

# AN EXPLORATORY STUDY OF THE PROFILES OF MICRO, SMALL, AND MEDIUM ENTERPRISES IN THE HANDICRAFT SECTOR IN THE AREA OF YOGYAKARTA CITY

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## Abstract

The aims of the study were (1) to identify the profiles of Micro, Small, and Medium Enterprises (MSME) in the handicraft product sector in Yogyakarta City in the 2015 period, (2) to identify actual problems faced by business owners involved in the business in MSME in Yogyakarta City in order that the government of Yogyakarta City finds it easy to provide solutions, and (3) to find out efforts that have been made by business owners involved in the business in MSME in Yogyakarta City to Solve the problems they face in order that the offered solutions are more effective. This was an exploratory study. The research object was MSME in the handicraft sector in Yogyakarta City. The research population comprised all business owners in MSME in the handicraft sector in seven districts in Yogyakarta City, namely Kotagede, Kraton Mantrijeron, Mergangsan, Tegalrejo, Umbulharjo, and Wirobrajan. The data on the number of business owners in the handicraft sector referred to the data on the membership in the National Handicraft Council of Yogyakarta City. The sample in the study was selected by means of the purposive sampling technique. In-depth interviews and questionnaires were used collect data on the profiles, business types, problems, and effort that had been made to solve the problem faced by business owners in MSME, while data on the number and identify of business owners in MSME referred to data in the National Handicraft Council of Yogyakarta City. Based on the results of the study, it could be concluded that several general conditions and problems faced by business owners in MSME were, among others, the capital financing, increase in raw materials prices, decrease in people's purchasing power affecting the product order, facilities from the National Handicraft Council in the form of exhibitions and other promotions which could not be enjoyed by all business owners in MSME (due to different treatments for business owners in MSME), and tax imposition which was the same for all levels of turnover or sales. Much of the training that business owners in MSME had attended needed follow-ups. Therefore, this became a thing that needed attention from government of Yogyakarta City. Business owners had made a variety of efforts autonomously to solve the problem they faced. The efforts included, among others, establishing joint business groups facilitating a variety of their attempts in marketing, capital financing, and industry sharing.

Keywords: Profiles of MSME in Yogyakarta City, Handicraft Sector

## INTRODUCTION

The aims of this exploratory study were, *first*, to identify the profiles of Micro, Small, and Medium Enterprises (MSME) in the handicraft product sector in Yogyakarta City in the 2015 period, *second*, to identify actual problems faced by business owners involved in the business in MSME in Yogyakarta City in order that the government of Yogyakarta City finds it easy to provide solutions, and *third*, to find out efforts that have been made by business owners involved in the business in MSME in Yogyakarta City to Solve the problems they face in

order that the offered solutions are more effective. This was an exploratory study. The research object was MSME in the handicraft sector in Yogyakarta City. Descriptive statistics, was used to analyze the profiles of Micro, Small, and Medium Enterprises in the Handicraft Sector in the area of Yogyakarta City.

The improvement of business in Indonesia through employment shows still far from the expectations. The deterioration of the national economy that be affected by recession in USA, had caused the financial problems for SMEs as the depreciation of exchange rate between Indonesian Rupiahs (IDR) toward United State Dollar (USD) which has been occurring in the 2008 period. The situation will lead the business to financial distress problem. The depreciation of exchange rate had caused the inflation that affects Indonesian purchasing power. The depreciation of Rupiah against the US Dollar that culminated with the level of crisis very large level in a short time in 2008 caused the business enterprises take in slowly growing. This situation caused the Indonesian economy in macro slump and many companies are threatened to bankrupt. Similar condition also happened to the owners of MSMEs when Rupiah depreciated against the USD in mid-2012 until now. The economic downturn also affects the activities of MSMEs, this were caused the sluggishness of the domestic economy is also accompanied by the slow pace of economic growth in almost all countries in the world.

When faced with a multi-dimensional crisis, micro, small and medium enterprises (MSMEs) survive and able to play a role to perform its functions both in producing goods and services in the midst of great business conditions were not able to maintain its existence. This was reasonable because the small and medium enterprises (MSMEs) have prospect to be developed, also have different characteristics with big business. This difference can be seen from the scale of business, the number of labor, and the production capacity of MSMEs which has toughness and resilience in business continuity. In addition to having advantages over other business scale, MSMEs also has an important role in the economy (Wijaya,2008).

Indonesia MSMEs also contributes greatly to the national economic. Small businesses and households account for only 10% of total revolving money and account for 49% of Gross Domestic Product (GDP). The business unit of the sector that absorbs the most labor from small companies compared to large companies (Riyanti,2003). This shows that small business has potential to be developed in Indonesia because it was able to restore the national economy. Micro, Small and Medium Enterprises relatively have a significant contribution to the running of governance both at central and regional levels. It was caused as small business actors were bigger when compared with business actors in conglomeration scale. These conditions make small businesses very influential on Indonesian Gross Domestic Product and Regional Gross Domestic Product, in this case especially the Regional GDP of Yogyakarta Province.

The role and improvement of Micro, Small and Medium Enterprises (MSMEs) only can be enhanced by the counseling, directing and appropriate assistance for business actors. Those MSMEs programs above can be implemented effectively, if MSMEs already know about the potential capability prospects and shortcomings in running their business. In addition, the various problems and needs of each SMEs actor have been clearly identified.

Problems and needs, as well as knowing the eligibility of the owners of SMEs will greatly help local governments in the form of what treatment methods should be given to the owners of MSMEs in Yogyakarta City. Properly handling and ability to answer the business problem that be faced of MSMEs actors will facilitate the government in developing the owners of MSMEs to penetrate the broader market than they have. The Office of Industry Trade Cooperative and Agriculture of Yogyakarta was currently updating the Micro, Small and Medium Enterprises (MSMEs) database, to describe the real existence of MSMEs, supporting the programs was held by related department in Yogyakarta City. According to Section Head of the Study and Development of MSMEs, Department of Industry, Trade, Cooperatives and Agriculture said that the updating of MSMEs data, be expected to obtain validity of data about existence of MSMEs in region of Yogyakarta City. The Routine programs, which have been executed by the related institution in Yogyakarta City, in order to develop MSMEs, surrounding, assistance and effort to motivate the owners of MSMEs developing their businesses, that has been build. The presence of the state in these cases was expected by the owners of MSMEs both in terms of assistance to broader market access, as well as in capital with a relatively low capital cost and conducive to the business.

Research of MSMEs has been done by Wijaya (2008) which has tested the model of entrepreneurship behavior of MSMEs in DIY and Central Java, and Riyanti (2003) which has examined MSMEs from psychological aspect. This research intends to explore the profile of MSMEs of Yogyakarta, especially the profile of handicraft industry that has potential to penetrate export market; to identify problems faced related to business governance that was being cultivated; and to prepare business actors in penetrating export market as their market alternative. There were three questions in the study, as follows:

1. How were the profiles of Micro, Small, and Medium Enterprises in the handicraft sector in Yogyakarta City?
2. What kinds of problems which faced by Micro, Small and Medium Enterprises owners in the handicraft sector in Yogyakarta City?
3. How were the efforts that have been done by MSMEs in Yogyakarta to solve these problems?

## **METHODOLOGY**

This study was an exploratory study. The research object was Micro, Small, Medium Enterprises in the handicraft sector in Yogyakarta City. The research population comprised all business owners in MSME in the handicraft sector in seven districts in Yogyakarta City, namely Kotagede, Kraton Mantrijeron, Mergangsan, Tegalrejo, Umbulharjo, and Wirobrajan. The data on the number of business owners in the handicraft sector referred to the data on the membership in the National Handicraft Council of Yogyakarta City. The sample in the study was selected by means of the purposive sampling technique. In-depth interviews and questionnaires were used collect data on the profiles, business types, problems, and effort that had been made to solve the problem faced by business owners in

MSME, while data on the number and identify of business owners in MSME referred to data in the National Handicraft Council of Yogyakarta City.

## **RESULTS OF THE STUDY**

Based on the research data, it has been identified as many as 21 owners of Small and Medium Enterprises in the Yogyakarta that meets the requirements of a predefined sample. The requirements of sampling methods were, *first*, the owners of MSMEs must be active in business during the research period. *Second* the subject was a craftsman in the handicraft industry in the working area of Yogyakarta City. *Third*, the sample has to produce handicraft and not only act as distributors, collectors or retailers. Successfully identified profiles include business profile data and activity profile data. Business profile and complete activity profile per unit of MSMEs was presented in *Product Catalog* which is the output of this research.

The results of the study show that several general conditions and problems faced by business owners in MSMEs were, among others, the capital financing, increase in raw materials prices, decrease in people's purchasing power affecting the product order, facilities from the National Handicraft Council in the form of exhibitions and other promotions which could not be enjoyed by all business owners in MSME (due to different treatments for business owners in MSME), and tax imposition which was the same for all levels of turnover or sales. Much of the training that business owners in MSME had attended needed follow-ups. Therefore, this became a thing that needed attention from government of Yogyakarta City. Business owners had made a variety of efforts autonomously to solve the problem they faced. The efforts included, among others, establishing joint business groups facilitating a variety of their attempts in marketing, capital financing, and industry sharing. Another efforts that have been done by MSMEs, among others, following the exhibition programs or expo product facilitated by DEKRANAS, improving the marketing programs based social media or electronics media to get more customer, collaborating with the handicraft collector to sell the products, and following the trainings related to the field of their business.

## **CONCLUSION AND SUGGESTION**

Based on the results of the study, it could be concluded as follows:

1. Business owners in Micro, Small, and Medium Enterprises faced the capital financing problem.
2. They also faced increase in raw materials prices, decrease in people's purchasing power caused by depreciation of exchange rate IDR/USD.
3. The facilities from National Handicraft Council (DEKRANAS) Yogyakarta City, which could not be enjoyed by all business owners in MSMEs, due to different treatments for business owners in MSMEs.
4. Tax imposition which was the same for all levels income of sales.

5. Others problem faced by MSMEs owner was quality of human resource. Many people involved were not in good performance and lack of sufficient skill.
6. Supposing there were unfairly policy and practices in raw materials pricing, especially in the leather handicraft.
7. The business owners faced the problem of not ability to fulfill the order in the big scale, as the human resources restricted.
8. The position power of pricing policy not so good, caused most of the pricing of handicraft product was stated by collectors, not producers.

Accommodating and responding to various problems faced by the owners of MSMEs in Yogyakarta, this study provides some recommendations as follows:

1. Identify and perform a formal and accurate re-arrangement of the MSMEs existence in the Yogyakarta City conducted periodically.
2. Reviewing the classification of MSMEs types by taking into account the characteristics of its business, so there was no sharp difference in the problem of classification of industrial types caused by different perceptions.
3. Conduct accurate re-arrangements for all MSMEs players recorded in Yogyakarta, for the various facilities needed in their business expansion efforts.
4. Data collection conducted in an orderly manner will also affect the increase in local revenue through taxes paid by the MSMEs owners.
5. The government as a public institution has an obligation to be present in helping MSMEs owners develop and run their business, thus the government should give equal and fair treatment to the MSMEs owners.
6. Yogyakarta City Government in the short terms, was expected to provide training assistance, marketing facilities and capital in various schemes for the owners of MSMEs in Yogyakarta.

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