supporting efficiency and effectiveness in accomplishing MSME goals, this structure makes job descriptions clearer. Then, to improve professionalism in business management, institutional management is the implementation of management functions consisting of planning, organizing, directing, and controlling in all areas of management. These areas include human resource management, financial management, operational and production management, and last but not least financial management.

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