

A microscope on small businesses: The productivity opportunity by country

Data snapshot for Indonesia



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A microscope on small businesses: Data snapshot for Indonesia

The recent McKinsey Global Institute report *A microscope on small businesses: Spotting opportunities to boost productivity* estimated that micro-, small, and medium-size enterprises (MSMEs) account for two-thirds of business employment in advanced economies—and almost four-fifths in emerging economies—as well as half of all value added.¹

In this research, MGI aggregated a richly granular data set of MSMEs and large companies across 12 broad sectors, 68 level-two subsectors, and more than 200 level-three subsectors for 16 countries that account for more than half of global GDP. In this group (listed by per capita GDP in 2021 in purchasing power parity terms) are ten advanced economies: the United States, Germany, Australia, the United Kingdom, Italy, Israel, Japan, Spain, Poland, and Portugal; and six emerging economies: Mexico, Brazil, Indonesia, India, Nigeria, and Kenya.²

In these countries, MSMEs on average have only half the productivity of large companies, and less than that in emerging economies. Raising MSMEs to top-quartile levels relative to large companies is equivalent to 5 percent of GDP in advanced economies and 10 percent in emerging economies.

The visual presentation that follows summarizes the findings for Indonesia.

MSME performance varies significantly among countries—and sectors and subsectors within countries. Their economic contribution in terms of jobs and value added ranges widely, as does their contribution to economic dynamism. So does their productivity relative to large companies, and the potential to add value from narrowing those gaps.

Only a fine-grained view down to the subsector level reveals a full picture of MSME productivity and informs how best to raise it and capture value. Based on that deep intelligence, businesses and policy makers can effectively prioritize and tailor approaches, and those approaches, too, can differ from country to country.

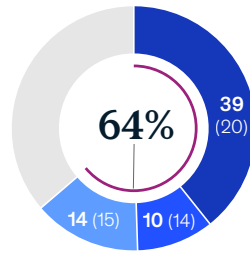
¹ *A microscope on small businesses: Spotting opportunities to boost productivity*, McKinsey Global Institute, May 2024.

² Countries classified as "advanced emerging," "secondary emerging," or "frontier" by FTSE Russell have been categorized as emerging economies for this research. For more detail, see *FTSE equity country classification September 2023 annual announcement*, FTSE Russell, September 2023.

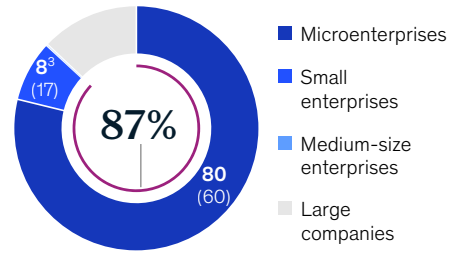
Indonesia

MSMEs in Indonesia contribute 64% to value added and 87% to employment compared with 49% and 77%, respectively, in emerging economies, and play a significant role in trade and accommodation and food. They are more dynamic but struggle with productivity. MSMEs are only 25% as productive as large companies, comparable with emerging economies at 29%. Narrowing the productivity gap with large companies is equivalent to 15.2% of GDP in Indonesia compared with 10.3% among a sample of emerging economies.¹

MSME share of business value added, %

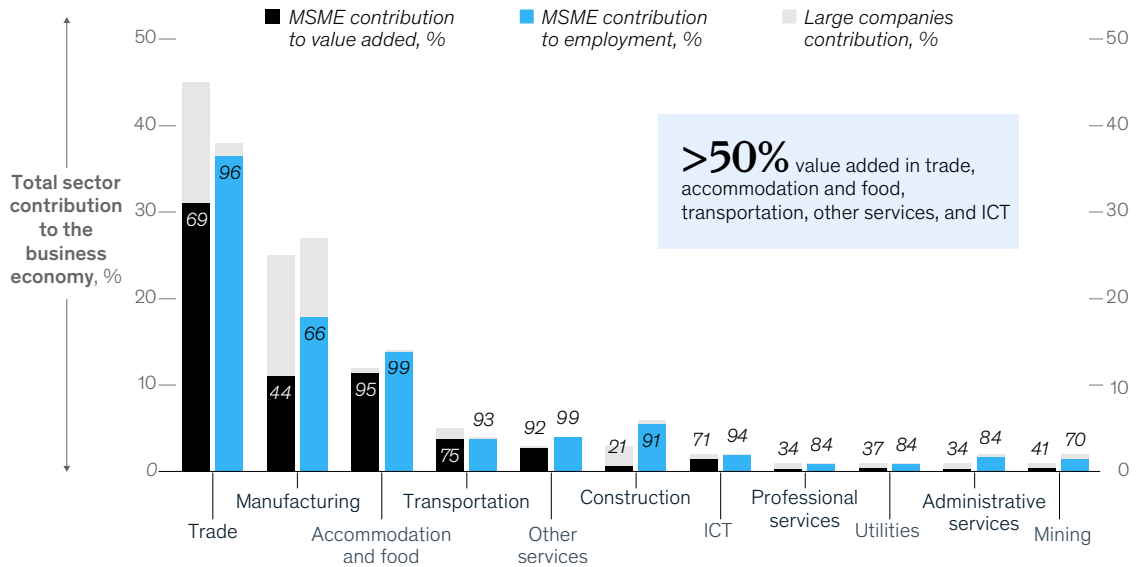


MSME share of business employment, %

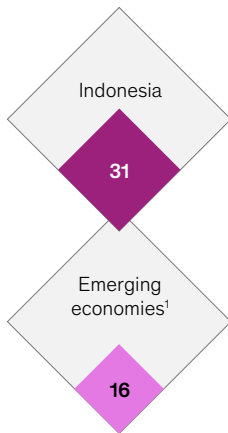


xx (xx): share in Indonesia (average share in emerging economies)¹

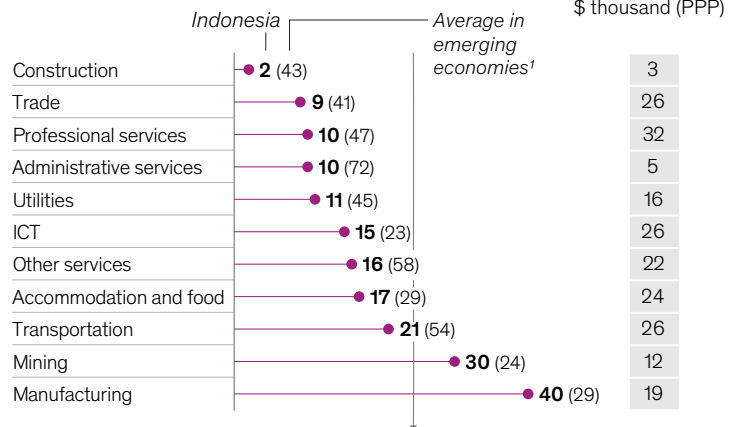
MSME share of business value added and employment by sector, %



MSME role in business dynamism, share of public companies with >\$0.4B market capitalization in 2022 that were MSMEs at some point since 2000, %



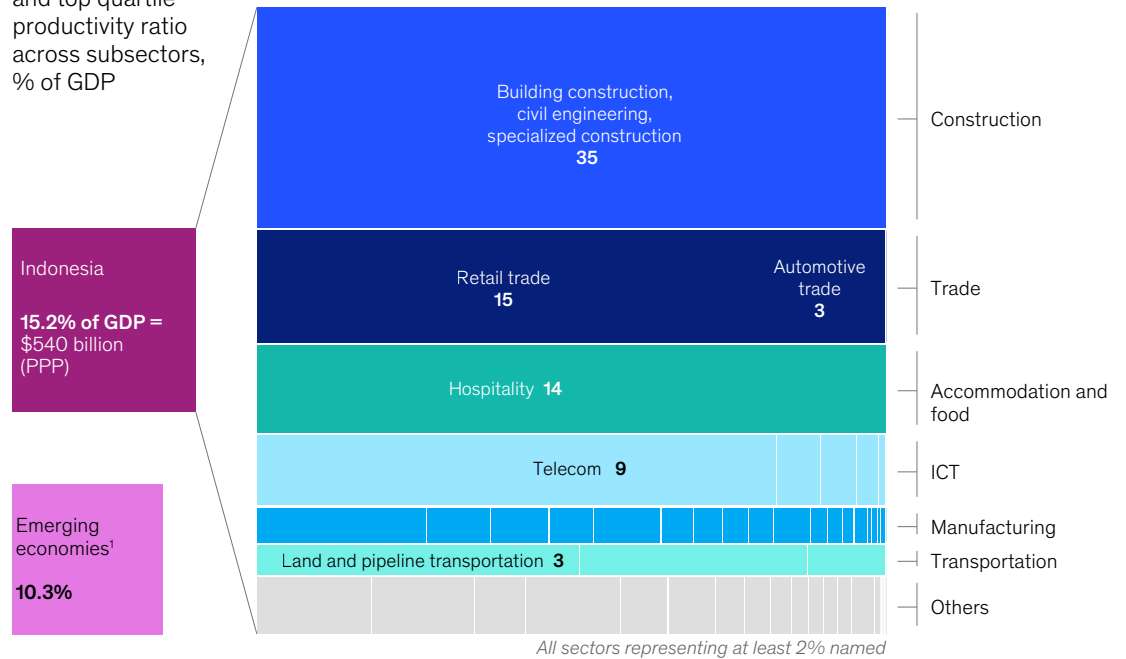
MSME productivity ratio (MSME productivity relative to large company productivity by sector, %)



MSMEs are **25%** as productive as large companies on average in Indonesia vs 29% in emerging economies¹

Difference
between current
and top quartile
productivity ratio
across subsectors,
% of GDP

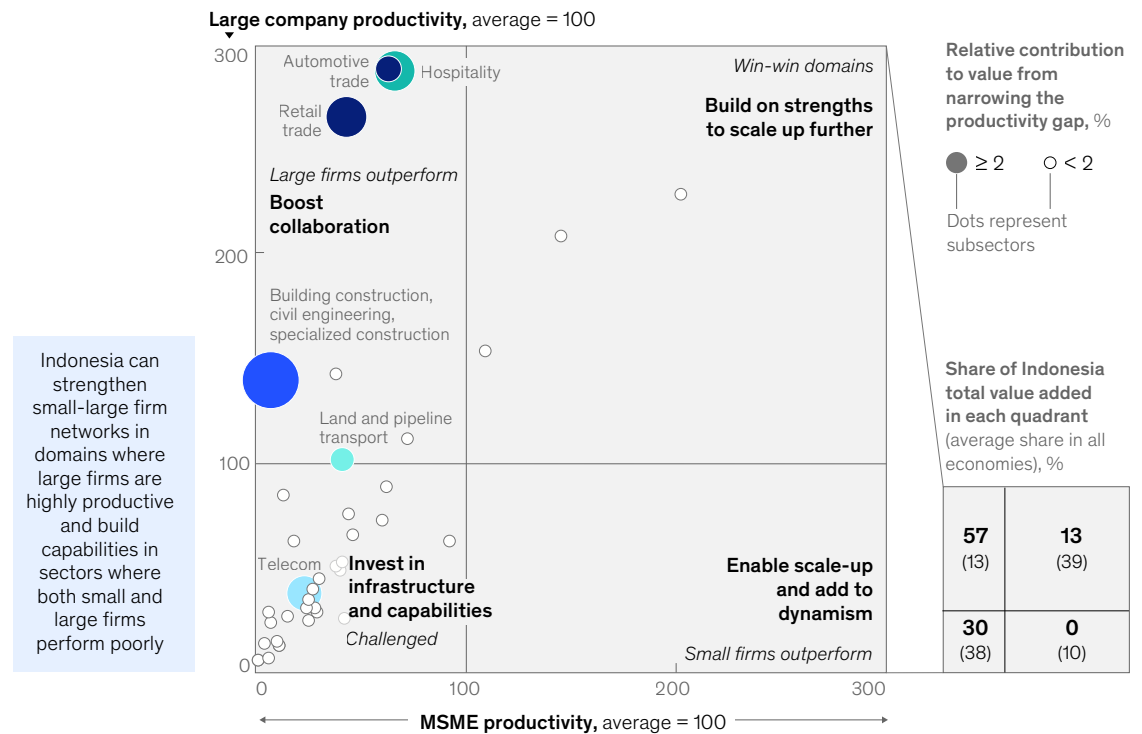
Contribution by subsector, % of total



Indonesia
15.2% of GDP = \$540 billion (PPP)

Emerging economies¹
10.3%

Large company vs MSME productivity, indexed (100 = simple average productivity across countries for each subsector²)



¹Emerging economies included are Brazil, India, Indonesia, Kenya, Mexico, and Nigeria. ²Countries included in the average are the 6 emerging economies and 10 advanced economies (Australia, Germany, Israel, Italy, Japan, Poland, Portugal, Spain, UK, and US). ³Includes small and medium enterprises. Note: Year for which data are represented is 2016. Microenterprises have <5 employees and/or annual revenue up to 0.3 billion rupiah, small enterprises have 5–19 employees and/or annual revenue between 0.3 billion and 2.5 billion rupiah, and medium enterprises have 20–99 employees and/or annual revenue between 2.5 billion and 50 billion rupiah, and large companies have ≥ 100 employees and/or annual revenue over 50 billion rupiah. Analysis excludes the following sectors due to inconsistent data: agriculture, financial and insurance activities, real estate, public administration and defense, education, human health and social work, arts and entertainment, activities of households, and activities of extraterritorial organizations. Source: BPS-Statistics Indonesia, Result of Establishments Data Collection Economic Census 2016-Continued; Result of Establishment Listing Economic Census 2016; ILOSTAT; S&P Global Market Intelligence; McKinsey Global Institute analysis

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May 2024

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