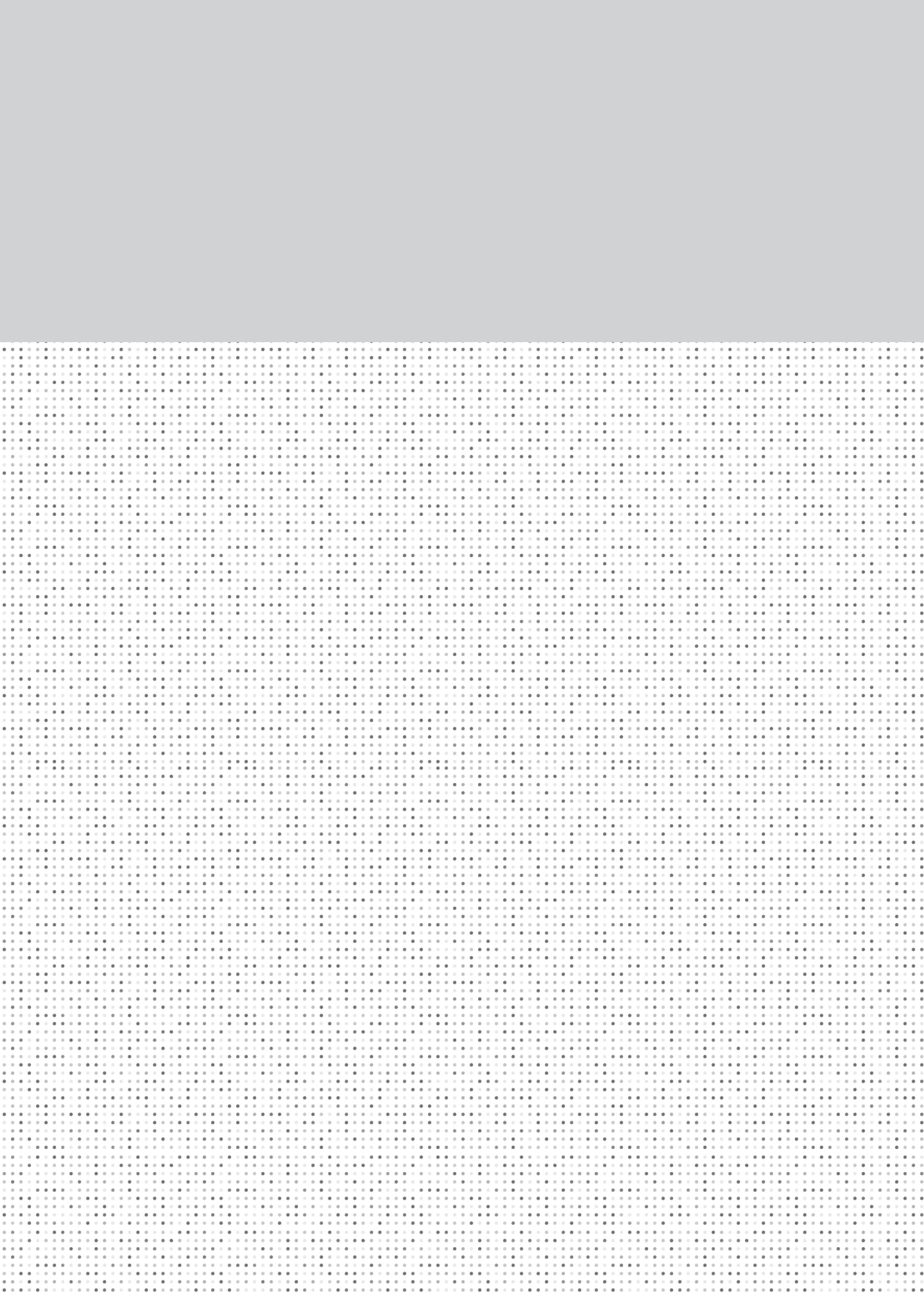# GOVERNMENT SUPPORT AND SMALL BUSINESS DEVELOPMENT: A CASE STUDY ON SMALL BUSINESS IN DRINKS, BILIMBI IN TEKUNG-LUMAJANG, EAST JAVA PROVINCE-INDONESIAN

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Abstract

Small business has important role in economic development in many countries as being able to drive local economy and reduce unemployment. The main issues faced by small businesses were capital and marketing, in addition to the use of technology production was still simple. To encourage the growth of small businesses, government supported in the form of policy, funding, and training. Various studies on government supported in the advancement of small business has been conducted, but still resulted in findings that diverse. **Research question**: Whether the government support has positive effect on the growth of small businesses? **Objective:** The objective of this paper was to analyze the effect of government support for small business growth. **Methodology:** This study is a comparative study which based on the results of observations and previous studies. **Findings:** The study concluded that government supported through capital and business management training had positive influence on the growth of small businesses, but no significant effect in reducing the unemployment rate.

Keywords: government support, small business development, averrhoa bilimbi.

Introduction

Small businesses as an integral part of the national business has position, potential and very important role and strategic in realizing economic development. Economic development activities through the development of small businesses is one way to help tackle unemployment and improve social welfare. One of the efforts made by the government for small businesses development is to involve small businesses in developing local economies and foster partnerships based on the synergistic relationship, mutual support and mutual life sustain.

In the ASEAN region, more than 96 percent of companies are small and medium enterprises (SMEs) with the contribution of employment of 50 to 98 percent, and the contribution to Gross Domestic Product (GDP) by 30-57 percent. In Indonesia, based on data from the Central Bureau of Statistics, in 2014 there were 55.2 million small and medium enterprises with the contribution of employment amounted to 97.2 percent and the contribution to GDP amounted to 57.9 percent [1]. From these, 283. 022 units represent small business [2] with labor involved as many as 2.27 million people [3].

The main issues faced by small businesses in Indonesia, as in many countries are capital and marketing, in addition to the use of production technology that is still simple. This leads to increasingly severe competition faced foreign products that have a variety of technological and economical advantages. To overcome these problems, it needs government support through capital and business management training.

Various studies on government support in the advancement of small business has been conducted, but still resulted in findings that diverse. Government support through capital granthas positive influence on the development of small and medium enterprises in Indonesia [4]. Conversely, the lack of financial and institutional support hinders the development of small and medium enterprises [5]. Research by Indarti and Langenberg concluded that government support does not significantly influence the success of small and medium-venture businesses in Indonesia [6]. These findings are identical to the results of research Vixathep which concluded that the government facilities and customer characteristics did not affect the business performance [7]. Chacuamba found that the development of small businesses in need of coordination between the local government, non-governmental organizations, business associations and entrepreneurs [8].

Based on the above background, this study seeks to analyze the government support in the capital fund and business management training to small business growth. Statement of the problem is wether government support has positive effect on the growth of small businesses?

Research objective

The objective of this paper is to analyze the effect of government support for small business growth.

Methodologies

The type of research is comparative study with a qualitative approach. The research variables include supportgovernment (independent variable) and growth (dependent variable). Government support variable measured by both indicators of financial aid and the kind of training, while business growth measured by indicators of changes in production performance, human resource, and financial. The research object is a small business of drink fruit of starfruit in Tekung-Lumajang. Respondents are 16 businesses.

Collecting data using the method of observation, interviews, and documentation. Observations conducted on : (1) production facilities both room as well as the equipment used, (2) the production process since the capture of raw materials to the manufacture of beverages and packaging, (3) the sales activity both means of distribution and promotional activities, and (4) business bookkeeping and preparation of financial statements. To supplement the data do interviews with management who responsible business operations about management activities undertaken and perceptions of business growth as a result of government support (see Table 1). Documentation is made to data from previous studies.

Analysis of data using qualitative descriptive analysis. The collected data is classified based on the period before and after the government's support. Furthermore, the comparison to determine the effect on the growth of small businesses.

Findings

Small Business and Its Problems

According to the World Bank, a small business is a business that has workers less than 20 peoples. According to the Financial Accounting Standard Board (FASB), the small business is a small company whose operations are relatively small, usually with a total income of less than $ 5 million. The company generally (a), managed by the owners themselves, (b) had several other owners, if any, (c) all of the owners are actively involved in running the affairs of the company except perhaps certain family members, (d) a rare assignment ownership, and (e) has a simple capital structure [9]. In Indonesia, small businesses are defined as businesses with 5 to 19 employees [3]; a productive economic activities stand-alone committed by an individual or business entity that is not a subsidiary or not a branch of the company owned, controlled, or be part both directly or indirectly and medium businesses or large businesses have a net worth of more than fifty million up to as much as five hundred million excluding land and buildings; or an annual sales turnover of more than three hundred million rupiah up to at most two billion five hundred million rupiah [10].

Small businesses have an important role in supporting the economy. Hill stated that economic growth can be achieved through the developing small businesses [11]. According to Berry, Rodriguez and Sandee, compared with large enterprises, small businesses are more resistant to the crisis. They are able to adapt more quickly and are more resilient to environmental conditions and external changes [12].

Small business life is influenced by general economic conditions, business locations, competition, qualifying owners and effectiveness of doing business. Common issues faced by small industries include: the lack of working capital, marketing difficulties, limited access to fundingsources, lack of technological expertise and management, low productivity, lack of institutional quality, and the lack of business networks [13]. Sener et al found that access to capital is essential for business performance of small-to-medium businesses [14]. Lack of understanding of how to handle finances, assumption that the product can be sold by itself, and not focus on one product is also a cause of failure of small businesses [15]. Oosterbeek et al states that one factor contributing to the success of small businesses is management skills that include: market awareness, creativity, and flexibility [16]. Bek et al. stated business networks and partnerships are a source of competitive advantage [17]. Research Tambunan on small and medium enterprises in Indonesia concluded that technological expertise is one of the key factors for competitive advantage [18]

Innovation can also improve business performance. Innovation leads to the ability to create products and business processes with the ownership of the copyright and intangible assets [17]. Innovation occurs when companies increase human resources quality and business networks [19]. According Egbu et al. the innovation development process is not simple. It includes the development of people, culture, capital, technology, and organizational structure as a requirement [20]. Levels of innovation in the business include: promotional strategies expansion, creation of new suppliers, network distribution and buyers, as well as increased product on the market [19].

Government Support

Government support for small businesses is the policy and the provision of facilities and other stimulus given to small businesses to achieve growth. This support includes: (1) determination of the empowerment policy, (2) development and business development, (3) facilitating access to guarantee the provision of financing [21]. The formulation of policies for SMEs empowerment in the growth of the business climate for small businesses at the national level include: funding/provision of financial resources, ordinances and requirements fulfillment of funding requirements; competition; infrastructure; information; partnerships; licensing; and protection. Coaching and developing small business at the national level include: production; marketing; human Resources; and technology. Facilitating access to guarantee the provision of financing for SMEs at the national level include: banking credit; guarantee non-bank institutions; venture capital; loans and funds of grace as SOE profits; grant; and other types of financing.

Results of research on the government support performance for small business provides diverse findings. Research Vixathep to small and medium enterprises in Laos concluded that government policies through the services provided to businesses not correlate with the performance of its business, due to weaknesses in the implementation in the field [7]. These findings reinforce the results Onphanhdala and Suruga; and Souksavath et al. which states that the accuracy in the implementation of policies and programs that support a specific role in achieving the objectives and targets small-to-medium enterprise development [22,23]. Instead Xiang and Worthington stated that government support through funding effort has positive effect

on the small businesses performance in Australia [24]. These findings confirm the results of the study Cheng and Wang on small businesses in China, which concluded that government regulation has positive influence on the strategy of production, cost, quality, and innovation [25]. Research Chacuamba on small businesses in Mozambique concluded that the necessary coordination between the central government, local governments, and nongovernmental organizations to ensure small businesses development [8]. It is same as stated by Roper and Hart that the partnership between government and other stakeholders play an important role in the development of small businesses in the UK. The provision of appropriate information, support cooperation and enhancement of expertise, guarantees the availability of funds, knowledge transfer between companies and between companies and universities, as well as partnering with large enterprises is very important for the growth and development of small businesses [26].

Small Businesses Bilimbi in Tekung-Lumajang

Starfruit (*Averrhoablimbi*) is a kind of small trees is estimated to come from the Maluku Islands, and is cultivated and grows freely in Indonesia, the Philippines, Sri Lanka, Myanmar and Malaysia. Starfruit is also known by the namestarfruit vegetable, *belimbing buluh, belimbing botol, belimbing besi*, or sour starfruit.This plant is commonly grown in the garden to take its fruit which had a sour taste that is often used as a culinary spice and medicinal herb mix. Starfruit has a wide range of benefits and very good for health and beauty, such as pain relief, anti- inflammation, and lowering blood pressure.

Lumajang is one area in East Java province that produce a lot of starfruit. In Tekung village, there are self-help groups that exploit the potential of this process into drinks and sweets. Based on the interview with the founder of the business, "Self-Help Groups Alam Lestari Sejahtera "was founded in 1999 and consists of 16 people, divided into several groups. Each group consisted of 6 people, with the division of tasks as follows: one person preparing the raw material, one person making the dough, two people do the packaging, and two people doing the marketing. By using simple equipment, these efforts succeeded in increasing the value added of star fruit.

Conditions before the government's support (1999-2011)

From the interview, during the years 1999-2011 production is still manual, takes a long time, and the production cost is very high. The production process is done with a simple equipment, starting by blending bilimbi, filtered to take the juice, then boiled to be a dough master. Elsewhere, boiling water that will be mixed with the dough master. The mixture is then cooled for 12 hours, then packed in plastic cups. The production process is thereby leading to inefficiencies time, which affects the production quantity. In the packaging beverages process into a glass that is then covered using a plastic cup sealer machine, pressed lid glass is done one by one so that affects the quality and quantity of production.

The production capacity is 20 carton (480 cups)-per-day or 500 carton (12,000 cups) per month. The calculation of production costs and sales per carton is as follows. Cost of production 8,500 rupiahs consists of: material costs 3,000 rupiahs; labor costs 1,500 rupiahs; and overhead expenses 4,000 rupiahs. Marketing costs 1,000 rupiahs. Cost of goods sold 9,500 rupiahs. The

selling price of 16,000 rupiahs. Profit 6,500 rupiahs (68.5%). Sales turnover of 8 million rupiahs per month.

For the outer packaging or carton, has been used is old carton. Less pulling the packaging causes the distributors are reluctant to take the product, so the sale is limited to retailers only. Marketing area is limited to cities around the province. Marketing conducted through the store, retailers, and restaurant.

Financial management is still traditional. Recording is only done for cash in and out and no preparation of financial statements that are useful for decision making for the business progress.

Forms of government support (2012-present)

In interviews with management, in 2012 this business group was selected as the winner of the small business development program based partnership. Since then, the government in collaboration with universities to provide capital assistance amounting to + 200 million rupiahs and business management training. From the results of field observation and unstructured interviews, forms of government support can be itemized as follows:

1. Assistance for renovation expansion of production space as required layout and new equipment

2. Assistance forfruit grinding machine.

3. Assistance for Boiler machine to heat water and Sterilizer UV machine with a capacity of 57,600 liters per day. The tool is to replace a pan to boil all raw materials.

4. Assistance in Full Automatic Cup Fill Machine-2 Line Seal Machine with a capacity of 2000-2300 cups per hour to improve the capacity and quality of production.

5. Assistance in Expiration Printer Machine to label the product expiration date.

6. Assistance in forklift engine to move products from production site to carrier.

7. Assistance in 3-wheel vehicle for the distribution of products to places difficult to reach by van.

8. Assistance in Cardboard Packing design be nicer and cups and lids with a new design.

9. Assistance in training and mentoring to workers in using sealler cup full automatic machines

10. Financial management and marketing strategy mentoring so that the group meet customer demands and to develop marketing area.

11. Assistance to form business networks or partnerships with raw material suppliers and marketing partners.

12. Assistance in facilitation following the exhibition at various places organized by Ministry of Cooperatives and SMEs.

The influence of government support for small business growth

Government support through capital and business management training courses has positive effect on the growth of small businesses. The results of interviews management concluded that an increase in facilities and production capacity, the number and quality of the

product, the area of marketing, management ability, capital, income, and profits, as well as product innovation. Instead employability is relatively small (see Table 2).

Conclusion

Result of the study concluded that government support through capital and business management training has positive effects on the growth of small businesses. Evidenced by the increase in production facilities, production capacity, quantity and quality of the product, the area of marketing, business management skills, capital, revenue, profit, and product innovation. These findings support the findings Xiang and Worthington stating that government support through funding effort positive effect on the performance of small businesses in Australia, as well as the findings of Cheng and Wang on small businesses in China, which concluded that government regulation has positive influence on the strategy of production, cost, quality, and innovation.

Instead of government support to small businesses no significant effect on the increase in the number of workers, which is indicated by the small increase in the number of labor (2) compared with the increase of capital (+200 million). This means capital assistance had shifting the characteristics of venture capital support labor-intensive to business characteristics of the medium / large capital-intensive. Thus government support to small businesses for the purpose to push unemployment rate not be achieved.

This study has limitations because it is a case study so that the research findings is not generalized. Differences objects, forms of government support, or other types of small businesses (including small business boundaries are different) can produce different conclusions.

Recommendation

To obtain optimal results, we recommend models of assistance should be adjusted to the characteristics of the business, business needs, and objectives of the government in the provision of support to small businesses.

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Tabel 1. Interview guide

No.	Questions
1	Tell the history of this business?
2	What equipment is used prior to the government's support?
3	How the production process is done?
4	How do you manage the financial and accounting?
5	Any form of government support given?
6	Was there any change in the activities and business management?
7	What is the perception of the management about these changes?
8	Explain the impact of government support for the growth of this business!

Table 2. Effects of Government Support to the Growth of Small Businesses

Before government support (1999-2011)	After government support (2012-present)	The effects on small business growth
1. The production space in the kitchen home; narrow	1. Own production space, wider	1. Production facilities wider and modern, with automatic tools and bigger capacity.
2. Fruit grinding machine manual, small capacity	2. Fruit grinding machine is semi-automatic, large capacity	2. Production capacity increase
3. Water tanks of plastics	3. Water tanks made from stainless steel	3. The quantity and quality of the products increases
4. The pot to heat water	4. Boiler machinery for heat water	4. Market areas more large
5. The production process is long and old-fashion	5. The production process is short and fast because of automation	5. Management capabilities efforts is increased
6. Sealer cup machine semi automatic	6. Cup sealer full automatic	6. The amount of capital increases
7. The production capacity of 500 carton per month	7. The production capacity of 5,000 carton-per-month	7. Revenues and operating income increased 10-fold.
8. Traditional Management	8. Modern Management	8. The existence of product innovation to support business growth.
9. The product quality was low`	9. The product quality is increases	9. The amount of increase in man power is lesser than capital increase
10. Transfer of the product using human labor	10. Transfer of the products using a forklift	
11. Packaging less attractive and poor hygiene	11. Packaging more attractive and hygienic	
12. Product just 1 type, starfruit	12. Product innovation Roselle	
13. The area around the city limited marketing and one province	13. Market areas spanning several provinces	
14. Distribution using motorcycle	14. Distribution of use box cars and tricyclevehicles	
15. Number of employees 16 people	15. Number of employees 18 people	
16. Frequency sale (exhibition) was moderate	16. Frequency sale (exhibition) was high	
17. Sales turnover 8 million rupiah per month	17. Sales turnover of 80 million rupiah per month	
18. Operating profit 3.25 million rupiah per month	18. Operating profit 32.5 million rupiah	