The Influence of Small Micro Industries on Economic Growth

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Abstract

The purpose of this study to determine whether SMEs have a role to economic growth and how big the role of SMEs to economic growth in Indonesia. Types of data used are time series data i.e SMEs data and Economic growth data from year 2003 until 2018 in Indonesia. Tool of analyze data used in this research is multiple linear regression. The result of analysis shows that the influence between of SMEs on economic growth in Indonesia is only 12,5%, it means that Small Micro Entreprisesdo not have a significant influence on economic growth in Indonesia, government to accelerate the development of SMEs in Indonesia in order to contribute to economic growth as in the economic crisis that occurred in 1998 SMEs are able to survive when many large companies are bankrupt. This may be caused by SMEs owners and workers in SMEs do not pay taxes to the government so that not much contribute to the economic growth of the Indonesia. In order for SMEs to contribute to economic growth, must export their products to other countries and support from the government is needed to facilitate SMEs in obtaining capital access from financial institutions.

Key words : Small Micro Enterprises, Economic Growth.

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INTRODUCTION

SMEs has a very important role in the economy of a country, because it can create employment for the productive age population so that it can suppress the unemployment rate in Indonesia, which ultimately can improve the welfare of the population of the area, even based on research Kubíčková, Votoupalová and Toulová (2014) SMEs of 99% is an important determinant in economic growth, employment and innovation. The success of SMEs in overcoming the economic crisis in Indonesia has been proved in 1997 and 1998 SMEs proved able to survive from the exposure of monetary crisis when many large companies that experience business failure or bankrupt.

Forte and Moreira (2018), the less healthy SMEs in financial position are less likely to export their products, whereas exports play an important role for the economic growth of a country. Therefore, the government should provide convenience to SMEs in obtaining access to capital in order to export their products and can contribute to GDP growth.

Valença and Alves (2017) in a software ecosystem, partner companies rely on each other to succeed and survive, so interdependence requires a strong flow. This article analyzes how power and dependency materialize in partnership between small and medium-sized companies to build a software ecosystem. The results of the study indicate that power and dependence affect the behavior and coordination of companies in the software ecosystem and the impact of power relations between partners.

Based on data from the authors of the Central Statistics Agency, it is known that the number of SMEs in Indonesia has fluctuated as can be seen in figure 1.

From figure 1 it is known that the number of small micro enterprises in Indonesia has decreased in 2017 and increased in 2018 so it is feared not to contribute to the welfare of the some people in Indonesia,because of the fluctuating growth of SMEs over the past three years, 2016, 2017 and

2018, the authors want to know and prove how the role of SMEs in economic growth is in accordance with previous research which states that SMEs have a very large role in economic growth and public welfare orvice versa?
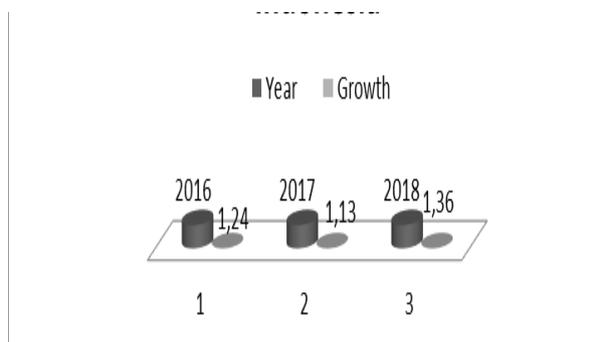
Source: Indonesian statistcs 2018

Figure 1. Production's Growth of SMEs in Indonesia

Kubíčková, Votoupalová and Toulová, (2014) the purposesof their research to find out whether there is dependence between motivation and company characteristic in internationalization process of SMEs, using research instrument in the form of questionnaire with 487 respondents consisting of food industry, wood processing and agriculture industry and analysis tool using The Pearson's Chi-Square test. The results of the research note that the factors that affect the internationalization process of SMEs are foreign demand for products produced by SMEs, higher prices in foreign markets, and to increase sales, and the size of companies affect the process of internationalization ie large companies tend to be more interested in the process internationalization.

Sipa, Gorzeń-Mitka and Skibiński (2015) to know the determinant of competition in SMEs. The result of the research is to create competitive advantage, SMEs must improve product quality , improve existing technology and focus on more specific customer group, and create product brand and lower product price.

Ueasangkomsate (2015) analyze SMEs in Thailand who export and adopt e-commerce for export markets. The research instrument used questionnaire to SMEs respondents, the analysis tool used is Chi-Square test and simple regression model. The results show that SMEs doing export and those who do not export realize that the use of e-commerce has high benefits for the global market, but adopting e-commerce

does not increase the export intensity of SMEs because in Thailand has not fully implemented e-commerce function, websites that are not active, not equipped with a mode of payment for customers, order acceptance, order placement and other functions.

Ivars and Martínez (2015)whose research analyzes the usefulness and impact of good practice of SMEs as an instrument to improve performance. The results show that high performance work system can improve SMEs performance and suggest that managers evaluate whether HR strategy can improve business performance.

Jayakumar et al (2018) examines how the influence of the level of bank competition in providing credit to industrial companies and the level of bank stability to economic growth. The results showed that bank competition and bank stability had a significant effect on the improvement of economic growth.

Yang Cho, T.-Y., Huang, M.-H., (2017)analyzing the impact of economic cooperation agreements on banking costs. The empirical test shows that the banking sector plays an important role in the economy of a country. The results show that Chinese and Taiwanese banks experienced a significant increase in meta-cost efficiency.

Obrimah (2016) examines the effect of venture capital on economic growth. the results show that venture capital can improve economic growth. Vianna and Mollick, (2018) article examines economic development from 1996 to 2015 for 192 countries and specifically Latin America. The result shows that that each 0.1-point increase in institutions impacts a 3.9% improvement in Latin American per capita output versus a 2.6% effect on world development.

Asid et al., (2017) examined the impact of capital goods export trade on economic development using the gravitational model analysis of panels. the results of the study indicate the consistency of market extension effects on the export of capital goods based on the level of exporter technology and the level of protection of IPR of the destination country and predict the effect of consistent market forces from the threat of imitation.

From the background of the problem, then the purpose of this study is to know: does SMEs have a role to economic growth in Indonesia ? and how big is the role of SMEs to economic growth in Indonesia?

METHOD

This research uses quantitative method. The type of data used is cross section data of Small Micro Enterprises and data of economic growth in Indonesia since 2003 until 2018 obtained from the Central Bureau of Statistics.The unit of analysis used is secondary data on the number of business units, the number of workers in small micro industries and gross domestic product obtained from the Central Statistics Agency through www.bps.go.id. The technique of collecting data uses observation and literature study. Operationalization of variables in this study can be seen in table 1

Table 1. Operasionalization of Variables

Variables Dimensions	Indicator	Scale
SMEs(X)BusinessUnit(X_1)	$\frac{Business\ Unit_t - Business\ Unit_{t-1}}{Business\ Unit_{t-1}} x100$	Ratio
Workers (X_2)	$\frac{Workers_t - Workers_{t-1}}{Workers_{t-1}} x100$	Ratio
EconomicGrowth(Y) Gross Domestic Product	$\frac{GDP_t - GDP_{t-1}}{GDP_{t-1}} x100$	Ratio

Source: Data processed (2018)

Technique of data analysis used in this research is multiple linear regression because to know whether there is influence between SMEs to economic growth and how big influence of SMEs to economic growth in Indonesia with formula:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Where :

Y = Dependent Variable

X = Independent Variable

α = Constant

β = Slope or Estimate Coefficient

RESULTS AND DISCUSSION

From the results of multiple linear regression tests using SPSS software version 22 in table 2 is known that the value of coefficient correlation (R) of 0.354 means there is a weak relationship significant variable business unit and workers (X_1, X_2) with variable economic growth (Y). Directions correlation positif meaning that if the value of variables X increased it will respond to the increase in the value of Y. The coefficient of determination (R_2) of 0.125 means that 12,5% of economic growth is influenced by the number of SMEs and employment, while 87.5% (100 % - 12,5 %) is influenced by other variables not studied.

Table 2. Model Summary

Model	R	R Square	Adjstd R Square	Std Error of the Estimate
1	0,354	0,125	-0,010	89,02906

Source: Data processed (2018)

The F test is performed to find out whether the regression equation model is acceptable or not. How to compare the value of F count and F table in table 3, if the value of F count > F table then the model can be accepted or vice versa or by looking at the probability value, if the probability < significance level (α = 0.05), then the model is acceptable or otherwise.F count (0.929) < F table (2.46) it can be concluded that there is no simultaneous influence between the business unit of SMEs and workers on economic growth.

Table 3. Anova

Model	Sum of Squares	df	Mean Square	F	Sig
Regression	14722,900	2	7361,450	0,929	0,420
Residual	103040,264	13	7926,17		
Total	117763,164	15			

Source: Data processed (2018)

To test whether the value of each independent variable has a real effect on Y, then t test for hypothesis :

Ho: ρ = 0, means that the independent variable does not affect the dependent variable

Ha: ρ ≠ 0, means that Independent variables significantly affect the dependent variable

Criterion of decision making:

- If -t table < t count < t table, then Ho is accepted
- If t count < -t table or t count > t table, Ho is rejected

t- tables are viewed by degrees free = nk = 16-2 = 14, n = number of samples = 16 . The t test is conducted in two directions (2 tailed) so that t table is t ½ (0.05) or t 0.025. so known t table = 2,145, for t table > of t count in table 4, then Ho is accepted, meaning that economic growth is partially not affected by a variable business unit of SMEs an variable workers.

Table 4. Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig
(Constant)		19,477	26,672	0,730	0,478
Unit Business	2,814	2,148	0,495	1,310	0,213
Workers	0,056	0,081	0,263	0,695	0,500

Source: Data processed (2018)

In the table 4 can be seen that the regression equation is:

$$Y = 19,477 + 2,814 \ X_1 + 0,056 \ X_2 + \varepsilon$$

From the equation can be described asfollows: Constants (α) = 19,477 means that if there is no increase of business unit and workers, then the economic growth is 19,477 . The regression coefficient X_1 (β_1) = 2,814 means that if there is an increase of the number of business units by 1 unit, then economic growth will increase by 2,814 . Coefficient regression X_2 (β_2) = 0,056 means that if labor is increased by 1 unit, then economic growth will increase 0,056.

The equation can be used to predict economic growth, for example, if next year the Indonesia government planning to increase the number of business units SMEs 10 units and employed 5 person, economic growth is forecast at IDR 47.897.

Based on the results of the analysis can be seen that the number business unit of SMEs and the number of labor does not significantly affect the economic growth, this may be caused by SMEs owners and workers in SMEs do not pay taxes to the government so that not much contribute to the economic growth of the Indonesia. in order for SMEs to contribute to economic growth, must export their products to other countries, and SMEs whose unhealthy financial position tend not to be interested in exporting their products, so support from the government is needed to facilitate SMEs in obtaining capital access from financial institutions.

From the results of observations it is known that actually micro, small and medium enterprises play an important role in creating jobs in the regions so that villagers do not urbanize into big cities because their economic well-being has been fulfilled in their regions, but small and medium micro enterprises experience problems especially in terms of capital and marketing so that government and private support is needed to facilitate these two problems so that micro, small and medium enterprises grow rapidly, and can increase their productivity so they can export their products to other countries so

that they can increase foreign exchange and economic growth in Indonesia.

Reuber et al., (2018) In order for MSMEs to have a large role in economic growth, MSMEs must innovate so that MSMEs can sell their products across national borders.

Verbeke and Ciravegna, (2018)Based on the theory of internationalization, international transactions are always faced with uncertain situations and the mechanism of a company can use economization within rational and reliability limits, so that for successful internationalization an effective network is needed, therefore international entrepreneurs are a combination of innovative, proactive and behave in search of risk, explore, evaluate and exploit opportunities across national borders to create corporate value.

Tucker, (2010) examined how perceptions of internet users controlling their personal information influence how they might click on online ads on social networking websites. The website gives users more control over identifiable personal information but the website does not change how advertisers use data to target and personalize ads so that MSMEs can use the internet to advertise their products.

Grieger and Ludwig (2018) Digitalization directs manufacturing companies to create value for the service life cycle to consumers by developing business models using the mobility network.

Liu et al., (2019) the Peer to Peer Electricity Blockchain Trading (P2PEBT) system can regulate potential protection against a number of attacks in electrical trade.

Iland et al., (2018) The online social network is the main communication tool used to share information with the world community at large, so that it can be used to market SME products.(Reisenbichler and Reutterer, 2018) Topic modeling in marketing is an important strategy with marketing problems.

Turetken et al., (2018) in the business domain rapid changes occur as a consequence of digital innovation, such as smart mobility which is designed as a new business model for

digital innovation in human and goods transportation collaboration that contributes to a novel business design approach that has a background academic and relevant to practitioners.

Weking et al., (2018) business model patterns (BMP) is a blueprint for Business Model Innovation (BMI). The taxonomy allows the arrangement of applications and supports Business Model Innovation.

Stone, (2014)components in the marketing ecosystem consist of client companies, marketing agents who help clients develop and implement marketing and communication strategies and corporate targets, market research companies that help their clients understand consumers and their prospects, telecommunications network companies which helps client companies reach their customers wherever and whenever, telecommunications service suppliers such as contact centers and software supplier associations that help companies stand up and maintain contact with consumers and meet their customer service needs, database management companies that manage client company customer data in whole or in part , data brokers that provide data to create databases such as company / household and individual characteristics sourced from lifestyle surveys, consumer files of other companies and credit references, database software suppliers that help the company organizes and accesses data for processing, analyzes and uses points of contact with consumers and in some cases visualizes the results of the analysis so that decisions can be made faster and better, suppliers of analytics software, application providers such as mobile banking, analytics consultants, web software providers such as browsers , search engines, social media that provide online ways to find and manage consumers, affiliates who join consumers and sell them to client companies, marketing consultants who help the company strategy and manage their development in this area, training organizations that help all components of the marketing ecosystem in maintaining and develop the skills they need.

Thach, Lease and Barton, (2016) there are several types of social media namely social networking sites where consumers create

profiles, share information, and interact with friends and colleagues such as Facebook, Twitter and LinkedIn, Weibo and WeChat, Blogs are sites where users can write articles Short or opinions, Online photos is a site where consumers share photos like Pinterest, Flickr and Yahoo images, Vlogs (online videos), websites like YouTube that allow users to share and store videos, Mobile is the ability to access information from smartphones.

Handriana and Wisandiko, (2017), found that the consumers' attitudes toward the advertisement and brand will be improved by advertisements and brands with multiple celebrity endorsements and will be better for advertisements featuring celebrities with a low involvement product. Therefore Small and Medium Enterprises will be better if introducing products to consumers by using advertisements and forming the brand of their products using the services of some celebrities who use their products so that it will be more motivating for consumers to buy and use these MSME products.

Moeuf et al., (2016) there are several characteristics of SMEs namely lack of expertise, limited resources, local management, short tem strategy, lack of methods and procedures, non-functional organizations. In order for Small and Medium Enterprises to progress and develop, they must change the characteristics that are weaknesses of the MSME to become a strength for MSMEs and must practice 14 management Principles of Lean Manufacturing, namely base decisions on a long-term philosophy even to detriment of short-term financial targets, organization of single piece flow processes to identify problems, utilities of pull systems (flow triggered only by client orders) to avoid excess production, production smoothing, creation of a culture of immediate quality problem solving at first try, standardization of tasks as the basis of continuous improvement and employee empowerment, utilisation of visual control to ensure no problem remains hidden, utilisation of reliable technologies, tried and tested through time, training of managers who know the work perfectly, live the philosophy and teach it to others, training of exceptional individuals and teams who apply the

philosophy of your enterprise, respect for the network of partners and suppliers, by encouraging them and helping them to progress, interaction with the field to clearly understand the situation, consensual decision-making by taking the time necessary, by examining all the options in detail, followed by rapid application of the decisions and systematic reflection and continuous improvement.

Based on some of the results of this research, it can be seen that digital innovation is one of the success factors of a business to be able to cross national borders so that if SMEs want to be successful they must be able to create value by carrying out digital innovations, for example by creating smart mobility applications to introduce their products and reach wider consumers so that it can develop rapidly because marketing is the spearhead of success for a business, including for MSMEs. The government and the private sector can help MSMEs to create platform designs for marketing products individually or in groups according to MSME clusters so that MSME products can be widely recognized by the public and reach consumers at various levels, both lower, middle and upper level consumers.

The obstacle that is often faced by MSMEs is the limited knowledge and experience of those MSMEs which makes it difficult for MSMEs to develop, thus impacting on the appearance of less innovative products or less attractive packaging designs and limited marketing reach so that MSMEs produce only based on orders from consumers Therefore, MSMEs must be formed to be strong so that they can contribute to economic growth in Indonesia, because if MSMEs are strong it will be able to create jobs for the productive age population and the products produced by MSMEs can be used by Indonesians or can be sold in a global market that can reduce dependence on imported goods and increase national income.

This study aims to determine whether small micro enterprises influence economic growth in Indonesia. Based on the results of the study, it is known that small micro

enterprises now have no effect either partially or simultaneously on economic growth in Indonesia and show a weak correlation, whereas previous studies by authors have found evidence that small micro enterprises have a very large influence towards economic growth, so that from the results of this study can be found the causal factors why small micro enterprises have no influence on economic growth in Indonesia, can be examined in terms of the government's role in providing easy access to financing for entrepreneurs may not be absorbed by small micro enterprises or from the small micro enterprises side has experienced many obstacles in developing its business so that it does not pay income tax for the source of state income because it has income under Non-Taxable Income or because of equipment and equipment. what is used by small micro enterprises has not used modern technology so that in terms of quality it cannot compete with other similar products or it may also be due to limited knowledge in the marketing sector so that goods are produced only on order and do not have the courage to produce large quantities to avoid risk stockpile. This needs to be further investigated so that small micro enterprises have a large role in economic growth so that they can create jobs for the surrounding community, can export their products and survive the economic crisis as happened in 1998, monetary when many large industries are bankrupt.

CONCLUSION

The relationship between the number of SMEs and the number of workers on economic growth in Indonesia is weak, meaning the number of SMEs and the number of workers do not have a significant influence on economic growth of Indonesia. Thus the research of the authors contradicts the research that has been done before stating that SMEs is a determinant factor of economic growth. so SMEs must increase knowledge about business in order to develop their

business and contribute to the Indonesian economy.

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