

Small Business Empowerment Strategy in Indonesia

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Abstract. *This paper aims to investigate the strategy for empowering small businesses in Indonesia. The current study applied a library research method. From the results and discussion, it can be concluded that the principle of mutual need will ensure a more sustainable partnership because of its "natural" attribute rather than its "sympathizes." Based on this principle, large-scale businesses will always partner up with small businesses as partners in progress. Most of the foster parent and foster child (subsidiary) system is not based on the mutual need principle. This is based on the fact that oftentimes the businesses of the foster parent are totally different and there are no upstream-downstream or downstream-upstream relationships amongst the businesses of its small businesses subsidiary corporations. This foster parent system requires the Stated Owned Enterprise to spend 1-5% of its profits, and the large private companies in a persuasive way. In reality: (1) the guidance provided by the foster parent is considered less effective as the foster parent is like a sinterklaas who shares the development funds without taking into account its subsidiary company business dynamics ; (2) the parent company also feels that the partnership established is merely aimed at accomplishing a social mission.*

Keywords empowerment, small businesses, and government

JEL Classification M10, L10

1. Introduction

It is undeniable that the industrialization in Indonesia since Pelita I till present has reached the expected outcome. At least the industrialization has resulted in a structural transformation in Indonesia. The economic growth pattern at the sectoral level in Indonesia seems to be congruent with the tendency of the structural transformation process that occurs across countries, where the contribution of the agriculture sector (often called as the primary sector) decreases, while the contribution of the secondary and tertiary sectors tend to increase. In 1965, the agricultural sector was the sector with the largest contribution to Gross Domestic Product (56 percent); while the new industrial sector contributes 13 percent of the GDP. With an average growth of 11.9 percent annually during 1965-1980 and 6.1 percent during 1980-1992, the industrial sector has replaced the role of the agricultural sector in the development. In 1992, the industrial sector contributed 40 percent of GDP in total, where the role of the industrial manufacturing is strikingly evident as it contributes 21 percent of GDP. In the same year, the contribution of the agricultural sector to GDP dramatically decreased to 19 percent. This is in congruence with the decline in the growth rate in the agricultural sector, from an average of 4.3 percent annually during 1965-1980 of 3.1 percent during 1980-1992. In short, the industrial manufacturing sector has emerged as a major contributor to the dominant added value and has grown rapidly exceeding the growth rate in the agricultural sector.

Nevertheless, the World Bank reports (1993) on Industrial Policy-Shifting into High Gear discovered several structural problems in the Indonesian industry. Firstly, there is a high level of concentration in the economy and abundant monopoly, both hidden and exposed, in the markets that are protected. Secondly, the domination of rent-seeking business groups has not taken advantage of their predominance in the production scale and financial strength in order to compete in the global market. Thirdly, there is a weak intra-industry relationship, as shown by the shortage of specialist companies which are able to connect its large number of business clients in an efficient manner. Fourthly, the structure of the Indonesian industry is still shallow, with a shortage of medium-sized industrial sectors. Fifthly, the Stated Owned Enterprises are still rigid as the input suppliers and as the driving force behind technological advancement. Sixthly, foreign investors are much of a domestic market-oriented (inward oriented) and are mostly targeting protected markets.

In this kind of relationship, we can understand why dualism occurs, and there is a weak relationship between small industries and large industries. This dualism emerges because of industrialization-based orientation on large capital and high technology rather than on the strength of peoples economy (Kuncoro, 1995). As a comparison, Taiwan's economy can experience rapid growth as it is supported by a number of small and medium-sized businesses called a community-based industry. The development of modern industries in Taiwan, which successfully penetrate the global market, is apparently supported by the contribution of dynamic small and medium-sized businesses. The strong relationship between large and small companies proves to be able to create a synergy which supports Taiwan's economy.

It's just that the industrialization strategies that merely rely on the accumulation of protection capitals and high technology have resulted in polarity and dualism in the development process. The fact shows that modern

manufacturing sectors which coexist with the traditional agricultural sector are less productive. The dualism in the manufacturing sector occurs between little industry and households which coexist with medium and large industries.

2. Literature Review

2.1. Small Business Development

Since 1983, the government has consistently made various deregulation efforts as an attempt to structural adjustment and economic restructuring. Despite that, many argue that deregulation efforts in trade and investment does not bring benefits for small and medium-sized businesses; rather, large companies and conglomerates the ones who are mostly benefited. Empirical studies discovered that an added value does not bring benefits to small, medium and large scale companies, but brings benefits to the conglomerate companies with labors more than 1000 people, whom are benefited from absolute and average value-added gains of the company (Kuncoro & Abimanyu, 1995). Under this relationship, the attention to developing Small Scale and Household Industries (IKRT) at least lies in three factors. In the first place, IKRT absorbs a large number of workforce. The tendency of absorbing a large number of workforce generally drives a number of IKRT in being intensive in utilizing local natural resources. Especially the location is in rural areas, the growth of IKRT will bring positive impact on a workforce rate increase, the poverty rate reduction, equitable distribution of income and economic development in rural areas (Simatupang et al., 1994; Kuncoro, 1996). Viewed from the policy side, IKRT clearly needs attention as it does provide not only income for most of the Indonesia workforce, but also a spearhead in poverty alleviation efforts. In rural areas, the important role of IKRT in providing an additional source of income (Sandee et al., 1994) is a seedbed for all kinds of industrial development and a supplement to agricultural production for the poor (Weijland, 1999). It can also be said that it functions as a survival strategy during the monetary crisis. In the second place, IKRT holds an important role in the non-oil/gas export which in 1990 reached US\$ 1.031 million or occupying the second rank after exports from the group of multi-industries. Thirdly, there is an urgency to change the structure of the pyramid economy on PJPT I into "bulk" on PJPT II. Figure 1 shows that the top of the pyramid is dominated by large-scale businesses with characteristics of operating in a quasi-monopoly oligopolistic market structure with high import hurdles (import duty, non-tariff, capital, etc.), enjoying high profit margins and quick capital accumulation. The tip of this pyramid (shaded parts) is in line with the results of the survey by Warta Ekonomi (1993) on the 200 Indonesian conglomerates revenue. The base of the pyramid is dominated by small and medium scale businesses that are in operation within a highly competitive climate, low import hurdles, low profit margins and high drop-out rate. A pyramid structure of economy proved to have triggered concentration and conglomeration issues, and many believe that it has preserved the duality in the national economy.'

2.2. Profiles and distribution of Small Businesses

There are two definitions of small businesses popularly known in Indonesia. First, the definition of a small business according to Law No. 9 of 1995 on Small Business which defines Small Business as the public economic activities with a maximum annual sales of Rp 1 billion and have a net worth, excluding the land and establishment, of a maximum of Rp 200 million (Sudisman & Sari, 1996: 5). Second, according to the category by Central Bureau of Statistics (BPS), small businesses are always classified as small scale and household industries. BPS classifies the industry based on the number of its workers, namely: (1) household industry with 1-4 workers; (2) small industry with 5-19 workers; (3) medium industry with 20-99 workers; (4) large industries with 100 or more workers (BPS, 1999: 250). Although some of the definitions of small businesses differ to some extent, yet it seems that small businesses have nearly uniform characteristics. First, there is no standard distribution of tasks between the administrative division and operations division. Most of the small industries are managed by an individual who at the same time acts as the owner and management of the company and take advantage of family members and close relatives as the workers. BPS (1994) recorded that until the present the number of small business owners has reached 34,316 million comprising of 15,635 million of small scale self-entrepreneurs (without using another workforce) 18,227 million of small businesses that use their own family members as the workers and 54 thousand of small entrepreneurs with permanent workers.

2.3. Challenges and Problems

The challenges faced to strengthen the structure of the national economy is relatively hard. The supervision for small business owners must be more directed towards turning the small business owners into medium scale entrepreneurs. However, we realize that the development of small businesses faces some bottlenecks such as the levels of competences, expertise, human resources management, entrepreneurship, marketing, and finance. The poor managerial skills and human resources have resulted in the inability of small businesses to run the business efficiently. More specifically, the primary problems faced by small business owners include: First, they are poor in gaining market opportunities and expanding target market. Second, the structure of the capital expenditure is weak, and there is restricted access to gain capital sources. Third, the organizational and human resources management is weak. Fourth, there is a limited business partnership network among small business owners (marketing information system).

Fifth, the business environment is less conducive for there is extremely stiff competition. Sixth, the supervision and guidance which has been conducted are still less integrated, and there is a lack of trust and awareness amongst society in small businesses. Broadly speaking, the challenges faced by small business owners can be divided into two categories: First, those business owners with revenue of less than Rp 50 million generally face the challenge of how to maintain its business sustainability. For them, gaining "normal" sales target is typically enough. They generally do not need a large amount of capital for production expansion where the required capital usually aims to smooth out cash flow. It can be understood that loans from BPR (Local Banks), BKK (Sub-District Loan Agency), TPSP (Place for Savings and Loan Services-KUD (rural savings and loan cooperatives)) helps their working capital. Second, for business owners with revenue of between Rp 50 million to Rp 1 billion, challenges faced are far more complex. They generally start to consider expanding their businesses. Based on an observation conducted by UGM Small Business Consulting Center, the problems priority order faced by this type of small business owners include (Kuncoro, 1997): (1) There is no proper financial administration system and management as the company ownership, and management are not separated; (2) There is no proper proposal drafting and feasibility study conducted to get loans or venture capital from the bank as most small business owners complain about the complex procedures to get credits, ineligible collateral, and high interest rate; (3) No knowledge of how to draw up business plans as competition to wining over the market is increasingly tight; (4) there is limited access to technology especially when the market is controlled by certain company/business groups and when consumer tastes quickly change; (5) the problem of obtaining raw materials is mainly due to tight competition in obtaining raw materials, low raw material quality and high raw material price; (6) the problem of improving goods quality and efficiency especially for those who have operated in export market as consumer tastes quickly change, market is controlled by a certain company, and abundant goods replacement; (7) the labor problem as it is difficult to get skilled labor

3. Discussion and Conclusion (TNR 11 Bold, Justify, Tab 0.5" or 1.27 cm)

The empowerment strategies that have been implemented up to now can be classified into Managerial aspect, which includes: increased productivity/revenue/the level of utilization/level of settlement, improved marketing ability, and human resources development. Capital aspect, which includes: Capital Assistance (whereby 1-5% of SOEs profits are allocated and its obligation to provide credits to small business with a minimum of 20% of the bank loan portfolio) and loan facilities (KUPEDES, YOKE, KIK, KMKP, KCK, Mini/Midi Loans, KKU). Developing partnership program with large-scale businesses through the systems of foster-parent - foster-children, PIR, upstream-downstream relations (forward linkage), downstream and upstream relations {backward linkage), venture capital, or subcontract. The development of small industry Centre in an area be in the form of PIK (Small Industry Settlement), LIK (Small Industry Environment), SUIK (Small Industry Business Facility) which is supported by UPT (Technical Services Unit) and TPI (Industrial Extension Officers). Supervision for certain business and areas under KUB (Joint Business Group), KOPINKRA (Cooperatives of Small- Scale Industries and Crafts). It must be admitted that there have been enough efforts made on the supervision and empowerment of small businesses conducted by organizations concerned with small businesses development. Despite that, those efforts tend to be overlapping and performed separately. This difference of perception on small businesses, in turn, causes the guidance on small businesses to be compartmentalized or is sector-oriented, in which each of the supervising institutions puts the emphasis on its respective sector or field. This has resulted in two matters: (1) ineffective supervision direction; (2) there is no uniform sustainability indicator because each supervising institution seeks to chase the targets and fulfill the objectives in accordance with the criteria they defined on their own. Due to sectoral/departmental egoism, in practice, we often find "competition" amongst the supervising institutions. The small business owners often complain that they are constantly treated as "objects" of supervision/guidance without receiving any follow-up actions or taking direct problem-solving measures. In this context, Assauri's (1993) proposal to develop an inter-organizational process in supervising small businesses interesting is worth taking into account. In practice, the network structure in the framework of a supervising organization of this small-businesses can be done in the form of a business incubator and PKPK (Small Business Consulting Center). PKPK is an idea developed by the Department of Cooperatives and Small Business Owners Supervision which is expected to serve as a development forum for small business owners to become tough entrepreneurs or medium scale business owners through fostering partnerships with universities and coordination with government agencies. Until now, it is recorded that there are 16 Small Business Consulting Centers (PKPK) in Indonesia, spread over 13 provinces, which now are expanded into 21 universities in 18 provinces. This particular activity is a proper breakthrough considering that the small business owners in Indonesia have the potentials to develop. The partnership pattern in Indonesia until now can be classified into two categories, namely: direct linkage pattern and indirect linkage pattern. The direct linkage pattern includes: Firstly, PIR (cooperative plantation) pattern, where the foster parent (read: big business) acts as the nucleus while the small farmers act as the plasma. Secondly, trade pattern, where the foster parent acts as products marketer produced by its business partners. Thirdly, the vendor pattern in which the product produced by the foster child has no forward or backward linkages with the product produced by his foster father. For example, PT Kratakau Steel whose core business is steel has its foster child or

subsidiary company producing small crisp crackers made from Gnetum gnemon. Fourthly, subcontract pattern, in which the product produced by the foster child is part of the production process done by its foster father, besides that there is an interaction between the foster children and foster father in the form of technical, financial and or information linkages. This indirect linkage pattern constitutes a pure supervision pattern. In this pattern, there is no direct business relationship between the "Supervisory Body" and its business partners. It can be understood that these patterns are much effective if done by universities as part of their Three Pillars of Higher Education, which is Community Service. The department of cooperatives and Small Business Owners Supervision has initiated a partnership with 16 universities in 1994/95 to establish Small Business Consulting Centers (PKPK). Until present, the supervision pattern under this program includes small business training, small business consultant candidate coaching, business guidance, business consulting, business monitoring, business meet-ups, small businesses workshops/seminars

4. Conclusions

The principle of mutual need will ensure a more sustainable partnership because of its "natural" attribute rather than its "sympathiness." Based on this principle, large scale businesses will always partner up with small businesses as partners in progress. Most of the stepparent and stepchild (subsidiary) system is not based on the mutual need principle. This is based on the fact that oftentimes the businesses of the foster parent significantly differ and there is no upstream-downstream or downstream-upstream linkages amongst its small businesses subsidiaries. This foster parent system requires the Stated Owned Enterprise to spend 1-5% of its profits, and the large private companies in a persuasive way. In reality: (1) the guidance provided by the stepparent is considered less effective as the stepparent is like a sinterklaas who shares the development funds without taking into account its subsidiary company business dynamics ; (2) the parent company also feels that the partnership established is merely aimed at accomplishing a social mission. The principle of mutual assistance will emerge when large scale businesses need the presence of small scale businesses. With the subcontract and trade-based partnership, there is no superiority and inferiority; instead, there is only a mutual relationship and mutual assistance as there is a linkage in the mutually beneficial production process. When these two partnership principles are applied, then a partnership is no longer "a luxury" in Indonesia, instead will become "a necessity" such that in other business relationships. A partnership is no longer a charity. As a partner, both sides definitely stand on an equal position. In turn, with the existence of a partnership, it is expected that there is no longer social jealousy and social gap.

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