

# Assisting SMEs in Indonesia through Universities in Indonesia as A Way Out of Empowering SMEs to Achieve Maximum Results

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**Abstract:** The purpose of this paper is to provide an overview of the current situation of SMEs in Indonesia. Can the Indonesian economy rise with assistance from campuses in Indonesia? The method the author applies is qualitative, tracking academic literature and other related materials, focused group discussions to get feedback on the design of research reports, subjective approach to review existing data and materials. SMEs in Indonesia hope to get capital assistance from the Government. For further research, the author suggests continuing research by profoundly examining the Government's program for SMEs in Indonesia.

**Keyword; University, Mentoring, SMEs, Indonesia, Assistance**

## I. INTRODUCTION

During the pandemic, the production and marketing activities of Small and Medium Units in Indonesia encountered a very significant decline. SMEs in Indonesia experienced a very drastic decrease in turnover. Its production and marketing, which usually reached a turnover of millions of Rupiah per day, has now dropped to hundreds of thousands of Rupiah. One of the contributing factors is the lack of production raw materials, which at the same time affects the distribution of marketing.

Limited Human Resources (HR) Education Most small businesses grow traditionally and are family businesses passed down from generation to generation. The few human resources of small businesses, both in terms of formal education and knowledge and skills, significantly affect the management of their companies. It makes it difficult for the industry to develop optimally. In addition, with limited human resources, these business units are relatively challenged to adopt new technological developments to increase the competitiveness of the products they produce.

Weakness of market penetration (E-Marketing) Small businesses, which are generally family business units, has a very limited business network and low market penetration capabilities because the number of product innovations produced is very limited, and the quality is less competitive.

The process of empowering the results obtained consistently after training and the capital aspect and marketing aspects are the priority factors that determine the sustainability of SME prospects.

## *SME Theory and Research Propositions*

Small businesses are essential to study because they have an important role in economic growth on a national and regional scale. 90% of the total trade in the world is contributed by SMEs (Lin, 1998). SMEs contribution to labor absorption (Tambunan, 2005). Empirical studies show that SMEs on an international scale is a source of job creation (Olomi, 1999; Lin, 1998; Westhead and Cowling, 1995). The contribution of SMEs to employment, both in developed and developing countries, including Indonesia, has a significant role to play in overcoming the problem of unemployment.

Small and Medium Enterprises (SMEs) have an essential role in a country's economic and industrial growth, including in Indonesia (Husband and Purnendu, 1999; Mahemba, 2003; Tambunan, 2005). The National Long-Term Development Plan (RPJPN) 2005-2025 states that to strengthen the nation's competitiveness, one of the long-term development policies is to improve the economy's domestic competitiveness based on each region's advantages towards competitive advantage. One way to realize the policy is through the development of SMEs. The issuance of Presidential Instruction Number 6 of 2007 concerning the Acceleration of Real Sector Development and Micro, Small, and Medium Enterprises (MSMEs), shows the strengthening of the position of SMEs in national development policies. The fundamental problem is how to implement this policy so that SMEs in Indonesia can truly become economic actors who have a major contribution to strengthening the domestic economy. Based on research by The Hongkong and Shanghai Banking Corporation (HSBC) in 2007, SMEs in Indonesia are very optimistic about continuing to be developed because around 64% of SME entrepreneurs in Indonesia have the intention to increase investment in business development and around 44% of SME entrepreneurs in Indonesia have plans to increase their business development.

SMEs in Indonesia is a barometer of a country's economic health. This study further reaffirms that SMEs in Indonesia have shown their role in the creation or growth of job opportunities and as one of the crucial sources of gross domestic product (GDP) growth. According to the State Ministry of Cooperatives and SMEs (2007), it was stated that in 2006 the contribution of SMEs in the creation of national added value was Rp. 1,778.75 trillion or 53.3 percent of the national GDP, with a GDP growth rate of 5.40 percent in 2005-

2006. Rinaldi's research (2004) states that Indonesian SMEs have contributed to the work of the National Seminar on the Application of Information Technology 2009 (SNATI 2009) ISSN: 1907-5022 Yogyakarta, June 20, 2009, B-12 work, which is more than 50% of the total national absorption. This contribution shows that SMEs in Indonesia can strengthen the structure of the national economy (Prawirokusumo, 2001).

Based on research conducted by AKATIGA, *the Center for Micro and Small Enterprise Dynamic (CEMSED)*, and *the Center for Economic and Social Studies (CESS)* in 2000, shows that the characteristic of SMEs in Indonesia is resilience to life and development. The ability to improve their performance during the economic crisis. Basri (2003) stated that SMEs in Indonesia can survive during the financial situation caused by 4 (four) things,

1. Most SMEs produce consumer goods, especially those that are not durable,
2. Most SMEs rely more on non-banking financing in the aspect of business funding,
3. In general, SMEs specialize in strict products, in the sense of only producing certain goods or services,
4. The formation of new SMEs resulted from many layoffs in the industry. Formal sector. Facing the global economic crisis and multilateral (WTO), regional (AFTA) free trade, APEC informal cooperation, and the ASEAN Economic Community (AEC), SMEs are required to make changes to improve their competitiveness so that they can continue to run and develop.

Limited capital and access to finance are the main obstacles to developing small and medium enterprises (SMEs).

The majority of entrepreneurs use their capital to run their businesses. The lack of capital for SMEs is caused because SMEs are private enterprises or companies that are closed in nature and rely on very limited own capital, while borrowed capital from banks or other financial institutions is difficult to obtain because of the administrative and technical requirements requested by the bank cannot be met.

Model and Solution Framework, the process of empowering the results, obtained consistently after training and the capital aspect and marketing aspects are the priority factors that determine the sustainability of SME prospects.

Small businesses are important to study because they have an important role in economic growth on a national and regional scale. Most of the 90% of the total business in the world is contributed by SMEs (Lin, 1998)

In addition, SMEs contribute to the absorption of labor (Tambunan, 2005). Small and Medium Enterprises (SMEs) have an important role in the economic and industrial growth of a country (Husband and Purnendu, 1999; Mahemba, 2003; Tambunan, 2005). Empirical studies show that SMEs on an international scale is a source of job creation (Olomi, 1999; Lin, 1998; Westhead and Cowling, 1995). The contribution of SMEs to employment, both in developed and developing

countries, including Indonesia, has a significant role in overcoming unemployment.

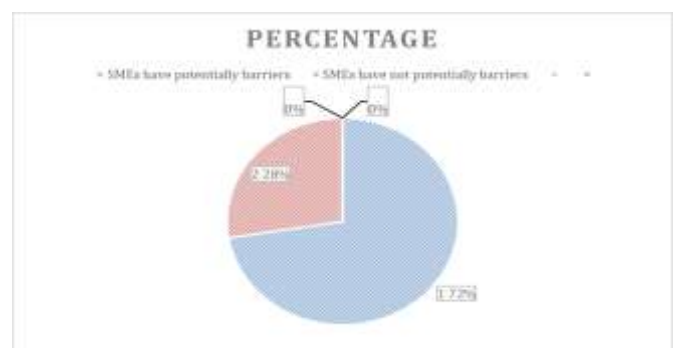
The research design used in this paper is qualitative. This research is secondary data that analyzes literature on undergraduate assistance from UKM campuses in Indonesia, including academic literature and other relevant sources published and related documents. This article is compiled using qualitative methods using in-depth literacy or literature studies to gain a rigid understanding. To support the achievement of understanding, this article is also prepared with a comprehensive analysis method, including critical reflection on the problems posed. In addition, critical reflection in this article is used as a mode of interpretation of the problems and theories used.

*Problem;*

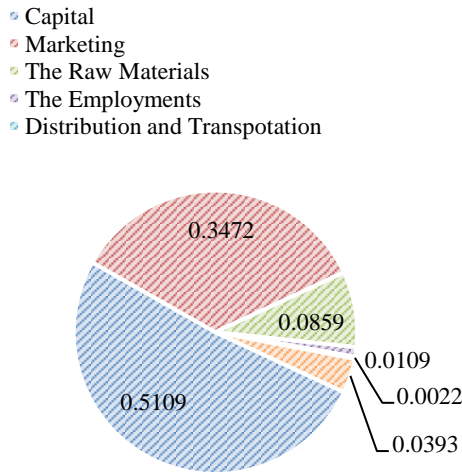
*Internal Problems (Basic)*

Research in collaboration with the Ministry of State SMSEs with BPS (2003) in Winarni (2006) informed that 72.47% of SMEs experienced business difficulties, and the remaining 27.53% were not problematic. Of the 72.47% who experienced business difficulties, the difficulties that arose were identified as: (1) Capital 51.09%, (2) Marketing 34.72%, (3) Raw materials 8.59%, (4) Employment 1.09%, (5) Transportation distribution 0.22% and (6) Others 3.93%. Widiyanto (2010), entitled "MSME Development Strategy in Central Java," aims to examine the adaptation of technology, working capital, marketing, innovation, entrepreneurship, and access to working capital to build an SME development strategy in Central Java. From the results of the study using quantitative descriptive analysis tools, the following results were obtained: The potential of MSMEs in Central Java Province lies in the processing industry, agriculture, forestry, fisheries, and animal husbandry sectors.

The limitations of innovation and the degree of adaptation are pretty high. The leading sector is the creative processing industry because the replication rate of competitors is meager and is able to become a product icon or branding. The limitations of SMEs in the face of competitive advantages are market expansion, financial accessibility to banking, and low human resource capacity. In short, the problems SMEs face are marketing, capital, innovation, utilization of information technology, using raw materials, production tools, employment, and business development plans.



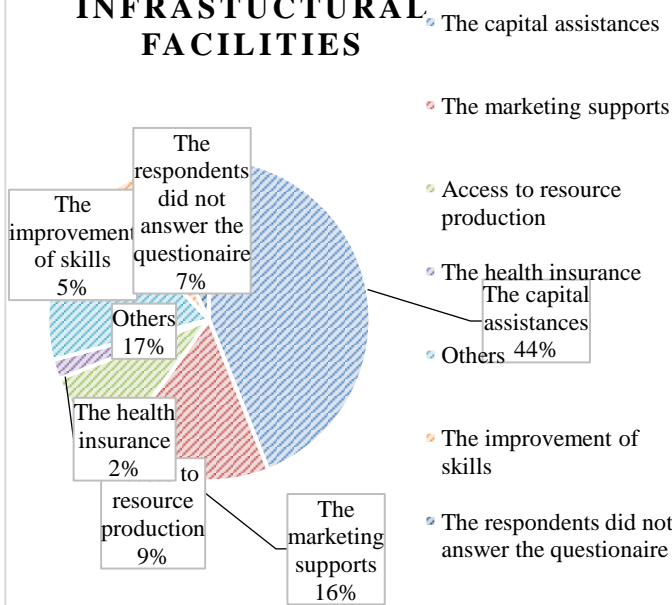
**CHALLENGES FACED BY SMES IN INDONESIA**



Based on research conducted by Wahana Visi Indonesia (WVI) in the period 12-18 May 2020, by surveying 900 households and 943 children spread across nine provinces in Indonesia, which includes rural (88.1%), semi-urban (4.1%), and urban (7.8%). WVI said that micro, small and medium enterprises (MSMEs) affected by the pandemic need assistance from outside parties, such as the government, the private sector, non-profit organizations, etc. The research shows that the assistance most needed by MSME actors is capital assistance (44%) and marketing support (16%) for the products and services offered.

MSME actors also need assistance in access to production sources (9%) and support for improving their business knowledge and skills (5%). Based on this, it can be described as follows;

**THE NEEDS OF SMES IN INFRASTRUCTURAL FACILITIES**



**II. RESEARCH METHODS**

The article was created based on observations of the phenomena around the author's environment. The writing of this article combines two methods, namely the literature method and the interpretation of data obtained from observations. The literature method's purpose is to find good reference sources against the development of the theory used in this writing. Origins of writing come from articles, journals, and books, as well as official internet pages such as government websites and educational web pages, both national and international. With the literature method, the author can find sources relevant to the material to be discussed. Researchers obtain data through reading materials and analytical, critical studies associated with the problems raised.

In addition, article writing also uses the interpretation of observational data. Where the interpreted data comes from qualitative and quantitative research data, the qualitative data in this article comes from interviews with speakers with the same experience as the core of the discussion in this article. Meanwhile, quantitative data was obtained from calculating objects and respondents involved in this study.

In the article discussing the role of universities in developing MSMEs, quantitative data comes from the number of interviewees. The data obtained from the observations and research results will be combined with the data obtained from the literature study. The Researchers provide a double advantage, namely testing the validity of data from library data and providing completeness of incomplete library data, along with developing empirical data in the constantly changing field.

*Research methods;*

1. Keep track of academic literature and other related reading materials, as well as related documents, white papers, etc. ;)
2. Literature Review; ii)
3. document analysis; iii)
4. analysis of the data as a whole; iv)
5. write research reports; v)

In Focus group discussions to get feedback on the design of this research report, researchers use a subjective approach to review existing data and materials.

*Research Questions*

2. 1 *Is it Necessary for Universities to provide Assistance to Small and Medium Enterprises?*

Micro, Small, and Medium Enterprises (MSMEs) are one of the sectors affected by the Covid-19 Pandemic. The impact was in the form of a decrease in revenue by 84.20%. At the same time, Large Medium Enterprises also experienced a reduction in revenue by 82.29%. This phenomenon makes MSMEs reduce their workforce to maintain production.

Member of the Faculty of Economics and Business (FEB) UNS, Nurul Istiqomah, stated, based on data, the layoff rate in Micro and Small Enterprises was 33.23%. At the same time, in

Large and Medium Enterprises, it was 46.64%. In addition, the Central Statistics Agency (BPS) in August 2020 reported that Indonesia's unemployment rate increased by 2.67 million people. The increase in unemployment caused a decline in Indonesia's economic growth, which reached 3.49% in the third quarter.

"To move MSMEs amid the Covid-19 pandemic, there are stages that must be done. First, rescue a phase in which economic assistance must be provided to communities and people affected by Covid-19. In this phase, the government must consider the trade-off between health and the economy," explained Nurul Istiqomah., Thursday (31/12/2020).

Nurul continued her explanation in the second stage. At this stage, people can carry out their activities as usual by implementing health protocols. There is a shift from fear to awareness in this phase, and it is characterized by increased technologically assisted activities. The next phase is recovery, when people come to terms with Covid-19 and carry out all their activities with a new type of pattern. "Therefore, there is an important point that needs to be built by MSMEs and related stakeholders," he added.

**The first important point** that MSMEs need to make is to build a strong institutional system as the main foundation. This can be done by joining an association or business group. MSME affiliates in one group can facilitate the acquisition of information from upstream to downstream.

**The second point** is adaptive to technology. Based on his observations in several regions, MSMEs that market their products online tend not to experience a significant decrease in income and maintain their market share. "This is because the potential for internet users in Indonesia reaches 196.7 million people," explained Nurul.

**The last point** is the diversification of products so that their products are absorbed by the market, especially immune-enhancing products.

The active role of stakeholders is necessary to realize these points. Starting from the government by helping MSMEs is an important step in reviving MSMEs. Aspects that need to be evaluated in the future regarding the distribution of government assistance are the speed, accuracy, and priority of assistance.

Nurul also said that the community has a role in increasing the immunity of MSMEs through supervision of the distribution of assistance to prevent misappropriation. On the other hand, MSMEs also need assistance in developing strategies to deal with the pandemic. The basic design of MSMEs is to wait for the market to move and produce after receiving an order. "This is different from the conditions before the pandemic where they continued to run the production process without waiting for orders," said Nurul.

The business world represented by financial institutions also plays a role in increasing economic inclusion for MSMEs. According to the OJK, financial inclusion benefits improve

public welfare, encourage national economic recovery, and support people's economic resilience in all conditions. The media is the last stakeholder who has a vital role in this process. The media can increase economic enthusiasm by reporting news about MSMEs. "The media can also inform the public that MSMEs continue to produce and operate during the pandemic," explained Nurul.

Thus, MSMEs and the economy can reach the stage of development. Economic recovery through various community activities; economic activities, health activities, education, and cultural and social activities. If the development stage has been reached, the growth stage is where the economy continues to grow, and Indonesia can achieve recovery so that Indonesia can rise from the pandemic.

The author got from the interview that, basically, MSMEs are willing to accept assistance from the campus to achieve recovery so that Indonesia can rise from the pandemic.

*2.2 If an SME agrees to receive mentoring, what kind of assistance is coercive?*

Self-reported constraint data have been used in empirical research on companies in developing countries, but they have limitations. In some self-reported surveys of constraints, questions are asked slightly differently, and this may affect the interpretation of the results. More importantly, many companies may not have enough understanding of their company's market or growth potential to recognize what the real problem is in running their business operations.

Despite these issues, table 16 presents data on self-reported constraints on doing business for micro, small and medium enterprises. In panel A, we reported results from IMK 2013 data, which included micro and small companies, while in panel B, we reported results from WBES 2009 data, which included small and medium-sized companies. Both surveys ask companies to name the most important constraints or issues associated with running their business operations, but both surveys provide different answer choices to companies, so the data cannot be compared directly.

The fact that Indonesian SMEs have great potential related to the ability to survive in times of crisis does not lead to product capabilities. In addition, several factors are the reasons why the image of Indonesian SMEs does not appear significantly; the inability to compete in the global market and the results will be obtained in the form of measurements consisting of several inhibiting factors faced by SMEs. The methodology used in this study was a critical literature review, quantitative and qualitative data collection through questionnaires to 200 respondents, and in-depth interviews with each respondent.

The results showed there were ten main obstacles facing SMEs: barriers to competition, financial access; energy prices; technology; inefficient production costs; economic factors, management skills; processes; sales restrictions; and raw materials. Most SMEs agree that the government should dedicate more efforts to certain actions to remove barriers to

SMEs, such as improving security standards, development programs, good financing policies, rational energy policies, continuous performance evaluation, commitment to stop corruption, and many supporting programs needed by SMEs. Furthermore, this research can contribute to government programs for the empowerment of SMEs as a pillar of the Indonesian economy.

### *2.3 If SMEs do not agree with assistance, what obstacles occur in campus assistance to SMEs*

SMEs expect many solutions that governments and other stakeholders should look out for if they intend to develop SMEs to enhance their competitive advantage in the global market. SME respondents agreed that the government should be concerned with raising security standards when goods are shipped from companies to markets because Indonesian crime is really a serious threat to SMEs. The government must maintain the sustainability of SMEs by creating more programs spread across the regions, and civil servants should go to the SME market and see how the SME conditions are to create effective programs to solve the problem of SME development. One solution is to provide a separate institution that works specifically to foster the potential of SMEs. This program can be represented by establishing special institutions in each region in Indonesia as a forum for SMEs to consult and find solutions to their problems or periodically send their people to check the condition of SMEs to reduce the obstacles faced by SMEs. Furthermore, they should regularly evaluate the program to measure the performance and effectiveness of their program in assisting SMEs. SMEs in Indonesia face financial problems, so they need more soft loans with simple SME credit scheme application requirements.

The government must protect the price of primary goods, as it also affects the prices of other materials. SMEs agreed that the government should abolish the permit fee to open a new business because many of them consider it quite expensive to run a business for the first time. This licensing is costly for SMEs, and respondents consider this factor to be another threat to achieving their goals. The government should revise this policy and make a supportive determination to prevent SMEs from taking advantage of their businesses. To remove financial barriers, the government is obliged to maintain the rupiah currency and seriously maintain energy prices such as electricity, fuel, and other energy costs that are affordable for SMEs. Governments should facilitate SME technology through soft loans to purchase supporting technology for their businesses. As many SMEs are constrained by land costs, they hope that the government can provide land leases for businesses at very affordable prices for SMEs or provide decent and strategic locations for SMEs. Indonesia faces the problem of corruption, and this fact also affects the sustainability of SMEs. The government must give its best efforts to eradicate corruption. SMEs need supporting policies to help them survive. There should be strict sanctions for bureaucrats who collect illegal levies from SMEs.

Another thing is that SMEs expect the government to undertake serious programs to develop SMEs in the global market without high costs, for example, training for overseas marketing, skills and knowledge development, and entrepreneurial motivation training.

### III. CONCLUSION

The results of the assistance are obtained from the premise of the Indonesian SME fostered program, The Role of University Innovation for Processing which provides maximum results for the economic empowerment of SMEs in Indonesia. Such empowerment results in the following points:

1. Increase production
2. Improve Marketing
3. Improving Knowledge and Procedures in Business Ethics
4. Changing minds into progressive Business People.

The limitations of innovation and the degree of adaptation are quite high. The leading sector is the creative processing industry because the replication rate of competitors is very low and is able to become a product icon or branding. The limitations of SMEs in the face of competitive advantages are market expansion, financial accessibility to banking, and low human resource capacity.

From the results of the data, it was found that MSMEs experienced a considerable decrease in income due to the Covid-19 virus. The workforce became reduced to maintain the output of production, and there was a lot of unemployment. Therefore, assistance to these MSMEs is needed by universities to restore their income and labor. The assistance can be done in the form of providing capital, building a strong institutional system, adapting to technology, and diversifying products to be absorbed by the market. From the results of the data, the majority of MSME actors want more capital assistance than other assistance. Competition and access to finance are the main obstacles for MSMEs to advance their productivity. In this case, universities must strive to remove obstacles experienced by MSMEs and then accompany them. Things that universities can do in the form of capital assistance, helping to develop new products, providing education in the form of free seminars or workshops to increase the insights of MSME actors, and helping with offline and online marketing.

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