

# Analysis of successful rate factors for small and medium enterprises in furniture manufacturing sector in Klaten Regency - Central Java, Indonesia

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**Abstract.** Small and Medium Enterprises (SMEs) are business activities that can expand the level of employment rate and provide economic services to the wider community and can play a role in the process of equalizing and improving people's income, stimulating economic growth as well as realizing national stabilities. The aim of this study is to identify the factors of the success rate for Small and Medium Enterprises (SMEs) in furniture manufacturing sector in Klaten regency, Central Java, Indonesia. The method employed in this study was descriptive qualitative by also employing quantitative analysis of which the data were collected through observations, interviews and by administering questionnaires. The results seemed to indicate that the furniture business in Klaten is still experiencing difficulties in managing its various aspects of business, namely in terms of marketing (either directly or indirectly or by making the best use media of technology) and managing capital. All this time, the SMEs in furniture manufacturing sector in Klaten have been utilizing a very simple system in producing tables, chairs, wardrobes and any other furniture products which are then distributed to be sold by larger furniture companies. This condition makes the SMEs unable to be independent in running their business.

## 1. Introduction

In 2008, the President of Indonesia issued Presidential Regulation number 28 concerning National Industry Policy which was expected to be profound and solid ground in developing the national industry to face the free flow of goods, services and workers among ASEAN countries within the pact of ASEAN Economic Community (AEC) in the late of 2015. It stated that in 2025, Indonesia will be one of the powerful industrial countries in the world [1]. In 2020, Indonesia will be promoted as a newly industrialized country as it was stated in the Bogor Declaration in 1995 regarding the free trade liberalization on APEC countries. In the year of 2020, the contribution of non-oil industry is targeted to reach 30% of GDP. During 2010 until 2020, the industry should grow an average of 9.43% with the growth of Small Industry, Medium Industry, and Large Industry respectively for at least 10.00%, 17.47 %, and 6.34%. From the above percentages, the Small and Medium Industry or is commonly called as the Small and Medium Enterprises (SMEs) have a tremendously significant role in improving the country's economy. In Indonesia, many local governments initiate creative cities using regional innovation system to run the creative economy as sustainable program recently [2]. Lupiyoadi [3] said that SMEs can serve to create new technologies, products and services, to support economic growth; and to create changes and competition in the market.

According to regulation of Ministry of Home Affairs number 9/2014 concerning guidelines of region featured product development, the potential of regional economy needs to be cultivated and



developed maximally so that it can become a characteristic product which has competitive value and can enhance the prosperity of the community [4], and related to this study, the objects are small and medium enterprises located in the small village areas in Klaten regency. The location of Klaten regency is quite strategic as it is situated between Surakarta and Special Region of Yogyakarta which is famous for becoming centers for trade and tourism destinations. The type of business in this location is in the sector of furniture manufacturing, namely producing a wide range of household appliances such as cupboards, divans, chairs, tables and other furniture products. In Central Java, Klaten is the second largest furniture manufacturing industry after Jepara and has been widely acknowledging both at the national and international level. But although SMEs have exported their products, still there are shortcomings in developing their performance in exporting as mostly they export their products by the role of third party [5].

In marketing the products, most of the Small and Medium Enterprises here are still applying the old method, namely having transaction with the consumers by meeting them directly and not making the best use of technology as means of marketing the products. Inevitably, the resulting income is uncertain. Thus, this research is intended to explore the problems faced by SMEs in the Klaten regency in relation to facing the era of AEC and how to overcome them.

## 2. Theoretical Review

One of the factors that stimulate the economic growth of a nation is the existence of small and medium enterprises (SMEs) because their existence has proven to be an essential contribution to reducing unemployment. Suarja stated that SMEs can absorb approximately 87% of labor of the total available productive workforce. As the contribution to the GDP reached 54%, it means that Small and Medium Enterprises can overcome or reduce the number of poverty. As regulated in the Law of the Republic of Indonesia number 20/2008, chapter IV, article 16 concerning Micro Small and Medium enterprises (MSMEs), the criteria for MSMEs are set as follows [6].

The criteria of the Micro Enterprise are (a) Having a net worth of at most Rp 50.000.000,- (Fifty Million Rupiah), excluding land and building of business premises. (b) Having annual sales of at most Rp 300.000.000, - (Three Hundred Millions Rupiah). The criteria of the Small Enterprise are (a) Having a net worth of more than Rp 50.000.000, - up to a maximum of Rp 500,000,000, - excluding land and building of business premises. (b) Having annual sales of more than Rp 300.000.000, - up to a maximum of Rp 2.500.000.000,-. The criteria of the Medium enterprise are (a) Having a net worth of more than Rp. 500,000,000, - up to a maximum of Rp.10,000,000,000, - excluding land and building of business premises. (b) Having annual sales of more than Rp. 2.500.000.000, - up to a maximum of Rp. 50,000,000,000, -.

### 2.1. SMEs' success rate factors

According to Storey [7], the success or failure in entrepreneurship is influenced by several factors: entrepreneur characteristics, characteristics of the Small and Medium Enterprises, and contextual variables. The characteristics of entrepreneurs include age, sex, work experience, education, attitudes and mental stability. While the characteristics of SMEs, among others are: the origin of the company, the duration of business operation, the size of business, the source of capital and location. Contextual variables are elements associated with a business which can affect the company. The elements are marketing, technology, access to information, legality, access to capital, government support, business plan, management team, competition, and innovation.

### 2.2. Capitalizing

According to the results of a study conducted by the Center for Domestic Trade Policy [8], the persistent problem in the development of MSMEs business is limited capital and the difficulty of SMEs in accessing capital resources. Only large SMEs with collateral that can easily get access to loans from the bank [9]. With limited capital, entrepreneurs of MSMEs must have the high creativity to increase their business. There are two types of capital, namely owned capital and capital derived

from loans or credit. Microcredit is a fund given or distributed to small and medium enterprises (SMEs) to develop business. By having more income through credit, the Small and Medium Enterprises can increase the number of businesses that can help improve the economy in Indonesia which is still low in number when compared with other countries.

So far, the Small and Medium Enterprises can get credit from the bank but there are also loans disbursed by the government. Some microcredit models have national as well as international schemes. In the national schemes, microcredit models include models developed by governments and non-governmental organizations. From the government, there are Small Business Credit (KUK), Prosperous Family Business Loan (KUKESRA), Village Business Unit (BUUD), *Kecamatan* Credit Board (BKK), KUT (Farm Credit Enterprise), and Social Safety Empowerment Program Addressing the Impact of the Economic Crisis (JPS-PDMDKE). Also, there is a non-government micro credit that develops in the community such as savings and loan cooperatives.

### 2.3. Innovation

According to Larsen and Lewis [10], an important character in entrepreneurs is the ability to innovate. In running a business, the company will not survive without being balanced with an innovation. This is due to the dynamic needs, desires and requests of the customers. Consumers will not always use the same product because consumers will look to find different products to meet a need. Gerald [11] says that innovation is defined as an idea, practice or object that is considered new by an individual or another user unit. Meanwhile, according to Suryana [12], innovation is "as the ability to apply creativity in order to solve problems and opportunities to improve and enrich life."

Innovation is a comprehensive characteristic of an entrepreneurial business that affects business performance. Keeh, Hean Tat, Nguyen, Mai, Ping [13] says it is very crucial because of the following reasons: 1. Technology is changing very rapidly as new products, processes and services emerge from competitors, and this encourages entrepreneurs to compete and succeed. They need to embrace new technological innovations to keep them updated in producing state-of-the-art products. 2. The effects of environmental changes on the product life cycle are shorter, meaning that new goods and services must replace the obsolete ones in quick time, and this can happen because there are creative thinkings that lead to innovation. 3. Consumers today are smarter, categorical and demanding. They expect more that suit their standard regarding quality, renewal, and price. Innovative skills are therefore needed to satisfy the needs of consumers while sustaining them. 4. With the rapidly changing market and technology, a genuine idea can be easily duplicated, and this requires new, better and improved product usage, as well as faster and continuous services. 5. Innovation can lead to accelerate growth, improve market segments, and create better corporate positions.

### 2.4. Marketing

Hultman, Miles, Morgan [14] stated that entrepreneurial interpretation in marketing includes: (1) Consumer orientation versus "innovation orientation", (2) Managers and business owners argue that change is often triggered more by the existence of new ideas or competitive pressures, instead of certain identified consumer needs. Meanwhile, Birley [15] stated that marketing activities, based on the concept of entrepreneurship, will determine the performance of the company. Similarly, Marcati, Guido, and Eluso [16] suggested a "top-down" approach to the market with segmentation stages, a successful entrepreneur capable of targeting a particular consumer, through three stages of segmentation, positioning and target market processes. Bannon [17] stated the manager or owner describes the targeting process with the following steps: (A) Identification of market opportunities: Market opportunities from products and services are tested through trials in the market, based on intuitive expectations of the entrepreneur (B) The appeal of an early consumer base. An entrepreneur often makes regular contact with the consumers and can know their preferences and needs. (C) Expansion through the same but with more diverse consumer. An entrepreneur broadens his/her customers base initially by searching for more consumers within the same profile through verbal marketing and not through formal research and proactive marketing. Marketing entrepreneurial is a

marketing aspect that focuses on the need for creation and development of networks capable of supporting the company.

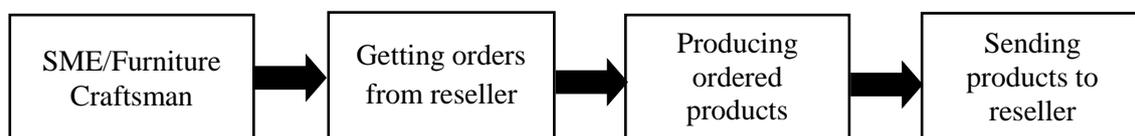
### 3. Research Methods

The methods used were qualitative and quantitative descriptive method through observation (interview) and administering questionnaires directly to 40 micro, small and medium enterprises (MSME) in the furniture manufacturing sectors in Klaten regency, Central Java, Indonesia.

### 4. Results and Discussion

#### 4.1. Business management system

The system used in running the business management of furniture manufacturing in Klaten regency is still done manually. The products, such as of cabinets, tables, chairs, beds, and others are then distributed to be sold by large furniture stores both in the area of Klaten and outside the area of Klaten. The following is an overview of the management system in the Central Java area:



**Figure 1.** Furniture business management system.

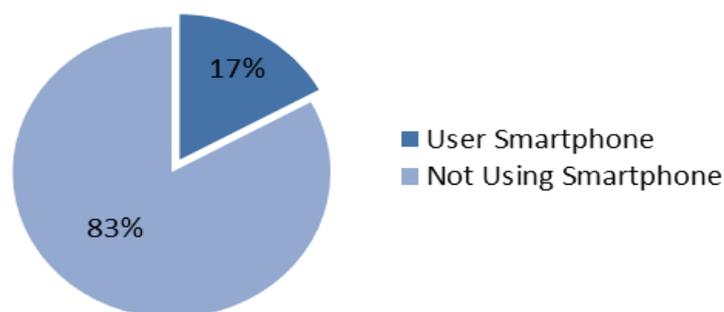
From the analysis, it seems that more than half (68%) of SMEs do not get orders directly from end-consumers but from reseller companies (companies that resell the product). After that, SMEs produce products within mutually agreed period (SMEs and Consumer). If the products or goods are already in the message, then the SMEs will send the goods to reseller companies by the purpose.

One of the obstacles faced by the SMEs is inability in setting prices for their products as in line with what they desire. Due to competitions among the SMEs and how reseller companies only deal with the SMEs which sell their product at the lowest price, there is a price war. Inevitably, the price war caused those who could not compete against low price equilibrium to go bankrupt because they were unable to gain profit and to cover the production cost.

The production process is also still using simple equipment. It means they do not make the best use of technological development to increase their production capacity. Such condition makes the SMEs unable to compete against larger companies which utilize modern equipment in running the business.

#### 4.2. Marketing and technology

Marketing is, undoubtedly, one of the most essential factors for business continuity. By conducting good marketing, the level of income will increase. SMEs or Furniture craftsmanships marketing system in Klaten is still done traditionally, namely by cooperating with bigger entrepreneurs for getting orders and have not used advanced technology means such as social media and website-based marketing. This can be seen from the following figure:



**Figure 2.** Level of smart phone usage as a marketing medium.

From the figure above, it seems that the SMEs still use a feature phone with percentage of 83%, while only 17% use a smartphone for marketing. In addition, many SMEs have not used internet computer-based information technology, such as websites as the marketing medium. From the results of the questionnaires, more than 50% of SME entrepreneurs do not use internet technology in their business.

#### 4.3. Capitalization and financial management

Finance is essential for business growth; thus, SMEs that lack finance are likely to grow at a slower pace or become extinct [18]. By performing good financial management, a business can run well. The purpose of this to check and balance the level of profit or loss, income level and for submission reports to banks in the filing of credit for capital. The following is a table of financial management conditions in the SMEs of furniture manufacturing sector in Klaten:

**Table 1.** The financial level of SMEs furniture manufacturing.

| No | Information  | Agree (%) | Disagree (%) |
|----|--|-----------|--------------|
| 1  | Capital business with owned capital                  | 64        | 32           |
| 2  | Separation between personal money and business money | 52        | 48           |
| 3  | Every expense and income I always record             | 60        | 40           |
| 4  | Every month create a bookkeeping record              | 64        | 36           |
| 5  | Every month always make a profit                     | 64        | 36           |

From the above table, it seems that most of the SMEs use their own funds as their capital. This could happen because they have not been able to get a loan from the bank associated with the business records that they do. The results of this study are in line with the one conducted by Devi and Levika [19] in Tanggulangin and Wedoro in which the number of the SMEs which took the credit facility were only 30% in Tanggulangin and 7% in Wedoro. Nearly half (48%) of SME entrepreneurs do not separate between personal money and business income and as many as 40% of SMEs still have not made regular financial records. Alfitri *et al* [20] showed the same result in their study. The financial records conducted by the SMEs is only limited to the business report which is composed solely on their understanding and requirement that they consider appropriate. From the profit side, it turns out that only 64% of the SMEs get regular monthly benefits. This is probably because they still have not taken many advantages of technological developments in their marketing.

## 5. Conclusions and Recommendations

From the above results and discussion, the conclusions and recommendations are stated as follows: (a) The SMEs in furniture manufacturing sector in Klaten regency still use a traditional system as indicated that they have not made the best use of technology such as websites to do online marketing. For that, we need to do training in the field of computer information technology in making the website

as a means of business marketing or can be called as E-commerce. (b) Financial management of SMEs in furniture manufacturing sector in Klaten regency is still not sufficient. So, it is still difficult to get financial credit from a bank. Proper financial management training is required in order to increase business profits which can ultimately facilitate access to financial assistance from the bank. (c) Because of the many limitations, it is expected that in further study can be conducted by expanding the scope of study samples and also other variables that have not been covered in this study.

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