

The Relationship Between Business Licensing and Public Service Effectiveness: A Study on MSMEs in the Service Sector

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Abstract

This study examines the relationship between business licensing and the effectiveness of public services, focusing on Micro, Small, and Medium Enterprises (MSMEs) in the service sector. The research is grounded in the transformation of licensing systems from conventional bureaucratic procedures to digital, risk-based approaches such as the Online Single Submission Risk-Based Approach (OSS-RBA). Using a qualitative descriptive method based on literature review, this study analyzes how licensing reforms influence efficiency, accessibility, transparency, and user satisfaction in public service delivery. The findings indicate that digital licensing systems significantly improve service effectiveness by simplifying procedures, reducing processing time, and enhancing transparency. However, challenges such as limited digital literacy, technological constraints, and institutional coordination issues still hinder optimal implementation. The study concludes that while licensing reform has a positive impact on public service effectiveness, its success depends on supporting factors including human resource capacity, infrastructure readiness, and policy consistency. This research contributes to the discourse on governance reform and MSME empowerment in developing economies.

Keywords: Business licensing; Public service effectiveness; MSMEs; Digital governance

INTRODUCTION

Business licensing is a fundamental component of public administration that directly influences the performance of public services, especially in the context of Micro, Small, and Medium Enterprises (MSMEs). In developing countries such as Indonesia, licensing reform has become a strategic priority to enhance bureaucratic efficiency, transparency, and accessibility through digital governance systems such as Online Single Submission Risk-

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Based Approach (OSS-RBA). The transformation of licensing services into digital platforms is expected to improve the effectiveness of public service delivery while supporting MSME growth.

Public service effectiveness refers to the extent to which services achieve their intended goals, including efficiency, responsiveness, accessibility, and user satisfaction. Licensing services, as part of public services, play a significant role in determining how easily business actors can formalize their operations and access economic opportunities. Studies show that the implementation of OSS-RBA has improved licensing efficiency by simplifying procedures and reducing administrative burdens (Duri et al., 2024) . Furthermore, digital licensing systems have been shown to increase the number of registered MSMEs, indicating improved accessibility and effectiveness (Reseani & Sulandari, 2025) .

However, despite these advancements, several challenges remain. Issues such as limited digital literacy, system integration problems, and inconsistent implementation across regions hinder the optimal performance of licensing services (Sarjito, 2025) . In addition, human resource capacity and infrastructure limitations also affect service effectiveness (Aneta et al., 2020) .

This study aims to analyze the relationship between business licensing and the effectiveness of public services, focusing on MSMEs in the service sector. The service sector is particularly relevant due to its dependence on regulatory compliance and service quality standards. By examining how licensing systems influence public service outcomes, this research contributes to the broader discourse on governance reform, digital transformation, and MSME empowerment.

THEORETICAL REVIEW

Public Service Effectiveness

Public service effectiveness is commonly defined as the ability of public institutions to deliver services that meet citizens' needs efficiently and satisfactorily. The DeLone and McLean Information Systems Success Model identifies key indicators of effectiveness, including system quality, information quality, service quality, usage, user satisfaction, and net benefits (Aviyasa & Budiati, 2025) . These indicators are widely used to assess digital public services such as licensing systems. Effectiveness is also linked to broader governance principles such as transparency, accountability, and responsiveness. In the context of e-government, effective services should reduce bureaucratic complexity and enhance user experience.

Business Licensing Systems

Business licensing serves as a regulatory mechanism to ensure compliance, legal certainty, and economic order. The introduction of OSS-RBA represents a paradigm shift from traditional bureaucratic processes to digital, risk-based licensing systems. This system categorizes businesses based on risk levels and simplifies procedures accordingly, allowing low-risk MSMEs to obtain permits more easily (Duri et al., 2024). Research indicates that OSS-RBA improves efficiency and reduces costs for MSMEs while promoting transparency and accountability (Fajri & Astuti, 2024). However, challenges such as technological limitations and lack of coordination among institutions can hinder its effectiveness (Zahara et al., 2023).

MSMEs in the Service Sector

MSMEs are a critical component of economic development, particularly in the service sector, which relies heavily on regulatory compliance and customer interaction. Licensing plays a crucial role in enabling MSMEs to operate legally and access financial and market opportunities. Simplified licensing processes can enhance MSME competitiveness and sustainability.

Relationship Between Licensing and Service Effectiveness

The relationship between licensing and public service effectiveness can be understood through the lens of e-government and administrative reform. Effective licensing systems contribute to:

1. Improved accessibility ; Digital platforms allow users to access services anytime and anywhere
2. Increased efficiency ; Reduced processing time and administrative costs
3. Enhanced transparency ; Clear procedures and reduced opportunities for corruption.
4. Higher user satisfaction ; Better service quality leads to increased trust in government.

Empirical studies show that licensing services based on OSS systems significantly improve service effectiveness, although the level of effectiveness varies depending on implementation quality (Aviyasa & Budiati, 2025). Moreover, human resource competence plays a mediating role in determining how effectively services are delivered (Artini et al., 2024)

METHOD

This study employs a qualitative research approach with a descriptive-analytical method. Data were collected through literature review, focusing on recent academic journals related to business licensing and public service effectiveness. The study analyzes secondary data from empirical research on OSS-RBA implementation and MSME licensing services. Data analysis was conducted using thematic analysis to identify patterns and relationships between licensing systems and service effectiveness. This approach allows for a comprehensive understanding of how licensing reforms influence public service outcomes, particularly for MSMEs in the service sector.

DISCUSSION

The findings indicate that business licensing has a significant relationship with the effectiveness of public services, particularly in the MSME service sector. The implementation of OSS-RBA has transformed licensing processes by introducing digitalization, integration, and risk-based approaches.

- First, licensing systems contribute to service efficiency. Digital platforms reduce processing time and eliminate redundant procedures, enabling faster service delivery. Studies show that OSS-based systems are more efficient compared to traditional licensing processes (Lontoh et al., 2023) . This efficiency is particularly beneficial for MSMEs, which often face resource constraints.
- Second, licensing systems enhance accessibility and inclusivity. The ability to access services online allows MSMEs in remote areas to obtain permits without physical visits. This aligns with the principles of e-government, which aim to make public services more inclusive. However, digital literacy remains a challenge, as some business actors struggle to use online systems effectively (Sarjito, 2025) .
- Third, licensing reforms improve transparency and accountability. By standardizing procedures and reducing human interaction, digital systems minimize opportunities for corruption and increase trust in public institutions. Research shows that OSS systems support transparent and accountable licensing processes (Fajri & Astuti, 2024) .
- Fourth, licensing systems influence user satisfaction and service quality. Effective systems with high-quality information and user-friendly interfaces lead to higher satisfaction levels. However, technical issues such as server instability and system errors can negatively impact user experience (Tengku et al., 2023) .

Despite these positive impacts, several challenges limit the effectiveness of licensing services. These include:

- Technological constraints, such as system downtime and integration issues.
- Human resource limitations, including lack of training and competence.
- Institutional coordination problems, which affect service consistency across regions.
- Digital divide, which limits access for certain groups.

Moreover, the effectiveness of licensing services is not solely determined by the system itself but also by supporting factors such as policy consistency, infrastructure, and stakeholder collaboration. The role of government agencies, private sector, and communities is crucial in ensuring the successful implementation of licensing reforms.

In the context of MSMEs in the service sector, effective licensing systems enable business formalization, improve market access, and enhance competitiveness. However, continuous improvement is needed to address existing challenges and ensure that licensing systems truly support MSME development and public service effectiveness.

CONCLUSION

This study demonstrates that business licensing plays a crucial role in shaping the effectiveness of public services, particularly for MSMEs operating in the service sector. The transition from conventional, bureaucratic licensing systems to digital, risk-based approaches such as OSS-RBA represents a significant step toward improving governance quality, efficiency, and accessibility. The findings confirm that simplified and integrated licensing systems contribute positively to key dimensions of public service effectiveness, including efficiency, transparency, accessibility, and user satisfaction.

From an efficiency perspective, digital licensing platforms reduce administrative burdens, streamline procedures, and shorten processing times. This allows MSMEs to focus more on business development rather than navigating complex bureaucratic requirements. In line with previous studies, the implementation of OSS-RBA has proven to be an effective tool for minimizing delays and increasing procedural clarity (Duri et al., 2024). As a result, licensing becomes not only a regulatory instrument but also a facilitator of economic activity.

In terms of accessibility, online-based licensing systems provide broader reach, enabling business actors from various geographical locations to access services without physical constraints. However, the study also highlights the persistent digital divide and varying levels of digital literacy among MSME actors, which can limit the inclusivity of such systems (Sarjito, 2025). Therefore, improving user capacity and providing adequate support mechanisms remain essential.

Transparency and accountability are also strengthened through standardized digital systems that reduce discretionary practices and potential corruption. Clear procedures and real-time tracking features enhance public trust in government institutions (Fajri & Astuti, 2024). Nevertheless, system reliability and inter-agency coordination must be continuously improved to avoid disruptions that may undermine service quality.

Despite the positive relationship identified, the effectiveness of licensing services is influenced by several supporting factors, including human resource competence, technological infrastructure, and policy consistency. Without adequate training, infrastructure, and institutional collaboration, even well-designed systems may fail to deliver optimal outcomes (Artini et al., 2024).

In conclusion, business licensing reform, particularly through digital transformation, significantly enhances public service effectiveness for MSMEs in the service sector. However, achieving sustainable effectiveness requires a holistic approach that integrates technological innovation with human capacity development, institutional strengthening, and inclusive policy design. Future research is encouraged to explore empirical field-based analysis to further validate these findings and examine regional variations in implementation.

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