Jurnal Ekonomi dan Bisnis Jagaditha
Volume 11, Number 2, 2024
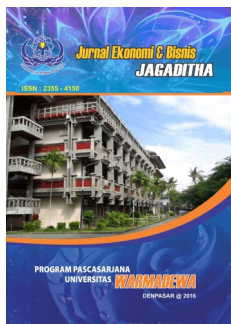
Do SMEs reduce the country's problems in terms of labor in Indonesia?

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How to cite this article (APA)
Azhari, A. (2024). Do SMEs reduce the country's problems in terms of labor in Indonesia?. Jurnal Ekonomi dan Bisnis Jagaditha. 11(2), 133-140. https://doi.org/10.22225/jj.11.2.2024.133-140

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Do SMEs reduce the country's problems in terms of labor in Indonesia?

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Abstract: One of the economic problems in a country is unemployment. Various alternative solutions are carried out by the state to reduce the unemployment rate. One of them is to increase the number of SMEs in the hope that the number of exports and investments can reduce the unemployment faced by a country. However, the problems of SMEs in Indonesia are influenced by several factors such as lack of mastery of technology, managerial and access to credit which is still difficult. This study aims at the impact of the number of SME units, exports, and investment on employment in the SME sector in Indonesia. The data used data on the number of SME units, exports, investment, and labor in SME sectors from 1997 to 2019 were sourced from the Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia, with a random effect model as an analysis tool. The results showed that the number of SME units, exports, and investments had an impact on employment, both partially and simultaneously. This research implies that the government should provide tax incentives for SMEs, soft skills training, strengthen the capacity of SMEs, and provide adequate access to capital. The limitations of this study are that it does not look at SMEs by type of business. Using this type of SME is a special attraction for further research.

Keywords: Indonesian migrants, migrant agencies, PLS, legalities

Introduction

Unemployment is a problem faced by every country, both developed and developing countries. Because the state compensates for the loss of individual welfare due to unemployment (Çelikay, 2023). In 2022, the number of unemployed people reached more than 2.5 million people with the general unemployment rate in the world reaching 6.3%, this is also exacerbated by COVID-19 (ILO, 2021). Unemployment is a scary thing for a country. How not with the large number of unemployed will result in higher poverty and crime rates. Under certain conditions, the unemployment rate will increase when there is a financial crisis, economic recession, war, or natural disasters that can reduce the level of investment and exports (Dieppe, 2021)

The existence of unemployment will slow economic growth, increase crime, social tensions, and antisocial behavior, and develop negative relations between more developed and underdeveloped regions (Khussainova et al., 2023).

In Indonesia, the unemployment rate reached 5.32% or 7.86 million people (BPS, 2023). Various efforts are made by each country to reduce the unemployment rate, including in Indonesia. One of the things that can be done is to increase the number of entrepreneurs who can eventually absorb a large workforce. Small and medium enterprises can absorb labor even though they have obstacles in financial access (Skenderi et al., 2023). So too When they are forged when crises hit like the past.

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COVID-19 has hurt the development of SMEs in all countries including Indonesia (Apriandi et al., 2021). Despite the lockdown, small and medium enterprises continue to survive by finding several solutions to keep their businesses running using social media and mobile applications (Bachtiar et al., 2023).

SMES plays an important role in a country's economy (Alawamleh et al., 2023; Gennari, 2023; Jusufi et al., 2020). SMEs have a positive impact in terms of employment (Lefebvre, 2023). Small and medium enterprises can make a real contribution in reducing the burden on the government in terms of reducing unemployment, this is not an exaggeration because SMEs employ many people in running their businesses. In addition, SMEs also contribute to the gross domestic product (Nuseir, 2016).

However, there are several disadvantages of SMEs, including still having a relatively small business compared to other businesses, in other words, the business that is run is still traditional (Abbott et al., 2019). In addition, the managerial owned by SMEs is still felt to be lacking, and the level of mastery of technology is still low, even though mastery of technology is the key to labor productivity (Balkan &; Akyuz, 2023). Furthermore, SMES still has limited capital due to a lack of access to credit. Many SMEs in several countries experience difficult access to credit (Horvath &; Lang, 2021).

This research is considered important because the number of SMEs in Indonesia is more than 65 million units, with various commodities spread across 34 provinces in Indonesia. Of course, the problem of SMEs in Indonesia is different from other countries, this is due to human resources, inadequate infrastructure facilities, access to capital that is still difficult, and so on.

Thus, the purpose of this study look at the development of SMEs in Indonesia, and its impact on employment in Indonesia, with several variables including the number of SMEs, investment, exports, and labor in the SMES sector. Finally, this research is expected to contribute in terms of policy suggestions that can increase the overall productivity of SMEs in Indonesia.

Concept and Hypothesis

Based on the theory and results of several previous studies, the research hypothesis is as follows:

H_1: SMEs unit has a positive and significant effect on Absorption of labor

H_2: Export has a positive and significant effect on Absorption of labor

H_3: Invesment has a positive and significant effect on Absorption of labor

H_4: SMEs, export, and investment unit has a positive and significant effect on Absorption of labor.

Method

This study used panel regression analysis. The data used are the number of SMES, exports, investments, and the number of SMES workers in Indonesia from 1997 to 2019. The amount of SMES is the total unit of SMES, export is the amount of exports produced by the SMES sect, then investment is the amount of investment contained in SMES. And the last number of workers is the total absorption of SMES sector workers in Indonesia for 22 years. A summary of the data used is in Table 1.

Table 1. Summary of the data sets used in the study Dataset

Dataset	SMEs	Export	Investment	Labor
Time-frequency	Annual	Annual	Annual	Annual
Trend Indicator	Jumlah unit	Total export	Total Investment	Total labor
Classification of economic activities	SMEs	SMEs	SMEs	SMEs
Unit of Measure	Number of SMEs	Triliun (IDR)	Triliun (IDR)	Number of Labor

The data used is annual data which includes annual data on the number of SME units, total exports, total investment, and total labor force which are all generated by SMEs. The measurement of the SME variable is the number of SME units in Indonesia. Furthermore, the variables of total export and total investment are measured by IDR trillion. Finally, the labor variable is measured by the total number of people absorbed in the SME sector.

It is mathematical to measure panel regression by estimating a single equation for all data together

$$Y_{it} = \alpha + \beta x_{it} + u_{it} \qquad (1)$$

Where y is proxied as the dependent variable, i cross-section, t is the time series, x is the independent variable and you is the error term.

The random effects model is an efficient model when compared to the fixed effects model because the random effects model measures fewer parameters (Al-Eitan et al., 2022)

This study examines the impact of the number of SMEs, exports, and investment on employment using the following model:

$$Emp_{it} = \alpha + \beta sum_{it} + \beta exp_{it} + \beta inv_{it} + \varepsilon_{it} \quad (2)$$

The equation above emp denotes the amount of labor absorbed, α is the constant *sum is the* number of SMEs, Exp is the total export, and inv is the amount of investment, finally, $_i$ is the cross-section, $_t$ is the time series and ε is denoted the error term.

Furthermore, this study used two analytical tools, namely descriptive statistics and regression diagnosis. The descriptive statistics include average, median, minimum, and maximum. While regression diagnosis consists of a thirst-mann test and a multicollinearity test.

Result and Discussion

Based on Table 2, it can be illustrated that the highest number of SMEs in Indonesia in 2019 was more than 65.4 million and the lowest was more than 36.7 million in 2000. The largest export produced by SMEs was IDR339.2 trillion in 2019 and in 1997 was the lowest export for SMEs at IDR39.3 trillion. Furthermore, the most investment in 2019 amounted to IDR1,716.7 and the lowest in 1999 amounted to IDR106 trillion more. Finally, the absorption of labor in the SME sector was the highest in 2015 as many as 123.2 million more, and the lowest as many as 64 million more workers absorbed by SMEs in 1998.

Table 2. Description of Variable Statistics

Statistic Descriptif	SMEs (unit)	Export (IDR in Trillion)	Investment (IDR in Trillion)	Labor
Mean	50.535.612	154,065	436,114	92.659.817
Median	51.825.612	151,309	132,527	89.298.672
Min.	36.784.036	39,277	106,001	64.313.573
Max.	65.465.497	339,190	1.716,750	123.229.386

Source: data that has been processed by the author (2024)

Table 3 explains that simultaneously the variable number of SME units, exports, and investment has an influence on employment in the SME sector in Indonesia by 96.7%. This can be explained by all three variables. Partially, each variable influences the employment of the SME sector in Indonesia.

The SME sector can absorb more labor when compared to other businesses (Lefebvre, 2023; Skenderi et al., 2023). A large number of SMEs can increase employment growth in a country. In the long and short term, the number of SME units will significantly affect labor absorption (Azhari, 2020). The number of SMEs will affect the absorption of labor which in turn can reduce unemployment in a region (Anugerah &; Nuraini, 2021; Apriandi et al., 2021; Budiman &; Herkulana, 2021; Tampubolon &; Ningsih, 2019).

Furthermore, the variable export SMEs, the test results obtained that the number of SMEs affects the absorption of labor in Indonesia. this is in line with several studies including (Budiman &; Herkulana, 2021; Prasetyo &; Huda, 2019; Ancient et al., 2021). The level of exports will affect the absorbed labor. The increase in the number of exports is due to the increase in the amount of domestic goods production, resulting in full employment, which in turn is a country's per capita income which also results in people's purchasing power increasing (Sedyaningrum et al., 2016).

Table 3. Test Results

Variabel	Koofisien	t-stat	P-value
Constanta	7,3023	3,3345	0,0009
SMEs	1,3933***	19,5153	0,0000
Export	0,0517***	6,9283	0,0000
Investment	0,0446***	17,5007	0,0000
R^2	0,9701		
Adj R^2	0,9699		
Prob,(F-stat)	0,0000		

Source: data that has been processed by the author (2024)

Note: ***indicates significance at the 1% levels

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The results of the study also illustrate that investment significantly affects the employment of the SME sector in Indonesia. This result is also no different from several previous studies such as (Ambarwati, 2018; Kiagus Muhammad Zain Basriwijaya, 2015; Komariyah et al., 2020; Mahadi &; Satrianto, 2023; Silvia, 2021; Simanjuntak &; Sa'roni, 2019).

In Indonesia, the category of small and medium enterprises is divided into three parts. Based on the applicable law in Indonesia regarding SMEs, there are at least two requirements that business units have to be categorized as micro, small, and medium-scale businesses, namely net worth and number of sales. The micro-business group has a maximum net worth of IDR50 million (non-land and buildings) with the highest sales of IDR300 million per year. Furthermore, small businesses, it has a maximum sales turnover of IDR2.5 billion per year with a maximum number of assets of IDR500 million. Finally, the medium business group has

a maximum requirement of wealth excluding buildings and land of IDR10 billion and annual sales of a maximum of IDR50 billion (Republic of Indonesia, 2008).

There are several obstacles faced by SME actors including insufficient mastery of technology, inadequate managerial, and difficult access to capital from banks. The level of labor productivity is strongly influenced by mastery of technology and innovation (Balkan &; Akyuz, 2023).

To increase exports, SMES players must also master information and communications technologies (ICT) such as e-commerce, e-marketing, and e-business (Dethine et al., 2020; Gomez-Sanchez et al., 2023). In the global competition, SMES entrepreneurs must have strong human resources (Chou et al., 2020). SMES actors can hone their skills through training such as mastery of digital technology that is increasingly inclusive. Thus, the competitiveness of SME actors is increasing, and in the end, the economy is advancing. In addition, mastery of digital technology will increase the bargaining value of SMES actors in international business competition (Cahen &; Borini, 2020; Reisoğlu &; Çebi, 2020). According to Máñez &; Vicente-Chirivella (2020) the decision to export or to start exporting from an SMES can be known from the financial health of the SMEs. Therefore, financial health is a must so that SMES's export level has bargaining value in addition to mastery of information technology and adequate management

Investment and additional capital in the SME sector can reduce unemployment because the addition of capital has an impact on the production process which can eventually absorb labor (Siregar et al., 2021) (Mahadi &; Satrianto, 2023). However, the results of this study are different from research conducted by Basriwijaya and Maryoni (2015) that investment has no influence on employment in North Sumatra Province, a province in Indonesia.

SMES innovation is the key to SMES success. The innovation of a product carried out by SMES will provide an increase in SMES sales, such as an increase in product exports (Jusufi et al., 2020). In addition, innovation can reduce costs and increase demand for SMES (Cieślik &; Michałek, 2017; Smajlović et al., 2019). In contrast to the research conducted (Le et al., 2023) technology does not have a significant effect on SMES performance.

Some policies that can be taken include tax reductions for SMEs and providing assistance or subsidies (Le et al., 2023). SMEs that have adequate innovation tend to be better than those that do not have innovation. In addition, to improve the performance of SMES, what can be applied is to study and practice artificial intelligence (AI) as one of the emerging technological innovations (Gladysz et al., 2023). The impact of changes in the global order has resulted in companies applying information technology as a tool to predict external changes (Chunsheng et al., 2020)

Marketing strategy has a direct and indirect relationship with SMES's export performance (Ibrahim &; Ali, 2021). Because export performance in a business entity is one of the important factors as well as small businesses such as SMES (Nuseir, 2016).

The general economic situation in a country can be influenced in various ways including adequate infrastructure and general technical development for business actors (Alawamleh et al., 2023)

The government should provide policies such as providing incentives to SMEs to reduce the unemployment rate (Skenderi et al., 2023; Wube & Atwal, 2023). In addition, the government is expected to create a pilot project for SMES actors by providing stimulant investment, and facilitating technical knowledge so that SMES has more bargaining value in the future (Alawamleh et al., 2023). In addition, there are tax incentives given to SMES entrepreneurs. Tax incentives will increase capital investment for SMES players who have limited finances (Hosono et al., 2023). In addition, encouraging banks to provide soft loans to SMEs is a necessity in increasing investment in products and services produced. Banking loans to SMEs actors play an important role (Rehman et al., 2023).

Conclusion

The purpose of this study is to examine the impact of several factors that can absorb labor in the SME sector in Indonesia, including several variables including the number of SME units, exports, investment, and SME labor. The results of the study found that partially the number of SME units, exports, and investment have an impact on employment in the SME sector in Indonesia. With various problems faced by SMEs, the government can provide several policies, including providing incentives such as tax incentives, providing soft skills training to improve the managerial of SMEs such as mastery of technology, and improving facilities and infrastructure in supporting export activities for SMEs. This research was conducted based on data from all types of existing SMEs regardless of the type of business. For further research, it can reveal data based on the types of SMEs in Indonesia.

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