

INNOVATION TO IMPROVE COMPETITIVENESS OF SMEs OF LEATHER BAGS COMBINED WITH *BATIK* AND *TENUN* IN MALANG CITY

Ajeng Kartika Galuh¹, Sudjatmiko²

¹ Economics Department, Brawijaya University

² Mechanical Engineering Department, Merdeka University

Email: ¹ ajengkartika@ub.ac.id, ² sudjatmiko@unmer.ac.id

Abstract

Some problems faced by micro-small-medium enterprises (SMEs) of leather bags combined with batik and tenun (Indonesian weave) in Malang become the concern of this paper. In producing products, some enterprises still use simple technology. The products, therefore, have low quality which influences their competitiveness in market. In addition, there is no finance access to bank to increase their business scale. In order to solve the problems and give total solution, technology and capital aids are offered to the enterprises. As well as intermediate technology which is in the form of roll press machine and sewing assembling machine with a large wheel provided to make the products neater and stronger, training on simple business transaction recording is applied to prevent a problem regarding finance access to bank.

Keywords: *Innovation, Competitiveness of SMEs, Intermediate Technology*

1. INTRODUCTION

The existence of creative industry in Indonesia contributes positively to its national economy. However, fashion and craft subsectors are more prominent than the other subsectors of the creative industry. It was noted in 2013 that the export value of the creative products reached 119 trillion IDR which is equal to about 10 billion USD and the value increased 8% compared to the one in 2012. Furthermore, the creative industry contributed 6.9% toward the Gross Domestic Product of Indonesia. It was in the seventh position among the other sectors and equal to 573 trillion IDR. In 2014, meanwhile, the contribution of the creative industry was 23.57% to the Gross Domestic Product of Indonesia. The creative industry was able to employ 15.39 million people as well (Ministry of Trade of the Republic of Indonesia, 2015).

Either leather or non-leather products are developing fast lately due to the development of fashion and craft industries. To support their fashion, women like wearing a bag also. Industries producing leather and non-leather bags, consequently, compete to fulfill the needs of the bags particularly for the women by improving the bags' design and material.

Nowadays, bags are not only functional but also aesthetic. There are many bags, to

support their aesthetic point, available with different size, design, and material. Women are the ones who are mostly interested in having the bags. In buying the bags, they consider the price and design of the bags. The producers of the bags, therefore, compete in creating innovation and creativity to produce bags in order to maintain functional and aesthetic values, design, material, quality, and product finishing. By doing so, the producers expect that the needs of the consumers are fulfilled.

Designing and constructing are the first step of producing bags determining products obtained in the last step. As the ones who produce the bags, the producers should be rich in innovation to design and construct the bags so that the products can compete in market. Innovation on material is mostly applied by the producers. They use classic material originally from Indonesian culture heritage, such as batik and Indonesian weave called tenun, and they also use animal skin to make the bags more beautiful and elegant. Cow skin and snake skin bags, for instance, are produced by the producers to vary their products. However, it is not only the material but also the quality of the bags paid much attention to the producers. They consider how neat and strong the sewing of the bags as well.

Unfortunately, in Malang City there are some SMEs still producing leather bags with simple technology so that their products have

low quality to be sold in market. The enterprises, furthermore, have difficulties in gaining capital from bank in order to improve their production process. Considering that situation, it is necessary to improve the quality of the products through intermediate technology. Besides, finance access to bank should be conducted in the form of technology aid and simple transaction recording to improve competitiveness among the enterprises.

2. LITERATURE REVIEW

2.1. The Characteristics of SMEs

In a developing country like Indonesia, SMEs have an important role for country's economy. The more SMEs exist in Indonesia, the more job vacancies are available. In rural areas and low-income households, in addition, SMEs can be an alternative income source. In short, SMEs contribute in increasing either society's income or economic growth.

Based on Presidential Decree of the Republic of Indonesia No. 99 Year 1998, SMEs are defined as small-scale economic activities done by society in which major business that is run is small and needs to be observed in order to prevent unfair competition among enterprises.

In addition, SMEs are productive economic enterprises established by someone or a business entity that is not a subsidiary or branch of a company and not controlled as well as not a part of medium-sized or big-sized enterprises fulfilling the criteria of small-sized enterprises, either directly or indirectly. To empower SMEs, as a consequence, it needs to refer to Act No. 20 Year 2008 Concerning Micro-Small-Medium-Sized stating that SMEs should be implemented comprehensively, optimally, and sustainably by developing conducive season, giving opportunities to run business, supporting, protecting, and expanding business as big as the enterprises can do so that SMEs' position, role, and potency in growing economy, equalizing and increasing income, creating job vacancy, and reducing poverty can be applied.

2.2. Problems Faced by Local SMEs

As they are developing, Indonesian SMEs face some problems which are various based on their products, customers, location, etc. In other

words, each center, sector, sub sector, or unit faces different problems (Tambunan, 2002). The common problems faced by SMEs, according Tambunan (2002), are:

1. Marketing Problems

Marketing is considered as a critical problem. Competition among enterprises in domestic markets with big enterprises producing same products and import products as well as competition in export markets are two examples of marketing problems.

2. Finance Problems

Micro-small-sized enterprises particularly in Indonesia have two main finance problems: start-up capital and capital access. In fact, long term finance for investment is required for the growth of long term output.

3. Human Resource Problems

Human resource problems include some aspects like entrepreneurship, management, production technique, product development, engineering design, quality control, business organization, accounting, data processing, marketing technique, and market research. The problems prevent Indonesian micro-small-sized enterprises from competing with other enterprises in both domestic and international markets.

4. Raw Material Problems

Micro-small-sized enterprises in Indonesia cannot afford the raw materials since the price of raw materials is expensive. As a consequence, the raw materials as well as other inputs are limited, and that matter gives impact to the production process.

5. Technology Problems

Traditional technology is still used by generally micro-small-sized enterprises in Indonesia. Old and manual machines used cause not only the low total factor productivity and efficiency in production process but also low product quality produced.

Technology and finance problems are two problems concerned on this paper. Technology should be developed in order to improve the quality of the products, and finance problems should be solved by recording any business transaction in a simple way so that investors

identify the number of the cost the enterprises need.

3. RESEARCH METHOD

The research followed a qualitative research method to describe and explain the local SMEs conditions in Malang City, especially SMEs of leather bags combined with batik and tenun. Primary data obtained from interviews of business actors of SME's and observation of its business activities. Secondary data in the form of academic literature and official publication of Indonesian government.

4. DISCUSSION

4.1. SMEs in Malang City

Malang City has five sub districts with many potential sectors of SMEs to be developed in order to improve local economy (Ministry of Cooperatives and Small and Medium Enterprise, 2014). The number of enterprise sectors in each sub district in 2012 is described in the Table 1.

Table 1. The Number of SMEs Based on Their Areas in 2012 (Enterprise Unit)

No.	Enterprise Unit	Sub District					Total
		Blimbing	Kedung Kandang	Klojen	Lowokwaru	Sukun	
1	Furniture	6	1	0	53	16	76
2	Craft	67	24	39	32	47	209
3	Automotive	1	2	1	0	0	4
4	Fashion	18	28	29	9	22	106
5	Food	35	11	4	16	21	87
6	Electronic	4	0	1	0	1	6
7	Others	0	0	5	2	2	9

Source: Department of Cooperatives and Small-Medium-Sized Enterprises of Malang City 2013 (data processed)

Table 1 describes Malang City had 497 SMEs grouped into seven enterprise sectors in 2012. Among the seven enterprise sectors, it was the enterprise sector of craft dominating in Malang City with its 209 enterprise units.

4.2. Innovation on Intermediate Technology to Improve the Quality of the Products

Davis in Yamit (2005) defines quality as dynamic condition related to product, service, human, process, and environment that fulfill or exceed expectation. The idea of Davis also states that quality does not emphasize on only final aspect that are product and service but also

the quality of human, process, and environment. All in all, qualified product and service will be obtained if qualified human and product input contribute in production process. SMEs, to improve the quality of their products, should apply some innovation as well. According to Freeman (2002), innovation is a process including technical activities design, development, management and new commercialization of product, or the first use from the new ones in production process.

Also, innovation is an activity in which a little resource available is utilized as much as it can be by taking its efficiency in process either productive, administrative, finance, or service shipping as well as improving and becoming competitiveness machine. Innovation can improve competitiveness when it is considered as key factor in the growth of economy in a particular society.

Investigating problems faced by the SMEs of leather bags in Malang City, the researcher finds some wrinkles shabby stitches on the bags, which are not qualified to be sold in export markets. Intermediate technology in the form of machine, therefore, is required by the SMEs of leather bags in Malang City.

To prevent the wrinkles on the bags, mechanical roll press machine for fabric and leather should be used. Figure 1 is the picture of mechanical roll press machine.

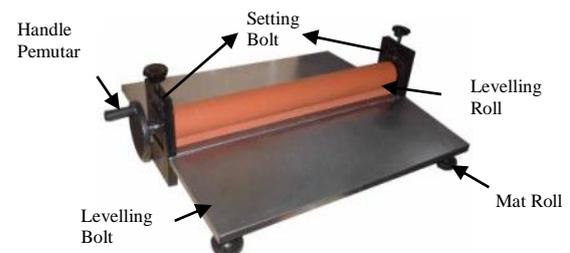


Figure 1. Roll Press Machine

Sewing assembling machine with a large wheel, meanwhile, is used to make the stitches of the bags neater, and the machine is presented by the following figure.



Figure 2. Sewing Assembling Machine with a Large Wheel

4.3. Innovation on Simple Business Transaction Recording to Improve Finance Access to Bank

SMEs, although they influence the economic structure of Indonesia, have low finance access; even they have no good finance access. In 2013, the number of Micro-small-medium-sized enterprise is 99.9% out of the total national enterprises. The enterprises also contributed 96.9% on employment, 60.34% on Gross Domestic Product, and 63.4% on investment. Meanwhile, Bank Indonesia on December 31, 2014 noted that the position of outstanding credit SMEs could reach was only 707 trillion IDR or 18.7% out of the total of the outstanding credit that was 3.779 trillion IDR.

Bank credit for credit SMEs is low due to asymmetric information between a bank and an enterprise. The creditor, which is the bank, does not have any detail information about the enterprise. The enterprise, on the other hand, does not have any finance data to attract the creditor.

Consequently, training on simple business transaction recording should be conducted to solve the finance problem between the enterprise and the bank. Business transaction recording is an activity of recording any transactions related to business, such as the ones are mentioned on simple accounting standard: assets, expenditures (cash and credit), revenues (cash and credit), accounts receivable, and liabilities. Recording the business transactions, the finance position of an enterprise can be identified so that any decision concerning finance and business can be made.

Journal is a book used to record any business transactions an enterprise does. With a journal, the business transactions are recorded clearly, neatly, and efficiently. It needs a practical format of journal for SMEs to record their transactions so that they will not need much time to do recording and use it as a finance report. The format that can be used consists of assets book, cash and credit expenditures book, cash and credit revenues book, accounts receivable book, and liabilities book.

5. CONCLUSION AND RECOMMENDATION

5.1. Conclusion

The results reveals that SMEs of leather bags combined with batik and tenun (Indonesian weave) in Malang City still use simple technology during production process; therefore, they have low competitiveness on quality. In addition, the enterprises have no access to bank to gain finance aid so that they have difficulties in solving technology problems. In order to solve the problems, roll press machine and sewing assembling machine with a large wheel are provided as intermediate technology to help the enterprises solve technology problems. The finance problems, meanwhile, is solved by giving training on simple business transaction recording.

5.2. Recommendation

Since SMEs in Indonesia contribute to the growth of Indonesian economy, it suggests that:

1. The government of Indonesia, via Department of Cooperatives and Small-Medium-Sized Enterprises, manage the enterprises by being ready for consultation regarding production management, operational management, finance management, and other technical supports.
2. The government of Indonesia, via Ministry of Trade, manage and develop the capacity of the enterprise by bridging partnership between the enterprises and modern retails.

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