

Strengthening the Institution of Small-scale Online Market Seller Community to Improve their Social Welfare on Industry Revolution 4.0 Era

— *Review of* —
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Vika Annisa Qurrata
Faculty of Economics Universitas Negeri Malang

Ermita Yusida
Faculty of Economics Universitas Negeri Malang

Vidya Purnamasari
Faculty of Economics Universitas Negeri Malang

Wen-Chi Huang
Department of Agribusiness Management National Pingtung University of Science and Technology (NPUST)

ABSTRACT

The concept of industry 4.0 is widely known as a digital-based or internet business development. The internet has become an indispensable information technology tool. At the moment, consumers are increasingly facilitated to making transaction through social media and instant messaging for example WhatsApp. In contrast with former days which was mostly consumers were only able to make transactions through retailer website, such as Amazon or e-bay. Research was conducted in Bulan Terang Utama (BTU) – a subsidized housing area-, Malang, East Java. The first online market by instant messaging in a subsidized housing area is taken in this place. This research aimed to improve the social welfare of small-scale online market seller community by strengthening their institution. The study was conducted in 2018-2019, mainly using participatory action research (PAR). The results show that PAR is able to influence the formation of trading cooperative and improve the livelihoods of small-scale online market seller community. By creating a trading cooperation, were able to strengthen their bargaining position, connect to wider markets, create local marketplace and improve trust and support from government.

Keywords: strengthening institution, market online seller community, Participatory Action research (PAR), social welfare

1. INTRODUCTION

Small and Medium Enterprises (SMEs) has become an important thing in the city's sustainable economic development. In recession period, each city has different economic challenge to struggle. This economic condition will getting worse in the area where the city were formerly industrial cities and many of the inhabitants work in industries but they are affected by long-term production cuts. In such condition, SMEs

will bring some advantages for the city's development such as provide employment, develop local economic activities, increase economic stability in the housing environment and introduce new leaders from the local community. In the other hands, SMEs tend to crease business in easier faster way and beside that SMEs are proven to be more sustainable in difficult economic times. Small businesses provide opportunities for local people to shop near their homes. This activities lead money supply circulate inside the city instead of leaking into the surrounding area. In the end, it will increases the wealth of business owners who then employ local people.

Entrepreneurship is also considered to be an important mechanism for economic development through employment, innovation and welfare effects, Schumpeter (1934), Acs *et al* (1988), Baumol (2002). The dynamics of entrepreneurship can be vastly different depending on institutional context and level of economic development, Acs *et al* (1988). Entrepreneurship's role in development leads to three novel realizations: First it provides fresh perspectives on three of the "grand" ideas in development economics; second, entrepreneurship influences development outcomes positively as well as negatively; and third, entrepreneurship is in turn significantly determined by the dynamics of development, Naude (2013).

SMEs club in the BTU online market provides great benefits for the surrounding economy. The ease of selling due to the presence of instant messaging technology such as Whatsapp group has made the economy and social awareness in the housing environment increased. Small businesses allow residents to buy goods and services that may not be available in their neighborhood. This can create deeper connections along residents and business owners. The existence of a BTU online market group where unique goods and services are traded will attract new people to choose the neighborhood . The housing developer somehow often forgot about that house buyer will not only need good building, but also they need good neighborhood where they can get easy access for everything. When developers create commercial tenant spaces under mixed development, such as inviting environmental businesses to serve nearby residents, this act will attract outside customers to the area, Christiansen *et al* (2010a).

One of the obstacles in business development in the BTU online market is the absence of an organized institutional structure. So that the BTU online market is no different than just a location to offer and buy merchandise without ties between fellow sellers or buyers. Individualistic nature and feel want to get dominant personal gain here. This is of course a problem because traders will easily enter the group without any ties. So that one day if the group disbandes, it makes the usual conditions for buyers and sellers. The weakness of such a system is the absence of a clear legal umbrella. So if this group wants to become a larger business scale and wants to access funding assistance from the banking sector or the ministry of cooperatives and MSMEs, they won't be able to. They will be confronted with the legality required in addition to access to capital from official financial institutions. The purpose of this paper is to contribute to our proposing idea by constructing the institutional model to strengthen the small-scale online market seller community. Institutions are critical determinants of economic behavior and economic transactions in general, and they can have both direct and indirect effects on the supply and demand of entrepreneurs, Busenit *et al* (2000). Historically, all societies may have a constant supply of entrepreneurial activity, but that activity is distributed unevenly between productive, unproductive, and destructive entrepreneurship because of the incentive structure. To change the incentive structure you need to strengthen institutions, an to strengthen instituions you need to fix

government Acs *et al* (1988). We develop trading cooperation in this community that offers an easeness to this community in accessing financial institution and having grant from government.

2. LITERATURE REVIEW

Institutional theory seeks to explain the “the elaboration of rules and requirements to which organizations must conform if they are to receive support and legitimacy” , Scott (2019), Lammers *et al* (2017). Institutions are enduring social phenomena—they persist across time and space, particularly in comparison to the organizations and conventions observable in any given period (fixity is the term used by Giddens (1984). Institutions organize social life across and through organizations Lammers *et al* (2009). Institutions are manifest in a broad range of social phenomena, including “cultural-cognitive, normative, and regulative elements”, Scoot (2001).

One form of intitution is shared-service cooperatives that studied by Clamp *et al* (2015). Shared-service cooperatives is associations that meet members’ institutional or organizational needs through collaboration. This form of institution will remedies for rural settings such as reduces high cost for services, relieves shortage of materials, and supports Information sharing and problem solving among members. The creation of shared services itself is often driven by financial concerns such as efforts to maintain, preserve or improve services. Furthermore, shared services cooperatives have also been an effective model for allowing small business owners to remain competitive. The fact that the shared-services model can address a variety of needs makes it a very versatile tool for organizations that are concerned with how to maximize resources to serve community needs or preserve local businesses and services.

3. METHODS

This study was using Participatory Action Research (PAR). PAR is a process through which members of a community identify a problem, collect and analyse information, and act upon the problem to find solutions and to promote social and political transformations Selener (1997). PAR enables the understanding of problems and actors’ behaviour changes more or less at the same time. PAR was executed through a reflection–planning–action–monitoring loop, Henocque *et al* (2001), McNiff (2002). Loop is a set of phases (reflection, planning, action and monitoring) that is repeated again and again until a particular condition is satisfied. The aim of using PAR was to harness collective thought and efforts to improve SMEs’ positions in the value chains. Prior to a ‘reflection phase’, we carried out five consultative stakeholder meetings and site visits. These activities aimed to identify key stakeholders and their needs, and to build trust. The ‘reflection’ phase established communication between researchers and stakeholders through a field visit, stakeholder identification and consultation. A baseline survey was conducted to clarify the business. The ‘planning’ phase developed plans to resolve problems. Recommendations from the reflection phase were used to guide the plan. The ‘action’ phase prioritized and executed the planning in a participatory way with the aim of strengthening institutional for online market BTU seller. This PAR was conducted by the 25 people representative from online market BTU seller community The PAR was executed during the period 2018-2019.

4. RESULT AND DISCUSSION

4.1 Identified Online Market Btu Community Member

The main criteria for identifying the key stakeholders were: being involved in business and policy-making, having knowledge of online market community, livelihood dependency and cultural links. We found that the sellers whose join in online market community are the important actors in constructing the idea of strengthening institution. These actors became coresearchers during the PAR process.

4.2 PAR Results

4.2.1 Reflection Phase

The first way, the 'reflection phase', involving 25 participants including the coresearchers, reflected the current situation of the online market in Bulan Terang Utama Residence. In the 'planning phase', a one-year plan was developed. We planned to obtain and understand the results of the 'reflection phase' and to conduct various collaborative surveys and studies on business units, livelihoods, and online markets.

In this reflection phase, there are several observation result received, such as:

- a. There are dualism online market form in BTU which the difference is based on the rules applied in the group. The first group applied particular rules for every transaction and advertisement while the other group runs without particular rules indeed.
- b. Not every member in online market BTU is the member of housing association because some people felt objected to pay monthly tuition IDR 5000
- c. At the moment, housing association hasn't any official rules and organization structure to control the member so sometimes its create moral hazard among members.
- d. Most of the member in BTU Online Market is food seller who hasn't any halal and legal certificate from local government

4.2.2 PLANNING PHASE

Researcher and some participants created some plans to analyze the reflection phase findings, namely :

the researcher and assisted by several participants who became the main target in the research formulated several plans namely

- a. Renewing the existing association organizational structure since the current management board are lead by non-native residents
- b. Identity card is needed for every person who wants to join the housing association.
- c. The community's meeting should held in certain time. Research shows that too often community's meeting will stimulate the boredom of the member
- d. There should be restriction for the board management. The association management should not become the cooperation management because too many responsibilities could create ineffectiveness in organization.
- e. The existence of a cooperative community could help traders in online market community to have easy access to have additional capital and also training from the government

As suggested by Agrawal *et al* (1999), focusing on institutions is fruitful and effective in advancing natural resource management. PAR is an integrated approach to researching resource management Awang *et al* (2005). PAR allowed the use of action to reach mutual understanding, increase knowledge and skills, and change the behaviour among small-scale producers to improve the profitability of their SMEs. The action of the all team in conducting training, participating in group discussin and developing a roadmap for the developing institution aided understanding among sellers of the importance of cooperative institution to improving their well-being, Purnomo *et al* (2014). These communicative actions catalysed understanding among stakeholders as defined by Habermas (1987). Action that is well communicated will orient stakeholders towards mutual agreement and collective action.

4.2.3 ACTION PHASE

The third stage is the action phase to realize the ideas given by the participants. So the action taken are :

- a. Changes in the organizational structure of the community so that members who are not native citizens cannot become administrators. It has to be done to avoid moral hazard in organizations.
- b. Provision standard rules in terms of joining a community. One of the rules that has been applied is that there must be a copy of the identity card that is deposited in the community when new members join.
- c. The association meeting is held once a month. This is an improvement because usually the association meeting is held once every 2 weeks. The meeting not only has a function as communication tools within the member but also as chance for the treasurer to collect contributions fee from each member.
- d. The newly board of associations includes the chairman, deputy chairman, secretary, contribution treasurer and savings-loan treasurer. There are two different treasurer in the management since there are two contribution that should be paid by the member each month, namely monthly fees and saving loans. Each treasurers assisted by one assistant to handle the financial statements.
- e. The existence of simple concept of savings and loans expected to trigger cooperative association to be more active

4.2.4 EVALUATION

This study through PAR was carried out within a period of approximately 1 year so many things were still lack. An example is the large number of migrants who are non-permanent residents who want to be active in the community and become managers. When they are given an explanation of the rules, there is a feeling of discomfort in the group. The second evaluation is the lack of orderly administrative records even though there has been a note taker to tidy up the financial reports.

4.2.5 DEVELOPMENT MODEL THROUGH PAR

Based on the stages that have been passed in PAR, the formulation of a model for strengthening BTU's online market community association is as follows

- a. Strengthening of the institutional community with the establishment of clear organizational structures and more standardized rules
- b. The formation of a cooperative association and the management of this cooperative become an official institution so that all members can easily access additional capital through financial institutions
- c. In addition, the cooperative association also functions to facilitate members in managing halal certificates. Cooperative and UMKM services tend to give easier procedure to the SMEs who are members of a community to compared with individual SMEs
- d. The advantage of the cooperative community is that there is a reinvest in the creation of a local marketplace and hiring admins to manage this platform.

4.3 DISCUSSION

Based on the results of the reflection phase, the results of the focus group discussion (FGD) succeeded in formulating a strategy to improve BTU's online market business. From the traders proposals who are members of the BTU online market association, the idea found was institutional strengthening through the existence of the BTU Online Market Association Cooperative. This cooperative is the basis of the establishment of a legal organization so that within it will be given standard rules. The manager of the cooperative is a member of the community which is not a manager of the community so that the associations and cooperative associations do not overlap their duties. All members of association are required to become members of the cooperative so it could strengthen both association organization and cooperatives. Cooperative association online market will have 30 member and they will held a Statute at least once before its establishment and Bylaws at least once a year. Traders suggest to held community meeting based on the problem urgency, however management meetings must be held regularly in order to evaluate the conditions in the cooperative.

These cooperatives and communities are a form of strengthening relations between business owners. If the owners are not well connected with each other then there must be a strategy to build and strengthen small business networks such as creating opportunities for small business owners to guide each other and share best practices and information about resources and look for opportunities in collective action. As an organized group, entrepreneurs may be able to do better advocacy in the interests of small businesses and might develop joint service agreements for cheaper purchases. The concept map that will be compiled in institutional strengthening through the establishment of cooperatives is contained in Figure 4.1

Figure 4.1 Stages of strengthening BTU's online market institutions



Source : Writer Ilustrator, 2019

Based on the picture, the strengthening institution will begin with the strengthening of online merchant community. This has to be done to facilitate the next step, that is the formation of cooperatives. In the step of strengthening the community, there are 2 things that must be done, namely the formation of an organizational structure and making the standard rules on the community. After the association has already prepared a clear organizational structure and rules, the next step is the forming and establishing of a cooperative association. The existence of this cooperative is urgently needed to strengthen the capital of cooperative members and ease the administration of food and halal certificates for food traders. The final step after the cooperative institution is formed is the creation of a local marketplace. In the current time, local marketplace that is created is the simple one and will be handled by person who is mastering online sales techniques.

The institutional strengthening process will not working without the support of all members of the BTU online market community and help from young people in the housing complex. This is in line with Rasheed's *et al* (2003) research where when young people working together with current small business owners, they will gain more knowledge about how to run a business and experienced entrepreneur concepts presented at school. Through such partnerships, small business owners function as role models, showing young people the value of hard work. In return, small business owners get an extra pair of hands to run their business. Formal ways to connect young people with small business owners include: after-school entrepreneurship programs, apprenticeships at school, and work while on vacation. These programs require commitment from the school or commitment from dedicated teachers and parents. These statements supported by Wannamakok (2019) research findings which shows that social entrepreneurs intentions could be developed by the support of institutional

environment such as regulatory dan cognitive dimension. Environment's support such as school and government comitment will be the greatest booster to be entrepreneur. Besides, the inclusion of social capital such as values, norm and regulations could help the achievement of economic empowerment, Atmadja (2013).

In addition, another way to promote the development of small businesses is to utilize existing assets in the city, Christiansen (2010b). For example, Camden, New Jersey has a strong network of hospitals and universities. These institutions could make contract with local small businesses for procurement needs. Another free businesses can also build market demand generated by these existing institutions. The presence of a hospital, means there will also be a need for a pharmacy, doctor's office, late night cafes, and flower shops. To determine city assets, consider the competitive advantage of the city. The uniqueness of the city can inspire small businesses to do. So detailed plans such as how small businesses can connect with these leaders, markets and industries, then the desired connections that include civil leaders and elected officials, benchmarks and timeframes must be implemented immediately. By strengthening the community and creating a trading cooperation, were able to strengthen their bargaining positions, connect to wider markets, create local markets and improve trust and support from government.

5. CONCLUSION

Institutional reinforcement to improve the welfare of BTU online market traders can be done in 3 ways, namely reinforcing the community that covers online market traders, forming and establishing a cooperative association and creating local marketplace applications as a means of replacing WhatsApp for merchants offering their goods. This stage of institutional reinforcement is found through the PAR process. The weakness in this study is the lack of research time to take action and evaluate the plan that has been done. So, the suggestion for the next research is the action and evaluation of existing plans.

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