

## **Strengthening the Internal Factors of Batik Cluster SMEs in Indonesia: A Case of Six Districts in South - Central Java**

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### **Abstract**

*The aim of this study was to identify the internal factors that limit the growth and the success of Batik Cluster SMEs in South District of Central Java and to suggest recommendations for addressing such factors. This study uses qualitative research method. In-depth interviews have been performed, which included participant from six batik SMEs and from six officials representing six organizations in the six districts of south part of Central Java. Focus Group Discussion (FGD) was conducted in Banyumas and it explored the depth and nuances of opinions regarding factors affecting the development of batik SMEs clusters (i.e. education, raw material, marketing, partnerships, technology, capital, cooperative, and coordination among institutions). The result from this study was to address some similar problems confronting batik cluster SMEs (e.g. inadequate education and training, materials, insufficient capital, lack of coordination among institution, etc.) Based on findings, it is recommended to strengthen the batik cluster SMEs by facilitating the development of PERBAIN as the batik cooperative that can serve the needs of funds and raw materials, improving the institution's assistance of batik craftsman skills, increasing coordination among government agencies, develop a South - Central Java batik association (i.e Yayasan Batik Indonesia) to promote batik in both national and global businesses.*

**Keywords:** Batik Cluster SMEs, Internal Factors, South - Central Java, Institutions Assistance, Coordination

### **1. Background of Study**

In line with the Strategic Plan of the Ministry of Cooperatives and Small and Medium Enterprises Year 2010 - 2014, as well as the Strategic Plan of the Ministry of Industry and Commerce 2010-2014, and also Master Plan for the Acceleration and Expansion of Indonesia's Economic Development Coordinated by the Ministry of Economic Affairs in 2011-2025, the SMEs (Small and Medium-sized Enterprises) is a strategic objective for the three ministries in facing global economic challenges.

Based on the Ministry of Cooperatives and Small and Medium Enterprises' mapping in 2008, the SMEs growth was reached 51.3 million units. This number tells that SMEs constitute dominant economic players and they become the national economic actors. As most of SMEs are located in remote areas, it is expected that within the year of 2011-2014 SMEs can play a significant role in national economy and can support Gross Domestic Product (GDP) by 6%, increase productivity by 5%, absorb labor workforce by 5%, increase the value of the investment by 10%, and increase export value by 15% per annum (KUKM, 2010).

Batik cluster is one area that highly contributed to strengthening SMEs. The rising demand of batik product is enhanced by the declaration of Indonesian batik as the world cultural heritage by UNESCO on October 2, 2009. According to Firmansyah, Indonesia is a country that has chance to increase its exports after ACFTA implementation, which deals with products that cannot be rivaled by China as the creative industries based fabrics, such like batik (Media Indonesia, 2012).

This study focuses on Batik Industry Cluster in the South part of Central Java. Selection of Cluster South - Central Java Batik is very interesting to investigate because of the its unique characteristics, so it can penetrate international market. The uniqueness and design can be adopted for different types of clothing. In example Mrs. Euis Rohaini as the owner of Rajamas Batik in Cilacap district explained that her products have penetrated the UK market, the Netherlands, Korea, Singapore, Japan and most recently Australia. In respect to that, she was able to create jobs for 15 employees in the household and 80 workers employed by the plasma system (Kompas, 2009). From the success of the Batik Rajamas, it infects the growth of other batik craftsmen around Cilacap region. Thus batik cluster SMEs in South Central Java is in line with the vision of the Ministry of Economic Affairs that batik industry cluster in South - Central Java is locally integrated and globally connected.

## 1.2 Purpose and Research Question

The aim of this study was to identify the internal aspects of Batik Cluster in South -Central Java. In line with the objective, this study desired to mapping the internal factors of batik cluster such as educational level, raw materials, marketing, partnerships, technology, capital, cooperation and coordination among government agencies. Thus, this study will identify opportunities and strategies to utilize existing resources in developing the potentials of batik cluster in supporting the acceleration of development in South - Central Java. In order to reach the mentioned purpose, the following research question was developed.

RQ: What are the internal factors that influence the growth of batik cluster SMEs in South-Central Java?

To answer this question, interviews will be conducted with the owners of batik cluster SMEs and six government institutions in the six districts of South – Central Java. The primary data as well as secondary data will be analyzed and contrasted to depict conclusions.

## 2. Theoretical Framework

SMEs have previously been the main player in domestic economic activities in Indonesia, in particular as a large contributor of employment opportunities. They become a generator of primary or secondary sources of income for many households. For low income or poor farm households in rural areas, SE units of fewer than 20 workers in non-farm activities are especially important. These enterprises have also been an essential engine for the growth of local economies and communities (Tambunan, 2006). The National Agency for Statistics (BPS) which uses the amount of workers as a foundation for determining the size of an enterprise, defines that small enterprises (SEs) and medium enterprises (MEs) are business units with, respectively, 1–19, and 20–99 workers, and large enterprises are of no less than 100 workers.

Based on the Indonesian's Law No. 20/2008 concerning Micro, Small, and Medium Enterprises, micro enterprises/businesses are defined as: a. Enterprises with net assets less than Rp 50 millions (land and building excluded) or; b. Enterprises which have less than Rp 300 millions total annual sales. While small enterprises/businesses are defined as: a. Enterprises with net assets from Rp 50 millions – Rp 500 millions (land and building excluded) or; b. Enterprises with total annual sales from Rp 300 millions – Rp 2.5 billions. Medium enterprises/businesses are defined as: a. Enterprises with net assets from Rp 500 millions – Rp 10 billions (land and building excluded) or; b. Enterprises with total annual sales from Rp 2.5 billions – Rp 50 billions. This study adopts the SMEs definition from The Ministry of Cooperatives and SMEs.

### 2.2. Measuring Growth

A variety of indicators are commonly used to assess SMEs growth and there does not seem to be a general measurement. Gross value added, in comparison with the first two, is an indicator of results, representing the amount of salaries and other elements related to labour factors cost, profit, exploitation subsidies, fixed capital amortization, after subtracting production taxes. Profitability rate is calculated as the ratio between the gross result of exercise and the gross value added at factors cost, and represents pretty well the performances of the enterprise.

In other words, this measure reveals the SMEs capacity to accomplish its primary reason of existence, being one of the variables that illustrates enterprise's efficiency. SMEs in developing countries usually have lesser productivity than in developed countries and because country's productivity level is a major indicator of improved living standard, added value should be seen as one of the important indicators of growth (Lind, 2005, 42-50).

### **2.3. Constraints among SMEs**

Storey (1994) argued that the growth of small firm considering the combination of three components namely the starting resources of the entrepreneur(s), the firm, and the strategy. Storey (1994) also defined key influences on SMEs growth, internal factors that reveal how decisions and features affect the growth of a firm. The growth of feasible and efficient SMEs has been limited by several constraints. The constraints may vary among regions. However, there are certain constraints that are common to all SMEs. Lack of capital, lack of skills, and problems in business development are of problems faced by Indonesian SMEs (Kementerian KUKM & BPS 2004). According to Tambunan (2008), majority of SMEs, specifically in rural areas, do not certainly receive loan from financial institution or from existing government sponsored SMEs loan schemes. They depend fully on their own savings, money from relatives and loan from informal lenders for financing their daily business operations. Lack of adequate skills is also a major constraint to SMEs. Nevertheless, this may be due to the fact that a lot of SMEs' owners were not aware that their productivity is low and the quality of their products inferior compared to the products of the large enterprises or imported products, especially since many of these enterprises produce only for low-income consumers in local markets that benefiting natural protection from competition from similar goods produced by larger enterprises or from imported goods. This study identifies the internal factors that create obstacles to the growth of batik cluster SMEs in South-Central Java (internal factors focused on by this study include education, capital, raw materials, marketing, partnerships, technology, cooperative, and coordination among government agency).

## **3. Methodology**

Research methodology used in this study consist of the following:

### **3.1. Research Method**

This study conducts qualitative research, qualitative methods have a prominence on a kind, interpreting and observing data in a natural set and with a sort of insider's view. A qualitative approach is more suitable to accomplish the purpose of this research, since this study is researching what factors are affecting on firm growth, since the fact that beliefs, observations, ideas and point of views would be hard to assess in a quantitative way. By studying the firms' internal factors with the qualitative approach it is probable to recognize the opinions and beliefs that are affecting the firm growth.

### **3.2. Data Collection**

The present study used a participatory action research (PAR) approach to explore the internal factors of batik cluster SMEs in South – Central Java. Participatory Action Research (PAR) provides a means to measure the results of the initial goals of research and identify the critical elements in a project to promote the desired result (Simba, 2010; Mutambi, 2011). PAR approach is a collaborative approach involving all partners and stakeholders in the process of gathering research data. PAR approach has an advantages, this approach is able to reflect the experience of the parties directly concerned and directly affected by the issues in the community. This method is a very convenient way to build and strengthen the understanding of the stakeholders and SMEs to determine device/tool that can be used to build a movement of change. Several methods of gathering information used in the PAR approach include:

- a. In-depth interview.
- b. Focus group discussions (FGD)
- c. Photographs and video documentation

### **3.6. Participants**

Twelve in-depth interviews were performed which included participant of six batik'SMEs owners in South-Central Java area and six officials representing six organizations in six districts from July to August 2012.

Focus Group Discussion (FGD) was conducted on September 26th, in Banyumas District to explore the depth and nuances of opinions regarding factors affecting the development of batik cluster (i.e. education, raw material, marketing, partnerships, technology, capital, institution's assistance, cooperative, and coordination among institutions). FGD participants consisted of 49 people included participants from government institution and also the craftsmen from six districts in South – Central Java.

### 3.7. Validity and Reliability

Reliability and validity are the two main points that have to be taken into consideration to reduce the possibility of getting wrong answers. Related to validity, for the data regarded as correct, accurate and precise, this study has used triangulation. The component of triangulation consisted of data collection method as in-depth interview, focus group discussion, photograph and video documentation. In-depth interview and focus discussion group were recorded using MP4 recorder to avoid misinterpretations. No major generalization will be described in this study and it is limited to batik cluster SMEs in South-Central Java. Reliability is a measurement can be reproduced with similar results. Therefore, variations in the results is entirely depending on measured area and not in the instrument of measurement. This study used more than one researcher and they agreed on what they see and hear.

### 3.8. Data Analysis

There are two forms of analysis when employed to empirical data, namely within-case analysis and cross-case analysis (Miles and Huberman, 1994). Within-case analysis is argued to compare the collected data against the theory used. Cross-case analysis compares the data from different cases with each other. This study compared the data of six batik cluster SMEs and government institutions in six districts in South-Central Java to each other, thus this study will be performing a cross-case analysis. The process of qualitative content analysis often begins during the early stages of data collection, define the unit of analysis, test coding scheme on a sample of text, code all the text, assess the coding consistency, grouping, draw conclusions from the coded data, and finally report the findings.

## 4. Empirical Result and Analysis

### 4.1. Characteristics of SMEs in Indonesia

Small and Medium Enterprises (SMEs) in Indonesia occupy a strategic position in the map of the development of the Indonesian economy. SMEs in Indonesia are the basis of the economy that have been growing among the people who have the prospective to be upgraded as the backbone of the national economy. These SMEs have been recognised as the appliances through which the growth objectives of developing countries can be accomplished, and they are potential resources of employment and income in most of developing countries. It is estimated that SMEs employ approximately 22% of the adult population in developing countries (Daniels & Fisseha, 1992; Robson & Gallagher, 1995).

SMEs play an important role in the economy, at least 99.9% of all activity in Indonesia has been dominated by SMEs. Thus SMEs have very high contribution to creating employment opportunities and income sources (Renstra Kementrian KUKM, 2010). Based on the development of micro, small and medium enterprises issued by the Ministry of Cooperatives and SMEs, SMEs business unit grew by 2.01%, labor absorbed by SMEs increased 3.32%, GDP at current prices increased 15.81%, while the total non-oil exports rose 8.01% SME per year. Overall, development of SMEs in Indonesia has an increasing trend (see table 4.1).

**Table 4.1.SMEs performance based on industry scale.**

<b>Indicator Scale</b>	<b>Business (%)</b>	<b>Labour (%)</b>	<b>GDP (%)</b>	<b>Export (non oil and gas) (%)</b>
Total SMEs	2,01	3,32	15,81	8,01
Micro	1,98	3,34	17,14	16,08
Small	4,93	3,01	13,16	3,15
Medium	3,64	3,07	14,51	9,16

Source: Ministry of Cooperatives and SMEs (2011)

#### 4.2. Batik Cluster SMEs in South-Central Java

Clusters are geographic concentrations of companies and institutions that are interconnected in a particular sector. They are related because of their mutual complement and encourage industry to compete one another. According to Porter (1998), a cluster is a geographically proximate group of interconnected enterprises and associated institutions in a particular field, linked by commonality and complementarity. Based on this definition, a cluster may include suppliers of inputs, or extend downstream to regular buyers or exporters. It also comprises government institutions, business associations, providers of business services and agencies that support clustered enterprises in such fields as product development, production process improvement, technology, marketing information. Schmitz (1997) defines a cluster as the similar companies or companies that related to each other, come together in certain geographical boundaries. While the Ministry of Cooperatives defines a cluster as a group of the core industry, related industries, supporting industries and economic activities and related supporting other in mutually supportive activities. Cluster Theory (Porter, 1998) focuses on the removing barriers and inefficiencies of productivity growth. Table 4.2 shows the potential of Batik Clusters SMEs in six districts as targeted research

**Table 4.2. Potential Product of rural-based Batik SMEs in six districts**

District	Total SMEs	Product Specification	Capacity/month	Total batik centers
Banyumas	25	Kain Batik	264 unit	4
Cilacap	120	Kain Bakalan	1200 unit	1
Banjarnegara	62	Batik tulis dan cap	155 unit	2
Kebumen	63	Batik tulis dan printing	2408 yard	6
Wonosobo	23	Batik tulis dan cap	200 lb	2
Purbalingga	123	Kain batik, selendang	115 cody	7

Source: Central Java Department of Cooperatives and SMEs 2010

Based on Table 4.2. it can be seen that Batik Clusters in South-Central Java has potential to develop by synergizing the six districts to improve productivity. Their monthly production capacity can be increased by strengthening SMEs. With synergy, Batik cluster in each geographical area can then eliminate inefficiencies and improve productivity of batik cluster SMEs in South- Central Java.

This part highlights the results of the study based on the in-depth interview results and FGD with institutions and craftsmen of six districts in South-Central Java. A synthesis of the findings is given based on the internal factors as follows:

- a. Education
- b. Capital
- c. Raw materials
- d. Marketing
- e. Partnerships
- f. Technology
- g. Cooperative
- h. Coordination among government agency.

##### a. Education

Education is the key element of the human capital required for SMEs success. Many entrepreneurs in the six districts in South-Central Java have low level of formal education. It is argued that education and training provide the basis for intellectual development needed by entrepreneurs in business to be successful. In respect to that, they provide the entrepreneurs with confidence to deal with clients. (Storey, 1994). Most of the batik craftsmen only have finished their primary school (SD) and junior high school (SMP). A few of the craftsmen have finished their senior high school and higher education, and most of them are the successful prominent entrepreneurs among batik craftsmen.

As seen in the study, the educated entrepreneurs showed more capable results in conditions of how their business is doing. Thus, it is always claimed that business ownership is not an intellectual activity rather entrepreneurship is an opportunity for the less academically successful to earn high incomes. Another limitation faced among craftsmen is that they hardly have access to adequate training in batik technology and business management. Consequently, the supply of technical and managerial skills is lagging behind the requirement for developing a competitive batik SMEs. For example, one of the participants stated that batik craftsmen in Banyumas district with very low educational have difficulties in the dyeing process, they did not understand how to mix colors. In addition, with the low level of education, they do not have bargaining power when the skipper offering the debt bondage system. Hence, this leads the batik craftsmen received low revenue.

Improper record keeping comes as a result fundamentally of inadequate education and training in business. The improper record keeping will cause an entrepreneur loses track of the cash flows and in turn leading to cost control and liquidity problems and continuous training offer a particular entrepreneur with the necessary skills and capabilities needed for successful entrepreneurship (Casson, 1982). As seen in the case of batik craftsmen in Purbalingga district, the batik craftsmen sometimes do not understand how to calculate production cost, thus they sometimes sell their batiks at the very low prices or even loss, and it is because of the inadequate education.

#### **b. Capital**

Access to capital has remained a significant barrier to the growth of the SMEs sector in Indonesia. Small scale-entrepreneurs were facing challenges in accessing finance. Based on in-depth interview and focus group discussion in this study, most of the batik successful entrepreneurs use their own capital to undertake their business, while batik craftsmen only perform their skills by using tools and materials provided by the batik entrepreneurs. In Indonesia, the majority of SMEs, especially in rural areas, never received any loan from banks or from existing government sponsored SMEs loan schemes. They depend fully on their own savings, money from relatives and loan from informal lenders for financing their daily business operations (Tambunan, 2008). Hence, capital constraints, low education and lack of knowledge bring the craftsmen a difficult situation to turn into successful entrepreneurs. It is indicated in this study, there are few things that arise making it hard for entrepreneurs to be able to have access to proper financing. Such things are collateral constraint, inadequate business plan, state of the economy and bureaucratic procedures in applying for loans/finances.

#### **c. Raw materials**

The lack of resources from this lack of financial support affects SMEs in a variety of operational areas, ranging from efficiency to competitiveness. Batik SMEs in Purbalingga, Banjarnegara, Kebumen, Wonosobo, Banyumas and Cilacap still buy raw materials such as wax, kain biron, and dyes in Solo, Yogyakarta and Pekalongan. These materials are key to the production of batik and indeed affect the production, especially for the price issue, such as: late achieving the raw materials from suppliers and higher operation cost as they tend to buy materials in retail, not in bulk. Banyumas district has a cooperative institution namely PERBAIN. The cooperative provides raw materials like dyes, wax, and kain biron for some Batik SMEs near Banyumas district, including Purbalingga and Banjarnegara districts. Unfortunately, another districts in South – Central Java could not be served by PERBAIN because of limited capital and manpower.

To produce a cheap batik, the local raw materials must be cheap in terms of price. This can be used to produce a cheaper batik, and to meet the demand for the local market, but the local material has its disadvantage which is inefficient to produce a better quality batik, especially when it comes to exclusive demand because the home made material does not have the ability to absorb the colour and to dry quickly, which makes it not a good choice by the industries or craftsmen. Since last year, Purbalingga and Cilacap districts began to develop natural dyes from mahony leaves, mango leaves and others, and foreign buyer (i.e Dutch, Japan, and some country in Europe like Germany) prefer to buy this product than synthetic dyes products. It seemed to make an opportunity for other batik craftsmen in South – Central Java to pay attention in natural dyes material to produce batiks.

#### **d. Marketing**

Batik marketing is a major source of income for people in batik cluster SMEs in South – Central Java. Large number of men and women involved in the business. Nevertheless, SMEs generally do not have the knowledge or information about other markets, thus, this limits their ability to market their products to larger groups of customers and expand their business.



Lack of marketing is one of the most important factors affecting the growth of many businesses (Brush et.al, 2009). The Batik SMEs in Kebumen, Wonosobo, Banjarnegara still faced by marketing problem. Most of batik SMEs in South Central Java are sold locally by government agencies and local buyers. Hence lack of marketing knowledge and strategies as one of the main constrains for them to grow. Conversely, Purbalingga and Cilacap SMEs are able to penetrate Europe markets such as Netherlands, Germany and England. This is because of their ability and knowledge. Craftsmen in Purbalingga and Cilacap oftenly cannot serve a large amount order from their customer. It is evidence that the company employs only few workers because of the skills involved, so they could not produce in large quantity. Mrs. Euis Rohaini, a batik SMEs entrepreneur from Cilacap gave a suggestion to increase the other districts in South Central Java by developing a South – Central Java batik association (under affiliation with Yayasan Batik Indonesia) to promote batik in national or global business.

#### **e. Partnership**

The advantages of partnerships go beyond direct profits and higher incomes. For SMEs, they include driving innovations, building markets and strengthening supply chains, thus partnerships with worldwide actors helps SMEs obtain know-how and resources that increase their competitiveness. Resources sharing would bring cost efficiency to the business, and competition can also be minimized. Micro enterprises would benefit more from joining trade associations. Partnerships involving private actors, NGOs and different levels and sectors of public administration in local clusters and networking development strategies should be facilitated. Only few of batik SMEs in Banyumas district make partnerships with state owned enterprises Pertamina. Nevertheless, the majority of craftsmen have no information how to make partnership with public or private institutions. Similarly, with batik SMEs in Banyumas, batik SMEs in Kebumen district have an underdeveloped partnership. Few years ago they have partnerships with Batik Danarhadi Solo, unfortunately the partner did not extend the partnership because of low quality of the products. Lack of public/private partnership also faced by batik SMEs in Banjarnegara, Wonosobo, Cilacap and Purbalingga districts.

#### **f. Technology**

SMEs have difficulties in gaining access to appropriate technologies and information on available techniques. This limits innovation and SMEs competitiveness. Furthermore, another factor limiting the success of small firms is a technological barrier. Firms that adopt advance tools in their business are more likely to cause the business to develop faster than small business without advance technological tools. Moreover, other constraints on capital, labour, as well as uncertainty surrounding new technologies, restrict incentives to innovation. Nowadays, technology makes it possible to print batik motif onto cloth. And while these keep the patterns in the public eye, to us, they are missing an essential ingredient i.e their soul. The soul of the maker's hands transferred to the cloth through the long process of creation. Most of all the batik SMEs in six districts in South – Central Java still utilize traditional tools and they are still confronted with dyeing problems. Some of craftsmen conduct coloring in another place because of their limitation in dyeing technology.

#### **g. Cooperative**

Co-operatives are enterprises that exist to serve the needs of their members who contribute to their capital, own and control them, rather than to provide a return on investment. Thus, all enterprises exist to serve the interests of their cardinal stakeholder groups. From six batik cluster SMEs in South-Central Java only Banyumas district that has a batik cooperative namely PERBAIN. While other districts like Purbalingga, Kebumen and Cilacap only have associations or a forum. This association (e.g Forum Pengrajin Batik Purbalingga) providing a voice for the interests of batik SMEs in the policy-making process have had a limited role compared to those of larger firms.

#### **h. Coordination among government agency**

Coordination is the proceed of organizing, making diverse community or things work together for a goal or effect to fulfill desired goals in an organization. Coordination is a managerial function in which different activities of the business are properly adjusted and interlinked. There is also a general lack of co-ordination among government agencies active in all batik SME in South – Central Java. It can be seen from the unsynchronized programs from each government agency. Lack of coordination between government agencies in assisting the batik SMEs must be reviewed and fixed by developing good communication among agency.

## 5. Conclusion and Recommendation

These findings propose that to be successful SMEs, the owners of the batik SMEs in South-Centra Java should pay more attention to recover their marketing strategy, to use advance technology, and to get capital access. SMEs need to develop their human resource and technological capability, which lead to the improved innovation capacity and competitiveness. Development of training programs and courses aimed at small-business owners and their respective staff will ensure the small-business owners are equipped with adequate business knowledge and experience. This is important for them to run successful small businesses. In this respect, Indonesian government, especially at the district level has a crucial role, such as providing technical assistance, soft loans, as well as facilitating the cooperation information, between SMEs and local universities, government institutes, and business associations. The horizontal coordination among government agencies, as well as vertical coordination between the central and local governments in assisting SMEs, which traditionally have been weak, should be strengthened. It is also recommended to develop a South – Central Java batik association (i.e Yayasan Batik Indonesia) to promote batik in national or global business. Cooperative revitalization for PERBAIN can be a solution to solve the raw materials problem in batik clusters SMEs in South- Central Java.

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