

Surviving the Valley of Death: A Study of Programs for New Small and Medium Enterprises in West Java Indonesia

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ABSTRACT

The cycle for small and medium enterprises (SMEs) starts from the stage of initiation, through the Death Valley curve, then to survival, growth, and maturity. Businesses often undergo the critical stage of the Valley of Death. Thus, they need good external support outside those business. This support can be carried out by various parties, including the government. Our study covers the first year of a three-year research. The research aims to analyse the level of survival of new enterprises in their first year of business. The research approach is based on the diffusion of entrepreneurship through government intervention policies for new venture creation (Dubini 1989). This research was conducted at the New Entrepreneurship Program in West Java Province in Indonesia, which has the highest number of SMEs in Indonesia. A sample size of 190 respondents participated in the New Entrepreneurial Program. The results of this study show that business performance is quite high (72.9 on a scale of 0-100), thus showing that the businesses are able to survive through the Death Valley. This indicator is measured by the level of sales, plan adjustments, potential and the willingness of entrepreneurs to continue operating the business. The level of potential and willingness for these businesses to continue is relatively high. Government support through monitoring and coaching is relatively low (31.5 on a scale of 0-100), but the benefits are quite high (63.1 on a scale of 0-100). In general, the SMEs under the government program are able to survive the Death Valley, even though the efforts to develop the enterprises are relatively low.

Keywords: Death Valley, Government Support, New SME Sustainability.

1. INTRODUCTION

Small and medium enterprises (SMEs) are recognised as an important part of the national economy. These enterprises have a more widespread effect on welfare than bigger businesses. However, SMEs have a long way to go from achieving this goal. Various studies have revealed many factors that influence the sustainability and development of SMEs. The critical stage faced by SMEs is their resilience through difficult times before moving on to the next stages. This critical stage is called the

Valley of Death. This situation has called for the efforts of the government, communities, universities, media and other parties to help SMEs through the Death Valley.

This exploratory research is a longitudinal study spanning three years. It aims to understand some fundamental aspects of SMEs, such as (1) its characteristics, (2) the complexity of business management and (3) the market and the external environment. It also explores the further impacts of SMEs on (4) performance and (5) development and sustainability. The results of this research are expected to provide important key points for SME development efforts in Indonesia.

The case study is conducted in the New Entrepreneurship Program in West Java Province, Indonesia for certain reasons. Firstly, West Java has the largest number of SMEs in Indonesia, with 4.56 million businesses. Secondly, West Java carries out development programs for 100,000 new entrepreneurs. West Java Province also contributes greatly to the national economy. Therefore, the development of SMEs in West Java is an important consideration in Indonesia.

Based on these considerations, the objective of this research is to provide comprehensive results, higher variability aspects, important academic reference, and similar programs implemented by stakeholders.

2. THEORETICAL REVIEW

Small and medium enterprises are usually characterised by small quantities of production, small market scope, simple business management and low barriers to market entry, thus requiring government support, as mentioned by Berry, Rodriguez and Sandee (2001):

SMEs are less reliant on formal markets and formal credit, SMEs are able to respond more quickly and flexibly than their larger counterparts to sudden shocks. The Government should concentrate on creating a business environment conducive to small and medium business growth, and promoting provision of business development services by the private sector rather than providing direct assistance to smaller firms.

Regarding the growth of SMEs and their importance, Tambunan (2008) writes,

Both real gross domestic product per capita and government development expenditure (especially those that used to finance SME development promotion programs) have positive impacts on SME growth. SMEs in LDCs can survive, and even grow in the long-run, for three main reasons: (a) they create a niche market for themselves, (b) they act as a “last resort” for the poor, and (c) they will grow along with large enterprises (LEs) because of their increasingly important production linkages with LEs in the form of subcontracting.

In Tambunan's (2008) article, the government is an important factor for the development of SMEs. The role of the government has become increasingly important in the midst of global competition that has hit SMEs. The government should also facilitate in increasing income per capita and reducing unemployment. Dubini (1989) explains,

Government intervention in stimulating the diffusion of entrepreneurship is legitimised by the role new companies play in job and wealth creation and the diffusion of innovation within a territory. Policies tailored on a local basis may be more effective in stimulating new venture creation.

The development of SMEs needs to be assessed within a certain period to determine their resilience and performance, as well as the effectiveness of the goal of the government in increasing income and opening new jobs. The stages of the development of SMEs can be analysed based on the stages proposed by Churchill and Lewis (1983), which are shown in the following figure.

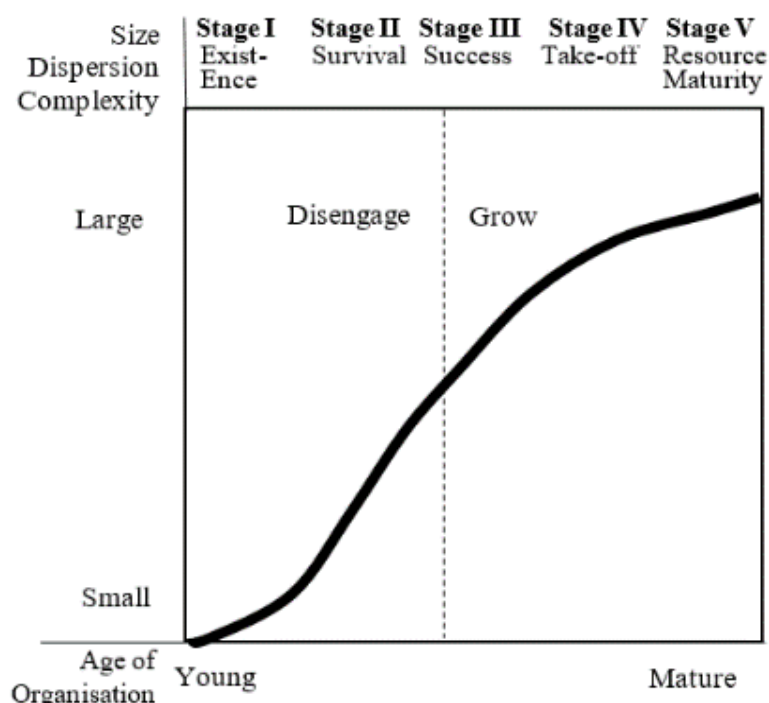


Figure 1. Stage of SME Development

Based on the stages, new SMEs start from infancy (young) and progress to maturity (steady). During these stages, the problems faced by SMEs also vary. Watson and Hogarth-Scott (1998) note several situations faced by SMEs.

Our results show that marketing and finance are particular problems for small business owner managers. The most important reasons for business discontinuance were: business not earning enough money; poor trading conditions; cash flow problems and personal reasons support agencies need to be aware that quality of life issues, personal problems and family matters can be very important for small business owners and can impact on the success of the business venture.

Maulina and Muftiadi (2017) examine the initial stages of the formation of SMEs in West Java. The types of new entrepreneurs are as follows.

The most chosen new business is on food and beverage processing/ culinary business, because of simple processing and huge market absorption along with densely population. The second choice is fashion business, in relation with Creative City Bandung as mentioned by UNESCO, supported by raw materials availability from textile industries surrounding Bandung. Furthermore, culinary and fashion are important Bandung City brand. These all business characteristics will become important input for the next phase of this study.

The development of SMEs can be examined along the stages of development so that the critical point at each stage can be identified. Information about the implementation of the New Entrepreneurial Program can be obtained from the results of the studies of similar programs by the Municipality of Bandung. According to Muftiadi et al. (2017),

Government facilitations are relatively have small effect on supporting new SMEs. The application of many training results requires adjustments in new ventures. Around 8.6% of new SMEs are consistent with original Program Plan, and most of participants (72.8%) conducted different focus. New SMEs training programs have not been optimally implemented to support new entrepreneurs and other external factors also influence the success.

3. RESEARCH METHOD

This research used quantitative and qualitative methods. Data were collected from 190 samples of SME participants in the New Entrepreneurial Program through questionnaires with closed questions. The data were measured in nominal and ordinal scale. The samples were sorted using a stratified random sampling based on the type of business and district location. Then, the collected data were processed with interpolation and cross-tabulation.

4. ANALYSIS

4.1. SMEs Profile

All the enterprises from the New Entrepreneurship Program are located in 18 districts of West Java Province. Most of them (30%) are located in the Greater Bandung Area. The participating owners of the enterprises have been chosen based on their submitted proposals. The participants are 80% women, which means that the accepted proposals are generally from women. This situation may have occurred because (1) a large number of men are already working, whereas women have not yet found work or utilised their available resources, or (2) business plans made by women are more feasible than those by men. The types of businesses consist of six major groups, namely, food, beverages, accessories, fashion, makeup, and crafts. The most preferred type is food processing because of its simple production process. Moreover, the

entrepreneurs in this type of business already have the necessary skills. The second most preferred choice is fashion and makeup services. The two skills needed by entrepreneurs in this type of business are not easily mastered. Therefore, the participants of this type of business possess relevant technical skills or have previous experience in the field. In general, the participants of this program include those who have already started a business on a small scale, have worked for other business or are completely new SMEs.

Table 1. Products and Number of Respondents

Products	Number of espondent	%
Accessories	11	5,9
Fashion	47	25,3
Beauty saloon	19	10,2
Handycraft	7	3,8
Others	3	1,6
Food	92	49,5
Beverages	7	3,8
Total	186	100

Source : Survey

4.2. Business Condition

The New Entrepreneurial Program has been operating for a year during this study. Therefore, the participants at this time of research have already implemented their businesses. They have previously received training and stimulus packages from the West Java Provincial Government. A summary of their entrepreneurial progress is shown in the following figure.

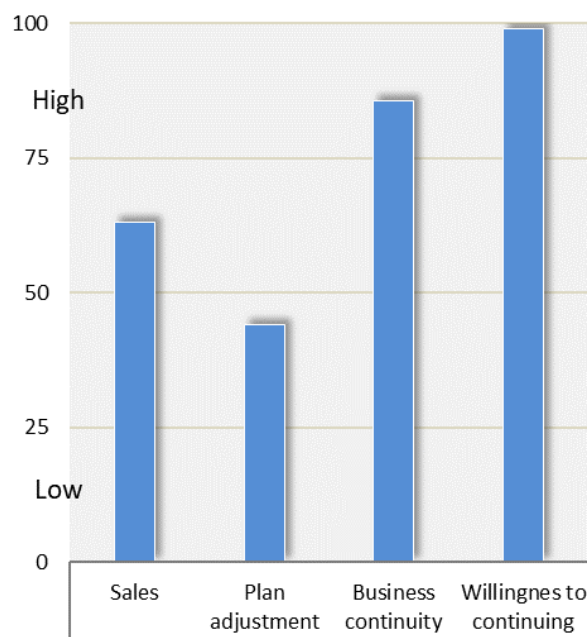


Figure 2. Performance Indicators

The results of this study show that business performance is quite high (72.9 on a scale of 0-100). Given that the businesses have been operating for a year, the sales are an important key in ensuring business continuity. If the sale cannot cover the operating costs within a short period, then the business will suffer losses and eventually close. Market access is usually a critical point for business at this early stage. Businesses need to go through the Valley of Death to secure its sustainability. The level of sales of the program participants are 'quite high'. Earning sales is crucial to maintain the business at the beginning. The level of sales among the different types of products are also different. Beauty salon services achieve the highest sales, followed by beverage products. Handicraft products have the lowest sales. Food products, fashion and accessories are also relatively high. The characteristics of the products also determine the level of sales. The sales of in-demand products, such as food and beverages, are relatively high. Beauty salon services have the highest level of sales because their businesses are a continuation or improvement of previous ventures. Services in this business are difficult to provide because they are based on trust. Moreover, the frequency of demand is relatively limited. Low-demand products, such as handicrafts, have low sales and are potentially difficult to maintain.

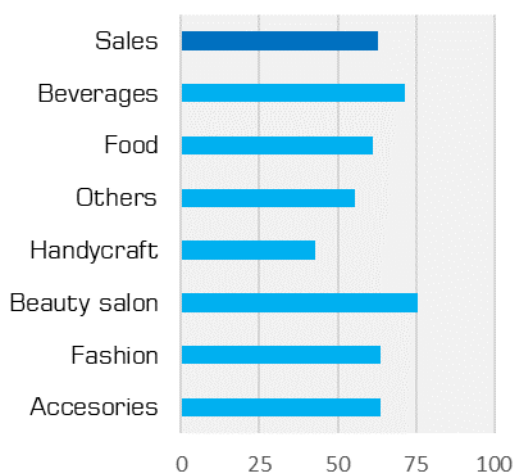


Figure 3. Level of Sales

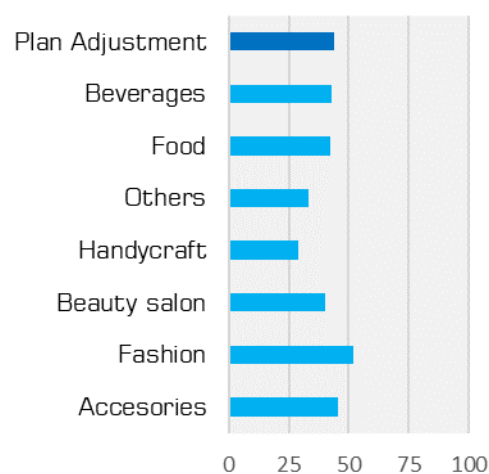


Figure 4. Plan Adjustment

The level of business adjustment of new entrepreneurs are moderate. Therefore, their work plan is relatively good. The highest level of adjustment is in fashion and accessories, whereas the lowest level is in handicraft products. The issue of adjustment in customer-oriented products may be higher than that in producer-oriented products. Such issues include responding to the market demand and adjusting the operations management.

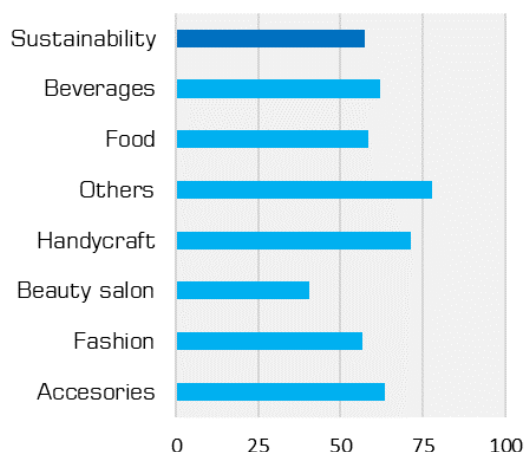


Figure 5. Business Continuity

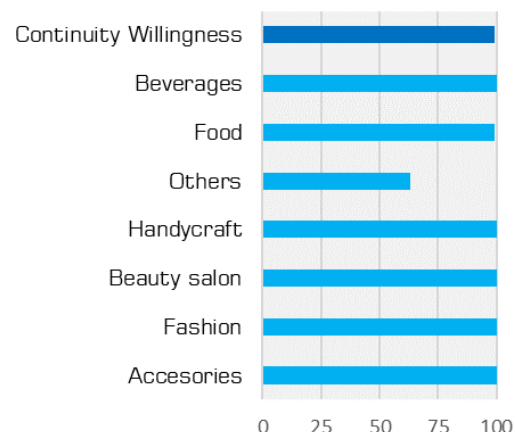


Figure 6. Willingness to Continuing Business

After doing a business for a year, the entrepreneurs state that they plan to continue their business because they have secured certain benefits. Businesses in the food, beverage, beauty salon and fashion sectors have greater interest in continuing their operations than those in handicraft production.

4.3. Government Monitoring–Coaching

The New Entrepreneurship Program is initiated with proposal selection, training, stimulation and monitoring–evaluation. The monitoring activities by the West Java Provincial officers are relatively low, which means low interaction between government officers and the new entrepreneurs. Therefore, new business entrepreneurs are relatively ‘independent’ or have received little government guidance. Nevertheless, they feel that the benefits are ‘quite high’. Business independence of the new entrepreneurs are relatively good because they do not depend much on the government. Government support through monitoring and coaching is relatively low (score 31.5 on a scale of 0-100).

Although government monitoring–coaching in the program is low, the perceived benefits for new entrepreneurs are quite high depending on the type of product. The highest benefit can be obtained by businesses that deal with food and fashion. The difference in market maturity seems to distinguish the level of benefits. In immature markets, the government provides more guidance.

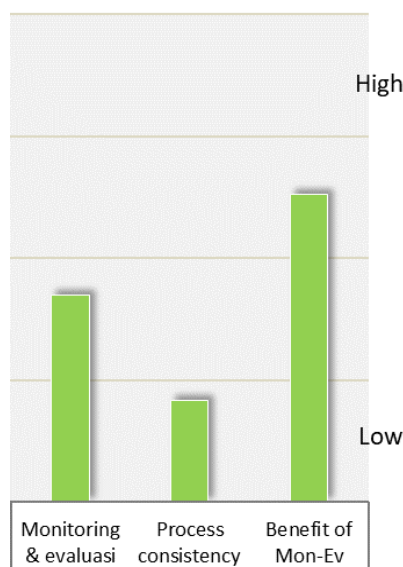


Figure 7. Government Monitoring & Coaching

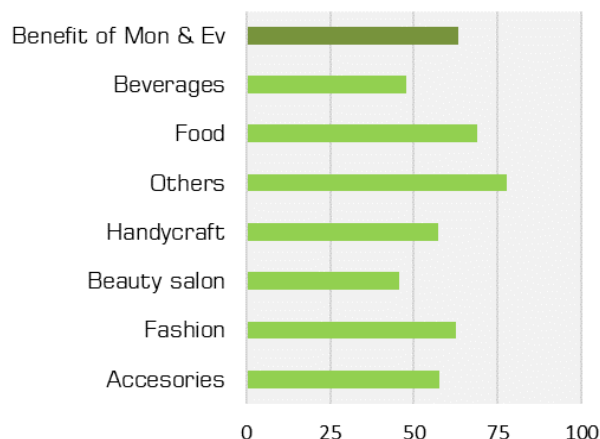


Figure 8. Benefit of Monitoring & Coaching

4.4. New Business Sustainability

All the respondents interviewed were either still able to continue their businesses or were able to overcome the Valley of Death. A relatively high level of sales is the key for business sustainability. With their income, businesses not only continue to buy raw materials but also keep the initial capital. If they have problems with selling in the short–medium term, then they will be unable to continue their business.

Various factors may support the level of business sustainability and resiliency. Among them are gender and business adjustments. In the government program, the sales of female entrepreneurs are relatively better than those of males. The chosen types of business adjustment help the endurance of the business. The most chosen adjustments are marketing (35.5%) and product/service design (27.4%). Other factors, such as financing, location, labour and production process, are relatively small. The other influencing factor of business sustainability is written by Muftiadi and Jaja Raharja (2018).

The advantages and impacts of creative sectors on economy and other sectors are related to production operation aspects, such as product composition of goods and services, customer order pattern, stability of product–process changes and system of production flow.

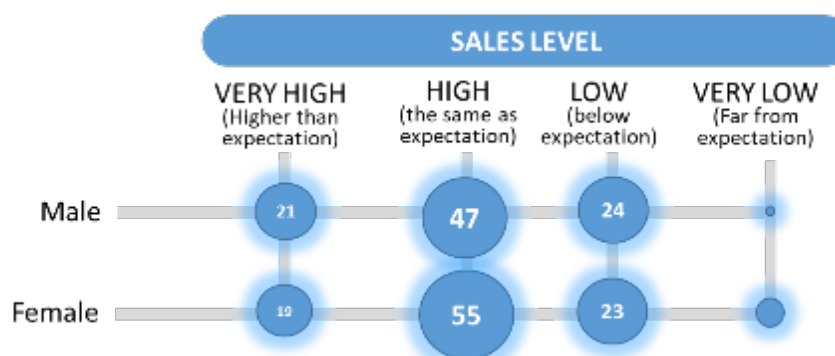


Figure 9. Gender Base on Sales

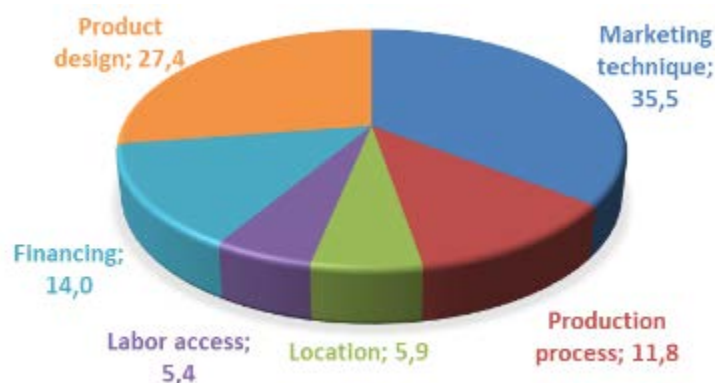


Figure 10. Types of Business Adjustment

5. CONCLUSION AND RECOMMENDATION

5.1. Conclusion

1. During the initial process, sales are an important key to ensure business continuity. If the sales cannot cover the operating costs in the short–medium period, then business closure will potentially occur. The level of sales of the business should be ‘quite high’ to maintain the business during a difficult period. Thus, market access is the foundation that can help businesses survive the Valley of Death. The new entrepreneurs participating in this program are not new at all. They have already experienced operating small scale businesses or gave worked on other businesses. They are not fully new entrepreneurs. Thus, these entrepreneurs do not depend much on government facilitation.
2. Various factors may support the level of business sustainability and resiliency. Among them are gender and business adjustment.
 - a. In the program, the sales of female entrepreneurs are relatively better than those of males.
 - b. The chosen types of business adjustment helps business endurance. The most common adjustments are made in marketing (35.5%) and product/service design (27.4%).

5.2. Recommendation

1. To increase the resilience of new entrepreneurs, government programs should work together with business incubators. The readiness of incubated entrepreneurs are relatively higher than the truly new entrepreneurs.
2. Coaching, mentoring and counselling on business adjustments in government programs are crucial. The process can be built through the SME network.

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