

# A Pursuit of Indonesian SMEs (Small-Medium Enterprises) towards Green SMEs

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**Abstract**---*Indonesian Small and Medium Enterprises (SMEs) are the largest business sector and an important component of the nations economic development. However, limited studies are examined in the development of SMEs, challenges and opportunities for green business in the future. Therefore this article discusses the development of SMEs in Indonesia, challenges and environmentally friendly business opportunities among SMEs that play an important role in the nation's growth. The main point of the studies examined in this paper is that Indonesian SMEs contribute to the largest business establishment in Indonesia and most of them are in micro-size establishments. The uniqueness of this paper focuses on the role of Indonesian SMEs and their contribution and strategies for SMEs that can be done towards green SMEs.*

**Keyword**---*SMEs, Green SMEs, Challenges, Opportunities*

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## I. Introduction

One sign of successful development in developed countrys is the start of the emergence of Small-Medium Enterprises (SMEs) that can drive the economy of the poor. Small and micro-sized enterprises representing 99% of enterprises and providing about 60% of employment are a central part of economies worldwide and therefore in Indonesia too. They contribute around 50% of global gross value added and from 16% to around 80% of gross domestic product (GDP), depending on the country's economic structure [1].

The issue of climate change changes the perspective of consumers becoming more aware of the environment. According to Haryadi, the majority of consumers are aware that their buying behavior directly affects various environmental problems. Consumers adapt to this situation by considering environmental issues when shopping and through their buying behavior [2].

Consumer awareness of their environment encourages industries to conduct business that is environmentally friendly, not just an obligation to maintain the environment but has become part of the business process to meet consumers desires. According to Graham and Ketra in Hosein [3], *"There are many companies that have attempted to be more responsible towards the environment that they could satisfy their customers' needs in a more appropriate manner."*

Small-Medium business is a tool for improving the quality of life and people's welfare. Various types of SMEs have emerged and even many have developed into large-scale businesses. The obligation to manage the environment for medium and large businesses has been regulated in legislation, for example the obligation to make an Environmental Impact Analysis (EIA) including Environmental Management Planning and Environmental Monitoring Planning. While for smaller types of businesses, an Environmental Management Unit and an Environmental Monitoring Unit are required.

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## II. Discussion

### *Small-Medium Enterprises as a source of people's income*

Small-Medium Enterprises (SMEs) is a source of income for the majority of the Indonesian economy. SMEs are spread throughout all regions in Indonesia both in rural and urban areas and include all types of business fields. The strength of SMEs as one of the pillars that can sustain the nation's economy has been well tested, because this sector is able to survive and compete in the midst of the economic crisis. After the monetary crisis in 1998, was able to survive as a savior of the national economy. While other business sectors are actually down and in disarray [4].

Small-Medium Enterprises are a type of business that can absorb a lot of labor and have better resilience and flexibility in facing a country's economic fluctuations. The development of micro-small businesses continues to increase. Around 60% of the total micro-small enterprises are businesses engaged in livestock farming, forestry and fisheries, then around 23% are engaged in the trade, hotel and restaurant sector and around 7% are engaged in the processing and communication industries and the rest are spread in mining and quarrying sector, financial services, building, electricity, gas and clean water. Considering the important role of the Small-Medium business sector, especially in the absorption of labor and improving the welfare of the community, it is only natural that this sector receives attention to be developed so that it can truly become the main buffer of the national economy. Even in the era of globalization nowadays, the micro-small enterprises sector has great potential to develop into a competitive and integrated with modern economy type such as start-ups or online business.

A lot of SMEs have proven their resilience and are able to become a source of life for the people, which in time will strengthen the national economy

Brodo Indonesia is one of the small-micro enterprises (SMEs) that has succeeded in going up class because of technology. Because the technology can cut the obstacles faced by SMEs. Brodo's founder and CEO, Putera Dwi Karunia said that SMEs players must dare to use various digital platforms to advance their business. The use of digital platforms is not only limited to sales, but also for marketing, product information, customer service, to search for knowledge and business opportunities. Putera said that he started a business with a capital of 7 million rupiah and only focused on selling online. Now, the turnover obtained per month is more than 1 billion rupiah and has more than 100 workers [5].

Choosing to raise Trusmi batik, which is a regional batik, has brought it to extraordinary success. By collecting the profits he gained from trading around the market, Sally Giovanny finally built the first Trusmi batik shop. Sally Giovanny and her husband get capital from guest money when they get married in the amount of around Rp. 37 million. They started to buy Mori cloth or white pilis cloth as batik material for resale with a capital of Rp. 15 million. The advantage that Sally Giovanny and her husband got was only around Rp. 8,000 per piece of cloth at that time. At present, Sally Giovanny has more than 850 permanent employees and 500 batik artisans. Every day the store is almost always crowded with visitors with an estimated visitor to thousands. The turnover he earns can even reach 100 million every day [6].

Warunk Upnormal was founded by Rex Marindo. Before starting a business, Rex worked as a marketing consultant. Until finally he started thinking of retiring and changing professions to become a seller of fried rice with a capital of 100 million, 60 million were used to rent a place. Success in the fried rice business, Rex found the fact that instant noodles are liked by many people in Indonesia. From this fact, he finally took the initiative to open Warunk Upnormal with a menu of instant noodles as their main menu. Thanks to his brilliant idea, now Warunk Upnormal has grown rapidly to have 80 branches spread throughout Indonesia in just 4 years [7].

The examples of the success of the SMEs above are only a small part of SME entrepreneur that are scattered throughout the territory of Indonesia. This picture indicates that the importance of the role of SMEs in the midst of the Indonesian

economy today, and even in many countries in the world, that the small-medium business sector is one of the crucial leverage for their economic growth and development. For example in Japan, the rate of economic growth is very rapid, often associated with the size of the small business sector. In the United States, the contribution of the small business sector has been very large in creating jobs since World War II [4].

Nowadays, Developing countries have changed their orientation by empowering the SME sector, due to the very important role of the SME sector in supporting and strengthening the people's economy and in realizing and maintaining national competitiveness up to the global level. Realizing this, the Indonesian Government through the Ministry of Cooperatives and Small and Medium Enterprises emphasizes its policy of increasing competitiveness by providing financial and non-financial strengths, such as through the establishment of centers so that SMEs can synergize with each other, and establish service institutions business that is ready to provide consulting, advocacy and business information to SMEs. In this case the Ministry of Cooperatives and SMEs always coordinates both horizontally and vertically with the relevant agencies, both in the regions and at the center in order to have similar actions based on the vision and mission of Cooperative and SME development.

Various strategies and methods that have been carried out both directly and indirectly for the development of SMEs. Although there have been many successes achieved, but due to various obstacles in its implementation, there are still many things that need to be done to improve the role of SMEs as expected. A various obstacles that would be faced by SMEs are [8]:

1. Disbelief toward innovation
2. Difficulties of organizational interaction
3. Excess of activities and time shortage
4. Lack of support from top management
5. Limitation of people
6. Limitation of financial resources
7. Limitation of technological resources
8. Obstacles originating in the external environment
9. Priority for core or short-term activities
10. Fear of innovation consequences
11. Resistance to innovation due to loss of power
12. Resistance to innovation due to conformism

#### *Small-Micro Enterprises (SMEs) Should Go Green*

Every form of business activity, large, medium or small-micro scale is able to create a positive impact on the community, but also has a negative impact, especially the impact on the use of natural resources and the environment. Therefore the use of natural resources must consider environmental factors so that the benefits can be sustainable.

Based on Green Paper, FORA said that Green Business Models involve the creation of new types of jobs, lower environmental impacts, and they are very promising platforms for innovation [9]. According to the Ministry of Environment and Forestry "Green Business Management" is an integrated environmental management strategy that includes the development of organizational structures, systems and cultivation in a green competency by implementing and adhering to all regulations regarding environmental management, including raw material management, waste treatment, natural resource

use effective, use of production technology that produces minimal waste and implements a commitment to environmental awareness for all employees in the organization [10].

#### *Green SMEs Opportunity Analysis*

Developing a green SMEs is an increase in GDP (Gross Domestic Product), this means an increase in the purchasing power of Indonesian consumers. Indonesia is the second largest CO<sub>2</sub> producer after China in its economic growth and consume 5% of GDP for environment improvement, green business models can reduce CO<sub>2</sub> gas and reduce costs for improving the environment of GDP.

Indonesia's population growth continues to increase every year. The large number of people causes an increase in consumption, so this is an opportunity for green businesses to develop their business in a large and potential market. Population consumption of green products will reduce the impact on the environment.

Government supports businessmen to develop their business into environment friendly businesses. This is evidenced by the compilation of regulations, provisions and laws that lead to the development of environment friendly businesses, even though they have not been fully established and implemented. Legally the green SMEs will be protected by a legal protection.

Indonesia's position as the third largest Greenhouse Gas (GHG) emitter after America and China, obliges Indonesia to improve its environment. And developing green SMEs really help to reduce GHG emissions.

Mostly Indonesian consumers have an awareness of the environment. This condition is a great opportunity for green SMEs to develop in Indonesia.

#### *Green SMEs Challenges in Indonesia*

SMEs that adopt green business model will produce green products or green label. Based on an analysis of consumer behavior in several countries including Indonesia, there are several challenges that need to be considered by SMEs in green business model.

#### *Price*

Apparently, though in general consumer awareness of the environment continues to grows but offering price of green products or green label are still high and this is the highest influence for them deciding to buy green products.

#### *Trust*

Beside prices, there is also consumer distrust on the label "*green product*" or "*ecolabel*", Most of Indonesian consumers argue that the information in green product is inaccurate.

#### *Education*

Information about the functions, benefits, and advantages of green products or environmental friendly products is still poor, so some consumers are still reluctant to buy green products at a high price.

#### *Target Market*

The target market for green products or green label is a niche market, because the target is for consumers who care about the environment and are willing to pay some money to buy green products or green label.

### III. Conclusion

SMEs play important roles which contributing to increase country's gross domestic product (GDP). So government should support SMEs to develop their business. but the government must not forget sustainable development to maintain environmental sustainability. It is important for government to regulate SMEs to do Green Business.

Consumers in Indonesia is mostly aware of the environment and wants to use green products, only the price constraints are still considered expensive and the availability of green products that are not easily available, makes consumers still choose non-green products.

Based on the analysis, it is known that opportunities in the form of potential market, increased purchasing power, support from the government, encouragement from the environment to develop green businesses. The challenges in green business are the issue of price, trust, target market, and education. The suggested strategy is high prices versus affordable prices, communication and education pricing that will increase consumer confidence. This green business strategy produces competitive advantage, brand reputation and increase income.

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