

Smart Economy: The Analysis of Youngpreneurs Development towards the SMEs in East Java Province

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Abstract

East Java Province is one area in Indonesia with many potentials in the creative industry sector, especially SMEs. Unfortunately, SME growth in East Java Province is relatively slow because most still do not use technological tools. The reason is, SMEs is not attractive enough to the millennial generation and are still not digitized. This research was conducted to determine SMEs' potential digitalization to attract the millennial generation's interest in SMEs. The result showed three main obstacles to applying technology tools in the SMEs industry: marketing networking, branding and packaging, and product standardization. Apart from the obstacle, there are also three essential things to increase their interest in SMEs sectors: SMEs community; local materials distribution; and optimization of the entrepreneurial mindset. A smart economy strategy can become a long-term economic investment to overcome every obstacle and stimulate the growth and Youngpreneur interest in the SMEs industry.

Keywords: Millenial Generation, Smart Economy, SMEs

Smart Economy: Analisis Perkembangan Youngpreneurs pada UKM di Provinsi Jawa Timur

Abstrak

Provinsi Jawa Timur merupakan salah satu daerah di Indonesia yang memiliki banyak potensi di bidang industri kreatif khususnya UKM. Sayangnya pertumbuhan UKM di Provinsi Jawa Timur relatif lambat karena sebagian besar masih belum memanfaatkan perangkat teknologi. Pasalnya, UKM kurang diminati generasi milenial dan masih belum terdigitalisasi. Penelitian ini dilakukan untuk mengetahui potensi digitalisasi UKM untuk menarik minat generasi milenial terhadap UKM. Hasilnya menunjukkan tiga hambatan utama dalam penerapan perangkat teknologi di industri UKM: jaringan pemasaran, branding dan pengemasan, serta standarisasi produk. Selain kendala tersebut, ada tiga hal penting yang perlu dilakukan untuk meningkatkan minat mereka terhadap sektor UKM, yaitu: komunitas UKM; distribusi bahan lokal; dan optimalisasi pola pikir kewirausahaan. Strategi ekonomi cerdas dapat menjadi investasi ekonomi jangka panjang untuk mengatasi setiap hambatan dan merangsang pertumbuhan dan minat Youngpreneur terhadap industri UKM.

Kata kunci: Generasi Milenial, Ekonomi Cerdas, UKM

History: Received: 27 December 2022 Revised: 20 October 2023 Accepted: 13 November 2023

Citation (APA 6th): Satria, D., Wibowo, J.M., & Zahro, F. (2024). Smart economy: the analysis of youngpreneurs development towards the SMEs in East Java Province. *Jurnal Economia*, 20 (1), 95-108. <https://doi.org/10.21831/economia.v20i1.36616>

INTRODUCTION

The Ministry of Industry of the Republic of Indonesia in early 2018 noted an increase in Gross Domestic Product (GDP) contributed by the contribution of the creative industry sector, especially MSMEs, from 2015 to 2017 by 16.20%. In 2018, the Ministry of Industry

projects that the creative industry can contribute to the national GDP of Rp 1,000 trillion (Ministry of Industry, 2018b). Unfortunately, the potential growth of Indonesia's creative industry is not followed by the growth of new entrepreneurs, especially young entrepreneurs from the millennial generation. Minister of Industry Airlangga Hartanto, in 2018, stated that the ratio of domestic entrepreneurs in the creative industry sector was at 3.1%. In contrast, Indonesia needs 4 million new young entrepreneurs to increase the productivity and competitiveness of local products in the international market digitally (Ministry of Industry, 2018a).

Business activities carried out by entrepreneurs are an essential factor in regional economic growth (Bjerke, 2007, p. 71). Entrepreneurs' ability has always been used to create economic activity in various situations and as a solution to regional economic problems such as unemployment and poverty. In the 20th century, the theory of entrepreneurship was not only utilized as a research theme or the basis for the creation of training activities and capacity building of local human resources but also applied to the world of education in various countries such as Singapore, Malaysia, Australia, the United States, and the United Kingdom as a motivation for the younger generation to create economic opportunities in the new era (Hendro, 2011, p. 12).

Due to the restricted ability of consumers, producers, and distributors to engage in economic activity in 2020, it is impossible to isolate the function of technology from global business growth. (Amri, 2020). The utilization of technology in entrepreneurial activities (digital entrepreneurship) has become the new face of the business world in the Industry 4.0 era for young entrepreneurs, especially for the millennial generation (Rathee & Rajain, 2017). The millennial generation has a greater opportunity to become a digital entrepreneur than the older generation because they can more easily adapt to technology (Martin & Leurent, 2017). The utilization of technology in entrepreneurial activities has expanded the definition of an entrepreneur who was originally only a producer who produced certain goods/services and is now a producer who doubles as a manager and distributor to market existing goods and services (Suryana, 2013, p. 13). Gupta, Malhotra, Czinkota, & Foroudi (2016) also stated that a distributor (reseller) can also be called an entrepreneur when they are able to have economic activities that have an impact on regional economic growth.

The smart economy is one economic concept that accommodates the potential and role of digital entrepreneurs and millennials to increase regional economic growth. The concept of "smart economy" can be interpreted separately: firstly, "smart" means "optimized for specific needs", and secondly, "economy" refers to the rules in managing households to meet needs through limited sources (Gretzel, Sigala, et al., 2015). Smart economy is a concept of local economic development through the formation of innovation clusters and cooperation between companies, research institutions, and citizens whose role is to develop and promote local innovation digitally (Bakici, Almirall, & Wareham, 2013; Deliarnov, 2012, pp. 2–3). By applying the smart economy concept, relevant stakeholders often form a new economic network model in the fields of production, distribution, and consumption in certain areas (Anttiroiko et al., 2014).

Smart economy applications in Indonesia are often associated with the potential of technology and regional creative industries in cities and villages. Not surprisingly, discussions related to Indonesia's smart economy often appear in research related to smart cities and smart villages (Rayyan, Octaviawan, & Billiyanto, 2019; Suminar Ayu, Dwihantoro, & Lokantara, 2020; Yudono, Satria, & Erlando, 2019). The government and other stakeholders are working to make the area/region capable of fostering the millennial generation's interest in becoming young entrepreneurs from an early age through the smart city concept. Smart city strategies applied to Indonesian millennials usually include entrepreneurship incubation programs such as seminars, training, and workshops. The provision of programs related to entrepreneurship incubation attracts investors to make long-term investments in logistics infrastructure, consumer protection, taxation, security, and technology-supporting infrastructure (Yudono et al., 2019). Young entrepreneurs created through incubation programs are frequently utilized as momentum for transferring knowledge from prospective young entrepreneurs to older entrepreneurs who are still learning to use technology to help their business operations in the creative industry sector (Aljuwaiber, 2016).

One creative industry sector with high potential for development through smart economy strategies is micro, small and medium enterprises (MSMEs). Unfortunately, only limited research were conducted on the potential of MSMEs with millennials in Indonesia. This shows that Indonesian millennials have a low interest in doing business in the MSME sector. Christian (2017) states that this condition occurs because of the millennial generation's concern if the business ever went bankrupt. However, if the millennial generation can fully capitalize on technology's potential, this risk can be reduced to the absolute minimum (Sundari, 2019).

The potential of technology in minimizing the risk of business failure, especially in the Indonesian MSME sector, was studied by Deloitte in 2015. Deloitte (2015) stated that 437 MSMEs in Medan, Jakarta, Bandung, Semarang, Surabaya and Makassar areas that tried to maximize the potential of technology in their economic and production activities experienced an increase in income and reduced the risk of business failure by 80%. Due to the increased employment of low-skilled labor, the increase in income indirectly benefits regional economic growth, infrastructure development in underdeveloped areas, equalizing income distribution, and increasing investment interest in the region (Bank Indonesia & LIPI, 2015).

East Java Province is one of the regions in Indonesia that is transforming the area towards a smart economy through the development of young entrepreneurs in the MSME sector. The World Data Lab predicts that the millennial generation has the potential to influence the global economy by 25 trillion dollars by 2035 (Bank Indonesia, 2020). Having the number of young entrepreneurs dominated by the millennial generation can provide maximum benefits for increasing regional economic growth, especially in 2030, the year projected to be the peak of Indonesia's demographic bonus period (Harsono, 2019).

This research was conducted to determine the role of the millennial generation and the MSMEs industry in the economy of East Java Province. It is known that most research

on the smart economy of MSMEs and young entrepreneurs in Indonesia are still carried out separately. Hoetoro & Satria (2020) conducted research on the role of the smart economy in increasing the capacity of MSMEs to innovate the creation of new products or add value to old products. In the same context, the smart economy and Indonesia's young generation, Suyatna & Nurhasanah (2018) also conducted research that revealed that the role of the younger generation and the smart economy have a positive socio-economic impact on local communities through technology. Both studies indirectly show that the smart economy, MSMEs, and the younger generation, especially millennials, have a mutually beneficial two-way relationship. The application of smart economy policy strategies in certain areas will open up opportunities to develop MSMEs activities carried out by the millennial generation (Ministry of Communication and Information, 2019).

This research focuses on the East Java Province specifically Banyuwangi Regency, Greater Malang Area, and Pasuruan Regency (processed food). The three regions were chosen because they often apply smart economy-based policies such as "Digital SMEs" and "Jatimnomics" to increase their regional economic growth (Ministry of Communication and Information, 2019; Seina, 2017). In addition, the three regions were chosen because they have high local wisdom potential and were designated by the government as smart economy pilot areas in East Java Province (Emil, 2018; *kompas.com*, 2017; Malang City Government & Malang City Barenlitbang, 2017), for instance, Banyuwangi Regency has tourism potential, the Greater Malang Area has agricultural and tourism potentials, and Pasuruan Regency has agricultural, plantation and fishery potentials. Applying smart economy policies in East Java Province will create a digital business ecosystem with competitiveness and high economic resilience supported by millennials who are active and creative in innovating existing local potential. The results of this research are expected to be applied in increasing the interest of millennials to compete in creating effective, sustainable, and low cost economic activities in East Java Province (Bank Indonesia & LIPI, 2015).

METHOD

This research employs descriptive qualitative method to adequately explore the research problems and allows the right step for data collection. There are logical relationship between data, analysis, and conclusions on research needs (Jackson, Drummond, & Camara, 2007). This research uses primary and secondary data, where secondary data is obtained through literature studies in journals, books, or other papers related to research (Sujarweni, 2015, p. 65).

Primary data in this study was obtained through observation, in-depth interviews and focus group discussions (FGDs) with respondents selected through purposive sampling in 2019. Table 1 shows that most informants came from the government, such as related agencies, communities and business actors in East Java Province. The expected research results through this qualitative approach are an understanding of the application of smart economy policies to increase the millennial generation's interest in MSME activities in East Java Province.

Table 1. *Informant of the Research*

No.	Respondents	Number of Respondent	Location
1.	Bappeda Banyuwangi Regency	2 People	Banyuwangi Regency
2.	Ijen Tourism Cluster Community	5 People	Banyuwangi Regency
3.	Business and Tourism Actors of Banyuwangi Regency	3 People	Banyuwangi Regency
4.	Bappeda of Pasuruan Regency	2 People	Pasuruan Regency
5.	MSMEs actors in Pasuruan Regency	2 People	Pasuruan Regency
6.	Business and tourism actors in Greater Malang Area	5 People	Malang Municipality
7.	Malang Municipality Government	2 People	Malang Municipality
8.	Malang Regency Government	2 People	Malang Municipality

FINDING AND DISCUSSION

The existence of MSMEs has an important value and strategic role in the economic development of East Java Province. Not only as a safety valve, but MSMEs are also an instrument to drive the regional economy in order to support efforts in increasing the number of national entrepreneurs, creating job vacancies, absorbing labors, increasing wages, and accelerating the reduction of poverty (Bank Indonesia & LIPI, 2015). Utilizing local potential in the MSMEs sector that has been digitized through the smart economy concept is expected to contribute significantly to the regional economy of East Java Province. The research through interviews and FGDs show several obstacles related to the development of MSMEs through the smart economy concept in East Java Province (Table 2).

Table 2 shows the barriers to the application of the smart economy concept to MSMEs in East Java Province. Problems related to smart economy applications in the MSME sector can be overcome by absorbing labor from the millennial generation for old MSMEs and creating new entrepreneurs in the MSME sector. The millennial generation was chosen because they know and can operate technology according to the needs of MSMEs in East Java Province. Unfortunately, some millennials in East Java Province still refuse to become young entrepreneurs for the following reasons:

- MSMEs do not attract the curiosity of the younger generation.
- Most business incubations accessible to young people only contain business motivation without ongoing mentoring and skills teaching.
- Difficult MSMEs legality process
- Difficult access to capital
- The MSME industry rarely receives appreciation/awards for its success in the business/economic sector.

- Lack of facilities and support programs that millennials need to develop businesses in the MSME sector.

Table 2. *Barriers to MSME Digitalization in East Java Province*

No.	Barriers	Description
1.	Marketing Networking	Marketing networking is a problem often experienced by new entrepreneurs. Because new entrepreneurs are often confused about selling their products (demand) or getting raw materials (supply). Digitalization of MSMEs can solve these problems when MSMEs can optimally utilize social media and search engine machines (SEM) such as Google, Yahoo, and e-commerce as digital instruments for marketing products to unknown consumers.
2.	Branding and Packaging	Branding and packaging are factors that attract consumers' attention to make purchases. Attractive packaging is not only useful for protecting products but is also helpful as a company branding instrument to consumers. Attractive packaging will arouse curiosity and the desire of consumers to try to buy the product. Unfortunately, most MSMEs today pack their product with only simple or plain packaging.
3.	Product Standardization	Having basic standardization to maintain the quality of products before they are sold is essential for MSMEs in production. Most traditional MSMEs do not own and sell standardized products, so consumers may receive defective goods/goods of varying sizes. Selling standardized products will increase the brand's competitiveness in the market, as consumers believe in the quality of the MSME products.

Problems related to the low interest of the millennial generation to become young entrepreneurs in the MSME sector have begun to be addressed by local governments. The East Java Provincial Government is trying to increase the millennial generation's interest by creating appropriate programs/policies. Unfortunately, most of the programs/policies related to smart economy in the MSMEs in East Java Province are still not targeted and not sustainable. Some examples of these programs are the "Garda Ampuh" program in Banyuwangi Regency and the MSMEs digitization program in the agricultural sector, namely "Gapoktan" in the Greater Malang Area.

Table 3 shows the three main needs that millennials must require to increase their interest in the MSME sector in East Java Province. The strategy of developing MSMEs and young entrepreneurs through the concept of a smart economy in East Java Province will be

more effective and sustainable when the government initiates programs and policies that are in accordance with the needs of the millennial generation. Applying appropriate strategies and policies can increase the number of millennials becoming young entrepreneurs in the MSME sector, especially related to industries with low growth rates but high potential, such as the MSME industry in agriculture and social services (National Council for Special Economic Zones, 2019).

Table 3. *Needs of Young Entrepreneurs of MSMEs in East Java Province*

No.	Needs	Description
1.	Business Community	A forum for aspiring young entrepreneurs as a medium for exchanging business-related knowledge and experience. Until now, this kind of forum is still rarely found, and most new entrepreneurs start their businesses with limited knowledge.
2.	Downstreaming local potential	Currently, most industries in Indonesia still produce semi-finished goods that have potential as raw materials rather than finished goods ready for consumption. The introduction of semi-finished goods that have potential as raw materials to prospective local entrepreneurs will be a solution for MSMEs and regions. So that there will be a process of providing added value that will increase the selling price of the product.
3.	Mindset Entrepreneurship Optimization	There is very little interest among millennials to start a business in the MSME sector. Millennials today prefer to work as employees because they get fixed income. In addition, the fear of failure and loss when doing business is often the reason millennials are not involved in the entrepreneurial world. Optimizing the entrepreneurial mindset of millennials from an early age will have a positive impact on increasing the interest of millennials to become young entrepreneurs.

The Role of Millennial Generation and MSMEs to Increase Economic Growth in East Java Province

Millennial generation actively uses social media, so they have access to large amounts of information and extensive social networks. This generation has the potential to support entrepreneurship (technopreneur) through policies based on the concept of the smart economy, which the East Java Provincial Government has implemented. Such initiatives will increase opportunities for young entrepreneurs and MSMEs to digitize business activities in the MSME sector so that MSMEs will become a more productive and sustainable business.

The application of a smart economy in East Java Province in its development is applied based on the area, better known as Smart City. This is done to create appropriate strategies and policies to open up opportunities for millennials as potential new social network formers in the MSME sector. The development of MSMEs in the smart economy area of East Java Province is carried out to realize three main objectives as follows: (1) Trade as a form of realizing people's welfare; (2) Investment, which contains an ecosystem of financial transactions, and (3) Industry through the realization of industrial competitiveness in the industrial ecosystem. The three main areas have designed thoughts that develop from various platforms consisting of 6 (six) core program activities, which will later become a special dashboard of the smart economy of East Java Province (Figure 3).

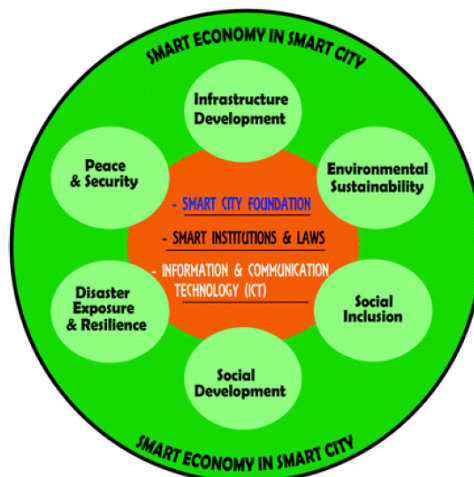


Figure 3. Smart Economy in Smart City of East Java Province (Primary Data, 2020)

The application of smart economy to the smart city of East Java Province includes six priority categories to be developed and integrated into innovations, solutions, and data as the the forces to support sustainable local economic development (Figure 2). The six categories will generate three main positive impacts, namely smart city foundation, smart institutions & laws, and information & communication technology (ICT) needed to support the needs of the millennial generation in East Java Province. To realize this, we recommends several strategies and policies adapted to the characteristics and special needs of the millennial generation in each area to maximize the policies related to the smart economy in the MSME sector in East Java Province.

1. Infrastructure development

Infrastructure development can improve the competitiveness of local products in the MSME sector. The infrastructure needed to develop MSMEs based on the smart economy strategy is identical to the development of technology-based digital infrastructure, such as internet access and towers in rural areas. However, logistical support infrastructure, such as the construction of toll roads and other expedition access, needs to be developed. MSMEs connected to the logistics system will motivate the community, especially the younger generation, to innovate to start developing MSMEs

that are integrated with related industries such as the packaging and food industries (Yudono et al., 2019). So that the area will develop into a more efficient area, and MSMEs in the area will try to increase their sales digitally by joining several online marketplaces such as Bukalapak, Tokopedia, and Shopee.

2. Social Inclusion

Social inclusion is a category related to the capital of East Java MSMEs to develop and become competitive and sustainable businesses in the future. Currently, most of the MSME workforce in East Java Province is still dominated by low-quality human resources, resulting in low productivity. The growth of MSMEs that have been digitized and dominated by young entrepreneurs (millennial generation) is one indicator of efforts to develop the competitiveness of Cooperatives and MSMEs in East Java Province. The Provincial Government of East Java Province is working with related stakeholders such as Google LLC, which has held programs to improve the quality of human resources, namely Gapura Digital and Womenwill unfortunately the program has not shown satisfactory results (BPPKI Surabaya, 2020).

Having MSMEs dominated by young entrepreneurs with good human resource quality is one of the missions of the East Java Provincial Government to create competitive MSMEs in East Java Province. Through the smart economy, the government wants MSME actors to start marketing the sale of local products digitally because digitization can increase the economic value of these products. Digitalization of MSMEs helps operational efficiency and brings up varied innovations and ideas to develop MSMEs through several other sectors, such as marketing (Yudono et al., 2019).

3. Openness to MSME Problems and Resilience

The openness of MSMEs regarding the problems and resilience capacity is important information so that the government can create appropriate programs/policies and inform MSMEs in need. Currently, the government/other related institutions often hold training in the form of incubation or workshops. Unfortunately, the policy has not gained optimal results because the implementation of programs related to capacity building for MSMEs is not on target. On the contrary, MSMEs do not get the required business information related to markets, capital, and technology. As previously known, the technology and quality are of low level. Coaching/training not only serves as a forum for incubating MSME actors but also as a forum for providing information about the market so that MSME actors know the latest consumer trends as well as being motivated to find out other related information.

The majority of MSMEs in East Java Province have the same problems, namely low-quality human resources and small capital. However, not all MSMEs are willing to be open to show the problems and product capacity they have. Instead, more MSMEs choose not to have a product brand and continue to produce low-quality goods with low selling prices. It is difficult for East Java Province MSMEs to digitize, and it reduces the millennial generation's interest in becoming innovative young entrepreneurs utilizing local potential. This is because most local products have developed brands as goods with less standardized quality and are difficult to find in the market for the long term.

4. Social Development

Social business development occurs in the MSME sector when these MSMEs realize the needs to develop business. The needs in question include access to capital, quality human resources, and a digital business environment supporting MSMEs' growth (Yudono et al., 2019). Many MSMEs have begun to join business communities in each municipality/regency of East Java Province, such as "Jagoan Indonesia" in Malang Municipality to meet these needs. Gathering MSMEs in an area into a certain forum early on will increase their interest in going digital because they get information related to the benefits of digitizing MSMEs early on.

Not only does it make it easier for MSMEs to get information about the latest business and capital trends, but the existence of an MSME community/incubation in the smart city area will also increase the motivation of the millennial generation to try a career as a young entrepreneur in the creative industry sector, especially MSMEs. Because MSME communities and incubations also function as a forum for knowledge transfer between generations and a place to carry out informal educational activities for millennials. So that millennials will be better prepared when starting an MSME business and reduce the risk of business loss because they already have the knowledge and social networks needed to start an MSME business.

5. Sustainable environmental conditions

Developing MSMEs in an ecosystem that supports a digital business environment is both a dream and a challenge for the MSME sector in the industrial era 4.0. MSMEs that develop in a productive business ecosystem must adapt quickly, always innovate, and compete healthily in a dense global market so that MSMEs can survive in a highly competitive environment. On the other hand, MSMEs that develop in a sustainable business environment can benefit from the use of technology, such as access to other digital-based financial literacy sectors, online product marketing through e-commerce, and the ease with which MSMEs integrate and meet each other's production needs.

The development of MSMEs that carry out the digitization process in a smart city environment will make it easier for the government to monitor database, taxes, and economic development of MSMEs in real-time. So that the government can design the appropriate and targeted policy according to the needs of MSMEs. One of the government policies that support the development of a sustainable business environment for the MSME sector in the smart city area is the ease of MSMEs for Micro and Small Business Licenses (IUMK) for online business (ukmindonesia.com, 2020). The East Java Provincial Government has an important role in creating a sustainable business environment and advancing MSMEs as one of the backbones of the Indonesian economy in the industrial era 4.0.

6. Welfare and Security

Welfare and security in the MSME sector can be achieved when actors maximize technology to implement business management information systems and increase production activities and capacity. Increased production and sales activities will increase the absorption of labor to be empowered in the MSME sector. Increasing the absorption

of human labor in the MSME sector is still an important concern because, in Indonesia, 90% of the workforce is absorbed by the MSME sector. Currently, most smart cities are recommending various Android applications in accordance with the area's potential to local MSMEs.

The following are some of the applications and digital platforms that East Java Province MSMEs use to improve security and welfare through MSME digitization.

- Tani Hub, a digital platform in the form of an Android application utilized by Agricultural MSMEs - Pujon District, Malang Regency
- Qasir, a "Point of Sale" (POS) application utilized by MSMEs that focus on product sales in the creative industry sector of Malang Municipality, Banyuwangi Regency, and Pasuruan Regency

QRIS and DANA, financial applications that consumers utilize to conduct buying and selling transactions for local MSME products. Conversely, QRIS and DANA can help MSMEs carry out financial management when consumers make payment transactions or when MSMEs purchase raw materials. Because the two applications digitally record any financial transactions.

CONCLUSION

The growth of young entrepreneurs and MSMEs in East Java Province has three main obstacles: marketing networking, branding and packaging, and standardization of local products produced by MSMEs. These obstacles often occur in East Java Province, and the millennial generation has an important role in overcoming these obstacles. Unfortunately, the millennial generation's interest in the MSME sector is still very low. It makes most of the programs/policies related to the smart economy less targeted and are not sustainable because not many millennials want to take advantage of the benefits of these policies' implementation. The millennial generation has a vital role in overcoming obstacles to developing MSMEs in East Java Province. Unfortunately, the millennial generation's interest in the MSME sector in East Java Province is still very low. To overcome this, relevant stakeholders such as the government and investors must meet the millennial generation's three main needs: the MSME sector business community, downstream raw materials derived from local potential, and optimizing the entrepreneurial mindset from an early age. When the millennial generation of East Java Province has fulfilled their needs, they will indirectly participate actively in overcoming obstacles to the growth of MSMEs in the smart economy area of East Java Province. This process will be supported by smart economy policies that are able to create three main positive impacts, namely smart city foundations, smart institutions and laws, and information and communication technology (CT) in accordance with the potential of each district/city of East Java Province.

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