

# STRATEGIC INTENTION & FINANCIAL SUPPORT ON MSMEs: AN INVESTIGATIVE STUDY IN INDONESIAN CREATIVE INDUSTRY

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## ABSTRACT

*Through its micro, small, and medium enterprises (MSMEs), the sprawling Jakarta satellite city of South Tangerang is ushering development of its own creative industry in hopes of becoming a competitive creative hub. Cities and creative industries are seen to have a mutually-beneficial relationship with each other (Flew, 2010). Despite their importance, micro and small enterprises (MSEs) tend to have a high mortality rate due to poor performance which can be attributed to lack of financing and poor strategic management. In order to assist with the development of South Tangerang's creative industry, this study intends to shed light on the correlation between the use of generic strategies and access to external funding on the value-based management (VBM) performance of MSEs.*

*Data is gathered from a focus group discussion, a questionnaire distributed to 100 creative entrepreneurs from 5 administrative villages, and unstructured interviews. After conducting path analysis using AMOS, the results find that creative MSEs tend to employ differentiation focus and previous findings confirm that implementing proactive strategies can boost the sales and profits of smaller firms (Pushpakumari & Watanabe, 2010); however, limited resources force MSEs to implement focus strategy and therefore MSEs should use collaboration and competency-based strategies instead (Ogot, 2012). Another revelation is that formal debt financing only has minor influence in the development of creative MSEs as evidenced by a number of the respondents' fear or distrust of banks; as also discovered by Machmud & Huda (2011), respondents' ineligibility to be granted credit due to lack of collateral or poor business plan further exacerbates the situation.*

Keywords: creative industry, micro and small enterprises, generic strategies, access to financing, value-based management

## I. INTRODUCTION

In Indonesia, micro, small, and medium enterprises (MSMEs) are often cited as the backbone of Indonesia's economy. Recent statistics show that in Indonesia, MSMEs contribute 53.6% of GDP and contribute 97.33% of the total employees in Indonesia (Shinozaki, 2012). Throughout Indonesia, the total number of MSMEs amounts to around an astounding 55 million businesses (Bank Indonesia, 2011). From these statistics alone, it is easy to see just how significant SMEs are to the Indonesian economy.

A survey discovered that in Indonesia 50% of small enterprises and 35% of medium enterprises cite access to finance as principal obstacles to investment (Mourogane, 2012). Therefore, it's unsurprising that the same survey cites a mere 10.8% of small firms and 35.9% of medium firms acquire working capital from banks (Mourogane, 2012). As a result, 85.8% of firm funding comes from internal financing while only 6% come from banking financing (Mourogane, 2012).

This study further narrows its focus down to creative micro and small enterprises (MSEs) in

South Tangerang because, compared to medium businesses, it is usually more difficult for them to have access to credit. The Ministry of SME and Co-Operatives classify micro enterprises as having a maximum net assets and annual sales of Rp. 50 Million and Rp. 300 Million respectively. Meanwhile, medium enterprises have a maximum net assets and annual sales of between Rp. 50 Million – Rp. 500 Million and Rp. 300 Million – Rp. 2.5 Billion respectively.

Indonesia is a culturally-rich nation home to a population consisting of 300 different tribes and ethnicities, speaking 742 different languages, and is home to 8 UNESCO World Cultural Heritage sites; with those facts in mind, the WEF ranks Indonesia 39<sup>th</sup> out 139 for cultural heritage (Indonesian Ministry of Tourism and Creative Economy, 2012). It is no wonder then that the country has a booming creative industry that contributes significantly to the national economy.

**Table 1: Creative Industry Average Contribution to the Indonesian Economy (2002-2010)**

<b>National GDP</b>	<b>Labor Participation</b>	<b>Business Amount</b>	<b>Export</b>	<b>Import</b>	<b>Net Trade</b>
7.74%	7.76%	6.77%	9.77%	1.3%	33.14

**Source: Indonesian Ministry of Tourism and Creative Economy (2012)**

The United Nations Conference on Trade and Development defines the term “creative industry” as “the cycles of creation, production, and distribution of goods and services that use creativity and intellectual capital as its primary inputs” (Antariksa, 2012). The creative industry is so important for Indonesia that in 2011, the Ministry of Culture and Tourism was rechristened as the Ministry of Tourism and Creative Economy (Liu, 2011); in fact, Indonesia is the only nation in the world to have a ministry dedicated to the creative economy (Antariksa, 2012). The creative industry is further divided into fourteen subsectors (Indonesian Ministry of Trade, 2009), but this study focuses on two of the most prolific subsectors by composition, which are; fashion (51.66%) and crafts (35.58%).

The geographical focus of this study is the bustling Jakarta satellite city of South Tangerang which has been gaining increasing economic significance. Compared to culturally rich cities like Bandung and Yogyakarta, South Tangerang’s creative industry is less vibrant and not as well-known. Even so, South Tangerang is home to numerous garment factories particularly in the Serpong area and ethnic craft workshops in the Ciputat area. According to the South Tangerang Government (2013), there is a total of 2,888 MSMEs officially registered in the city and that figure would balloon if unregistered businesses are also accounted for. As of February 2013 the head of South Tangerang’s Department of MSEs and Co-Operatives stated that only 150 local MSEs have been granted financing from banks (Gerai Banten, 2013) indicating a significant lack of financing amongst the majority of MSEs.

On top of discussing financing, it is also considerably important to analyze the implications of using generic strategies as a success factor. Using generic strategies, entrepreneurs have three strategies to choose from; low cost, focus, or differentiation. These strategies potentially have a direct impact to a firm’s performance in terms of value. The strategies might also have an effect on performance in terms of performance through impact to access to finance. These are the topics being brought to light in this research. This research hopes to support existing initiatives by the central government and the South Tangerang government to push MSE development. At the central level, the government drafted “Law no. 20/2008 concerning MSME”. At the city level, South Tangerang government lawmaker TB Rahmatullah is in the process of formulating a law concerning MSMEs that aims to ease business operations for MSMEs in the city (Cahaya Banten, 2012).

## **II. LITERATURE REVIEW**

### **II.1. GENERIC STRATEGIES**

First identified as “generic” strategies in 1986 by management guru Michael Porter, generic strategies consist of Total Cost Leadership, Differentiation, and Focusing (Freitas & Hoffmann, 2012). Also known for its namesake, Porter’s Generic Strategies are essentially the core grand strategies that firms must implement in order to achieve and maintain long term competitive advantage (Pearce II & Robinson, 2013). In order for a firm to obtain competitive advantage in a crowded market, they must initially determine the competitive scope (broad or narrow customer range) of their product. Once the competitive scope has been established, the firm must then determine the type of competitive advantage that they would like to position themselves in; lower cost or differentiation. Previous studies often focus on the implementation of Porter’s generic strategies on big companies, but as evidenced by Friis’ (2011) study they are also applicable for startup companies.

Firms that implement the cost leadership strategy prioritize cost reduction throughout the value chain over anything else. By achieving this strategy, firms are able to sell their products or services at the lowest cost possible or gain higher profit margins. During price wars, the price leader has the advantage over competitors because they can maintain their profitability even when selling at low prices (Friis, 2011). However, achieving this strategy might sacrifice quality and cause a drift from the firm’s core values. The differentiation strategy aims to emphasize product uniqueness in the perception of the potential market in order to set it apart from competitors (Amelia, 2008). This becomes advantageous as customers become less price sensitive; hard-to-replicate differentiation leaves consumers with little to no alternatives in the market place. Products could be differentiated by having special features and design, being distributed by select channels, or offer outstanding customer service. Pursuing this strategy might increase the price of the final product resulting in low market share (Friis, 2011).

Firms using the focus strategy must concentrate on a narrow segment of the market to avoid the competition (Amelia, 2008) Firms target niche that could be in the form of a specific group of consumers, product segment, or geographic location and meet their needs better than any of the competitors in order to gain a competitive edge (Bordean, et al., 2010). Serving unique needs wards off competitors by rewarding firms with high brand loyalty from their consumers. The focus strategy can be profitable when a firm can serve the needs of a particular group that are ignored by others (Pearce II & Robinson, 2013).

### **II.2. ACCESS TO EXTERNAL FINANCING**

In this study, the term “external funding” is defined as loans from external formal institutions such as banks, micro financing organizations, cooperatives, and the government (Machmud & Huda, 2011). The study of Machmud and Huda (2011) also reveals several common reasons why Indonesian institutions are reluctant to provide loans to MSEs; poor business plan, poor credit history, and insufficient sales, revenue, and cash flow. Of the three problems, the most interesting is the one concerning poor business plan. A business plan is paramount for entrepreneurs as it provides guidance to pave the way for successful business operations by forcing entrepreneurs to learn every aspect of actually doing the business which ranges from marketing to planning and organizing (Anantadjaya, 2007). This implies that a successful business requires a business plan that includes the strategic planning that would help entrepreneurs in acquiring external financing from formal institutions. As discovered by Jiang & Alis (2009) in their study, respondent MSE owners understood the importance of strategic planning and the combination of external and internal strategies is, in fact, a key for the growth and survival of MSEs.

According to Mourougane (2012), around 86% of Indonesian businesses finance their business internally. Therefore the first indicator, experience with credit, is used to determine if the entrepreneurs have had previous credit experience with formal institutions (bank, cooperative, government, MFO) and informal mediums (family and friends). The second indicator, credit card and bank account ownership, determines if an entrepreneur has a bank account and credit card; having those two increases the likelihood of an entrepreneur receiving formal loans. In a recent study by CPA Australia, it was found that there is a high reliance on credit cards for financing among SMEs (Barned, 2012). Credit cards provide entrepreneurs with short-term, low-interest leverage to support their business operations.

Lastly, credit history indicates the entrepreneur's credit worthiness by measuring their debt outstanding and punctuality in repaying their loans; these indicators attempt to paint a picture of the entrepreneur's credit history. As evidenced by Machmud & Huda's (2011) findings, financial institutions cite poor credit history as one of the main reasons why credit is denied. Those who delay payments, especially huge sums, definitely end up with poor credit history that deems them unfavorable in the eyes of lenders.

### **II.3. VALUE-BASED MANAGEMENT**

Firms that strive to align business, managerial, strategic, and operational decisions with value creation or maximizing shareholder value are said to practice value-based management (VBM) (Stancic, et al., 2012); it is then fair to say that virtually all businesses strive to be more profitable by maximizing its value. The idea here is to measure a firm's financial performance associated with VBM. Existing literature commonly discuss the association of VBM with large companies, but MSEs can also benefit by taking the VBM approach. A study in Germany shows that VBM is, although not to a high extent, present among SMEs; this stems from the fact that the ratings grade of SMEs can improve by incorporating value-based principles in their management (Berens & Krol, 2007). This clearly shows that VBM assists in the lending of credit. From an equity perspective, Nigerian SMEs backed by venture capitals (VC) receive management support which results in the outperforming of Economic Value Added (EVA) as compared to their non-VC-backed counterparts (Dagogo & Ollor, 2009). Assessing value-based management normally requires EVA and Shareholder Value Added (SVA) calculations. However, preliminary research shows that Indonesian MSE owners in general are reluctant to disclose financial data and even if they do, the accuracy and validity is questionable. This research counters the problem by taking a holistic approach, breaking down the EVA and SVA components and converting them into questionnaire form.

First and foremost, MSEs need to have adequate working capital to achieve stable financial performance; it is therefore paramount for MSE entrepreneurs to have access to external financing. Mach & Wolken (2011) discovered that small firms experiencing constraint of credit are more prone to closure than their more financially sound counterparts. In addition to having adequate capital, MSEs need to implement relevant strategies as well. According to the findings of Jiang & Alis (2009), Chinese and Indonesian SME owners are in fact aware of the significance of strategic management and they believe that it can affect their firm's financial and non financial performance. Furthermore, a study of Japanese and Sri Lankan manufacturing MSEs empirically proves that strategy implementation does have a positive correlation with performance in terms of sales and profits (Pushpakumari & Watanabe, 2010).

The first indicator, asset, refers to economically valuable resources used to benefit the firm's operations. Asset growth positively signals a firm expanding their operations to increase production and handle more customers to achieve more sales. However, a firm expanding too

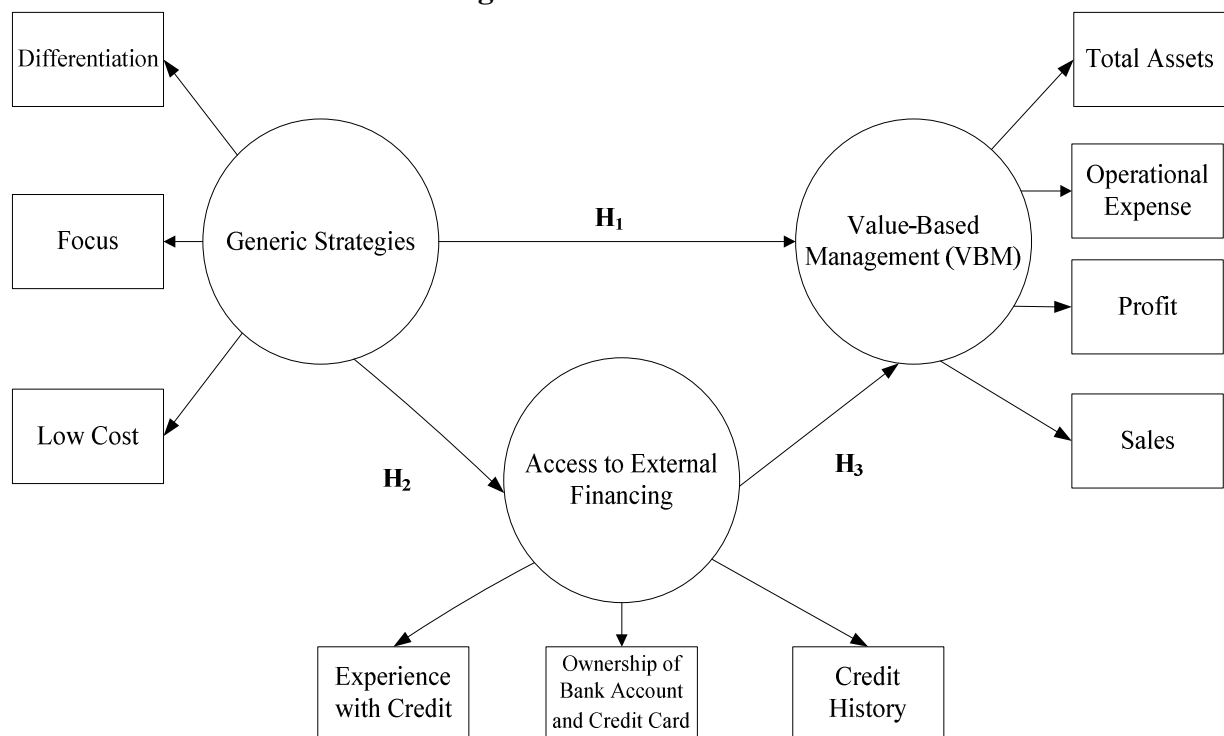
quickly may come at the cost of sacrificing quality. A study concerning the viability of Indonesian SMEs finds a statistical influence between total assets and SME viability (Anantadjaya, et al., 2010). The second indicator, operating expenses, are incurred from conducting daily business operations. An increase in a firm's operating expenses can either be interpreted as expanding operations or lack of operations efficiency. Firms tend to associate with the latter interpretation as firms are always finding ways to cut costs without compromising quality. This indicator is statistically influential to the viability of Indonesian MSEs (Anantadjaya, et al., 2010). As for the third indicator, profit is the monetary gain that a business earns after subtracting total expenses from total revenues. Profit growth could mean that the business has achieved one of or a combination of increasing sales and minimizing costs. According to Wu (2009), profit is "*one of the most important indicators for SMEs*" and therefore many measure it. The last indicator, sales, is the income earned from the sale of goods or services during a specific time period. Sales growth is important for firms as it equals to increased income which can be interpreted as being able to efficiently produce goods or running an effective marketing and sales campaign. However, firms with rapid sales growth must also control the quality to maintain the momentum. According to Wu (2009), growth indicators (including sales growth) are important for SMEs. This is backed by Anantadjaya, et al. (2010) as sales is statistically influential towards Indonesian SME viability.

### III. METHODOLOGY

#### III.1. RESEARCH MODEL

This research is a descriptive study in that it attempts to relate the interaction of several variables. More specifically, the study attempts to find the causal relationship between three variables; generic strategies, access to external financing, and value-based management.

**Figure 1: Research Model**



As for the research method, this study uses the qualitative approach. Since this research is a qualitative study, the population is determined using nonprobability sampling of the convenience type. Therefore, FGD sources and questionnaire respondents are limited to individuals and organizations somewhat involved with creative MSEs in South Tangerang. The questionnaire

used has close-ended questions measured using the Likert Scale. The FGD involves representatives from the following organizations; creative MSEs in South Tangerang, the South Tangerang Chamber of Commerce (STCC), the South Tangerang Government, and financial institutions. However, the questionnaire is only distributed to owners of creative MSEs in South Tangerang.

The South Tangerang government has committed to establish a creative industry center in the sub-district of Setu. Therefore, the Setu administrative villages of Babakan, Bakti Jaya, and Muncul dominate the geographical focus. Despite the local government's ambitious plans for Setu, preliminary field research shows that there may not be enough creative enterprises to satisfy the sampling amount. To ensure adequacy, the administrative villages of Cirendeu and Pisangan of the East Cipuat sub-district are included as well. Cirendeu houses a well-renowned area concentrated with shops selling traditional Indonesian crafts and furniture, located on the Ir. H. Juanda Street. A few kilometers down the road and crossing into the Pisangan area, the bustling Ciputat Market can be found with dozens of stalls selling a myriad of fashion products. Using PHStat, it is determined that the questionnaire sample consists of 100 owners of a creative enterprise from five administrative villages in the sub-districts of Setu and East Ciputat of South Tangerang. 20 samples are used

Based on the chart above, the following hypotheses can formulated;

- H<sub>1</sub>: The use of generic strategies would improve value-based management.
- H<sub>2</sub>: The use of generic strategies would increase access to external financing.
- H<sub>3</sub>: Access to external financing would improve value-based management.

### III.2. Research Variables and Measurements

The foundation of this research consists of three variables; “generic strategies”, “access to external financing”, and “value-based management”. “Generic strategies” is measured using “differentiation”, “focus”, and “low cost”. “Access to external financing” is measured using “experience with credit”, “ownership of bank account and credit card”, and “credit history”. Lastly, “value-based management” is measured using “total assets”, “operational expense”, “profit”, and “sales”. The variables and its measurements are further elaborated in the operational variable table below;

**Table 2: Operational Variable Table**

Variable & Definition	Sub Variable	Indicator	Scale
<b>Generic Strategies:</b> the core grand strategies that firms must implement in order to achieve and maintain long term competitive advantage. (Freitas & Hoffmann, 2012)	Cost Leadership (Friis, 2011)	<ul style="list-style-type: none"> <li>• Minimum production cost</li> <li>• Cost Leadership</li> </ul>	Likert: 1-5
	Differentiation (Friis, 2011)	<ul style="list-style-type: none"> <li>• Product's reliance on distinction</li> <li>• Differentiation</li> </ul>	Likert: 1-5
	Focus (Bordean, et al., 2010)	<ul style="list-style-type: none"> <li>• One product type</li> <li>• Focus</li> </ul>	Likert: 1-5
<b>Access to External Financing:</b> the extent of how easy/hard it is for owners to acquire loans from formal financial institutions. (Machmud & Huda, 2011)	Experience with Credit (Mourogane, 2012)	<ul style="list-style-type: none"> <li>• Formal institution borrowing</li> <li>• Family friends borrowing</li> </ul>	Likert: 1-5
	Ownership of bank account and credit card (Barned, 2012)	<ul style="list-style-type: none"> <li>• Bank account ownership</li> <li>• Credit card ownership</li> </ul>	Likert: 1-5
	Credit History	<ul style="list-style-type: none"> <li>• Outstanding debt</li> </ul>	Likert:

Variable & Definition	Sub Variable	Indicator	Scale
	(Machmud & Huda, 2011)	<ul style="list-style-type: none"> <li>Debt repayment punctuality</li> </ul>	1-5
<b>Value-Based Management:</b> the measure of a firm's VBM performance based on their financial history (Stancic, et al., 2012),	Total Assets (Anantadjaya, et al., 2010)	<ul style="list-style-type: none"> <li>Assets increase</li> <li>Increase in cash and accounts receivables</li> </ul>	Likert: 1-5
	Operational Expenses (Anantadjaya, et al., 2010)	<ul style="list-style-type: none"> <li>Increase in direct operational expenses</li> <li>Increase in utilities expense</li> </ul>	Likert: 1-5
	Profit (Wu, 2009)	<ul style="list-style-type: none"> <li>Increase in profit margin</li> <li>Increase in net profit</li> </ul>	Likert: 1-5
	Sales (Wu, 2009)	<ul style="list-style-type: none"> <li>Increase in sales margin</li> <li>Increase in net sales</li> </ul>	Likert: 1-5

## IV. RESULTS ANALYSIS AND DISCUSSION

### IV.1. GENERAL DISCUSSION

South Tangerang is chosen as the geographic focus of this study not without a reason. For the first time in history since 2000 there are now more people living in cities than in rural areas (Flew, 2010) which clearly indicates an economic paradigm shift. A city has high levels of consumerism, home to numerous corporate headquarters, attracts plenty of knowledgeable talent from all over the country, and its infrastructure is heavily invested in by the government; these factors lead to plenty of job opportunities for creative MSEs as much of their work is contractual or project-based (Flew, 2010). However, a city should also be visually pleasing in order to attract more creative businesses; this is in light of a study conducted in the Netherlands that indicates a city's visual features are important for a creative entrepreneur's decision to choose a location (Smiet, 2011). South Tangerang is rapidly becoming more aesthetically-pleasing for creative entrepreneurs with the massive real estate projects of Alam Sutera, Bintaro Jaya, BSD City, and Summarecon Serpong.

Despite the Indonesian government's commitment to push the development of the creative industry and South Tangerang's seemingly fitting state to facilitate creative businesses, the reality seems to indicate otherwise. Three leading South Tangerang creative entrepreneurs expressed their concerns during a forum group discussion hosted by SGU. Pipie, owner of a bags factory, stated that the government and Association of Indonesian Entrepreneurs does not play an active enough role in guiding entrepreneurs. As expressed by fellow FGD attendees and creative entrepreneurs Nanda and Nelty, another prevalent government-related issue is the intricate and often pricy bureaucracy associated with processing a business' legal documents. Nanda claims to have paid around Rp. 10-15 million in order to speed up the process of obtaining his documents; unbribed corrupted officials are known to purposely prolong the document processing time. Having little resources and may not comply with regulations, SMEs tend to be more likely to pay bribes as about 42% of firms in middle-income nations perceive corruption to be a major hurdle (International Finance Corporation, 2010).

Kemal Pasha, head of the South Tangerang Chamber of Commerce (STCC), is aware of these practices and would like to see the government make the red tape less complicated for entrepreneurs. Kemal recommends entrepreneurs to seek help and use the facilities provided by the STCC to deal with this kind of difficulty. However, a recent news article covering the sentiments of South Tangerang entrepreneur and STCC member Yardin Zulkarnain negatively criticizes Kemal and his organization. Yardin claims that during Kemal's tenure so far, the

STCC has not been empowering South Tangerang entrepreneurs enough and therefore STCC membership has no advantages; Yardin even alleges Kemal's tendency to use his position as STCC head for the benefit of himself and his company (Iqmar, 2013).

**Table 3: Respondent Characteristics**

<b>Business Type by Subsector:</b>	Crafts: 63%, Fashion: 37%
<b>Business Age:</b>	35 – 44.9 years: 29% (majority)
<b>Business Owner Age:</b>	1 – 5.9 years: 38% (majority)
<b>Business Owner Gender:</b>	Male: 77%, Female: 23%
<b>Last Education:</b>	High School: 39% (majority)
<b>Credit Card and Bank Account Ownership:</b>	Credit Card: 12%, Bank Account: 77%

#### IV.2. VALIDITY AND RELIABILITY TESTS

The validity and reliability tests, or pre-test, are performed using the SPSS Statistics software. As has been established, this study uses 100 respondents. The validity is tested using the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. As the value has exceeded the minimum of 0.5, the data is valid. Even though a figure closer to 1 is more desirable, 0.597 is satisfactory enough. Meanwhile, the reliability test is carried out using a split-half reliability test called Cronbach's Alpha. The minimum Cronbach's Alpha is 0.6 and the data achieved 0.657; this means that the data is also reliable and can be further processed.

**Table 4: Validity Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		<b>.597</b>
Bartlett's Test of Sphericity	Approx. Chi-Square	458.740
	df	190
	Sig.	.000

Source: SPSS

**Table 5: Reliability Testing Results**

Cronbach's Alpha	N of Items
<b>.657</b>	20

Source: SPSS

#### IV.3. PATH ANALYSIS

The function of the goodness of fit values is to evaluate how fit the model is in relation to its observations. There are six criteria that must be met and all except two meet or exceed the recommended value. The first criterion that does not seem to meet the recommended standard value is the *p-value* with a figure 0.031 while the minimum is 0.05 or greater. The second criterion is the AGFI with which falls 0.05 points short of the minimum or greater 0.90 with 0.850. The CFI's recommended value is vaguely pegged to a figure as close as possible to 1; the result indicates 0.817 which happens to be quite close to 1. The GFI's benchmark is similarly a figure closer to 1 and therefore the result is excellent with 0.910. Lastly, the CMIN/df (1.509) and RMSEA (0.072) manage to exceed the minimum of less than 2 and less than 0.08 respectively. With 4 out of 6 criteria met, it is fair to say that the model fits well with the observed variables.

**Table 6: Goodness of Fit**

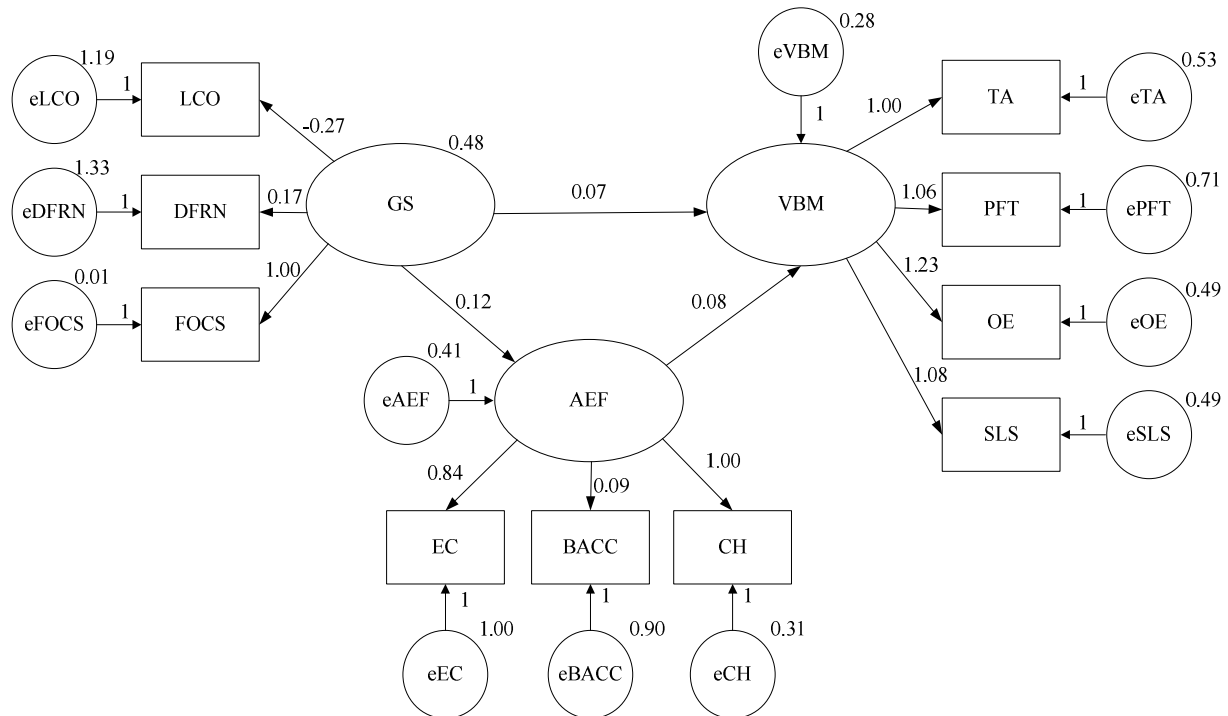
Criterion	Result	Recommended Standard Value
<i>p-value</i>	0.031	$p\text{-value} \geq 0.05 = \text{better}$
CMIN / df	1.509	$\text{CMIN}/df \leq 2 = \text{better}$
RMSEA	0.072	$\text{RMSEA} \leq 0.08 = \text{better}$



Criterion	Result	Recommended Standard Value
GFI	0.910	GFI closer to 1 = better
AGFI	0.850	AGFI $\geq$ 0.90 = better
CFI	0.817	CFI value closer to 1 = better

Sources: AMOS; Indra & Anantadjaya, 2011

Figure 2: Path Analysis Output



Source: AMOS

#### IV.4. ANALYSIS ON HYPOTHESIS 1: WOULD THE USE OF GENERIC STRATEGIES IMPROVE VALUE-BASED MANAGEMENT?

With a positive correlation of 7%, there is a statistical influence between the use of generic strategies and improvement of VBM; despite the positive correlation 7% is still a small value and would probably only cause a minor improvement in VBM. One explanation may lie in a study concerning Kenyan micro enterprises which suggests that Competitive Business Strategies (CBS) developed by Michael Porter are largely developed for and successfully applied to medium and large firms (Ogot, 2012). With minimal resources, MSEs have little room to strategically maneuver in the market and therefore, Ogot (2012) argues, generic strategies are generally inapplicable for MSEs. Instead, MSEs should be implementing four collaboration and competency-based CBS (Ogot, 2012). An emphasis on collaboration in MSMEs is confirmed by the findings of Anantadjaya, et al. (2010) who recommended that SMEs should enter “ventures” to increase sales.

The generic strategy most preferred by respondents is the focus strategy as evidenced by a 100% positive correlation between it and the use of generic strategies. Conversely, creative entrepreneurs are least likely to maintain cost leadership strategy as it has a -27% correlation. Using cost leadership strategy generally equates to cutting costs which consequently allows for a lower selling price. The majority of entrepreneurs who manufacture their own products agree that cutting costs would ultimately sacrifice the quality of the finished product; in the face of tight competition sales, they cannot afford to lose customers due to a lack in quality. Instead, these businesses end up using the differentiation strategy by specializing in selling only one

product type like shoes, bags, or, like Cirendeu respondent Ina, children clothing. This helps explain the 17% correlation of differentiation in relation to the use of generic strategies. The fact that a business' survival hinges on its ability to formulate a strategy to differentiate itself from competitors is noted by Michael Porter in his 1980 study (Kan, 2009).

While many of the businesses selling fashion products differentiate themselves by selling only one product type, tailors and wood and steel crafters prefer to differentiate by focusing on quality. Ironically though, since this is the case with most entrepreneurs that quality can no longer be considered as differentiating. Nevertheless, quality focus has a direct connection with improved VBM. The practice of VBM is all about making business decisions for the ultimate goal of value maximization (Stancic, et al., 2012). Gusnawati, a crafts respondent, states that her clients recognize her for selling only high quality products and she intends to maintain this status. To Gusnawati and others like her, quality focus is the chosen strategy that they consider value maximizing from the perspective of their clients. By maintaining a focus on quality for ultimate consumer satisfaction, creative entrepreneurs imply that their business' value increases as well. Unlike larger firms that have the resources to apply low cost or differentiation, it seems like MSEs can only viably compete by implementing the focus strategy (Ogot, 2012). This confirms Berens & Krol's (2007) findings that VBM is, in fact, present to a certain extent in SMEs.

With the presence of VBM amongst creative MSEs confirmed, the next focus is on generic strategies and its performance-related implications on VBM. The findings of Jiang & Alis (2009) who studied Chinese and Indonesian SMEs found that entrepreneurs are actually aware of the importance of strategic management, but provides no general answer on how strategic management influences performance. The findings of Jiang & Alis (2010) seem to be on par with the results of this study and even further indicates that there is actually a 7% positive correlation between the use of generic strategies and the improvement of VBM performance. Creative entrepreneurs have a high tendency to focus on quality and believe its ability to maximize value which leads to satisfied returning customers; this translates to higher sales and perhaps even profits. This is evident by a strong statistical influence between VBM and Sales (108%) and VBM and Profit (106%).

This conclusion is supported by a study concerning Japanese and Sri Lankan SMEs that the application of proactive strategies lead to an increase in sales, profits, and employees (Pushpakumari & Watanabe, 2010). Of course, that is only a theoretical observation. Gusnawati and her neighboring competitor Dedy, also a longtime seller and manufacturer of wooden furniture, both agree that regardless the strategy they use sales are not as good as they used to be. During the Soeharto Era, foreigners purchasing their products in big bulks prevailed; nowadays, sales are slugging to less demand. A study by Anantadjaya, et al. (2010) also found that there is a connection and influence of concentration and internal growth strategy toward viability of small and micro businesses. It might also be the case with the study; the influence is just that and it does not necessarily improve performance.

#### **IV.5. ANALYSIS ON HYPOTHESIS 2: WOULD THE USE OF GENERIC STRATEGIES INCREASE ACCESS TO EXTERNAL FINANCING?**

As shown in the path model above, the use of generic strategies increases access to external funding with a statistical influence of 12%. The second most statistically influential indicator (84%) for an MSE's ability to gain access to external financing is previous experience with both formal and informal credit. Most respondents prefer to borrow money from family and friends or even refuse to borrow money at all as 72% of them have no experience in bank borrowing. Despite being offered by multiple banks, crafts respondent Jajuri, refuses to borrow from banks

because he is not ready yet. Fery, owner of a steel crafts business, is “scared” of bank borrowing due to the high interest rates. Miko, a tailor, strictly borrows money only when extremely in need. The sentiments of these three entrepreneurs generally reflect the rest of the respondents’ reasons as to why they are deterred from bank borrowing. The high percentage of respondents who have no access to external financing is consistent with a study concerning an Indonesian study regarding SME financial access which finds that 96.9% of 161 respondents have no access to formal external financing (Machmud & Huda, 2011).

The indicator “experience with credit” actually covers respondents who have tried bank borrowing but are rejected. Amin Sudarmadi, who manufactures made-to-order clothes has applied for bank credit only to be rejected multiple times due to lack of collateral. As property registration is “*considered to be a significant part of financial infrastructure*”, it is paramount for the government to reduce or remove regulatory hurdles that would increase collateral ownership (International Finance Corporation, 2010). However, difficulty in fulfilling requirements set by creditors is also often a cause for rejection as evidenced by two Nurdin, a tailor, and Masyan, a wooden frame crafter who were both denied bank credit multiple times. In the same study, Machmud & Huda (2011) cite the entrepreneur’s poor business plan as a common reason for credit rejection by banks and this might explain why Nurdin and Yan’s rejection. A business plan is integral for entrepreneurs as it teaches them every aspect of the business and guides the path for a successful business operation (Anantadjaya, 2007). It is important to include strategic planning in a business plan as wisely choosing strategies most fitting for the business from the start may determine the future of the business.

While there seems to be slight evidence on why the use of generic strategies would have a positive statistical impact on increasing access to external financing, 12% is still a relatively weak correlation. The lack of greater influence may be attributed to “the use of generic strategies” variable itself. As discussed before, it is unfitting for MSEs to use generic strategies and should instead use four strategies developed on the foundations of collaboration and competency (Ogot, 2012). The practice of MSE collaboration would enable the pooling of networking and intellectual and tangible assets; two previously ineligible MSEs would become more resource-rich and therefore be more likely than usual to be granted bank credit. Collaboration or venturing is definitely a good strategy for MSEs as it has a 15% influence on sales (Anantadjaya, et al., 2010). Meanwhile, competency in Ogot’s context refers to the educational mentoring of entrepreneurs from professionals (Ogot, 2012). Lack of business management skills and financial illiteracy prevent entrepreneurs from navigating through complex loan procedures or other financing options (International Finance Corporation, 2010).

#### **IV.6. ANALYSIS ON HYPOTHESIS 3: WOULD ACCESS TO EXTERNAL FINANCING IMPROVE VALUE-BASED MANAGEMENT?**

Statistically, access to external financing has an 8% positive correlation on improving VBM; the value is rather low and therefore does not have great impact on VBM improvement. From a logical standpoint, this can be interpreted as a tendency for entrepreneurs to succeed on their own efforts instead of depending on formal financial support. Based on anecdotal evidence from FGD respondents, South Tangerang entrepreneurs tend to put the local government and trade associations in a negative light for having little to no meaningful impact on the wellbeing of creative MSEs. In similar fashion, the role of banks and government-owned and private nonbank institutions in the development of South Tangerang MSEs seems to still be minute. However, the financial institutions are not completely at fault here; it might be the entrepreneurs themselves that are not yet willing or prepared to apply for formal financial loans.

Unlike bank account and credit card ownership (8%), the indicator credit history (CH) has a

100% statistical influence on access to external financing; it is measured by current debt outstanding and punctuality of debt repayment. These measures give an understanding of the entrepreneur's character and conditions, two of the 5C's of credit. As cited by Machmud & Huda (2011), another common reason why Indonesian SMEs are often denied credit is because banks prioritize entrepreneurs with outstanding credit history and are even willing to offer them more credit. Ani, a tailor, started her business using bank credit and her excellent credit history has allowed her to buy a house from constantly renewed credit. Desy, who makes curtains, was granted bank credit and used the money to move her business to a new shop. These two cases imply that there is evidence of a correlation between good credit history and an increase in assets. Total assets, used as an indicator for VBM, have a 100% statistical influence.

Aside from an increase in total assets, there is also evidence that good credit history leads to an increase in sales and profit. Fadly and Abdul Jalil, who both received bank credit say they prioritize good credit history to prevent losing trust from creditors. Both these men enthusiastically report an increase in sales and profit over the past 1 year; sales has a statistical influence of 108% while profit that of profit is 106% toward VBM. An increase in total assets, sales, and profit could then translate to an improvement in VBM performance. A study comparing venture capital-backed and non-venture capital-backed Nigerian SMEs found that venture capital-backed SMEs has better performance when measured using Economic Value Added (Dagogo & Ollor, 2009). Although this study focuses on debt-backed enterprises instead of equity-backed, the results surmise that well-funded MSEs tend to outperform those that are not. This assumption is also observed in a study of small American enterprises which finds that credit-constraint small enterprises are more prone to closure (Mach & Wolken, 2011). Similarly in this study, there is evidence that creative MSEs that are well-funded perform better and therefore would be more likely to survive.

## **V. CONCLUSIONS AND RECOMMENDATIONS**

### **V.1. CONCLUSIONS**

Path analysis shows that the use of generic strategies has a 7% statistical influence on improving value-based management. With a 100% influence on the use of generic strategies, there is evidence that creative entrepreneurs tend to adopt differentiation focus to maximize their business' value in order to ultimately, albeit not significantly, increase performance. Focus tends to be the strategy of choice since MSEs have little resources and it would be difficult for them to truly adopt the differentiation or low cost strategy. The use of generic strategies also has a 12% statistical influence on increasing access to external finance. Based on a previous study of Indonesian SMEs (Machmud & Huda, 2011), there is evidence from this study's results suggesting that lack of strategic planning through poor business plan may be the cause of 72% of respondents have no experience with formal institution borrowing. However, the weak statistical influence is most likely due to Porter's generic strategies being more applicable for larger enterprises. Finally, access to external financing has an 8% statistical influence on improving value-based management. This weak statistical influence can be interpreted as the formal financing institutions' lack of prominence in developing South Tangerang creative MSEs. However, there is also evidence pinpointing an entrepreneur's excellent credit history (100% influence on access to external financing) increasing the performance of VBM by way of an increase of total assets, sales, and profits of their business.

### **V.2. RECOMMENDATIONS**

#### **V.2.1. For the South Tangerang Government**

1. The most important step the South Tangerang government has to take is to create long-term, constantly-monitored programs to provide managerial guidance and a forum for entrepreneurs to express their opinions. Some entrepreneurs may have the resources to

establish a business, but they may not necessarily have the knowledge to run it.

2. In addition to creating the managerial guidance programs for entrepreneurs, the government should establish an institution solely devoted to providing entrepreneurs with information regarding the function of financial institutions, its products, and the loan application process; valuable information like this would ideally help convince entrepreneurs to start using leverage to support their business.

### **V.2.2. For Creative Micro and Small Enterprises**

Creative entrepreneurs, particularly who run wood and steel crafts businesses, should definitely maintain a focus on quality to satisfy consumers in the long run. However, they should not consider focus on quality a form of differentiation since most businesses already tend to think so. Creative entrepreneurs should find creative ways to truly differentiate their product from competitors like unique consumer experience, more attractive and welcoming shops, and innovative design features.

### **V.2.3. For Future Studies**

1. Instead of using Porter's generic strategies, future studies should use the following collaboration and competency-based CBS developed by Mandara M. Ogot with micro enterprises in mind; Peer Differentiation Strategies, Peer Low Cost Strategies, Mentor Differentiation Strategies, and Mentor Low Cost Strategies (Ogot, 2012). Using these four strategies should present a more accurate reflection of the condition of micro and small enterprises and therefore stronger statistical correlations would most likely be generated.
2. Future studies should not limit the scope of respondents to only crafts and fashion businesses. The Indonesian government recognizes fourteen diverse creative subsectors. Even though they are not as prevalent as fashion and design, subsectors like arts and antique markets, film, video, and photography, and music tend to be more synonymous with the term "creativity" in the mind of the general public. The study should also gather data from a larger sample size than this study's mere 100. By combining a larger scope of subsectors and increasing the sample size, the results should portray a more accurate representation of the actual conditions of the Indonesian creative industry.

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