



Legal Review of Small and Medium Enterprises Who Choose Not to Scale Up Their Business

Canryfay Elisabet Lumban Gaol¹, Martono Anggusti^{2*}, Meli Hertati Gultom³
Fakultas Hukum, Universitas HKBP Nommensen, Medan

Corresponding Author: Martono Anggusti martono.anggusti@uhn.ac.id

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ABSTRACT

This study aims to analyze the role of law for Micro, Small, and Medium Enterprises (MSMEs) in Indonesia who choose not to scale up their businesses. This phenomenon is an important issue because this decision can have various consequences for MSMEs, including limited opportunities for expansion and competitiveness in an increasingly competitive market. Business scale-up itself is a strategy for developing small businesses so that they can grow larger in work capacity and competitiveness. The reluctance of MSMEs to increase their business scale is influenced by several factors, such as understanding the law, applicable regulations, and challenges in development related to the economic potential and contribution of MSMEs to national GDP. The research method uses a normative legal approach through literature studies and case approaches. The results of the study show that although MSMEs play an important role in supporting the Indonesian economy, many business actors feel comfortable with the current conditions and are reluctant to take risks to develop. Factors of apathy, limited human resources, and lack of technology adoption are the main obstacles to increasing business scale. The government has made various efforts, including through Law Number 20 of 2008 and Law Number 6 of 2023, to support the development of MSMEs. However, the implementation of these policies still faces challenges in the effectiveness of implementation at the regional and national levels. This study recommends strengthening synergies between the government, business actors, and the private sector in an effort to increase the competitiveness of MSMEs in a sustainable manner.

INTRODUCTION

Economic transformation plays a crucial role that cannot be ignored by a country. Dynamic economic growth reflects the level of community welfare, which is reflected in increased income, increased consumption interest, and improving purchasing power. Indonesia, as one of the countries with promising economic potential, is the main focus of the international community. Looking at economic growth, a country's economic conditions can experience significant changes, one sign of this economic growth can be seen from the scale-up or progress achieved by Micro, Small, and Medium Enterprises (MSMEs).

Based on Law Number 20 of 2008, MSMEs are defined as a type of business run by individuals or small groups with certain criteria, namely:

- a) Micro Business refers to productive business activities owned by individuals or individual business entities, in accordance with the criteria stipulated in this Law. Small Business refers to productive economic business units that stand independently, are managed by individuals or business entities, and do not have a relationship as a subsidiary or branch of another company, either directly or indirectly. This business is not included in the category of Medium Business or Large Business, as regulated by the provisions of the relevant Law. In addition, this business has net assets or annual income levels in accordance with the limits set forth in the regulation.
- b) Medium Business is a productive economic business unit that operates independently, is managed by individuals or business entities, and does not have a relationship as a subsidiary or branch of Small Business or Large Business, with certain net assets or annual income criteria as stipulated in this Law.

The classification of MSMEs is based on the amount of assets and annual income of each business entity, as regulated in Law Number 20 of 2008 concerning MSMEs.

Table 1. MSME Criteria Based on Assets and Turnover

No	Uraian	Aset	Omzet
1	Usaha Mikro	Maksimum Rp 50 Juta	Maksimum Rp 300 Juta
2	Usaha Kecil	>Rp 50 Juta-500 Juta	>Rp 300 Juta- 2,5 Miliar
3	Usaha Menengah	Rp 500 Juta-< 1miliar	>Rp 2,5 Miliar- 50 Miliar

Source: Law Number 20 of 2008

The existence and role of MSMEs have an important meaning, especially as one of the efforts in supporting national development. The government provides access for the community to develop MSMEs while supporting the increase in Innovation and cooperation needed to build an MSME community that can have a positive impact. Although small-scale, the role of MSMEs in

Indonesia has the same important role as large companies. MSMEs make a significant contribution to the country's Gross Domestic Product (GDP) and open up job opportunities that directly help reduce unemployment. This indicates that Micro, Small, and Medium Enterprises (MSMEs) play a role as the main pillar in supporting the Indonesian economy. Based on information from the Ministry of Cooperatives and Small and Medium Enterprises, MSMEs contribute 99% of all business units, play a role in contributing 60.5% to Gross Domestic Product (GDP), and are able to absorb up to 96.9% of the workforce. This underlines that MSMEs have become one of the main pillars in the Indonesian economy. In addition to being an economic driver, MSMEs are a pillar of social stability that supports people's lives. To support the achievement of National Development, the Community is expected to continue to develop creativity and strengthen collaboration in order to create an MSME community that is able to provide better contributions compared to achievements in previous years.

Micro, Small, and Medium Enterprises (MSMEs) are a business sector that is widely run by the Indonesian people. The development and empowerment of MSMEs play a crucial role in the Indonesian economy, which must be followed by concrete steps. In the Law of the Republic of Indonesia Number 20 of 2008 concerning Micro, Small, and Medium Enterprises, Article 3 explains that; "micro, small, and medium enterprises aim to grow and develop their businesses in order to build a national economy based on a just economic democracy. So that all levels of society who have businesses, both micro and macro, have helped the economy run and realized community independence."

MSMEs that drive national economic growth also encourage the government, through the Ministry of Cooperatives and SMEs to formulate long-term planning for 2020-2024. In the plan, empowerment of Micro, Small, and Medium Enterprises is focused on efforts to create competitive MSMEs in both domestic and international markets. In addition, strengthening MSME entrepreneurship is carried out through strategies to increase business collaboration, increase business capacity, open access to financing, and create business opportunities.

In 2020, the number of MSMEs in Indonesia was recorded at around 64.2 million and in 2023 it increased to 66 million MSMEs. Based on World Bank projection data for 2023, in the next 3 years, the Indonesian economy is projected to grow by more than 0.1% annually. Micro, Small, and Medium Enterprises (MSMEs) have proven their contribution to the national economy, but are still faced with various factors that are obstacles to business growth. In the process of running and developing a business, it is undeniable that various challenges will arise, especially for small and medium business actors. Some of the obstacles that can hinder business growth include:

1. Finance

Finance is related to how individuals, companies, and organizations obtain, distribute, and utilize monetary resources within a certain period of time, including considering the risks that may arise in the implementation of their projects. Every business needs capital to start its operations and support business growth. The inability to access or obtain

adequate financial resources can be a significant obstacle to business development.

2. Management

Managerial skills include a combination of knowledge, skills, attitudes, and behaviors applied in carrying out work effectively. Lack of experience and lack of competence in management are often the main factors that cause failure in new businesses.

3. Low legal awareness and compliance with principles

Low legal awareness among MSMEs has a negative impact on the development of their businesses. Lack of understanding of the Law and the obligation of halal certification causes various obstacles, both financial, technical, and structural. High certification costs, complex procedures, and minimal technical assistance are the main obstacles. As a result, in terms of economy, MSMEs experience decreased competitiveness, reduced market opportunities, and loss of potential income. Meanwhile, from a social perspective, low legal compliance reduces consumer confidence, limits access to modern markets, and creates a negative stigma against products without halal certification.

4. Location and Network

The presence of a business in a particular location plays an important role in determining the market potential and expansion opportunities of a newly established company. Location factors can provide a competitive advantage by influencing productivity levels, especially in terms of increasing operational efficiency. Geographical proximity to consumers and suppliers allows startups to more quickly identify and capitalize on growth opportunities in the market, which ultimately contributes to overall business prospects.

5. Competition In the process of developing micro and small businesses, competition is one of the main challenges that must be considered. The ease for newcomers to enter the market creates increasingly tight competition. In addition, the similarity of products offered and the presence of larger competitors can be inhibiting factors for micro and small businesses in achieving optimal growth.

To overcome these challenges, collaboration and active involvement from various parties are needed to strengthen the MSME sector as the main driver of Indonesia's economic growth. Based on Article 97 of Law Number 6 of 2023, it is stated that; "The Central Government and Regional Governments are required to allocate at least 40% (forty percent) of Micro and Small Business and Cooperative products/services from domestic production in the procurement of goods/services by the Central Government and Regional Governments in accordance with the provisions of laws and regulations"

The government has several policies to empower MSMEs in Indonesia, including:

1. Development of facilities and infrastructure: adequate facilities and infrastructure are very important for increasing operational efficiency of

MSMEs and expanding market access can be achieved through the development of digital infrastructure, such as the Palapa Ring satellite, which allows business actors in remote areas to connect digitally.

2. Increasing operational efficiency of MSMEs and expanding the market can be achieved through the development of digital infrastructure, such as the Palapa Ring satellite network, which allows business actors in remote areas to access digital connectivity.
3. Ease of registration: Law Number 20 of 2016 concerning Trademarks and Geographical Indications simplifies the trademark registration process for MSMEs, including lower costs compared to trademark registration for large companies, the government also provides incentives and financial support to assist MSMEs in registering trademarks.
4. Digital transformation of MSMEs: The digitalization process offers various benefits for MSMEs, such as increasing operational efficiency, productivity, market expansion, and competitiveness. As of January 2022, around 17.2 million MSMEs have implemented digitalization, with a target of reaching 40 million MSMEs by 2024.
5. Cooperation and synergy: Increasing cooperation and synergy between the public sector, the academic world, and the private sector is very important to strengthen MSME empowerment, including business scale development.

The government has taken various steps to support the improvement of MSME development, but one of the obstacles above is the human resources (HR) factor where the productivity of a country is very dependent on the quality of each individual in society with the potential they have, as well as MSMEs, where high-quality human resources can create competitive advantages for these businesses.

Drucker (1954) said that the importance of developing the quality of human resources is because it is seen as a strategic asset to achieve competitive advantage and sustainable competitiveness. However, the fact is that currently many business actors choose not to scale up or develop their business. One of the main inhibiting factors is apathy, where MSME actors are reluctant to develop their business because they are satisfied with the current situation. They feel that the business being run is sufficient to meet daily needs, so there is no motivation to take risks associated with business development. In addition to the apathy factor, there is also a factor of inability or limitations that is a barrier for MSME actors. Where MSME actors are worried that the risks faced in scaling up will be much more significant than the benefits that may be obtained. However, on the other hand, there are several reasons why scaling up is very important for the continuity and development of the business, namely:

1. So that the business does not experience market narrowing
The development of the era is the main factor in narrowing the business market, if business actors do not follow developments such as technology. Consumers will develop, which causes a decrease in profit if the business does not adapt.

2. To avoid being defeated by competitors
Smart business people who do not want to lose will try to develop their business to remain competitive in the market. The inability to scale up can make a business lag behind in the competition.
3. Expanding the market
Scale-up is needed to develop a business to be bigger, as well as increase competitiveness and opportunities for wider market penetration.
4. Reducing risk
By scaling up, businesses can reduce the risk of losing market share due to larger competitors. In addition, scale-up can minimize the chances of narrowing the business's space for maneuver, which can have an impact on business continuity.

If MSMEs do not develop and do not scale-up, it can result in lower productivity compared to large-scale businesses. This can hamper overall economic growth, because low productivity means less contribution to the country's gross domestic product (GDP). And if MSMEs do not scale-up or develop their businesses, the potential for creating new jobs is also reduced, this can increase the unemployment rate and add to the social burden on the country.

Thus, even though the number of business actors continues to grow, many of them choose to remain at their business scale and do not want to carry out further business development (scale-up). This phenomenon shows that there are complex challenges in the MSME ecosystem in Indonesia.

Therefore, referring to the explanation above, the author feels compelled to compile an article with the title and raise the problems formulated as follows: 1) How does positive law regulate MSMEs in Indonesia, and 2) How is the legal review of MSME actors who choose not to scale up, in relation to government regulations and policies in encouraging the growth and development of MSMEs in Indonesia.

LITERATURE REVIEW

Micro, Small, and Medium Enterprises (MSMEs) are a form of economic activity that is relatively easily accessible to various levels of society, both those with stable economic conditions and those who are at a low economic level. Thus, MSMEs provide opportunities for people to improve their standard of living. One type of MSME that is often run by small and medium enterprises that aims to be a source of livelihood,

The progress of a country can be reviewed through aspects of income, welfare, and the health conditions of its people. Increasing welfare in a country is very crucial. The reason is, if welfare is not achieved, then state income tends to decline. Conversely, if the country is in a healthy and prosperous condition, national income will increase. State income is often in the form of cash, and when state cash increases, development in various sectors related to the country can be realized. Micro, Small, and Medium Enterprises (MSMEs) which are the main components in the structure of the national economy reflect the level of community participation in various economic activities. By creating more MSMEs, the foundation of the community's economy is further strengthened.

Research on the empowerment of Micro, Small, and Medium Enterprises (MSMEs) has been widely conducted by various parties. Several previous relevant studies show that the main obstacles in empowering MSMEs include limited access to capital, lack of managerial skills, and minimal support from the government in developing business scale.

One study conducted by Ni Nyoman Sunariani et al. in Bali Province revealed that although the number of MSMEs is very large, they face various problems such as limited capital, difficulties in marketing, and limited human resources in terms of management and production. This study emphasizes that fostered programs or fostered partners from the government and the private sector can be a solution to increasing the competitiveness of MSMEs as a whole.

Another study, a study conducted by Putri Anindi and Nurjannah in Langsa City discussed how empowering MSMEs can be an effort to overcome poverty. This study found that although the government has provided assistance to MSMEs, there are still obstacles in the uneven distribution of assistance. Some business actors feel helped by government policies, but others feel that they do not get maximum benefits because assistance is often not sustainable. From the various studies above, it can be seen that although MSMEs have great potential in the economy, there are various obstacles that hinder their growth. Factors such as limited capital, low awareness of the importance of innovation, and minimal support from the government are the main challenges that must be overcome so that MSMEs can develop and contribute more to the national economy.

METHODOLOGY

A. Research Object

Based on the explanation of the background and formulation of the problem that has been presented, the object of this research focuses on the actions of MSME actors who choose to survive rather than develop their business (scale-up). The object of this research aims to determine the boundaries and clarify the problems that will be discussed in this writing so that this research focuses on the object to be studied so that the research This is done systematically and focused on the problems that are the object of the author's research.

What will be discussed in this writing is about how the review and positive legal regulations on the decisions of Small and Medium Enterprises (MSMEs) who choose not to scale up which can hinder the country's economic growth. This research was conducted in a small business in the wood processing sector that already has sufficient competence to scale up into a medium or large business. Where researchers can reveal the actual conditions of the object being studied. This research was conducted in Tegal Sari Mandala Village, Medan Denai District, Medan City.

B. Type of Research

This research uses a qualitative method, namely an approach that aims to understand social phenomena in depth based on the perspective of the subjects or participants involved. In this study, the qualitative method is applied by combining two main approaches, namely:

1. Normative-Juridical Approach

The normative-juridical approach is an approach based on literature studies that is based on the analysis of various legal sources that are relevant to the object of research. In this study, this approach is used to study laws, policies, and regulations related to the sustainability and development of Micro, Small, and Medium Enterprises (MSMEs), especially in relation to factors that influence business actors' decisions to scale up.

Through this approach, the study seeks to identify the legal bases that support or hinder the growth of MSMEs. The legal sources studied include primary legal materials (laws and government regulations), secondary (research results and scientific journals), and tertiary (legal dictionaries and encyclopedias). By understanding this normative aspect, the study can provide a clearer mapping of the regulations that play a role in the development of MSMEs, as well as offer an analysis of the regulatory barriers faced by small business actors.

2. Descriptive Empirical Approach

The descriptive empirical approach in qualitative research is used to gain a deeper understanding of social phenomena that occur in the field. This research was conducted by collecting data directly through observation methods and in-depth interviews with MSME actors who were the subjects of the research.

This approach aims to dig up factual information about the factors that influence decision making in business development. Not only limited to legal aspects, the empirical approach also reveals various non-legal factors, such as economic, social, cultural dynamics, and personal experiences of business actors in facing business challenges. Thus, this research can provide broader insight into the real conditions faced by MSMEs in the scale-up process.

RESEARCH RESULT AND DISCUSSION

A. Forms of Rules and Regulations for Micro, Small and Medium Enterprises Based on Positive Law.

Micro, Small, and Medium Enterprises (MSMEs) are one of the main parts of the country's economic structure that should receive maximum priority, support, protection, and development. This reflects a real bias towards the collection of people's economic businesses, without ignoring the important role of Large Enterprises and State-Owned Enterprises (BUMN). MSMEs have great potential in providing new jobs, providing full access to economic services, providing positive impacts to the community, and contributing to efforts to equalize welfare and increase income. In addition, MSMEs also play a role as drivers of economic growth and are a key element in maintaining national stability. To ensure the sustainability and more optimal management of MSMEs, their activities are fully regulated in Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises (UU MSMEs). This regulation is the main foundation for the implementation of MSME activities, which has been in effect since 15 years ago, precisely on July 4, 2008. Over time, Law Number 20 of 2008 was deemed no longer able to accommodate all the legal requirements needed to

encourage the development of MSMEs in Indonesia. Therefore, the government passed Law Number 6 of 2023 regulating the Stipulation of Government Regulation in Lieu of Law Number 2 of 2022 concerning Job Creation into Law (Job Creation Law) on March 31, 2023. This step was taken as a strategic effort to optimize the potential of MSMEs more comprehensively, effectively, and sustainably. Through the Job Creation Law, the government expands business opportunities and provides various forms of support in various aspects. This aims to strengthen the role of MSMEs so that they can contribute more significantly to national economic development. In addition, this approach is expected to encourage increased productivity, which will then have an impact on increasing wages, purchasing power, and public consumption, thus supporting the realization of a more advanced Indonesian economy. The government through the Job Creation Law has amended various provisions previously regulated in the MSME Law. This amendment aims to provide convenience and support the development of MSMEs in Indonesia. These conveniences cover various important aspects in the management and operation of MSMEs.

One of the main conveniences is the elimination of licensing fees for micro businesses and the provision of relief for small businesses. Business licensing, as stated in Article 1 number 10 of PP No. 7 of 2021, is a form of legality given to business actors to carry out their business activities. In accordance with Article 37 of PP No. 7 of 2021, every MSME actor is required to have a business license, the administration of which is carried out through an integrated electronic system as regulated in Article 38. The government has a responsibility to facilitate the licensing process by providing guidance and registration for MSMEs, which is carried out through identification and mapping of business risks into low, medium, and high categories.

MSME actors who take care of business licensing will obtain a Business Identification Number (NIB). For low-risk businesses, only a NIB is required, while for medium-low and medium-high risk businesses, a NIB and standard certificate are required. Meanwhile, businesses with a high risk level are required to have a NIB and business license. In addition, medium and high-risk MSMEs must have a product standard or business standard certificate in accordance with applicable regulations. After obtaining a NIB, MSME actors are entitled to assistance from the government in the form of technical guidance, consultation, and training related to Indonesian National Standards and halal certification for their products. According to Article 46 of PP No. 7 of 2021, the processing of business licenses for MSMEs is free of charge. The government is also obliged to provide clear information regarding licensing requirements, application procedures, and fee-free policies. The Indonesian MSME Association emphasized that business licenses not only function as a tool for monitoring and empowering businesses, but also as a planning instrument and source of income for the government.

The government also focuses on large and medium enterprises to support cooperation with MSMEs, for example through increasing product innovation, training, and providing information technology. Other facilities include

simplifying tax administration, exemption from halal certification fees and providing intellectual property rights registration facilities are steps aimed at increasing the competitiveness of MSMEs in the domestic and international markets. In addition, the Job Creation Law also regulates the provision of promotional space in public infrastructure, which requires business entities to provide at least 30% of the commercial area for MSMEs. In the field of employment, micro and small businesses are given the flexibility to set minimum wages based on an agreement between the company and workers. The development of Micro, Small, and Medium Enterprises (MSMEs) at the regional level, both in provinces and districts/cities, is closely related to the dynamics of relations between the central and regional governments within the framework of implementing regional autonomy. One important aspect that is of concern is the existence of the Integrated Business Service Center for Cooperatives and MSMEs (PLUT-KUKM), which functions as an extension of the Ministry of Cooperatives and MSMEs (KemenkopUKM) in the regional area. However, the role of PLUT-KUKM has the potential to cause problems related to the division of authority, as regulated in Law Number 23 of 2014 concerning Regional Government.

Article 15 paragraph (1) of Law Number 23 of 2014 stipulates that the development and empowerment of MSMEs is adjusted to the level of business. The provincial government is responsible for small businesses, the district/city handles micro businesses, while the central government focuses on medium-sized businesses. However, this division of responsibilities is not entirely in line with the principle of Assistance Tasks, namely the assignment of part of the central government's affairs to the regional government. This principle is the basis for the Regulation of the Minister of Cooperatives and MSMEs Number 09/PER/M.KUKM/XII/2013, which regulates the guidelines for implementing the PLUT-KUKM Program through the Assistance Task mechanism.

Article 12 of the regulation stipulates that the Minister of Cooperatives and MSMEs can delegate the authority to implement the program, such as providing MSME development services, mediating relations between MSMEs and stakeholders, encouraging MSME growth, and improving the quality of MSMEs creatively, innovatively, and productively. Although PLUT-KUKM operates at the provincial and district/city levels, based on Article 15 paragraph (1) of Law Number 23 of 2014, the regional government does not have the authority to carry out Assistance Tasks for medium-sized business actors, because these business actors are under the authority of the central government. This makes the differentiation of roles between the central, provincial, and district/city governments less relevant in the context of facilitating MSME actors. Regional governments, the business world, and the community need to work together to support the growth and development of the Micro, Small, and Medium Enterprises (MSMEs) sector, so that MSMEs can develop into strong and independent businesses. This MSME empowerment is based on several principles stated in Law of the Republic of Indonesia Number 20 of 2008, namely: first, the growth of independence, togetherness, and entrepreneurship that encourages business actors to create independently; second, the implementation of transparent, accountable, and fair public policies; third, business development

based on regional potential and market-oriented in accordance with the competencies of each business; and fourth, increasing business competitiveness through integrated planning, implementation, and control.

In supporting the growth of the MSME sector, both the central government and regional governments are required to provide various policies that include funding, provision of facilities and infrastructure, business information, partnerships, licensing, business opportunities, trade promotion, and institutional support. The central and regional governments also provide regulations regarding financing and loans to facilitate MSME actors in developing their businesses and strengthening capital.

If Micro, Small, and Medium Enterprises (MSMEs) do not receive legal protection from the government, then it is certain that MSMEs will have difficulty developing. This results in inequality in business competition, where small businesses cannot compete on an equal footing with much larger businesses. Legal protection is a fundamental aspect for the sustainability of MSMEs, especially in facing the increasingly complex challenges of economic liberalization. In the legal context, protection of MSMEs is based on several main principles.

1. The economic principles in the 1945 Constitution of the Republic of Indonesia (UUD 1945) which have been formulated by the nation's founders to build a National economic system that aims to create a just and prosperous society. This principle emphasizes that the prosperity of the people must be achieved through a healthy economic system and free from unfair business competition practices. Article 33 of the 1945 Constitution regulates seven main principles in economic principles, namely balance, harmony and alignment, equality, joint efforts, family, deliberation for consensus (economic democracy), benefits, and protection and guidance for weak business groups.

2. The principle of protecting national interests as regulated in Article 33 paragraphs (2) and (3) of the 1945 Constitution, which gives the state the authority to control branches of production that have an impact on national interests. State control of strategic sectors aims to protect the interests of the people, ensure the availability of primary needs, and prevent monopolistic practices that can harm the wider community. This principle emphasizes that protection of national interests must not conflict with the principle of freedom of contract that applies in the business world. This means that in order to protect public and national interests, protection policies must not limit the freedom of contract excessively, because this can hinder business actors in carrying out their business activities. Therefore, the state must continue to ensure a balance between legal protection for MSMEs and freedom of business in order to create a healthy and just business climate.

B. Legal Review of Small Business Actors' Decisions and Business Scale-Ups That Can Influence the Development and Growth of the Country's Economy

Currently, the Micro, Small, and Medium Enterprises (MSMEs) sector in Indonesia is showing significant development, with the number of business

actors continuing to increase every year. This growth trend is a positive indicator that not only reflects the dynamics of the community's economy, but also has a strategic impact on the national economy as a whole. According to data released by the Ministry of Cooperatives and SMEs, MSMEs contribute around 60.5% to Indonesia's Gross Domestic Product (GDP).

This large contribution confirms that the MSME sector has very promising potential to continue to be developed, both through increasing productivity and expanding the scale of the business. Furthermore, the existence of MSMEs not only creates jobs for millions of people, but also plays a role as the main driver in building a strong people-based economy.

However, this potential can only be maximized if there is comprehensive strategic support, both in terms of government policies, access to financing, and strengthening the capacity of business actors. With the right development, MSMEs in Indonesia have a great opportunity to not only increase their contribution to GDP, but also strengthen Indonesia's position in regional and global economic competition.



Figure 1. Graph Number of Micro and Small-Scale Industrial Workers
Source: Ministry of Cooperatives and SMEs of the Republic of Indonesia

Based on the graph above, it can be seen that the number of workers in micro businesses is consistently greater than that of small businesses during the period 2014 to 2023. This difference illustrates that many micro business actors have not been able or have not made the effort to develop their businesses into small businesses. According to data from the Indonesian Ministry of Cooperatives and SMEs, there are around 64.2 million business units operating in Indonesia. Of that number, 99.6% are micro businesses, 0.30% are small businesses, 0.07% are medium businesses, and 0.01% are large businesses. This shows that the increase in the number of MSMEs has indeed increased, but efforts to increase the scale of the business (scale-up) are very minimal.

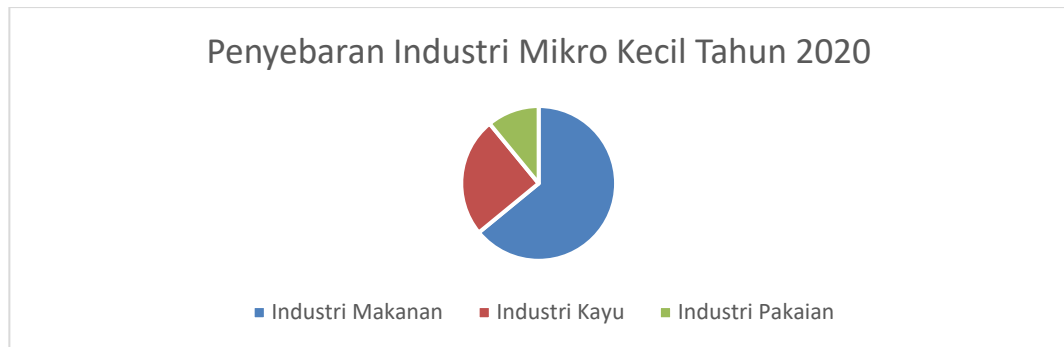


Figure 2. Distribution of Micro and Small Industries in 2020
 Source: Central Statistics Agency (BPS)

Based on the results of the 2020 micro and small industry survey, the number of micro and small industry businesses that are ranked in the top three according to the type of business activity is still in line with the primary needs of the community. A comparison of the three MSME industries shows interesting variations in their contribution to the economic sector. The Food Industry dominates with a percentage of 36.08%, indicating significant growth and high market demand. In second place, the Wood and Wood Materials Industry contributed 15.02%, showing strong potential although not as large as the food industry. Meanwhile, the Clothing Industry is in third place with a contribution of 14.05%. Thus, the wood industry shows the importance of this sector, especially in producing raw materials for furniture. Likewise, this research was conducted on a small business in the wood processing sector located in Tegal Sari Mandala II, Medan City. This business has been operating for more than 10 years and focuses on wooden furniture. In the business process there are approximately 20 employees, which means that according to Law Number 20 of 2008 it is included as a small business and if developed it will become a medium or large business.

Sumber: DataIndustri Research, diolah dari - akan diinformasikan setelah pemesanan -
 PDB Atas Harga Konstan 2010
 Q1: Januari - Maret, Q2: April - Juni, Q3: Juli - September, Q4: Oktober - Desember. Q: Quartal

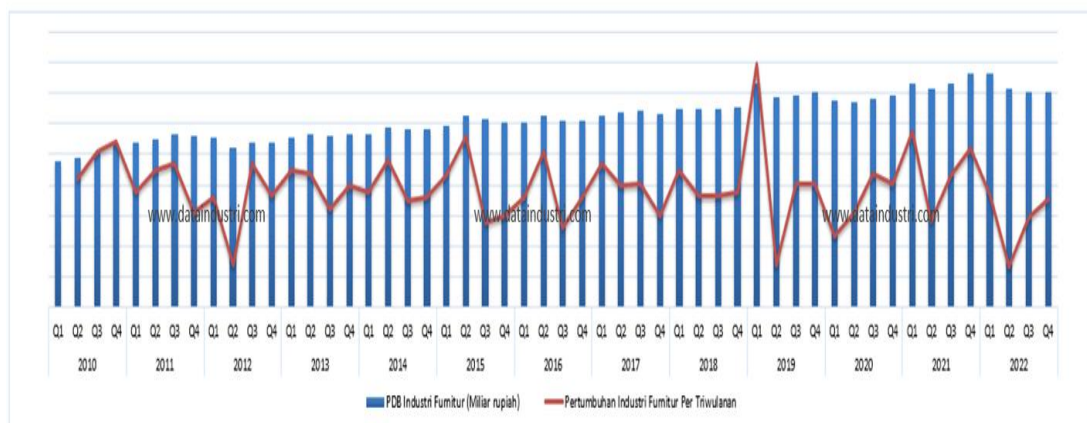


Figure 3. Industrial Data Graph
 Source: Central Bureau of Statistics (BPS)

The graph above shows the growth trend of the furniture industry in Indonesia from the second quarter of 2010 (Q2 2010) to the fourth quarter of 2022 (Q4 2022). This data shows two main things, namely the Gross Domestic Product (GDP) value of the furniture sector in billions of rupiah (shown with blue bars) and the growth rate of the furniture industry each quarter (shown with the red line). From the graph, we can see that the GDP value of the furniture sector tends to be stable during this period, although there are slight fluctuations. However, the quarterly growth shown by the red line shows quite significant changes. In some periods, growth increased sharply, as seen in Q4 2014, but there was also a sharp decline in other quarters. This reflects the dynamics in the furniture industry that can be influenced by other factors.

The development of this industry is closely related to the development of MSMEs in the wood industry sector. The furniture industry, which is largely supported by MSMEs, is highly dependent on wood raw materials. The fluctuations in growth in this graph show the challenges and opportunities faced by MSME players in this industry. Therefore, a development strategy is needed that focuses on increasing productivity, efficiency, and the ability of MSMEs to adapt to market changes.

Based on the results of interviews with business actors, one of the reasons why business actors do not develop their businesses is because business actors are worried that efforts to increase the scale of their business can result in greater potential losses than expected profits. This uncertainty is the main inhibiting factor that drives business actors to maintain the status quo, even though there are opportunities for broader growth.

A deeper analysis revealed that one of the reasons behind the decision of business actors not to increase the scale of their business is closely related to efforts to keep operational costs, especially in terms of labor, low. In this context, business actors do not face legal obligations that require them to provide wages according to certain standards, but rather based on more flexible informal agreements. This approach allows them to reduce expenses without violating applicable regulations.

One significant obstacle is the minimal adoption of technology by these business actors. Although the world is currently experiencing major changes towards digitalization, most of the marketing systems carried out by these business actors still use conventional marketing methods that are relatively behind compared to modern marketing strategies implemented by other businesses. In the midst of the era of globalization and rapid technological advances, this kind of marketing strategy is increasingly losing its competitiveness. Tight competition from businesses that utilize digital technology, such as e-commerce platforms and social media, makes technology-based marketing more effective and efficient. Unfortunately, business actors who do not switch to this digital method are at risk of being left behind and facing major challenges in maintaining their existence in an increasingly competitive market.

MSMEs that play an important role in the development of the national economy need more attention from the government. The role of the government

is very crucial in supporting the development of Micro, Small, and Medium Enterprises (MSMEs). This is due to the strategic role of MSMEs as a sector that has the potential to improve the economy as well as the welfare of the community. In Law No. 20 of 2008 it is stated that: "Development is an effort made by the Government, Regional Government, Business World, and the community to empower Micro, Small, and Medium Enterprises through the provision of facilities, guidance, mentoring, and strengthening assistance to grow and improve the capabilities and competitiveness of Micro, Small, and Medium Enterprises"

Referring to the Constitution, especially the 1945 Constitution Article 33 paragraph (1), the main objective of National economic development is to improve the welfare of all Indonesian people collectively, not for the interests of certain individuals or groups. Therefore, the National economic system is ideally based on the principle of joint efforts based on the principle of family in order to realize shared welfare and prosperity. In order to achieve this goal, various steps can be taken, one of which is through providing legal protection for Micro, Small, and Medium Enterprises (MSMEs).

Referring to Article 19 of Law Number 20 of 2008 concerning MSMEs, the development of human resource quality as stated in Article 16 paragraph (1) letter c is carried out through:

- a. Dissemination of information and empowerment in the field of entrepreneurship;
- b. Increasing technical competence and managerial capacity; and
- c. Establishment and development of educational and training institutions aimed at organizing educational activities, training, mentoring, providing motivation, developing business innovation, and creating new entrepreneurs.

These three dimensions emphasize that human resources have a central role in supporting the development of Micro, Small, and Medium Enterprises, so that they are able to produce independent entrepreneurs in the community. Therefore, strengthening community capacity is a crucial element in efforts to improve the quality of human resources. This step is expected to be able to provide a significant contribution to optimizing the quality of production output which ultimately drives economic growth and increases the level of community welfare. Based on Law of the Republic of Indonesia No. 20 of 2008 concerning MSMEs, Article 25 states that the government has an obligation to provide facilities that support MSME activities through various forms of partnerships. Furthermore, Article 26 stipulates that facilitated partnerships or cooperation are expected to strengthen the role of MSMEs in supporting national economic growth. Therefore, from a legal perspective, MSMEs are expected to be able to make a significant contribution to the country's economy by playing a role in realizing community welfare. This is important considering that community welfare is the main goal of a country.

CONCLUSIONS AND RECOMMENDATIONS

The regulation of MSMEs is based on a comprehensive positive legal framework, covering classification criteria, licensing, legal protection, and government support for the empowerment of small and medium enterprises. This article examines the role of law on Micro, Small, and Medium Enterprises (MSMEs) in Indonesia that choose not to expand their business scale or scale up. One of the main factors inhibiting the development of MSMEs is apathy among business actors. Many assume that current business conditions are sufficient to meet needs, so there is no incentive to expand. In addition, limited human resources and low adoption of technology are significant obstacles to increasing the competitiveness of their businesses in the market.

The Indonesian government has established a number of regulations to support the development of MSMEs, including Law Number 20 of 2008 and Law Number 6 of 2023. However, the implementation of these policies faces challenges, especially related to their effectiveness at the regional level. Many business actors do not receive adequate information about policies and assistance that

The decision of MSME actors not to scale up has the potential to hamper productivity and overall economic growth. With this stagnation, opportunities for new job creation are reduced, which risks increasing the unemployment rate and adding to the country's social burden. Therefore, it is very important for all stakeholders to work together to create a climate that is conducive to the development of MSMEs. Overall, the success of achieving national economic development goals is highly dependent on the development of MSMEs. With this regulation, it is hoped that MSMEs can grow and develop sustainably in the national economy.

ADVANCED RESEARCH

In writing this article the researcher realizes that there are still many shortcomings in terms of language, writing, and form of presentation considering the limited knowledge and abilities of the researchers themselves. Therefore, for the perfection of the article, the researcher expects constructive criticism and suggestions from various parties.

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