

Intensity of the creative economy agency and partnership in empowering micro and small enterprises

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Abstract

Purpose — This paper analyzes the determinants of micro and small enterprise company performance and its employees in Indonesia using a data set covering 2010 – 2019.

Method — This study uses the robust estimation of the panel data regression method to estimate an alternative least squares regression that does not require strict assumptions and is not sensitive to outliers.

Findings — The study's findings are as follows: 1) Improving resources, markets, entrepreneurs, and institutions has different impacts on business performance and workers' compensation due to the complexity and size of businesses, 2) The formal education of micro and small business entrepreneurship and institutionalization of partnerships have improved workers' compensation but not business performance, 3) Improving resource access, market orientation, and policies indirectly implemented by the Creative Economy Agency have improved business performance but not workers' compensation. Therefore, programs aimed at enhancing productivity of entrepreneurs and workers through partnerships are a key factor in improving the competitiveness of micro and small enterprises.

Originality — Four determinants of the business environment of micro and small enterprises were analyzed to determine their impact on entrepreneur and worker performance, in order to identify the key factors contributing to the successful empowerment of these businesses.

Keywords — Micro and small enterprises (MSEs), Partnership, Institution

Introduction

Micro and small enterprise plays a major role in the industry in Indonesia as it represents almost all the business population and account for the bulk of employment. In the 2016 Economic Census (Statistics Indonesia, 2016), micro and small enterprises in all sectors reach 26.07 million business units and as many as 4.35 million (16.68%) manufacturing businesses. These micro and small enterprises account for 96.68% of the number of all companies and 75.33% of total employment and generate 32.58% of the value of labor services and 26.82% of sales of all business units. This condition shows that micro and small enterprises in Indonesia are very small business units with an average of under 5 workers, except for micro and small enterprises in DKI Jakarta, which has an average of 6 workers per business unit. In addition to being small, micro and small enterprises in Indonesia also contribute a very small production value of IDR 52.52 million compared to IDR 10.72 billion per business unit by large companies.

A year before the economic census, in 2015, the government established the Creative Economy Agency to manage the creative economy. As a non-departmental agency, it had more agile activities outside the bureaucratic order and fiscal budgeting cycle, leaving little room for movement and improvement (Kristiansen et al., 2009). However, in 2019, the Creative Economy Agency was merged into the tourism ministry. This study does not focus on the impact of merging the Creative Economy Agency into the ministry. Instead, it focuses on the indirect impact and influence of the Creative Economy Agency on the micro and small enterprise manufacturing sector. Within the micro and small enterprise manufacturing sector are six related creative economy businesses: craft, culinary, fashion, music, film, animation, video, and publishing (Statistics Indonesia, 2016).

The micro and small enterprise sector itself has a proven level of resilience. In the 1997/98 crisis, small and medium enterprises replaced imported raw materials with local ones. In the 2008/09 global financial crisis, small and medium enterprises managed to find new customers or markets in affected countries or explored new domestic markets. Meanwhile, in the case of the Covid-19 crisis, small and medium-sized enterprises shifted to the business of food, masks, and tools to protect people from the Covid-19 virus, as well as changing e-commerce packaging and home delivery (T. Tambunan, 2020). Similarly, Nursini (2020) showed that small and medium enterprises play an important role in poverty alleviation, reducing the percentage of poor people and the Poverty Severity and Gap Index.

Resilience and flexibility do not come naturally. It requires attention and increased empowerment of small and medium-sized enterprises to ensure the sustainability of the production cycle. To empower small and medium enterprises, the OECD offers a framework for strengthening small and medium enterprises (OECD, 2017). The framework for strengthening small and medium-sized enterprises that are partly used in this study includes: first, access to economic resources, which includes access to capital, human resources, skills, knowledge, technology, and innovation, as well as energy. Second is access to domestic and international markets, including physical infrastructure improvements, government procurement of goods and services, trade and investment policies, and domestic market conditions. Third, entrepreneurial factors include opportunities, capabilities, and attitudes. Fourth includes regulatory and institutional frameworks, such as regulatory burden, court effectiveness, and legal, governance, and partnership frameworks.

In terms of resource access, a key constraint for micro and small enterprises is the capital needed to increase production through investment in new technologies (Burger et al., 2015), to improve business profitability and growth (Ogoi, 2017), and increase export capacity (McLean & Charles, 2020). To narrow the capital gap, OECD countries have developed external financing techniques for small and medium-sized enterprises, including direct debt based on asset-based financing, alternative debt, hybrid instruments, and equity instruments (Cusmano & Koreen, 2015). Entrepreneurs in developing countries obtain capital from their own capital or borrow capital from family/relatives, partnerships, and external financing. External financing, which relies on asset-based bank loans, still creates a capital gap. Access constraints to external financing in Indonesia stem from the fact that many micro and small enterprises have not been able to access financial services, do not have or lack the necessary collateral, and operate in remote areas that are difficult to reach by banks and other services (Burger et al., 2015; ILO, 2019). Meanwhile, financial institutions and banks have yet to be able to offer customized micro and small business loans because they need the necessary systems, data, infrastructure, and personnel staff to expand micro and small business lending (ILO, 2019). Access to finance gaps and barriers to alternative external financing are also experienced by other developing countries, such as Vietnam (Le, 2012), Bangladesh (Hossain et al., 2018), the Caribbean (McLean & Charles, 2020), and in other developing countries (Ramalho et al., 2018).

Technological upgrading through capital investment can also come from human capital and skills. Positive contributions from human capital and skills (education, knowledge, experience, and skills) increase the productivity of micro and small enterprises in Makassar, Indonesia (Hernita et al., 2021), improve business performance in India (Dar & Mishra, 2021), increase exports through global value chains in Indonesia (Hing et al., 2020), increase growth, innovation, and competitiveness in Italy (Drábek et al., 2017). Formal education and vocational training are

important elements in enhancing and strengthening human capital capacity to improve the productivity and profitability of micro and small enterprises.

Small and medium-sized enterprises have the potential to enter international markets but are constrained by trade costs, overseas distribution networks, and trade policies. Based on a survey of small and medium enterprises conducted by the World Bank Enterprise Survey (2021), export products of small and medium enterprises account for only 10% of total sales of small and medium enterprises compared to 27% for large enterprises in the Asia-Pacific region. In addition to the internal productivity of small and medium enterprises, successful market entry depends on information on foreign distribution networks, which include border regulations and standards, tariff and non-tariff policies, fixed and variable costs of shipping goods, and product certification. E-commerce and participation in GVC adoption are alternative pathways that small and medium-sized enterprises can utilize to help overcome barriers and increase global trade (Tambunan, 2021).

The E-commerce adoption by Thailand's small and medium enterprise exporters has no significant positive impact on export intensity (Ueasangkomsate, 2015), but business-to-business (B2B) e-commerce can increase Thailand's small and medium enterprise exports, while older small and medium enterprise entrepreneurs tend to ignore e-commerce (Amornkitvikai et al., 2022). Meanwhile, Hasan et al. (2021) found a low level of e-commerce adoption, where most businesses use conventional patterns to sell goods and services to small and medium enterprises in Indonesia. The adoption of the Internet and e-commerce by handicraft small and medium enterprise exporters in Ghana is constrained by a lack of funding, qualified staff support to develop and maintain e-commerce websites, and limited Internet service providers (Taylor & Owusu, 2012).

In developing countries, micro and small enterprises struggle to find educated, skilled entrepreneurs and labor. Such shortages have influenced micro and small enterprises to be less likely to engage in all types of innovation in 13 Caribbean countries (Khadan, 2018), to be in informal enterprises (Berniell, 2021), and not to be engaged and connected to global value chains (Hing et al., 2020). In the case of the Indonesian Institute of Sciences' "Technology for Regions Program" empowerment program in Indonesia, small and medium enterprises receiving the program in East Java had the highest success rate, while West Java had the highest percentage of failure (Maksum et al., 2020). This is due to differences in entrepreneurial skills and attitudes and the age of their businesses being less than 2 years old. The formal tertiary education completed by entrepreneurs has not contributed to the growth of micro and small enterprises because entrepreneurship education in tertiary institutions has not been effective as an entrepreneurship education program. This is also indicated by the cultural belief, especially among students in rural areas, that being a civil servant or company employee is a more stable and promising career than being an entrepreneur (Amalia & von Korfflesch, 2021). However, to improve human resources and skills, training improves the performance of small and medium-sized enterprises in the UK (Idris et al., 2023).

Improving the performance of small and medium-sized enterprises requires partnerships with large employers (Ahman, 2017). The United Nations Industrial Development Organization (UNIDO) divides three partnership institutionalization categories: engagement with small and medium enterprises through the supply chain, engagement with small and medium enterprises for distribution, and general support to small and medium enterprises for strategic reasons. In today's globalized economy, there are many opportunities for large corporations and international companies to increase local sources of supply by engaging smaller local suppliers. Micro and small enterprises receive technological support to improve product quality and gain market certainty. A triple helix collaboration (government, university research institutes, private companies) developed local pyrethrum extracts through a public-private partnership (PPP) between SC Johnson and the Pyrethrum Board of Kenya (PBK), which is a cooperative organization for approximately 200,000 small-scale farms producing pyrethrum. Unilever Vietnam responded by offering financial support, equipment, training, and direct technology transfer with local business partners. Collaboration with local small and medium enterprises provides Unilever with additional cost-effective production capacity to produce, supply and distribute quality local raw materials. Vietnamese small and medium enterprises gain new technology transfer and production stability. A large company,

Bogasari Flour Mills, has distribution partnerships with 285 small noodle makers, an important part of the flour-based industry in Indonesia (Deloitte Touche Tohmatsu, 2004).

The partnership is an alternative way to implement programs provided by the government and organizations more cost-effectively. These costs are transaction costs classified as transactions among and within organizations, i.e. (a) supporting coordination between buyers and sellers, i.e., market transactions, and (b) supporting coordination within the firm. Williamson (1981) suggests that the selection of a transaction depends on several factors, namely the specificity of the asset, the interests of the parties to the transaction, and ambiguity and uncertainty. Jobin (2008) suggests evaluating partnerships using the transaction cost economics (TCE) approach. The main hypothesis of TCE is that partners choose a governance structure that minimizes transaction costs (TC) through contracts. If the governance structure of the partnership contract is misaligned or costly, it will reduce partnership performance. The issue of trust in terms of collaboration (through contracts) between the public and private sectors is important because it affects transaction costs and improves alliance performance in Turkey (Demirbag et al., 2010) and public-private partnership performance in Germany (Schomaker & Bauer, 2022).

The Creative Economy Agency also developed a triple helix model approach. The triple helix model is that institutionalizing knowledge transfer is a continuous, unfinished, and precarious process that requires "attention" from policymakers (Pinto, 2017). Innovation systems and collaborations (domestic, foreign, and global) are further enhancing knowledge, innovation, and technology in an integrated manner at various levels in South Korea and West Africa (Mégningbêto, 2015). Universities are key actors in the production of knowledge and technology. At the same time, public policy emphasizes knowledge transfer through a series of support mechanisms to foster innovation by establishing innovation intermediaries. Meanwhile, the triple helix model (government, university, business) used by Creative Economy Agency shows the development of entrepreneurial skills of creative industry businesses. However, some programs are unsustainable (Purbasari et al., 2020).

This study aims to observe the role of creative economy agencies and partnerships in empowering micro and small industries in Indonesia. How does a creative economy agency (indirectly) increase the performance and labor compensation of micro and small industries? Does the long-established partnership pattern still play an important role in empowering micro and small enterprises? These two research objectives contribute empirical evidence on the role of agencies in implementing the OECD conceptual framework in Indonesia. This OECD conceptual framework has been used for small and medium enterprise empowerment in OECD countries. The framework provides a wide selection of business environment indicators and patterns of relationships between the performance and business environment of small and medium-sized enterprises. It relies on empirical evidence, academic literature reviews, policy reports, and surveys of small and medium-sized enterprises (OECD, 2017). Therefore, this conceptual framework can assist policymakers in formulating micro and small enterprise institutional empowerment policies and programs appropriate to the Indonesian economy's structural conditions.

Methods

A linear panel data regression model is considered.

$$y_{it} = x_{it}\beta' + \alpha_i + \varepsilon_{it} \quad (1)$$

where y_{it} : dependent variable of i -th observation of the t -th time periods; x_{it} is independent variable at the i -th observation of the t -th time periods; $\beta' = (\beta_1, \beta_2, \dots, \beta_j)$: j -th regression parameters; and ε_{it} are independent and identically distributed (iid) error terms.

The transformed version of the random effects model is as follows,

$$y_{it} = x_{it}\beta' + v_{it} \quad (2)$$

where $v_{it} = \alpha_i + \varepsilon_{it}$ denotes a compound error term with $\sigma_v^2 = \sigma_\alpha^2 + \sigma_\varepsilon^2$ and $cov(v_{it}, v_{is}) = \sigma_\alpha^2$, for $t \neq s$. α_i is assumed to be uncorrelated with ε_{it} and x_{it} .

It is known that the output and labor compensation of micro and small industries have outlier data caused by the differences in product values within or between different industries. For example, the value of handicraft products differs from that of fashion and culinary products. Handicraft products have different product values depending on the type of handicraft. This outlier data entails that the estimated residuals are not equal to zero.

Since the panel data in this study has outlier data, robust regression methods can be considered (Hamiye Beyaztas & Bandyopadhyay, 2020). A commonly used method is M-estimation robust regression, a generalization of maximum likelihood estimation (Yu & Yao, 2017). An unbiased and minimum variance estimator of β_j is obtained by minimizing the residual weighted function $\rho(v_{it})$:

$$\min \sum_{i=1}^n \sum_{t=1}^k \rho(v_{it}) = \min \sum_{i=1}^n \rho(y_{it} - \sum_{t=1}^k x_{it} \beta_j) \quad (3)$$

where the function ρ gives the contribution of each residual to the objective function. Suppose ψ is the derivative of ρ , then $\psi = \rho'$.

To minimize, the first partial derivative of ρ with respect to the same β_j must be equal to zero.

$$\sum_{i=1}^n x_{it} \psi(y_{it} - \sum_{t=1}^k x_{it} \beta_j) = 0 \quad (4)$$

When the weight function is $w(v_{it}) = \frac{\psi(v_{it})}{v_{it}}$, and let $w(v_{it}) = w_{it}$. The estimation equation can be written as

$$\sum_{i=1}^n x_{it} w_{it} (y_{it} - \sum_{j=1}^k x_{ij} \beta_j) = 0 \quad (5)$$

In the matrix form, the equation becomes:

$$X^T W_j X b_j = X^T W_j Y \quad (6)$$

where W is $nk \times nk$ diagonal matrix of weight, X is the independent variable matrix size $(n \times k)$, b is the estimator of outlier value, and Y is a dependent matrix $(n \times 1)$.

The robust regression estimator with M-estimator for b is:

$$b_{j+1} = (X^T W_j X)^{-1} (X^T W_j Y) \quad (7)$$

where $b = (\beta_0, \beta_1, \beta_2 \dots, \beta_j)$, with j = number of variables, i = number of observations (in this context 23 micro and small business sectors, and t = number of time periods (for 10 years, 2010 - 2019).

Based on the OECD conceptual framework (OECD, 2017), the performance of micro and small enterprises is indicated by firm value-added and compensation per worker. Four aspects influence the performance of micro and small enterprises. The first aspect is that micro and small enterprise performance is influenced by their access to economic resources, which include capital, loans, skilled labor, and raw materials. The second factor is market access, where the difficulty in finding buyers and the market size determine the performance of micro and small enterprises. Whether the product is sold within the district, domestic market or foreign market largely depends on whether micro and small enterprise entrepreneurs sell through traders who may be special orders or sell to companies who may subcontract production or be part of a global value chain. The third aspect is the entrepreneur's ability, which is assumed to be determined by the formal higher education completed and the age of the entrepreneur. Indeed, young entrepreneurs are relatively more energetic and have higher levels of education than older generations. The fourth aspect is institutionalization. This institutionalization serves to smoothen transactions or lower transaction costs. In this study, there are two institutional factors observed, namely (1) institutional partnerships, where micro and small enterprises can collaborate to improve performance with large entrepreneurs that are mutually beneficial, and (2) creative economy institutions which are indirect policies, because the 6 creative economy subsectors are directly related to micro and small enterprises so that improving the performance of the 6 creative economy subsectors also has the potential to boost performance related to micro and small enterprises, especially culinary, fashion and crafts. Table 1 presents the variables used in this study.

This study utilizes secondary data from the 2010 - 2019 micro and small industry survey conducted by the Central Bureau of Statistics (CBS). The CBS defines small and medium enterprises based on the unit's number of workers. Micro-business units are businesses that employ 1-4 people, small business units that employ 5-19 people, medium business units 20-99 people, and large businesses above 100 people. Based on the 2015 Indonesian Standard Industrial Classification, there are 11 micro-small enterprise sectors related to 6 creative economy subsectors (Statistics Indonesia, 2016).

Table 1. Description of the Variables

| Variables | Explanation |
|----------------------|---|
| VAF_{MSE} | The added value of micro and small-scale manufacturing industry in a year (Billion Rupiahs) |
| $(COMP_{MSE}/Labor)$ | The compensation per total employees of micro and small scale manufacturing industry in a year (Million Rupiahs). The total of employees is the sum of paid employees and unpaid employees. |
| $DIFF_{CAPITAL}$ | The number of establishments in the micro and small-scale manufacturing industry having capital difficulties. |
| $DIFF_{LOAN}$ | The number of establishments in the micro and small-scale manufacturing industry having bank loans difficulties |
| $DIFF_{SKILL}$ | The number of establishments in the micro and small-scale manufacturing industry having difficulty recruiting skilled workers. |
| $DIFF_{RAW}$ | The number of establishments in the micro and small-scale manufacturing industry having difficulty getting raw materials. |
| $DIFF_{MARKET}$ | The number of establishments in the micro and small-scale manufacturing industry having difficulty in marketing products (looking for buyers) |
| $CONSU_{LOC}$ | Number of establishments of micro and small scale manufacturing industry whose main consumers of products are local markets |
| $CONSU_{DOM}$ | The number of establishments in the micro and small-scale manufacturing industry whose main consumers of products are domestic markets |
| $CONSU_{FOR}$ | The number of establishments in the micro and small-scale manufacturing industry whose main consumers of products are foreign markets |
| $CONSU_{TRADER}$ | The number of establishments in the micro and small-scale manufacturing industry whose main consumers of products are traders |
| CON_{FIRM} | The number of establishments in the micro and small-scale manufacturing industry whose main consumers of products are firms |
| EDU_{UNIV} | Entrepreneur receiving a university graduation |
| AGE_{25TO44} | Age of entrepreneur between 25 to 44 years |
| $PARTN$ | The number of establishments in the micro and small-scale manufacturing industry having good cooperation in the supply chain, distribution, or general |
| D_{CEA} | The manufacturing sector has correlated creative industries after the 2015 year are 1, while others are zero |

Results and Discussion

In the descriptive analysis, the condition of micro and small enterprises already shows an imbalance in compensation between non-labor and labor resources. The average value added generated by micro and small enterprises was IDR 8.403 billion during the 2010-2019 period with 23 business subsectors, while the average compensation per total worker (the sum of paid and unpaid workers) was IDR 10.01 million. Since micro and small enterprise entrepreneurs have to pay a high price for capital, loans, raw materials, and scarce technology investments, they minimize the payment of workers' wages.

In terms of access to resources, the biggest access difficulty for micro and small enterprises is loan difficulty (1.45 million micro and small enterprises), followed by capital difficulty (694 thousand) and raw material difficulty (384 thousand). Apart from capital and raw materials, human resources are also a major problem for micro and small enterprises. This problem is related to the relatively low compensation of workers, which makes micro and small businesses less attractive to

university graduates. The average number of university graduate entrepreneurs per subsector is 3,487 per industry subsector or 2.17% of micro and small entrepreneurs are university graduates.

Table 2. Descriptive Data of Micro and Small Enterprises in Indonesia 2010 – 2019

| Description | Mean | Median | Min | Max | Std.Dev. | Sum |
|----------------|---------|--------|------|-----------|----------|------------|
| VAF_mse | 8,403 | 2,183 | 16 | 82,558 | 14,051 | 1,932,709 |
| COMP_mse | 2,412 | 557 | 8 | 19,648 | 3,600 | 554,766 |
| COMP_mse/Labor | 10.01 | 8.23 | 0.08 | 55.47 | 8.28 | 2371.20 |
| Entre_mse | 160,777 | 32,254 | 108 | 1,741,779 | 305,834 | 36,978,611 |
| Labor | 398,369 | 86,021 | 669 | 3,938,839 | 708,224 | 91,624,869 |
| Diff_Loan | 57,159 | 8,602 | - | 1,450,680 | 152,742 | 13,146,641 |
| Diff_Capital | 40,298 | 7,625 | 1 | 694,282 | 79,770 | 9,268,472 |
| Diff_Skill | 7,036 | 1,097 | - | 90,295 | 13,805 | 1,540,881 |
| Diff_Raw | 29,297 | 5,214 | - | 384,250 | 65,161 | 6,738,367 |
| Diff_Market | 36,774 | 6,986 | 2 | 437,024 | 68,630 | 8,457,999 |
| Consu_Loc | 150,611 | 29,766 | 41 | 1,706,790 | 300,903 | 24,248,350 |
| Consu_Dom | 180,556 | 37,919 | 199 | 1,888,825 | 339,739 | 28,888,966 |
| Consu_For | 560 | 33 | - | 15,514 | 1,524 | 90,197 |
| Consu_Firm | 18,913 | 5,808 | 18 | 148,718 | 26,570 | 3,045,048 |
| Consu_Trader | 85,773 | 16,643 | 30 | 1,142,688 | 191,287 | 13,809,408 |
| Edu_Univ | 3,487 | 1,029 | - | 40,960 | 6,595 | 795,134 |
| Age_25To44 | 68,977 | 18,072 | 44 | 703,054 | 121,046 | 15,864,755 |
| Partn | 20,186 | 4,825 | - | 238,797 | 35,868 | 4,642,721 |
| D_CEA | 0 | - | - | 1 | 0 | 44 |

Sources: Survey of micro and small enterprises by BPS, 2020.

Therefore, technological advancement and innovation cannot rely solely on micro and small entrepreneurs. A possible shortcut is for micro and small enterprises to adopt, adapt and improve the technology by partnering with large companies. In this context, partnerships and exports are still rare, with an average of 20,186 micro and small enterprises per subsector partnering (Table 2), and an average of 560 micro and small enterprises having customers abroad.

Tables 2 and 3 present The estimation results, using the robust regression method, of the effect of the business environment on micro and small enterprises' value-added performance and labor compensation. In Table 2, the selected independent variables can explain more than 57% of the change in micro and small enterprises' value-added performance. They can explain more than 58% of the change in labor value-added performance. In addition, reduced difficulties in accessing resources (capital, labor skills, raw materials) have increased the value-added generated by micro and small enterprises. Meanwhile, firms that have customers in both local and domestic markets are relatively higher in contributing to the increase in value-added of micro and small enterprises. This finding is in line with Burger et al. (2015), who stated that increasing production through investment in new technology requires capital, and Ogoi (2017), who explained that increased profitability and business growth require capital. Institutional partnerships contribute negatively to the value-added of micro and small enterprises, while indirect institutional policies (Creative Economy Agency) contribute positively. This finding may be due to the misaligned governance structure of partnership contracts in Indonesia, thus lowering partnership performance, as good collaboration (with contracts) between the public and private sectors will improve alliance performance (Demirbag et al., 2010), and public-private partnership performance (Schomaker & Bauer, 2022).

When comparing the results from Table 3 and Table 4, the value-added performance of micro and small enterprises is not in line with the compensation provided to workers. Increased difficulty in accessing resources (capital, skills, and raw materials) increases the value-added performance of micro and small enterprises and the compensation per employee of micro and small enterprises. Firms with primary customers in local and domestic markets and work with traders have relatively higher value-added contributions for micro and small enterprises and lower compensation per micro and small enterprise employee. Entrepreneurs' education level and institutional partnerships contribute positively to compensation per employee of micro and small enterprises, while indirect institutional policies (Creative Economy Agency) contribute to lower

worker compensation. These findings corroborate the results of Mertzanis and Said (2019), which prove that skilled labor and firm performance in developing countries are positively correlated because skilled labor remains strong in controlling various firm-specific characteristics. However, the workforce of micro and small enterprises in Indonesia is still filled with less skilled labor and also does not match the skills possessed (Allen, 2016).

Table 3. Estimation of Creative Economy Agency and Partnership on Value Added Performance of Micro and Small Enterprises

| Variable | Method: Robust Least Squares | | | | |
|--------------|----------------------------------|-----------|-----------|-----------|-----------|
| | Dependent Variable: LOG(VAF_MSE) | | | | |
| | (1) | (2) | (3) | (4) | (5) |
| Constant | 8.149*** | 8.078*** | 8.442*** | 8.437*** | 8.488*** |
| DIFF_LOAN | -0.160 | -0.163 | -0.153 | -0.172 | -0.215 |
| DIFF_CAPITAL | -0.001 | 0.000 | -0.001 | -0.001 | 0.000 |
| DIFF_SKILL | 0.000 | 0.000 | -0.001 | 0.000 | -0.001 |
| DIFF_RAW | -0.001** | -0.001** | -0.002*** | -0.002*** | -0.003*** |
| DIFF_MARKET | 0.000 | 0.000 | -0.001 | -0.001 | -0.001 |
| CONSU_LOC | -0.001*** | -0.002*** | -0.003*** | -0.001*** | -0.002*** |
| CONSU_DOM | 0.000 | 0.004*** | | | |
| CONSU_FOR | | 0.000 | 0.0005 * | | |
| CONSU_FIRM | | | -0.0003 | -0.001*** | |
| CONSU_TRADER | | | | 0.000 | 0.002*** |
| EDU_UNIV | -0.001** | -0.001** | -0.001*** | -0.001** | -0.001 * |
| AGE_25TO44 | 0.000 | 0.000 | 0.000 | 0.000 | -0.001 |
| PARTN | -0.001 | -0.001** | 0.007*** | 0.007*** | 0.002** |
| D_CEA | -0.001** | -0.001** | -0.001 * | -0.001 | -0.002*** |
| | 0.000 | 0.000 | -0.001 | 0.000 | -0.001 |
| | 0.519** | 0.459** | 0.439** | 0.485** | 0.949*** |
| | -0.209 | -0.211 | -0.181 | -0.224 | -0.285 |
| Rw-squared | 0.740 | 0.763 | 0.803 | 0.723 | 0.568 |
| N | 142 | 141 | 101 | 141 | 139 |

Source: processed data.

Note: Standard errors in parentheses; *** = significant at 1%; ** = significant at 5%; * = significant at 10%

Access to Finance and Resources

In access to resources, the reduction in capital, skill, and raw material difficulties increases the micro and small enterprises added value. In micro and small enterprises whose main consumers are local (Model 1), domestic (Model 2), and export (Model 3) markets, raw material difficulties are more dominant than in micro and small enterprises, whose main consumers are companies (Model 4) traders (Model 5). Every 1 unit reduction in raw material difficulty will increase 0.25% - 0.26% of micro and small enterprise added value (Models 1 and 2), while models 3 and 4 show a 1% reduction in raw material difficulty will increase micro and small enterprise added value by 0.14% - 0.19%. Meanwhile, difficulties in obtaining skilled labor are more experienced by micro and small enterprises whose main customers are firms (Model 4) and traders (Model 5), and capital difficulties

are more experienced by micro and small enterprises oriented towards foreign markets and traders. This finding explains that micro and small enterprises oriented towards local, domestic, and export markets require a reduction in raw material supply difficulties.

In contrast, micro and small enterprises oriented towards traders and firms require a reduction in difficulties in obtaining skilled labor. This finding supports that reducing difficulties in accessing economic resources will increase production (Burger et al., 2015), improve business profitability and growth (Ogoi, 2017), and increase export capacity (McLean & Charles, 2020). Therefore, policymakers need to immediately formulate tailor-made loans for micro and small enterprises as suggested by the International Labour Organization (ILO, 2019) and follow the example of alternative financing in the OECD (Cusmano & Koreen, 2015). Improving the skills of workers can be done through institutionalizing partnerships. Parent companies transfer technology to partner micro and small enterprises (International Finance Corporation, 2018).

Table 4. Estimation of Creative Economy Agency and Partnership on Compensation per Employee of Micro and Small Enterprises

| Variable | Method: Robust Least Squares | | | | |
|--------------|---|------------|------------|------------|------------|
| | Dependent Variable: LOG(COMP_MSE/LABOR) | | | | |
| | (6) | (7) | (8) | (9) | (10) |
| Constant | -1.828 *** | -1.670 *** | -3.476 *** | -3.977 *** | -2.933 *** |
| | -0.385 | -0.387 | -0.443 | -0.329 | -0.453 |
| DIFF_LOAN | 0.001 | 0.001 | -0.004 ** | 0.002 *** | 0.000 |
| | -0.001 | -0.001 | -0.002 | -0.001 | -0.001 |
| DIFF_CAPITAL | 0.002 ** | 0.002 ** | 0.008 *** | 0.002 | 0.005 *** |
| | -0.001 | -0.001 | -0.002 | -0.001 | -0.001 |
| DIFF_SKILL | 0.003 *** | 0.003 *** | 0.003 *** | 0.005 *** | 0.004 *** |
| | -0.001 | -0.001 | -0.001 | -0.001 | -0.001 |
| DIFF_RAW | 0.004 *** | 0.004 *** | 0.011 *** | 0.002 ** | 0.003 ** |
| | -0.001 | -0.001 | -0.002 | -0.001 | -0.001 |
| DIFF_MARKET | 0.001 | 0.001 | -0.009 *** | 0.002 * | 0.003 * |
| | -0.001 | -0.001 | -0.003 | -0.001 | -0.002 |
| CONSU_LOC | -0.008 *** | | | | |
| | -0.001 | | | | |
| CONSU_DOM | | -0.008 *** | | | |
| | | -0.001 | | | |
| CONSU_FOR | | | -0.001 | | |
| | | | -0.001 | | |
| CONSU_FIRM | | | | 0.004 *** | |
| | | | | -0.001 | |
| CONSU_TRADER | | | | | -0.003 ** |
| | | | | | -0.001 |
| EDU_UNIV | 0.003 *** | 0.003 *** | 0.005 *** | 0.004 *** | 0.003 *** |
| | -0.001 | -0.001 | -0.001 | -0.001 | -0.001 |
| AGE_25TO44 | 0.000 | 0.001 | -0.008 *** | -0.009 *** | -0.003 |
| | -0.002 | -0.001 | -0.002 | -0.001 | -0.002 |
| PARTN | 0.003 ** | 0.003 ** | 0.008 *** | 0.002 * | 0.004 *** |
| | -0.001 | -0.001 | -0.002 | -0.001 | -0.001 |
| D_CEA | -1.219 ** | -1.125 ** | -1.032 ** | -0.200 | -1.687 *** |
| | -0.504 | -0.501 | -0.525 | -0.429 | -0.600 |
| Rw-squared | 0.697 | 0.711 | 0.773 | 0.830 | 0.585 |
| N | 142 | 141 | 101 | 141 | 139 |

Source: processed data.

Note: Standard errors in parentheses; *** = significant at 1%; ** = significant at 5%; * = significant at 10%

Meanwhile, for compensation per worker (Table 4), for micro and small enterprises with customers in local, domestic, and foreign markets, an increase in the level of raw material difficulty will increase the compensation per worker of micro and small enterprises. Each 1-unit increase in the level of raw material difficulty will increase workers' compensation by 0.38% (Model 6), 0.36%

(Model 7), and 1.07% (model 8). This means that the scarcity of raw materials leads to an increase in workers' welfare. Workers must work extra carefully and be more productive using scarce raw materials. Raw material scarcity is relatively not experienced by micro and small enterprises that are oriented towards the market of partner companies and traders. Drábek et al. (2017) showed that micro and small enterprise partnerships in Italy increased innovation. These partnerships will be able to provide experience and technology to save raw materials. Hing et al. (2020) proved that micro and small enterprises in Indonesia increased exports through participation in GVCs.

For micro and small enterprises with market orientation to firms (model 9) and traders (model 10), the role of worker skills is dominant. For every 1-unit increase in the difficulty of finding skilled workers, micro and small enterprises will increase compensation by 0.51% (Model 9) and 0.40% (Model 10). When employers want to find workers with the required skills, they must be willing to offer higher wages to attract workers with those skills (Krugman, 2014). In other words, Krugman says that the skills gap is more due to inadequate wages for those skills. Workers will improve their skills based on the incentives they receive. However, in Indonesia, ADB research says that unqualified workers will still fill many positions, as the continuing skills shortage is compounded by most workers employed on short-term contracts (Allen, 2016). This discourages skills investment and reinforces segmentation in the labor market. Improving the quality of education and human capital is an urgent task as micro and small enterprises still experience difficulties accessing skilled labor resources. In the current context, according to Allen (2016), Indonesia's labor force is still filled with less qualified workers, and increased incentives (income) are not matched by increased productivity, reducing global competitiveness.

Market Access and Market Orientation

In market access, the market difficulty factor does not affect the value added of micro and small enterprises (Table 3), but decreased foreign market barriers can increase workers' compensation (Table 4). Every one-unit reduction in foreign market opening barriers will increase by 0.88% of workers' compensation. This condition is explainable using the assumption that market development might arise from technological improvement. Other countries have experienced this assumption, such as the development of communication technology that allows remote communities in Peru to gain access to banking; solar technology that opens up new businesses in remote communities in Tanzania; and agricultural technology that increases agribusiness opportunities for smallholder farmers in India (International Finance Corporation, 2018). Therefore, micro and small enterprise products successfully exported are technological. However, due to the limited number of actors or types of products exported, the added value of these exports is not large enough to increase the added value of micro and small enterprises as a whole.

As for market orientation, improving the value-added performance of micro and small enterprises is more effective in markets where the main consumers are local markets (district level) and domestic markets (Table 2). Each additional 1 unit of consumers will increase 0.48% (Model 1) and 0.44% (Model 2) of the value-added output of micro and small enterprises. Whereas in Table 4, the increase in workers' compensation caused by adding consumers occurs only in micro and small enterprises that cooperate with companies.

Entrepreneurship and Human Capital

The consequences of low-quality human capital reduce innovation (Khadan, 2018) and reduce participation in GVCs (Hing et al., 2020). Human capital in micro and small enterprises is still a major constraint as indicated by every 1-unit increase in micro and small enterprise entrepreneurs who graduated from college decreases 0.07% of the value added of micro and small enterprises that have local (Model 1) and domestic (Model 2) main consumers. Similarly, micro and small enterprises with foreign markets (Model 3), companies (Model 4), and traders (Model 5) also face the same problem, where the number of university graduates working in micro and small enterprises decreases the value added of micro and small enterprises. Compared to the regression results in Table 3, the number of college graduates who graduated by micro and small business entrepreneurs increases workers' compensation, especially micro and small businesses oriented

toward foreign markets. This is in line with Amalia and von Korfflesch's (2021) research that formal higher education for entrepreneurs has not been effective in producing active entrepreneurs, and also Allen (2016) says that an underqualified workforce still fills many positions.

Young entrepreneurs (aged 25 to 44), the policy target of the Creative Economy Agency, show positive contributions. The increase in the number of young entrepreneurs has increased the added value of micro and small enterprises that have overseas customers (model 3), corporate customers (model 4), and merchant customers (Model 5). However, these young entrepreneurs have not contributed to the increase in workers' compensation, especially for micro and small enterprises with foreign market orientation and partnership orientation (Model 9).

Partnership and Institutional Policy

The institutional partnership is still a weak point for micro and small enterprises in improving value-added performance. Every 1 unit increase in partnership participation decreases 0.10% of value-added generated. Therefore, an evaluation of the cooperation contract needs to be carried out to make it fairer and more profitable for both parties. In contract theory, in principle, contracts are in a state of contract imperfection. The argument is that when a contract is made by prioritizing personal or group interests, the contract benefits one party. Such cooperation does not last long. In the contract theory literature, there are two actors, where the first actor (principal) is a micro and small enterprise entrepreneur, and the second actor (agent) is a large company.

The first actor makes investment cooperation, and the second actor fulfills the promise and executes the contract, then both actors will get 0.5 each. The second actor offers investment to the first actor worth 1, promising that the first actor will receive a net of 0.5. Then the first actor's choice is investment cooperation gets 0.5, while non-investment cooperation gets 0, so the first actor's decision is investment cooperation. When the law holds the second actor accountable for damages in the event of a breach of promise, the second actor will face the choice of fulfilling the promise by getting 0.5 and breaking the promise by getting -0.5. In the breach of the promise of the second actor, the second actor must pay compensation to the first actor of 1.5, which consists of 1 as a return on the first actor's investment cooperation, and pay compensation for the promise of profit of 0.5. Then the second actor gets -0.5 (from -1.5 - 1) when breaking and gets 0.5 when fulfilling the contract. The second actor would decide to fulfill the contract. Since the investment cooperation gives both actors 0.5 profit each, the contract is long-term. Furthermore, Schomaker and Bauer (2022) argue that partnerships work well when they are mutually trusting and beneficial to both parties and concur with the opinions of the Asian Development Bank (2019), Hidayat et al. (2018), and Urata and Baek (2021) that partnerships in GVC participation can improve productivity and competitiveness and Ahman (2017) also says that improving small and medium enterprise performance requires partnerships with large entrepreneurs. However, in this context, Indonesia needs to work hard to enforce business collaboration contracts as Doing Business (World Bank) reports that the assessment of enforcing contracts ranked 134th in 2020.

However, in terms of compensation per worker (Table 3), the partnership has shown a positive contribution. That is, increased partnerships have increased workers' performance rewards. The International Labor Organization (ILO) and the German Agency for International Cooperation (GIZ) issued a key finding that small is beautiful as micro and small enterprises create most of the employment in developing countries (Deijl, de Kok, & Veldhuis-Van Essen, 2013). Every 1 unit increase in partnerships will lead to a 0.20 - 0.83% increase in labor performance rewards. Sustainable human resource management involves partnerships and external relationships in learning and development.

The Creative Economy Agency's policy has indirectly increased the overall value-added of micro and small enterprises. Cumulatively, every 1-unit increase in the role of the Creative Economy Agency indirectly increases 51.9% of the added value of micro and small enterprises whose main consumers are consumers within one district; increases 45.9% of the added value of micro and small enterprises whose main consumers are domestic consumers; and increases 44.0% of the added value of micro and small enterprises whose main consumers are foreign markets.

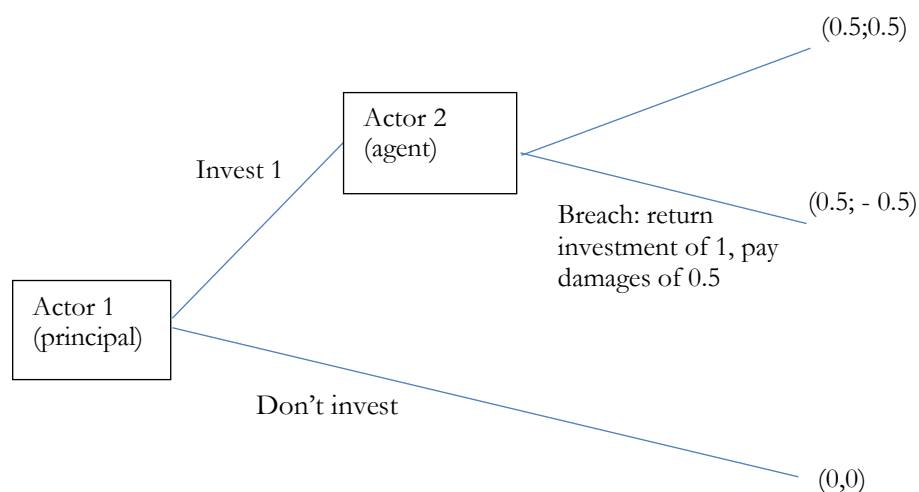


Figure 1. Agency Game with Contracts

The indirect policy of the Creative Economy Agency has increased 48.5% of the added value of micro and small enterprises whose main consumers are partnerships with companies and increased 95.0% of the added value of micro and small enterprises whose main consumers are traders (resellers). However, the Creative Economy Agency's policy still indirectly contributes to the increase in added value and has not increased the number of micro and small business actors (Dewanta & Sidiq, 2021). This condition is in line with Amalia and von Korfflesch (2021) research which states that formal higher education has not been able to form active entrepreneurs. Similarly, this study found that indirect policies from Creative Economy Agency institutions have contributed greatly to increasing added value, although they have not played a role in labor compensation, especially micro and small enterprises whose main consumers are in district, domestic, and foreign markets. Based on the OECD report, Indonesia has many programs for small and medium-sized enterprises and entrepreneurs, but most are targeted at entrepreneurs, and only some address productivity growth in small and medium-sized enterprises (OECD, 2018). This is in line with this study that the compensation per employee of micro and small enterprises decreased against the indirect policies of the Creative Economy Agency.

Conclusion

Micro and small enterprises empowerment policies are complex because they result in contradictory performance between increasing the added value of micro and small enterprises, which is a proxy for firm performance, and worker compensation as a measure of reward for worker performance. Reducing resource access barriers, market orientation, and Creative Economy Agency policies indirectly improve the micro and small enterprise performance but decrease worker performance. Meanwhile, the education level of entrepreneurs and partnerships improves worker performance but reduces firm performance.

The Creative Economy Agency policy has indirectly improved the value-added performance of micro and small enterprises but not workers' compensation. This is also evidenced by statistical data showing an increase in value-added GDP contribution with the Creative Economy Agency, but the data cannot explain the recipients of value-added GDP. This finding may help explain that the increase in value-added GDP is enjoyed more by business owners than workers.

Partnerships, which are a proxy for technology adoption, are shown to provide greater compensation to workers. This is because partnerships provide more value to workers than business owners, which are opportunities for micro and small enterprises to upgrade their technology. Therefore, productivity enhancement programs - such as those aimed at improving labor and managerial skills and strengthening innovation in small and medium enterprises - need to be expanded if Indonesia wants to improve the labor productivity performance and competitiveness of small and medium enterprises.

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