

DEVELOPMENT OF COMPETITIVENES MODEL FOR SMALL-MEDIUM ENTERPRISES AMONG THE CREATIVE INDUSTRY IN BANDUNG

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Abstract— In Indonesia, Small-Medium Enterprises (SMEs) have a major role in term of generating employment, contributing to Gross Domestic Product (GDP), and being safety valve in national economic recovery. Nevertheless, nowadays the role of SMEs is not sufficient to promote the economic growth and to increase society income. It is difficult to SMEs to grow becoming larger business “next stage” or persist in sustainable productivity. This problem is considered related to the decreasing of SMEs competitiveness. This study aims to develop model of SMEs’ competitiveness of creative industry cluster in Bandung. The research used intense theories that related to SMEs competitiveness. Based on preliminary study using existing researches, the competitiveness consists competitive abilities both internal and external factors and competing objects both financial and non-financial. This research also used theories on firm competitiveness: Porter’s competitive strategy and competitive advantage model, the resource-based approach, and the strategic management approach. As a means to address its issue, it uses depth interview method using semi-structured interview. The data collection had three phases: preliminary phase, first phase, and second phase. Preliminary phase is conducted to test the questions. The first phase interview is conducted to some sub-sectors of creative industry cluster in Bandung that are included the SMEs criteria. Those are publishing and printing, computer software, culinary, crafts, fashion, interactive games, and performance art. Then, the data would be analyzed using grounded theory analysis in order to generate initial codes, sub-concepts, concepts, and categories. The second phase is conducted to validate the results of first phase and generate the final sub-concepts, concepts, categories, and finally build the theory. By knowing the concept of SMEs’ competitiveness, the recommendation can be given related to development of creative industry cluster in Bandung. Competitiveness is viewed as a comprehensive concept. SMEs’ competitiveness can be assessed from the influences up to the results achieved. Three dimensions that are included in competitiveness concept are potential dimension, process dimension, and performance dimension. Potential dimension consist factors that are needed to develop the business, started from owner characteristics and company’s characteristics that are influenced by internal capability and external environment. The second dimension named process dimension, which is consist effective operation strategy and implementation and effective growth strategy and implementation. The third dimension is performance dimension which is divided into financial performance and non-financial performance. The hypotheses related to model can be developed. Finally the recommendation based on previous analysis can be given to some entities such as business owner, government, and mediator institution in order to develop the SMEs.

Key words: SMEs, Creative Industry, Competitiveness, Success Factor

1. Introduction

In developing countries, entrepreneur, particularly in the context Small and Medium Enterprises (SMEs) is essential for economic growth. SMEs contributes as a solution to the State's economic growth, in term of generating employment (Birch 1979), offering innovative products or services and competitiveness (Porter 1990; Schumpeter 1942) and enhance international trade of an economy through diversification (Hussain, et. al, 2012). Entrepreneur may be a solution for workforce empowerment by creating jobs for themselves and others.

Indonesia as one of the developing countries need to prepare themselves in order not to lag behind other countries, especially in ASEAN, especially in the case welcomed the ASEAN single market by 2015. One of Indonesia's economic problems is unemployment. The population is currently out of balance with the availability of jobs leaving many residents do not have a job and a steady income.

Small and Medium Enterprises (SMEs) can be seen as a safety valve in national economic recovery. SMEs' role in the rapid growth economic and employment is expected to be a starting point for efforts Government moves production sector in various business fields. They have proved to be able to live and thrive in the storm crisis that hit Indonesia in the past 5 years since the year 1998. The existence of SMEs according to BPS data 2011 has been able to contribute to GDP nearly 57.60% of total national GDP (BPS and Ministry of Cooperative and SMEs, 2012). While the number of SMEs in 2011 reached nearly 55.21 million units by the number of labor as 101.72 million people. The number of units SMEs and the absorption of labor increased 2.57 percent and 2.33 percent compared to 2010.

Nowadays, SMEs in creative industry considered as potential industry. It is able to absorb labor; the creative industry can also help in building the image and values of the national culture. According to Ministry of Tourism and Creative Economy of the Republic of Indonesia (2012), the projected growth of the creative industries in the period 2009-2015 is between 7-9 percent. The contribution to GDP about 7-8 percent increased from 6.28 percent. But SMEs in Indonesia only contributed one-third of the total contribution of companies in Indonesia to stimulate the economy. It shows low contribution of SMEs to support economic growth in Indonesia. The lack of SMEs' role to economic growth in Indonesia is caused by some constraints. Based on State Ministry of National Development Planning (2012), the constraints experienced are usually associated to low of capacity, low of human resources quality, high of transaction cost, and limited access to productive resources such as capital, natural resources, information, knowledge, skills, and technology. These constraints cause difficulties of SMEs to 'the next class' or held in sustainable productive business.

This study is purposed to identify factors of competitiveness and develop comprehensive model of SMEs competitiveness, especially for creative industry in Bandung. Therefore, the result can be used to provide the understanding on how to start-up business or to increase the competitiveness in order to get "next class" by looking at all factors affecting business competitiveness. The result will be a first SMEs competitiveness model for creative industry in Indonesia. This study also provides recommendation for government to enhance government's role in supporting SMEs development. Government is a catalyst, in terms of taxes, permits, access to funds, and other policies. The recommendation is also addressed to mediator, academician, and community. Mediator is an institution that has a concern for SMEs. Forms of assistance that can be provided by mediators can be a business mentoring or providing information on access to capital and market, for examples: CSR of state-owned companies, CIEL-ITB, and business incubators (Kinara Indonesia and LPIK ITB. Academician is a person or institution that concern to do research about SMEs and entrepreneurship. Community is a group of people who have similar interests, in this case is SMEs and entrepreneurship, for example: HIPMI, TDA, and Ngadulde.

A. Method of Data Collection and Analysis

Data collection had been conducted to construct variables of research model by in-depth interview and semi-structured interview. A set of questions is asked by interviewer. This method is chosen in order to get deep insight from respondent, ensure all the questions had been answered, and to feel the real natural atmosphere of the firm directly.

This study conducted in three phases:

1. A preliminary phase

At this phase, data collection conducted to establish the study pattern and check the interview guide and approach used. Method that used in this phase is one-on-one in-depth open-ended interviews to generate more detailed information about how the sampling process should be

running. In-depth interview techniques used in this phase in order to dig insight about what competitiveness is and the factors that influence it from the entrepreneurs.

Data collection is conducted to some different sub-sectors:

- Craft
- Fashion
- Culinary

The interview guide is checked using Aaker (1995) guidance in Syaifullah (2005):

1. Are the questions having simple vocabulary, familiar, and not confusing?

The questions should be understood by all respondents. From preliminary phase obtained the following results:

- Respondents were not understood about the terminology of 'performance', so that the word is changed to 'target achievement'.
 - Respondents were not understood about the terminology of 'competitiveness', so that the word is changed to 'more excellent or capable to compete'.
2. Are there words that has unclear meaning or ambiguous?

Respondents said the terminology of 'external environment' has unclear meaning, so that the question should be explained more details to its indicators.

3. Are there double-barreled questions?

Double-barreled occurs if one item asking two different things to respondents would be confused to answer. At the preliminary test, there were no respondents who found double-barreled item.

4. Are there leading or loaded questions?

Leading or loaded happens if an item asking something that directs the respondent to answer according to the researchers expected. At the preliminary test, there were no respondents who found leading or loaded questions.

5. Is the instruction potentially to confuse respondents?

When preliminary test, all respondents stated instruction is clear and well understood.

6. Are all the questions applicable for all respondents?

When preliminary test, all respondents can answer all items.

2. Phase Stage 1

This phase is a more detailed phase to build initial categories and build hypotheses. Data collection is done by semi-structured interviews method. Interviews were conducted using questions that have been prepared based on the literature review and the results of the preliminary phase. Interview is conducted using open-ended questions that can generate rich data set. Interview conducted for 30 minutes - 1 hour and recorded by mobile phone. Interview conducted depend on respondents time and located in-house in respondents office, workshop, or respondents' choice.

Point of interview focused on the context of competitiveness by in-depth interview and semi-structured interview refers to the analysis tools such as Porter's Five Forces, Value Chain, 7P, STP, and PESTLE Analysis. Interview conducted for several hours by face-to-face or via phone or email in accordance with the wishes of the interviewees. This study used purposive sampling method using smaller sample. Purposive sampling is a sampling method that uses specific respondents can provide desired information for only those who have that information or those who fit the criteria of the research that has been compiled (Sekaran et. al., 2009). The samples are selected for satisfy the research' specific purposes, even if the samples are not fully representatives (Zikmund, 2010). The grounded theory tradition typically includes detailed interviews with individuals or groups willing to share the conscious aspects of their experiences with the researcher (Creswell, 1998).

In this study, the respondents selected based on the specific criteria. The criteria refer to SMEs' criteria in Indonesia. If a SME run in the creative industry and located in Bandung, that mean it meets the criteria established for this research, that SME can be respondent to this study which will then be visited to do the interview and observation.

Interview conducted to several categories:

1. The owner or person who understands a lot about the business. Interviews can be conducted on-site or carried out in a predetermined location between the interviewer and the interviewee. Interview conducted to explore insight about the performance that has been achieved by the business and the factors that influence the success of the business has ever faced, not the product of the business.
2. Employee who works on the company. Interview conducted to gather the employees' opinion about the performance of the business that has been achieved, the factors that influence the success of the business has ever faced, and how the owner and management factors can affect the performance of the company.

Table 0.1 Respondent List

ID	Company	Sub-Sector	Position
A	Indscript Creative	Publishing	CEO
B	Akal Interaktif	Computer Software	Marketing Manager
C	The Dreamscape	Culinary	CEO
D	Purezento	Crafts	CEO
E	Lazuli Sarae	Fashion	CEO
F	Nightspade	Interactive Games	CMO
G	Saung Angklung Udjo	Performance Art	CEO
H	Saung Angklung Udjo	Performance Art	Corporate Secretary

3. Phase Stage 2

This stage includes testing to validate the categories that have been established and testing the hypothesis that has been formed in stage 1 to build a grounded theory about competitiveness. Data collection is done by a semi-structured interview method based on results of the hypothesis in stage 1.

3. Analysis

Open Coding

Open coding is the initial stage of the interview analysis. The interview data were analyzed sentence by sentence using open coding (Strauss and Corbin, 1998 in Chong, 2008). Charmaz (2006) in Shannak et al. (2009) recommended the data are separated into segments called incidents. An incident is found in a phrase, a sentence or two but infrequently in as many words as a paragraph (Glaser, 1998). The incidents were compared with other incidents and other data, to discover or develop the code.

Key point and codes of competitiveness term are taken from writing agency. Symbol A* refers to interview number and the number 1, 2, 3...etc refers to the number and arrangement of the key point; for example: A*1 means the key point number one. The following examples are key points from initial interviews and indicate the incidents that were identified and given a code.

Some people indicated that:

*"Yes, the **equipment** that used already for **production scale**."*

*"We **utilized technology** from manual to be **computerized**."*

These incidents were given the code: **technology enhancement**.

Other interviewees stated that:

*"If seen from software itself, it is still **ordinary software**, I think it was not important as long as appropriate with our needs."*

"Images made manually then scanned and reproduced by **computer**, after that printed."

"Well, now it no longer made manually but **drawn by computer**, then it is printed, produced, and sold."

"We only use ordinary **sewing machine**."

"Sewing **machine**, obras **machine**, buttonhole **machine**. **We already had them**. They are included in one package.."

"We **utilize technology**."

"**Notebook, internet**, already used."

"By **internet**, simple, we already bypassed the barrier."

"Now, we are **still in the smartphone**."

"After that, insert to the **website**. So, actually it depends on the **distribution in the internet** itself."

These incidents were given the code: **technology utilization**.

Other interviewees stated that:

"So, I use Facebook for business. Yes, **Facebook for business**."

"I made some certain groups in the **Facebook** that helped the writers and our network to communicate continuously with us."

"**Social network helps us to grow very much**."

"One of the form of communication is we are often **go into the group** to give tips, especially me."

"My editor, Ms. Anisa always **goes into the management group**, and then she gives the correction in writing and the improvement advice in writing. It will be a good interaction there."

"We did sales promotion through **social media**, starts from **Twitter, Facebook, and website**."

"We made own **social media**."

"I controlled the **social media** by myself. But now there are other people to control it."

"Then, we used **Twitter and Facebook page for social media**."

"Special event published on **Twitter**."

"We also did some effort for Appstore, such as we published through **Facebook, Twitter**."

"We already had **Twitter, Facebook**, and website. But it is not purposed to marketing, it is only for maintaining the information delivery and the customer relationship."

These incidents were given the code: **social media utilization**.

Other interviewees said that:

"We follow the **recent technology development**. Because the customers also follow the technology."

"We already **entered to smartphone**. But we only entered to **Apple**, not for Android."

"At my earlier times, there was no such thing like a computer. It means there was **development of advanced technology** from big computer to modern computer."

"And our challenge is we should keep update with the most **recent technology**."

These incidents were given the code: **technology update**.

After the first stage the researchers revisited the data and analyzed and compared all the key points to see if similar codes occurred often and grouped them together under the related concept. From all codes grouped into concepts: Marketing Effectiveness, Financial Capability, Technological Optimization, HR Development & Operation, Quality System, Internal Structure, Innovation, Reputation, PPIC, R&D, Competitor, Buyer, Mentor, Government, Community, Media, Bank, Third Party, Vendor, Supplier, Economic Condition, Socio-Culture, Legal Permission, Vision, Mission, Passion, Experience, Motivation, Personality, Knowledge & Skill, Intuition & Mindset, and Business Role.

Axial Coding

At this stage, the key words in the form of codes identified to develop concepts. Then concepts formed the categories and sub-categories. In addition, this step includes establishing the relationship between the categories. According to Chong (2008), there is no fixed rule for the number of categories or sub-categories that will be established. The process will continue until finding the purpose of the research and the theoretical framework. Then concepts above were grouped and regrouped to find higher commonalities called categories. These concepts grouped into sub-categories: Internal capability, External Environment, Company Characteristic, Owner Characteristic,

Financial Performance, and Non-Financial Performance. These categories grouped into dimensions: Performance, Potential, and Process.

Selective Coding

The final process of grounded theory is selective coding. Categories and sub-categories that have similar nature and properties grouped, refined, and reshuffled for regrouping. It can be seen in Figure 3. This process of grouping will continue until the individual categories can be distinctively identified, readily Expressed in causal conditions, environmental conditions, organizational conditions, management strategies and Consequences, and more importantly, meet the aims of investigation (Strauss and Corbin, 1990). According to Glaser (1998), this stage is trying to connect, and explore the relationship between categories and its properties to develop hypotheses related to the theory. The initial framework has been changed because other data that collected.

THE THEORY

The core hypotheses which stemmed from the theory generation process are:

Hypothesis 1:

The effective operation strategy and implementation of SMEs is positively related to financial performance which is indicated by market performance and asset.

Hypothesis 2:

The effective operation strategy and implementation of SMEs is positively related to non-financial performance.

Hypothesis 3:

The effective growth strategy and implementation of SMEs is positively related to non-financial performance.

Hypothesis 4:

There is a relationship between the effective operation strategy and implementation of SMEs and the effective growth strategy and implementation of SMEs.

This hypothesis includes the following sub-hypotheses:

Hypothesis 4a:

The effective operation strategy and implementation of SMEs is positively related to the effective growth strategy and implementation of SMEs.

Hypothesis 4b:

The effective growth strategy and implementation of SMEs is positively related to the effective operation strategy and implementation of SMEs.

Hypothesis 5:

The owner characteristic is positively related to the effective operation strategy and implementation of SMEs. This relationship is moderated by company characteristic.

Hypothesis 6:

The owner characteristic is positively related to the effective growth strategy and implementation of SMEs. This relationship is moderated by company characteristic.

Hypothesis 7:

The owner characteristic is positively related to the company characteristic.

Hypothesis 8:

There is a relationship between internal capability and owner characteristic.

This hypothesis includes the following sub-hypotheses:

Hypothesis 8a: The internal capability is positively related to owner characteristic.

Hypothesis 8b: The owner characteristic is positively related to the internal capability.

Hypothesis 9: The external environment is positively related to the company characteristic.

Hypothesis 10: The external environment is positively related to the owner characteristic.

Hypothesis 11: The external environment is positively related to the internal capability.

3. Conclusion and Implementation Plan

There some conclusion that resulted from this study:

- a. Competitiveness is a comprehensive concept that consists of potential dimension, process dimension, and performance dimension.
- b. Potential dimension is factors that the business should have and affect the business itself. Potential dimension consists internal capability (financial capability, human resources capability, and innovation capability), external environment (general environment, competitive environment, and supportive environment), owner characteristics (passion, motivation, personality, knowledge, skill, experience, and role as leader), and company characteristics (vision, mission, and value).
- c. Process dimension means strategy that used to make the business get its objectives. Process dimension divided into two parts: effective operation strategy and effective growth strategy. Effective operation strategy means strategies that have be planned and the implementation for regularly operation, whereas effective growth strategy mean strategies that used to plan the future development.
- d. Performance dimension means the competitive objects, divided into two measurements: financial performance (market performance and asset) and non-financial performance (product quality, customer satisfaction, market expansion, increasing of human resources, reputation, and social contribution).

There are some recommendations that should be considered by related entity of SMEs in achieving the competitiveness.

For Business Owner

- a. Do the business with passion. By having passion, the process of running business would be fun. Passion can emerge from hobby, pleasure, even experience.
- b. Doing innovation is the key of creative industry business. Continuous innovation will make business more competitive. Customer will see the business from the innovation first instead of brand reputation. Innovation that well-managed will result best performance.
- c. Business is not only operating the existing product, but also to develop business growth. So that it is important to have growth strategy in order to get sustainability in business.

For Government

- a. Most of complaint about government policy is associated with bureaucracy. Related to this case, it is better if government simplify its bureaucracy, especially that are related to small-medium enterprises. Simplification process of legal entity and other business certification making will make business growth faster.
- b. Set the appropriate tax value. Tax is the obligation of every citizen, but the tax rate for SMEs should be fair and not to be considered burdensome, so that SMEs feel overwhelmed and cannot pay tax.
- c. Provide supportive development program for SMEs, such as exhibition, cultural exchange, etc. Open the opportunities of development fairly for all SMEs. Do not choose the parties who have close relationship.
- d. Engage the local SMEs to participate the international scale in order to get international response and good reputation for Indonesia.

For Mediator

Mediator is an institution that has a concern for SMEs. Forms of assistance that can be provided by mediators can be a business mentoring or providing information on access to capital and market, for examples: CSR of state-owned companies, CIEL-ITB, and business incubators (Kinara Indonesia and LPIK ITB). Related institutions in this case refer to institution that concern about SMEs and entrepreneurship. This party also has important role in SMEs development. There are several recommendations that can be applied by the mediator:

- a. Conduct the training or education to SMEs with the topic related to the development of SMEs, both technical and management skills.

- b. Provide or help the business owner to have business mentor. Sometimes, business owner already have a willingness to be assisted by business mentor but do not have access to business mentor personally. In this case, independent institution can facilitate the business mentor.
- c. Do the research that is related to SMEs so that the knowledge about entrepreneurship or SMEs can update continuously.
- d. Facilitate the business owner to have access to investor, bank, or other parties.

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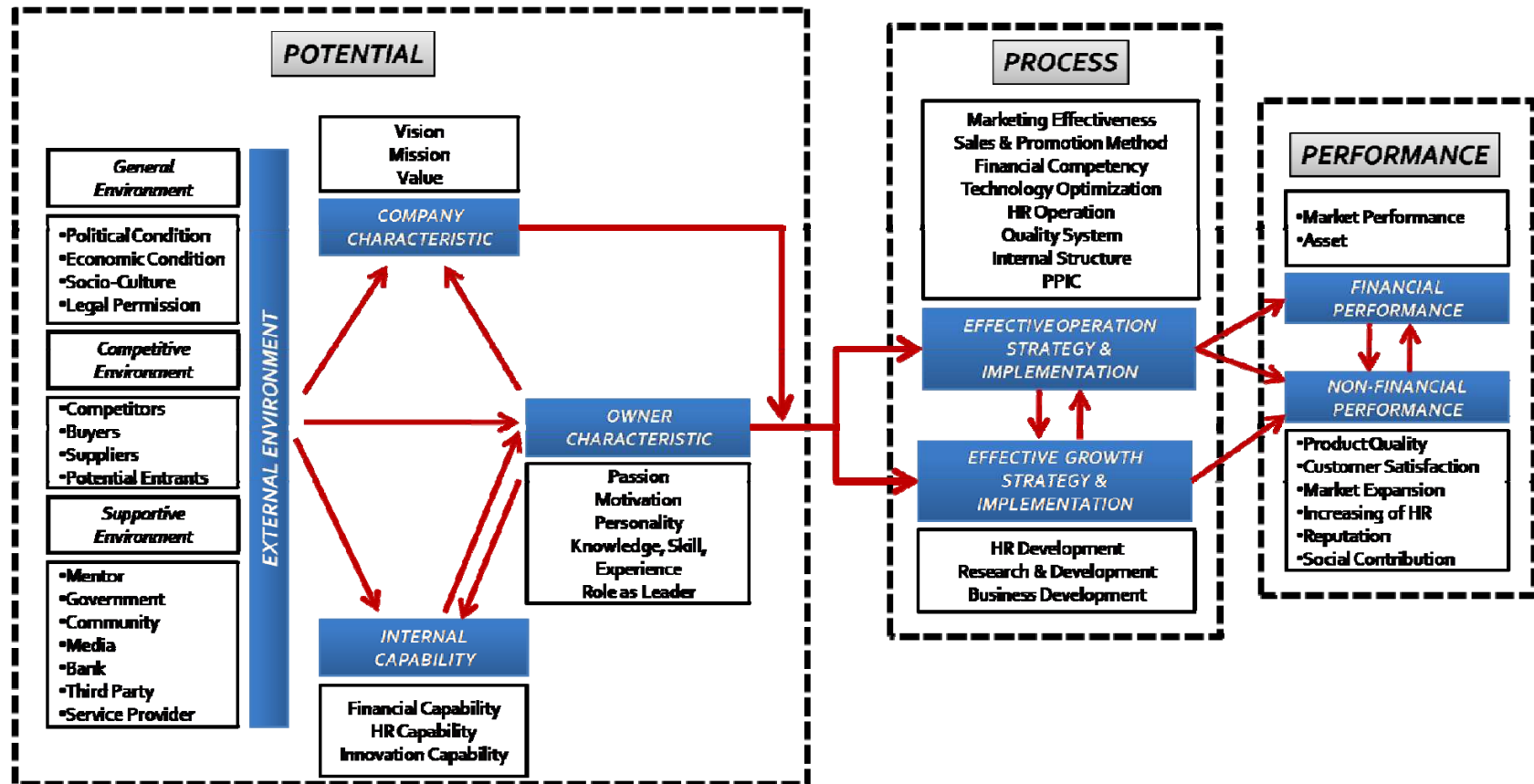


Figure 1 Grounded Theory Framework of Competitiveness Model for SMEs (Utami, 2013)