

## Analysis of Small Micro Business Sector on the Welfare of Small Micro Enterprises in North Sumatra

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### Abstract

*Micro and small enterprises (UMK) are businesses that absorb the most labor in Indonesia. The purpose of this study is to look at the effect of the MSE sector (UMK investment variable, UMK digitization variable, and UMK entrepreneurship variable) on the variable for the employment of MSEs and the variable for MSE actors. The analytical method used is the simultaneous analysis method using panel data sourced from BPS North Sumatra Province. The results of the first equation study of the MSE investment variable have a significant positive effect on the absorption of MSEs in North Sumatra. The results of the second study indicate that the digitization of MSEs has a positive and insignificant effect on the welfare of MSEs in North Sumatra. The MSE entrepreneurship variable has no significant positive effect on the welfare of MSE actors in North Sumatra. The variable of employment of MSEs has a significant positive effect on the welfare of MSEs in North Sumatra. The results show that Pappas and Mark Hirschey's theory applies, namely the demand for MSEs in North Sumatra is proven to be a derivative labor demand because it is based on the development of micro and small businesses in North Sumatra.*

### Keywords

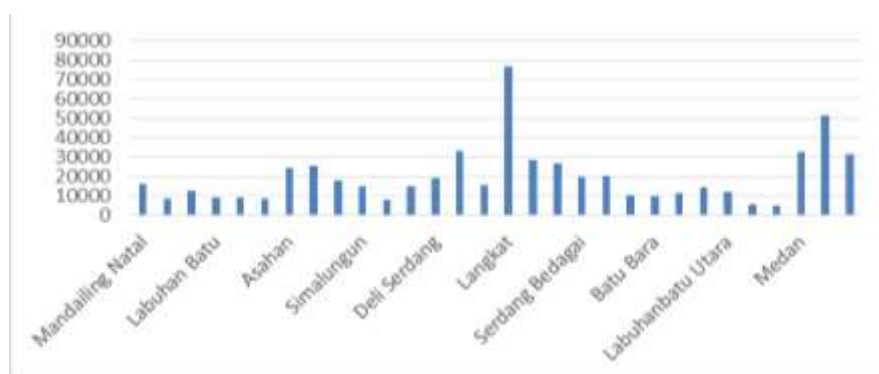
micro and small business;  
welfare; employment;  
digitalization;  
entrepreneurship



## I. Introduction

The development of the current era of globalization depends on the economic sector as a measure of success. The position of MSEs in the national economy has an important and strategic role because MSEs are quite dominant in the Indonesian economy (Sarfiyah et al., 2019). The percentage of the number of MSEs in Indonesia reaches 98.68% of the total number of businesses in Indonesia and is the business with the most labor absorbers (BPS 2018). When the crisis hit Indonesia in 1997-1998, MSEs proved to survive and stand strong when other big businesses fell in the face of the crisis (Ester Meryana 2012).

Micro and Small Enterprises (UMK) is one of the fields that make a significant contribution in improving Indonesia's economic welfare, absorption of labor, and being close to small people (Handayani 2017). The absorption of MSEs is a derivative demand. According to the theory (Pappas and Hirschey 1995), derivative demand is the demand for raw materials as inputs in the manufacture of a product or service that is requested to be developed into other products. The trend of absorption of micro and small workers in North Sumatra can be seen in Figure 1 below.



**Figure 1.** Development of UMK Kindergarten Absorption in North Sumatra

Source: Profil Usaha Mikro Kecil Provinsi Sumatera Utara (BPS)

Labor is the capital in moving the wheels of development (Elbaar 2013). The phenomenon shown is that of the 10 regencies/cities that have the highest number of UMK workers, there are only 3 regencies that experienced an increase in employment, namely Mandailing Natal, Batubara, Simalungun, while 7 other regencies/cities namely Labuhan Batu, Asahan, Deli Serdang, Langkat, Serdang Bedagai, Labuhan Batu Utara and Medan City experienced a decrease in the absorption of MSEs. One of the main problems of this decline was due to the Covid-19 pandemic which caused problems in the development of micro and small businesses and the current uncertainty of micro and small businesses. This also indicates that micro and small enterprises in North Sumatra do not yet have a strong foundation marked by the decline in the number of employment in North Sumatra.

The Bank Indonesia (BI) survey also noted that 72.6% of micro and small business actors (UMK) experienced the impact/pressure due to the Covid-19 pandemic in all sectors. The current COVID-19 outbreak has put MSE players under very heavy pressure because they cannot carry out economic activities as usual and even experience layoffs which increase the unemployment rate in Indonesia (BPS 2020). From the results of the Ministry of Finance survey, the Covid-19 pandemic has greatly affected the welfare of the people of North Sumatra Province. Economic activity also declined, resulting in a decrease in income and even layoffs (Finance 2020).

Factors that affect welfare, especially in micro and small businesses, include the importance of developing digitalization and entrepreneurship. To encourage digitalization and make it easier for MSEs to deal with changes that occur, the government has increased the ease of access and transfer of technology to MSEs to be able to survive in business competition (Slamet et al. 2016).

The phenomenon in the field suggests that digitalization in Indonesia still requires a lot of handling to be optimal. Data shows that of the 64 million MSME population in Indonesia, only 13% have gone digital (Depkop 2019). The phenomenon in the field also shows that the success of MSEs is still low, one of the indicators is the percentage of small businesses that have succeeded in penetrating the export market and the export potential is still relatively low compared to the total existing MSEs (Devi and Budhi 2019). BPS data shows that there are still several MSEs in North Sumatra that have never participated in entrepreneurship guidance, training, and counseling per year. This indicates that this entrepreneurship activity has not run optimally and there are still many inequalities in various regions.

The ultimate goal of this research is to provide a reference to the government for appropriate policy making in overcoming the problems of the micro and small business

sector and the human resource economy in North Sumatra. The proportionality relationship established between human resources and job opportunities in economic activities describes the character of people's welfare (Herman 2011). For this reason, the authors are interested in researching "Analysis of the Influence of the MSE Sector on Labor Absorption and Welfare of MSEs in North Sumatra Province".

## **II. Review of Literature**

### **2.1 Welfare**

Badan Pusat Statistik (BPS) measures people's welfare through eight fields, namely population, health and nutrition, education, employment, consumption levels and patterns, housing and the environment, poverty, and other social matters (BPS 2015). A person who has a lack of ability may have low welfare, lack of ability can mean less able to achieve certain functions so that he is less prosperous. According to Robert Chamber; in Suyanto; in Mujahiddin and Mahardika, 2019), the deprivation trap consists of five elements; (1) poverty itself, (2) physical weakness, (3) alienation or social level, (4) vulnerability and (5) powerlessness. These five elements are often interrelated with one another so that it is the most dangerous poverty trap and deadly opportunities for people or poor families.

### **2.2 Employment**

Manpower is the population of working age (15-64 years) or the entire population in a country who can produce goods and services if there is a demand for their labor and if they are willing to participate in these activities. According to Law No. 25 of 1997 concerning the basic provisions of manpower, it is stated that manpower is every man or woman who is looking for work both inside and outside the employment relationship to produce goods and services to meet the needs of the community. The workforce consists of the labor force and not the labor force. The labor force is part of the workforce involved or trying to be involved in the production of goods and services. Non-labor forces are those who are still in school, housewives, and other groups or income recipients.

Based on this understanding, it is seen that the workforce has a very important role and determines the success of a development. This role shows that labor is one of the factors of production that participates in production activities in economic sectors. The economic condition of the population is a condition that describes human life that has economic score. Economic conditions are assessed through three variables: livelihoods, income, and ownership of valuables (Shah et al, 2020).

### **2.3 Pappas and Mark Hirshey's Demand Theory**

In general, the theory of demand for labor is almost the same as the theory of demand for goods and services in economics. The demand for labor is the amount of labor demanded by a company at a certain wage level. Demand in economics is the number of goods demanded by consumers at a certain price level. A company employs someone because that person helps produce goods or services to sell to consumers. The increase in the demand for labor companies for labor depends on the increase in public demand for the goods they produce (Arida, Zakiah, and Julaini 2015).

According to (Pappas and Hirschey 1995) that demand is several goods or services purchased by consumers during a certain period based on certain situations and conditions. There are two basic models of demand, the first is direct demand known as consumer theory, which is directly related to personal consumption products. This model is suitable for analyzing individual demand for goods and services that directly satisfy consumer wants.

The outputs of technicians, production workers, salespeople, managers, lawyers, consultants, office equipment, production facilities and equipment, natural resources, and commercial aircraft are all examples of goods and services that are demanded not for direct personal consumption but for using them in providing other goods and services. We say that their demand is derived from the demand for the products for which they are used. Thus, requests for all inputs used by a firm are derived requests.

### III. Research Methods

The variables studied are the minimum wage, population, UMK investment, digitalization of UMK, UMK costs, and UMK *entrepreneurship* which are *predictive* variables. Employment of MSEs and the welfare of MSEs as endogenous variables. The research was conducted in 30 regencies/cities in North Sumatra, sourced from BPS North Sumatra. The data collection technique used in this research is using observation and *library research*, namely collecting and processing data from previous information and reports related to the problem under study. The number of data observations from this study was 90 data per Regency/City in the Province of North Sumatra. This data comes from panel data, which is a combination of *cross-section* data and *time-series* data for 3 years from 2017 to 2019 per 30 regencies/cities in the province of North Sumatra.

#### 3.1 Simultaneous Analysis Model

Before processing the data using the TSLS technique, the Model Identification and Simultaneous Test tests were first carried out as a prerequisite for carrying out further analysis activities by finding out whether the equation model used in this study was feasible to use the TSLS method or not.

#### 3.2 Reduction Equation

The reduction equation is built based on the relationship between endogenous variables and exogenous variables contained in the model. Endogenous variables consist of Welfare of UMK Actors (KPU) and Labor Absorption (PTK). Exogenous variables are 3 (three ) consisting of UMK Investment (IU), UMK Digitalization (DU), and UMK *Entrepreneurship* (EU).

#### 3.3 Model Identification

The problem of identification means that the estimated parameter of the structural equation can be obtained from the *reduced form estimated* coefficient. If this step can be overcome it means that the equation can be identified and if the above step cannot be passed it means that the equation cannot be identified. The problem of identification is done because from the same data set we can get the estimated coefficients from different functions/models/hypotheses. To find out whether an equation in a simultaneous equation can be identified or not, it can be reviewed through the order condition test method which is a *necessary condition*, and a rank condition which is a *sufficient condition*. Before estimation, the following prerequisites must be met: Simultaneous equations that have been identified are allowed to solve the simultaneous model using the TSLS method. The variables in the simultaneous model are as follows: Endogenous Variables: Welfare of UMK Actors (KPU) and UMK Manpower Absorption (PTK). Variable Predetermine the variable whose value is determined outside the model consisting of Investment UMK (IU), Digitization UMK (DU) dan *Entrepreneurship* UMK (EU). The two equations above have

been identified as over, thus it can be decided to solve the simultaneous equations that have been built using the TSLS method.

### 3.4 Simultaneity Test

In the system of simultaneous equations to detect simultaneity between variables, it is carried out by the simultaneity test, namely the Hausman test. The rule to prove the existence of a simultaneous relationship if the residual coefficient value is statistically significant where the probability value of the residual coefficient is  $< 0.05$ . The first step is to create a residual of the KPU variable by regressing the KPU variable to the exogenous variable. The next step is to regress the UMK Labor Absorption equation to the residual KPU.

### 3.5 Analysis Stage

The overall stages of analysis that will be carried out in this research are as follows:

1. Describe the characteristics of the welfare of MSEs and employment MSEs in North Sumatra and all exogenous variables in the research model, interpretation statistics k descriptive obtained.
2. Finding the best regression equation for the welfare of UMK actors and UMK employment in North Sumatra, and obtaining independent variables that affect each equation.
3. Determine the structural model of the simultaneous equation of the welfare of UMK actors and UMK employment in North Sumatra to determine the complete relationship structure between endogenous variables, predetermined variables, and disturbance variables.
4. Change the structural equation into a *reduced form* equation model, which is a model that presents endogenous variables as a function of predetermined variables.
5. Conduct a simultaneous test to find out whether there is a simultaneous relationship between the welfare equation of UMK actors and the absorption of UMK's workforce.
6. Estimating the parameters of the simultaneous equation model consisting of the welfare equation for MSE actors and MSE employment in North Sumatra was obtained previously using the Two-Stage Least Square (TSLS) method.
7. Look for the determinant coefficient ( $R^2$ ), t-test, and interpret the model.

## IV. Results and Discussion

The results obtained from data processing using Eviews-10 obtained good results. In terms of modeling, it is worth testing because it has met the identification requirements, namely *over-identified*. The *reduced form* equation shows that there is a simultaneous relationship between the two equations. This research is feasible to continue because it has fulfilled the basic assumptions of the analysis of the simultaneous equation model. The first equation model is as follows:

$$(PTK) = - 1.3723 + 0.8971 (IU)$$

From the above equation is known that variable UMK investments also have a direct relationship with the variables employment. If the UMK investment increases by 1 unit, the labor absorption variable increases by 0.8971 units. The second equation model is as follows:

$$(KPU) = 2.3972 + 1.0519 (PTK) + 0.0216 (DU) + 0.0557 (EU)$$



From the equation above it is known that :

1. If the variable value of TK absorption, digitization of UMK, and UMK *entrepreneurship* is fixed, then the value of the welfare of UMK actors is 2.3972 units.
2. The variable of TK absorption and the welfare of UMK actors has a positive relationship, meaning that if the absorption of labor increases by 1 unit, the welfare value of UMK actors increases by 1.0519 units.
3. The variable of digitization of UMK has a direct relationship with the variable of the welfare of UMK actors. If the digitization of the UMK increases by 1 unit, the welfare variable for UMK actors will increase by 0.0216 units.
4. The UMK *entrepreneurship* variable also has a unidirectional relationship with the UMK actor welfare variable, if the UMK *entrepreneurship* variable value increases by 1 unit then the UMK actor welfare variable value increases by 0.0557 units.

#### 4.1 The Effect of MSE Investment on Labor Absorption

Research (Bustam 2016) MSE investment has a significant effect on employment. Research (Amriadi et al. 2012) business and investment units have a negative influence on the absorption of MSEs in Jambi Province. Research (Setiawan 2015) shows that the investment value has a positive effect on the number of MSEs. Therefore, an increase in investment value will have an impact on increasing the need for the number of workers absorbed in the MSE sector. Research (Tülüce and Doğan 2014) shows that the presence of investment can have a positive impact and improve the quality of the workforce in the long term. Research (Yusuf, Ichsan, and Saparuddin 2021) explains that the growth economy and investment have a positive correlation, where if the investment goes up, then the national income also rose. And vice versa, if investment decreases, national income will also decrease. That's the impact that occurs between the two. The results of the study (Gohong 2013) stated that investment had no significant effect on employment in Kapuas Regency, Central Kalimantan Province.

The empirical findings of this study show positive results that support Pappas and Mark Hirschey's theory. This is because the North Sumatran MSE sector is increasingly aware of the importance of MSE investment and is promoting MSE sector promotion activities. The provision of cheap credit assistance for MSEs, tax breaks for MSEs, and capital assistance for MSEs is evidence that the government is focused on increasing MSEs because it can increase labor absorption and the welfare of MSEs. MSE investment in North Sumatra is a labor-intensive investment, which has a high absorption of labor. This has led to an increase in the absorption of MSEs due to increased investment. This is in line with the investment theory put forward by Harrod Domar which explains that the role of investment in encouraging economic growth and subsequently increasing employment.

From this description, it is concluded that the hypothesis is accepted, that is, it has a significant positive result. This means that based on the research that has been done, the results show that investment has a significant positive effect on the welfare of MSEs in North Sumatra. The results of this study also show that the theory (Pappas and Hirschey 1995) is proven to increase labor demand based on derivative demand, namely the development of MSE investment in North Sumatra.

#### 4.2 The Effect of Digitalization of MSEs on the Welfare of MSEs Pelaku

Schumpeter's theory explains the positive relationship between innovation and welfare. The economic progress of a society can only be applied with innovation by *entrepreneurs*. The theory (Reeves and Nass 2011) mentions a very close relationship between business and digitalization in its theory, namely *Media Equation Theory*. This theory explains that the media are the same as humans, thus creating an increase in sales and income for MSEs. With digitalization, it describes easier, more effective, and efficient buying and selling access.

Research (Norvapalo 2014) showing the results of this dissertation confirms that digitalization challenges companies at a strategic and usage level, requiring companies to make specific changes to the way they operate and also to integrate new tools into their daily routines to meet their current and future expectations. in front of the customer. Research (Aditia, Supraja, and Deborah 2019) describes an increase in motivated work using aspects of digitization on entrepreneurship.

Digitization is a relatively new phenomenon and unstructured, and many companies are still considering how to reconcile those changes with their operations there to take advantage of social tools is new, the result of research has some managerial implications, including these four factors is presented, which provides a good starting point for companies to examine the aspects they should consider when entering the digital age. Research (Billon, Lera-Lopez, and Marco 2010) explains the differences in information and communication technology (ICT) adoption developed by developing countries. Income is a key factor for all country groups, its role is more significant for the medium-sized digitization of the country. By using several multivariate techniques, detect differences in digitization patterns. These patterns are explained to varying degrees by country type, by differences in economic development, and by socio-demographic and institutional variables.

Research (Curraj 2018) shows that business digitization has a positive impact on the overall performance of MSEs in Albania. Research (Rafitrandi et al. 2018) shows that the use of digital *platforms* by MSEs in EI has been largely limited to marketing. Apart from poor internet quality, lack of internet literacy for both customers and business owners is also a major obstacle. Therefore, improving digital literacy for both parties is very important. Research (Purwana, Rahmi, and Aditya 2017) shows that digital-based marketing is used to acquire consumers, build preferences, promote brands, maintain consumers, and increase sales which ultimately increases profits. Research (Rohmah 2019) shows that 84% of them have increased their income after carrying out digital marketing activities for their business.

The results of the study (Petropoulos, Marcus, and Bergamini 2019) state that digitalization has a positive effect on the welfare of MSEs in European Union countries. The results of the study (Mubarak et al. 2019) also show that digitalization has a positive effect on MSEs in Pakistan. However, this study has several notes, among others, the Government of Pakistan should facilitate and encourage MSEs to adopt these technologies in their operations extensively, so as not only to reduce costs and increase productivity, but also add extra value to their products, and the types of human resources needed. suitably equipped with the skills needed for industry 4.0. Research (Kurniawan 2019) explains that based on household survey data from *the Indonesia Family Life Survey* in 2014 and the *Propensity Score Matching* (PSM) method, this study finds that internet access has a positive impact on income of informal workers.

The results of the study (Hadi Purnomo 2018) show that MSEs have good prospects for business development and increasing community income. Research (Rassool and

Dissanayake 2019) shows that the success of digitalization in developed countries through the use of digital transformation in improving welfare has not been reflected in developing countries such as Sri Lanka. This is because of the substantial impact of the main supporting factors. The results of the study (Erlanitasari, Rahmanto, and Wijaya 2020) show that only 9% of MSEs in Indonesia have digital marketing capacity that can be categorized as sophisticated. The remaining 36% of MSEs in Indonesia are still struggling with conventional marketing. Meanwhile, 37% of MSEs only have basic online marketing capacities, such as computer access and broadband. The rest, 18% of MSEs have medium online capacity because they can use websites and social media. This shows that there is an imbalance between the development of MSEs and the situation in the field.

The findings of this study show positive and insignificant results so that they do not support Schumpeter's theory and *Media Equation Theory*. The findings of this study are in line with research (Norvapalo 2014), (Billon, Lera-Lopez, and Marco 2010), (Curraj 2018), (Rafitrandi et al. 2018), (Purwana, Rahmi, and Aditya 2017), (Rohmah 2019), (Petropoulos, Marcus, and Bergamini 2019), (Mubarak et al. 2019), (Kurniawan 2019) and (Hadi Purnomo 2018). This research is not in line with research (Rassool and Dissanayake 2019) and (Erlanitasari, Rahmanto, and Wijaya 2020).

This happens because digitalization is still not running optimally in Indonesia. This is consistent with the dissertation (Norvapalo 2014) which stated that digitalization is a rather new and unstructured phenomenon and many companies are still considering how to adapt to these changes and with their existing operations to take advantage of new social tools. This is evidenced by research (Rafitrandi et al. 2018) which shows that the weaknesses of micro and small businesses are in the use of literacy digitization, for example, the use of social media.

Research (Billon, Lera-Lopez, and Marco 2010) shows that factors such as the quality of regulations and infrastructure provide a digital divide between middle and low-income countries against high-income countries. It is necessary to implement the most appropriate policy actions to reduce the digital divide. Based on the national proceedings held by ISEI, it is stated that the overall competitiveness of the Indonesian economy still needs to be pushed back towards a more proud position. Although in recent years Indonesia's competitiveness index has had an increasing trend, at the regional level, Indonesia's competitiveness level is still below that of several other ASEAN countries, such as Singapore, Malaysia, and Thailand.

Meanwhile, for business talents such as *accounting, communication, finance, management, marketing, and sales*, Indonesia remains at the bottom (54) but is far behind Vietnam (41st), Thailand (43rd), the Philippines (44th). ) and Malaysia (46th place). *The digital economy* requires the creativity of its human resources which are influenced by education and R&D activities, transforming ideas into innovations that have economic value, creating a *digital market for innovation* by utilizing *network effects* (ISEI 2013).

Another reason is based on the results of McKinsey's research, only about 30% of businesses in Indonesia use digital instruments to develop their businesses (Supriadi 2016). Data shows that of the 64 million MSME population in Indonesia, only 13% have *gone digital* (Depkop 2019). According to (BPS 2019) the use of the internet by small micro-scale business actors in Indonesia is still very minimal. The percentage of IMK businesses that use the internet is only 11.94%. According to KBLI, the number of IMK businesses Based on island distribution, IMK businesses that use the internet are the largest in Java, which is 72.85%, with Central Java Province being the largest internet user.

From this description, it is concluded that the hypothesis is rejected because it has positive and insignificant results. This means that based on the research that has been done,



the results show that the digitization of MSEs has a positive but not significant effect on the welfare of MSEs in North Sumatra. However, this is a signal that digitalization is starting to develop in the North Sumatra region. This development can be seen from the use of the internet in various regions in North Sumatra. The problem here is that there is an imbalance between one district/city in internet use. This is reinforced that according to Bappenas the main issue for MSMEs is the low use of technology in running their business, including digitalization. More than 90% of MSMEs do not use computers and only 10% use the internet to run their business (Bappenas 2021). Government efforts are urgently needed for equity that covers all regions in North Sumatra so that the digitalization aspect of MSEs can run more optimally.

#### 4.3 The Effect of *Entrepreneurship on the Welfare of UMK Actors*

The theory (Bakker and P. 2010) about *work engagement* has three aspects, namely *vigor* (spirit) as a high level of energy and resilience, *dedication* (dedication) as a strong involvement marked by enthusiasm and pride, and *absorption* (appreciation) is defined as a state of total immersion in its employees, besides that *work engagement* also includes two other aspects, namely *work engagement* as psychic energy which is a physical kick from immersion in work and *work engagement* as behavior in the form of employees who will think and work proactively.

According to (Kasmir 2013) entrepreneur is a person who dares to take risks to open a business in various opportunities. The entrepreneurial spirit will encourage a person's interest in establishing and managing business activities professionally. Research (Ananda 2019) explains that entrepreneurial motives are conditions in a person's personality that encourage an individual's desire to carry out certain activities to achieve a goal. Research (Efendi, Zulmi, and Rangcuty 2021) explains that the success of entrepreneurs in building business goals and making timely decisions to achieve these goals in an increasingly fierce competition and uncertain environment is certainly very much needed.

The results of the study (Masykuri and Soesatyo 2014) state that entrepreneurs must optimize entrepreneurial behavior to increase business success. Because entrepreneurial behavior has a positive influence on business success. The results of the study (Wira Putra and Jember 2019) state that entrepreneurship has a positive and significant effect on income. The results of the study (Alhempri and Harianto 2013) show that training and coaching have a positive and significant impact on the development of small businesses. The results of the study (Nursiah, Kusnadi, and Burhanuddin 2017) state that entrepreneurial behavior has a positive and significant effect on business performance. Increasing entrepreneurial behavior will improve the business welfare of MSEs.

The results of the study (Hadi Purnomo 2018) show that MSEs have enormous potential, to accelerate economic equity, grow and improve people's welfare. MSEs will run well with a focus on improving product quality by improving the quality of human resources (entrepreneurship). Improving the quality of human resources can be done by coaching, mentoring, and delivering training following the needs of SMEs. MSEs have good prospects and can be developed by utilizing local resources in synergy with the creative industry as a new source of income through community empowerment to improve welfare. The results of the study (Dwiyanti, Sukarno, and Prasetyaningtyas 2014) show that entrepreneurship will significantly reduce welfare.

The empirical findings of this study indicate that the effect of *entrepreneurship* on welfare is positive and not significant, not supporting the theory of Schaufeli and Bakker, the theory of Zimmerer & Scarborough. The findings of this study are in line with research

(Masykuri and Soesatyo 2014), (Wira Putra and Jember 2019), (Alhempri and Harianto 2013) (Nursiah, Kusnadi, and Burhanuddin 2017) and (Hadi Purnomo 2018) which show that *entrepreneurship* has a positive effect on welfare SMEs but not significant.

The findings of this study are also not in line with research (Dwiyanti, Sukarno, and Prasetyaningtyas 2014) which shows that entrepreneurship will significantly decrease welfare. This finding is corroborated by BPS data which shows that there are still several MSEs in North Sumatra that have never attended *entrepreneurship* guidance, training, and counseling per year. This indicates that this *entrepreneurship* activity has not run optimally and there are still many inequalities in various regions. With UMK *entrepreneurship* activities in North Sumatra, workers will have an *entrepreneurial* spirit that improves the quality of human resources. The quality of human resources will increase income which in turn improves the welfare of MSEs.

Research (Hafni and Rozali 2017) also more specifically explains that the basic problems faced by MSMEs are the lack of integrated development and the lack of public awareness of small businesses. Furthermore, it was also stated that there are still various weaknesses in the field of organization and human resource management in micro and small enterprises.

From these findings, it is concluded that the hypothesis is rejected, that is, it has positive and insignificant results. This means that based on the research that has been done, the results show that *entrepreneurship* has a positive and insignificant effect on the welfare of MSEs in North Sumatra. However, this is a signal that *entrepreneurship* in North Sumatra needs to be handled more optimally.

#### 4.4 The Effect of Labor Absorption on the Welfare of UMK Actors

Pareto theory explains the relationship between employment and welfare. Pareto theory explains the *multiplier effect* of increasing the number of workers so that it can improve people's welfare. The originator of the Welfare State theory, Prof. Mr. R. Kranenburg, revealed that the state must actively seek prosperity, act fairly, which can be felt by the entire community equally and in a balanced manner, not for the welfare of certain groups but the whole people.

The results of the study (Miar 2014) stated that employees had a significant effect on the welfare of the people in Central Kalimantan Province. Research from (Weldeslassie et al. 2019) shows that MSEs have a greater added value contribution per person involved. Because this sector absorbs a lot of labor and can operate with low initial capital and skills. MSEs play an important role in improving welfare. However, from the results of research (Elbaar 2013) employment has no significant effect on the welfare of the people in Palangkaraya City.

The empirical findings of this study show positive and significant results, supporting the Pareto theory and *the Welfare States*. The findings of this study are in line with research (Miar 2014), (Tadesse 2010), and (Weldeslassie et al. 2019) which concluded that employment has a significant effect on people's welfare. The significance of labor absorption on welfare indicates that increased employment provides additional income so that business actors can improve the quality of life through meeting *basic needs* and other supporting needs so that the welfare of MSE actors increases. The results of this study also support the theory (Todaro, Michael P. and Smith 2011) which states that employment opportunities for residents provide income to meet needs and improve their welfare.

This finding is not in line with research (Elbaar 2013) which states that employment does not significantly affect people's welfare. This happens because, with an increase in the number of workers in the UMK sector in North Sumatra, workers get additional income so

that they can improve their welfare. MSEs in Sumatra are labor-intensive so that labor can be absorbed optimally. According to BPS data, the dominant Indonesian population works in the MSE sector, which is 97% of the total Indonesian people. The percentage of the number of MSEs in Indonesia reaches 98.68% of the total number of businesses in Indonesia and is the business with the most labor absorbers (BPS 2018).

From this description, it is concluded that the hypothesis is accepted, that is, it has positive and significant results. This means that based on the research that has been done, the results show that employment has a positive and significant effect on the welfare of MSEs in North Sumatra. This proves that the Pareto theory applies to micro and small businesses in North Sumatra.

## V. Conclusion

The conclusions of this study are as follows:

1. Investment UM K significant positive effect simultaneously on employment in the province of North Sumatra, so the hypothesis is accepted
2. The digitization of MSEs has a significant positive effect simultaneously on the welfare of MSEs in North Sumatra Province, so the hypothesis is rejected.
3. Entrepreneurship UMK, no significant positive effect simultaneously on the welfare of MSEs in North Sumatra province, so the hypothesis is rejected.
4. Labor absorption has a significant positive effect simultaneously on the welfare of MSE actors in North Sumatra Province, so the hypothesis is accepted

The suggestions of this study are as follows:

1. The government can review the latest regulations regarding the provision of minimum wages for MSEs so that they are not misused by parties who only want to take advantage unilaterally.
2. Optimizing the digitization of MSEs is needed to improve the welfare of MSEs. The government of North Sumatra should increase digital literacy and reduce the disparity in digitalization throughout North Sumatra.
3. Guidance, counseling, and training activities must be encouraged so that the entrepreneurial spirit can contribute more optimally to improving the welfare of MSEs.

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