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"Contributions, Challenges, and Entrepreneurial Strategies in Indonesia's Micro and Small Industries Sector."

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Abstract: This research aims to identify the contributions, challenges, and entrepreneurial strategies in the micro and small industries sector in Indonesia that influence economic growth and national development. Additionally, the research focuses on the participation and development of the micro and small industries sector in facing future economic challenges in Indonesia, as well as efforts to enhance their competitiveness and operational quality in confronting challenges in the global economy.

Entrepreneurial development continues to grow, with the number of micro and small industrial enterprises reaching 4,339,228 in 2022. In this context, policies and strategies from the government are required to support entrepreneurs in improving their competitiveness and business quality, particularly in facing the global financial crisis.

The results of this research reveal that entrepreneurship in the micro and small industries sector significantly contributes to the Indonesian economy. Additionally, the research identifies the challenging factors faced by micro and small industrial enterprises. Furthermore, the research highlights the crucial role of this sector in enhancing entrepreneurial capabilities in Indonesia.

Keywords: contributions, challenges, strategies, entrepreneurship

INTRODUCTION

The world of entrepreneurship is filled with innovation and creativity, which are its distinctive features. Although not everyone can become an entrepreneur, the experiences of others can serve as inspiration. Many successful entrepreneurs have achieved their accomplishments through education and training, fully supported by the government. They become the main pillars of a country's economic progress. It is not surprising that in countries with relatively advanced economies, there are many skilled entrepreneurs. They not only have innovative ideas but also the skills to materialize those ideas. The

first step taken to realize an idea is to establish a business entity with a legal foundation, enabling the company to operate according to the desired vision and mission.

The role of entrepreneurship is increasingly recognized as a crucial element in national economic development. Entrepreneurship is considered effective in improving the welfare of society by contributing to economic growth and distributing the benefits of that growth evenly. Countries with rapid economic growth, such as China and India, serve as examples of success with millions of globally competitive entrepreneurs. Currently, entrepreneurs cannot escape the dynamics of global free trade, especially if they want to play a larger role in the world economy. They need to have broad access to global markets, and conversely, global business players demand openness in domestic markets. Therefore, efforts to enhance entrepreneurial capabilities, including improving self-reliance, business skills, and leadership in the entrepreneurship sector, are expected to enhance competitiveness and the quality of entrepreneurship.

Kuncoro, Mudrajad (2009), state that two strategic steps can be proposed for entrepreneurship development: demand pull strategy and supply push strategy. The demand-pull strategy includes strengthening the demand side, which can be achieved by improving the business climate, facilitating intellectual property rights (patents), facilitating domestic and international marketing, and providing market opportunities. Another strategic step is the supply push strategy, which includes driving the supply side. These steps can be realized through efforts to ensure the availability of raw materials, providing financial support, assistance in technology, machinery, and equipment, and enhancing human resource skills. In both strategies, careful formulation is the key to national entrepreneurship development, emphasizing the crucial role of entrepreneurs in entrepreneurship dynamics. Therefore, recommendations for entrepreneurship development begin with formulating the basic concept underlying true entrepreneurship.

The main goal of entrepreneurship is to enhance competitiveness, create job opportunities, and reduce unemployment and poverty rates. In the updated concept, entrepreneurship is interpreted as the spirit to develop new businesses. The developed efforts can take the form of independent ventures owned by one or more entrepreneurs, or they can even be found within the companies where they work. Entrepreneurship policy is a positive intervention by the government in developing this sector, not only focusing on established entrepreneurs but also on individuals seriously considering starting their own businesses.

Becoming an entrepreneur requires a strong capital base, as well as concepts and strategies to face challenging situations and compete effectively, especially amid the current and future economic challenges. Today's entrepreneurs cannot escape the reality of global free trade, especially if they have ambitions to play a larger role in the global economy. They need to have broad access to international markets, while conversely, they are also faced with demands from global business players to open domestic markets. The role of national business players in the national economy is significant, as seen from their contributions to employment absorption, the formation of national Gross Domestic Product (GDP), export value, and national-scale investments.

In 2020, the world was shocked by the COVID-19 pandemic, causing most real sectors to be paralyzed due to lockdowns or Large-Scale Social Restrictions, policies implemented by the Government of the Republic of Indonesia to combat the COVID-19 pandemic. Starting from the effects of the coronavirus pandemic, businesses that do not require large capital and can be operated from home with online services have grown rapidly. Even large businesses have shifted to online services. In the midst of this national disaster, the role of entrepreneurship in revitalizing the economy becomes even more apparent. Small businesses are increasing through efforts with capital below IDR 200,000,000 (two hundred million) and employees ranging from 4 (four) to 19 (nineteen) people, giving rise to businesses in the Micro and Small Industry sectors. However, because the COVID-19 situation lasted for a considerable period, from 2020 to 2022, it continued to impact micro and small industries (MSIs), especially those engaged in exports.

In 2022, the COVID-19 pandemic in Indonesia entered its third year. The number of micro and small industrial enterprises in 2022 reached 4,339,228 businesses. The highest number of micro and small industrial enterprises is in Central Java Province, amounting to 892,108 businesses. A total of 2.65 million (61.14%) MSMEs were affected by the pandemic. In terms of quantity, the impact of the

COVID-19 pandemic on MSMEs is more significant in Java Island than in regions outside Java Island. There are a total of 1.65 million MSMEs in Java Island stating that they were affected by the pandemic, compared to 999 thousand MSMEs outside Java Island. However, in terms of percentage, MSMEs outside Java Island are higher, with 61.54% of affected MSMEs compared to 60.90% of affected MSMEs in Java Island.

The following Table 1 shows the number of micro and small industrial enterprises in Indonesia based on provinces, and Table 2 shows the number of categories.

Table 1
Number of micro and small industry businesses in 2022

Province	Total
Central Java	892,108
East Java	874,497
West Java	667,795
West Nusa Tenggara	168,002
Bali	150,446

Source: BPS Statistic, 2023

Table 2
Number of micro and small industry categories in 2022

Industry Category	Total
Food Industry	1,592,318
Manufacture of wood, wood and cork articles (excluding furniture) & woven articles of bamboo, rattan and the like	608,531
Apparel industry	594,912
Textile industry	303,485
Other processing industries	261,636

Source: BPS Statistic, 2023

Along with the improvement of the economy post the Coronavirus Disease/COVID-19 pandemic, the contribution of the manufacturing industry to the Gross Domestic Product (GDP) only reached 18.3% in 2022, according to the Micro Industry Profile 2022. This figure is lower compared to the industry's share in the past two years. BAPPENAS declares reindustrialization as a key factor in the post-COVID-19 economic transformation of Indonesia. Reindustrialization is one of the government's strategies as a holistic and comprehensive process of change and improvement in the industrialization process. This process is expected to reinvigorate the national manufacturing industry and enhance the competitiveness of sustainable industries.

Industrialization processes must follow social changes and, especially, economic developments related to technological innovation. The utilization of digital technology is a requirement in the era of the fourth industrial revolution. However, the reality of the industry is still far from those expectations, especially in the Micro and Small Industry (MSME) sector. This poses a challenge for micro and small businesses to adopt technology extensively used in various fields, from online stores,

manufacturing, marketing, payment, and shipping, to reporting. This technology is part of digitization that combines the Internet of Things (IoT) and Artificial Intelligence (AI).

In Java Island, as many as 67.75% of Micro and Small Industry (MSME) businesses utilize the internet, with East Java Province being the highest at 268 thousand businesses (22.09%). Followed by Central Java Province with 236 thousand businesses (19.41%) and West Java Province with 217 thousand businesses (17.92%). In contrast, North Maluku Province, West Papua, North Kalimantan, and Maluku have the fewest MSME businesses using the Internet, each around 0.17%, 0.19%, 0.2%, and 0.21%.

In utilizing the Internet, the main goals of MSME businesses are dominated by product/service marketing/sales at 41.62%, followed by promotion/advertisement at 26.72%. The use of the Internet for purchasing raw materials and information search reaches 21% and 10.25%, respectively. Meanwhile, only 0.41% use the internet as a means of fintech loans.

Entrepreneurs in the MSME sector are not exempt from challenges, with around 70.83% of businesses facing difficulties. The group of basic metal industries, computers, electronics, and optical products, as well as motor vehicles, trailers, and semi-trailers, face the most difficulties, exceeding 90.00%. On the other hand, the electrical equipment industry has the smallest percentage of constraints, at 48.08%.

The availability of raw materials is also a serious constraint for 21.80% of MSME businesses. Bengkulu Province has the highest business difficulty rate, reaching 87.10%, while Yogyakarta Province has the lowest percentage of MSME businesses experiencing difficulties, at 48.03%. Mature strategies are needed to enhance the development of the MSME sector from year to year.

Difficulty in obtaining capital is the main obstacle faced by Micro and Small Industry (MSME) businesses, reaching 32.60%. West Nusa Tenggara Province recorded the highest percentage of MSME businesses facing capital difficulties, at 44.54%. On the other hand, Central Kalimantan, Central Java, Yogyakarta, and East Kalimantan provinces have lower levels of capital difficulties, each below 25%.

The metal goods industry, non-machinery, ready-made clothing industry, and electrical equipment industry show the highest capital constraints, each at 38.72%, 38.02%, and 35.16%, respectively. In contrast, the paper and paper goods industry, rubber industry, rubber and plastic goods, and basic metal industries experience the lowest capital constraints, each around 23.98%, 25.86%, and 26.14%. Another significant constraint is related to the availability of raw materials.

With reference to the introduction that has been presented, the author intends to discuss the following aspects in this paper:

1. The role and strategies of entrepreneurship/Small and Medium Industries (SMIs), along with their challenges, when faced with the dynamics of the global economy.
2. Efforts that can be made by entrepreneurship/SMIs to enhance their competitiveness and operational quality.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Entrepreneurship, etymologically, originates from the words "wira" and "usaha," meaning warrior, hero, outstanding individual, exemplary, virtuous, brave, and noble-hearted. "Usaha" translates to actions or deeds. According to Josep (Jamal: 2017), an entrepreneur is an innovator who implements changes in the market through new combinations.

An entrepreneur is an individual who operates a business or company with the risk of experiencing profit or loss. Therefore, an entrepreneur needs to have the mental readiness to face situations of loss or to achieve significant gains. Entrepreneurship itself is related to matters associated with entrepreneurs. "Wira" signifies courage, while "usaha" refers to business activities, whether commercial or non-commercial. In this context, entrepreneurship can be interpreted as an individual's courage to engage in business activities (Rahim and Basir: 2019).

Geoffrey defines entrepreneurship as an individual with the ability to identify business opportunities, gather the necessary resources to take advantage of those opportunities and take appropriate actions to ensure success. Meanwhile, entrepreneurship is defined as a creative effort built

on innovation, aiming to create something new, provide added value, be beneficial, create jobs, and be useful to others.

According to Suryana (2014) in his book titled "Entrepreneurship," entrepreneurship can be described as a discipline that focuses on researching the values, abilities, and behaviors of individuals in facing life challenges, as well as how they exploit opportunities while dealing with various possible risks. In this context, entrepreneurship encompasses the concept of a self-employed person or entrepreneur, a part of economics that provides an understanding of how someone can be independent in starting a business with the goal of achieving profit and developing their entire economic potential. A creative entrepreneur reflects the ability and perseverance to develop new ideas by combining their available resources. They always observe previous situations and issues that may not have received adequate attention.

An entrepreneur needs to have the ability to face various challenges that arise in society, empowering all efforts to contribute to solving emerging problems. Additionally, they must be able to take actions that may be considered risky but need to be carefully considered. In leading a business, the ability to lead a team of employees to ensure efficient business operations is required. Given the rapidly advancing civilization and increasingly fierce global business competition, the ability to manage a business becomes crucial. Indicators reflecting entrepreneurial spirit involve self-confidence, initiative, achievement motivation, leadership, and readiness to take risks.

The definition of Micro and Small Enterprises (MSEs) varies in various literature, adapted to the perspectives of various institutions or organizations, and is even stipulated in laws. According to Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises, MSEs are described as follows:

1. Micro Enterprises are productive businesses owned by individuals and/or individual business entities that meet the Micro Enterprise criteria as regulated in the Law.
2. Small Enterprises are independent productive economic businesses carried out by individuals or business entities that are not subsidiaries or branches of companies owned, controlled, or become a part, both directly and indirectly, of Medium Enterprises or Large Enterprises that meet the criteria for Small Enterprises as referred to in this Law.

According to the Central Statistics Agency (BPS) data for 2022, Micro Industry is defined as a manufacturing company that employs between 1 and 4 people, while Small Industry is a manufacturing company that employs between 5 and 19 people. The main activities of these companies are determined based on several criteria:

1. The product with the highest value in that industry is made the main activity.
2. If the value of the industry's products or services is the same, priority is given to products or services with the largest volume of goods or services.
3. If the value of the industry's products or services and volume are the same, the focus shifts to products or services with the longest production time.
4. If the value of the industry's products or services, volume, and production time are the same, the determination of the main activity is based on the recognition of the respondent.

Veitzhal Rivai (2006) defines business strategy as the continuous steps taken by a company or organization to achieve its goals and to facilitate necessary changes for goal attainment. The six common steps in developing a strategy involve:

1. Fundamental and critical selection of the issues faced.
2. Establishment of basic goals and strategic objectives.
3. Action plan creation.
4. Resource plan development.
5. Evaluation of advantages.
6. Consideration of sustainability.

According to Yogi (2007), Strategy plays three essential roles in achieving management goals:

1. Strategy acts as support in decision-making, a key element for achieving success.
2. Strategy functions as a tool for effective coordination and communication.

3. The concept of strategy is integrated with the vision and mission to form a target that the company will achieve in the future.

Entrepreneurship strategy involves a series of planning and actions taken by an entrepreneur to achieve their business goals. Areas covered by this strategy include motivation, creativity, leadership, marketing, business competition, legal aspects of business, and market dynamics. Some entrepreneurship strategy options include the development of new products, exploration of knowledge, formation, starting a business on a small scale and gradually expanding it, and adopting strategic actions that pioneer paths through obstacles, challenges, or threats to achieve the desired level of excellence or accomplishment for the company.

METHODS

Data can be collected through various methods, settings, and sources. From the perspective of data sources, there are two main types: primary sources and secondary sources. Primary sources provide data directly to the researcher, while secondary sources do not provide data directly (Sugiyono 2010).

The research method applied in this context is a qualitative descriptive method with a rationalistic approach. This qualitative rationalistic approach adopts a holistic approach where research is conducted on general concepts that are then applied to specific objects. The research findings are related back to these general concepts. This qualitative research paradigm is inspired by the philosophy of rationalism, emphasizing holistic, systemic discussion, and the revelation of meaning behind empirical sensual facts.

From an epistemological perspective, the research methodology with a rationalistic approach emphasizes keeping the research object in its context or, at a minimum, focusing on specific aspects without neglecting its context. This approach is based on the principle that the research object must be understood in relation to its context (Moleong 2007).

Data collection in this research is carried out through a literature study approach, which includes examining textbooks, mass media articles, and online literature searches.

RESULT AND DISCUSSION

Micro and Small Industries (MSI) are still classified as an informal business sector with low productivity and minimal technology use. Although MSI has shown the ability to innovate and improve its production technology, it still faces several classic challenges such as constraints on capital access, marketing, raw material supply, training, and partnership cooperation. Therefore, MSI has not been able to elevate its class and play a significant role in the national industrial structure, especially as a supporter of large industries in accelerating Indonesia's economic growth. "Elevating class" refers to the expectation of scaling businesses from micro to small, small to medium, and medium to large. Government intervention through various policies becomes crucial to provide structured, sustainable, and relevant support according to the needs faced by MSI (USAID Economic Growth Support Activity (EGSA), 2021).

Contribution of Entrepreneurship in the Micro and Small Industries Sector in Indonesia:

1. Driving Job Creation: Micro and small industries (MSI) play a significant role in creating job opportunities, where small businesses have the potential to recruit local workers and provide employment opportunities for the surrounding community.
2. Enabling Income Growth in MSI: Through the establishment of small businesses, individuals can increase their sources of income, contributing to increased purchasing power and economic well-being in the MSI sector.
3. Supporting Economic Diversification: Entrepreneurship in the MSI sector contributes to introducing various types of businesses and small industries. This not only enriches the economic structure but also makes the country more resilient to market fluctuations.

Challenges in Entrepreneurship in the Micro and Small Industries Sector in Indonesia:

1. **Difficulty in Accessing Capital:** Access to capital poses a challenge for micro and small entrepreneurs, and many of them face difficulties in obtaining funds to start or expand their businesses. Limited access to financial resources can constrain business growth potential and innovation.
2. **Skill and Education Challenges in Business Management:** Some entrepreneurs may face difficulties in acquiring the skills and education needed to manage their businesses effectively. Entrepreneurship training and education can be a solution to overcome this challenge.
3. **Regulatory and Bureaucratic Barriers:** Regulatory and bureaucratic hurdles in licensing and regulations complicate matters for entrepreneurs in the Micro and Small Industries (MSI) sector. Efforts to simplify and expedite administrative processes can be an effective step in overcoming these barriers.

Entrepreneurship Strategies in the Micro and Small Industries Sector in Indonesia:

1. **Skills Enhancement Through Education:** By providing entrepreneurship training and education to prospective entrepreneurs, we can enhance their skills in managing businesses, marketing products, and accessing markets.
2. **Encouraging Innovation:** Encouraging innovation in products and business processes can be key to maintaining the competitiveness of Micro and Small Industries (MSI). The government can provide incentives and support for research and development in this sector.
3. **Facilitating Access to Capital:** Through loan schemes, investments, or other financial support programs, entrepreneurs in MSI can be assisted in growing and expanding.
4. **Advocacy for Positive Policies:** Advocating for positive policy changes in government business regulations and taxes can create a more supportive environment for the growth of the MSI sector.
5. **Market Expansion and Promotion:** In marketing and promoting products from the MSI sector, small businesses can reach a broader market, both domestically and internationally.

CONCLUSIONS

Based on the discussion above, the author draws conclusions from the paper entitled "The Contribution, Challenges, and Entrepreneurship Strategies in the Micro and Small Industries Sector in Indonesia" as follows:

1. A holistic and comprehensive approach is crucial in the industrialization process, starting from social changes, especially economic developments related to technological innovation.
2. The Contribution of Entrepreneurship to the Micro and Small Industries Sector in Indonesia lies in job creation, thereby reducing unemployment and increasing community income, consequently boosting purchasing power.
3. Challenges in Entrepreneurship in the Micro and Small Industries Sector in Indonesia include the lengthy chain of regulations and bureaucracy, difficulties in accessing capital for business development, and lack of quality entrepreneurial human resources, especially in terms of education and training. Overcoming these challenges requires entrepreneurs with competitive skills.
4. Entrepreneurship Strategies in the Micro and Small Industries Sector in Indonesia involve government intervention through providing education and training for entrepreneurs, offering incentives for innovation, making investments, or easing loan conditions, and simplifying regulations and bureaucracy.

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