

Efforts to improve the welfare of the community through the utilization of the role of SMEs (Small and Medium Enterprises)

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Abstract

This research explores the role of SMEs, both in individual and corporate forms, in enhancing community well-being, particularly in Malang City, Indonesia. The research method employed is a literature study. SMEs have shown strong economic resilience, as evidenced during the 1998 monetary crisis when they survived and even thrived. While many SMEs operate in the culinary sector in Malang City, the utilization of technology remains limited. The research findings indicate that SMEs make a significant contribution to GDP, employment generation, and unemployment reduction, supporting poverty alleviation efforts. Increased community income and purchasing power are also demonstrated through the role of SMEs. To maximize the contribution of SMEs, the government needs to provide support, training, and guidance, including in the utilization of technology, to ensure that the growth of SMEs continues to have a positive impact on community well-being and economic growth.

Keywords: *Small; micro and medium enterprises; welfare.*

INTRODUCTION

The term SME (Small and Medium-sized Enterprises) refers to business activities established by individuals or legal entities, whether in the form of sole proprietorships or corporations (Wilantara, 2016). Each individual desires prosperity to meet their economic needs, such as clothing, food, and shelter in daily life. To achieve this goal, people will



work hard and undertake various efforts. They will continue to strive to achieve these objectives by taking various actions. One approach that can be used is by establishing and managing micro, small, and medium-sized enterprises (SMEs). SMEs are a type of small business that plays a very significant role in improving and developing the community's economy. SMEs have proven to have strong resilience in facing various situations to achieve community well-being. This was evident during the 1998 monetary crisis when many large companies declined, while SMEs remained resilient and even experienced growth in their numbers. Every region in Indonesia certainly has a significant number of SMEs that support local economic growth. Therefore, it is essential to provide skills training to the community to further develop the management of small businesses and enable them to compete in an ever-evolving technological era. Additionally, improving the quality of human resources to leverage technology is necessary so that SMEs can compete with large corporations in the market.

Malang City, as the second-largest city in East Java and a center for education, is also known as a culinary hub with affordable prices. Therefore, there are numerous SMEs scattered throughout the city, especially in the culinary sector. According to data released by the Ministry of Cooperatives and SMEs in 2018, SMEs made a significant contribution to the Gross Domestic Product (GDP), reaching a percentage of 61.97%, equivalent to IDR 8,573.89 trillion, and they provided employment for 97% of the workforce. SMEs in Malang City represent a diverse range of business types, including segments like fashion, food and beverages, and handicrafts. According to information obtained from the Malang City Cooperative and SME Agency, out of the total 70,000 SMEs currently in operation, only 30% of them have utilized online platforms. Given the substantial contribution of SMEs to support a country's economy, their existence is considered essential by any nation due to their vital role in economic growth and development, with the aim of achieving community well-being. Establishing businesses in the SMEs sector has the potential to absorb ready-to-work but unemployed labor, which could potentially reduce the unemployment rate.

With the reduction in the number of unemployed individuals, this signifies that the SMEs sector has hired more workers. This makes a significant contribution to the government's efforts to reduce the poverty rate. The role of micro, small, and medium-sized enterprises (MSMEs) helps boost economic growth and also provides more employment opportunities, as well as improving income distribution perceived by the public. As a result of the recent economic crisis that has hit our country, many large enterprises have experienced declining growth or even stopped entirely. On the other



hand, the micro, small, and medium-sized enterprise sector has proven its ability to survive and continue to operate during economic crises. This experience, which has occurred in Indonesia, provides a strong basis for shifting the focus of economic development to the private sector with an emphasis on SMEs growth.

Overall, SMEs play a role in the economy as: (1) the main protagonists in economic activities, (2) job providers, (3) key elements in local economic development and community empowerment, (4) creators of new markets and innovations, and (5) contributors to the balance of payments (Department of Cooperatives, 2008). Based on these five roles, the development of SMEs should be considered with careful planning, organized structures, and sustained continuity. The goal is to increase productivity, competitiveness, and create a higher quality generation of entrepreneurs, which, in turn, can enhance the welfare of the community. In Indonesia, SMEs continue to grow and expand. Data from the Department of Cooperatives and SMEs shows that the number of SMEs units increased from 61,656,547 in 2016 to 62,926,077 in 2017, marking a 2.06% increase. The growth in the number of units has had a positive impact on job creation. In 2016, SMEs were able to employ 112,828,610 people, and by 2017, this number had increased to 116,673,416, representing a 3.41% increase. This indicates that the presence of SMEs contributes to improving the welfare of the community.

The establishment of micro, small, and medium-sized enterprises (MSMEs) can further enhance the welfare of the community. According to Badrudin (2012), community welfare refers to the conditions of their lives reflected in their living standards. The Central Statistics Agency (2005) has identified eight indicators used to assess the level of community welfare, including income, food aspects, housing conditions, housing facilities, healthcare services, access to healthcare services, access to children's education, and transportation access. Among these eight indicators, the role of SMEs in improving community welfare is crucial. Firstly, regarding income, SMEs can create more job opportunities, which, in turn, increase the overall income of the community. This also contributes to an improvement in the community's purchasing power (Prasetyo, 2008). Secondly, the increased purchasing power of the community can support the development of better facilities for the community's life. In other words, the presence of SMEs has the potential to strengthen the relationship between these indicators, ultimately facilitating the overall achievement of community welfare (Al Farisi et al., 2022).



Objectives

Micro, Small, and Medium Enterprises (MSMEs)

Ariani & Suresmiathi (2013), through entrepreneurship, micro, small, and medium-sized enterprises (MSMEs) play a significant role in reducing unemployment rates, creating job opportunities, decreasing poverty levels, improving welfare, and building national character. The significant business potential within the community lies in micro, small, and medium-sized enterprises (MSMEs), which can stimulate an increase in the number of entrepreneurs in the region and ultimately improve the economic situation in that area. According to Article 1 of the Republic of Indonesia Law No. 20 of 2008 on SMEs, micro-enterprises are productive businesses owned by individuals or individual business entities that meet the micro-enterprise criteria set forth in the regulations.

MSMEs offer several benefits, including: Job Creation, whereby the MSMEs sector indirectly opens up employment opportunities, assisting the government in reducing unemployment rates. Middle-Class Solution, as starting a business in the MSMEs sector is relatively easy, with many government agencies and banks providing affordable capital assistance through loans. Adaptive Operations, where the management structure in the MSMEs sector is more flexible, with distributed responsibilities and a greater focus on consumer preferences and current market trends. Lastly, a Major Contribution to Domestic Products, with SMEs playing a crucial role in increasing domestic product production. Local products are not only expanded in the national market but also gain access to international markets, such as well-known Indonesian craft products abroad.

According to the Central Statistics Agency (BPS), micro-enterprises are business units with 1 to 4 permanent employees, while small enterprises have between 5 and 19 permanent employees, and medium-sized enterprises have 20 to 99 permanent employees. Companies with more than 99 employees are considered large enterprises. The significant presence of micro, small, and medium-sized enterprises (MSMEs) in the national economy is crucial not only because of their large numbers but also because of their ability to create job opportunities. SMEs also play a role in exporting specific goods, which can generate a significant amount of foreign exchange contributing to the Gross Domestic Product (GDP). The goal is to create strong, independent, competitive SMEs that play a major role in producing, distributing essential needs, raw materials, and providing capital to face the challenges of a free market competition.

SMEs have inherent and distinctive characteristics in their business operations and entrepreneurial behavior based on their scale. The World Bank categorizes SMEs into three types based on the number of employees they have: 1. Micro Enterprises (with up

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to 10 employees); 2. Small Enterprises (with up to 30 employees); and 3. Medium Enterprises (with up to 300 employees). From the perspective of Bank Indonesia, SMEs are divided into four groups: 1. Micro SMEs are participants in SMEs with limited production capacity, including informal sector SMEs, such as street vendors, who tend to have limitations in expanding their businesses due to a lack of entrepreneurial spirit. 2. Dynamic Small Businesses represent a group of SMEs capable of becoming entrepreneurs through collaboration and export-oriented approaches. 3. Fast Moving Enterprises are SMEs with the capability and readiness to develop their businesses into larger enterprises due to their entrepreneurial spirit.

Micro, small, and medium enterprises (MSMEs) have significant potential as centers for future business development. They serve as job providers, capable of employing up to 50% of the available workforce, and contribute to the creation of new entrepreneurs and the utilization of their surrounding natural resources. MSMEs also possess unique markets and flexible management in responding to market changes. However, several weaknesses act as inhibiting factors, such as limited human resources, restricted marketing, low consumer trust in product quality, and limited capitalization issues. Furthermore, there's a gap between internal and external factors that hinder MSMEs from obtaining support, including access to credit. The lack of coordination among various institutions and entities with similar roles also poses a challenge. Despite the vital role MSMEs play in the economy, these challenges persist.

The presence of MSMEs acts as an economic stabilizer for Indonesia since they can survive in a business environment dominated by large enterprises while enhancing productivity through more efficient labor. Additionally, MSMEs also have the potential to make a positive contribution to larger enterprises by providing raw materials, components, and other necessary resources for producing high-value goods (Widjaja et al., 2018). Therefore, it is important for Indonesia to pay greater attention to the micro, small, and medium enterprise (MSME) sector given its positive impact on the country's economy.

Community Welfare

The welfare of society is a parameter indicating that the community has achieved a better level of well-being compared to the past, as explained by Kadeni & Srijani (2020). This well-being means the ability to meet basic needs such as clothing, food, and shelter without difficulties. Sukirno (2010) argues that well-being is not only focused on consumption patterns but also emphasizes the importance of developing the potential and capabilities of individuals as a means to achieve a prosperous life. According to Law

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No. 11 of 2009 concerning the welfare of society, the welfare of society is a condition in which the material, spiritual, and social needs of citizens are fulfilled, enabling them to live decently, develop themselves, and fulfill their social roles. Based on this law, the level of welfare can be assessed based on the ability of individuals or groups to meet their needs, both material and spiritual in nature.

Todaro & Smith (2006) define community welfare as a dimension of community development outcomes that aims to create a better life in the future. It includes improvements in individual potential and equality in the fulfillment of basic needs such as food, drink, income, and better education, as well as improvements in economic aspects and social preferences at both the individual and group levels. Furthermore, community welfare refers to a condition in which a person is able to fulfill their needs which include physical, spiritual, and social aspects in accordance with human dignity (Rahman, 2018).

Before achieving community welfare through MSME actors, structured development is needed to ensure smooth implementation. However, in the effort to develop MSMEs, obstacles often arise, such as weak business management and low quality human resources (Adiningsih, 2011). This results in obstacles in the management of MSMEs, especially when there are problems related to lack of capital. Therefore, it is necessary to provide training and experience to business actors to overcome these obstacles so that MSME development runs smoothly and community welfare is more easily achieved.

Community welfare becomes more difficult to achieve when the country experiences an economic downturn, as happened during the 1998 monetary crisis. At that time, MSMEs became an important pillar in supporting the country's economy during the crisis (Alansori & Listyaningsih, 2020). MSMEs have long been an effective tool in helping the economy of the Indonesian people. The more MSMEs in various regions, the greater their contribution in improving people's welfare. Therefore, micro, small, and medium enterprises have a significant role in improving the economy, especially for the lower middle class. The growth of MSMEs in Malang City, which continues to grow every year, is a concrete example of their positive contribution in improving the welfare of the community.

MSMEs have three significant roles in supporting underprivileged communities: first, as a facility to reduce poverty; second, as a tool to improve the economic level of underprivileged communities; and third, as a source of state revenue (Kadeni & Srijani, 2020). The results of Fitria's (2019) research prove that MSMEs play an important role in



efforts to achieve community welfare by opening up extensive employment opportunities, which in turn increases the income of the community.

METHOD

The research method employed is a literature review, involving a series of activities related to collecting data from various literature sources such as journals, books, documents, and relevant data sources. In this study, there are four main characteristics to be considered: firstly, researchers interact directly with texts or literature data rather than obtaining direct knowledge from the field. Secondly, literature data is readily available and does not require field research. Thirdly, literature data tends to be secondary sources as they are obtained from secondary sources rather than directly from field data collection. Fourthly, literature data is not limited by spatial and temporal constraints. Therefore, data collection in this research involves reviewing and developing literature materials such as journals, books, documents, and other data and information sources deemed relevant to this study.

DISCUSSION

Efforts to Improve Community Welfare by Utilizing the Role of MSMEs

According to the latest report from the Office of the Indonesian Ministry of Cooperatives (2022), the development of MSMEs in Indonesia in 2019 reached 65.46 million units, which accounted for 99% of the total businesses in the country. This number has increased by 1.98% compared to the previous year, which was around 64.19 million units in 2018. In 2019, MSMEs were able to absorb 119.56 million workers across Indonesia. Data from the Ministry of Cooperatives and Small and Medium Enterprises in March 2021 also shows that MSMEs throughout Indonesia have contributed 61.07% to the Gross Domestic Product (GDP). Thus, it can be concluded that MSMEs have a very large role in supporting the Indonesian economy and have the potential to improve people's welfare.

Micro, small, and medium-sized enterprises (MSMEs) have a number of characteristics that include flexible and changeable commodity types, the ability to move business premises, lack of implementation of administrative activities, human resources (HR) that lack strong entrepreneurial qualifications, education levels that tend to be low, and often no legal documents or business licenses (Kadeni & Srijani, 2020). However, despite these characteristics, MSMEs provide significant benefits to society and the country, such as substantial contributions to domestic production, job creation, solutions

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for the middle class, and flexible operations (Mulyono, 2021). To maximize these benefits, it is important for the government to provide support and guidance to the community in setting up and running small businesses or MSMEs, which in turn will promote economic growth and community welfare.

Likewise in Malang City, most existing MSMEs play a role in improving the welfare of citizens. This fact is supported by the growth in the number of MSMEs in the city. In 2020, there were 17,071 business units, the same number was maintained in 2021, and in 2022, the number increased to 17,401 units (Department of Trade Malang City, 2022). MSMEs play a key role in advancing the country's economy and therefore, greater focus is needed from the government. This action aims to achieve the main goal of a country's establishment, which is to improve the welfare of the people.

Since the onset of the economic crisis in 1996, small and medium enterprises in Indonesia have been able to survive, even grow. Despite the impact of the crisis, a strong entrepreneurial spirit has helped MSMEs recover and provide great benefits to society and the country. The role of MSMEs is crucial in driving Indonesia's economy, and the government understands their importance. There are three main reasons why the country needs to support the growth of small businesses. First, MSMEs tend to create a productive workforce. Second, investment and technology adoption in MSMEs can increase productivity. The third reason is the flexibility that MSMEs have, which is often superior to large enterprises. In addition, there are three roles that greatly contribute to improving the quality of life of small communities by MSMEs, namely MSMEs act as a tool to overcome community poverty. This is due to the high number of jobs created by the MSME sector. MSMEs also play a role in spreading the economy of small communities more evenly. MSMEs are spread across different locations, contributing to reducing the economic gap between the underprivileged and the more affluent sections of society. And lastly, MSMEs also serve as one of the sources of foreign exchange earnings for the country.

MSMEs, when compared to larger-scale companies, have a high degree of flexibility. Therefore, MSMEs need accurate information support and special attention so that they can expand their market network, so that micro, small, and medium enterprises (MSMEs) can grow and compete better. The growth of MSMEs is expected to have a positive impact in the form of: dominance of business actors (99.9%); contribution to Gross Domestic Product (GDP) of 59.08% (around Rp 4. 869.57 trillion), making it the backbone of the national economy with a population growth of around 6.4% per year; plays a role in national exports; contributes to national Gross Fixed Capital Formation



(PMTB) of 52.33%; and contributes export volume reaching 14.06% (around Rp 166.63 trillion) of total national exports, or around Rp 830.9 trillion; with a geographical presence spread throughout Indonesia and in various economic sectors. MSMEs also provide services to fulfill people's basic needs with significant multiplier impacts. This data confirms the important role of MSMEs in supporting the country's economy, which in turn will help improve people's welfare.

CONCLUSION

Micro, small, and medium enterprises (MSMEs) play a central role in striving for an improvement in the economic well-being of society and reducing the income gap between high and low-income groups. As the community's economy grows, the level of societal welfare is realized. If the welfare of the community improves, then the country's economic growth and development will also improve. Therefore, it is crucial for the government to play a significant role in supporting and preserving the role of MSME players so that they can continue to contribute to the low-income community's economy and play a role in improving their well-being. This requires intense attention and serves as a form of government appreciation for MSME players because they have a positive impact on supporting the low-income community's economy and directly influence their quality of life, thus continuing to enhance the well-being of the less fortunate members of society.

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