



Risk mitigation concept of food MSMEs in Malang in the situation of global economic policy uncertainty

 Erna Retna Rahadjeng ^{(a)*}  Novi Puji Lestari ^(b)

^(a,b) Lecturer at Manajemen Study Program in University of Muhammadiyah Malang, Indonesia



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ABSTRACT

MSMEs are independent business units managed by individuals or groups that can take the form of individual companies, partnerships, or limited liability companies. Risk is generally always seen as something that has a negative impact, such as loss, danger, and several other consequences. Research objectives: 1) Identifying the risks of food MSMEs in Malang City; 2) Analyze the factors that influence the risk of MSMEs; 3) formulate the concept of risk mitigation of Food MSMEs in situations of Global economic policy uncertainty. Research design: using a quantitative approach by conducting interviews and distributing questionnaires. The research population includes all food MSMEs in Malang City amounting to 16,417 MSMEs. The sample used was 376 MSMEs with a purposive sampling method, the criteria for MSMEs Snacks in Malang City, has been established for at least 3 years. This research uses a descriptive qualitative approach with data collection techniques, namely distributing questionnaires and interviews to several food MSME owners in Malang City as key informants. The results showed that identifying MSME risks is an important step in business risk management. After the risks are identified, MSMEs need to mitigate risks so that they can develop a business risk mitigation concept in order to reduce the losses that will be faced in the uncertainty of global economic policies. The results of the study provide practical benefits for Malang City MSMEs to minimize risks and for policy makers. As well as producing a conceptualization of risk mitigation for food MSMEs in situations of Global Economic Policy Uncertainty.

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Introduction

MSMEs are independent business units managed by individuals or groups that can take the form of individual companies, partnerships, or limited liability companies. The importance of micro, small, and medium enterprises (MSMEs) in Indonesia is undeniable.(1) MSMEs in Malang City diversify from the clothing, food and beverage, and handicraft sectors after being registered as small businesses (MSMEs) by the local government. Based on data from the Malang City Industry and Trade Office, 30,000 MSMEs were registered in 2024. Of the 30,000 MSMEs, only 30% sell online and the rest sell offline. Malang City has a sizable population, both locals and tourists. This creates a high demand for culinary products. The high number of students in Malang City also contributes to the growth of food MSMEs, especially those targeting the young market segment. The Malang City Government provides considerable support for the development of MSMEs, including the culinary sector. MSMEs often face several obstacles, one of which is capitalization, merchandise distribution, licensing, manual bookkeeping, and online marketing.(1)

Micro, Small and Medium Enterprises (MSMEs) play a significant role in the economy. Currently, the government is promoting the development of MSMEs to support the nation's economy. MSME empowerment has been carried out a lot. The business fields run by MSMEs or home industries vary, such as the culinary field. The number of culinary businesses is currently utilized by snack business actors to sell and market their products.(2)The snack business has bright prospects in Indonesia, this statement was taken from the "The State of Snacking" event organized by Mondelez International. The survey results describe that Indonesians eat more snacks than heavy meals and 75% of the total respondents stated that snacks are the most popular food to be consumed between activities. Busy activities and changes in behavior and food consumption habits in society have caused the stigma of snacking to no longer function as a fulfillment of needs as a source of energy for the body but a momentum for building personal identity and social closeness.(3)

* Corresponding author. ORCID ID: 0000-0001-8398-7813X

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MSMEs need proper business development, especially in their business processes. Efficiency, which is the key word expressed by Adhi Lukman (Chairman of the Indonesian Food and Beverage Entrepreneurs Association), is considered capable of improving the business performance of MSMEs so that they can compete in the market. MSMEs that have business characteristics with many limitations are also an important point in the efficiency process. (3). There are still many MSME players, especially food businesses, who do not care about the risks that directly or indirectly affect their business.

Risk is defined as “an uncertain event or set of events that, if it occurs, will impact the achievement of objectives. Risk is measured by a combination of the probability of a perceived threat or opportunity, and the magnitude of its impact on the goal.” Risks can be external, such as economic fluctuations or regulatory changes, or internal, such as resource limitations or skill gaps within the team. It is important to consider both external and internal factors and their potential impact on project completion.

The development of small and medium-scale enterprises (SMEs) is quite coloring the economy in Malang City, where its existence is one way to reduce unemployment while driving the economy. One of the promising fields today is the food business. Risk handling in SMEs is still very low so that many problems do not know the cause and the perpetrators also do not know how to mitigate it.(2).

Risk mitigation is an action that aims to reduce and/or maintain the magnitude and/or level of the main risk until it reaches the expected residual risk. Risk Mitigation is a planned and sustainable action taken by the risk owner in order to reduce the impact of an event that has the potential or has harmed or endangered the risk owner. Risk mitigation is a way for a business to avoid a risk that could potentially harm the business. Economic uncertainty, which are events that arise as a result of the conditions and behavior of the economy. Uncertainty in economics refers to a situation where the future outcome of a particular situation cannot be predicted with complete confidence. It is more than just making predictions and forecasts. It's all about the uncertainty inherent in economic factors and how it affects economic decisions and outcomes.

Literature Review

Resource-Based View (RBV)

The Resource-Based View (RBV) theory was first introduced by Birger Wernerfelt through his article entitled “A Resource-Based View of the Firm” in 1984. This article was published in the Strategic Management Journal. In his article, Wernerfelt emphasized the importance of the company's internal resources as the basis for achieving sustainable competitive advantage. The RBV concept developed further and became more widely recognized thanks to the contributions of other researchers such as Jay Barney. In 1991, Barney expanded RBV by outlining four important criteria that resources must have to create a sustainable competitive advantage, namely the VRIN criteria:

Valuable

Resources are said to be valuable if they can help the organization create value, either by increasing efficiency or effectiveness in meeting market needs.

Rare

Rare resources are those that competitors do not have or are difficult to find. Rarity gives the organization a competitive advantage because it prevents easy duplication by competitors.

Inimitable (difficult to imitate)

A resource that is difficult to imitate has characteristics that make it unable to be easily duplicated by competitors. This could be due to hard-to-transfer expertise, unique processes, or inherent historical and cultural factors.

Non-substitutable.

These resources cannot be replaced with other alternatives that provide similar functions. In other words, there is no substitute capable of providing the same value to customers.

RBV explains that the competitive advantage of a business depends on managing resources that are unique, rare and difficult to replicate. In the context of food MSMEs, RBV can be used to identify and optimize internal resources (such as signature food recipes, innovation capabilities, or relationships with local suppliers) as a risk mitigation strategy.

Contingency Theory was first introduced in an organizational context by Fred Edward Fiedler in 1964 through his theory known as Fiedler's Contingency Model. Fiedler emphasized that the effectiveness of leadership in an organization depends on the match between the leadership style and a particular situation or context. He stated that no one approach is suitable for all situations; success depends on adaptation to the environment. The concept of Contingency Theory was developed more broadly in various fields, including organizational design, management, and strategy, by researchers such as Paul Lawrence and Jay Lorsch (1967). In their study, Lawrence and Lorsch highlighted that organizational effectiveness depends on the extent to which the internal structure of the organization can adapt to the uncertainty and complexity of the external environment. As such, Fiedler was the main pioneer of this theory in leadership, while Lawrence and Lorsch played an important role in applying it to organizational design more generally.

Institutional Theory was first introduced by John R. Commons in the early 20th century, particularly through his works on institutional economics such as *Institutional Economics* (1934). Commons studied how social, legal, and economic institutions influence the behavior of individuals and organizations. Institutional Theory has long historical roots with John R. Commons as its initial initiator in the context of economics. In modern organizational studies, the theory was further developed by Philip Selznick (1949), Meyer and Rowan (1977), and DiMaggio and Powell (1983). This theory focuses on how organizations adapt to social and institutional environmental pressures to gain legitimacy and sustainability. Institutional Theory emphasizes that organizations need to adjust to pressures from the external environment, including regulations and norms. In the context of changing global economic policies, this theory can help food MSMEs understand the importance of compliance with government regulations, adaptation to global standards, and collaboration with local or international institutions.

Policy uncertainty is an economic risk associated with future government policies and regulatory frameworks that is a significant issue in the financial world. Policy uncertainty has always played an important role in shaping economic outcomes, as evidenced by the slow economic growth in countries currently experiencing policy uncertainty. Global Economic Policy Uncertainty is a condition in which economic actors, whether individuals, companies, or governments, find it difficult to predict the economic policies that will be taken by the government of a country or international organizations such as the IMF or World Bank. This uncertainty arises due to various factors, ranging from changes in political conditions, commodity price fluctuations, to global pandemics.

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Theoretical and Conceptual Background

Why is Global Economic Policy Uncertainty Important?

This uncertainty has a significant impact on the global economy. When economic agents are uncertain about upcoming policies, they tend to:

- i. Delay investment: For fear that new policies will hurt investments already made.
- ii. Risk aversion: By choosing assets that are considered safer, such as gold or government bonds.
- iii. Increase borrowing costs: Because financial institutions will raise interest rates in anticipation of higher risks.

Indicators of Global Economic Policy Uncertainty

Some indicators that are often used to measure the level of global economic policy uncertainty include:

- i. Financial Market Volatility:
- ii. Survey of Economic Actors:
- iii. Sudden Policy Changes:
- iv. Economic Policy uncertainty

Research and Methodology

The research was conducted in Malang City with the consideration that MSMEs in Malang City have many types and diverse businesses, so they need attention, especially in the field of handling the risks that will be faced. This research was conducted over a period of 3 months from October to December 2024. Descriptive qualitative research is a research procedure that produces data in the form of written words that are a description of something. These data are obtained through field observations and interviews. This research uses data collection techniques through questionnaires and direct interviews with the aim of obtaining a comprehensive and in-depth picture of food MSMEs in Malang City.

The researcher must have enough patience in following and recording the changes that occur in the research subject. The findings will produce various and unexpected discoveries. The role of the researcher as a key instrument in research, because the researcher makes, analyzes data, examines, and interprets the results of the research he does. Researchers are able to collect a wide variety of data, can feel, and live human interactions that cannot be understood with knowledge alone

Table 1: Summary of Literature Review

Author (Date)	Subject	Variables	Methods	Findings
July Prasetyo Irawan, Imam Santoso*, Siti Asmaul Mustaniroh (2017)	Model Analysis and Mitigation Strategy of Risk in Tempe Chips Production	risk factors and risk indicators	Failure Mode Effect Analysis (FMEA) dan Analytical Hierarchy Process (AHP)	Showing the highest risk is the fluctuating price of soybean raw materials, the results of tempeh chips products that are not good and diverse, and the demand for tempeh chips is not past.
Budi Dharma, Ahmad Muhaisin B Syarbaini (2017)	Crucial Risk Mitigation Design for Chips MSMEs in North Sumatra with a Transdisciplinary Approach	Risk management, MSMEs, inventory management, EOQ	Analytical Hierarchy Process (AHP)	As a result of the risk assessment, it is known that the crucial risk of Kripik MSMEs is the risk of inventory management. The mitigation design for the inventory risk uses the EOQ (economic order quantity) model, using transdisciplinary guidelines.

Source: Authors

Findings and Discussions

Global economic policies such as fluctuating raw material prices, changes in import-export tariffs and rising logistics costs often affect MSMEs. Food MSME players in Malang City are facing increased raw material costs, especially for products that depend on imports. In addition, rising energy costs (fuel and electricity) also impact production and distribution costs. This forces MSMEs in Malang City to adjust their selling prices or look for alternative local raw materials to reduce costs. Changes in global economic policies can cause disruptions in the supply chain, such as delays in importing raw materials or shortages of staples due to increased global demand. Food MSMEs in Malang City often face supply uncertainty, especially for raw materials such as wheat for bread or other ingredients that are not available locally. This challenge forces businesses to find alternative suppliers or even change the products they offer.

Food MSMEs in Malang City tend to develop adaptive strategies to survive amid global economic uncertainty. Some of the strategies include product diversification, the use of local raw materials, and more prudent financial management. MSME players in Malang City have also started to strengthen relationships with local suppliers and build closer partnerships to ensure a stable supply of materials. Many MSMEs in Malang City adopt business protection measures such as utilizing long-term contracts with suppliers, preparing raw material stocks, and optimizing operational costs. These business protections are designed to mitigate risks due to global market volatility, such as exchange rate fluctuations that can affect raw material import costs. Food MSME players in Malang City hope that the government can provide supportive policies, such as subsidies for raw materials, training on improving product quality, and reducing logistics costs. In addition, they need assistance in terms of digitalization and global market access to expand consumer reach. Regulations that support the stability of raw material prices are also a priority.

Technological advances provide opportunities for MSMEs to improve efficiency and competitiveness. Food MSMEs in Malang City have begun to utilize technology in the production, distribution and marketing processes. Examples include the use of digital platforms to reach consumers, applications for inventory management, and product innovations based on market trends (such as healthy or environmentally friendly food).

Conclusions

Risk identification for food MSMEs (Micro, Small and Medium Enterprises) in Malang City related to global economic policy uncertainty is very important to maintain business continuity. This uncertainty can come from changes in economic policies in major countries, geopolitical conflicts, trade wars, and changes in international regulations. Risk mitigation is a continuous and iterative process. Success in risk mitigation relies heavily on a deep understanding of the risks involved, proper prioritization, and appropriate

and effective actions to reduce or manage those risks. Food MSMEs in Malang City must have a holistic and proactive risk mitigation strategy, especially related to the uncertainty of global economic policies. With diversification, good financial management, technological adaptation, and solid partnerships, food MSMEs in Malang City can reduce negative impacts and even find new opportunities amid global economic uncertainty. Moreover, the ability to adapt quickly and flexibly is key to the survival and growth of food MSMEs in this dynamic market. A good strategy should include flexibility, risk anticipation, and decision-making based on solid data. With careful preparation, companies can not only survive but also take advantage of opportunities to thrive in challenging conditions. Conceptualizing risk mitigation for food MSMEs in Malang City in a situation of global economic policy uncertainty requires a systematic and contextualized approach.

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