What Are the Sources of Productivity of Small and Medium Enterprises (SMEs) in the Services Sector in Aceh, Indonesia?

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Abstract—One of the government’s efforts to combat poverty, reduce unemployment, and promote economic growth in Indonesia is through the empowerment of Small and Medium Enterprises (SMEs) (Presidential Instruction No. 6, 2007). However, the contribution of SMEs in improving the welfare of the community is very much dependent on their productivity level. Thus, this study empirically measures the productivity level of the SMEs in the services sector across 23 districts in the province of Aceh, Indonesia over the period 2014-2018. To measure the productivity level of the SMEs, three inputs (i.e., material inputs, labor input, and capital inputs) and one output (i.e., the value of production) were used and estimated using the most widely adopted non-parametric approach of the Data Envelopment Analysis (DEA) model. The study documented that the productivity of the SMEs in the services sector has been relatively low and their total factor productivity changes have been deteriorated. This is simply caused by a low level of technical efficiency of SMEs and its deterioration. Thus, to further improve the productivity level, SMEs should utilize advanced technology such as e-marketing in selling their products and services.

Keywords—Data envelopment analysis, Total Factor Productivity (TFP), Small and Medium Enterprises (SMEs)