

## The Enhancement of Micro Small Enterprises Capacity and Local Economy Through Socio Economic Institution Networking: Study in East Java Tourism Area

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**Abstract:** Tourism sector is one of the driving sectors of economic growth for some regions in East Java, especially in Batu City and Malang Regency. The objective of the research is to identify social economy institution in an attempt to enhance local society's economy in tourism areas in East Java. The research area covers Jatim Park tourism area in Batu City and Balekambang Coastal Resort in Malang Regency. Using an action research as the research methodology, the respondents are classified into the micro small business agents, the tourist and the manager of tourism area. The research finding shows that 1) the Small Middle Enterprises (SMEs) on Jatim Park Tourism Area and Balekambang Beach are still dominated by local citizens; this means that tourism object can provide employment and income for the locals, 2) the tourists are still dominated by local tourist and those from other cities in East Java and 3) the manager of tourism area keep on improving the management of the tourism objects in order to attract the tourist visits. In other side, the accessibility of capitalization as the measurement of economic capacity shows that there are a lot of SME agents who have not been able to get the access to capitalization from the banks, especially those in Balekambang tourism resort unlike most of SMEs agents in Jatim Park who have succeeded in getting capitalization access from the banks. Meanwhile, the trades associations in the tourism area have developed and given a lot of advantages to its members, so that it supports the local economy institution.

**JEL:** D13, L83, Z13

**Key words:** Household production • Tourism • Social network

### INTRODUCTION

**Background of the Study:** Poverty is the major factor in the decline of elements quality supporting human's life (dropped out from school, criminality, AIDS/HIV case, the large number of suicide cases due to economic pressure). In the regional context, East Java nowadays shows that the numbers of poverty is apprehensive. According to national socio economic survey (SUSENAS) data, that when national poverty rate has shown a downward trend from 14.15% to 13.33% in the period of 2009-2010, the poverty rate in East Java was still perched on the figure of 15.26% in those years.

Poverty alleviation in East Java is basically an attempt to increase the capacity of micro-businesses because the majority of the poor relying their living on micro units in the field of small industries, trade and simple services. According to central board of statistic (BPS), 98.7% of 52.7 million units of the existing businesses in East Java are categorized as SME. Although there are enough programs initiated by the government, the patterns of the approach taken are still of partial and charity bases. The skill approach patterns (through BLK<sup>1</sup> / BLK-I<sup>2</sup>) has no relation to the pattern of capital (e.g. P2K<sup>3</sup> program;

<sup>1</sup>BLK is Balai Latihan Kerja, it is a government training institutions in the face of labor market competition trough competency based training, competency exams, and skills certification

<sup>2</sup>BLK-I is Balai Latihan Kerja Industri, it is government training institutions that provide various provision of training in order to develop workers supply with skills, knowledge and attitudes in the field of mental industries

<sup>3</sup>P2K Is Program Penanggulangan Kemiskinan, it is program for facilitating community in rural region and their local government to able to handle root causes of poverty independently and sustainable

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P2KP<sup>4</sup> program, PNPM<sup>5</sup> program etc.). Each runs its own program and the number of the poor actually increases because of the advent of direct cash assistance charity programs known as *Bantuan Langsung Tunai* (BLT<sup>6</sup>).

One model of the approach which is proved effective in many developing countries is a model of integrating the poor in the tourism industry [1,2]. This model which has not gained the government's attention was in fact a kind of strategy to increase the income of the poor through business development and optimal use of human resources.

The objective of this study is to identify the socio-economic institutions in an attempt to increase the local economy of the community tourism objects in East Java in order to be able to open vast opportunities for SMEs to become part of the tourism industry.

**The Relationship of Tourism Sector and Economy:** The tourism sector is not a sector that stands in isolation. The tourism sector is directly or indirectly related to the various sectors of the economy that produce goods and services that are partly or wholly consumed by tourists, both foreign tourists and domestic tourists. Thus, the growth of the tourism sector can be considered as the drive of the growth of other sectors including agriculture. The economic impact of the cross-sectors tourism develops to be multi-sectors in the form of income distribution, employment and investment. The impact of tourism in the process of development varies in one region to another. This looks good both in a large scope as the governmental scope among the developing countries with developed countries, or in a narrower scope, that is within the scope of areas / provinces within a country.

Tourism has high complexity because of its connection with many sectors of the economy such as accommodation / hotel, restaurant, transportation, entertainment and recreation services and also souvenirs. The impact of the tourism sector can be categorized into three, namely the direct impact, indirect effects, and induced effect. In the direct impact, the impact of the output will be equal to the value of changes in final demand. Tourist's spending will directly lead to the income of the tourism industry such as hotels, restaurants and craft business. The development of tourist visit

automatically means the growth of tourism industry. While the indirect impact refers to the continuation of the needs of an industry, because of the increasing demand for its product, to make purchases for other related industries. For example, a hotel that has guests must pay salaries or buy its household necessities from household merchants. The demand from this hotel is a derivative demand that does not stop at a merchant but will continue until the upstream industry. The induced effects occur because an increase in demand due to an increase in the final demand will be partly spent on goods and services consumption that are not related to that final demand. Souvenir sellers will spend some of their income to repair homes, send their kids to schools, buys electronics and so on. The more the tourism industry and related industries spend for various types of goods and services, the greater the induced effects from the tourism sector. The suppliers of goods and services will increase their income. The increase in income will encourage the society's economies so that the employment and society's income can gradually increase.

Jackson [3] indicated that for long-term viability of the tourism industry in Caribbean is based on the ability of the tourism policy-maker to work collaboratively with all stakeholders, with the ultimate goal of maximizing profits for the tourism business, while at the same time giving an impact on local communities. In the process of tourism policy-making, the government should look at the fact that the economy, ecology and social pressure are factors something that cannot be separated because they are related with the development of tourism. Thus, the framework offers a full participation in the improvement process. This participative approach ultimately results in long-term survival for the tourism industry in the Caribbean, because stakeholders will be able to see the advantages gained from working together to maintain their own tourism resources.

The research of *The Economic Externalities in the Development of Sustainable Nature Tourism in Baturaden Tourist Areas* by Mulyaningrum [4] found that the tourism industry such as hotels and restaurants gives impact 2.2% of to gross domestic product (GDP) growth in Central Java Province. The tourism sector is believed to have good prospects for regional economic development, as shown by the increase in other sectors and

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<sup>4</sup> P2KP is Program Penanggulangan Kemiskinan di Perkotaan, it is a program for facilitating community in cities and their local government (village) to able to handle root causes of poverty independently and sustainable

<sup>5</sup>PNPM is Program Nasional Pemberdayaan Masyarakat , it is one of empowerment mechanisms program for accelerating poverty reduction and expansion of employment opportunities in the rural region

<sup>6</sup>BLT is Bantuan Langsung Tunai, it is a monthly incentives from government for the poor in order to alleviate the burden of the poor's life meeting basic need

employment opportunities as a result of the economic effect of the chain of hotels and restaurants sector. The tourism industry can promote the regional economy because it is labor-intensive sectors, has greatly absorbed the workforce and increase incomes.

Sudiarditha [5] concluded that (1) there is a greater income contribution of household members who work in the tourism industry to household incomes by 56.66% while the household head has only 43.34% of the total net income per month. (2) The distribution of farm household income in the developed tourism area tends to be better with gini coefficient value approaching zero being 0.2. (3) The development of the tourism sector indicates a positive trend with an increase from year to year during the period of 1993-1996. The opposite condition occurred due to the economic crisis in 1977-1998. However, particular tourist expenditures have increased due to foreign exchange rates difference.

The research findings of Manenta [6] in Italy have proved that the tourism sector had a positive impact on employment. Besides, it also causes multiplayer tourism effect towards those 14 sectors of the economy such as agriculture, energy, meat products, dairy products, food products, construction services, hotels, restaurant, transportation, services, credit, etc.

## **MATERIALS AND METHODS**

The research methodology applied in this research is an action research, starting from the planning model with elements involving stakeholders (the poor, tourism businessmen, government and community leaders), the implementation phase, monitoring-evaluation and refinement-stabilization model.

The location of this research is a mountainous tourism area and beach resort in Malang (Batu City, Malang City and Malang Regency). The selection of these two tourism areas is adjusted to the socio-cultural conditions of the majority of the poor in East Java, who mostly work as farm laborers and fishermen.

The units of this action research analysis consist of three agents, namely SMEs from poor households, a unit of tourism, tourists and the interaction among these three actors in an tourism area.

The data analysis in this study was conducted in three stages: 1) data reduction, whereby this will be performed simultaneously with the data collection process until the process is complete; 2) domain analysis, in which the researchers will categorize the various expressions and socio-economic realities which are systematically obtained and 3) conclusion drawing, verification, and reflection.

## **RESULTS AND DISCUSSION**

As a unit of analysis, respondents of this study are categorized into SME agents coming from the poor families, tourists and the managers of tourism objects. 71 respondents were chosen from each tourism object as the samples of this study. The respondents are classified as business agents (35 respondents), tourists (35 respondents) and the managers of tourism object (1 respondent). The sex-based description of the SME agent respondents shows that 40% (14 respondents) of SME agents at Jatim Park tourism object are male while 60% of them (21 respondents) are female. Similar description is depicted by SME agents around Balekambang beach who are mostly female. At least, the underlying reason of the big number of the female SME agents compared to the male agents is to get extra income and to help husbands in earning a living. Meanwhile based on the level of education, the percentage of SME agent respondents shows that Senior High School education level is dominant i.e. 54.29% or 19 respondents out of 35 respondents. Furthermore, 31.49% or 11 respondents of SME agents are Junior High School graduates. Meanwhile, SME agents at Balekambang beach are mostly Junior High School graduates (65.71%). On the contrary, the number of SME agents graduated from university level are the least. This condition shows that SME agents at both tourism objects have relatively low educational level.

Based on the address of respondents, it is known that the tourists visiting both Jatim Park and Balekambang tourism objects and Balekambang come from several regions in Indonesia. In addition, based on the result of tourist visitation recapitulation, at least, there are 34.29% (12 respondents) coming from Malang, 28.57% (10 respondents) from Semarang, 8.57% (3 respondents) from Surabaya, 57.1% (2 respondents) each coming from Blitar and Nganjuk and 2.86% (1 respondent) each coming from Jakarta, Madiun, Mojokerto, Pandaan, Serang Banten and Sidoarjo. In other words, based on the province of origin, it can be said that 71.43% or 25 respondents come from East Java and 28.57% or 10 respondents from outside East Java. Similar fact is shown by the visitors of Balekambang beach.

The results show that both the visitors of Jatim Park and Balekambang are dominated by local tourists in which the majority come from East Java areas. The identification on the type of activities related to tourism shows that the growth of tourism sector in both areas has encouraged the growth of businesses in many fields. At least, nowadays, the tourist business has

Table 1: SME Agent Respondents based on the Level of Education

No.	Level of Education	Jatim Park		Balekambang Beach	
		Respondents	%	Respondents	%
1	Elementary School	4	11,43	6	17,14
2	Junior High School	11	31,43	22	65,71
3	Senior High School	19	54,29	6	17,14
4	Academy/ University	1	2,86	0	0
	Total	35	100	35	100

Source: Processed Primary Data, 2012

Table 2: The List of Best Seller Products

No.	Type of Product	Jatim Park (%)	Balekambang Beach (%)
1	Garments (Shirt)	37.12	31.43
2	Food and Beverages	25.71	42.86
3	Fruits	20	
4	Dolls	5.71	-
5	Accessories (key chain, necklace, bracelet, brooch)	11.43	11.43
6	Worship equipment	-	14.29
	Total	100 %	100 %

Source: Processed Primary Data, 2012

Table 3: SME Agents Respondents Based on Their Daily Income

Tourism Objects	The Range of Income (IDR)	Daily Income	
		Weekend and Holiday	Weekdays
Jatim Park	= 500,000	-	94.29
	550,000 – 3,000,000	91.43	5.71
	= 3,050,000	8.57	-
	Total	100.00	100.00
Balekambang Beach	= 50,000	-	85.71
	55,000 – 500,000	88.57	14.29
	= 500,000	11.43	-
	Total	100.00	100.00

Source: Processed Primary Data, 2012

Table 4: The Origin of the Producers Stuffs Sold at Jatim Park

No.	Types of Products	The origins of suppliers	
		Batu	Outside Batu
1	Garments (shirt, hat)	41.18	58.82
2	Foods (Fruit Crips)	25	75
3	Fresh fruits (apple, orange, pepino) and cassava	100	0
4	Souvenir (key chain)	33.33	66.67
5	Snacks (ice cream)	100	0

Source: Processed Primary Data, 2012

Table 5: The Origin of the Producers Stuffs Sold at Balekambang

No.	Types of Products	Types of Products	
		Bantur	Outside Bantur
1	Garmentss (shirts, house dresses, pants)	0 %	100 %
2	Food and Beverages	100 %	0 %
3	Accessories	66.67 %	33.33%
4	Grocery (hindus rituals supplies)	0 %	100 %

Source: Processed Primary Data, 2012

Table 6: The Respondents of SME Agent Based on Capital Loan Sources

No.	Tourism Object	The total of Loan	Sources (%)		
			Family/Relative	Cooperative	Bank
1	Jatim Park	= Rp 100.000–Rp 4.900.000	12,5	85	41
	Rp 5.000.000–Rp 9.900.000	37,5	8	55	
	= Rp. 10.000.000	50	8	5	
	Total	N = 8	N = 13	N = 22	
2	Balekambang Beach	= Rp 100.000–Rp 4.900.000	50	100	67
	Rp 5.000.000–Rp 9.900.000	38,89	-	33	
	= Rp. 10.000.000	11,11	-	-	
	Total	N = 18	N = 9	N = 3	

Source: Processed Primary Data, 2012

provided opportunities for the SME agents in such fields as garments, accessories, food and beverages, souvenirs, grocery and tourism equipment rental.

In terms of the time length of the existence of the existing enterprise, there are two major tourism regions(80%) having been run for more than one year, even there are enterprises having been developed for more than ten years. These facts show that tourism sector has been able to provide long term business and income assurance for the agents. The business in tourism sectors, particularly around Jatim Park and Balekambang tourism regions are categorized as seasonal business in which the income highly fluctuates. During the school and office holiday period, the number of tourist visiting the tourism objects is very high so that it gives positive impact on the increasing income of SME agents. In contrast, when the holiday ends, the income of SME agents decreases. Based on the observation, in holiday season, the SME agents in Jatim Park are able to get daily income of about IDR 1,100,000 – 3,000,000 even there is SME agent who can get income more than IDR 3,000,000 everyday.

In contrast, the income of SME agents drastically decreases upto 50 percent per day when the holiday season ends. The operational expense which must be paid by SME agents is about IDR 600,000 – 3 millions per month for stall rent. As the result, when calculated, the income of SME agents in tourism sector is still quite high.

The majority of SME agents around both of Jatim Park and Balekambang are local residents. Various fields of business namely food, beverages, accessories and souvenirs can be found at both tourism places. The increasing growth and development of tourism sectors have been able to generate adequate income for the surrounding society.

Nevertheless, based on the field survey, it is known that the products sold at the tourism objects are not only produced by the local residents or industries but are also supplied by the other regions. Several best seller products are clothes (T-shirt), food, fruits, dolls and souvenirs (key

chain). The majority of garments product (58.82%) are still supplied from outside Batu; such kind of food as fruit crups (75%) and variety of souvenirs such as key chains are still supplied from outside Batu. While agriculture product, namely varieties of fresh fruits such as apple, orange, pepino, cassava and snacks are the local products of Batu.

Meanwhile at Balekambang beach, the supply of products sold at the tourism place come from outside Bantul. Garments products such as shirt, pants, house dress and *hindus* ritual supplies come from outside Bantul. On the other hand, food, beverages and varieties of accessories products are produced by local residents.

The existence of best-selling products at the tourism object both at Jatim Park and Balekambang beach is in fact a business opportunity for local residents as SME agents at the tourism object in an attempt to increase income. However, the existing condition nowadays shows that the majority of products sold at the tourism objects still come from outside area. The local residents as SME agents at tourism objects only have a role as re-sellers of the products concerned. The SME agents have not yet had effort in producing the sold products by themselves; they only buy from outside region and resell the products. As a result, the dependence level on product supplied from outside region is still quite high. The unsmooth of transportation system of stuffs will affect on the delay of arrival of stuffs in the destination. As a result, the scarcity of stuffs might occur and the price level accepted by consumers concerning the purchased stuffs sold at tourism objects will be higher.

Often, the sustainability of business does not rely on the creativity only, but the capital support as source of funding of operational activities and the expansion of production are also quite important. Accessibility to the capital resources for the survival of the SME agent is really needed, but in fact, there are still many agents who haven't been able to touch it.

The accessibility level of SME agents in the two tourism objects based on the loan source capitalization obtained by SME agents shows the different characteristics. The differences at least can be seen that SME agents of Jatim Park exhibit a modern characteristic with urban life back ground, while the SME agents from Balekambang Beach exhibit a conventional characteristic with rural life back ground. The education level which is relatively better and the availability of different capital sources from the banking sector relatively facilitates urban SME agents to be in business, especially in the tourism sector. On the other hand, there are not many choices that rural SME agents make in rural business, where the capitalization is one of important aspects in developing a business. The condition of tourism objects which is far away from the economic activity center becomes an obstacle for SME agents in reaching its banking sectors and cooperatives.

This research tries to understand the social capitalization in order to identify the local institution by identifying the individual involvement in social activities such as association, "arisan" and other social activities. Based on the field study in these two tourism objects, SME agents stated that they have involvement in the association, especially in the association of tourism object traders. This association is a representation of the kinship spirit among traders in the tourism area. Like a formal institution, an association has an agenda / schedule and several activity programs for its members. The purpose of this program is to give positive benefits to its members. The existence of the traders association in the tourism object does not only give benefits to its members but also gives contribution to tourism objects. The mechanism made by the association member produces a system of the SME participants in trade, so that it provides convenient service for every visitor. Meanwhile, the positive benefits that have been felt by the association members such as the function of association and medium of being together and "silaturahmi" (60%), medium of coordination and aspirations connectors (20%), sharing with fellow traders to open collaboration among members of the association (20%).

The activities of traders group in the association are quite diverse, among others are the "arisan" and social activities. Arisan is a routine activity that has been carried out by the association in maintaining unity among the members. Arisan is voluntary; it means that it does not force every member to participate. At least, there are 40% of the respondents of the SME agents in Jatim Park or Balekambang Beach admitted to participate the "arisan".

Arisan system which is similar to the concept of saving has positive benefits for each participant. These benefits include creating saving habits regularly, interwoven relationship among participants; and it opens the opportunities of business relations among participants.

Social activities carried out among the SME agents through the association include religious activities, saving and lending, "yasinan" and the cultural activities. These varied activities strengthen the local institutional in the respective areas of research. The economic activity which in fact aims to obtain the maximum profits still regard the togetherness through an institution called association. The togetherness, family relationship and the "silaturahmi" are still closely-held. So, the problems between the SME agents in running their own business is hardly to be found, because the problems will be resolved as well as possible through the association.

## CONCLUSION

The existence of tourism objects is able to give the job opportunities and the income sources for local residents; it is shown that most of the SME participants in every object are residents.

The development of the tourism sector provides many opportunities for the growth of business related to tourism. The business fields currently developing are food-drinks, souvenirs, gift shop and also fruits. The accommodation business such as the hotel and lodging is also increasingly developing along with the development of tourism sectors. Transportation also develops. So, it can be said that there is still a lot of business opportunities that can be run in the tourism sector, consequently, the creativity of SMES in running business is needed to attract consumers.

The high frequency of tourist visit to both objects has given positive impacts to the development of the tourism businesses. The flow of goods and services around the tourism objects is quite good. This is one of the opportunities to utilize the man power and increase the income for society around the tourism area. However, based on the observation, it is known that most of the products which are currently sold in the tourism objects are still supplied by the sellers outside the region. It means that the SME agents around the tourism area are still unable to produce their own stuff, so they very much depend on the suppliers from outside the tourism area.. In this case, the relationship between SME agents with the suppliers becomes the main aspect for the sustainability of the business to exist.

The local economic capacity which viewed from the level of education and skills as well as the capital resource accessibility indicates that the SME agents in the two tourism objects have different characteristics. SME agents in Batu tend to have high level of education background, supported by the capital source from the banking sector and a cooperative which are varied enough, so it has a good accessibility in getting capital loan. Meanwhile, the SME agents in Balekambang Beach are still using family members and local residents networking to obtain a capital loan. It is because of the absence of a bank as loan sources.

The local institutionalization in both tourism objects indicates that SME agents have been incorporated in the traders association. The main goal of the association is to establish the close relationship among its members and become the medium to resolve every problem in cooperatively.

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