

# ESTABLISHED AND NEW MSMEs DEVELOPMENT WITH BUSINESS INCUBATION STRATEGY

**Samsiah Nelly, Pelita Harapan University**

**F. X. Suwanto, Pelita Harapan University**

**Niko Sudibjo, Pelita Harapan University**

**Rudy Pramono, Pelita Harapan University**

## ABSTRACT

*The purpose of this study is to discuss the opportunities and challenges associated with developing established and new MSMEs. This study employed a descriptive exploratory approach and was developed through the use of a literature review or study. The theory or concept approach is implemented through the use of multiple sources, including books, scientific journals, and the internet. All descriptions of existing concepts are incorporated into a single conceptual framework. The results indicated that the business incubation program was implemented over a three-year period, covering the pre-incubation stage, the incubation stage, and the post-incubation stage, with the primary incubation program covering technical and management training, simple bookkeeping, business plan preparation, facilitation of access to capital, and marketing. This program should ideally assist MSMEs in overcoming the classic problems associated with MSMEs, in addition, previous research conducted by other researchers also shows that there is a positive influence from business incubator activities in changing students' mindsets of entrepreneurship.*

**Keywords:** MSMEs Development, Business Incubation, Business Mentoring Model

## INTRODUCTION

The topic of entrepreneurship is the main attraction for the community; they recognize that entrepreneurship improves the community's prosperity. In the Indonesian economy, micro, small, and medium-sized firms (MSMEs) account for 57.6 percent of GDP and account for 97 percent of jobs; entrepreneurs account for 3.1 percent of the entire population in Indonesia, an increase of 1.4% over the last two years (KUKM, 2017).

Along with the above-mentioned possibilities, MSMEs in Indonesia also have a number of disadvantages. According to Lestari and Resanti (2013), MSMEs in Indonesia have a number of disadvantages, including management, organization, technology, and capital, operational and technical capabilities in the field, limited market access, licensing constraints, and difficult-to-avoid non-technical costs in the field. The Ministry of Industry continues to develop its strategy to cope with Industry 4.0; one of its initiatives is to expand incubation not only within the government environment, but also in partnership with Indonesian institutions to prepare not only the general public but also students to be entrepreneurs. The government intends to increase entrepreneurship in Indonesia by 4% (Sindo, 2019). MSME players must enhance their digital marketing capabilities, as competition at the ASEAN level requires MSME actors to be prepared for the ASEAN Economic Community (AEC) age (Febriyantoro, 2018).

The availability of government policies, the input of skilled business practitioners, and academics to function as a catalyst for the growth of MSMEs or to provide alternative solutions to financing and marketing difficulties in this age of globalization. When analyzed further from a banking perspective, the allocation of business capital in the MSME sector is undoubtedly influenced by a number of factors, both from banking and from MSME actors pursuing the aforementioned opportunities. Then, from a marketing perspective, it is influenced by internal elements such as the expertise of MSME Human Resources (HR) regarding marketing, particularly digital marketing in today's global economy, as well as external ones such as government legislation governing marketing in the digital era.

MSMEs have considerable potential, particularly as the number of internet users continues to grow each year, but some of the challenges they face include a lack of mental readiness, a lack of managerial competence, a lack of extensive networking, and an inability to determine which stages to proceed through next. The purpose of this study is to examine the opportunities and problems associated with the development of MSMEs. Additionally, this study is expected to serve as a basis for developing a strategy to increase its proximity and fulfill its role as an intermediary institution for the real sector that requires development assistance, which in this case is the MSME sector, as well as provide ideas in the digital industry to foster new entrepreneurs competing in the ASEAN Economic Community (AEC).

## LITERATURE REVIEW

### Micro, Small and Medium Enterprises (MSMEs)

According to the Badan Pusat Statistik (BPS), small companies are defined as those with 5 to 19 employees, while medium enterprises are defined as those with 20 to 99 employees.

The following is the concept of a Micro, Small, and Medium Enterprise (MSMEs) as specified by Undang-Undang Number 20 of 2008 concerning Provisions for Micro, Small, and Medium Enterprises (MSMEs):

- a. A profitable business owned by a person and/or an individual business entity that meets the requirements of a micro business as specified in this Law is referred to as a micro business. Micro businesses must have a maximum asset of IDR 50 million and revenue of IDR 300 million to qualify.
- b. Small businesses are self-contained production businesses operated by individuals or legal entities that are not directly or indirectly owned, managed by, or responsive to the Company's corporate guidelines. Small companies should have assets of IDR 50 million to IDR 500 million, as well as a turnover of IDR 300 million to IDR 2.5 billion.
- c. The total assets and total revenue of subsidiaries or affiliates of corporations or businesses whose annual sales revenue meets the provisions of this law are classified as medium-sized companies. Medium-sized companies are profitable economic companies independent of individuals or business entities that are not owned, regulated, or engaged in by small or large companies. Medium-sized companies typically have assets range from Rp. 500 million to Rp. 10 billion and a turnover of Rp. 2.5 billion to Rp. 50 billion.

### Defining Entrepreneurship

Entrepreneurship is a creative act that creates value from nothing. Entrepreneurship is the process of identifying and exploiting opportunities regardless of available resources, and it requires the courage to take calculated risks.

According to Kao Raymond (1987) book *Defining Entrepreneurship*, entrepreneurs are those who create wealth and the process of increasing added value through incubating ideas, combining resources, and realizing ideas, and entrepreneurship is the act of doing something new and different with the goal of creating prosperity for individuals and adding value to society. Kao's definition encapsulates the characteristics that distinguish entrepreneurs from others: the presence of novel ideas (innovation), the willingness to take calculated risks, the creation of added value, and, most importantly, a commitment to the greater community's prosperity.

We can deduce several important points from the definition above: entrepreneurship is defined as follows:

1. There must be some sort of effort or activity in order to accomplish something.
2. Creating Value, specifically new value that enables what is produced to have market added value and an advantage.
3. There is an opportunity for business. Specifically, the capacity and speed with which one can identify business opportunities.
4. Take calculated risks. That in the entrepreneurship concept, an entrepreneur is courageous and willing to take risks in order to profit from those risks.
5. Possess leadership and communication abilities or expertise. This means that in order to embrace the entrepreneurial concept, an individual must possess expertise or skills in managing an organizational activity, as well as the ability to communicate.
6. Capacity to mobilize various potentials that exist and are required of an entrepreneur, such as human resources, finance, and other resources necessary to carry out and succeed in a business activity.

Entrepreneurship interest can be defined as a person's desire, curiosity, interest, and willingness to work hard, be self-sufficient, dare to take risks, and face obstacles creatively in order to meet their needs and advance their business (Marini & Hamidah, 2014). Entrepreneurship interest can also be interpreted as a person's desire to start a business using their abilities and willingness to take risks. Interest in entrepreneurship is sparked by pleasure, attention, environmental support, and experience, and is generally quantified by a person's social, economic, and psychological factors (Evaliana, 2015).

### **SME's and the Difficulties they face**

Ideally, the development of small and medium-sized enterprises (MSMEs) requires the government's role (interference) in increasing their ability to compete. However, it should be noted that this capability is not measured in terms of ability to compete with large businesses (industry), but rather in terms of the ability to forecast the business environment and anticipate environmental conditions.

The government's role is also not to provide capital, but to foster the ability of MSMEs and to create conditions that facilitate their access to capital. In other words, the government must foster MSMEs' ability to calculate the optimal amount of capital required, to prepare funding proposals for capitalist institutions, and to enact policies or regulations that favor MSMEs when it comes to credit provision.

Following a review of the literature and through books, journals, and online news sources, the author summarizes the challenges facing the business world, particularly the development of MSMEs, by addressing a variety of topics, including:

1. Management/human resource issues stemming from low levels of education, low motivation, and a lack of technological mastery.
2. Production-related issues, such as raw materials, manufacturing processes, and when the output (production results).
3. Marketing or market-related issues, such as market constraints, distribution, and target market area.
4. Financial difficulties resulting from a lack of capital, difficulty obtaining additional capital, and also from bookkeeping/financial administration limitations.
5. The issue of a less favorable business climate, as a result of the government's role, regulations, and so forth.

The difficulty that the government faces in its efforts to develop strong entrepreneurs (SME entrepreneurs) is determining and selecting strategies (programs) for two distinct conditions. The conditions in question are either (1) strengthening existing entrepreneurs or (2) strengthening new entrepreneurs.

The two conditions require distinct development strategies (programs) (specific). Even development strategies for established entrepreneurs cannot be implemented consistently. A thorough and in-depth study (diagnosis) is required to ascertain the true nature of the problems confronting the MSMEs that will be fostered. Without careful study and planning, any development program effort (even with the best of intentions) will run into numerous roadblocks, including (1) Mistargeting, (2) Futility (wasted), and (3) Extensive manipulation during implementation.

Additionally, there are factors such as ineffective management and a lack of strong networks at the lower level. More precisely, MSMEs frequently face challenges in increasing business efficiency and product quality. As a result, this age-old complaint frequently arises from small business owners. As a consequence, the empowerment of adaptive capacity is necessary. The economy of a region is determined by the effectiveness of the economic actors operating in that area. The more efficiently economic actors operate, the greater the regional economy's carrying capacity.

## METHOD

The purpose of this study is to analyze the potential and problems associated with the development of MSMEs from an economic management perspective. This study employs a descriptive exploratory approach in order to ascertain the Opportunities and Challenges associated with the development of MSMEs from a variety of perspectives. And created by the use of a literature review or a literature study. The theory or concept method is implemented through the use of multiple sources, including books, scientific publications, and the internet. All descriptions of existing concepts are combined into a single framework of thought.

## RESULT AND DISCUSSION

As with the development of established businesses, creating new entrepreneurs is not as simple as turning the palm of the hand, as it turns out that finding people with an entrepreneurial spirit is extremely difficult. Entrepreneurs are frequently defined as individuals who take calculated risks in order to invest in new inventions (innovation). Efforts to develop MSMEs and to foster the development of new strong entrepreneurs will be more successful if they are directed at university graduates who already possess a strong scientific and intellectual foundation. This is because the conditions of business competition in the globalized era

necessitate the ability of an entrepreneur with truly exceptional abilities. Along with tertiary institutions, one pattern of strong and superior entrepreneurship development is to provide training and internships supported by facilities/access.

One of the earliest stages of business development for companies (including MSMEs) is the ability to identify or diagnose internal and external factors (strengths and weaknesses) via a SWOT analysis (Strengths, Weaknesses, Opportunities and Threats). This analysis uncovered stages such as assessing the situation, establishing objectives, and making a decision (selection and evaluation of activities). This SWOT analysis can be used to conduct a SWOT analysis on each of the company's problems or on the company as a whole.

This diagnosis is absolutely necessary to identify the characteristics of the resulting product (existing advantages or possibilities to be developed), the market that has been entered (development opportunities and additional capabilities needed), the technology used (optimization of the use of technology adapted to the characteristics of the MSMEs), access to raw materials and other inputs (constraints faced and possible solutions), absorbed capital (optimization of capital requirements adjusted to market opportunities), and managerial aspects of management (bookkeeping, organization and so on).

A thorough diagnosis will generate a typology of MSMEs based on their growth prospects. A specific development strategy can be derived from this typology in accordance with the UKM's typology. If the development strategy (what you want to be and when you're going to get there) is clear, the government's coaching program will not be misdirected.

There are several stages in the development of a startup, namely seed and development, startup stage, growth and establishment, expansion, maturity and possible exit. Of all these stages, the most important stage is seed and development, at this stage startup actors are required to maintain consistency, the main problem faced by startup actors is consistency, due to market and technology changes as well as managing company operations where some startup companies do not yet have competence in managing company operations (Febriyantoro, 2018).

To remain competitive in the free market era, MSMEs must develop into professional businesses with managers who possess entrepreneurial abilities, which can be developed, among other things, through business incubators. A business incubator is a term that refers to an institution that fosters and incubates new entrepreneurs, particularly those with a business approach. Systemically, the business incubator is a vehicle for transforming human resources that are not or are less creative and productive into entrepreneurially motivated individuals who are creative, innovative, productive, and cooperative. In other words, a business incubator is the first step toward developing entrepreneurs with competitive and comparative advantages, as well as a sense of direction and purpose.

### **Business Incubator Concept as MSME Development Strategy**

The business incubator is a vehicle for transforming human resources who are not or are less creative and productive into entrepreneurially motivated individuals who are creative, innovative, productive, and cooperative as a first step toward achieving entrepreneurs who have competitive and comparative advantages, as well as a vision and mission (Agustina, 2011).

The purpose of a business incubator is to foster micro and small businesses within a container by growing and developing them within a network of university (PT), government, and business stakeholders by:

- a. Provide technical assistance and business management consulting (finance, marketing, and accounting) in order to help managers and entrepreneurs develop their managerial and entrepreneurial skills and abilities;
- b. Create a network of government institutions, entrepreneurs with assets (education, capital, promotion, and collaboration), and PT to expand business opportunities;
- c. Utilizing incubator facilities within PT to develop processes, products, and high-value-added services;
- d. Offer consulting and continuity services to incubator tenants based on their stage of development, thereby facilitating technology and business experience transfer.

To address the various impediments to small business development in Indonesia, the government, in collaboration with the United Nations Development Program (UNDP), has been implementing an incubator development project since 1992. Incubators were initially established in a number of locations, including Surabaya, Solo, and Serpong. This project sparked interest and was successfully disseminated throughout several universities.

Until now, there has been no standard business incubator model that can be used to build incubators in other locations. In some locations, the business incubator is designed similarly to a technology application development and entrepreneurship center, such as those operated by the US Small Business Administration. The majorities of the remaining business incubators is more focused on the needs of the local culture and business community, and follow a more tailored format to meet those needs. While the appropriate institutional structure for a business incubator program is determined by the institutions that support the project and those that contribute to the program's subsequent operations.

The business incubator model's concept of fostering and developing entrepreneurship is comprehensive coaching on all aspects of the business over a specified period of time. The following methods are used to foster and develop entrepreneurship:

- a. Direction  
Assist entrepreneurs with guidance and support in the areas of financial administration, management, technology, marketing, and fundraising, in accordance with their needs and the changing environment.
- b. Training  
Provide training tailored to the skills required to perform various business activities, from production planning to marketing.
- c. Consultation  
Consult on all facets of the business. Additionally, the business incubator establishes information networks pertaining to the business world, including those pertaining to accounting, management, technology, marketing (domestic and international), and fundraising, through the incubator's affiliation with government and private institutions or agencies. The funds required for business incubators to operate their programs effectively are not borne by the users.

The priority supporting factors, actors involved in the incubation program, stages, scope, and program of activities are determined through a series of analyses, and they are organized in an effective food MSME incubation model.

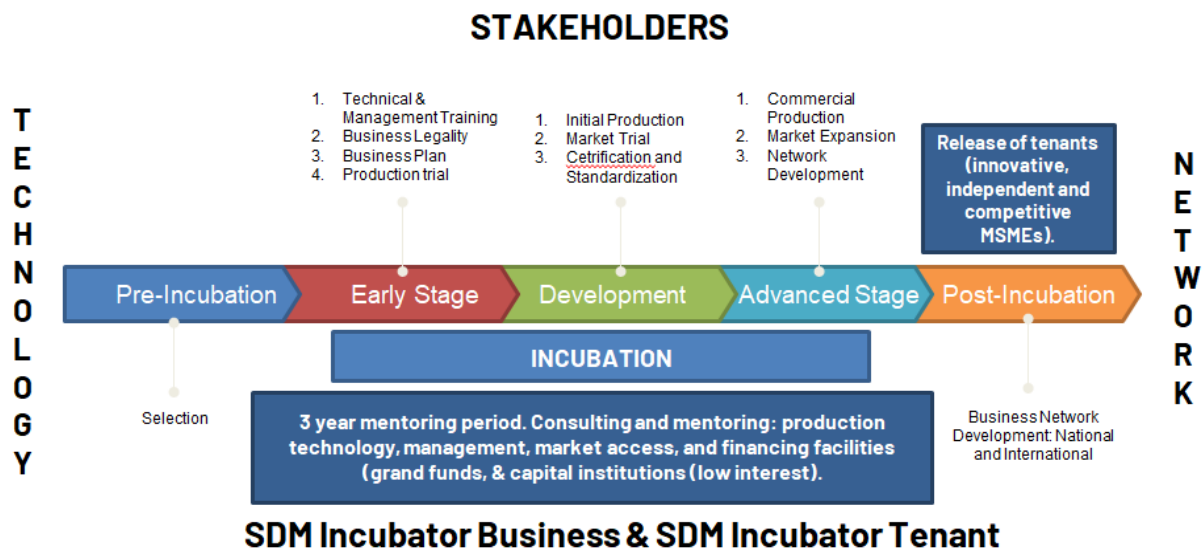
In general, the incubation program is divided into three stages: pre-incubation, incubation, and post-incubation. Prior to entering the pre-incubation stage, the program is selected and socialized. Tenant selection is a multi-stage process that begins with administrative screening and continues with interviews regarding business profiles, business plan development, and market development, as well as 5C factors such as credibility, capacity, capability, condition, and collateral. Collaterals and guarantees are only available to tenants who apply for credit through the incubator. After passing, prospective tenants will be required to sign a contract

indicating their willingness to be incubated by the business incubator for an extended period of time. Particularly for in wall tenants, they must sign a lease agreement to occupy the business space, which must be renewed annually.

Pre-incubation activities include identifying needs assessment (needs incubation by tenants) as input to implementing the incubation program, planning incubation programs based on need assessment, and applying empowerment theory. Grant funds were used to fund the selection, program socialization, and pre-incubation stages. It is divided into three stages during the incubation stage, which lasts approximately 2-3 years: an early stage, a development stage, and an advanced stage. The initial stage involves developing a start-up business, which includes conducting market and production tests, as well as preparing legal documents. The advanced stages of development include production expansion, management enhancement, product development, and market expansion.

It is hoped that by the third year, tenants will have completed the incubation program. Several criteria or indicators for tenant graduation include the following: (1) Increased product quality and competitiveness, (2) Increased production capacity, (3) Increased work ethic, including an increase in workforce, and (4) Expansion of marketing area.

Human resources are the primary supporting factor that serves as the model's foundation and pillar. Managers and tenants of business incubators are nurtured by business, technology, and networking incubators. The quality of human resources available to incubator managers and fostered tenants has a significant impact on the program's effectiveness. Technological factors contribute to product competitiveness, while networks contribute to access to funding, markets, and incubator development.



**FIGURE 1**  
**INCUBATION MODEL FOR FOOD MSMES THROUGH A BUSINESS INCUBATOR**

The government is the primary stakeholder, as it facilitates and regulates the existence of business incubators and tenant-run businesses, as well as providing funding for program

implementation. Capital institutions contribute to the development of tenant business activities by providing access to capital. The business incubator is responsible for the implementation of a number of business incubation programs, most notably the intermediation of tenant products with local, national, and international marketing agencies.

During the post-incubation stage, when the tenant is declared to have graduated from the business incubator, the tenant must be prepared to develop independently and capable of establishing a partnership network for business development. The incubator continues to provide communication and consulting services. A co-incubation program was also developed at this stage, which is collaboration between cross-border business incubators with the goal of assisting SME tenants in expanding their market into other countries. Capital institutions provide funding for tenant business development during the incubation and post-incubation stages. Figure 1 below illustrates the MSME incubation model via a business incubator.

Musanto and Trisno (2004) demonstrated that the campus is a critical agent of change for the nation's future. Campuses are indispensable in fostering an entrepreneurial culture in Indonesia and forming and training new entrepreneurs through business incubators. Panggabean (2005) and Supangat et al. (2005) conducted several previous studies on business incubators and discovered that they play a role in the formation of new entrepreneurs. Meanwhile, Agustina (2011) and Sanjaya (2011) discovered that business incubators can reduce new entrepreneurs' risk of failure, and Purwaningsih et al. (2017) discovered that business incubators are one model for fostering entrepreneurship among students.

A research conducted by Mayasari et al. (2019) aims to determine the impact of business incubator activities on student entrepreneurship interest; the research demonstrates that students at Tridinanti University Palembang have an increased or greater entrepreneurial interest following their participation in business incubator activities. The difference in interest in entrepreneurship between before and after the business incubator activity has largely altered the mindset of some students who were previously apathetic toward business incubator activities.

## CONCLUSION

The incubation program should be implemented over a two- to three-year period, as this time period is considered ideal for education, training, and mentoring activities conducted during the incubation program. The multi-year incubation program requires the program's primary stakeholders (managers, MSME tenants, and the government) to continuously develop and implement the program.

The incubation program should be implemented over a two- to three-year period, requiring the program's primary stakeholders (managers, MSME tenants, and the government) to develop and implement continuous incubation programs. It is deemed critical to improve the quality of MSMEs through business incubators. Effective, which means that business incubators for food MSMEs must be bolstered in terms of growth and performance. The incubation model should be developed with tenant needs in mind to ensure that the program is implemented effectively and efficiently. Not only is the incubation model reference top-down, but it also accommodates bottom-up incubation designs to meet the needs of incubator managers and MSME tenants supported by business incubator.



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