

Tourism Villages for Micro and Small Enterprises Labor Absorption: Case Study of The Enterprises in Patuk-Gunungkidul Regency

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Received: May 2022 | Revised: March 2023 | Accepted: December 2023

Abstract

Micro, Small, and Medium Enterprises (MSMEs) are the most important pillars of Indonesia's economy. It has considerable contribution in providing employment in the informal sector. However, the high absorption of labor accompanied by the increased number in MSMEs in Indonesia cannot be separated from the existing challenges. This study aims to analyze the determinants of employment in the Micro and Small Enterprises sector (MSEs). MSEs actors in the tourism village area, Patuk sub-district, Gunungkidul, Yogyakarta. This research is focused on the role of the type of business and the status of the tourism village. The analytical tool used is the robust ordinary Least Square (OLS) method. The results showed that turnover and length of business had a real impact on increasing the absorption of MSEs workers according to the type of business and the status of the tourism village. Other findings show that Micro and Small handicraft businesses showed the highest employment absorption in tourism village with developed status, followed by businesses in the service, processed food, and trade sectors. The same results are also shown in the status of developing tourist villages. The potential of tourist villages with the advantages of the business sector has a real impact on increasing employment. Therefore, policymakers need to formulate strategies for the development of tourist villages to improve the welfare of local communities.

Keywords: Employment, Micro and Small Enterprises, Tourism

JEL classification: J21, L29, Z32

How to Cite: Sugiharti R. R., Panjawa J. L., Pamela Q., Kurniawan M. A., Guritno D. C. (2023). Tourism Villages for Micro and Small Enterprises Labor Absorption: Case Study of The Enterprises in Patuk-Gunungkidul Regency, 24(2), 282-292. doi:<https://doi.org/10.23917/jep.v24i1.18419>

DOI: <https://doi.org/10.23917/jep.v24i2.18419>

1. INTRODUCTION

One of the sustainable development goals is to diminish the gap and promote the welfare of all people. One of the indicators to measure the success of the economic development in a country is the job opportunities that emerge from the economic development. Thus, to meet the designated goal, a country should be able to utilize and optimize the existing resources' potencies effectively and efficiently. Besides,

the recent innovation in the productive sector must also be developed since it is considered an essential role in boosting a country's economic development.

MSMEs (Micro, Small, and Medium Enterprises) is one sector that plays a crucial role in Indonesian economic development. As mentioned in article 33 of Indonesia's 1945 constitution, it is clearly explained that the Indonesian economic power lies on three pillars:

the people's economy, the region's economy, and people's empowerment, or MSME. The robust MSME is verified in the economic crisis in 1998 and 2008, in which many large-scale businesses experienced production decreases or even closure. Meanwhile, the MSMEs survived and apparently have become the strongest stimulus for the economy.

The role of the MSME sector is expected not only in terms of economic reinforcement but also to the wider employment opportunity, reduce the level of unemployment, act as poverty alleviation, promote the welfare and establish the nation's character (Kawulur et al., 2021; Mensah & Benedict, 2010). Research by Arifin et al., (2020) proved that rural areas had a higher proportion of entrepreneurs and employment in Micro, Small and Medium Enterprises (MSMEs) than in urban areas. In Indi MSMEs are satisfactorily fulfilling the job creation (Hossain & Pathak, 2022), also believe as largely labor-intensive as contributor in an economy's development to induce employment creation (Sarmah, Saikia, & Tripathi, 2021). MSME is a source of employment. MSME contributes to the country's economy (Zulfikar et al., 2022).

MSMEs plays a huge role in Indonesia's economy, reaching up to 99 percent of all business units. The contribution of MSMEs to Gross Domestic Product (GDP) is 60.5 percentage point and to employment amounting to 96.9 percentage point of the total national employment absorption (Coordinating Ministry for Economic Affairs, 2022). Although the Indonesian MSMEs contribute to the economy, the types of jobs in MSMEs are considerably more informal. The informal MSMEs tend to have lower wages and productivity levels. Workers in the MSMEs sector are associated with the low-educated workers. Hence, more efforts are required for the expected development. Besides, the MSMEs are seen as the short-term solution to creating employment

due to low-quality workers (Prasetyo, 2021).

The dualism of perspective upon the role of MSME in the economy has become an interesting matter to be studied. On the one hand, MSME is urgently required as an economic activity generator and job provider. Yet, an economic structure that only relies on enormous numbers of MSMEs cannot be rendered as a strong foundation for economic powerhouse. The empirical evidence for Asia's countries revealed by Sanusi & Hamza (2017) suggested that MSMEs negatively impact national income and investment. Moreover, Rohadin & Yanah (2019) found that the role of MSMEs in the Indonesian economy counted for only 12.5 percent. It can be notified that MSMEs gives an insufficient real impact on the Indonesian economy.

Gunungkidul is the largest district in the Special Region of Yogyakarta Province and is known for its wealth and stunning natural beauty. The potential and existing MSMEs need to be developed because the economy can benefit from MSMEs and tourism. Infrastructure, spatial planning, investment, and tourism support are required for economic activity and people's welfare. Gunungkidul Regency emerges as the highest contributor to the tourism sector in Yogyakarta Province, experiencing a similar issue. One of the regencies that rely upon its income from the tourism sector, as seen in Table 1, recorded 1.96 percent of open unemployment in 2019 and escalated to 2.16 percent in 2020 (Statistics of Gunungkidul Regency, 2021). Aside from unemployment, the labor force at the Gunungkidul Regency has experienced a decrease over the same period, from 74.5% in 2017 to 65.3% in 2020.

The government of Gunungkidul Regency has initiated efforts to overcome such issues by opening new tourism destinations. It is expected that the openings encourage the activities of MSMEs.

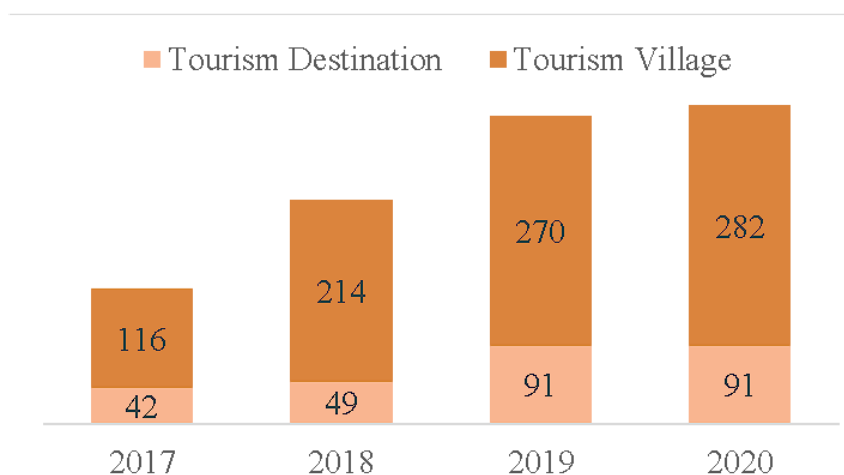


Figure 1. Tourism Destination and Tourism Village in Gunungkidul

Source: Yogyakarta Development Planning Agency (2022)

Table 1. Formal and Informal Workers in Gunungkidul Regency

Status		2018	2019	2020
Formal	Sector	187988	138434	92059
Workers				
Informal	Sector	256791	310133	297385
Workers				

Source: BPS-Statistics of Gunungkidul Regency (2021)

The significant increase in tourism objects numbers in Gunungkidul Regency is shown in Figure 1. The rise in the number of tourism objects definitely will lead to the growth of MSMEs. Based on the data derived from the Regional Development Planning Board (Badan Perencanaan dan Pembangunan Daerah) of Yogyakarta, in 2020 (Yogyakarta Development Planning Agency, 2022), the number of MSMEs in Gunungkidul hit 23209 business units consisting of 31 middle businesses, 1.685 small businesses, and 21493 micro businesses. Since 2019, the addition of MSMEs in Gunungkidul Regency has reached approximately 586 units. Even though the additions are considered small in terms of numbers, the activities of MSMEs can absorb more workers.

As revealed by Statistics Indonesia, Gunungkidul Regency later can be concluded that the workers' absorption in the informal sector (MSME) in Gunungkidul Regency is more than in the formal sector. The characteristics of tasks in MSMEs are considered informal and require

fewer requirements than tasks in the formal sector.

As the absorption of workers in the MSMEs sector in Gunungkidul Regency shows positive trends, the workers' absorption in the MSMEs sector in Patuk District shows the same sentiment. Based on the data of Gunungkidul Department of Industry and Commerce, per March 2021, it can be concluded that the workers' absorption of MSMEs sector in Patuk District reveals a very good number with the workers' absorption of 2.728 people.

The role of MSMEs in the economy is supported by the government, banks and financial institutions, the development of MSMEs is the focus of the government to deal with economic crises in various regions in Indonesia, therefore the existence of MSMEs is expected to encourage employment in the Yogyakarta area and the support of the government can encourage and protect MSMEs (Zulfikar et al., 2022). The most obvious role of MSMEs is the workers' absorption since it requires fewer conditions than the formal

sector. Some of previous studies were previously performed about the labor absorption in MSMEs. (Octasyilva, et.al., 2022) has demonstrated that MSMEs can lower poverty rates by contributing to economic growth and social development while also overcoming the unemployment rate. In the nations that make up the Organization for Economic Cooperation and Development (OECD), MSMEs play a significant role in reducing unemployment. In OECD (Organization for Economic Cooperation and Development) nations. MSMEs account for practically all business owners worldwide, accounting for roughly 70% of all jobs. They also provide 50% to 60% of global GDP in revenue, which translates 50% and 60% of income going towards the economy. According to Octasyilva et al. (2022) There are several factors that hinder the performance of MSMEs, such as the low quality of human resources, marketing, low productivity, lack of management skills, and low competitiveness and innovation.

Srnita & Saputra (2023) found in their study that MSMEs are very important in Indonesia. When there was a global pandemic, namely the spread of Covid-19, Indonesia's economic performance contracted, at which time MSMEs could provide employment opportunities. Opportunities and employment can be provided by MSMEs since the more their production increases, the more they absorb labor. Research from Kareem et al. (2022) revealed that the Covid-19 pandemic had a negative impact on almost all companies studied, but with mitigation, more loss can be avoided.

In a macro level, MSMEs are prevalent in Indonesia, making up 99.99% of all enterprises in and accounting for 57% of its GDP. Additionally, MSMEs employ 97% of the country's workers (Hanayani et al., 2023). While the number of MSMEs has a positive and significant impact on labor absorption, MSMEs investment indicates an insignificant effect on labor absorption.

The tourism sector is a unique sector compared to other service sectors, where women and young workers who work in this sector are at risk of becoming unemployed if a shock occurs, in case of Covid-19 pandemic (Sun et al., 2022; Sun et al., 2021). Therefore, during a pandemic, an in-depth study is needed regarding the relationship

between job threats in the tourism sector and employment opportunities. Exclusively for the contribution to the tourism sector, (Hermawati et al., 2020) found that the effect of management, development and empowerment of MSMEs in the tourism sector has a positive effect on economic growth and national development. The implementation of strategic aspects related to human resources and MSMEs in the tourism sector is expected to be able to serve all aspects of tourism because of its superior, unique and potential characteristics, Rahmayani et al., (2022) found regarding to tourism indicator was significant to promote economic growth, in particular that domestic guests has more significant impact on economic growth in tourism development than from foreign guests. This research supports the statement that the development of tourism in a country will have a positive impact on economic growth.

Previous research emphasizes more on perspective analysis by focusing on macroeconomic indicators such as GDP, human resource investment in the workforce that is absorbed due to opportunities and employment opportunities for MSMEs (Komala & Firdaus, 2023; Zulfikar et al., 2022). While Marchese (2022) focuses on the relationship between MSME productivity, inclusive growth, and job creation. Arifin et al., (2020) conducted a village level study in general, but did not specifically discuss the relationship between rural tourism, micro-enterprises and employment opportunities. However, studies focusing on analyzing the role of MSMEs in tourism village is scarce. Considering that each MSME in different sectors shares different characteristics, this research was conducted from the perspective of the micro economy or real characteristics of MSMEs, particularly the role of tourism village's existence towards labor absorption. From the point of view of the industrial sector, the development of the industrial sector will be able to increase economic performance, creating a multiplier effect which will ultimately create job opportunities (Winardi et al., 2021). Therefore, with the same point of view, if the tourism sector is seen from an industrial perspective, in the short and long term, the existence of the tourism sector

is able to create jobs. Innovation support in terms of additional tourism objects and the presence of tourism villages are expected to absorb more workers. Therefore, the aim of this study is to close the gap by researching MSMEs' role in absorbing the workers, particularly in tourism villages, utilizing approach that considers their different characteristics.

2. RESEARCH METHOD

The research used secondary data originated from the Department of Cooperation and MSMEs (*Dinas Koperasi UMKM*) of Patuk District, Gunung Kidul Regency 2022. The objects are

$$Labor1_i = \beta_0 + \beta_1 OMZ_i + \beta_2 CritSMEs_i + \beta_3 Age_i + \beta_4 dCraft_i + \beta_5 dService_i + \beta_6 dTrade_i + \varepsilon_i$$

$$Labor2_i = \beta_0 + \beta_1 OMZ_i + \beta_2 CritSMEs_i + \beta_3 Age_i + \beta_4 TV1_i + \beta_5 TV2_i + \beta_6 TV3_i + \varepsilon_i$$

$$Labor3_i = \beta_0 + \beta_1 OMZ_i + \beta_2 CritSMEs_i + \beta_3 Age_i + \beta_4 dCraft_i + \beta_5 dService_i + \beta_6 dTrade_i + \beta_7 TV1_i + \beta_8 TV2_i + \beta_9 TV3_i + \varepsilon_i$$

where *Labor*: total labor; *OMZ*: the value of gross selling turnover, *CritSMEs*: dummy variable of SMEs business (micro business = 1 and small business = 0), and *Age*: business age. We also divided types of businesses in the form of dummy variables, categorized in four, which are food processing, crafts (*dCraft*), services (*dServices*), and trade (*dTrade*); processing food business plays as the benchmark. *TV*: dummy variable for tourism village where the MSMEs are located, divided into three criteria, pilot tourism village (*TV1*), developing tourism village (*TV2*), and developed tourism village (*TV3*), and non-tourism villages will be the benchmark.

3. RESULTS AND DISCUSSIONS

The research objects are 1552 business units located in Patuk District, Gunungkidul Regency, in cross-section data and processed by Stata v.17. The model is decomposed into three models to test the variable consistency and robustness check, besides using the Robust Standard Error

1552 business units of MSMEs in Patuk. Patuk was chosen as the object of research because it is a tourist area that has many MSMEs. Moreover, it is situated as the main path of transportation that connects Gunung Kidul with other areas and the main access for tourists that will visit north-sided beaches. The main tourist attraction of Patuk is its breathtaking mountain view.

Since this research aims to estimate the effect of MSMEs on employment by estimating the parameters of the regression models, the established models will be estimated by using the Ordinary Least Squares (OLS) approach, which employs three models, as follows:

to overcome the heteroscedasticity problems that existed in the model, as shown by the significance of χ^2 of the Breusch-Pagan/Cook-Weisberg test that is 0,000. The result of the estimated model is presented in Table 2. It can be seen that there was a maximum of 18 workers, and the highest turnover was IDR 1.8 billion. Businesses had been operating for a minimum of three years and a maximum of 61 years. From the descriptive statistics in Table 2, it forms the basis for dividing the characteristics of MSEs into two categories, which are micro businesses and small businesses.

The estimation results in Table 2 shows the regression coefficients for each variable which are decomposed into three equations. The *OLS* column shows the results of the regression using the Ordinary Least Square method, while the *OLS Robust Standard Error* column shows the results of the OLS regression using the Robust Standard Error, which tests three different models, namely; *labor1*, *labor2*, and *labor3*; and *rlabor1*, *rlabor2* and *rlabor3*, respectively.

Table 2. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
<i>Labor</i>	1552	1.757732	1.669097	1	18
<i>OMZ</i>	1552	5.31e+07	1.18e+08	500000	1.80e+09
<i>CritSMEs</i>	1552	1.082474	.2751745	1	0
<i>Age</i>	1552	13.77448	7.284186	3	61
<i>TV1</i>	1552	.2983247	.4576702	0	1
<i>TV2</i>	1552	.2525773	.4346306	0	1
<i>TV3</i>	1552	.1733247	.3786498	0	1
<i>dCraft</i>	1552	.1823454	.3862534	0	1
<i>dServices</i>	1552	.1746134	.3797585	0	1
<i>dTrade</i>	1552	.4594072	.4985101	0	1

Source: Author's data processed, 2022

Table 3. Estimation Results

Variables	OLS			OLS Robust Standard Error		
	labor1	labor2	labor3	rlabor1	rlabor2	rlabor3
<i>OMZ</i>	5.26e-09*** (4.20e-10)	5.34e-09*** (4.05e-10)	5.57e-09*** (4.06e-10)	5.26e-09*** (7.82e-10)	5.34e-09*** (8.03e-10)	5.57e-09*** (7.70e-10)
<i>CritSMEs</i>	0.472*** (0.179)	0.340** (0.173)	0.350** (0.173)	0.472 (0.355)	0.340 (0.347)	0.350 (0.339)
<i>Age</i>	0.0119** (0.00535)	0.0129** (0.00510)	0.00912* (0.00515)	0.0119** (0.00607)	0.0129** (0.00618)	0.00912 (0.00584)
<i>dCraft</i>	0.589*** (0.127)		0.370*** (0.125)	0.589*** (0.130)		0.370*** (0.120)
<i>dServices</i>	0.0187 (0.127)		0.0997 (0.122)	0.0187 (0.0995)		0.0997 (0.0990)
<i>dTrade</i>	-0.259** (0.106)		-0.203** (0.102)	-0.259*** (0.0756)		-0.203*** (0.0751)
Pilot tourism village (<i>TV1</i>)		0.119 (0.0976)	0.118 (0.0969)		0.119* (0.0692)	0.118* (0.0684)
Developing tourism village (<i>TV2</i>)		0.447*** (0.103)	0.478*** (0.103)		0.447*** (0.0868)	0.478*** (0.0855)

Variables	OLS			OLS Robust Standard Error		
	labor1	labor2	labor3	rlabor1	rlabor2	rlabor3
Developed tourism village (<i>TV3</i>)		1.383*** (0.113)	1.260*** (0.115)		1.383*** (0.162)	1.260*** (0.161)
<i>_cons</i>	0.812*** (0.213)	0.540** (0.210)	0.591*** (0.219)	0.812** (0.380)	0.540 (0.374)	0.591 (0.376)
Breusch-Pagan/Cook-Weisberg test for heteroscedasticity						
<i>Chi</i> ² (1)	1161.65	1613.19	1641.70			
<i>Prob Chi</i> ²	0.0000	0.0000	0.0000			
<i>AIC</i>	5654.8	5552.0	5527.0	5656.8	5554.0	5529.0
<i>Ll</i>	-2821.4	-2770.0	-2754.5	-2821.4	-2770.0	-2754.5

Notes: The numbers in parentheses are standard errors; * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Source: Author's data processed, 2022

Generally, the partial estimation results on the three models (*rlabor1*, *rlabor2*, and *rlabor3*) highlight that revenue (*OMZ*) is consistent with having a positive and significant coefficient, yet the elasticity is noticeably low. Its coefficient is significant at $\alpha = 1\%$, showing that revenue significantly influenced labor absorption. Meanwhile, business criteria's coefficient is insignificant for all three models, indicating that business criteria insignificantly influenced labor absorption.

Business age is inconsistent in *rlabor3*. The significance value counted at $\alpha = 5\%$ is shown in two models only, *rlabor1* and *rlabor2*. Thus, business age significantly influenced labor absorption. In contrast, model *rlabor3* is considered insignificant. This variable can be ignored considering the result of estimation that indicates the insignificant result. The research object was Kebumen regency, but the characteristics of tourism village that became the focus of research were considered new. Then, the hypothesis stating that longer business establishment improves skills and abilities of workers is not proven.

For business type, the estimation results demonstrate consistent results between *rlabor1* and *rlabor3*. The dummy variable of *dCraft* is significant at $\alpha = 1\%$ for both models, and therefore,

craft businesses significantly affected labor absorption, and so did *dtrade* or trade businesses. On the other hand, *dServices* is insignificant in both models, indicating that service businesses insignificantly affected labor absorption.

Consistent results are yet again found, this time in *rlabor2* and *rlabor3* for tourism village criteria (*TV*). It was found that *TV1* is significant at $\alpha = 10\%$ in both models, meaning that pilot tourism villages significantly influenced labor absorption. Similarly, developing and developed tourism villages also influenced labor absorption as *dTV2* and *dTV3* are significant but at $\alpha = 1\%$ for both models.

From the estimation results in Table 3, it can clearly be concluded that the revenue highly influenced the labor absorption of MSMEs. The higher the revenue, the higher number of workers that can be included in the labor market. Nevertheless, business criteria had no influence on labor absorption, which means that there was no difference between micro-scale and small-scale MSMEs in absorbing workers.

MSMEs types of businesses are divided into food processing, craft, services, and trade. Food processing was employed as the benchmark to showcase that craft businesses were capable of absorbing more workers than it. In contrast. However, trade business was recorded to have

lower labor absorption than food processing. From this group of variables, it eventually can be concluded that the crafting businesses had higher labor absorption compared to other MSMEs businesses.

As for business locations, from the estimation results, it can be resolved that all three types of tourism villages (pilot, developing, and developed) tended to absorb more workers than non-tourism villages. All three types of locations suggest that tourism villages had a higher chance for MSMEs to absorb more labors than non-tourism villages.

The consistency of the findings above was tested using the interaction between revenue and craft business types, and between revenue and developed tourism villages. The model for testing the consistency was built by including all dependent variables into the model with the addition of interaction variables ($OMZ*dCraft$ and $OMZ*dTV3$). The results are shown in Table 4.

As revealed in Table 4, the interactions between revenue and craft businesses and revenue and developed tourism villages resulted in positive and significant coefficients. This consistency indicates that higher turnovers in the craft businesses located in the developed tourism villages absorbed more workers than other sectors in other villages.

Support for MSMEs is very important, especially in the quality of human resources and the quality of product performance since those can improve business competitiveness (Jaya et al., 2020). Besides, the partnership with digital marketing from various e-commerce platforms and online courier services should be massively initiated to increase the SMEs' income (Jannah et al., 2021). In terms of macroeconomy, export must be encouraged considering the improvement of MSMEs exported products could boost their actors to increase productivity. It directly leads to increased turnover, which in turn can increase labor absorption (Salim et al., 2020). Related to the role of the government, some studies found that various policies implemented by governments will help SMEs retain human capital as well as increase the demand for their products (Singh et al., 2010). To an extent, future studies are

expected to explore more on government's role in SMEs, particularly in tourism villages.

Table 4. Estimation result with the addition of the interaction variables

Variables	OLS
<i>OMZ</i>	3.72e-09*** (4.68e-10)
<i>CritSMEs</i>	0.477*** (0.172)
<i>Age</i>	0.00823 (0.00506)
<i>dCraft</i>	0.240* (0.127)
<i>dServices</i>	0.0977 (0.120)
<i>dTrade</i>	-0.155 (0.101)
Pilot tourism village (<i>TV1</i>)	0.0864 (0.0952)
Developing tourism village (<i>TV2</i>)	0.391*** (0.101)
Developed tourism village (<i>TV3</i>)	1.011*** (0.124)
$OMZ*dCraft$	3.64e-09*** (7.49e-10)
$OMZ*dTV3$	3.63e-09*** (8.05e-10)
<i>_cons</i>	0.574*** (0.216)
<i>AIC</i>	5471.8
<i>Ll</i>	-2724.9

Notes: The numbers in parentheses are the standard errors; * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Micro-businesses are considered people-friendly in terms of capital, resources, and other production factors. Yet, it does not mean that small and medium businesses play no role in absorbing workers, though the percentage is lower than micro-businesses. Therefore, the aspect of characteristic differences could be involved in the model for the next studies. From the perspective of area characteristics, as in Prakoso et al. (2021), it can be concluded that each area will demonstrate

a distinctive pattern and spatial concentration in the industrial sector, trade, or services. Hence, the existence of employment can be easily notified from the basic works and basic complementary works in each area, considering that in a particular area, new employment opportunities are widely available once the industrial, trade, and services sectors are available. Therefore, the inclusion of spatial effect in the future studies could become an interesting analysis.

4. CONCLUSIONS

The labor absorption highly depends on the revenue gained by MSMEs. Crafting businesses in the tourism villages were statistically proven to absorb more workers than the other businesses and non-tourism villages. In the developed tourism villages in particular, we found the highest labor absorption statistically. It is revealed that the business opportunities in the creative economy have an essential role in creating employment and absorbing workers, including in the tourism area (tourism villages).

The limitation of the current study is it only examined one sub-district in Gunungkidul, so it has yet to be able to generalize the conditions of employment in all tourist villages in Gunungkidul. A role model or creative economy mapping is required that could become a signature in a certain area (tourism area), exclusively in Patuk district, Gunungkidul Yogyakarta. Future studies are expected to identify and analyze the implementation of creative economy development in the tourism villages.

5. ACKNOWLEDGEMENT

The researchers would like to express the deepest gratitude for the assistance of the local Government of Bunder Village, Patuk District, Gunungkidul Regency.

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