

# BUSINESS ECOSYSTEM POLICY FOR MICRO, SMALL AND MEDIUM ENTERPRISES IN INDONESIA

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## ABSTRACT

*Micro, small and medium enterprises (MSMEs) are a business group hoping for the Indonesian economy. However, MSMEs' problems are very complex because the business ecosystem is not yet conducive. This study aims to obtain an overview of the Indonesian Government's policies in building a business ecosystem for MSMEs. The research method used in this research is qualitative with data collection techniques through literature studies. Sources of data are obtained from published research results and the results of studies, dissertations, and relevant mass media. The results of the study indicate that the business ecosystem for MSMEs is still not conditional. As a component in the business ecosystem, the Government has a significant role in building a business ecosystem for MSMEs.*

**Keywords:** Business Ecosystem, Digital, Cluster, MSMEs.

## INTRODUCTION

Micro, small and medium enterprises (MSMEs) play a significant role in the Indonesian economy (Susila, 2017). The role of MSMEs can create a multiplier effect on various aspects of the Indonesian economy. Statistical data shows that the contribution of MSMEs to Indonesia's gross domestic product (GDP) reaches 60.34% and absorbs 96% of the Indonesian workforce (Kementerian Keuangan, 2017).

MSMEs have high resistance to crises because they are based on raw materials and have domestic marketing targets. Even during the Covid-19 pandemic, MSMEs were considered vital and were still believed to have played a role in reviving a slumping economy. The important role of MSMEs in the national economy, especially in the Sustainable Development Goals (SDGs) in Indonesia (Novitasari, 2019). The government and the private sector can collaborate to build a safety net so that the Indonesian economy can be saved, especially with the food crisis's prediction due to the Covid-19 pandemic.

However, currently, MSMEs in Indonesia are still faced with various obstacles in maximizing their potential as an accelerator of Indonesia's economic growth. Current data shows that there are still 44 million business actors who have been in the same business class for five years. This shows that MSMEs in Indonesia are still experiencing real obstacles in developing their businesses. Other data shows that the contribution of MSMEs to exports is still relatively low, namely 14.5%. Meanwhile, other countries have quite a high contribution from MSMEs, such as Malaysia 20%, Korea 60%, Japan 55%, China 70%. The low contribution of MSMEs to exports is because only 6.3% of MSMEs have succeeded in exporting (Kementerian Keuangan, 2017).

Problems related to MSMEs obstacles in developing a business have been studied several times with different results. Ahmad (2012) states that the main problems and obstacles faced by

MSMEs are financial support, bureaucracy, lack of credit options, and a hostile business environment. Meanwhile, Agwu & Emeti (2014) stated that the main challenges faced by MSMEs are poor financing, inadequate social infrastructure, lack of managerial skills, and taxation. Suryanto & Muhyi (2018) stated that MSMEs are always stagnant because the perpetrators lack an entrepreneurial spirit, low human resource competence, limited access to funding, and assistants' absence. Meanwhile, Akbar (2018) states that the obstacles that hinder MSMEs from advancing to class are because MSMEs are poor in the capital, licensing, market access, management capabilities, and access to information technology. Other research results state that MSMEs will grow if they are supported by a good entrepreneurial ecosystem (Hermanto & Suryanto, 2017 ; Sanyal & Hisam, 2018).

Based on previous research results, MSMEs problems are largely determined by the entrepreneur's internal factors and partly determined by external factors. This research focuses on the role of the government in building the MSMEs business ecosystem.

## LITERATURE REVIEW

### Business Ecosystem

The concept of ecosystems was first introduced by British botanist Arthur Tansley in the 1930s to describe communities of organisms that interact with each other and their environment. To thrive, these organisms must compete and collaborate on available resources, develop together, and jointly adapt to external disturbances.

Moore (1993) adopted a biological concept with companies operating in the world of commerce interconnected with communities of organisms that adapt and thrive to survive. Moore (1993) suggests that companies are seen not as one company in the industry but as members of the business ecosystem in an industry. Technological developments and increasing globalization have changed ideas about the best way to do business. The idea of a business ecosystem is thought to help companies understand how to thrive in a rapidly changing environment. Moore (1993) an economic community supported by a foundation of interacting organizations and individuals the organisms of the business world.

A similar concept is put forward by Hayes (2019), which states that a business ecosystem is a network of organizations -including suppliers, distributors, customers, competitors, government agencies, and so on- that are involved in the delivery of certain products or services through competition and cooperation. Each entity in the ecosystem influences each other and creates relationships with each other. Meanwhile, according to Peltoniemi & Vuori (2004), the business ecosystem is a dynamic structure consisting of a population of interconnected organizations. These organizations can be small companies, large companies, universities, research centers, public sector organizations, and other parties that influence the system.

The characteristics of the business ecosystem, according to Xue (2018), include: (1) The ecosystem provides opportunities for various businesses to participate with various additional features; (2) The partners can start interacting and together create additional features that add value or connectivity; and (3) There is an attachment to mutual needs, considering that whoever contributes will get the benefits. According to Gartner (2016), the business ecosystem's dimensions include ecosystem strategy, degree of age, engagement of diverse participants, types of relationships, the form of value exchange, diversity of industries, the complexity of multiple ecosystems, and technologies.

## **Micro, Small, and Medium Enterprises**

Each country has a different definition and concept of micro, small, and medium enterprises (MSMEs). The concept of MSMEs in Indonesia is a term that refers to productive economic enterprises owned by individuals or business entities by the criteria stipulated by Law No. 20 of 2008. In general, a micro-enterprise employs five (5) or less permanent workers, while a small and medium enterprise can have anywhere from 5 to 100 workers. Apart from using the classification of the number of workers, many countries also use the value of fixed assets and turnover in defining MSMEs (Tambunan, 2014).

According to Suryanto & Muhyi (2018), the MSMEs group is dominated by micro-businesses. This business group rarely grows into a medium or large business (Sorama & Joensuu-Salo, 2016). This group's business orientation is classified as low and rarely develops or advances in class because business actors think that their business is sufficient to meet basic needs (Levie et al., 2014).

MSMEs have a role in poverty reduction solutions in Indonesia. The role of poverty reduction can be seen from the contribution of MSMEs in employment kerja (Berry & Mazumdar, 1991; Supriyanto, 2006). Another role of MSMEs, according to Handayani et al., (2010), is to be able to contribute to GDP. MSMEs are also capable of creating value and producing many goods and services, thus playing an important role in financing public services and creating dynamic local economies.

The MSMEs development policy is a political process of a regional leader administrator neglected so far (Arshed et al., 2014; Xheneti, 2017). The MSMEs development policy was born from a political process that was not objective or neutral (Smallbone, 2016), which was driven by the dominance of certain individual actors such as government officials, researchers, and NGOs. The political, legal, and regulatory environment is very important to be able to support the birth and development of MSMEs because many of the obstacles faced by this business group come from existing rules and regulations (Hobohm, 2001).

## **METHODOLOGY**

Writing this article aims to overview government policies in building a business ecosystem for micro, small and medium enterprises (MSMEs) in Indonesia. This study uses qualitative methods with data collection techniques through literature studies. The literature study used in this article's writing is in the form of an assessment of research journals, study results, dissertations, and relevant mass media. This article's writing is built and constructed based on empirical research that has been carried out and related studies to provide a theoretical basis for the strategy of building a business ecosystem for MSMEs.

## **RESULTS AND DISCUSSION**

Micro, small and medium enterprises (MSMEs) are the dominant business group compared to other business groups. In accordance with the Kementerian Keuangan (2017) explanation, this business group is believed to be able to provide a multiplier effect on the interests of the Indonesian economy. Apart from being able to make a significant contribution to GDP, this sector can also absorb a large number of workers (Berry & Mazumdar, 1991; Supriyanto, 2006).

MSMEs need a conducive business ecosystem amid high levels of competition between companies. MSMEs need to map stakeholders and each stakeholder's main roles because each

stakeholder has a motivation or motivation to work together. This will serve as the basis for cooperating with each other and moving together to provide superior value to consumers. The role of each actor in the business ecosystem must support each other. This is according to Xue (2018) that there must be an attachment in a business ecosystem.

Every MSMEs actor must understand the basic concept of how a business is like a living creature living in an ecosystem that needs each other. This concept states that a business institution is expected to build an ecosystem. The existence of a business ecosystem will be able to accelerate business development and can even defend the business from competitors' attacks. The competition that occurs is not only between companies but between business ecosystems (Hayes, 2019).

Building a business ecosystem in the digital era must begin by establishing a new business model concept that considers assets not only tangible. MSMEs players must understand the concept of tangible assets and intangible assets. Intangible assets cannot be measured and recorded on the balance sheet of the company's financial statements. Intangible assets can be in the form of skills, ideas, innovation, knowledge, and a brain image. Intangible assets and tangible assets can be used to create and develop a business ecosystem. The development of the business ecosystem for MSMEs with intangible assets can be faster because they have human resource assets that can take advantage of technology (Radziwon & Bogers, 2019). The digitalization process in the operation of MSMEs can have a positive impact, considering that almost 97% of the area in Indonesia can already be accessed by the digital ecosystem, coupled with the expanding logistics services.

### **Government Policy in Building a Business Ecosystem**

According to research by Lu et al. (2014), building a business ecosystem must be done comprehensively, involving all components in the ecosystem. Several components in the MSMEs business ecosystem include suppliers, distributors, consumers, competitors, business associations, investors, financial institutions, trade unions, the media, and the government. As a component of the business ecosystem, the government has a very central role in building a conducive business ecosystem. The government has a strategic program in developing the MSMEs business ecosystem.

**Formulating Policies that Support the Use of the Digital Platform:** Government policy in developing the MSMEs business ecosystem in Indonesia is by issuing Regulation of the Minister of Cooperatives and SMEs Number 2 of 2019 concerning Electronically Integrated Business Licensing for Micro and Small Businesses. This regulation is a derivative of Government Regulation Number 24 of 2018 concerning Electronically Integrated Business Licensing Services. The birth of these two latest regulations further simplifies the procedure for applying for Micro and Small Business Licenses so that MSMEs actors can immediately complete the required legal documents.

The government has also issued various policies by launching e-catalog, e-commerce, e-payment, and e-finance programs. The e-catalog program aims to encourage spending by ministries/institutions and State-owned enterprises to prioritize the use of MSMEs products. The e-catalog program also aims to expand market access for MSMEs goods/services. The e-commerce program is aimed at regulating MSMEs trade through digital platforms, such as marketplaces. With an e-commerce policy, the market development of MSMEs players is getting bigger; consumers find it easier to get the goods they want (Fauska et al., 2013).

The e-payment program is used to make payments when transacting on a digital platform. Through the e-payment program, transactions among MSMEs will be easier and more profitable. There are many benefits that can be obtained from the emergence of an e-payment program for both consumers and MSMEs. This is according to the research of Anshari et al. (2019), which states that e-payments can provide a more comfortable and friendly service for consumers and producers. More specifically, the e-payment program, according to Tiwari et al. (2019), is able to provide benefits for consumers in time savings. MSMEs players who use this application can improve the quality of their business. They can provide various choices in transactions to customers (Suryanto et al., 2020). There are currently two e-payment methods, namely using a card and one that does not use a card but uses a smartphone.

Meanwhile, the e-finance program is a system for managing financial management. The system aims to assist MSMEs in managing company finances. The services provided include budgeting, recording expenses, monitoring investment performance, and financial consulting free of charge.

**Establishment of MSMEs Clusters:** The formation of the MSMEs cluster is the government's step in building a conducive MSMEs ecosystem. The cluster approach model is important in increasing the competitiveness of MSMEs. A cluster system is a unit that complements each other, supports each other, no one group dominates, everything goes together to form strength in a synergistic organization. With the formation of clusters, MSMEs and other ecosystem components will benefit from synergy and high efficiency compared to working alone.

The MSMEs cluster forms an internal and external network to gain economic benefits (Sumaryana, 2018). The internal network is an interactive relationship between MSMEs in a cluster. The internal network makes it easy for MSMEs in the process of production, distribution of goods, and marketing of goods. Meanwhile, the external network is an interactive relationship between MSMEs in a cluster with other actors outside the cluster, such as large companies, including FDI companies, input suppliers, business service providers, and so on. Like the export-oriented MSMEs cluster, they gain access to resources, improve strategic positions, control transaction costs, expand their markets abroad, learn new skills, gain legitimacy, and positively cope with technological changes (Tambunan, 2014).

The cluster is one of the instruments that support MSMEs' progress by grouping MSMEs according to commodity types and locations. Clusters make it easier for buyers and driven to know the market for certain products that have been grouped. Effective MSMEs clusters can create cost savings in economic activities that result from business/activities due to their proximity to one another. If one company's actions can be profitable for other companies in the same cluster, the MSMEs cluster will achieve economic advantages.

**Preparing Infrastructure:** As in his research by Lu et al. (2014), a business ecosystem requires adequate infrastructure so that each member of the ecosystem can play an optimal role. The infrastructure prepared by the government in building the business ecosystem includes MSMEs digital market applications (PaDi), Procurement Defense Applications, MSMEs Website Applications, and Hub establishment. The PaDi MSMEs application is an ecosystem with a digital platform that brings together MSMEs with State-Owned Enterprises, thus providing space and opportunities for MSMEs to get transactions from State-Owned Enterprises. In addition, this application also provides opportunities for MSMEs to obtain financing from State-Owned Enterprises.

The Procurement Defense application is a means to provide opportunities for MSMEs in getting shopping requests from the Government through Ministries or Institutions, including Local Governments. MSMEs business players now have the opportunity to be involved as providers in government procurement activities. Through this application, MSMEs players become providers of government goods and services.

The MSMEs Page application is an application designed to expand the ecosystem for Indonesian MSMEs. The application is integrated into the national procurement portal. On the MSMEs page, information is provided about the number of MSMEs players, the potential value of procurement spending for MSMEs, and types of commodities in the electronic catalogs sold by MSMEs. With the MSMEs page on the National Procurement portal, all parties, both the public, the government, and the private sector, can monitor and seek information about the development of MSMEs in Indonesia related to the procurement of goods/services.

The majority of MSMEs are still small in scale, so a partner business model is needed that can become an aggregator, find buyers, and become an off-taker. MSMEs need a business hub or ecosystem that can connect MSMEs products' marketing to the global market. This hub not only looks for buyers abroad but also provides assistance to MSMEs to continue improving the quality of their products to meet market tastes. Apart from these functions, hub companies can also provide training, mentoring, take care of permits or legality so that MSMEs can concentrate more on increasing product volume capacity. The hub position does not mean that the organization has a large mass (in terms of assets, profits, capitalization, etc.), but because the organization occupies a unique and strategic position, it has a role in determining the direction of the business environment or business ecosystem. This includes the life, progress, and dimness of the members of the business ecosystem.

## CONCLUSION

The business ecosystem is a collection of various organizational populations that need each other, are interrelated and influence each other, and each contributes to each other. The MSMEs business ecosystem components consist of suppliers, distributors, consumers, competitors, business associations, investors, financial institutions, labor unions, the media, and the government. The government has a very important role in developing the MSMEs business ecosystem. The government's role in developing the MSMEs business ecosystem includes making policies in the use of digital technology, forming MSMEs clusters, and preparing the infrastructure.

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