

Original Article

The Role of Digital Economy as A Booster For Increasing Labor Employment and MSMEs Income in Surabaya City

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Abstract:

This research aims to determine the role of the digital economy and labour absorption in encouraging an increase in MSMEs income in Surabaya. By taking data from 100 MSMEs in the town of Surabaya using a purposive sampling technique, this research created a survey instrument, which was then processed through descriptive analysis. The research results concluded that the digital economy and employment have a role in increasing the income of MSMEs in Surabaya. This provides evidence that The digital economy has provided great opportunities for creating new jobs, which impacts workforce absorption. The use of digital technology can affect the amount and level of production, which indirectly provides opportunities for labour demand.

Keywords: Digital Economy, Employment, Income, MSMEs.

Introduction

MSMEs or micro, small, and medium enterprises are defined as micro-enterprises, namely productive businesses owned by individuals and individual business entities that meet the criteria for micro-businesses regulated by Law. A Small Business, namely a productive economic business that stands alone, which is carried out by an individual or business entity that is not a subsidiary or branch of a company that is owned, controlled, or is part, either directly or indirectly, of a Medium Business or Large Business that meets Small Business criteria as intended in the Law ([Kementerian Keuangan RI, 2023](#)). A Medium Business, namely a productive economic business that stands alone, which is carried out by an individual or business entity that is not a subsidiary or branch of a company that is owned, controlled, or part of either directly or indirectly with a Small Business or Large Business with total net assets or annual sales proceeds as regulated in the Law, most of the MSMEs in Indonesia are household business activities that can absorb a lot of labor. Based on data from the Ministry of Cooperatives and SMEs, in Indonesia in 2019, there were 65.4 million MSMEs. With several business units of up to 65.4 million, it can absorb 123.3 thousand workers. This proves that the impact and contribution of MSMEs are huge in reducing the unemployment rate in Indonesia. Increasing the involvement of workers in MSMEs will help reduce the number of unemployed in this country ([Kementerian Keuangan RI, 2023](#)).



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Micro, small, and medium enterprises (MSMEs) are important sectors supporting Indonesia's economy; small and medium enterprises (MSMEs) have much control over a country's economy, especially in Indonesia. Surabaya is the capital of East Java province, and the number of MSME sectors has continued to increase in recent years. This can be seen based on the data in the following table:

Table 1. Number of MSMEs in Surabaya City 2019-2022

Year	MSMEs (Person)	Micro and Small Businesses
2019	27.926	25.353
2020	28.391	25.147
2021	28.759	26.307
2022	29.507	26.800

Source : Dinas UMKM dan Koperasi in 2022

Based on Table 1, sources taken from the UMKM and Cooperatives Service, in 2022, the number of MSMEs in Surabaya will reach 29,507. This shows that the growth of MSMEs in the city of Surabaya shows an increase every year. The ability of MSMEs to absorb labor is also more significant than that of large businesses, where labor is an element of the production function and plays a vital role in realizing community economic development, specifically in Surabaya. Increasing employment and growth of MSMEs will improve people's purchasing power, which will, in turn, increase the production of goods and services, thereby contributing to the economic growth of Makassar City. In economic development, MSMEs are always described as a vital sector because most of the population has a low level of education and lives in small business activities in the traditional and modern sectors. MSMEs are also able to absorb a lot of labor. The role of MSMEs is a priority in every development plan, which is managed by two departments, namely the Ministry of Industry and Trade and the Ministry of Cooperatives and MSMEs (Kuncoro, 2016).

The contribution of MSMEs to economic growth and their ability to absorb relatively high levels of labour is undoubtedly a good thing for the economy of the City of Surabaya because apart from contributing to the GDP of the City of Surabaya, MSMEs are also able to absorb sufficient labour so that they can reduce the number of unemployed in the City of Surabaya, currently, along with the industrial era 4.0. MSMEs seem to be required to develop competitiveness through digital platforms. The global economy is expanding and supported by increasingly sophisticated technology, proliferating a digital economy, making it possible to control it from anywhere via the internet network with gadgets/smartphones. Everything has changed, including the economic sector, so this phenomenon is increasingly changing towards a digital economy (Syikin et al., 2020). Amid the current sluggish global financial conditions, MSMEs are expected to be able to answer these challenges, so the hope is that MSMEs will be able to support the national economy if they are MSMEs that have income that continues to increase by continuing to follow technological changes from previously offline to online activities with good marketing strategies (Setyorini et al., 2019).

The digital economy is any form of economic activity that utilizes the help of information and communication technology. Parts of the digital economy that are currently developing are e-commerce and fintech. Electronic commerce (e-commerce), according to Laudon, is the implementation of trade in the form of sales, purchase, ordering, payment, and promotion of a product or service transactions carried out using the internet as a medium. Meanwhile, according to Bank Indonesia, financial technology (fintech) results from financial services and technology, ultimately changing the business model from conventional to moderate. The increasingly competitive competition of MSMEs in the digital economy has become honest with the increasing development of technology. Therefore, MSME players must pay attention to this phenomenon and master digital marketing related to the digital economy.

Limited entrepreneurial aspects and low use of technology will hinder MSMEs from developing and advancing their businesses, which will impact low MSMEs' income.

[Simarmata et al., \(2020\)](#) said, Don Tapscott first introduced the digital economy concept in his book *The Digital Economy: Promise and Peril in the Age of Networked Intelligence*. In his book, Tapscott states that the digital economy is also called the new economy; the exclusive use of digital information characterizes it, but the digital economy does not only refer to the tick market. Meanwhile, [\(Ihwanudin et al., \(2023\)\)](#) wrote that, digital economy and business is the economy and business carried out through virtual media, the creation and exchange of value, transactions and relationships between economic actors that are mature with the internet as a medium of exchange. The digital economy and business are aspects of the economy and business based on utilising and empowering IT and digital communications. Digital economy and business are social events that occur in society and influence economic activities and systems. The social events that occur have the characteristics of an intelligence space, including information, access to information instruments, information capacity, and information processing.

The digital economy continues to develop rapidly, starting from primary, secondary and tertiary needs offered online. Many business actors have also begun to utilize digital technology to run their businesses. Companies derived from this new economic activity are also increasingly developing, including shipping and cargo services, online motorcycle taxis, and all types of delivery, which have experienced development and creativity from the nation's children. Even though foreigners own the share ownership, the growth is speedy, and each company competes with the other, known as burning money in terms of promotion. No one knows for sure whether they have made a profit or not because, on the one hand, the costs incurred are huge in terms of marketing, but on the other hand, we can see that there has been a shift from offline to online, which has meant that online transactions have reached hundreds of billions [\(Permana & Puspitaningsih, 2021\)](#).

Law Number 13 of 2003 concerning Manpower defines labour as contained in Article 1, paragraph 2, which states that labour is every person who can work to produce goods and services to meet their own needs or those of the community. According to Simanjuntak, the workforce includes residents who have or are currently working, are looking for work, and carry out other activities such as attending school and taking care of the household. They look for work, go to school, and care for the household. Even though they don't work, they are physically able and can work at any time. Simanjuntak's definition of labour is broader than that of workers/labourers. The workforce includes workers/labourers involved in an employment relationship and workers who have yet to work. Meanwhile, the worker/labourer works by receiving wages or other forms of compensation. In other words, workers or labourers are in an employment relationship (Hardijan Rusli, Labor Law, 2008, pp. 12-13) [\(Sabih et al., 2021\)](#).

For employment analysis, a country's population can be divided into two groups, namely workers and non-workers. Included in the workforce are residents within the working age limit, which varies by country/region. Manpower is also classified into two categories: labour force and non-labour force. Included in the labour force are working-age workers or residents who are working or have a job but are temporarily not working and are looking for work. Meanwhile, those not in the labour force are workers or residents of working age who are not working or do not have a job and are not looking for work [\(Dumairy, 2006\)](#). Labour absorption is a certain quantity of labour a particular department or business unit uses. It can be concluded that labour absorption is the real amount of labour worked in a business unit. According to the Central Statistics Agency (BPS), labour absorption is the number or number of people working in all economic sectors.

Income is also called income, namely the compensation received by the entire household of society in a country/region from the delivery of production factors or

after carrying out economic activity. The community uses this income to meet consumption needs, and the rest is used to save for the future Tito, (2011) in [Madji et al., \(2019\)](#). In other words, total income is more focused, namely the result of reducing the amount of revenue and costs incurred; total income is the sum of all income obtained from the results of the business carried out. [Syikin et al., \(2020\)](#) state that income based on economics is the entire value that a person can spend in one period, and they hope that the situation will return to the same as it was in each period. Income is the increase in wealth assets owned due to changes in value that can be obtained, not based on changes in capital or profit. [Situmeang et al., \(2018\)](#) states that income is the financial value business actors provide to someone through wages, salaries, interest, rent, or profits. Income for business actors is the money obtained from consumers due to the goods and services provided. Income is also the level of income a family or individual receives for the services provided or the success of their business.

In Indonesia, the law governing Micro, Small and Medium Enterprises (MSMEs) is Law Number 20 of 2008. In this law, MSMEs are described as: "A company that is classified as an MSME is a small company that is owned and managed by someone or owned by a small group of people with a certain amount of wealth and income." Micro, Small and Medium Enterprises aim to grow and develop their businesses to build a national economy based on just economic democracy ([Hanim & Noorman, 2018](#)). MSMEs are the centre of the country's attention because MSMEs are the backbone of the economy. Because they have a very important role, with the number of MSMEs being the largest in business activities in Indonesia. Apart from that, MSMEs are also important business actors in many economic activities in Indonesia. Therefore, MSMEs receive special attention from the government for empowerment and development (Pandiangan, 2014). Based on the Law of the Republic of Indonesia no. 20 of 2008 CHAPTER I article 1 Micro, Small and Medium Enterprises are productive economic enterprises owned by individuals and individual business materials which are not subsidiaries or branches of companies which are owned, controlled or become part either directly or indirectly of the business Medium or businesses that meet the criteria for small businesses (Law No. 20 of 2008).

The progress of the digital economy has provided opportunities for creating new jobs, which will impact workforce absorption. Labour absorption refers to the many jobs filled, reflected in the large working population. The working population is absorbed and spread across various economic sectors due to the demand for labour. Various technological advances make it easier for MSMEs to run their businesses, so workers' skills should be needed to manage businesses by empowering the availability of technology to increase income. Revenue is the most essential element of a company because revenue will determine the progress of a company. With income, it is possible to obtain income or earnings. Therefore, business actors must do their best to obtain the expected income by using existing resources as effectively as possible. In determining a trader's or entrepreneur's income, several factors are needed, such as the entrepreneur's interests, capital, profits, definite time, environment, labour, education, technology and trading experience ([Kasmir, 2016](#)).

Methods

The research method used is quantitative, with a field study approach to obtain comprehensive and thorough conclusions ([Sugiyono, 2018](#)). Quantitative research methods are research methods based on the philosophy of positivism, used to research specific populations or samples; sampling techniques are generally carried out to research populations or specific samples; data collection using research instruments, and quantitative/statistical data analysis with the aim of testing predetermined hypotheses ([Sugiyono, \(2017\)](#); [Miles et al., \(2014\)](#)) . Data analysis techniques from [Miles et al., \(2014\)](#) were validated, and the information's accuracy was validated.

Results

Respondent Demographics

This research was conducted to determine the role of the digital economy as a supporter of increasing labour absorption and income of MSMEs in Surabaya. Respondents in this research consisted of owners or managers of MSMEs operating in Surabaya, totalling 100 respondents taken using purposive sampling. The following are the demographics of the respondents involved in this research: Gender Of the total respondents involved in the research, 70% were men, and 30% were women. This shows that the majority of MSME owners or managers in the city of Surabaya are men. Length of Business: As many as 30% of respondents have a business with a duration of operation of 1-5 years, 45% of respondents have a business with a duration of operation between 5-10 years, and 25% of respondents have a business with a duration of operation of more than ten years. This shows that most respondents have been operating for over 5-10 years. Educational Background Of the respondents, 10% had a junior high school education background, 60% had a high school education background, and 30% had a bachelor's education background. This shows that most respondents have a high school educational background, and only a few have a junior high school educational background. The respondents' demographics in this research provide a fairly clear picture of the characteristics of MSME owners or managers in Surabaya. From these results, it can be concluded that most respondents are men who have been operating for more than 5-10 years and have a high school educational background.

The Role of the Digital Economy on MSME Income

The analysis results show that the digital economy plays a role in increasing income. When business actors can use the digital economy, it can provide maximum reach to consumers. According to the Solow model theory, sustainable income growth can be obtained from technological advances because they help the buying and selling process and increase productivity. In other words, the digital economy brings great opportunities to increase income because all economic activities become more practical, easier and efficient. In line with research conducted by [Fitra, \(2020\)](#), digital technology has proven to play a strategic role in providing goods and services in a comfortable, practical, cheaper, faster, timely, more economical and labour-intensive manner, providing great opportunities towards increasing MSME income. Thus, the digital economy is an important factor in the success of a business; for this reason, business actors should know and master digital technology to attract and reach more customers and be more efficient in marketing their products. Limited entrepreneurial aspects and low use of digital technology will hinder MSMEs in developing and advancing their businesses, indirectly impacting MSME income.

The Role of the Digital Economy in Labor Absorption

The analysis results show that the digital economy plays a role in increasing labour absorption. This shows that the digital economy has provided great opportunities for creating new jobs, which impacts labour absorption. According to the theory put forward by Hicks, technological change can expand employment opportunities as well as increase the use of capital (labour and capital augmenting). In other words, the digital economy brings great opportunities for new types of digital-based work, which positively impacts labour absorption. [Dhyanasaridewi, \(2020\)](#) research shows that the digital economy affects labour absorption. The impact of digitalization will cause several types of jobs to disappear, but new types of jobs will always emerge that absorb more workers. The presence of various kinds of technological advances makes it easier for MSMEs to run their businesses. Digital technology will impact the amount and level of production, indirectly providing opportunities for labour demand. Quality and skills are considerations that cannot be taken lightly because they are crucial. If the use of sophisticated technology is not

balanced with the workforce's skills, it will be in vain because the operation of the technology will not run effectively.

The Role of the Digital Economy on MSME Income through Labor Absorption

The analysis results show that the digital economy's direct influence on income is greater than the indirect influence, namely through labour absorption, which means that the digital economy will still influence income without having to be followed by labour absorption. So, it can be concluded that the digital economy increases income through labour absorption. According to Solow Swan's theory, the most important factors in realizing economic growth are technological progress and workforce skills, not capital and labour. Low workforce skills will result in a lack of skills at work, impacting the quality and quantity of production in meeting consumer needs and increasing income. In line with [Barata, \(2019\)](#) research, the digital economy greatly impacts increasing income and absorbing labour. As a result, economic growth, increasing people's income, and the availability of jobs will reduce poverty and inequality. [Nilasari et al., \(2019\)](#) to develop MSMEs well, one of the factors that must be of concern is the workforce. So far, MSMEs have faced the constraints of a workforce with low knowledge, skills, and productivity and the utilization of information technology and the internet. Digital technology has made it easier for MSMEs to run their businesses, which brings great opportunities for increasing income. When business actors' income increases, it will impact the demand for labor due to increased business expansion for MSMEs, which indirectly provides great opportunities for employment. However, if the number of workers is not balanced with the quality of the workforce, it will also impact the income of business actors.

Conclusion

Based on the results of the analysis that has been carried out regarding the role of the digital economy and labour absorption on MSME income, the conclusions obtained are: 1) The digital economy plays a role in MSME income. The digital economy also plays a role in labour absorption; 2) The digital economy plays a role in MSME income through employment. From the explanation that has been stated, suggestions that can be given include: (1) Transfer MSME players to a digital system by transferring previously offline MSMEs to online. This will increase income because the reach to consumers will be achieved more optimally. (2) The younger generation and workforce need to improve education and skills training to develop skills to compete with the younger generation and workforce from other countries. (3) Future researchers are advised to expand the research object and develop this research by examining other factors that have a greater influence on MSME income.

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