
**THE ROLE OF SMALL AND MEDIUM ENTERPRISES (SMES) IN
IMPROVING THE LOCAL ECONOMIC GROWTH**

Agussalim M¹, Paulus Insap Santosa², Darmini Roza³, Rina Asmeri⁴

^{1,3,4}University of Ekasakti Padang, Indonesia

²University of Gadjah Mada, Indonesia

Abstract:

Small and Medium Enterprises (SMEs) have a great contribution to the economic growth in Indonesia both macro and micro. Economic growth in west Sumatra exceeded the national economy in 2015 up to 5.46% while the national economic only 4.71%. In 2016, economic growth in West Sumatra only grew about 4.81%. Despite the decline of economic growth, SMEs remain a factor supporting the economic growth in West Sumatra. This study was conducted to determine the extent to which the role of Small and Medium Enterprises (SMEs) in their contribution to the economy of local communities in West Sumatra. This study was empirically examining the role of SMEs in improving the economy of local communities by using qualitative methods. The research result explained that SMEs have already given a big share in improving the local people's economy due to most of the people of West Sumatera have an entrepreneurial spirit that have been ingrained hereditarily which has become the structure root of the original culture of the local economy.

Keywords: Small and Medium Enterprises, local economy, Padang

Introduction

Economic problems that occur within the scope of macroeconomics are influenced by several factors such as high number of unemployment, increase of the poor, and a gap of per- capita income between the communities, low of human development index and there are inequality developments between rural and urban areas. However, all of these factors can be overcome if related stakeholders (government, business and community as consumers) are synergizing together.

In fact, the presence of business actors both high and mid-level entrepreneurs have a contribution to the economic development of a country, including developed or developing countries (Sum, Shih-JuKow, & Chen, 2004; T. Tambunan, 2009; TTH Tambunan, 2012; Vesala, Peura, & Mcelwee, 2007). One of the developing countries that focus on improving business performance in the SMEs category is Indonesia.

The World Bank have released information about the conditions of entrepreneurship opportunities in Indonesia by issuing the Ease of Doing Business index. The World Bank said that Indonesia in the ease of investment category has improved since in 2016 among all countries in the world it was ranked by 106 and then reach 72 in 2017 (Kompas, 2017). This means that, Indonesian government has committed to facilitate all of necessary activities to support the sustainability of SMEs. The results of the World Bank study can be said as the government commitment in order to solve economic problems in Indonesia.

The contribution of SME sector to gross domestic product (GDP) has been increasing in the last five years. Ministry of Cooperatives and Small and Medium Enterprises noted that the contribution of SME increased from 57.84 percent to 60.34 percent. In addition, the SMEs has also helped the absorption of workforce in the country. Employment absorption in the SME sector grew from 96.99 to 97.22 percent in the last five years (Bank Indonesia: 2017). Therefore, the high level of unemployment can be gradually overcome by the large number of workforce absorbed. This statement was supported by the results of Tambunan's research that SMEs sector is able to increase the income of local communities. Moreover, it shows that SMEs have a strategic role in eradicating poverty and unemployment (T. T. H. Tambunan: 2012).

Furthermore, the research results in developed countries show that the small and medium enterprises have contributed to the economic growth in a country. For example, (Sum et al., 2004), reveal that in Singapore, SMEs have participated in increasing its economic growth. National economic growth in 2015 grew up to 4.71 percent, which in the last semester in 2014 grew by 4.89 percent. This means that, in the period of October 2014 - March 2015 the economic growth in Indonesia was decline by 0.18% (BPS RI: 2015). It can be said that, 4.71% of economic growth was contributed or supported by all areas of SMEs (Darmi: 2017). On the other hand, in 2015 economic growth in West Sumatra exceeds the national economic growth that reached 5.46% while the national economic growth was 4.71%. Unfortunately, the economic growth decreased by 0.65% in 2016 which only grew about 4.81%. Meanwhile, according to her article (Darmi, 2017), describes the development of SMEs reach about 1.2 million people in West Sumatra. Hence, this is not in line with the research results described above where the growth of SMEs should have implications for the economic growth. This condition consequently encouraged the researcher to conduct a review. This study was to determine the role of SMEs in improving the economy of local communities in West Sumatera.

Research Methods

In order to figure out the role of SMEs in improving the local economy (in west Sumatra), a qualitative research method was used. While, data source used were primary and secondary data. Technique for primary data collection was conducted through structured interviews by using instruments of simple question and observation. Informants were determined by means of "aims" in order to answer the research objectives. The research informants were any stakeholders related to SMEs either SMEs actors or other parties who were considered to have contribution in developing the SMEs. Secondary data was derived from financial reports related to economic development, development of SMEs both national and regional and regulations related of SMEs as well as the previous research results. The data obtained were analyzed through SWOT.

Result and Discussion

SMEs have a very important role in making the foundations of Indonesian economy better. SMEs contribute 99.99% of the total BPS business actors (2015). According to BPS (2015), this is evidenced by 1998 when economy crisis hit Indonesia; SMEs were able to survive compared to large category companies. One of the contributing factors that made them survive was the capital of SMEs was not depend on foreign currency.

The SMEs sector that can develop well in West Sumatra can be classified into: 1) agriculture, forestry and fisheries; 2) mining and excavation; 3) processing industry; 4) procurement of electricity and gas; 5) water supply, waste recycling management; 6) construction; 7) car and motorcycle repairs; 8) transportation and warehousing; 9) provision of accommodation and food services; 10) information and communication; 11) financial services and insurance; 12) real estate. The above SME sectors can be grouped into: 1) street vendors, as an informal group of SMEs; 2) craftsman, have not be able yet to develop their business properly; 3) SME groups that have been able to develop their business and have already built cooperation or partnership with other parties related to the progress of their business; 4) a group of SMEs that have been qualified in managing their business and have transformed into more advanced SMEs. These four groups of SMEs have different characteristics. The differences can be seen from the number of employees owned by the SME group. The better the SMEs, the more the number of employees will be.

Chairman Indonesian Chamber of Commerce and Industry (Kadin) RosanRoeslani states that the contribution of SMEs sectors to Indonesia’s export in 2016 were about 15.8%. If this number is compared with other Southeast Asian countries, such as Thailand at 29.5% and Philippines at 20% therefore, the performance of SMEs in Indonesia is still considered low. The low performance factor of SMEs is caused by human capital of Indonesia (Palmarudi Mappigau: 2013).

Human capital is affected by the Human Development Index (HDI) in each country. HDI characterizes the quality of community life where the better the community life, the better the level of HDI will be. The level of HDI in Indonesia is 70, 18, whereas the level of HDI in West Sumatra is 70.73. Referring to this number, then the HDI level in West Sumatra is higher than the national figure. This means that, the level of welfare of the local community (West Sumatra) exceeds the national average. The HDI level in West Sumatera in the last 4 years can be read in Table 1.

Table 1. Community Development Index

No	Year	Local (West Sumatera)	National
2	2016	70,73	70,18
3	2015	69,51	68,98
4	2014	68,87	69,55
5	2013	68,3	68,91

Source: research result, 2017

According to the table 1 above, the level of HDI in West Sumatra has a tendency to always be one level above the national HDI. This means, the Government of West Sumatra has been able to make the quality of community life better, local people are able to have decent standard of living, have adequate knowledge and a long life opportunity. That standard of living obtained cannot be separated from the contribution of the local government in improving the

capacity of the community. In addition, the people of West Sumatra have known to have a high entrepreneurial spirit that has been ingrained hereditarily.

Indicator of SMEs development can be seen from the added value made from the total value of goods and services produced by domestic territory in a country that are caused by the existence of economic activity. This indicator is a condition of economic growth called Gross Regional Domestic Product (GRDP). GRDP shows the rate of economic growth and the role of each business field within a region. The field of business is commonly identical with the activities of SMEs, the higher the growth of SMEs, the higher the level of GRDP in an area. The GRDP rate in West Sumatra can be seen in Table 2.

Table 2. Gross Regional Domestic Product Year 2013 - 2016

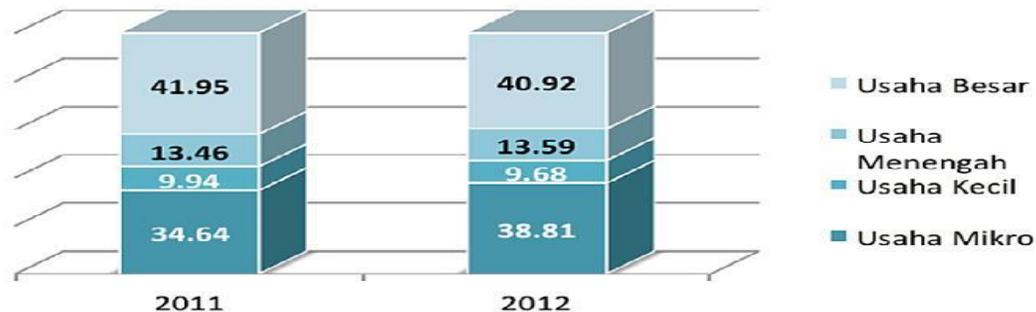
No	Year	Local (West Sumatera)	Nasional
2	2016	148.111	9.433.034
3	2015	140.705	8.982.511
4	2014	133.341	8.564.867
5	2013	125.941	8.156.498

Source: BPS, research result, 2017

Table 2 describes the GDP of West Sumatra and the combined value of GRDP amongc34 provinces in Indonesia. The GRDP is the result of total activities or activities of every SME in all sectors. The results of each SME's activities will contribute to economic growth both in West Sumatra and national.

Based on the results that have been described above, it can be concluded that SMEs contribute significantly to economic growth. If economic growth is good then the SMEs Growth is assumed to also be good. The development of SMEs in 2011 - 2012 according to the Ministry of Cooperatives was better than the large business category. The growth of the SMEs is presented in Graphic 1.

Graphic 1. Development of SME and Large Business Year 2011 - 2012



Source: Ministry of Cooperatives, 2014

Graph 1 shows an increase in growth for SMEs in 2011 by 34.64%, while in 2012 the growth of SMEs is 38.81. It means that, the growth increase by 4.17%. While, there is a decrease for the large business. In 2011 the growth reaches 41.95% and in 2012 a decrease happen by 0.47% where the growth only reach 40.92%.

The duty and authority to build and develop SMEs is in the Department of Cooperatives and Small and Medium Enterprises of West Sumatra Government, which is represented to the Small and Medium Enterprises Development Section. This section has the duty to build and develop community programs in the field of SMEs and coordinate anything related to all stakeholders. In accordance with its duties, this Department needs to analyze the real conditions to find out any problems or obstacles faced by the SMEs in developing their business.

To obtain the optimum conditions, the development of SMEs needs to be analyzed according to the existing conditions of SMEs in West Sumatra. The analysis should be based on viewpoint that can maximize the opportunities and simultaneously minimize the shortcomings and threats (SWOT) faced by the SMEs actors in developing their business. This condition analysis is considered important to be conducted in order to increase the growth of SMEs year by year. As a matter of fact, the increase growth of SMEs has greatly affected the improvement of economy of the local community.

Moreover, potential issues that must be considered in conducting SWOT analysis can be seen as follows:

- 1) potential of internal strengths, include human resources as a manager of SMEs from generation to generation, popular brands in various circles, product quality, affordability, products marketability;
- 2) potential of internal weaknesses, include limited financial resources, inadequate business development planning and strategies, high production costs, lack of technology, lack of marketing skills and lack of collaboration with other parties;
- 3) potential of external opportunities, include increase of market growth, changing needs and desires of consumers, opening up of the marketing out of the region of West Sumatra and even Overseas, there are new product innovations, new technologies, regulatory changes (government programs), demographic shifts and nuances of collaboration among SMEs fellow have begun to take place;
- 4) Potential threats include changes and consumer needs, entry of foreign competitors, new innovations in every product, consumer thrust began to decrease, lack of competitiveness, stricter regulation, worsening economy, rapid technological change, demographic changes.

Those potential issues above are problems, opportunities and threats that are faced by the SMEs in West Sumatra which also the existing condition of SMEs development. The issue of weakness is a shortcoming for SMEs in developing their business. Meanwhile, the opportunity is the condition of SMEs that are not part of activities that indirectly may affect to the growth of SMEs in West Sumatra both in positive and negative ways. It is expected that, this analysis can support the growth of SMEs and will have implications for the local economy.

Furthermore, table 3 below shows the potentialities, problems, opportunities and threats in developing SMEs in West Sumatra in details.

Table 3. Matrix of Existing SWOT of Small and Medium Enterprises in West Sumatra

<i>Strength</i>	<i>Weakness</i>
1. Local culture that embed the entrepreneurial spirit that have been ingrained hereditarily	1 Supported tools and machines used are still simple
2. Low prices so that can be reached by all walks of life	2 Lack of capital to start a business
3. Ability to process residual production materials into creative and innovative products	3 Lack of coaching and mentoring from the government to raise the Micro business unit
4. The products offered have good quality, brand priority and latest model	4 Raw material suppliers are far from business or even out of town which can slow the production process.
5. Production quality is better than the similar business	5 Human Resource with creative ability is still hard to find
6. Having skilled workers in the industrial sector	6 Unstable pricing
7. Equipped with quality industrial equipment	7 Many competitors
8. Having a personal website and forum also contact person of delivery order	8 Has not be able yet to create its own product as a featured Brand
9. A harmonious relationship between the owner and his employees and a good cooperation with the distributor	9 Lack of ability to provide goods (ready stock) which sometimes have to wait to be able to get the goods ordered
10. Warranty in the delivery of goods	
<i>Opportunity</i>	<i>Threat</i>
1 Lack of business place that provide a comfortable place, and remove the latest output products and has provided employment opportunities for local residents	1 The unstable economic conditions causes the unstable prices of raw materials that can affect the amount of production
2 Possible to be made as superior product area	2 Local government policies or regulations on SME development
3 Design of the products can be accepted by wider community	3 Low public purchasing power Low appreciation of local works
4 The development of creative industries in the regions is still small	4 Sometimes there are disruptions due to inadequate internet network
5 The existence of capital assistance programs from investors and	5 Many competitors follow or imitate the concept or style that have been created
	6 High dependence on imports of raw materials, auxiliary materials, semi-

government 6 With an innovative and creative effort, it will provide a great opportunity to become a big business	finished materials and other components 7 The price is unpredictable, when the price increases, then the selling price
--	---

By understanding the real condition of SME development in West Sumatera, so that any potentials opportunities, problems and threats faced by SMEs can be found. In order SMEs can participate in the context of economic growth in West Sumatra, it is important to identify and analyze the problems faced and find the solution. From the SWOT make use the opportunity (S-O) to achieve the role of SMEs in improving the local people's economy that will automatically contribute to national economic growth. With the discovery of weaknesses and take advantage of the existing (W-O) opportunities, strategies to create the role of SMEs in improving the economy of local communities can be determined. The SWOT analysis has identified the strength that can overcome the threat (S-T) in developing SMEs. On the other hand, the weaknesses or problems encountered can be a way to anticipate any threats in the future (W-T). The matrix can be seen in Table 4 below.

Table 4: Matrix of the Role Strategy of SMEs in Improving Economy of Local Communities

Strategy S-O	Strategy S-T
<ol style="list-style-type: none"> 1. Local Government of West Sumatra in coordination with the Government of Regency / City create a new concept related to the development of local wisdom for local community to develop their entrepreneurship skill. 2. Utilizing the history and local wisdom of West Sumatra in developing SMEs on a national scale 3. The Government cooperates with SMEs actors and facilitates SMEs in order to establish partnerships with SMEs who have been qualified in managing their business 	<ol style="list-style-type: none"> 1. Conducting arrangement or grouping of street vendors (PKL) of regencies/ cities in West Sumatra in order to identify dependent and independent SMEs 2. Conducting integrated management of SME development 3. Promoting quality products by utilizing the historical values and the strength of community entrepreneurship that has been done hereditarily
Strategy W-O	Strategy W-T
<ol style="list-style-type: none"> 1. Increase the human resource capacity of SMEs, improve creativity / product innovation, set up a comfortable environment and collaborate with other parties. 2. Improve institutional coordination 	<ol style="list-style-type: none"> 1. Provide facilities for easy capital facilities for SMEs, facilitating ease of obtaining raw materials, provision of internet network facilities and SMEs in utilizing technology in managing their business

involved in developing SME products, development of entrepreneurship environment to stakeholders (SMEs actors)	2. Prepare skilled practitioners/ experts for a free consultation and can provide solutions and insights on issues facing the development of SMEs
--	---

Source: Research result, 2018

The matrix above is a strategy matrix to enhance the role of SMEs in improving the economy of local people that can be guided by the concept of new paradigm in increasing regional economic growth which is believed as a capital to improve regional economy known as Modern Regional Policy concept. This concept consists of two elements in improving economic growth that can be identified as: 1) the existence of SMEs actors; 2) using technology optimally. The management of SME organizations does have some disadvantages in operational activities. These weaknesses may include marketing difficulties, access to a very limited financing sources, limited human resources (HR), raw material difficulties and also limited innovation and technology. Therefore, as a solution, all stakeholders involved need to encourage each other, assisting in managing the organization/ management of SMEs in order to overcome the problems.

The role of SMEs according to some literature as described in the introduction above explains that if the SMEs can grow and develop consistently then the SMEs can play maximum role including: 1) create the employment; 2) be able to create new industries; 3) be able to compete either locally or nationally or even internationally; 4) encourage fair competition, a conducive environment as well as strengthen the culture among SMEs actors; 5) encourage creativity and innovation, if SMEs can maximize the information technology; 6) create partnerships between SMEs fellow members. In the existing condition, the role of SMEs in West Sumatra is still limited at the point 1. Meanwhile, the other points will implemented soon.

Conclusion

Economic growth in a region is determined by its GDP. While the GRDP is determined by the high and low level of activity or economic activity, which is mostly done by SMEs. In West Sumatra, economic growth exceeds the achievement of national economic growth. The results show that the role of SMEs in West Sumatra already has played an important role in improving the local people's economy. This is also supported by the fact that the people of West Sumatra have an entrepreneurial commercial spirit which has become the structure root of the original culture of the local economy.

Reference

- Bank Indonesia. (2017). Kajian Ekonomidan Keuangan Regional Provinsi Bengkulu Barat, Divisi Advisory Pengembangan Ekonomi Daerah, Padang.
- Badan Pusat Statistik, Propinsi Sumatera Barat. (2015). Sumatera Barat dalam angka 2017.Padang.

- Badan Pusat Statistik, Republik Indonesia. (2015). Indonesia dalam angka 2017. Jakarta.
- Darmi, T and Agussalim . (2017). Identification Of Small And Medium Highlighted Fuel Developer Factors. In et. al. Dr. H. Achmad Fhatoni (Ed.), *INTERNATIONAL CONFERENCES ADRI 14TH* (pp. 639–645). Bali: ADRI. Retrieved from <http://proceedings.p-adri.or.id/2017/10/03/international-conferences-adri-14th/>
- Palmarudi Mappigau, A. and Agussalim (2013). Human Capital and Survival of Small Scale Food Processing. *Australian Journal of Business and Management Reseach*, 3(1), 16–29.
- Putera, A D (2017). Bank Dunia: Kemudahan Berbisnis Indonesia Naik ke Peringkat 72. Kompas.com. tanggl 01 Nopember 2017, diakses tanggal 20 Februari 2018.
- Sum, C., Shih-Ju Kow, L., & Chen, C. (2004). A taxonomy of operations strategies of high performing small and medium enterprises in Singapore. *International Journal of Operations & Production Management*, 24(3), 321–345. <https://doi.org/10.1108/01443570410519051>
- Tambunan, T. (2009). Export-oriented small and medium industry clusters in Indonesia. *Journal of Enterprising Communities: People and Places in the Global Economy*, 3(1), 25–58. <https://doi.org/10.1108/17506200910943661>
- Tambunan, T. T. H. (2012). Peran Usaha Mikro dan Kecil dalam Pengentasan Kemiskinan di Daerah. *Jurnal Bina Praja*, 4(2), 73–92. <https://doi.org/http://dx.doi.org/10.21787/jbp.4.2012.73-92>
- Vesala, K. M., Peura, J., & Mcelwee, G. (2007). Journal of Small Business and Enterprise Development. *Journal of Small Business and Enterprise Development International Journal of Entrepreneurial Behaviour & Research*, 14(1), 48–63. <https://doi.org/10.1108/JSBED-10-2015-0149>