

# CHAPTER I

## INTRODUCTION

### A. Background

In the industrial era 4.0 that the world is experiencing today, technology has the power to completely change the management structure in every sector of the economy. The world's digital economy is rapidly expanding as a result of a more sophisticated global economy powered by smart technology. With the help of mobile phones connected to the internet, anything can be controlled from anywhere. Everything has changed, including the economy, and as a result, the world is getting closer to the digital economy. For example, the general practice of using email, websites, media/applications for online product management, and online transactions (Syikin, 2020).

The influence of globalization cannot stop the need for digitalization. One of the most important tactics to transform Indonesia's economy is the growth of the digital economy. Changes in people's behavior who prefer to use digital platforms in various businesses are another factor driving the growth of the digital economy. The period of globalization, which is characterized by technological and information advances, dependence, and a nation without borders, includes digitalization as one of the characteristics of environmental change. The economic aspect known as "digitality" is built on the adoption and empowerment of digital information and communication technology. The digital economy is growing rapidly in Southeast Asia and has enormous market potential (Lukita et al., 2023).

In the era of digital economy, information serves as the main driver of economic growth and is no longer just a tool of trade and communication. Especially as a result of advances in internet technology and mobile devices, the digital economy supports changing attitudes of people and organizations when making economic decisions. Access to goods and services that support business operations in the industrial and trade sectors in the current era is made possible by the digital economy (Hendarsyah, 2019).

Currently, digital technology in Indonesia has developed very rapidly. In the modern era, business is not only oriented to the existence of stores, sellers and buyers. But business in today's modern era makes the internet a medium of access or marketing that aims to attract customers. Starting from small businesses to large businesses have implemented online media as access to sales of their products. This is where interesting things need to be dug deeper. Currently, many small businesses are starting to develop because the market is easily accessible through the internet and other media. The government also opens opportunities for founders or entrepreneurs to create new products by providing capital assistance from people's business credit. MSMEs need high creativity to survive and develop better in the future (Rifai et al., 2022).

The development of digitalization has created a new innovation in the economic field, namely in business-to-business, or business-to-customer interactions. Technological advances have made it clear that MSMEs face increasingly fierce competition in the digital economy era. As a result, MSMEs must pay attention to this phenomenon and study and master digital marketing

connected to the Digital Economy. Entrepreneurs are now finding it easier to launch brands and advertise their goods. Unlike in the past where it was difficult to find suppliers, almost all products are now easy to find on electronic commerce platforms (Syikin, 2020).

The growth of the digital economy has led to the development of superior new services, including improved methods of conducting business transactions, both in terms of transfer services and business models, therefore it is important for businesses today to adapt if they want to maintain their market. This is shown by the rise of online stores (including marketplaces and platforms), which began to mushroom in many regions of the world (Az'mi, 2018).

The growth of Micro, Small and Medium Enterprises (MSMEs) is intended to make a significant contribution to export growth, competitiveness, and employment prospects. The growth of small and micro enterprises, seeks to include low-income residents in increasing their incomes. The lack of production capacity, added value, and product quality owned by most business actors, especially Micro, Small and Medium Enterprises (MSMEs) is still a challenge for MSME players in Indonesia. Although it is recognized that MSMEs offer most of the job opportunities for Indonesians, the contribution in national output is still categorized as low (Ismah et al., 2020).

Technology can encourage the community, especially MSME players, to be able to innovate and develop so that they can adapt in a market that is starting to shift to this sophisticated era. That way, entrepreneurs, especially those engaged

in micro, small and medium enterprises (MSMEs), can take advantage of the opportunity to expand their reach to increase sales and profits (Carin et al., 2019).

MSMEs (Micro, Small and Medium Enterprises) contribute significantly to Indonesia's economic growth. Continuous efforts must be made to increase the contribution of MSMEs to national growth. Gross domestic product (GDP) growth and employment expansion are both strongly influenced by MSMEs. Based on data from the ministry of cooperatives and MSMEs, MSMEs have been able to absorb around 97% of the workforce in Indonesia, and the contribution of MSMEs to GDP reached 61.07% in 2020. Micro, small, and medium enterprises must have more ability to support the economy and increase the level of growth that is projected to reduce economic inequality (Kharisma, 2021).

Local MSMEs must strive to become more competitive by using information and communication technology to compete with an increasingly tight business environment. This is because MSME players can use various technologies to expand their operations and prepare for the global market. In order for locally produced goods from Indonesia to continue to exist, efforts must also be made to preserve and advertise MSME goods in foreign markets. One of them is by using Android-based applications developed by digital economy-based start-ups such as Gojek, ShopeeFood, Grab. So that local MSME goods can compete in foreign markets as a potential step to improve the economy.

MSME players, especially in the culinary sector, are one of the business groups that can survive in this digital era because they do not know the time and

time, so that culinary businesses are always exist in every level of society. People's need for food and beverages is still a basic need, with large and small business scales. By looking at the current situation and reality, the culinary business is a very promising business and generates the highest income (Rakhmanita, 2021).

Currently, many MSME players in the culinary sector use information technology as part of their business. Social media platforms such as Facebook, Instagram, and WhatsApp make it easier for culinary businesses to promote their products more broadly, which saves time and costs and becomes a tool for producers and consumers to interact directly (Mokolensang et al., 2021).

The amount of money an individual or country can earn over a period of time is referred to as a person's income. Thus, it can be said that income is the total amount of money that members of society receive over a certain period of time as compensation or factors of production that have been contributed. Factors affecting income are the number of factors of production owned which are derived from the results of this year's savings and inheritances or gifts, the price per unit of each factor of production, which price is determined by supply and demand in the market of factors of production and the results of activities by family members as a side job (Indraswarri & Kusuma, 2018).

In Islam we are also taught to do business Islamically, as Allah Almighty says in Q.S Al Jumu'ah Verse 10:

فَإِذَا قُضِيَتِ الصَّلَاةُ فَانْتَشِرُوا فِي الْأَرْضِ وَابْتَغُوا مِنْ فَضْلِ اللَّهِ وَاذْكُرُوا اللَّهَ كَثِيرًا لَعَلَّكُمْ تُفْلِحُونَ

It means: *"When prayer has been offered, you will be scattered on the earth; and seek the grace of God and remember God much so that you may be fortunate". (Q.S. Al Jumu'ah: 10)*

Al-Shaukani explains the meaning of this verse by saying, when you have finished praying then scatter you on the earth for trade (tijarat) and carry out other transactions, according to what you need to fulfill the affairs of your life. And seek the gift of Allah in the form of rizqi that Allah has given to his servant. In the context of the verse, Allah's fadhil is the advantages (alarbah) in mu'amalat and the efforts (makasib) that we have done (Tarigan, 2012).

In early 2020, due to the impact of the Covid-19 outbreak which occurred evenly in almost all corners of the world, including in Indonesia, it had a negative impact on various industrial sectors, especially the MSME business sector. The negative impact due to the Covid-19 outbreak has hampered the MSME business sector where this business sector requires direct interaction between buyers and sellers and promotion is hampered by the presence of physical distancing and the existence of the Large-Scale Social Restrictions (PSBB) movement which is considered capable of slowing the spread and being able to accelerate the handling of the Covid-19 outbreak which is increasingly widespread every day in Indonesia (Marlinah, 2020).

Because there are still few and unfamiliar MSME players who use internet services or have websites, the challenges for MSMEs in 2023 are not only related to the development of the Covid 19 outbreak. This is also related to the

massive digital economy that continues to grow rapidly. As a result, MSMEs often struggle to sell their goods and services in distant and international markets and cannot compete with other large companies that already have established markets and can easily find customers thanks to the widespread use of seamless internet services.

**TABLE 1. 1**  
**Data on the Number of MSMEs in Sleman Regency as of 2023**

No	Kecamatan	Number of MSMEs	Labor (Male)	Labor (Women)	Turnover (Rp)
1	Gamping	5.483	1.620	2.282	71,398,850,001.00
2	Godean	7.190	1.469	2.370	85,192,810,631.00
3	Moyudan	3.946	2.092	1.314	148,017,060,330.00
4	Minggir	4.096	1.416	1.581	31,189,451,300.00
5	Seyegan	5.365	1.700	1.558	138,929,874,000.00
6	Mlati	6.377	1.842	2.243	167,273,556,200.00
7	Depok	9.255	1.907	2.393	203,798,033,760.00
8	Berbah	4.269	1.508	1.796	91,116,134,570.00
9	Prambanan	2.827	1.264	1.427	127,309,590,323.00
10	Kalasan	7.217	1.861	2.316	243,337,140,620.00
11	Ngemplak	5.285	1.766	12.152	116,817,571,260.00
12	Ngaglik	4.914	2.511	2.982	756,555,739,861.00
13	Sleman	8.238	1.970	2.705	296,626,118,844.00
14	Tempel	6.614	2.366	3.055	297,630,486,500.00
15	Turi	3.786	1.233	1.234	73,946,815,500.00
16	Pakem	3.546	1.385	1.881	100,651,983,350.00
17	Cangkringan	2.270	1.283	911	337,224,974,000.00
	Total	90.656	29.193	44.200	3,287,409,691,050.00

*Source: Sleman Regency Cooperatives and MSMEs Office, As of July 26, 2023*

Based on data from the Cooperatives and MSMEs Office of Sleman Regency, the number of MSMEs in Sleman Regency in 2023 is 90,656 MSMEs. Similarly, the MSME workforce in Sleman Regency in 2023 is 73,393 with 29,193 male workers and 44,200 female workers. And as for the turnover of MSMEs in Sleman Regency as of 2023 is Rp.3,287,409,691,050. Although the number of

MSMEs in Sleman Regency increases every year, MSME players must reduce their turnover due to the Covid-19 pandemic which causes various problems such as capital difficulties, decreased sales, hampering distribution or raw material difficulties.

The Covid-19 pandemic has caused changes and shifts in consumer purchasing patterns. In general, despite the existence of marketing networks, many customers come directly to outlets or world centers to buy products. But nowadays, consumers are of course not allowed to stay outside because government updates and regulations do not come out. MSME players also need to praise themselves and adjust how their products and services are marketed. Need to improve product quality and adjust services to attract consumers (Hardilawati, 2020).

Compared to large companies in other industries, MSMEs are better able to absorb labor because they are one of the three production components that are very important in realizing community economic growth, especially in Sleman Regency. Growing MSMEs and absorbing labor will increase people's purchasing power, which increase the production of goods and services and support economic development in Sleman Regency. MSMEs are sometimes referred to as a very important sector for economic growth because the majority of the population has a low level of education, works in small company operations in both traditional and contemporary industries, and can employ a considerable number of people. Each development plan prioritizes the contribution of MSMEs supervised by the Ministry of Industry and Trade as well as Cooperatives and MSMEs.

The contribution of MSMEs to economic growth and their ability to absorb relatively high labor is certainly a good thing for the economy of Sleman Regency because in addition to contributing to the GDP of Sleman Regency, MSMEs are also able to absorb sufficient labor so as to reduce the number of unemployed in Sleman Regency.

### **B. Problem Statement**

Based on the background described above, problems can be formulated in this study as follows:

1. Does the labor absorption affect the digital economy adoption of MSMEs in Sleman Regency?
2. Does the income affect the digital economy adoption of MSMEs in Sleman Regency?
3. Does the innovation affect the digital economy adoption of MSMEs in Sleman Regency?
4. Does the labor absorption, income, and innovation affect the digital economy adoption of MSMEs in Sleman Regency?

### **C. Research Objectives**

Based on the formulation of the problem above, the research objectives are as follows:

1. To analyse the influence of labor absorption on the digital economy adoption of MSMEs in Sleman Regency.

2. To analyse the influence of income on the digital economy adoption of MSMEs in Sleman Regency.
3. To analyse the influence of innovation on the digital economy adoption of MSMEs in Sleman Regency.
4. To analyse the influence of labor absorption, income, and innovation on the digital economy adoption of MSMEs in Sleman Regency.

#### **D. Research Benefits**

The benefits of this study are:

##### 1. Theoretically

- a. This research is expected to be able to add insight, knowledge, and experience about the digital economy, especially about MSMEs and to compare existing theories with reality in the field. And in particular, it can be a reference material for future research.

##### 2. Practically

- a. This research is expected to be useful for oneself especially as well as for others and society in general
- b. This research is expected to advance knowledge and increase understanding as well as to provide input on various policy-making considerations in the field of MSMEs and decision making related to the digital economy, income and absorption of MSME workers.

- c. This research is expected to be a reference material and as a comparison material and consideration material for future research.
- d. To provide insight into the digital economy and can be additional reading and reference material for students in need.