

## MSEs and Digital Economic

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### Abstract

*This study describes the conditions of the Micro and Small Enterprises (MSE) in D.I. Yogyakarta. The research data includes various dimensions related to MSE performance published by the Central Bureau of Statistics. This study uses a descriptive approach that describes the characteristics and phenomena faced by MSE. The results showed that MSE plays an important role, especially in terms of employment. However, the various limitations that exist in MSE cause the industry to still face various problems. MSE needs to control labor costs and digitize it so that performance increases.*

Keywords: MSE, Digital, Economic, Cost

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## I. INTRODUCTION

Micro and Small Enterprises (MSEs) in Indonesia play a key role in economic development, particularly in terms of employment. Historical experience shows that the MSE was able to cope with the economic crisis that Indonesia had experienced several years earlier. Therefore, as most Indonesians have low education, doing business in the MSE sector is the right option. Education is not an absolute prerequisite for doing business in the MSE sector and living in business (BPS, 2019).

Micro and small enterprises, both traditional and modern, can absorb many workforces. The MSE sector plays an essential role in the economy of D.I. Yogyakarta. The MSE sector plays an essential role in the formation of economic output D.I. Yogyakarta. Likewise, in terms of providing employment opportunities, most of the population works in the MSE sector. This condition is different from other provinces, such as West Java, where most of the Gross Domestic Product (PDRB) comes from large industries. Geographical conditions and limited zona make D.I. Yogyakarta has no potential for the development of large industries. Geographical and socio-cultural conditions of D.I. Yogyakarta encourages the development of the service sector. The service sector dominates in the formation of added value in D.I. Yogyakarta. Based on the Micro and Small Industry Survey conducted by the Bureau Central Statistics (BPS), in 2018, 113,430 businesses spread across all regencies/municipality D.I. Yogyakarta. Of these, as many as 91,328 businesses/companies or 94.76 percent were micro industries, while the rest were small industries.

In fact, as a tourist destination, D.I. Yogyakarta is enabled by the activities of MSE business groups/companies that enhance tourism potential in Yogyakarta. The results of the BPS survey indicate that many of the industries that have grown a lot are those who support the tourism industry, including the food and craft industries in the form of woven clothing, textiles and leather, leather goods, and footwear. Based on the results of the 2018 Annual MSE Survey, there were 48.8 thousand food industries (KBLI 10); The wood industry, goods made of wood and cork (excluding furniture) and wicker goods made of bamboo, rattan, and the like (KBLI 16), there are about 16.15 thousand businesses; The apparel industry (KBLI 14) is in third place with 13.38 thousand businesses; The textile industry (KBLI 13) occupies the fourth position with 8.4 thousand businesses; and in fifth place with 6.31 thousand businesses are the leather, leather goods and footwear industry (KBLI 15). Figure 1 describes the distribution of the number of other MSE businesses/companies.

Meanwhile, based on the number of Micro and Small Enterprises by regency /city, it can be seen that Bantul Regency has the highest number of Micro and Small Enterprises, reaching 37,464 or representing 33.03 percent of total Micro and Small Enterprises in D.I. Yogyakarta. In the second place, as many as 29,599 MSE enterprises/companies take place in Sleman Regency or 26.09 percent. The following positions were held by Gunungkidul, Kulonprogo Regencies, and Yogyakarta Municipality with the number of MSE Enterprises, 19,808, 19,338, and 7,221, respectively (Figure 2).

The Development of MSEs in D.I. Yogyakarta is in line with the characteristics of D.I. Yogyakarta is a tourist destination and educational city. The MSE sector plays a significant role in providing food and beverages for tourists visiting D.I. Yogyakarta. The culinary business, dominated by MSE actors, is overgrowing in line with the development of tourism. This sector is also growing because it is supported by the needs of students studying at several universities in D.I. Yogyakarta. This condition is indicated by a large number of MSE engaged in the provision of food and beverages.

Based on the workforce, as many as 60.42 thousand (53.27 percent) MSEs are part of a business community with a workforce of 1 (one) person. In this case, the owner is the only worker who manages and operates the MSEs by himself. Moreover, based on the highest level of education completed, most of the entrepreneurs have an elementary school education (S.D.) or equivalent to 26.23 percent, and junior high school education (SMP) is equal to 20.37 percent as the highest level of education completed, while those are pursuing high school and vocational education levels respectively 17.37 percent and 13.58 percent. As many as 3.50 percent completed S1 and above, 1.97 percent of entrepreneurs who completed education up to Diploma I or higher education, while those who did not complete education or did not complete elementary school was still quite a high level of 16.98 percent.

In 2018, MSEs absorbed a workforce of 216,803 people. More than half (52.23 percent), the workforce of MSEs are female. Based on the last education level completed, the majority of the workforce involved in MSE businesses in D.I. Yogyakarta has an education of S.D./equivalent, SMP / equivalent, and SMA / equivalent, respectively, 25.87 percent, 22.06 percent, and 22.56 percent (Figure 2).

## **II. LITERATURE REVIEW**

A micro business is a productive business owned by an individual that has the criteria of a micro business as stipulated in the law. Not a subsidiary owned, controlled, or part of, either directly or indirectly, of a medium or large business that meets the criteria for a small business as referred to in the law (Tambunan, 2009). Small businesses in Indonesia have great potential to be developed

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because of the broad market, readily available raw materials, and massive human resources, which are the supporting variables for the development of these small businesses. Still, several things need to be considered along with the development of small-home enterprises such as: followed by good management planning will minimize failure, mastery of science will support the sustainability of the business, manage an efficient and effective production system, and make breakthroughs and innovations that make differentiation from competitors a step towards success in managing the business.

Some of the advantages of SMEs against large businesses are as follows. (Partomo & Soejoedono, 2004)

1. Innovations in technology have quickly taken place in product development.
2. Close humanitarian relationships in a small company.
3. The ability to create quite a lot of job opportunities or absorption of labor.
4. Flexibility and ability to adapt to rapidly changing market conditions compared to large companies, which are generally bureaucratic.
5. There are managerial dynamism and the role of entrepreneurship.

### **III. RESEARCH METHODOLOGY**

This research uses a quantitative descriptive approach. Descriptive research is a research method that utilizes data and is described as descriptively. This method of qualitative descriptive is mostly used for the analysis of social events, phenomena, or circumstances. Descriptive research aims to provide a description of the process or relationship and provide detail on a relationship and classify the MSEs conditions in D.I. Yogyakarta.

The data is taken from the publication of the results of the 2018 Annual Micro and Small Industry Survey conducted by the Bureau Central Statistics (BPS). This survey was conducted in all districts/cities across the Province of D.I. Yogyakarta. The data contained in the publication include the number of companies, workers, remuneration for workers, expenses, revenue, capital, business problems, business services and advice, and distribution of MSEs marketing. Based on this data, the current status and the relationship between variables in MSEs in D.I. Yogyakarta. Furthermore, numerous alternative policies are presented to enhance the MSEs performance.

### **IV. FINDING AND DISCUSSION**

The development of MSEs is inseparable from a number of problems that surround it. Research by Hafsah (2004) and Setyari (2005) showed there are some internal and external problems faced by MSEs. Problems related to internal factors include (1) limited capital, (2) limited human resources, and (3) poor business networks and market penetration capabilities. Furthermore, issues related to external factors are: (1) the business environment not entirely conducive, (2) limited business facilities and infrastructure, (3) implications for regional autonomy, (4) the essence of the short-lived product (5) limited consumer access, and (6) the implications of free trade. The absorption power of SMEs to the workforce is enormous and close to the small people. Nevertheless, SMEs in Indonesia still face various challenges, including promotion, marketing, and sales (Jauhari, 2010).

Meanwhile, Bank Indonesia's research indicated that MSEs faced a number of internal barriers, such as capital, human resources, accountability, and legal status. From the capital side, some 60-70 percent of MSEs have not received banking access to or financing from banking, including administrative constraints. Managers have not been able to distinguish household and business

capital. Furthermore, in the area of Human Resources (H.R.), there are problems in the form of a lack of technology and the implementation of quality control on products. The ability to read market needs is still not strong, so it cannot properly understand the needs that the market wants. Likewise, product marketing has not made social media or internet networks as a marketing tool. Meanwhile, in terms of accountability, most MSEs do not yet have to evaluate financial management and management systems. As far as the external side is connected, there are macro issues in the form of a market environment that is still unfavorable, limited business facilities and infrastructure, in particular those linked to technical resources, and limited access to raw materials and consumers. Due to the limited access to raw materials, MSEs frequently get low-quality raw materials. Also, MSEs have not been able to keep up with the rapidly changing tastes of the consumer.

There are numerous difficulties in the growth of micro and small industrial enterprises from a total of 113.43 thousand MSEs enterprises in D.I. Yogyakarta. As many as 50.31 percent of MSEs experienced difficulties in businesses; meanwhile, SMEs stated that they did not experience difficulties in running a business were 49.69 percent. The types of difficulties experienced encountered raw material difficulties of 31.07 percent, capital difficulties of 23.74 percent, and marketing difficulties of 21.81 percent (Figure 5). The causes of various limitations did not make MSE's performance as expected by the government.

MSEs faced difficulties in raw materials, including costly raw materials by 46.96 percent, rare raw materials by 42.40 percent, distant raw materials by 1.85 percent, and others by 8.79 percent. In general, the services/assistance provided to MSEs is still very minimal. Nearly most of them, which accounted for 95.01 percent of MSEs who had never received assistance, and only 4.99 percent stated that they had received assistance. The majority of MSEs argued that the main reason they never received assistance on business development was that they did not know that there was assistance, amounting to 54.03 percent, that they did not need the assistance of 20.42 percent, and did not know the procedure for 17.02 percent.

#### **IV.1. Labor Cost Control**

MSE needs to monitor costs and improve efficiency. The large expense in MSEs is the cost of raw materials and labor costs. Labor costs in the manufacturing industry are the second-highest after the cost of raw material. Labor costs are expenses that are charged to all production workers who are in the company. Production labor costs (wages) under the supervisor are direct labor costs because the wages of production workers are directly linked to positive results. Production labor costs can be traced back to the products produced.

The wage of production workers is hard to reduce, so it is important to regulate the wage of production labor. For this reason, direct labor budget empowerment is carried out in order to promote the preparation of plans relating to the number of production workers needed, the estimation of direct labor costs, and the need for funds.

Various efforts can be made for this purpose, including:

1. Estimates of the number of regular working hours needed for each unit of product and the estimated average wage rate of each department. The calculation of the regular hours worked and the average wage rate is the cost of labor cost for each product in each department. When the labor cost is compounded by the number of products made in each department, the total cost of production workers for each product would be incurred. In determining the number of direct labor costs, two factors are identified: the level direct of wage rate and the standard time (hours) of direct labor. Based on
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these two results, it will be possible to know the difference in direct wage rates. The disparity indirect wage rates arises as a result of the company paying direct wages at higher or lower than the predetermined standard direct wage rates.

2. the improvement in the efficiency of direct labor costs is made possible by the application of a contract or unit framework for direct labor. This system includes the rights and responsibilities of the company to direct workers under the agreed agreement or contract. Under the piece rate model, the rate of pay is determined on the basis of the output produced by workers. In this system, there is an incentive for an employee who generates higher output to maximize workers' income and increase the company's net profit. The pay as you go system also allows employers to control labor costs. When the order increases, the employer pays the wage increases. Conversely, if orders received by employers decrease, the average wage cost would also decrease. This is different from the day to day wage system, which requires employers to pay workers' wages in full, even though there is no work performed by workers at the same time. This system is poor since there is a tendency or opportunity for workers sacrificing product quality to achieve a greater quantity of output per working day. Efforts to control the quality of production (quality control) are also needed so as not to reduce the output quality. Output report per person is used to realize d this method. The report contains the assignment/type of work performed and the number of outputs achieved. After receiving the supervisor's approval, the report is forwarded to the salary and wages department for the estimation of wages.
3. Another policy that can be adopted is the modification of the regulation between wages per day/month and the total output quota. When the worker can produce output that exceeds the fixed target, an extra salary is given to raise the worker's income. This requirement would enable workers to increase their productivity. Workers are inspired to work harder to increase their salary. This system is viewed as fair since more productive workers will get higher salaries.

#### **IV.2. Digitizing MSEs**

Digital information is an important source of strategic planning, while the development of networks plays a crucial role in the regulation of economic and social activities. Besides, digital technology is used to provide the data and methods required to improve the value of goods, services, and interaction patterns between various parties. In the digital world, information is no longer just a tool for transaction and communication but a major source of profit in the economy. The Digital Economy promotes substantial and continuous improvement for many economic activities that have already existed. The Digital Economy promotes improvement in the perception of individuals and organizations in making some economical decisions. It can provide access to the procurement and supply of goods and services that support business activities in the industrial and trade sectors.

Digital economic activity means the geographic location is no longer relevant. The presence of different channels is the primary keys to economic and business activities, the importance of working networks, and the use of comprehensive digital data. The pillars that form the foundation of the digital economy are technology infrastructure (hardware, software, and internet networks), e-business, and e-commerce.

The digital economy is underpinned by the spread of Information and Communication Technology (ICT) across all business sectors to increase productivity. The digital economy is transforming traditional thinking on how economies are organized, how consumers access services, information,

and goods, and how countries need to respond to these emerging regulatory challenges. The Digital Economy framework is based on three pillars, namely E-business Infrastructure, E-business, and E-Commerce. The adoption of Information Communication Technology (ICT) was followed by a rapid decline in prices and an increase in technological performance. This situation has stimulated the creation of new activities in both the private and public sectors. New technologies make it easier to enter the market and reduce the price. New technologies open up opportunities for the development of new goods and services that were not previously needed. Some companies have changed the design of their business models.

Digital technology can reduce the cost of data storage, transportation, and transmission. The digital world is going to change economic activity. Costs that occur can hinder economic activity. Thus, the digitization of MSEs can transform the standard economy model into a new low-cost model. These fee changes include search, replication, transport, tracking, and verification costs. They digitize lower costs, at the same time, increase the potential scope and quality of searches. Digital goods can be reproduced at no cost. Transportation costs due to geographical distance would vanish with the advent of digitization. Digital technology makes it easy to track consumer behavior. Digital technology applications can generate reputation and trust among stakeholders.

The digital economy has grown to contribute to a variety of sectors, such as the public sector, organizations, finance, labor, health, public finance, and the international economy. The digital economy is a way of thinking that affects many areas of the economy. Digital technology changes the costs to be borne by companies. Lower search costs have an effect on price and demand dispersion. Besides, economic digitization also affects product variation and media availability.

## **V. CONCLUSIONS AND FURTHER RESEARCH**

Micro and Small Enterprises (MSE) plays an important role, especially in terms of employment. However, the numerous limitations that exist in MSEs still cause the business to face still various problems, including capital problems, restricted human resources, poor business networks, and market penetration. For this reason, MSEs need to monitor costs in order to increase efficiency. One method of cost control is the transformation of the worker payment model into a piece-work system. As a result, the cost of salaries at MSEs coincides with the company's performance. Companies do not have to pay salaries that too high if the company's performance is decreasing. Next is another step that is required to be taken to digitize the MSEs. Digital technology will reduce costs to raise MSE's performance.

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