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## **Analysis of Labor Absorption in Small and Medium Enterprises in East Java**

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### **ABSTRACT**

*Small and medium businesses in East Java as a mainstay sector in labor absorption tend to fluctuate. The problem in this research is how the number of business units, investment and minimum wages correlate with labor absorption in the small and medium enterprise sector in East Java Province. The aim of this research is to analyze the number of business units, investment and minimum wages on labor absorption in the small and medium business sector in East Java Province. The research results obtained by correlation testing the number of SMEs have a significant positive relationship to the labor absorption, investment has a significant positive relationship to the labor absorption and the minimum wage also has a significant positive relationship to the labor absorption. The results of this research indicate that SMEs managers should provide direct credit financing facilities. both bureaucratic and according to the interest rates given, so that government investment which tends to be more capital intensive can be absorbed by SMEs well as well as business training, books and the internet in searching for market information and business management methods so that their businesses can develop more effectively.*

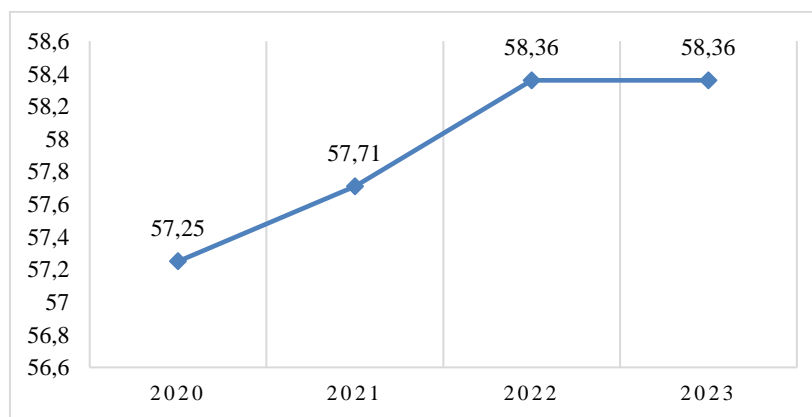
*Keywords: SMEs, Labor Absorption, Number of SMEs, Investment, Minimum Wage*

### **INTRODUCTION**

Small and Medium Enterprises (SMEs) play a significant role in supporting national economic progress, manifested through their contribution to the economic development

process, their support for economic growth, and their important role in absorbing the workforce (Badoc-Gonzales et al., 2021). SMEs, which is an abbreviation for Small and Medium Enterprises, refers to businesses or businesses run by individuals or groups (Luo et al., 2021). In this context, the presence of SMEs plays a crucial role in helping the government open up new job opportunities, which in turn can reduce the unemployment rate (Robby & Angery, 2023). Currently, developing SMEs units is a strategic step that can reduce the government's burden in creating jobs, controlling the unemployment rate, and supporting overall economic growth (Ramly & Ramly, 2022).

The development of Small and Medium Enterprises (SMEs) activities is currently considered an effective alternative to ease the burden faced by national development and at the same time opens up opportunities for the creation of new jobs (Suhendar & Hikmatunnisa, 2022). SMEs are small businesses in society that are initiated by individuals or groups, and there is often a view that the benefits of SMEs are only limited to a certain number of parties. However, SMEs actually play a crucial role in national economic progress, especially in dealing with unemployment levels. SMEs are able to create new job opportunities and absorb workers who are still unemployed. With the increase in the number of SMEs every year, it can be anticipated that labor absorption will increase significantly, making a positive contribution in reducing the unemployment rate and sustainably supporting the country's economic growth (Anand, 2015).



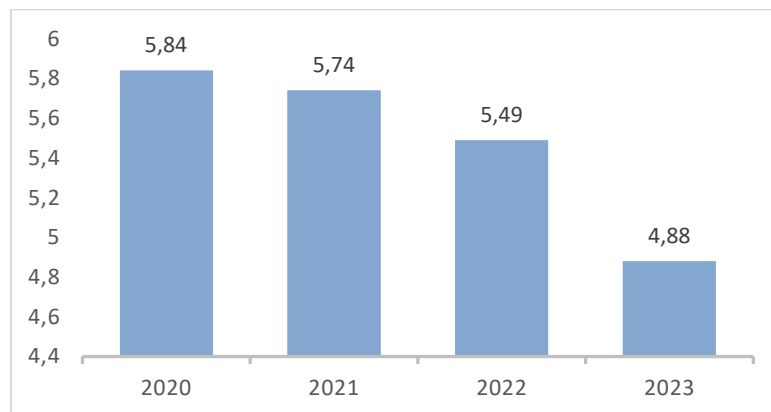
Source: East Java Cooperatives and UMKM Service

**Figure 1. Contribution of SMEs to East Java Economic Performance (Percent)**

Figure 1 above provides an overview of the contribution of Small and Medium Enterprises (SMEs) to the economic performance of East Java over the last four years (2020-2023). Data shows that in 2020, SMEs contributed 57.25% to East Java's economic

performance. Furthermore, there was a slight increase in 2021 to 57.71%. In 2022, the contribution of SMEs rose further to 58.36%, and this was maintained in 2023 with the same figure. The increase in the contribution of SMEs throughout this period shows the increasingly important role of the SMEs sector in supporting East Java's economic growth.

Even though East Java is known as a province that has achieved progress, to date, efforts continue to be made to achieve equitable economic development in cities and districts (Arifin & Fadllan, 2021). According to the latest report from the Central Statistics Agency (BPS Indonesia, 2023) the population in East Java Province reached 41,416,407 people. The large population of a province should be used as a resource to encourage economic growth. The high quality of human resources will have a significant positive impact on national economic progress (Xu et al., 2023). However, reality shows that employment issues are still a challenge facing East Java Province (Shafira & Wahyuni, 2021).



Source: East Java Central Statistics Agency

**Figure 2. Open Unemployment Rate in East Java**

Figure 2 explains changes in the open unemployment rate in East Java from year to year. In 2020, the open unemployment rate reached 5.84%, decreasing to 5.74% in 2021. This downward trend continues in 2022 with an open unemployment rate of 5.49%. In 2023, there will be a significant decrease to 4.88%. The continued decline in the open unemployment rate shows progress in efforts to develop employment and open job opportunities in East Java. The positive impact of reducing the unemployment rate can reflect the success of government policies, growth of the economic sector, and improvement in the quality of human resources. This data provides a better understanding of employment dynamics in East Java, providing important information for future economic policy planning and human resource development.

There are three main factors that will be the focus of this research, namely the number of business units, investment value, and minimum wage. These three factors were chosen because they are considered to have a significant impact on economic and employment dynamics in the research area. First, the number of business units is an important parameter for evaluating the scale and contribution of the SMEs sector to regional economic development. Along with its strategic role, the SMEs sector is not only identified as the backbone of the economy but also as a locomotive of growth capable of creating jobs (Srivastava, 2020). The significant number of SMEs business units reflects the diversity of economic activity at the local level, as well as the potential to increase income and equalize development in the region. This is in line with research which explains that the number of business units has a correlation with labor absorption (Apriliana & Sa'roni, 2023).

Second, investment value is appointed as a key factor that reflects the level of growth and competitiveness of small and medium business units. As a parameter that shows the amount of effort invested by SMEs players in developing their business, investment value is a vital indicator in analyzing the dynamics of this sector. The investment value covers various aspects, including technology development, increasing production capacity, and product diversification, all of which contribute to increasing productivity and competitiveness (Song et al., 2023). This is proven by the contribution of Value Added by SMEs of 57.25% to the Gross Regional Domestic Product (GRDP) of East Java Province in 2020 and 57.81% in 2021. In 2022, through the results of calculating gross value added, the amount of contribution can be obtained, which increased to 58.36%. This significant contribution shows that SMEs are the backbone of the East Java economy (Diskopukm Prov Jatim, 2022).

Finally, the minimum wage is an aspect that is no less crucial, because it affects the socioeconomic conditions of workers in the SMEs sector. SMEs as wage standards set by the government play an important role in determining the level of worker welfare, especially in the SMEs sector (Hasnak et al., 2023). The right balance in setting minimum wages can provide a positive boost to workers' purchasing power and improve their standard of living. On the other hand, SMEs that are too high can put pressure on the profitability of SMEs and have the potential to hinder the growth of this sector (Guilmi & Fujiwara, 2022). This minimum wage determination is contained in the East Java Governor's Decree Number 188/889/KPTS/013/2022 concerning Regency or City Minimum Wages in East Java in 2023. In this decision it is stipulated that the amount of

the 2023 East Java Minimum Wage is IDR 2,040,244.30. This means that the 2023 East Java Minimum Wage will increase by 7.8% or IDR 148,677 compared to the 2022 East Java Minimum Wage of IDR 1,891,567. The East Java Provincial Government has set the 2024 Provincial Minimum Wage in its region at IDR 2,165,244.30, reflecting an increase of 6.13% or an addition of IDR 125,000 compared to the 2023 UMP. (Keputusan Gubernur Jawa Timur, 2023). An increase in the Minimum Wage will certainly be a new opportunity for employment. This research aims to explore the correlation between these three factors and labor absorption. By analyzing the complex interaction between the number of business units, investment value, and minimum wage levels on labor absorption.

## METHOD

The analytical method in this research involves two approaches, namely descriptive and quantitative analysis. The quantitative analysis approach applies the correlation method. The data used in this research comes from secondary data, collected through document study. Data sources include information from the East Java Province Department of Cooperatives and UMKM, BPS, as well as other related literature that is relevant to the focus of this research. This research uses the correlation analysis method, which is part of the application of statistics to assess the closeness or degree of strength of the linear relationship between one variable and another (Sugiyono, 2018). The closeness of this relationship is measured by the correlation value ( $r$ ), whose value range is -1 to 1. If the correlation value gets closer to 1, it shows that the relationship is getting stronger and has the same direction. The positive sign on the correlation value indicates the direction of the relationship is the same or in the same direction (Sugiyono, 2018)

**Table 1. Interpretation Criteria for Correlation Coefficients**

<b>Coefficient Interval</b>	<b>Relationship Level</b>
0.00 – 0.199	Very weak
0.20 – 0.399	Weak
0.40 – 0.599	Currently
0.60 – 0.799	Strong

0.80 – 1,000	Very Strong
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Source:(Sugiyono, 2018)

### **Pearson Correlation Analysis**

The relationship in this research is unidirectional, so the relationship calculation is carried out using correlation techniques, in accordance with the method described by (Sugiyono, 2018) This research uses the Pearson correlation coefficient (r) to carry out a simple correlation analysis between interval/ratio variables and interval/ratio variables. This formula is used to measure the degree of relationship between the independent variable (X) and the dependent variable (Y). Pearson correlation coefficient (r) was formulated:

$$r = \frac{n \times (\Sigma(X,Y)) - (\Sigma(X) \times \Sigma(Y))}{\sqrt{(n \times (\Sigma(X^2) - \Sigma(X)^2)) \times (n \times (\Sigma(Y^2) - \Sigma(Y)^2))}}$$

Information :

r : Pearson correlation coefficient

X : independent variable

Y : dependent variable

## **RESULTS AND DISCUSSION**

### **Development of Small and Medium Enterprises in East Java**

Small and Medium Enterprises (SMEs) in East Java play a central role and have emerged as the main foundation for the development of the people's economy. With a total SMEs population reaching 9.78 million units, the existence of this sector creates significant potential and has a deep impact on the regional economic structure of East Java (Diskop UKM Prov Jatim, 2023). The dynamic development of SMEs represents both a potential driver of growth and a potential risk for the region's economy, given the increasingly strong reliance on this sector. Its significance is not only reflected in its contribution to East Java's economic growth, but also in improving the welfare of society as a whole. The East Java Provincial Government, through the Department of Cooperatives and SMEs, recognizes the large number of SMEs as a strategic opportunity to strengthen the economy, by adopting an approach based on the concept of people's economics.

### **Development of SMEs Labor Absorption in East Java**

Small and Medium Enterprises (SMEs) not only make a significant contribution to the economy, providing around 96.2% of total employment, and have emerged as the largest sector among various types of businesses (Diskop UKM Prov Jatim, 2023). In a broader context, SMEs play a crucial role in supporting economic growth, reducing unemployment and poverty levels, and increasing foreign exchange earnings through increasing labor absorption. The existence of SMEs in Indonesia has a substantial impact from both economic and social perspectives. Apart from that, SMEs play a role in forming a diverse and sustainable economic structure, creating a conducive environment for community involvement in labor absorption, and have the potential to improve overall welfare.

### **Development of SMEs investment value in East Java**

The contribution of added value from the Small and Medium Enterprises (SMEs) sector to the Gross Regional Domestic Product (GRDP) of East Java Province shows a positive trend throughout the time period observed. In 2020, SMEs contributed 57.25% to GRDP, which then increased to 57.81% in 2021. Analysis projections for 2022, based on gross value added calculations, indicate a tendency to increase the contribution of SMEs to reach 58.36% (Diskopukm Prov Jatim, 2022). This significant increase illustrates that SMEs do not just act as the backbone of the economy of East Java Province, but consistently play a major role in supporting economic growth and regional sustainability in the future. By making an increasingly substantial contribution to GRDP, SMEs have confirmed their strategic role in driving the economy and creating a positive impact on the development of the region.

### **Development of Regency/City Minimum Wages in East Java**

The determination of the Provincial Minimum Wage of IDR 2,165,244.30 by the East Java Provincial Government in 2024 is not only a response to national economic dynamics, but also reflects a commitment to ensuring the welfare of workers throughout the province. An increase of 6.13%, or an additional IDR 125,000 from the 2023 Provincial Minimum Wage (Keputusan Gubernur Jawa Timur, 2023), is a proactive step in accommodating changes in the cost of living and considering the strategic role of workers in supporting regional economic development. This decision is in line with the government's efforts to

create a fair and sustainable employment environment, maintaining a balance between sustainable economic growth and the welfare of working people at the provincial level.

**Pearson Correlation Analysis**

Pearson Correlation Analysis explores the relationships between the variables that are the focus of this research. Following are the results of the analysis:

**Table 2. Correlation Pearson Correlation**

		<b>Number of Business Units</b>	<b>Investment Value</b>	<b>Minimum Wage</b>	<b>Labor Absorption</b>
<b>Number of Business Units</b>	Pearson Correlation	1	.796*	.869**	.963**
	Sig. (2-tailed)		.035	.003	.000
	N	8	8	8	8
<b>Investment Value</b>	Pearson Correlation	.796*	1	.801*	.914**
	Sig. (2-tailed)	.035		.028	.003
	N	8	8	8	8
<b>Minimum Wage</b>	Pearson Correlation	.869**	.729**	1	.907**
	Sig. (2-tailed)	.003	.028		.003
	N	8	8	8	8
<b>Labor Absorption</b>	Pearson Correlation	.963**	.914**	.907**	1
	Sig. (2-tailed)	.000	.003	.003	
	N	8	8	8	8

Source: Data Processed

Table 2 shows that there is a relationship or correlation between SMEs and labor absorption with a correlation coefficient of 0.963, between investment of 0.914 and wages and labor absorption of 0.907, which means that the relationship between these two variables is categorized as a positive and strong significant relationship because the significance value (sig.) smaller equal to 0.05 ( $0.000 \leq 0.05$ ).

**Correlation of the Number of SMEs Units on Labor Absorption**

The results of the correlation estimation of the number of SMEs have a positive correlation with employment in the SMEs sector in East Java, with a significant coefficient



of 0.963, close to 1, so the correlation between the number of SMEs value and employment is very strong. This is in line with research which explains that the number of SMEs has a positive relationship with labor absorption (Skare et al., 2023); (Nur Wulansari et al., 2021).

### **Correlation of Investment in SMEs on Labor Absorption**

The results of the correlation estimation of the value of SMEs investment have a positive correlation with employment in the SMEs sector in East Java, with a significant coefficient of 0.914, close to 1, so the correlation between investment value and employment is very strong. This is in line with research which explains that investment has a positive relationship with labor absorption (Liu & Guo, 2023); (Anggraini & Muchtolifah, 2023)

### **Correlation of SMEs Wages on Labor Absorption**

The results of the correlation estimation of SMEs wages have a positive correlation with labor absorption in the SMEs sector in East Java, with a significant coefficient of 0.907, close to 1, so the correlation between wages and labor absorption is very strong. This is in line with research which explains that the minimum wage has a positive relationship with labor absorption (Edo & Rapoport, 2019); (Alisman, 2022).

The results of this research highlight the importance for SME managers to provide direct credit financing facilities, both by reducing bureaucracy and setting competitive interest rates. This step is expected to help SMEs absorb government investment which tends to be more capital intensive. Apart from that, it is also important for SME managers to provide business training, facilitate access to books and the internet to obtain market information, and gain knowledge about how to manage an effective business. In this way, SMEs can develop more effectively and sustainably.

## **CONCLUSION**

Based on the results of the correlation analysis, a conclusion can be obtained that: There is a very significant positive relationship between the number of SMEs and labor absorption. This is indicated by the product moment correlation value of 0.963 with a significance level of 0.00. And there is a very significant positive relationship between investment and labor absorption. This is indicated by the product moment correlation value of 0.914 with the level significant of 0.03. And there is a very significant positive relationship between the

minimum wage and labor absorption. This is indicated by the product moment correlation value of 0.907 with a significance level of 0.03.

Based on the research results and discussion, the author provides the following suggestions. The number of SME business units is more dominant than large businesses, making SMEs superior in job creation. This forces the government to increase investment in labor-intensive sectors so that the superior number of dominant SME business units can have implications for creating jobs that are oriented towards maximizing human resources. Government support in investment is only as a reserve or infrastructure arrangement, the government must increase it. There are also things that support the development of domestic SMEs, such as the ease of direct credit financing both bureaucratic and according to the interest rates given, so that government investment which tends to be more capital intensive can be properly absorbed by SMEs as well as business training, books and the internet in searching for market information. and ways of business management so that the business can develop more effectively.

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