

Barriers of Public Policy faced by SMEs in Creative Economy

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ABSTRACT

Purpose – This research attempts to analyze the barriers in public policy faced by the SMEs in a creative economy at the local level.

Design/methodology/approach – This research uses a qualitative case study method, and the informants are selected with a purposive sampling technique. The researchers collected data through in-depth interviews of 15 informants. The informants include local government officials, SME actors, and creative economy activists. Data is analyzed using thematic analysis in the qualitative method.

Findings – This study shows that the development of SMEs in the creative economy is constrained by the mindset and administrative behavior of the local policymakers who tend to be normative, routine-minded, and inflexible. Consequently, the local government's administrative capacity in the creative economy sector has not demonstrated significant support for efforts to increase the competitiveness of creative economies at the regional level.

Research implications – Research implications suggest how the findings may be important for the policy and practice of SMEs' development of a creative economy at the local level. The findings suggest that local government needs to engage with the actors and activists of SMEs in the strategic formulation for the development of a creative economy.

Originality/value – This study extends the theoretical and practical knowledge about policy implementation of SMEs' development by a local government in the creative economy sector in Indonesia.

Keywords – Creative Economy, Small and Medium Enterprises, Policy Barriers, Local Government, Policy Implementation.

Paper type – Research paper

1. Introduction

Recently, the creative economy has made a significant contribution to the national gross domestic product (UNCTAD, 2018). The creative economy, shifting industrial and agricultural economy, has also been recognized as an important driver for promoting sustainable development (Fazlagić & Skikiewicz, 2019). While an industrial economy heavily relies on the use of natural resources capital, the creative economy uses mostly intellect, skill, talent, and creativity capital to produce creative goods and services. Therefore, the creative economy will provide high valuable incomes for a better economy.

Howkins (2001, p.8) first promoted the concept of creative economy, describing it as "a transactional activity of creative products which are goods and services that have economic value." He also classified creative economic activity into 15 sectors ranging from art to science. Another definition is given by the United Nations Conference on Trade and Development (UNCTAD) (2008), mentioning that the concept of a creative economy requires creative assets and products that promote better economic growth and economic development. The concept of the creative economy became popular and was adopted by many countries to encourage more investment and business.

The creative economy in Indonesia significantly contributes to the total GDP (gross domestic product), amounting to approximately 72 million USD and absorbing 14.61% or approximately 17.69 million of the labor force in 2017 (Riviyastuti, 2019). Despite the increasingly recognized significance of the creative economy sector in the national economy, the government policy to support its development is still considered weak (Widagdo, 2016, p.8). As a result, when the ASEAN Economic Community was opened in 2015, some analysts expected only a few countries, like Singapore, Malaysia and Thailand, would enjoy free economic competition (Simatupang et al., 2012). In other words, the creative economy sector in Indonesia had not been able to compete with the neighboring countries.

Literature pointed out that the role of public policy determines the growth of a creative economy (Hidayat & Asmara, 2017; Lee et al., 2001; McFarlan & McConnell, 2011). According to Fazlagić and Skikiewicz (2019), the study of public policy focuses on government support for building a good climate for the development of a creative economy. Benavente and Grazy (2017) also highlighted appropriate government interventions to promote SMEs in the creative economy, such as public inputs and market intervention. In these studies, despite the fact that public policies are required to support SMEs, they have potential barriers as they fail to understand the **actual needs of SMEs in the creative economy sector**.

Most of the available studies focus on major barriers faced by SMEs, such as financial access, price of energy, technology, management skill, and other economic factors (Irfayanti & Aziz, 2012). According to the International Labour Organization (ILO), three big constraints faced by SMEs in various countries are those of financial constraint, access to electricity, and competition with informal businesses (ILO, 2015). Meanwhile, the development of SMEs in a creative economy is determined by several factors, such as promotion, branding, entrepreneurship interests, and business networks (Wijanarko & Susila, 2016). Firdausy (2017) also noted that competitiveness of the creative economy

sector tends to be low because of external barriers, such as high interest rate, limited access to capital loans, and low public appreciation.

The role of local public policy in the development of SMEs has been well-reported in a number of studies. Hidayat and Asmara (2017) argued that local government policies determined the development of SMEs. Another study shows that local government leadership plays an effective role in developing an entrepreneur and small business culture (McFarlan & McConnell, 2011). However, it is not clear how policymakers' perceptions fit with SMEs actors' demands in the development of the creative economy. According to Bell and Jayne (2010, p.216), "disparities between policymakers' conception and practitioners' need" become a significant problem in the development of a creative economy in rural areas. In this sense, we argue that potential barriers will appear as policy implementation, which is supported by an insufficient capacity of implementers.

Although the prior studies have highlighted policy barriers faced by SMEs, they have only identified general problems in their development. Pochouri and Sharma (2016) pointed out that government policies are found to be one of the key barriers to innovation performance of SMEs. Public policy and government regulatory requirements are assumed by the SMEs as barriers to improve their competitiveness. Regarding the external factors that could hamper the development of SMEs, Govori (2013) highlighted issues of funding, administrative costs, corruption, high security requirements, unwillingness of banks to lend to SMEs, and government policies. However, these studies have focused on general SMEs settings. Studies on policy barriers in the local context of creative economy policy are also still rarely conducted (Fahmi, McCann, & Koster, 2017). In addition, studies on the role of administrative capacity in realizing policy objectives has been less paid attention (Jeong, 2007).

We, therefore, attempt to analyze how policy makers' capacity hampers the development of SMEs in the creative economy sector. At the implementation level, the concept of a creative economy has been interpreted differently across local governments (Fahmi et al., 2017). As the local governments show a low capacity to arrange a creative economy, their policy interventions do not have strong relevance with the need of SMEs' actors.

Departing from this issue, this paper aims to examine the current state of SMEs in the creative sector in Banyumas Regency in Indonesia. In 2017, the data shows a significant improvement of the SME sector in Banyumas, achieving 66,000 units (Suaramerdeka, 2017). In the context of a creative economy, Banyumas Regency represents unique challenges since it still encounters difficulties in realizing the title of a creative city.

Although various types of creative industry sectors, such as craft, fashion, culinary, film, performing arts, and television & radio, are increasing in Banyumas, some obstacles are faced by the SMEs. Thus, this study focuses on analyzing the local public policy, which has created barriers to SMEs in the development process. This paper contributes to the literature of policy implementation study, especially in the creative economy sector, by appraising the vital role played by the local government and by discussing the administrative constraints in the development of the sector.

2. Literature Review

Policy Barriers

Policy barriers refer to factors that preclude the achievement of policy objectives being implemented. They are related to policy failure, meaning policies do not succeed to realize the expected outcomes (McConnell, 2019). We carry out a review of studies on policy barriers in the theoretical perspective of policy implementation. To understand the relevant study of policy barriers, we develop Michael Lipsky's analysis of front-line bureaucracy behavior in implementing public service for citizens (Lipsky, 1980).

Lipsky's analysis is still relevant since front-line bureaucrats play an important role in developing interactions with citizens in the arena of policy implementation (Assadi & Lundin, 2018; Tummers & Bakkers, 2014). The local government is one of the examples of front-line bureaucracy. In providing public services for citizens, the local government has the authority to interpret the policies of the central government in accordance with the relevant implementation stage (Lipsky, 1980). Thus, the local government is the "ultimate policymaker" for two reasons: (1) they are the ultimate decision-maker and (2) they have a significant influence on policy outcomes (Maynard-Moody & Portillo, 2010). In this sense, the local government heavily determines the success or failure of policy implementation.

The implementation agents' attitudes in various studies were found as the main problems in the public policy implementation processes (Ahmad & Ervina, 2017; Tabrizi et al., 2018; Yang & Callahan, 2007). According to Yang and Callahan (2007), bureaucracy was frequently criticized as having its own agenda without representing the public interests. As a result, the operational policy formulated by the local bureaucracy has frequently been in contradiction with the public expectations. In the other studies, Ahmad and Ervina (2017) found that bureaucracy did not well play its role as the public service. In fact, bureaucracy tends to play its role as the authority and strive to defend its power.

In the perspective of organizational theory, policy barriers take place due to the bureaucracy culture. The cultural character and bureaucracy value play an important role

in supporting the success of policy implementation. Unfortunately, bureaucracy has frequently been unable to develop a conducive organization culture to support the organizational effectiveness (Nurdin et al., 2011). Bureaucracy culture can be reflected in the mindset and administration attitudes shown by the bureaucracy views and actions.

Concept of Administrative Capacity

There are several studies that have been conducted to identify policy barriers faced by SMEs (Aidis, 2005; Pachouri & Sharma, 2016; Firdausy, 2017). In this study, however, we develop the administrative capacity of the local bureaucracy, which has a crucial role in the process of policy implementation in developing countries.

Quoting the definition from Hermit, Honadle (1981, 576) explained that administrative capacity is "the government ability to identify problems, develop, and evaluate various policy alternatives to enable the government to work". Administrative capacity also means skills and resources which are necessary to prevent the policy failure (El-Taliawi & Van Der Wal, 2019). With respect to policy implementation, administrative capacity in the developing countries has experienced various problems, especially in the procurement of goods and services to the public (Ricciuti, et al., 2019). Some literatures mentioned that the existence of administrative capacity and resources belonging to the organization can be well managed and directed to support the achievement of organizational purposes (Eisinger, 2002; El-Taliawi & Van Der Wal, 2019; Piña & Avellaneda, 2017). Thus, the administrative capacity weaknesses can be the policy barriers in the policy implementation stage.

In our study, administrative capacity in creative economy sector policy consists of four main categories that are critical for effective policy implementation. The categories are capacity of understanding policy, commitment, coordination and pro-business policy (Luca, 2016; Fahmi et al., 2017; Hidayat and Asmara, 2017; Nurhalim, 2014; Pramusinto, 2016; Raga & Hamzah, 2017). These categories of administrative capacity are relevant to explain what obstacles that are faced by the SME to develop their business. The administrative capacity categories as the framework to explain the problems related to public policies found in creative economy sectors were as follows.

The main problem found in bureaucracy is the capacity of the bureaucrats to understand policy (Pramusinto, 2016). They frequently fail to understand the policies that have been formulated at the central level. In this context, there is a wide gap in terms of capacity between regional and central bureaucrats, resulting in the ineffectiveness of numerous policies in addressing problems (Luca, 2016).

The capacity to understand policy is a key for stakeholders to change their beliefs and work orientation (Spillane et al., 2002). Executives who understand the policy objectives will adjust their orientation or attitudes in the process of carrying out their work. By contrast, policy executives who do not understand the content of the policy tend to choose working in accordance with their conventional knowledge and experience. This is why understanding the capacity of the policymakers is crucial, because it will improve attitudes and beliefs and has an impact on the process of policy implementation.

Another barrier in the development of a creative economy is the government's commitment (Raga & Hamzah, 2017). Meyer et al. (2002) categorize three types of organizational commitments. The first is affective commitment indicated by the extent to which employees internally share the organization's goals. The second type deals with continual commitment, which refers to the situation of employees in supporting and staying at the organization to avoid the risks of leaving. The last type, normative commitment, refers to employees feeling they are morally tied to the organization. However, local governments, as the policy implementers, show a low commitment to the development of creative economy business (Fitriaty & Kurniawan, 2018).

Hidayat and Asmara (2017) contend that the commitment of the local government is present when a creative economic committee is formed. The aim of such a committee is to collaborate with creative economy actors and to provide support for all creative economy activities. With a special organizational unit handling the creative economy, the local government can monitor and control the development of SMEs within it.

The commitment of the local government to the development of a creative economy is also illustrated by the process of putting discourse into a collective experimentation (Fahmi et al., 2014). In some cases, some local governments put the concept of a creative economy into realization as an obligation to implement the central government policy (Fahmi et al., 2017). In this context, although creative economy development seems to be regulated by a top-down approach, local governments have managed to interpret the global discourse of a creative economy into more operational levels.

The failure in policy implementation relates to weak coordination (Pramusinto, 2016). Coordination becomes trickier when it involves a huge number of actors and institutions in policy implementation. The interests of actors and institutions are often difficult to integrate as they have a tendency to struggle for their own interests.

The development of a creative economy is certainly not just the task of the government. As Fahmi et al. (2017) argue, multi-stakeholder collaboration becomes the key to regional success in developing a creative economy. In this case, local governments

coordinate with various actors and institutions to develop a policy framework conducive to the development of a creative economy.

Nevertheless, coordination within government organizations remains a challenge for local governments in developing countries (Wuwei, 2011). Local governments still have problems to coordinate and manage across government agencies working in related fields. As a result, public policy becomes ineffective and inefficient to implement.

In order to further develop the SMEs in a creative economy, the government can improve a supporting business climate by creating pro-SME policies. For the local government, this includes easing licensing, waiving legal business processing fees, and simplifying the procedure.

Policy barriers can be associated with the facilities and access provided by the government, which are only directed to the SMEs that have already obtained a legal status of institution (Nurhalim, 2014). The SMEs that do not have a legal status will have an unclear future and are not eligible to participate in tenders or export activities. The problem is that obtaining legal status is not an easy matter for the SME actors, in addition to the burdensome costs.

Another policy barrier is the legal aspects of SMEs, which negatively affect their success (Indarti & Langenberg, 2004; Sopanah, Bahri, & Ghazali, 2018). This is due to the complicated bureaucracy and the legal aspects that cost time and energy from their human resources to obtain their licenses. Thus, local government policies can support or hamper the development of SMEs in a creative economy depending on the extent to which local governments provide easy access for SMEs in terms of licensing, cost and simple procedures.

3. Research Methods

This study was conducted in Banyumas Regency, Central Java, Indonesia, from April to September 2017. The research location was selected based on the unique characteristic of SMEs in the creative economy in the region. These SMEs adopt cultural elements, such as particular traditional handmade painting, better known as Batik, Banyumas cultural identity shirts, and culinary industries. The case study is applied to explore barriers related to local public policy to the development of SMEs in a creative economy. In its application, case studies have been used by various disciplines, including government studies and public policy, for example, to assess whether government policy is effective or not in pursuing its objectives (Zaenal, 2017, p.1). Referring to the

explanation, research on the policy of creative economic development by local governments is relevant for study within the framework of case study design.

Informants as a primary data source were selected by the purposive sampling technique. To achieve a representative group of interviewees, persons were chosen based on selected criteria according to the research objectives. They comprised local government agencies involved in managing SMEs, and actors and activists of SMEs in the creative economy in Banyumas Regency. We considered informants having broader knowledge of the operation of a creative economy and representing various businesses, such as culinary, fashion, and craft, which are well-developed in Banyumas Regency. We also included one informant representing local TV to get a description of barriers of media business development.

Furthermore, the theoretical sampling was conducted to obtain a deeper understanding on problems related to the policy experienced by the creative economy actors. By using the theoretical sampling method, the data collection process was directed to develop the theory during the analysis processes (Ligita et al., 2019). In contrast with the conventional samples which prioritize the number of people, the theoretical sampling focuses more on concepts. It means that data collection is performed to result in data saturation or data addition instead of the existing new categories (Birks and Mills, 2015). In this research, a total of 15 informants have met the theoretical sampling requirements.

Table 1 below presents the information about the demographic characteristics of our informants representing local government officers, actors and activists of the creative economy sector.

-----Insert Tabel 1 here -----

Data was collected from in-depth interviews and focus group discussions that were guided by a semi-structured research instrument focusing on the following topics and subtopics:

- (1) Capacity to understand a creative economy
 - a. Knowledge about a creative economy
 - b. Program orientation
 - c. Effects on sustainability of a creative economy
- (2) Commitment to the development of a creative economy

- a. Commitment to the objective of a creative economy
- b. Commitment to the provision of support to the creative economy
- c. Commitment to the obligation to develop a creative economy
- (3) Coordination among local agencies
 - a. Internal coordination
 - b. External coordination
- (4) Pro-business policy
 - a. Business permit
 - b. Business cost
 - c. Business procedure

Thematic analysis is used in this study to analyze the data and starts by identifying the emerging themes of the data and then continues with analyzing and finding the patterns (themes) in the data (Braun & Clark, 2006, p. 79). The themes found from the data are then structured to provide an explanation of the phenomenon studied in accordance with the research focus. For reliability of data, triangulation of data sources is applied by comparing data from multiple data sources and verifying informants' answers related to the interview questions. Then, data is classified as valid if a complete description of phenomenon is obtained based on various points of view from data sources.

To meet ethical consideration in qualitative research, we apply two protocols, namely anonymity and confidentiality. Anonymity aims to protect the personal privacy of informants from public disclosure, while confidentiality is used to protect personal information from public disclosure (Sanjari et al., 2014). To apply these two protocols, the informants were addressed as first informant, second informant, third informant and so on in order to maintain their anonymity and confidentiality.

4. Result

This section provides the main findings of the thematic analysis of policy barriers faced by SMEs in the creative economy sector. We divided our main findings into four main topics related to policy barriers: capacity to understand creative economy, commitment to the development of creative economy, coordination among local agencies, and pro-business policy.

Capacity to Understand a Creative Economy

The findings of this study suggest that informants from the bureaucracy admitted to not having complete understanding of the concept of a creative economy. Although the concept has been formulated by the central government since 2011, local governments are still trying to study the creative economy formula that is in line with the regional economy. The following are excerpts from interviews with some informants regarding a lack of comprehension of the creative economy concept.

Related to creative economy, what I know today is that regional bureaucrats have not seriously been able to cultivate a creative economy in the context of the MEA. The local government's involvement is still limited to providing a sports arena used as a venue for art performances and creative products exhibition, especially those of the SMEs. Frankly speaking, I do not understand what exactly the concept of creative economy is. All this time, the boost is given to the production aspect and it has not given a touch to the creative economy. I myself also do not really understand what creative economic products are. – First informant, local government officer, 52 years old.

The government of Banyumas Regency is like on 'autopilot' mode in responding to the creative economy. The SMEs in a creative economy develop without policy direction and clear concept from the government. Whereas, in fact, the SMEs in the creative economy are in need of serious support from the local government. Similarly, the trade service office has not paid any attention to the development of a creative economy. In fact, the programs prepared by the trade department have not yet accommodated the creative economy sector. – Second informant, creative economy activist, 39 years old.

I think there has been a gap between the Banyumas Regency government and village governments. The local government always asks for a proposal on proposed cooperation with those at the village level. Meanwhile, not all villages have the experience in formulating proposals. The villages aspire to communicate with each other to build common understanding of the matters which require cooperation. This does not necessarily have to be about budget or proposal. Cooperation does not only need support in financial things, but it also requires information, network development, and activities. The local government is still project-oriented even though sometimes the project is completed without any mentoring process. – Third informant, creative economy activist, 38 years old.

The poor understanding of the local government on creative economy gives unfavorable influence to the sustainability of SMEs in a creative economy. The following are excerpts from interviews with creative economy actors.

I do not consider the opening of the ASEAN free market a problem. This situation becomes an opportunity to increase creativity in business. However, I feel that there is

inadequate support from the local government, whereas the SMEs are hoping for assistance, especially in the form of promotion, so that SMEs products will be developed and expanded more widely. –Third informant, SME actor, 35 years old.

Although we have received assistance from various parties, the support of the local government is still not optimal, especially in helping people to get a patent on our works. We do not know yet to which institution and how the procedure is and we have not been able to get a patent. – Fifth informant, SME actor, 42 years old.

Commitment to Development of Creative Economy

The findings indicate a lack of commitment from the local government to the objective of a creative economy. The following interview quotes illustrate the low commitment of the local government to the objective of development of a creative economy.

The development of a creative economy does require bureaucrats who are committed to the creative economy's objective. I recognize that the bureaucratic mindset generally has not been able to adapt to the objective of creative economy, which requires development of innovation and flexibility. In reality, bureaucracy in the region has not paid serious attention to the development of a creative economy, especially the role of SMEs. Our bureaucracy is largely still trapped by a routine mind-set and physical development.— First informant, local government officer, 52 years old.

In my opinion, the trade office has shown its low commitment to provide strong support and opportunities for undeveloped SMEs to move forward. This is evident when you look at who manages to take part at international exhibitions. Slots are given to business actors who, in fact, are quite advanced. SMEs with batik products have been able to keep track of the development of technology, have websites and social media accounts, and are well-promoted by Bank Indonesia to market their products to the international market.- Seventh informant, SME actor, 53 years old.

I think the local government of Banyumas Regency does not yet have a strong commitment to develop a creative economy. What the local government did was only give rewards to innovators. The budget support from the local government to facilitate the development of the creative economy is also very minimal. It seems that the local government does not realize its obligation to assist the development of SMEs in the creative economy sector. The Creativity and Innovation Expo in 2016, for example, was independently held by the creative economy community by displaying innovative creative works from various creative economy actors. –Eighth informant, creative economy activist, 39 years old.

The lack of the local government's commitment in the development of a creative economy has led to an unclear concept of creative economy development. Although there has been investment for the provision of promotional media for SME products, in reality,

the media campaign is not seriously managed. This condition is described by the informants as follows:

As the manager of SME Center *Pratista Harsa*, I try to accommodate the SME programs of Banyumas Regency, but, in its development, it is not in line with expectation. Even though the location of SME Center is very strategic, located at the center of the city, not many people know *Pratista Harsa* yet due to lack of promotion. It is not in line with the purpose of the institution, which is intended to market SME products. As a result, a number of SMEs have failed, especially the ones in the food industry because the commodity quickly expires.-Sixth informant, local government officer, 51 years old.

In my view, *Pratista Harsa* as a medium for promotion of SME products is not effective in attracting buyers because its management is done by bureaucrats. Ideally, the management is handled by businessmen and the center should be developed like a shopping mall to attract the attention of buyers.-Eighth informant, SME actor, 35 years old.

Coordination among Local Agencies

The data shows that the slow development of SMEs in the creative economy is caused by poor coordination among local government institutions that handle the affairs of trade and industry and cooperatives in the Office of Manpower and SMEs, and the economic section of the regional secretariat. The following are excerpts of interviews with two informants regarding the issue of inter-agency coordination.

In my observation, the support of Regency Government for the development of SMEs in creative economy is constrained by the sectoral ego among the Office of Manpower, Cooperative and SMEs, the Office of Trade and Industry, and the Economic Section of Banyumas Regency Secretariat. This can be seen from the management of *Pratista Harsa* which is less than optimal because it is structurally under the Office of Trade and Industry, but its programs are managed by the Office of Cooperative and SMEs. Ideally, it should be established as a Local Technical Implementation Unit (UPTD), which allows for better management. -Ninth informant, local government officer, 51 years old.

The existence of *Pratista Harsa* as the storefront and marketing agent of SME products is considered weak in promoting SME products. In my opinion, this problem reflects a lack of coordination between the trade and the SME offices. In addition, there is another institutional constraint, whereby the office of SMEs do not get access to who and where the stakeholders of SMEs from parties outside the regency bureaucracy are, such as banks and Bank Indonesia, the office does not have a comprehensive map of SMEs. The support of the regional head is also weak since

they do not seem to be aware of the impact of the MEA – Tenth informant, local government officer, 53 years old.

Pro-business Policy

The findings indicate that local governments do not show policies that favor the development of SMEs in the creative economy. The local government agencies are still proven to be an administrative burden to the SMEs in the creative economy. As a result, the business climate is not conducive for the development of SMEs in a creative economy. The following are excerpts of interviews from several creative micro-economic actors who talked about local government policies in connection with their business.

In my opinion, entrepreneurs in the creative economy sector get less support from the Regional Government. Culinary entrepreneurs feel they have to fend for themselves to solve various problems. Employers are also burdened with burdensome regulations, for example, obligation to include certain documents/letters when applying for a business permit. The lack of communication is also a problem. Local governments do not understand the business situation. The local government (in this case the Regent) does not have the vision to develop SMEs, or if any, his vision is very poor. The business climate in Banyumas feels a bit 'hot-burnt'. The entrepreneurs think that there is the need for bureaucracy improvement, especially to facilitate business permits and environmental permits. – Twelfth informant, SME actor, 42 years old.

In my opinion, the Regency Government's role has so far been limited to select SME representatives to exhibitions of creative industries. For example, the goal is to promote the Banyumas' batik products. Nevertheless, several proposals that I submitted for equipment assistance have never been approved. Another obstacle is SMEs do not have the status of legal person, so they cannot get help from the district government budget. To obtain the status of legal person is still difficult. In addition to the long bureaucratic process, the cost is still burdensome for SME actors. –Eleventh informant, SME actor, 51 years of age.

I found that the obstacle faced by SMEs, especially in the culinary field, is the process to obtain the permits, which is still too long. Compared to other regencies, the bureaucracy in licensing in Banyumas Regency is much more difficult so as to hamper the development of SMEs. For example, to obtain a home industry license (PIRT), the business must be registered with up to 20 members in order to get a visit from the Health Local Office. If they fail to reach the number, the visit cannot be held. Whereas other regencies do not require such a big number. -Thirteenth informant, SME Actor, 28 years old.

Summary of the Findings

Our study finds four important findings related to institutional constraints that hamper the development of SMEs in a creative economy at the local level. The comprehension of

the regional bureaucrats about the creative economy concept becomes the key factor to building the commitment and coordination of the local government in its efforts to show its support to the progress of SMEs in a creative economy. However, in reality, the regional bureaucrats do not yet have a complete understanding about a creative economy, which leads to a weak commitment, coordination and support to creative economy SMEs. The following table summarizes the key findings in this study.

---Insert Table 2 in here---

5. Discussion

The findings of this research suggest that the development of SMEs in the creative economy has been hampered by factors related to administrative capacity at the local level. Although the central government at the national level has shown recognition of the contribution of the creative economy sector, there is a gap at the level of implementation. These findings are in line with those of Fahmi et al. (2017) who reported that not all local governments are able to interpret the policy of creative economic development. In Indonesia, only a few local governments are considered successful in facilitating the SMEs in a creative economy, for example, the governments of Bandung, Cimahi, Yogyakarta and Solo.

The development of SMEs in the creative economy requires the support of regional bureaucratic capacity to understand the creative economy concept. However, this study reveals that local bureaucrats had poor understanding on the concept. This is apparent in the cases of unclear concept of development of a creative economy, project-based budgeting approach, and low sustainability effects of programs for SMEs involved in the creative economy. Under these circumstances, SMEs actors perceived that the creative economy was run on autopilot. In other words, the local government has managed SMEs in the creative economy in a traditional way rather than through a creative approach. This becomes problematic as there is a fundamental difference between the traditional economy sector and the creative economy sector. According Wuwei (2011), creative industries rely on soft capital, such as knowledge, culture, and human resources. Traditional industries, on the other hand, rely only on hard-capital, such as land, financial capital, and tools. The goals of creative economic development are different from those of

the traditional economy and are for improving better social, economic, and human development.

The research findings also show that local governments do not have complete knowledge of a creative economy. Spillane et al. (2002), who studied policy implementation and cognition, highlighted the role of belief and work orientation in the process of carrying out work. Policymakers with poor knowledge and understanding on the content of a policy will negatively impact the process of policy implementation wherein they fail to create a clear policy direction to promote the existence of SMEs in the creative economy. Our study finds that local government has an unclear policy direction to promote the existence of SMEs in a creative economy since they have no adequate knowledge on the creative economy concept. In addition, the formulation of programs that still rely on a top-down approach also prevents dialogue between the local government and the SMEs actors. In such a situation, SMEs' development programs managed by local governments have failed to address the needs and aspirations of activists of SMEs in the creative economy.

The management of a creative economy requires a different approach from the traditional economic sector approach. Nevertheless, the findings of this study show that local bureaucrats are still stuck with the mindset that centers on routines. As a result, the perspective of bureaucrats is not in line with the demands of the creative economy, which requires creativity and breakthrough. This mindset reflects the weakness of the bureaucrats' commitment to adjust to the changes demanded by the creative economy sector. This study has shown similar outcomes as those found by Luca (2016) and Pramusinto (2016) who studied bureaucracy and public policy effectiveness in which capacity of knowledge of the local government determines policy effectiveness.

The commitment to develop SMEs in a creative economy is ideally indicated by supporting the development of SMEs (Hidayat & Asmara, 2017; Raga & Hamzah, 2017). Nevertheless, the research findings indicate that regional bureaucracy has not provided sufficient access to the growing SMEs to engage in the opportunities for the exhibition of products at the national level. Ironically, local governments frequently invite the established SMEs instead. This is related to the bureaucratic management mindset and practice that is applied by the local government, which hampers the development of SMEs in the region's creative economy. Similar findings have been shown in the study by Fahmi et al. (2017), revealing that an obligation to implement the policy of creative economy development from the central government has induced the local government to apply a top-down approach. In our case study, the local government has no strong commitment to

develop the creative economy sector, as demonstrated by the situation at *Pratista Harsa*, which has not been functioning as an SME Center to promote local creative economy products.

The creative economy sector involves various parties of various elements (Fahmi et al., 2017; Warren & Jones, 2015). Thus, it requires integration of various activities undertaken by individuals within and outside the government in order to create synchronization and harmonization in the effort of developing a creative economy. Nevertheless, the findings of this study indicate that both internal and external coordination is still an issue for local governments. Given these coordination constraints, the exchange of information and other resources does not work optimally. This certainly impacts negatively on the development of SMEs in the creative economy. These findings echo the work of Wuwei (2011) and Pramusinto (2016), showing that weak coordination is one of the causes of failure for policy implementation in developing countries.

Another problem in accelerating the development of SMEs in a creative economy is a non-conducive business climate caused by the bureaucracy with their complex licensing, burdensome regulations and, in general, a less favorable approach to the interests of SMEs in a creative economy. This outcome is in agreement with Indarti and Langenberg (2004) and Nurhalim (2017) who investigated small business climate policies in Indonesia. They found that public policies in the SME sector tend to hamper rather than support the development of SMEs. In the midst of globalization challenges and the ASEAN Economic Community, local government policies ideally need to take sides with the SMEs in a creative economy. Learning from Singapore, Gwee (2009) shows that the government pays great attention through the policy of developing creative industry clusters with the aim that small-scale creative industries can survive and continue to innovate.

The findings in this research showed that the local governments were unable to provide significant supports to the development of creative economy. The local governments were also unable to read the creative economy actors' needs and demands. In fact, the local governments were the bureaucracy front-liners with their important roles in transforming various central government policies in the creative economy sector into more productive programs. In the contrary, the local governments were in fact unable to become partners required by the creative economy actors. These situations reflected the local governments' bureaucracy culture which has not yet changed a lot. The bureaucracy tended to have its own agendas and interests far beyond the public interests (Ahmad & Ervina, 2017; Yang & Callahan, 2007). As a result, the public policy implementations at the local government levels have frequently failed due to the poor administrative capacity.

6. Implication for the Policy

The creative economic sector, particularly at the level of SMEs, has been recognized as having a positive influence on the national and local economies. Employment absorption and its contribution to the country's foreign exchange earnings are the important roles played by the creative economy sector. Although its role is acknowledged, the SMEs in the creative economy still face various obstacles in their development. In this study, administrative capacity at the local level is found as an obstacle to the development of SMEs in a creative economy. The capacity to understand creative economy, commitment to creative economy development, inter-agency coordination, and licensing policy are still unfavorable to the situation of SMEs.

To improve the capacity to understand economic concepts, capacity building programs involving all relevant institutions that address the SMEs in the creative economy are required. In addition, it is also necessary to engage creative economy activists, considering their robust social network with other stakeholders. With their involvement, it is expected that the development policy of SMEs in the creative economy will accommodate the aspirations and needs of SMEs.

To strengthen inter-agency coordination, institutional forums that invite all stakeholders from all elements, including government, banking, SMEs, activists, universities, tourism and hospitality institutions, are needed. This kind of forum can serve as a medium for exchanging information as well as inter-agency coordination so that the development of SMEs in the creative economy becomes more efficient and effective.

Policymakers at the local level also need to accommodate the character of investment development policies in the creative economy sector. The risk of failure of investment in the creative economy sector can be reduced by investment policy that does not provide an additional risk burden to the SME actors. Therefore, the licensing policy, the process to obtain the legal status of institution, and the environment need to be simplified and eased for the SME actors in the creative economy.

7. Conclusion

Public policy at the implementation levels requires the implementers' administrative ability. However, most local governments in the developing countries, such as Indonesia, were not yet supported with an adequate administrative ability. Thus, the absence of administrative ability ironically inhibits the development of local economy.

The current development of SMEs in the creative economy at the local level is confronted with barriers in policy implementation. First is the lack of the local government's understanding of a creative economy, which has led to an obscure policy direction to promote the existence of SMEs. Second is the local government's weak commitment to developing SMEs, which has provided less access to growing SMEs at the national level. Third is the lack of coordination among agencies, both internally and externally, which has hampered the exchange of information and other resources that the SMEs need. Fourth is the less pro-business policies, particularly in facilitating licensing processes, the legal status of the institution, and clear policies for the development of a creative economy, which have created a non-conducive business climate for the development of SMEs.

The local government also seems to face a problem in translating the concept of a creative economy into a policy on the development of creative economy SMEs that is in line with the needs and demands of the actors. The development of a creative economy also demands the creative thought process of the local government. However, it appears that the mindset of the local bureaucrats tends to be normative, routine-minded and inflexible. As a result, the local government's administrative capacity in the creative economy sector has not shown significant support to the effort to increase the competitiveness of creative economies at the regional level.

Barriers of Public Policy faced by SMEs in Creative Economy

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