
**EMPOWERMENT OF SMALL AND MEDIUM ENTERPRISES (SMES)
 THROUGH SOCIAL NETWORKS IN COASTAL AREA OF SURABAYA CITY**

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ABSTRACT

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This research aims to examine social networks that can be accessed by SMEs. Capital has an important role in empowering SMEs in the Coastal Areas of Surabaya City. Previous studies have shown that empowerment of SMEs was only seen from an economic perspective, such as product marketing, product design, and the role of SMEs in local economic growth. This study identifies social networks with an important role in empowering SMEs and can be accessed by SMEs. This study uses a qualitative method with a case study research strategy. In-depth interviews, observation, and documentation were used to collect the data. The results showed 5 social network stakeholders that can be accessed by SMEs, namely SMEs, SMEs Associations, Government, Banks, and Private. The government is the most important institution in developing SMEs.

A. INTRODUCTION

The empowerment of Small-Medium (UKM) Enterprises has an important role in improving the economic growth of a region through the improvement of Gross Regional Domestic Product and has a strategic role both economically, socially, and politically (Hapsari, Hakim, and Soeaidy, 2014; Utomo, 2012; Kristiyanti, 2012). SMEs, have an important role in reducing unemployment, equalizing the distribution of income, and reducing the level of urbanization (Sukidjo, 2004). Based on the experiences faced by Indonesia during the crisis, the development of the private sector must focus more on SMEs, especially these sectors are often abandoned simply because their products are small in scale and unable to compete with other business units (Kristiyanti, 2012). Small and medium businesses face many problems, such as: lack of capital, limited marketing, and low quality of human resources and the technology used. SMEs has a strategic role in the government's efforts to fight poverty and unemployment. The contribution of the micro, small and medium business sector to gross domestic product has increased from 57.84 percent to 60.34 percent in the last five years which has positive implications for labor absorption, from 96.99 percent to 97.22 percent in the same period. The SMEs can increase economic growth which has implications for GDP growth (Felaza, E., 2015). The SMEs increase is caused by the government policy which support SMEs development.

The national data shows that during the last 5 years, the number of industrial companies at the macro level tends to increase, but in the development of the number of industrial companies at the micro level tends to decrease. Almost directly proportional to the number of SMEs in the past five years in national level, the number of industrial workers at the micro level tends to increase, whereas the number of workers absorbed by small-scale companies is fluctuating and tends to decrease, especially in the period 2013 to 2014 the number of workers decreases significantly. Then, the development of micro and small scale industrial companies in East Java Province also tends to increase. The number of

industrial companies at the micro level increased steadily, i.e in 2013 a total of 539,320 rose to 608,774 in 2014 and continued to increase to 771,185 in 2015. Conversely, the development of industrial companies at a small level tended to decline. In 2013 the number of small industry companies was 89,786 decreased to 39,932 in 2014. Then in 2015 the number of small industrial companies experienced an increase although not significant to 49,659.

The development of the number of micro and small industrial companies has implications for the development of the number of employment. At the level of micro industry company they experience a steady increase from year to year. The decline in the number of industrial companies at a small level had also given an impact on the decrease in the number of workers, namely 723,019 in 2013 decreased to 347,668 in 2014 even though in 2015 it experienced an insignificant increase of 398,088. This can be seen from the presence of SMEs in the administration of SIUP as shown in table 1.1

Table 1.1 Number of Trade / and Industrial SIUP of Surabaya City

No.	Year	Micro	Small	Medium
1	2014	1.373	3.437	1.359
2	2015	1.538	4.062	1.531
3	2016	2.498	6.462	2.212

Source: processed from Surabaya in Numbers, 2014-2016

Surabaya City which is the second largest city in Indonesia and the Capital City of East Java Province has good potential in increasing economic growth, especially in the SMES sector. In table 1.1 it can be seen that the number of SIUP at the level of micro, small and medium industrial companies tends to increase. In the last 3 years, a significant increase occurred in 2015 towards 2016, which was 56.7%. But the development of SMEs in the city of Surabaya still faces a classic problem namely limited business capital and human resources are still low (Kristanto,2013). Given the importance of the role of small and medium enterprises and the many problems faced by them, it is necessary to increase government support (Sukidjo, 2004). The obstacles faced in empowering SMEs are time, resources, attitudes, networks and information (Dewanti, 2010). Increasing economic development to improve the competitiveness of SMEs depends on the effectiveness of the management of knowledge and technology. Social networks help the poor improve the economy by sharing information about access to decent work (Setiarso, 2006). SMEs need to be empowered to be independent and compete with other business units. Social network is one approach to empowering SMEs. Based on the research problem that has been described, the formulation of the problem in this paper is how to empower SMEs through social networks in Surabaya City?

The social structural view considers the network structure which consists of many bonds, such as: actors, stakeholders, and others (Granovetter, 1973; Burt, 1982) . Grootaert (2002) stated that social capital is one alternative to overcome poverty, health, education, and the availability of economic capital at the household level. Even according to him, the contribution of social capital is proportional to human capital. Social network is one dimension of social capital in addition to beliefs and norms. The concept of networks in social capital focuses more on aspects of bonding between nodes that can be in forms of people or groups (organizations). Basically, social networks are formed because of a sense of mutual knowledge, mutual information, mutual reminders, and mutual assistance in implementing or overcoming something. In essence, the concept of networks in social capital refers to all relationships with other people or groups that enable activities to run efficiently and effectively (Lawang, 2005). Scott (1991) explained the development of social network theory consisting of 3 stages, namely

1. The tradition of sociometric analysis, which relies on graph theory from mathematical methods
2. The tradition of interpersonal relationships, which focuses on the formation of clicks among a group of individuals;
3. Anthropological traditions that explore the structure of community relations in less developed societies

Granovetter (2005) thought about the influence of social structures, especially those formed by the network on economic benefits, especially regarding the quality of information. According to him there are four main principles that underlie thinking about the relationship between the influence of social networks with economic benefits, namely

1. Network norms and density.
2. Weak or strong ties, which are economic benefits that tend to be obtained from weak ties. In this context he explained that at the empirical level, new information, for example, would tend to be obtained from new acquaintances compared to close friends who generally had almost the same insight as individuals, and new acquaintances relatively opened the horizons of the outside world of individuals.
3. The role of structural holes that are outside of weak or strong bonds that apparently contribute to bridging individual relations with outside parties.
4. Interpretation of economic and non-economic actions, namely the existence of non-economic activities carried out in an individual's social life that turns out to affect his economic actions. In this case Granovetter called it the delay in non-economic actions in economic activities as a result of social networks

Mitchell (1969) explained that in complex community life, there are three types of regular social relations, namely: a). Structural order, where the behavior of people is interpreted in terms of actions that correspond to the position occupied in a set of positions, such as in a company, family, political party. b). Categorical order, where the behavior of people in unstructured situations that can be interpreted in terms of stereotypes such as class, race, and ethnicity. c). Personal order, where the behavior of people both in structured or unstructured situations can be interpreted in terms of the relationships between individuals in a group or the relationship between a group with other groups

Then Agusyanto (2007) explained the purpose of social relationships that form social networks that exist in society, can be divided into three types of social networks, namely: a. interest network; social relations that shape it namely social relations with an interest in it. Networks are formed on the basis of the objectives to be achieved by the actors; b. Sentiment network (emotional network) formed on the basis of emotionally charged social relations. In emotional networks social relations is the goal of social action such as friendship, romance or family relations and so on; c. Power network, where the social relations that shape it are social relations with power.

Etymologically empowerment comes from the basic word "power" which means strength or ability. Starting from this definition, empowerment can be interpreted as a process towards empowering, or a process to obtain power / strength / ability, and / or the process of providing power / strength / ability from those with power to those who are powerless. Suharto (2009) conceptually defined empowerment comes from the word power (power or empowerment). Empowerment according to Suparjan and Hempri (2003), said that empowerment basically includes two meanings namely to give or authority and to give to or enable. Referring to the first understanding, empowerment means giving power, transferring power and delegating authority to other parties. The concept of empowerment according to Tricahyono (2008) is related to two conflicting terms, namely the concept of helpless and powerless, especially when it is associated with the ability to access and master the potential and sources of social welfare. Sulistyani (2004) argued that empowerment can be interpreted as a process towards empowering or the process of giving power / strength / ability, and / or the process of giving power / strength / ability of those who have power to those who are powerless.

Community empowerment is a development process in increasing human dignity and well-being. Therefore, the noble profession as an agent of empowerment needs to be supported by competencies that are able to empower people in the current global era (Anwas, 2013). Community empowerment is the concept of economic development that encapsulates community values to build a new paradigm in peoplecentered, participatory, empowerment and sustainable development (Chamber, 1995). Ginandjar Kartasasmitha (1996) stated that empowerment is an effort to build that power, by encouragement, motivate, and raise awareness of its potential and strive to develop it. Esrom Aritonang

(2001) empowerment as an effort to develop strength or ability (power) potential, community resources in order to defend themselves.

Totok & Poerwoko (2012) the term empowerment can also be interpreted as an effort to meet the needs desired by individuals, groups and the wider community so that they have the ability to make choices and control their environment in order to fulfill their desires, including their accessibility to resources related to their work, social activities. Powerlessness or weaknesses in aspects: knowledge, experience, attitude, skills, venture capital, networking, enthusiasm, hard work, perseverance, and other aspects that result in dependency, helplessness, and poverty (Anwas, 2013). Tricahyono (2008) stated the principles of empowerment are as follows:

1. Development carried out must be local
2. Prioritizing social action
3. Using a local community or community organization approach
4. There is a common position in work relationships
5. Using a participatory approach, group members as subjects not objects

Then Suparjan & Suyatna (2003) in the framework of community empowerment there are several things that must be done, among others:

1. Increase critical awareness or position of the community in the socio-political structure. This departs from the assumption that the source of poverty comes from the social construction that exists in the community itself.
2. Critical awareness that arises is expected to make the community able to make arguments for various kinds of exploitation and at the same time make a decision on it.
3. Increasing community capacity. In this context it is necessary to understand, that the problem of poverty is not just a matter of social welfare but is related to political, socio-cultural and security factors.
4. Empowerment also needs to improve with the socio-cultural development of the community.

Micro, Small and Medium Enterprises (SMEs) are regulated in the Law of the Republic of Indonesia Number 20 of 2008 and their implementation is regulated in Government Regulation of the Republic of Indonesia Number 17 of 2013. In these regulations, Micro Business is defined as productive businesses owned by individuals and / or individual business entities that meets the criteria for Micro Business as stipulated in this Law. Then Small Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branch companies that are owned, controlled, or become a part either directly or indirectly of Medium Enterprises or Large Enterprises that meet the criteria of Small Business as referred to in this Law.

While Medium Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branch companies that are owned, controlled, or become a part either directly or indirectly with a Small or Large Business with a net worth or annual sales results as provided for in this Law. UMKM aims to grow and develop its business in the context of building a national economy based on a just economic democracy. Therefore the central and regional governments have an obligation to empower SMES s. The principles of empowering SMES s are as follows:

- a. Growth of independence, togetherness, and entrepreneurship in Micro, Small and Medium Enterprises to work on their own initiative
- b. The realization of public policies that are transparent, accountable and fair
- c. Business development based on regional potential and market oriented in accordance with the competence of Micro, Small and Medium Enterprises
- d. Increasing the competitiveness of Micro, Small and Medium Enterprises
- e. Implementation of integrated planning, implementation and control.

Granovetter (2002) argued that economic institutions must be understood as social construction. It is a result of deliberate actions carried out by social actors that are captured in social networks. Buyers and sales are social structures that need each other. According to Smångs, M., (2006) Business groups are conceptualized in three elements, namely interconnected corporate networks, reciprocal logic that is institutionalized, and actors inside and outside the group. Furthermore, the perspective of social networks in organizations is suggested in business group analysis. Then, KC, B., Morais, DB, Peterson, MN, Seekamp, E., & Smith, JW (2017) in their study explained that Three subcategories were identified under network creation: entrepreneurial activity in the same environment (48.8%), seeking sponsorship (29.3%), and professional platforms (22%). The business environment is very influential in determining the success of SMEs.

Social capital is one of the capital that must be considered in forming business groups (Biggart., N. W., and Castanias, R. P., 2001). Social capital is defined as the amount of potential resources derived from network relationships which owned by individuals or social units (Nahapiet and Ghoshal, 1998: 243). At the first stage of entrepreneurship, the network is a very important capital than others (Casson and Giusta, 2007). Wang, R., Gupta, A., & Grewal, R. (2017); Balkundi, P., & Harrison, D. A. (2006) argued that a manager's social capital can influence and improve company performance. With social capital, managers can access their business markets through social networking. Social networks between organizations can work together by creating a new product innovation (Zaheer, A., & Bell, G. G., 2005). From this statements, it can be concluded that networking is very important in business. Social networking is one of capital that needs to be concern in business.

B. METHOD

This study used qualitative approach that is a method to explore and understand the meaning of individuals and groups from social or humanity problems. (Creswell, 2014). This research strategy is a case study, which is a qualitative research strategy in which researchers investigate carefully a program, event, activity, process, or group of individuals. The data collection techniques of this study were observation, in-depth interviews, and documentation. Then the technique for determining this research informant used purposive sampling. Purposive sampling is a non-random sampling technique wherein the researcher determines sampling by determining specific characteristics that are in accordance with the research objectives. In this research, we interviewed 7 informants consisted from SMEs owners, SMEs associations, government, and private institutions. Each interview session took about an hour. The location of this research was in the coastal SMES s of Surabaya, which included Kenjeran Village, Bulak Village, Kedung Cowek Village and Sukolilo Baru Village. Because the coastal areas of Surabaya City has economic potential. but, this area is still a low-income regions.

Case study specific analysis has been described by Eisenhardt (1989); Miles et. al (2014); Yin (2009); Stake (1995); Merriam (1998); Creswell (2014). This study used a special case study analysis by Creswell (2014). There were managing and preparing data, reading the whole data, analyzing more details and recoding the data, applying the coding process, presenting the data, and interpreting data.

C. RESEARCH FINDING AND DISCUSSION

This study searches social network patterns based on a stakeholder approach which has an important role in empowering SMEs. Cooperation between stakeholders will result in better performance in empowering SMEs (Karsidi, 2007). Stakeholder is one of the most important parties in SMEs empowerment social network. All roles and involvement of SMEs stakeholders develops in accordance with their perspective of SMEs. As for the involvement of SMEs stakeholders in meeting the needs of community empowerment for SMEs that have occurred and have been carried out so far. Later these SMEs can develop social networks through these are stakeholders.

1. SMEs

SMEs as actors play a very important role (key holders) in the framework of their own empowerment. In empowering SMEs, it is necessary to be motivated and benefit from the various opportunities and facilities provided by various parties (other stakeholders) because without the participation of SMEs individually or in groups it will result in the failure of

empowerment efforts undertaken. However, it is important to realize that each empowerment program must depart to meet the needs of assistance as well.

2. Business Associations

Business associations can help SMEs in various aspects for their members, especially in this case the relationship with the market will strengthen the bargaining position in trade, both in pricing and payment systems and create fair business competition

3. Government

The role of the government in developing SMEs and other institutions related to the empowerment of SMEs such as cooperatives, associations, universities, and financial institutions, can be realized with policies that favor the development of SMEs themselves. There are marketing programs carried out by the Surabaya City Government through Department of Cooperatives and Micro Enterprises in collaboration with PD. Slaughterhouse, Surabaya City Economic and Heroes Trade Office, Department of Food and Agriculture Security, SMEs that are coordinated by the local SMEs Association. Some private companies also participated in marketing SMEs, namely by sending several selected SMEs to attend the exhibition, both inside and outside Surabaya City..

Department of Trade of Surabaya City expands the marketing reach of products from Micro, Small and Medium Enterprises (SMEs) in Surabaya by promoting it to developing mini-markets (Alfamart, Indomart, sakinahmart, etc.). In addition to helping market SMEs products, Surabaya City Trade Office provides training, for example providing financial management training with Bank Indonesia, then providing training to design their products in an attractive manner with students of the Product Design Department from the Ten November Institute of Technology Surabaya, in addition to the Trade Office Surabaya City facilitated the training of tart cake design with Bogasari. For SMEs marketing, further publications will also be held on major radios in Surabaya, for example Gen FM, Radar Surabaya, Sindo Radio, Muslim Voice Radio, etc.



Picture. 1 handicraft training by Surabaya City Industry and Trade Office and Association of SMEs

Surabaya City Trade Office has not entered into a written collaboration with other parties to market SMEs in the City of Surabaya. However, to empower SMEs, Surabaya City Industry and Trade Office held training with those who wished to facilitate it. Then Surabaya City Cooperative and Micro Business Office facilitated the formation of a "community" or SMEs association of Micro and Small Business Owners. These small groups were formed so that they are easily detected. In addition, they were also able to exchange ideas or gave input to improve their efforts with each other. The formation of these small groups was carried out by SME owners themselves without interference from the Office of Cooperatives and Micro Enterprises. To empower the Micro and Small Enterprises built in Surabaya, the Cooperative and Small-Medium Enterprises Agency only facilitated them, for example the Ramadhan Bazaar was held in each Sub-District in the City of Surabaya. Owners of guided SMEs can

register their businesses at the Department of Cooperatives and Micro Enterprises for free, to be included in the Ramadhan Bazaar. This bazaar is held every Ramadan, and is held 2x in each subdistrict in Surabaya City.



Picture 2. Ramadhan Bazaar in Kenjeran, Surabaya

In addition to the above empowerment, the Office of Cooperatives and Micro, Small and Medium Enterprises also provided assistance to the owners of fostered SMES s in Surabaya City, for example, assistance for lending venture capital at the State Bank. This was done so that they know the procedures for making loans with low interest rates and affordable to them. Then the Department of Cooperatives and Micro and Small and Medium Enterprises also provided assistance to the problem of managing the SMEs income tax, where SMEs owners were also taxed but not too large, because the velocity of money from their businesses was not yet large.

4. Financial Institutions (Banks and Non-Banks)

One of the classic problems of empowering SMEs is the problem of lack of capital, but SMEs were reluctant to come to the bank specifically because it was related to the many requirements needed to obtain credit facilities from banks. Conversely financial institutions often face the problem of how to market the "capital" collected from the community can be channeled to SMEs entrepreneurs safely. This means that the two parties can actually form a mutually beneficial relationship. For this reason, a new approach to banking must be sought for SMEs, one of which is through the Savings and Loans Group (KSM) and business groups (cooperatives) in providing credit services to SMEs..

A group approach will not be effective if the Bank's view of SMEs still uses the old paradigm that credit to SMEs is uneconomic and risky. For this reason, it is necessary to use a new paradigm, where SMEs should be seen not only as credit beneficiaries, but also as potential sources of savings. With the group approach it is expected to facilitate credit management and be able to reduce risk so that overall it becomes an economical credit service. In addition to helping reduce the risk of bad credit, the Bank can provide business assistance for SMEs who take credit at the Bank concerned. This approach does require more time and thought, so as to mitigate risk, it can work together with the Bank Partner Financial Consultants (KKMB), a model of financial consultants who are now being encouraged to develop in order

5. Private sector

For private companies, the SMES fostering program is part of the CSR program. The company must set aside funds from its profits to carry out social and environmental responsibility. This policy is regulated in Article 74 paragraph (1) of the PT Law, which states that "Companies that carry out their business activities in the fields and / or related to natural resources are required to carry out Social and Environmental Responsibility. Furthermore, if this provision is not implemented, then there will be sanctions that will be imposed in accordance with statutory regulations. Then, in 2012 President Susilo Bambang Yudhoyono signed PP No. 47 of 2012 as

implementing regulations of Article 74 Law for Company above. PP No. 47 of 2012 consisting of nine articles. One of the regulated mechanisms is the implementation of corporate social and environmental responsibility.

One of the companies that perform a fostered SMES s is PT Telkom by providing unsecured loan. In addition, PT Telkom provides marketing facilities by sending selected SMEs to take part in exhibitions, both in Surabaya City and outside Surabaya City. Then the Surabaya City Trade Office collaborated with PT Bogasari in training cake makers for SMES.

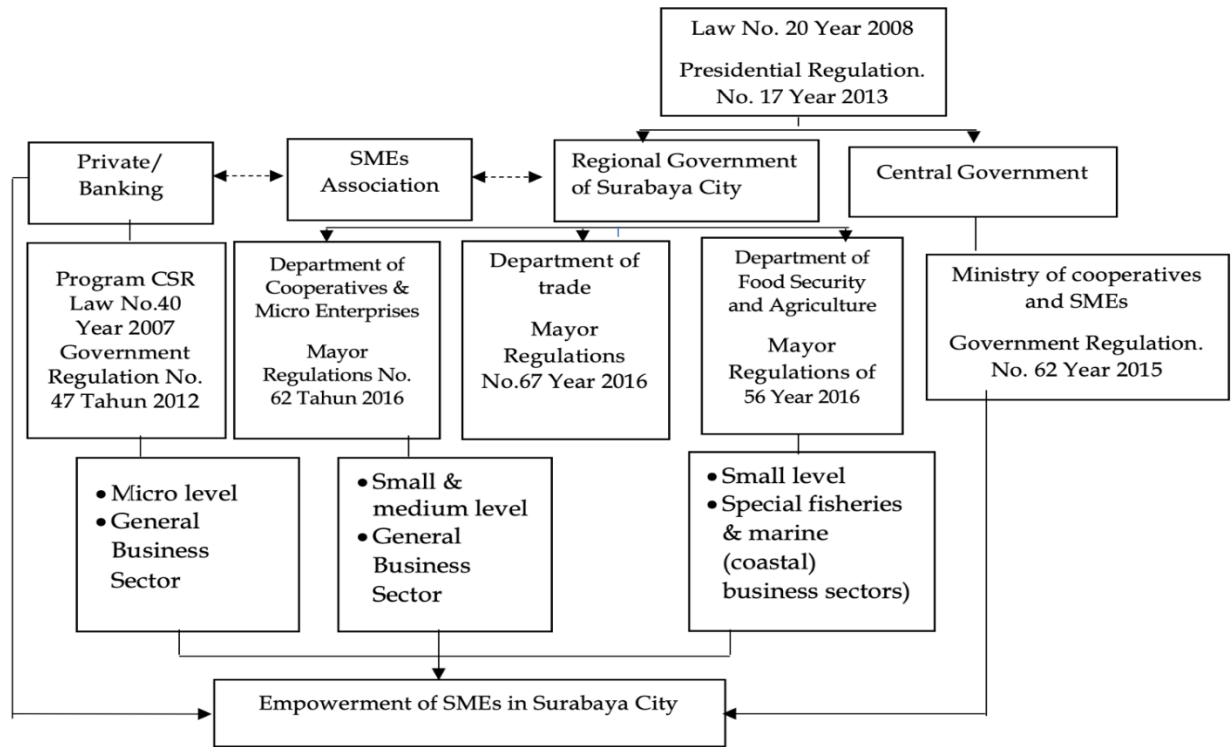


Figure 1. Social network between stakeholders in developing SMEs

Source: Processed by research

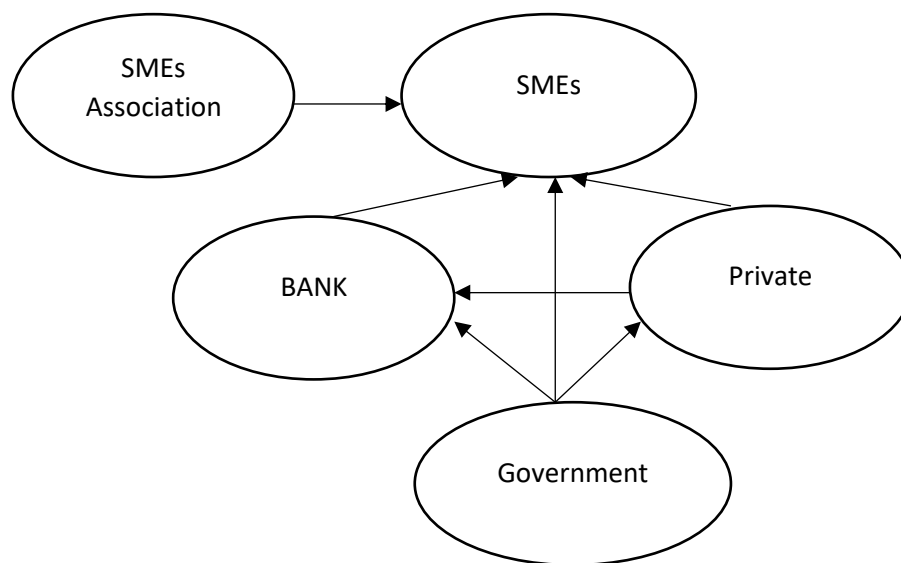


Figure 2. The pattern of social networks in empowering SMEs in Surabaya City.

Source: Processed by research

Classic problems in empowering SMEs that have been revealed by Kristanto, (2013); Dewanti, (2010); Kristiyanti, (2012) can be solved using a social networking approach. In figure 1 and figure 2 can be seen that there are 5 social network stakeholders that can be accessed by SMEs, namely SMEs, SMEs Association, Government, Bank, and Private. The government is the primary stakeholder which is the most important social network in empowering SMEs. The government consists of the central government and regional governments. Access obtained by SMEs from the government is training programs, marketing, mentoring and others. Then the private sector plays a role in providing capital for SMEs, it can be in the form of loans without grace with low interest. The private sector itself has an interest in empowering SMEs through CSR programs that must be carried out by the private sector. In addition, banks also possess a central role in empowering SMEs by providing special programs for SMEs funding (Purnamasari, F., & Darmawan., A, 2017). Then SMEs association becomes a place for sharing knowledge among fellow SMEs, besides that the SMEs association can also influence the price of production. If it is further simplified, there are actually three of the most important actors in community empowerment, namely: Government, Private, and SMEs Associations. we hope that by utilizing social networks to these stakeholders, SMEs can be empowered and independent in the future.

D. CONCLUSION AND RECOMMENDATION

Conclusion

SMEs have an important role in promoting economic growth, especially in the regions. However, the empowerment of SMEs is not yet optimal, due to limited resources such as: human, capital, technology, and others. The use of social networks is an effective and efficient solution for empowering SMEs. Social networking is one of the capital that must be considered in business (Biggart., N. W., and Castanias, R. P., 2001; Nahapiet and Ghoshal, 1998; Casson and Giusta, 2007; Wang, R., Gupta, A., & Grewal, R., 2017; Balkundi, P., & Harrison, D. A., 2006; Zaheer, A., & Bell, G. G., 2005). But, empowering SMEs has more complex challenges than building a new personal business. The government is the most important stakeholder in social networks for empowering SMEs, because the government can protect SMEs in competitive industrial competition. They have the authority to make policies that support SMEs. CSR programs of private institutions become alternative solutions in capital financing, but not all of SMEs can access the program.

Recommendation

The limitation in this research is that it has not been able to see further the role of stakeholders that can be accessed by SMEs. Further research can examine the role of stakeholders in SMEs empowerment social networks. Suggestions for relevant policy makers to initiate stakeholders so that they can be used as a social network by SMEs

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