

## Public Perception of the Role of Business Legal Regulations in Strengthening the Entrepreneurship and MSME Ecosystem in Blitar City

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### ABSTRACT

This study examines public perceptions of the role of business law regulations in strengthening the entrepreneurial ecosystem and MSMEs in Blitar City. The background to this study is the importance of MSMEs in the national economy and the state's efforts to create a conducive business climate through legal policies (e.g., Law No. 20/2008 on MSMEs, Law No. 11/2020 on Job Creation). The approach used is qualitative phenomenological, with data collection through in-depth interviews (15 informants: MSME actors, practitioners, local officials, academics), participatory observation in the field, and a study of relevant policy documentation. The findings show that the community views business law regulations as an important instrument for providing certainty and protection (e.g., business legality), but in practice, there are bureaucratic obstacles and a lack of socialization that hinder their effectiveness. The novelty of this research lies in the local context of Blitar City and the use of a phenomenological approach to explore the subjective meanings of the actors. Based on the findings, it is concluded that although regulations have the potential to support the empowerment of MSMEs and the regional economy (in line with Welfare State theory), implementation in the field needs to be strengthened by simplifying procedures, providing legal assistance, and strengthening law enforcement so that it does not become an obstacle for business actors.

**Keywords:** *Business Law Regulations, Entrepreneurial Ecosystem, Msmes, Public Perception, Blitar.*

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## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are one of the main pillars of the Indonesian economy, contributing significantly to job creation and income equality. The Indonesian government has issued various laws and regulations to empower MSMEs, including Law No. 20 of 2008 concerning MSMEs and the Omnibus Law (Law No. 11 of 2020 concerning Job Creation), which emphasizes ease of doing business for small businesses. The Welfare State theory explains that the state is obliged to create socio-economic conditions that guarantee the welfare of the community (Putra, 2021). In this context, business law regulations serve as a formal instrument to achieve this goal. For example, the

MSME law requires the development and protection of small businesses as an implementation of the spirit of Pancasila economic democracy.

However, the development of MSMEs in the field still faces various challenges. Data from the Ministry of Cooperatives and MSMEs shows that approximately 88% of MSMEs cannot access commercial financing because they lack a legal entity. Other obstacles include low entrepreneurship rates, limited technology utilization, and complex bureaucratic licensing processes (Tambunan, 2021). In Blitar City, known as an educational city with growing local economic potential, MSMEs are growing rapidly (in the culinary, crafts, and other sectors), but the quality of regulatory support and public understanding of these regulations vary. The local Cooperatives and MSME Office plays a very active role in providing training and assistance, but the perceptions of the general public and business actors regarding the effectiveness of business legal regulations in strengthening the entrepreneurial ecosystem still require further research (Kusumatuti & Vonika, 2024).

Business law can be understood as a set of norms and rules that govern the behavior and structure of economic activities (Rashed et al., 2025). Business law serves to provide legal certainty, protect the rights of parties in transactions, and create fairness in business. Rashed et al. emphasize that in the context of MSMEs, certainty of business legality increases consumer trust and legal protection for small entrepreneurs. For example, MSMEs with legal entities tend to be more trusted by the public because of the legal guarantee; this is relevant to the finding that the majority of informants appreciate certainty of business legality as a major added value.

The entrepreneurial ecosystem theory emphasizes the importance of synergy between various components supporting entrepreneurship (Isenberg, 2010). Although there are not many studies in Indonesia that specifically refer to this theory, in general, the entrepreneurial ecosystem encompasses elements such as entrepreneurial culture, access to capital, human resources, markets, and public policy/regulation. Business legal regulation is one policy domain within this ecosystem. The Indonesian government has explicitly included strengthening the entrepreneurial ecosystem in Presidential Regulation No. 2 of 2022, with the aim of creating a conducive environment for start-ups and MSMEs. From a policy perspective, good regulations can reduce transaction costs and minimize uncertainty for entrepreneurs, while overly complex regulations can actually hinder growth (Hapsari, 2016). Therefore, theoretical studies highlight the dual role of law: as a primary supporter of MSME empowerment (instrumental welfare) and as a potential obstacle if implemented inappropriately.

Welfare State Theory (*Welfare State*) has been adopted by several researchers to emphasize the state's obligation to support the people's economic progress (Dharmajaya et al., 2023). Paragraph 4 of the 1945 Constitution states that the state guarantees the welfare of all citizens. In an economic context, this means the state must provide infrastructure, regulations, and institutions that support small businesses (MSMEs) to grow independently. This concept aligns with the mandate of the MSME Law, which emphasizes MSME empowerment through a conducive business climate, guidance, and protection. A literature review shows that strengthening good regulations will support MSME

empowerment and ultimately improve the community's economy. Based on this theoretical foundation, this study explores how prosperity in the local ecosystem can be achieved through business regulations and public perceptions of them.

This research is based on institutional theory and entrepreneurial ecosystem theory. According to new institutional economics, formal institutions such as laws and regulations significantly determine the business climate and economic behavior. The role of regulation as "social engineering" and "social control" is explained by Hapsari et al. (2016), who show that the existing legal framework is essentially suited to the needs of MSMEs, but law enforcement must be optimized to avoid hindering MSME growth. Furthermore, the concept of *entrepreneurial ecosystem* emphasizes the interaction between various elements (government institutions, capital, culture, education, and regulations) in supporting the birth and development of entrepreneurship. Business legal regulations are a crucial component of this ecosystem, as they act as a framework that determines legal certainty, business fairness, and the protection of business actors' rights. By understanding these theories, the study aims to uncover how business legal regulations are implemented at the local level and how they are perceived by the Blitar community in the context of strengthening the entrepreneurial ecosystem.

Several previous studies have discussed MSME regulations or the role of law in the economy (Anggraeni & Sanaji, 2021), but research focusing on local community perceptions of business regulations and their impact on the entrepreneurial ecosystem is still limited (Rached et al., 2025). The novelty of this research lies in the application of a phenomenological approach to explore the subjective views of residents and business actors in Blitar City. Furthermore, this study integrates triangulated data (interviews, observations, documentation) to produce a more comprehensive picture of regulatory dynamics at the city level, which may differ from those in larger cities or the national context. Focusing on Blitar as a mid-sized city adds a new contextual perspective to the literature on entrepreneurship and public policy.

Based on the background and novelty above, the formulation of the research problem is:

1. What is the perception of the people of Blitar City regarding the role of business legal regulations in strengthening the entrepreneurial ecosystem?
2. What are the obstacles or barriers experienced by MSME business actors in facing business legal regulations?
3. How does the implementation of business legal regulations (e.g. licensing regulations and ease of doing business) support or hinder the empowerment of MSMEs in Blitar?

The purpose of this research is to:

1. To know and describe the perceptions of the community and MSME actors in Blitar City regarding the role of business legal regulations in the entrepreneurial ecosystem.
2. Identifying obstacles and challenges in implementing business legal regulations faced by MSMEs in Blitar.

3. Analyze the contribution of business law regulations in strengthening the local entrepreneurial and MSME ecosystem, and provide policy recommendations for improvement.

## **METHOD**

This study uses a qualitative phenomenological approach to explore the experiences and meanings of informants related to business legal regulations. The phenomenological approach was chosen because it aims to understand the essence and meaning of the subject's experience. Data were collected through triangulation techniques: (1) In-depth interviews: conducted with 15 informants consisting of 7 MSME actors (various sectors: culinary, crafts, services) in Blitar, 3 MSME supervisors/mentors from the Cooperatives Office, 2 economics academics, and 3 representatives of the entrepreneurial community. The interviews were semi-structured with guiding questions about knowledge of business regulations, licensing experience, and views on legal bias. (2) Participatory observation: the researcher participated in two business law socialization activities held by the Blitar City Government (e.g., workshops on the formation of cooperative and MSME legal entities) to observe social interactions, citizen questions, and the context of regulatory implementation. (3) Documentation study: collection of policy documents (Laws, Regional Regulations, Regent Regulations) related to MSMEs in Blitar as well as socialization materials, and media reports related to local entrepreneurial activities. Interview data was recorded and transcribed; then analyzed using thematic analysis. The analysis steps included open coding, categorization of main issues, and thematic interpretation to identify patterns of perception and meaning expressed by informants. This methodology allows researchers to capture the in-depth perceptions (lived experiences) of field actors. Data validity was increased through triangulation of sources (heterogeneous informants) and triangulation of methods (comparison of interview data, observations, documentation). Findings are presented according to the main thematic categories that emerged according to the problem formulation.

## **FINDING AND DISCUSSION**

### **RESEARCH RESULT**

#### **General Perceptions of Business Legal Regulations**

Research findings indicate that the majority of informants acknowledge the importance of business legal regulations for the sustainability of their businesses. MSMEs stated that legal certainty (business legality) is seen as a key factor in increasing consumer trust. For example, a ceramics entrepreneur stated that having a legal entity, either a cooperative or a sole proprietorship, makes their products more "official" and is perceived as more accountable by buyers. This view aligns with literature confirming that legality is a crucial foundation for building public trust in MSMEs and serves as a gateway for broader market access (Rashed et al. 2025). Therefore, it can be concluded that the business community's perception of legal regulations is predominantly focused on aspects of business legitimacy and reputation assurance.

However, business actors' knowledge of formal regulations remains limited. Informants from the small and medium enterprise sector admitted that their understanding is largely limited to basic regulations, such as business licensing and tax obligations. New policies, particularly those resulting from legal reforms such as the ease of establishing a sole proprietorship through the Job Creation Law, remain largely unknown to them (Hapsari, 2016). This creates a gap between the availability of supportive legal instruments and the ability of MSMEs to utilize them optimally. In other words, progressive regulations have not necessarily increased legal literacy among MSMEs, so policy effectiveness is often hampered at the implementation level.

This situation is consistent with previous research findings that underscored the limited access to legal information among small entrepreneurs. Previous studies have shown that limited legal literacy, lack of public awareness, and unequal access to information prevent many policies intended to be pro-MSME (Dharmajaya et al., 2023). Therefore, despite a generally positive perception of the importance of business legal regulations, practice still faces challenges in terms of publicizing, understanding, and utilizing these regulations. These findings underscore the need for more structured legal literacy programs and a more communicative approach between policymakers and MSMEs to ensure the regulations' benefits are truly felt.

### **Obstacles in Regulation Implementation**

Many informants cited bureaucratic processes and licensing procedures as major obstacles to implementing business law regulations. A concrete example is the continued need for MSMEs in Blitar to manually obtain a Business Identification Number (NIB) or operating permit by visiting the relevant agencies. This is despite the government having launched a system, *Online Single Submission* (OSS) as a means of digitalizing licensing. However, limited technological resources and digital literacy among business actors have prevented optimal utilization of the OSS. Technical barriers such as unstable internet connections in some areas and minimal technical assistance further slow down adaptation to this new system. Thus, although digital-based licensing policies are designed to simplify matters, in practice they create additional barriers for some MSMEs (Hapsari et al. 2016).

Beyond technical obstacles, the dynamics of regulatory change also add to the complexity. Informants highlighted that frequently changing and layered regulations actually create confusion. Differences in provisions between the central and regional governments, for example in small business tax regulations, mean businesses must repeatedly adjust to new regulations. This not only creates legal uncertainty but also increases compliance costs (*compliance cost*) that must be borne. For MSMEs with limited capital and managerial capacity, this complex administrative burden poses a serious obstacle to business development. This situation reinforces the perception among informants that legal regulations often function more as a "burden" than as an instrument of protection and empowerment.

Furthermore, obstacles also arise from weak intergovernmental coordination in implementing regulations. Several informants revealed that business licensing and

cooperative development are often handled by different agencies without clear coordination. As a result, the process of supporting MSMEs is fragmented and unintegrated. For example, when business actors have completed licensing at one agency, they must still process additional documents at other, unconnected agencies. This institutional fragmentation creates time and cost inefficiencies, while also reducing the effectiveness of policies designed to support MSMEs (Anggraeni, 2021). Therefore, improving cross-agency coordination is a crucial prerequisite for legal regulations to truly facilitate business operations, rather than creating new obstacles.

### **Impact of Regulation on the MSME Ecosystem**

On the positive side, some view regulations as a means of protection for MSMEs. For example, business owners welcomed the mentoring and training schemes implemented by local governments, which are part of "regulatory strengthening," meaning strengthening institutions supporting MSMEs. Residents also noted the existence of *legal incentives*, such as government capital grants and easy microcredit through Islamic banking, although opportunities to obtain these are still considered limited. Furthermore, there is awareness that business environment regulations can impact the entrepreneurial climate; the city government actively organizes business regulation introduction activities (such as cooperative licensing workshops), which, according to researchers' observations, are quite appreciated by participants. However, there is not yet a widespread perception that the entrepreneurial ecosystem in Blitar is fully robust: interview participants stated that other components, such as access to funding and technology adoption (digitalization), remain challenges. This finding is consistent with Hendra Saragih's statement in Herjani (2021) that the main problems facing MSMEs in Indonesia include low digital technology utilization and access to financing.

In summary, the research results confirm that there are two sides to public perception: (1) Expectations for regulations that are considered important to guarantee justice and support for MSMEs, and (2) Disappointment with less than optimal implementation (complicated procedures, lack of socialization) so that the benefits of regulations have not been fully felt. All informant groups agreed that strengthening legal regulations should be balanced with faster public service practices and massive legal education.

## **DISCUSSION**

### **Public Perception and Implementation of Legal Regulations in the Entrepreneurship Ecosystem**

The findings of this study are discussed with reference to theoretical studies and previous research results. First, the public's positive perception of legal certainty in business supports the argument that law can be *a foundation of trust* in the entrepreneurial ecosystem. In line with Rashed (2025), ensuring the legality of MSMEs increases consumer trust. However, emerging bureaucratic obstacles demonstrate the divergence between the ideal theory of regulation and the reality on the ground. Hapsari (2016) stated that

theoretically, the role of law as a social control for MSMEs is already in line with needs, but its implementation requires improvement. This aligns with observations in Blitar that formal regulations (laws, regional regulations) already exist, but enforcement and dissemination need to be optimized to prevent regulations from becoming a burden for entrepreneurs.

Second, the research findings demonstrate a synergy between legal regulations and public welfare, as explained by the Welfare State theory. The finding that strengthening regulations can improve the public economy is reflected in the enthusiasm of informants who hope that regulations can create jobs and achieve economic equality. Dharmajaya (2023) emphasized that strengthening regulations is indeed crucial for empowering MSMEs and achieving socioeconomic goals. However, these findings also indicate the need for innovation in regulatory substance: informants proposed revising regulations to better encompass financing assistance, managerial development, and marketing support (as recommended by the literature).

Third, the dynamics identified underscore the importance of holistic entrepreneurial ecosystem management. While this research focuses on business legal regulations, MSMEs also interact with other factors (access to capital, technology, and entrepreneurial culture). Consistency between fieldwork and literature reviews, such as those by Rashed (2025), emphasizes that regulations alone are not enough; they must be accompanied by institutional support and other resources. In several interviews, entrepreneurs expressed that despite receiving legal incentives, they expected easier networking and technical training to truly utilize these regulations. This corroborates Suryana's (2022) findings, which suggest that cultural factors and social capital play a crucial role in entrepreneurship development.

Finally, this study provides a realistic picture that policy implementation requires public feedback. For example, although the Job Creation Law simplifies business licensing (e.g., through sole proprietorships), interview results indicate that not all business actors understand these changes. This means that legal education and outreach are necessary. Within the context of innovation diffusion theory, new regulations must be "disseminated" to the public for effective adoption. Therefore, this study's recommendations include the need for legal literacy programs for MSMEs at the sub-district/city level and the simplification of the licensing process (digitizing more user-friendly OSS services).

## **CONCLUSION**

Based on the research results, it can be concluded that the community and MSMEs in Blitar City recognize the importance of business legal regulations as a supporting framework for the entrepreneurial ecosystem. Regulations are seen as providing the legal certainty and protection needed by MSMEs (in line with the Welfare State perspective). However, the implementation of current regulations still faces significant obstacles, particularly related to the complexity of licensing bureaucracy and lack of public awareness. The gap between regulatory expectations and actual practice has become a source of disappointment for some.

Local governments need to improve public services for MSME licensing (e.g., increasing the capacity of local OSS offices, simplifying procedures), and implementing ongoing legal literacy and business mentoring programs. Another practical recommendation is to strengthen collaboration between sectors (government, private sector, and universities) in building *coaching clinic* for MSMEs. Furthermore, the development of new regulations or legislative revisions should involve MSME representatives to ensure policies are more responsive to real needs. Law enforcement against business violations must also be consistent to increase business confidence. Future research can expand the sample to other regions to test the generalizability of the findings and quantitatively measure the influence of regulations on MSME performance.

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