THE GROWTH OF LEATHER-BASED CREATIVE INDUSTRY SMES IN GARUT DISTRICT, WEST JAVA PROVINCE, INDONESIA

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ABSTRACT

Amongst the 15 creative industry subsectors developed in Indonesia, then in 2013 the creative craft industry is the third-largest contributor to GDP. This study aims to assess the growth on leather-based creative industries in Garut, by measuring the rate of growth and identifying the growth process. This research is a descriptive study, with quantitative and qualitative approaches. The method used is survey method using simple random technique sampling, with sample size of 43 of the total population of 471 leather-based creative industry SMEs. Compound Annual Growth Rate (CAGR) formula were used to calculate the venture growth rate. Venture size were measured from the net assets it has. To eliminate time value of money’s influence, then net assets were converted into present value first, using compounding factor based on average interest rate during each enterprises venture time period. Descriptive analysis were used to explain the venture growth process. Research shows that the average age of entrepreneurs was 39 years old, and the average venture age was 12 years. The main product is jackets, with addition of shoes, sandal, bag, wallet, belt, raw hide, gloves. The average initial assets were IDR 96,962,790 with range of IDR 100,000 - 750,000,000. Existing net assets ranged between IDR 42,000,000 - IDR 4,000,000,000. The average growth rate were 11.55 % with range -0.04 % to 29.64%. Business process done, were business ideation (9.7 months avg.), start-up (2.4 years avg.), growth (9.24 years avg.) since the start.

JEL Classification: Management
Keywords: Growth, SME, Creative Industry, Leather, Garut
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INTRODUCTION

Background

Every company wants their business to thrive. The business development goes in line with business growth. The business is able to grow if it is able to accumulate profits so that the value of the company increases. It can happen if the company is able to manage its business while following its business growth. That is not something easy for any company.

From the beginning of the entrepreneurial process, that is from the business-plan-initiation, business-start-up, business idea stage; the company experienced a variety of problems, but this continues even in the next growth phases; particularly in the phase change of the size of the Micro to Small Business, from Small to Medium Enterprises, and from Medium to Large Business Enterprises. In reality, a company could be born large, but businesses in Indonesia began with a small size, in general. This is also the case in the creative industries.

In larger companies, Enterprise Resource Planning System (ERP) are often implemented, which is a software that can be used as an integrated application for managing a business. The successful use of ERP systems make it as a vital tool for most organizations. Only large companies capable of implementing ERP systems because of the expensive cost, and new small businesses can take advantage of it when there are open source and cloud-based service facilities that can help small businesses implement it. ERP systems integrate the various departments through the functions of the different business to manage internal resources such as finance, human resources, manufacturing and logistics, as well as the company’s relationship with customers and vendors through the supply chain management (McKenna, 2011). In Indonesia, the implementation of ERP systems was limited to large enterprises, small companies have not been able to implement it, including in general SMEs in the creative industries.

The government began to seriously develop Creative industry in 2008, by creating a blueprint of Creative Industry Development Plan Vision Towards a Creative Economy Indonesia in 2025 (Departemen Perdagangan Republik Indonesia, 2008). Until the end of 2014 the creative industries under the Ministry of
Tourism and Creative Industries. Since the start in October 2014 the ministry was removed, and since January 26, 2015 the creative industries is handled by Indonesian Creative Economy Agency.

In 2013 the creative craft industry is the third-largest contributor to GDP after the culinary industry and the fashion industry but it have a greater growth than these two sectors (Kementerian Pariwisata dan Ekonomi Kreatif, 2013). For that, it is interesting to study how the craft industry manage its business growth.

One area of concern is the government’s flagship Eastern Priangan Region, which is comprised of Ciamis, Tasikmalaya and Garut. Leather-based creative industries is the Creative industries which have an important role in Kabupaten Garut (Direktorat Pengembangan Kawasan Khusus dan Tertinggal, 2009). Business growth management problem is also faced by SMEs leather-based creative industries in Garut. For the sake of the future development of the industry, the problems faced are urgent to overcome.

**Research Objective**

The purpose of this research are to:

1. Measuring the growth of leather-based creative industry SMEs in Kabupaten Garut
2. Identifying the growth processes that have been which has been passed by each company in the leather-based creative industries

**LITERATURE REVIEW**

**Creative Industry and Creative Economy**

According to Bilton & Leary (2002) in Flew (2005), the birth of the creative industries is closely related to the production and consumption of symbolic goods. What the end user may perceive about the value of an item is not necessarily the same as the value created by the manufacturer.

“Creative industries are the cycles of creation, production and distribution of goods and services that use creativity and intellectual capital as primary inputs; constitute a set of knowledge-based activities, focused on but not limited to arts, potentially generating revenues from trade and intellectual property rights; comprise tangible products and intangible intellectual or artistic services with creative content, economic value and market objectives” (UNTAC, 2008)

Creative economy is economic activity that is based on the creativity, skills and individual talents to create individual creativity and inventiveness whose economic value and impacts on public welfare (Sekretariat Negara Republik Indonesia, 2009).

**Growth Process**

According to Timmons & Spinelli (2009) entrepreneurship is the way to think, reason and act that emphasizes opportunity, thorough approach and managed by the leadership for the creation of value. Hatten (1997) explained that the entrepreneurial process are is linked to small entreprise managerial process. According Siropolis (1994), often the failure of small business management is due to the management not prepared to cope with the increasing demands of the skills and knowledge and the ability to manage more and more labor. Also gaps in managerial ability to finance and develop the talent they need to live and thrive, are often found. Every entrepreneur wants their business to grow. Often, growth occurs chaotically because the entrepreneurs forgot to learn what they learned as businesses opened, namely that the planning and control made the company running properly. One the reason is the tendency to assume that planning and control are easily applied, and then forgot about it. Entrepreneurs like those are like climbers who after climbing the mountain, slips up at the top. On their view, the planning is applied only at the beginning of their efforts, but not after their venture rises. Failure to continue planning is one reason why so many businesses that grows chaotically, remain stagnant or backward.

There are four stages of business growth, namely prebirth stage, acceptance (infancy), breakthrough (growing up), and maturity (adulthood). Business growth is measured by the increase in sales. In general, entrepreneurs failed to handle the final stages of growth as in the initial effort. They tend to work well for stage prebirth and acceptance stages, as at average efforts to move forward at this stage often faces many hurdles. Prebirth includes the handling of all matters relating to the steps necessary to achieve startup. At the stage of acceptance, entrepreneurs may strive to make their products unique. At this stage they are very involved with their business, where they can find out the obstacles that exist and can quickly find a way out. At the following Breakthrough stage, the company may progress slowly, but it can also progress so rapidly as till it could overwhelm the entrepreneurial handling ability. In the figure 1, shows a case where at this stage the
company is growing by leaps and bounds. At this stage when the entrepreneur is not ready to face it, there can be a failure.

FIGURE 1. STAGES IN THE GROWTH OF A VENTURE

At the same time, the competition may be very strong. In the face of all the pressures earlier, the entrepreneur is more reactive in responding. They apply the "Band-Aid" solutions to the problems earlier. If suddenly sales fall sharply, they will enlist the services of accountants, analysts and other specialists again to find a way out. If it can be overcome because of the help of specialists and also the endeavor of the entrepreneurs, then the losses experienced are only temporary, subsequently the venture are able to grow back, and its saved from the maturity stage. But for those who do not succeed, then venture into the maturity phase. When the business plan are done properly, the venture would also be able to grow rapidly.

In terms of products, Dibb and Simkin (2001) showed that the pattern of the product’s life cycle also have the same pattern with the growth of the business. Overall products and markets Ko through the stages of introduction, growth, maturity, and decline. Sales and industry profits will tend to increase in the early stages, especially during the growth stage. This was due that generally at the beginning of the competition is low and prices are high. Throughout the journey the product through these stages, competitive strategy, product development, pricing, distribution and market information should be evaluated and modified.

FIGURE 2. PRODUCT LIFE CYCLE
Source: Dibb and Simkin (2001:252)

**Source of Business Growth**

According to Zoltan and Audretsch (2003) there is a relationship between entrepreneurship and technology to the size of the company. The relationship between innovative activities with business size has a two way relationship that is through the activity of the company based on factors which are owned by the company itself and the field of industry. The company creates knowledge to generate innovative activities. Another way is to dynamically create a new company as a result of the entrepreneurial process, in which individuals try to balance the value of their knowledge with the expected profit from their activities within the organization.

According to Soeriaatmadja (2011), there are three sources of growth: a) momentum portfolio, that is of organic growth of the company in line with the growth of a new market segment that it enters by using innovation so as to create new markets; b) share gain which was organic growth of the company due to increases / decreases in market share by using improvement strategy; c) merger and acquisition.

According to Wright, Kroll and Parnell (1996), the strategy enables applied to the third stage is the same, namely: Niche-low-cost, niche-differentiation, niche-low-cost / differentiation. Niche-low-cost strategy is for specific market segments that require goods or services that are simple and cheap. Niche-differentiation strategy is for specific market segments that require the services or goods that meet the prestige, exclusivity, security and other specific criteria with a willingness to pay a high price. Niche-low-cost / differentiation strategy for a market segment that requires selection of diverse services or goods at a low price.

**FIGURE 3. GENERIC STRATEGIES IN THE CONTEXT OF INDUSTRY LIFE CYCLE AND SIZE OF BUSINESS**
METHODOLOGY

This research is a descriptive study, with quantitative and qualitative approaches. The research method used is survey method. Determination of the study area purposively is Garut. The unit of analysis is SMEs in the creative leather industries. The research object is the business growth. Necessary data is qualitative and quantitative data in the form of secondary data and primary data. The data source is representative respondents represent the management of selected SMEs. In accordance with a descriptive survey research methods, the primary data collected in various ways, namely: an interview with using a questionnaire, search (historical), and observation. Secondary data were obtained by collecting documents and literature. Criteria for small and medium enterprises refer to the provisions of the Undang-Undang No.20 of 2008 on Micro, Small and Medium Enterprises (Sekretariat Negara Republik Indonesia, 2008), as follows: Small business is a business that has a net worth of more than 50,000,000,00 to Rp500,000,000,00 excluding land and buildings; or have annual sales of more than Rp300,000,000,00 to Rp2,500,000,000,00; medium-sized businesses have a net worth of more than 500,000,000,00 until Rp10,000,000,000,00 excluding land and buildings; or have annual sales of more than Rp2,500,000,000,00 up with the most Rp50,000,000,000,00.

Respondents were chosen at random, with the sample determination techniques by simple random sampling according to Cochran (1977):

\[
n = \frac{\left(\frac{tS}{\bar{Y}r}\right)^2}{1 + \frac{1}{N}\left(\frac{tS}{\bar{Y}r}\right)^2}
\]

(1)

\[
n = \text{sample size} = 42.3 \text{ (rounded to 43 business units)}
\]

\[
t = t \text{ distribution value at } \alpha = 0.05 \text{ = 1.64}
\]

\[
S = \text{standard deviation of capital} = \text{IDR 54,488,093}
\]

\[
r = \text{tolerable relative error} = 0.1
\]

\[
\bar{Y} = \text{average of capital} = \text{IDR 94,811.011}
\]

\[
N = \text{population} = 417 \text{ Leather-based creative industry SMEs in Garut district}
\]

Data Analysis
1. Calculating business growth using Compound Annual Growth Rate (CAGR) (Damodaran, 2008)
CAGR = \((\text{Ending Value}/\text{Beginning Value})^{\text{number year} - 1}\)

Or

\[
\text{CAGR} = \left[\frac{I_2}{I_1}\right]^{(1/t)} - 1
\]

Notes:

- \(I_1\) = The Company’s assets at the beginning of 1st year (starting year of the enterprise)
- \(I_2\) = The Company’s assets at the beginning of 2nd year (2015)
- \(t\) = the difference in years between the 2nd to 1st year

The Company’s assets on this case are Net Assets.

To eliminate time value of money influence, then the company’s assets at the beginning of 1st year will be converted into present value. The calculation of the present value, is as the following: (Keown, et al., 2002)

\[
\text{PV} = I_1 (1+i)^t
\]

PV = Present value

\(I\) = Company Assets

\(i\) = interest rate (on this case average inflation rate during the time of the respective enterprise)

\(t\) = length of term of the enterprise

\((1+i)^t\) = compounding factor

2. Entrepreneurial process Stage of companies are conducted by qualitative descriptive identification and comparison of the survey data with the identifier of entrepreneurship in the start-up phase or growth phase, with the help of cross-tabulation.

RESULT AND DISCUSSION

General Condition of Leather-Based Creative Industry SMEs in Garut District

One region in the province of Jawa Barat which is a center of leather craft is Garut. The mainstay of Garut’s Processed leather product are cow leather jacket (somewhat stiff) and sheepskin jackets (flexible). The Leather industry center is located in the area of Sukaregang, where leather craft industry and the tanning industry congregate. The industry is supported by the supply of raw skins from farms in Garut and surrounding areas. Garut area is an area famous for sheep farms in West Java. Thanks to Garut’s geographical location near Bandung as the capital of the province which is the center of the fashion industry, and also close to Jakarta as the center of trade; made marketing easy.

Based on data collected in this study, it can be seen the general characteristics of this leather craft industry, as can be seen in Table 1.

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneur age</td>
<td>Range: 21- 64 years old; Average: 39 years old</td>
</tr>
<tr>
<td>Formal education</td>
<td>Elementary school= 7%, Junior High School: 14%;</td>
</tr>
<tr>
<td></td>
<td>Senior High School: 65%; Diploma: 9 %, Under Graduate: 5%</td>
</tr>
<tr>
<td>Business experience</td>
<td>Range: 3 - 52 years; Average: 12 years</td>
</tr>
<tr>
<td>Firm age</td>
<td>Range: 3 -27 years, Average: 12 years</td>
</tr>
<tr>
<td>Gender</td>
<td>Male: 85 %; Female: 15 %</td>
</tr>
<tr>
<td>Employee</td>
<td>Range: 2 – 300 persons</td>
</tr>
<tr>
<td>Initial working capital</td>
<td>Range: IDR 50,000, – IDR 500,000,000</td>
</tr>
<tr>
<td>Existing working capital</td>
<td>Range: IDR 20,000,000 – IDR 2,500,000,000</td>
</tr>
<tr>
<td>Financing</td>
<td>100 % Equity = 35 ventures; $50% Equity + $50% Debt = 8 ventures</td>
</tr>
<tr>
<td>Sales</td>
<td>Range: IDR 100,000,000/y – IDR 3,600,000,000/y</td>
</tr>
<tr>
<td>Profit</td>
<td>Average: 20 %/year</td>
</tr>
<tr>
<td>Production technology</td>
<td>Low technology: 60 %, Middle technology: 40%</td>
</tr>
<tr>
<td>Main product</td>
<td>Jacket.</td>
</tr>
<tr>
<td>Other products</td>
<td>Shoes, sandal, bag, wallet, belt, raw hide, gloves</td>
</tr>
</tbody>
</table>
Since leather industry has grown in Garut district for long, the business owner age range was also relatively wide. Increased demand for leather products from home and abroad (mainly leather jacket) causes many young people who are interested in becoming leather craft entrepreneurs. For instance, there are four diploma holders and 2 undergraduate degree holder. In general, in the production of goods has been mechanized, but still accompanied by manual work.

**Leather-Based Creative Industry SMEs Growth**

The results of venture growth rate using CAGR formula can be seen on the following Table 2.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing Net Assets (IDR)</td>
<td>637,906,976</td>
<td>42,000,000</td>
<td>4,000,000,000</td>
<td>972,674,104</td>
</tr>
<tr>
<td>Initial Assets (IDR)</td>
<td>96,962,790</td>
<td>100,000</td>
<td>750,000,000</td>
<td>164,936,342</td>
</tr>
<tr>
<td>PV of Initial Assets (IDR)</td>
<td>247,723,882</td>
<td>24,098,450</td>
<td>2,015,577,884</td>
<td>456,741,443</td>
</tr>
<tr>
<td>CAGR (%/year)</td>
<td>11.55</td>
<td>0.04</td>
<td>29.64</td>
<td>7.64</td>
</tr>
</tbody>
</table>

To eliminate time value of money’s influence, then net assets were converted into present value first, using compounding factor based on average interest rate during each enterprises venture time period. The youngest were 3 years old and the oldest 27. Therefore, on Present Value of Initial Assets calculations, compounding factor with variable interest rates were used. The average interest rate were determined from the average inflation rate, which were 8% per year.

Based on CAGR calculations figure of 11.55 were obtained, which means that the growth rate of leather-based creative industry SMEs in Garut regency is 11.55% / year. There are some businesses that are relatively stagnant, the growth rate is very small and even negative. There is one business that have negative growth rate, which means it is in decline. The majority of small businesses progresses were less significant, whereas medium-sized businesses showed a more rapid growth rate.

**Leather-Based Creative Industry SMEs Growth Process**

Business process on leather-based creative industry SMEs are started since ideation, start-up and growth process. Basedd on the interview with entrepreneurs as respondents, than information about the business process were obtained, as shown at Table 3 below:

<table>
<thead>
<tr>
<th>Proses Bisnis</th>
<th>Mean</th>
<th>Minimal</th>
<th>Maximal</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ideation (month)</td>
<td>9.76</td>
<td>2</td>
<td>36</td>
<td>8.90</td>
</tr>
<tr>
<td>Start-up (year)</td>
<td>2.40</td>
<td>1</td>
<td>5</td>
<td>0.99</td>
</tr>
<tr>
<td>Growth (year)</td>
<td>9.24</td>
<td>2</td>
<td>24</td>
<td>6.22</td>
</tr>
</tbody>
</table>

Based on data from Table 3, it can be seen that from the process of ideation to the initiation of business only takes less than one year, which is 9.76 months. The time required to start-up are average of 2.4 years, and a fairly large variations from 1 year to 5 years. Only after that they grow. In this study the average growth process they have experienced is 9.24 years. Surely what is expected is this growth process will continue to run to future on more than 11.55% growth rate.

To be able to grow more rapidly, it is necessary to overcome the problems faced by entrepreneurs. The dominant problem faced is the limited raw materials, both in quantity and quality, as well as capital and the not yet modern leather processing technology. Another problem is competition with imported products, as well as the limitations of skilled employees, also the price competition between traders.
CONCLUSION

One region in the province of West Java which is a center of leather craft is Garut. High growth is naturally expected by every business. Leather-based creative industry SMEs in Garut main products are jackets. It also produced a variety of leather products that support the fashion industry, such as shoes, sandals, bag, wallet, belt, and so on.

The average initial assets were IDR 96,962,790 with range of IDR 100,000 - 750,000,000. Existing net assets ranged between IDR 42,000,000 - IDR 4,000,000,000. The average growth rate were 11.55 % with range -0.04 % to 29.64%. Business process done, were business ideation (9.7 months avg.), start-up (2.4 years avg.), growth (9.24 years avg.) since the start. There are some businesses that are relatively stagnant, the growth rate is very small and even negative. There is one business that have negative growth rate, which means it is in decline. The majority of small businesses progresses were less significant, whereas medium-sized businesses showed a more rapid growth rate.

Government, academia, and other stakeholders need to undertake concrete steps to address the problems faced by SMEs leather processing in Garut. The problems that have to be looked for solutions that is primarily in terms of raw material procurement skin, capital, and leather processing technology. When this is done, surely business growth and leather crafts business units in the area will be increased.

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