



Empowering Small-Medium Enterprises for Developing Local Business: Case Study in the Sub-district of Karanggede, Regency of Boyolali

Mohammad Nurul Huda¹; Dwi Haryo Ismunarti²; Zaki Ainul Fadli³; Khresna Gumelar Syahputra Mohamad⁴; Zabrina Afnan Trihanita Putri⁵; Irfan Murtadho Yusuf⁶

¹ Department of Public Administration Universitas Diponegoro, Semarang, Indonesia

² Department of Oceanography Universitas Diponegoro, Semarang, Indonesia

³ Department of Linguistic Universitas Diponegoro, Semarang, Indonesia

⁴ School of Vocational Universitas Diponegoro, Semarang, Indonesia

⁵ Universitas Diponegoro, Semarang, Indonesia

⁶ Department of Public Administration Universitas Diponegoro, Semarang, Indonesia

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Abstract

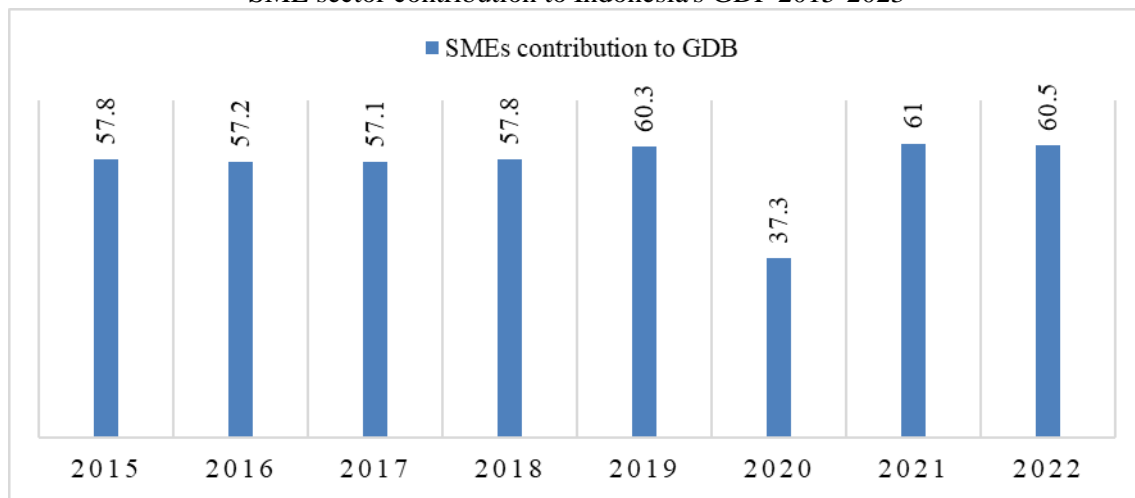
The study aims to explain the empowerment of small and medium enterprises (SMEs) as an effort to increase the sustainable local economy. In developing countries, SMEs play an essential role as the backbone of regional income, which significantly contributes to the national economy. Unfortunately, the SME sector faces various problems stemming from external and internal factors. The SME empowerment program is an effective alternative solution in developing the capacity of SMEs to maintain business continuity and develop innovative products. This research uses a qualitative approach with a case study method. Participant observation, in-depth interviews, and literature review were used to explore data in detail and depth. A purposive sampling technique was used to determine relevant and appropriate informants with the research topic. The study results show that 1) innovation is essential in maintaining SME business continuity. 2) The SME empowerment program aims to build the capacity of SMEs to increase their innovation. In this case, human resources and organizational capacity are carried out by derivative educational activities and workshops, training, and the use of ICT to develop organizational governance. Some of the proposed policy recommendations, the desire for the SME empowerment program needs to be on the agenda of the regional government's annual activities, the application of SME product protection policies must be carried out, and the use of SME products in various public and government events needs to be carried out.

Keywords: *Capacity Building; Empowerment; Local Economics; Innovation; Small-Medium Enterprise*

Introduction

Small and medium enterprises (SMEs) are a sector that is the backbone of state revenues and economic growth in countries around the world (Edoun et al., 2019; Muñoz-Pascual et al., 2019). In developing countries, SMEs are essential in running the economy, creating more than 50% of jobs and contributing 40% of national income (The World Bank, n.d.). Interestingly, SMEs are the primary economic support sector in the economic development of developing countries because of their crucial role in optimizing local resources (Mitariyani et al., 2023; Morina & Gashi, 2016). The contribution of SMEs to economic development is manifested in increasing sources of local tax revenue (Kautsar, 2020), expanding employment opportunities (Mohamad et al., 2021), increasing the prosperity and welfare of society through exploiting local potential (Iskandar et al., 2017).

Table 1
SME sector contribution to Indonesia's GDP 2015-2023



sources: compilation from various sources (Kominfo RI, 2022; Lokadata, 2020)

In the context of developing countries, especially Indonesia, SMEs have a very large contribution to state revenue. Table 1 shows information on the contribution of SMEs to Indonesia's GDP. The decline in the contribution of SMEs occurred in 2020 due to the spread of the COVID-19 pandemic. The COVID-19 pandemic has caused significant changes to the business environment, accompanied by various negative impacts. For example, the failure of large businesses to deal with the Covid-19 pandemic caused the unemployment rate to increase, and workers decided to start SME businesses by utilizing government assistance funds (Afriza, 2021). COVID-19 led to the emergence of overhead costs for SMEs - a severe problem of the decline in their financial performance in paying employee salaries and business operations, causing SMEs to go bankrupt (Joha et al., 2022). Covid-19 also has an impact on changes in people's consumption patterns. The high interest in bicycle sports has driven high demand for bicycles and bicycle parts, which impacts the SME sector's income (Ramdani, 2020). Therefore, the COVID-19 Pandemic is an external factor that dramatically influences the sustainability of the SME business in Indonesia.

The development of information and communication technology (ICT) has had a significant impact on the SME sector. Ideally, using ICT gives SMEs a competitive advantage (Napitupulu et al., 2018). The development of ICT is a big challenge for the SME sector to make the correct business strategy by technological developments to maintain the sustainability of its business processes (Li et al., 2016). Efforts to develop SMEs in maintaining their sustainable contribution in a competitive market environment are needed (Mohamad et al., 2021). Previous studies revealed that SMEs in developing countries face significant challenges due to changes in the business climate because they are in a circular

economy transition period (Kuok & Promentilla, 2021). This concept is new in policy and advocacy in the business group environment (Korhonen et al., 2018). External challenges, environmental and social, also encourage SMEs to continue to develop through sustainable, innovative solutions (Dasgupta, 2021).

Regardless of the enormous contribution made by SMEs, the sustainability of SMEs is essential to maintain. Their innovation capacity influences SMEs' business sustainability (Li et al., 2016; Tyas & Hutama, 2021). One of the efforts to develop the capacity of SMEs is through empowerment activities. Empowering the small business community is an effort that allows SME business actors to develop through strengthening three aspects: enabling, empowering, and protecting. Empowerment is an effective strategy for building the power of community independence to reduce backwardness and powerlessness (Arfah & Samiha, 2020) in order to achieve prosperity by solving the problems they face (Maula et al., 2021). In the context of empowering the small business community, empowerment is defined as an effort to actualize the potential of small business groups in increasing motivation and strengthening the decision-making abilities of business actors in running their businesses (Guntur et al., 2020). Therefore, empowering the SME community is an effective strategy to support the capacity building for innovation in maintaining the sustainability of the SME business.

Existing research has paid much attention to SMEs in developing countries. Much previous work uses qualitative modeling to uncover the facts of empirical problems that drive the failure of business firms (Pierri & Caroni, 2022). This resulted in a lack of interest in previous work focusing on how SMEs in developing countries develop business strategies (Fauzi et al., 2021; Kuok & Promentilla, 2021; Wynn & Olayinka, 2021). For example, the Study (Fauzi et al., 2021) analyzes potential sectors that affect SMEs managed by women entrepreneurs in Indonesia. Kuok & Promentilla's study (2021) succeeded in analyzing the obstacles to implementing PPP in the development of SMEs in Cambodia using a decision-making trial and laboratory evaluation. On the other hand, previous work has offered a framework for developing an e-business strategy for the small business sector in Nigeria (Wynn & Olayinka, 2021). This study explains and analyzes the SME empowerment program to increase sustainable local economic development. Local government in developing small-medium enterprises that focus on empowering business actors to develop business innovations. Therefore, the authors believe this research offers a new and different perspective that can encourage the development of a body of knowledge in the SME context, especially in developing countries.

Research Methods

This research uses a qualitative approach with a case study method. The qualitative approach was chosen because it has the advantage of collecting facts in detail to explore and understand certain social phenomena (Erlangga, 2019). A qualitative approach allows elaboration and exploration of research, designs-explaining, and describing research problems more in-depth and directedly. To observe in detail the social phenomenon of small-medium enterprise empowerment, the case study method was chosen with the research location in the sub-district of Karanggede, Boyolali Regency. The choice of a qualitative approach using the case study method in this research will likely explain the strategy for empowering small-medium enterprises in the sub-district of Karanggede, Boyolali Regency. Relevant information was collected using data collection techniques such as participant observation, in-depth interviews, and literature reviews. The research activity was carried out by implementing the community service program part II of Universitas Diponegoro, Indonesia. Community Service Program, Part II of Universitas Diponegoro, allows researchers to participate in SME empowerment programs actively. We carry out capacity-building activities, training, workshops, and the launch of stock management applications. To validate the research findings, the research conducted interviews through group discussion forum activities. Researchers sent invitation letters to SME business actors in the sub-district of Karanggede, Boyolali Regency. In the FGD activities, purposive sampling techniques and population samples were applied. The purposive sampling technique was chosen because the determination of

informants was based on specific objectives expected to answer the research problems. The researcher also conducted a literature review on existing research related to this research topic to complete relevant information in compiling this article. Sources of research data are informants and documents. The researcher invited small-medium enterprise actors in the Sub-district of Karanggede, Boyolali Regency, and village government officials in the Sub-district of Karanggede, Boyolali Regency. The documents used in compiling the manuscript of this article are scientific articles, documents on the implementation of training programs for small-medium enterprises, and other documents related to the development of small-medium enterprises.

Results and Discussion

The Innovation for Developing Small-Medium Enterprises

The development of SMEs in the trade industry sector is facing an uncertain business environment. The uncertainty of the trade climate is often known as the concept of VUCA (Volatility, Uncertainty, Complexity, and Ambiguity). This uncertainty encourages the SME sector to formulate the right solution-development of a flexible organizational structure and good adaptability (Teguh Hidayat & Franksiska, 2022). The flexible organizational structure of SMEs emphasizes the existence of organizational work units that support the SMEs' work system in their operating environment. The adaptive ability of SMEs shows the ability of organizations to make the right decisions in routine or emergencies (Asgary et al., 2013), the ability of sustainable organizations to adapt the needs of the organization's environment to the needs of the company (De Matteis et al., 2023). These two solutions can be realized if the SME sector opens itself up to the development of organizational innovations.

The definition of innovation can be found in various previous literature. Unfortunately, the existing literature defines innovation as having very diverse meanings. The diversity of definitions of innovation is influenced by the different typologies used in defining the concept (Kogabayev & Maziliauskas, 2017) or the paradigms that develop in their respective disciplines (Baregheh et al., 2009). For example, innovation is defined as a multi-stage process that enables companies to turn ideas into tangible outputs-goods and services-as a way for organizations to develop themselves, survive, and create distinctive characteristics in a market environment (Baregheh et al., 2009). Varadarajan (2018) conveys a similar definition that innovation is the production of value by applying appropriate knowledge and resources to transform ideas into new products, processes, or practices, or improve existing products, methods, or practices. These definitions emphasize that innovation is a new concept, the result of a process that describes the novelty and usefulness of changes (Granstrand & Holgersson, 2020).

The need for innovation in the development of SMEs plays a vital role in various perspectives. In the economic aspect, SME innovation is essential to economic progress and competitiveness in a country's economy (Cankar & Petkovsek, 2013). In corporate sustainability, innovation is essential in maintaining the sustainability of the SME business itself (Muñoz-Pascual et al., 2019). In the problem-solving aspect, innovation within the company becomes a solution in combating four company problems related to what type of innovation is currently needed, coordinating managerial roles, using operational controls effectively, and properly training and preparing individuals (Kuratko et al., 2014). Innovation helps countries identify issues and challenges, develop new processes, and implement new solutions to address existing challenges (Irianto & Rodiyah, 2020). Therefore, the development of creative innovation-actualizing ideas into output significantly contributes to the development and sustainability of the SME business ecosystem in a competitive market environment.

Empowering the Small-Medium Enterprise in the Subdistrict of Karanggede, Regency of Boyolali

In the context of the SME sector, SME empowerment is defined as a process that makes SME business actors empowered and independent. Existing literature believes that an essential effort in increasing the competitiveness of SMEs is to increase productivity, and innovation is carried out by improving the level of education and managerial skills (Bank Indonesia, 2016). This process requires an initial push or idea that reawakens its role and position within the framework for developing business actors. The awareness process for SME business actors is carried out through capacity-building concepts. Capacity building for SMEs is an effort to improve their capabilities. The understanding of SME businesspeople about the meaning of capacity building for the capacity building efforts carried out means that SMEs capacity building can be effective and successful according to the goals to be achieved. As a result, Empowerment and Capacity Building are two inseparable concepts. The linkage of these two concepts is a relationship pattern that is well-built and sequential. The conceptualization of a good relationship between the two refers to a process of increasing the assets and attributes used in improving the community (Eger et al., 2018). Existing literature believes that empowerment results from increased capacity-empowerment, which is associated with individual independence, changes in social structure, and increased resources. At the same time, capacity building emphasizes strategies to increase the potential for sustainable development (Nikkhah & Redzuan, 2010). Capacity building refers to individual and organizational abilities in dealing with problems that need to be developed and built to keep up with changing times (Mannan & Anugrah, 2020).

The SME empowerment strategy carried out by the community service program part II of Universitas Diponegoro is building the capacity of human resources and building the organizational capacity of SMEs. SME business actors and workers approached the human resource dimension in the SME sector, the sub-district of Karanggede, Boyolali Regency. This group was chosen to increase the effectiveness of empowerment implementation so that it can be achieved according to the target and right on target. In addition, selecting this target group facilitates the implementation of SME empowerment because the support and awareness of SME business actors and workers in the SME sector make it easier to accept the importance of the empowerment programs. In its implementation, the involvement of SMEs and workers is the leading actor in empowerment activities. A management approach carries out the organizational dimension and resource management in the SME sector, the sub-district of Karanggede, Boyolali Regency. Increasing institutional capacity is directed at building the ability of the organization concerned to have adequate capability and capacity (Prasetyono, 2019). In this case, the independence of SMEs in a competitive world market requires the support of SMEs' organizational capacity. Organizational capacity is vital in increasing the role and developing institutional arrangements that accommodate every idea, proposal, and aspiration.

Improving the Human Capacity Development of SMEs

Human resource capacity building is essential to improving the quality of human resources in the SME sector. In this case, business actors and workers working in the SME sector, the sub-district of Karanggede, Boyolali Regency are the targets for capacity building. The human resource dimension of capacity building focuses on the individual level. Activities undertaken are aimed at increasing knowledge, managerial skills, and technical. In this case, the Universitas Diponegoro community service program part II team carries out an Education and training program to support the performance of entrepreneurs and the workforce in carrying out each task given.



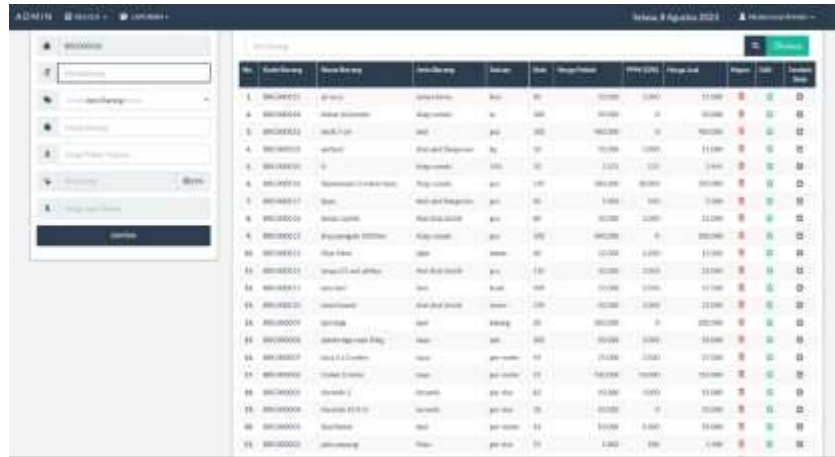
Figure 1. *Workshop and training*

Source: Documentation of community service program part II of Universitas Diponegoro

The education and training activities carried out by the community service program part II team at Universitas Diponegoro target batik entrepreneurs. Education and training on eco-print techniques are an effort to develop product innovations that utilize shapes and colors taken from plants to develop traditional batik motifs (Dalimunthe et al., 2022). Eco printing techniques provide benefits for SME businesses - natural dyes are an alternative to the traditional batik production process, which has an impact on reducing dependency on chemical dyes. Eco print technique training also greatly benefits environmental sustainability, reducing hazardous chemical waste that causes water and soil pollution. Workshops and training on eco-print techniques are expected to increase and develop SME business actors' knowledge, abilities, and skills to innovate in developing traditional batik products in the SME sector. Existing literature believes that education is the soul of capacity building, which refers to efforts to awaken, develop, and use the power within humans (Ajewole, 2014). It encourages education to be the most significant strategy implemented at the individual level (Ranadewa et al., 2019).

Improving the Institutional Capacity Development of SMEs

Organizational capacity building is a dimension that focuses on increasing the institutional support capacity of the SME sector. Consequently, the organizational dimension of capacity building focuses on the institutional level. The activities carried out are aimed at improving resource management and organizational management. In this case, building the institutional capacity of SMEs in the sub-district of Karanggede, Boyolali Regency is increasing the administrative capacity of carrying out the main tasks and functions of each work unit and increasing budget capacity to support quality and quantity improvements in the field of budget management. In this case, the Universitas Diponegoro community service program part II team carried out the development of the e-stock system and the utilization of QRIS in transactions.



No	Kategori	Nama Barang	Satuan	Stok	Min	Max	Uraian	Barang	Unit	Stok	Min	Max	Uraian
1	00000001	Apple	kg	1000	1000	11000							
2	00000002	Apple	kg	1000	1000	11000							
3	00000003	Apple	kg	1000	1000	11000							
4	00000004	Apple	kg	1000	1000	11000							
5	00000005	Apple	kg	1000	1000	11000							
6	00000006	Apple	kg	1000	1000	11000							
7	00000007	Apple	kg	1000	1000	11000							
8	00000008	Apple	kg	1000	1000	11000							
9	00000009	Apple	kg	1000	1000	11000							
10	00000010	Apple	kg	1000	1000	11000							
11	00000011	Apple	kg	1000	1000	11000							
12	00000012	Apple	kg	1000	1000	11000							
13	00000013	Apple	kg	1000	1000	11000							
14	00000014	Apple	kg	1000	1000	11000							
15	00000015	Apple	kg	1000	1000	11000							
16	00000016	Apple	kg	1000	1000	11000							
17	00000017	Apple	kg	1000	1000	11000							
18	00000018	Apple	kg	1000	1000	11000							
19	00000019	Apple	kg	1000	1000	11000							
20	00000020	Apple	kg	1000	1000	11000							

Figure 2. Developing e-stock for SMEs in Karanggede, Regency of Boyolali
Source: Documentation of community service program part II of Universitas Diponegoro



Figure 3. Developing QRIS for digital payment
Source: Documentation of community service program part II of Universitas Diponegoro

Efforts to improve SMEs' organizational governance are carried out by utilizing ICT because of awareness of the critical role of ICT in today's digital era. In this case, the community service program part II team at Universitas Diponegoro carried out a monodisciplinary program. One of the activities carried out is the application of e-stock and the use of QRIS. The development of e-stock aims to overcome the problem of managing a large number of stock items but a small number of employees in the process of inventorying goods, checking the availability of goods, checking the receipt of goods, or checking the release of goods. The use of QRIS can overcome problems related to financial governance in the SME sector. According to Sulistyaningsih & Hanggraeni (2021), using QRIS in the SME sector provides many benefits, increasing the effectiveness of payment transactions, transaction security, and efficiency of better financial management.

Conclusion

The SME empowerment program is a strategic effort to maintain the sustainability of the SME business in competition in the market environment. Empowerment efforts are realized through capacity-building activities. Capacity building is the first step in building SMEs' capacity and capability to realize SMEs' empowerment and independence. In the case study in the Subdistrict of Karanggede, Regency of

Boyolali, the empowerment program was implemented through human resource capacity building and business networks. Several policy recommendations are proposed for consideration by policymakers and stakeholders. Empowerment of SMEs is a continuous process in achieving its goal - building self-sufficiency for SMEs. As a result, the sustainability of the SME empowerment program is an essential factor that needs to be maintained. One of the efforts that the government can make is to make the SME empowerment program a regional government annual activity agenda in the strategic plan document. Strengthening the potential of SMEs through concrete steps involving the provision of various inputs and opening up various opportunities is a practical step for increasingly empowered SMEs. On the other hand, the Empowerment of SMEs also refers to efforts to protect. Thus, applying SME product protection policies is an effective alternative to protecting against large market competition's negative impacts. One of the protection policies that can be implemented is to provide space for large business actors to include the use of SME products.

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