# EVALUATION INTERNATIONALIZATION PROGRAMS OF CREATIVE INDUSTRY MICRO SMALL AND MEDIUM ENTERPRISES (MSMEs) IN PURBALINGGA: AN ANALYTICAL HIERARCHY PROCESS (AHP) METHOD

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## Abstract

This study aims to evaluate the program of internationalization of UMKM Creative Industries in Purbalingga. Respondents in this study are the SMEs Creative Industries business people who are considered to have knowledge about the Creative Industry in Purbalingga. Data collection using in-depth interviews, questionnaires, and Focus Group Discussion (FGD). Data analysis used is descriptive qualitative and Analytical Hierarchy Process (AHP). Based on the analysis concluded that several factors lead to non-optimal of Creative Industry MSEs internationalization programs sequences were lack of financial, managerial capabilities, lack of information, government support, and the international environment. In order to optimal, Creative Industry of MSMEs internationalization programs should be conducted to use counseling and sustainable facilitation, in which the government and successful entrepreneurs in the international market help entrepreneurs MSMEs creative industries in Purbalingga to succeed in the international market.

**Keywords**: Internationalization Program Evaluation, Analytical Hierarchy Process (AHP), Creative Industry MSMEs

## INTRODUCTION

The era of globalization that occurs today makes no more boundaries between countries. In addition, movement of goods, labor, and capital have become freer, and the existence of Micro, Small and Medium Enterprises (MSMEs) have an opportunity to expand its market to overseas. But on the other hand, it also means that competition in the global market will increase (Bilas et al, 2013). By entering the competition in the global market means that the company has started the process of internationalization, where the opportunities are on offer in the process of internationalization will be comparable to the obstacles that must be faced by the company.

The internationalization of MSMEs tends to be a challenge because of limited access to capital, market information and risk aversion, but the difference in the internationalization rate of UMKM depends on home-country policy, the existence of home-grown brands, industry characteristics, and the internationalization culture of MSMEs (Bobowski, 2017). The main forms of internationalization of MSMEs are: exporting, licensing, franchising and contractual agreements of both manufacturing and service companies.

One of the potential MSMEs and its success is the Creative Industry MSMEs (Worldbank, 2011). Creative Industry by Ministry of the Trade Republic of Indonesia is an industry that comes from the use of creativity, skills, and talents of individuals to create prosperity and jobs by producing and exploiting the power of creation and production of the individual. Internationalization process of Creative Industry MSMEs in the journey must face various obstacles that cause non-optimally internationalization of SMSEs, including Creative Industries SMSEs in Purbalingga.

Multi-criteria decision support system that allows a decision maker to structure a complex problem in the form of hierarchy called Analytical Hierarchy Process (AHP) (Hogan et. al., 2009). So that AHP can be used as one method to evaluate the internationalization program.

There is very little publishing of applying AHP in the evaluation of internationalization programs, especially in creative industry MSMEs. Based on these problems it is necessary to research to evaluate internationalization programs for creative industry MSMEs using Analytical Hierarchy Process (AHP).

## LITERATURE REVIEW

### Creative Industry MSMEs in Indonesia

Alvin Toffler (1980) on Kina (2011), in theory has divided economic civilization in three phase. The first phase was an agricultural economy. Second, the phase of the industrial economy. The Third is the phase of information economy. Then predicted the fourth phase is the creative economy with oriented to ideas and creativity. The creative economy presented through the creative industry has become the backbone of a country's economy by capitalizing on creative ideas, talents, skills, and renewed ideas.

Micro Small and Medium Enterprises (UMKM) plays an important role in the Indonesian economy. It's because SMSEs contribute to GDP, create jobs, increase incomes, boost economic growth, and contribute to the recovery of the national economy. One of them is SMSEs Creative Industries that become pillars of development of an independent nation (Bernik et al, 2015). Jerusalem (2009) states that the creative industries have the potential to increase income and create jobs with the exploitation of intellectual through creativity, skills, and individual talents.

Another definition of creative industry (United Nations Conference on Trade and Development UNCTAD (2008) in Jerusalem (2009) are:

1. The cycle of creation, production, and distribution of goods and services using creative and intellectual capital as the main input;

2. Part of a series of knowledge-based activities, focus of arts, potentially increase income from trade and intellectual rights;

3. It consists of touchable and intellectual products that cannot be touched or artistic services with creative content, economic value, and market objectives;

4. Cross-cutting between art, service, and industry; and

5. Part of a dynamic sector of commerce.

While, Creative industry MSMEs created by its uniqueness through the creative power of individuals and groups, and industrial sector that requires only the scale of production in small quantities, not least the Creative Industry SMSEs in Purbalingga.

Creative industry SMSEs have a large contribution in the economy in Purbalingga. Purbalingga is one of the places where the products are developed, such as: the creative industry of "gula semut", exhaust, batik, accessories, culinary, various crafts, photos community, film community, design and fashion, printing and advertising, mass media, convection and creative shirt, people with disabilities, PKK, and online business (Satellite Pos, 2017).

### Internationalization and Evaluation Program

The term of internationalization is defined in many different ways and also measured by different parameters. The first observes internationalization as the process of company being more involved in international operations, while the second takes in consideration marketing aspect of internationalization and defines it as the process of adoption of companies' services and products for different markets. (Bogunovic, 2006). Welch and Loustarinen (1988) argued that internationalization is the process of increasing involvement in international operations.

They contended that internationalization is not just an outward movement, but a process that could assume both directions: inward and outward. Hadjikhani (1977) give definition approaches internationalization from macro/microeconomic aspect, there are several parameters that affect the internationalization: asset structure of the company, labor force, revenue/profit analysis and management knowledge. Then Calof and Beamish (1995) define it as a process of adjustment of enterprise performance or adapting firms' operation (strategy, structure, resources, etc.) to the international environment. Then Kunday and Sengüler (2015) state that the main purpose of the theories concerning internationalization is to evaluate how firms quickly expand into multiple markets outside their country, as well as how they can benefit from increased demand, find cheaper inputs and attain managerial success.

Internationalization of MSMEs are affected by the globalization of the markets, forcing the firms, and think more globally (Forsman et.al, 2004). Johanson & Vahlne (1977) state that the U-model or the Uppsala internationalization modelled the most traditional way of describing the process of internationalization. And the theories of internationalization of MSMEs are divided into Uppsala Model, innovation model, and network development models. Bilas et.al (2013) the Uppsala model emphasizes the importance of the learning process in a foreign market. According to that model, four stages in the process of internationalization can be distinguished: (1) sales in the domestic market with occasional exports, without regular export; (2) export through an intermediary (agent); (3) opening sales outlets abroad; and (4) own production abroad.

There are several variations of parameters used in business research, but here are five factors in the measurement of internationalization (Hadjikani (1997) dalam Bogunovic (2006) :

1. Structure asset of the company usually expressed is the ratio between domestic against foreign owned assets. This ratio is especially important when measuring the internationalization of companies in financial/banking sector, as the industry has no real economic component (Hejazi and Santor, 2005.)

2. The amount number of sales (revenues) that a company makes in home market and abroad. This is the most commonly used measure, as most studies on internationalization have tried to explore internationalization phenomenon in order to find links with company's performance, as argued by Bloodgood (1995).

3. The most commonly used parameter is the labor aspect of internationalization measured as a percentage of domestic against the overseas workforce. This is a variable that is highly appropriate for the estimation of degree of internationalization of companies engaged in labo

4. Intensive activity (McGovern, 2002.). However, this aspect is not to be mixed-up with management structure or management experience as they are to be considered as different categories.

5. Management is although a part of labor force, but it has to be separated as a variable because of its decision making power and thus its influence on the companies' behaviour. International management structures with previous international experience can easily make a decision for a company to go abroad (De Clercq et al., 2005).

6. The location refers on to how large space or in how many different countries company can be dispersed. This category is sometimes referred to as 'spatial distribution.

**Analytical Hierarchy Process (AHP) Method**

Saaty (1980) developed the Analytical Hierarchy Process (AHP) as a decision support method for complex problem in the form of hierarchy. A hierarchy is defined as a representation of a complex problem in a multi-level structure where the first level is the goal, followed by the factor level, criteria, sub criteria, and so on down to the last level of the alternative. With a

hierarchy, a complex problem can be broken down into groups then organized into a hierarchical form so the problem will seem more structured and systematic. Hogan et al, (2009) state that the Analytical Hierarchy Process (AHP) is a screening model that facilities systematic evaluation of pharmacy benefit managers (PBMs) by incorporating both qualitative and quantitative information into the decision making process. AHP addresses subjective issues by using "fuzzy set" theory based on the idea that decisions are usually not absolutes but are often made up of concepts that are defined only in "fuzzy" or relative terms (Saaty, 1980). The major advantage of the model is its ability to accommodate complex qualitative and quantitative information into the decision making process. Other advantages include its simplicity of use and its ability to apply consistency to the decision making process (Hogan, et al., 2009).

AHP simplifies the decision-making process of breaking the problem into three basic steps: (1) problem decomposition, (2) comparative judgments, and (3) synthesizing the result (Ahmad, 2005). Hogan et al., 2009 said there are four general steps required to implement the AHP. First, the decision maker identifies the criteria and determines their relative importance in achieving the goal and identifies the sub-criteria and determines their relative importance in achieving the related criterion. Second, the decision maker determines the relative importance of the rating categories for each of the sub-criteria. Third, the alternatives are evaluated in the context of each of the rating categories. Finally, the results are synthesized to compute the relative contribution of the alternatives in achieving the goal.

Pairs wise comparisons must be made to determine the relative importance of the criteria in achieving the goal. Saaty (1990) recommends a nine-point scale used in AHP as table 1.

Table 1. Saaty Nine-Point Scale Used in Analytical Hierarchy Process (AHP)

| Weight | Interpretation |
|--------|----------------|
| 1 | Equally Preferred |
| 2 | Equally to Moderately Preferred |
| 3 | Moderately Preferred |
| 4 | Moderately to Strongly Preferred |
| 5 | Strongly Preferred |
| 6 | Strongly to very strongly Preferred |
| 7 | Very strongly Preferred |
| 8 | Very to Extremely strongly Preferred |
| 9 | Strongly Preferred |

The strength of the AHP method is that is to organize tangible and intangible factors in a systematic way, and provides a structured yet restively simple solution to the decision making problems (Skibniewski, MJ and Chao, 1992). The weakness of (for) AHP are is AHP model dependence on the main input. AHP model depend on the main input. The main input is the perception of an expert who is subjective, so the model becomes meaningless if the experts give the wrong assessment. AHP is a mathematical method only without any statistical test so that no confidence limits of truth model form.

**METHODS**

The research was conducted in Purbalinga regency, Central Java, Indonesia, because creative industry MSMEs in Purbalingga has a community with a variety of creativity and talent are reflected in the variation of Creative Industry MSMEs in Purbalingga. However, MSMEs still superior in the area and surrounding areas, but not penetrate into the international market. Respondents in this study were entrepreneur creative industry MSMEs and also employee of industry, trade, and cooperative Purbalingga office. The sampling technique using a purposive sampling method. Sample size to identify the constraints of(on) non optimal creative industry

MSMEs internationalization programs used snowball sampling method, whereas sample size to determine the weight the each of constraints was 10 respondents who representing all centers of Purbalingga creative industry. Data were collected using in-depth interviews, questionnaires, and Focus Group Discussion (FGD). Data analysis using qualitative descriptive analysis and Analytical Hierarchy Process (AHP).

**RESULTS DISCUSSION**

**Weighting with the Analytical Hierarchy Process (AHP)**

Constraints on not optimal creative industry MSMEs internationalization programs obtained through in-depth interviews with creative industry MSMEs and Focus Group Discussion (FGD) with entrepreneur creative industry MSMEs and employee of industry, trade, and cooperative Purbalingga office. Based on focus group discussions (FGD) and in-depth interviews, researchers distill into a few general types of barriers encountered. Specifically, these constraints are grouped into five factors as follows:

1. Lack of Financial

   Creative Industry SMSEs in its development still have problems. One of them is the lack access to credit due to the unfinished financial statements of MSMEs in a neat, so it is not easy for banks to conduct risk assessment and creditworthiness. Lack of Financial makes SMSEs can't fulfill the orders or consumer demand due to lack of production costs. In addition, limited access to finance and limited ability to prepare financial reports, training for employees in financial management also non-maximize.

2. Managerial Capabilities

   Managerial capabilities are closely related to effective leadership management, where leaders must have the skills to lead others to work well. Managerial problems of creative industry MSMEs such as unfavorable financial reports, lack of human resources capability related to basic management, little business experience, lack of technical knowledge, and non-optimal business planning.

3. Lack of information

   The lack of creative industry MSMEs in accessing information related to internationalization has caused the effectiveness of its exports. Lack access to trading facilities causing businesses have no information about the existence or procedures to take advantage of trade facilities provided by the government. Limited information also causes MSMEs not to use bank credit facilities and obtain business assistance because they do not know the borrowing procedure. In addition, the lack of information known to MSMEs will affect the competition of goods or services offered by MSME units with other products in terms of quality. Which subsequently affect the ability of the product or service to expand the export market. On the other hand, there are also products or services that have the potential to compete at the international level but have no path or access to the market, so that UMKM products can only be circulated in the domestic market.

4. Government Support

   The role and support of the government in the development of MSMEs is very important and strategic. The Government strives for the business climate through the enactment of the Law in empowering MSMEs in synergy, as well as providing the maximum certainty, opportunity, protection and business support to MSMEs.
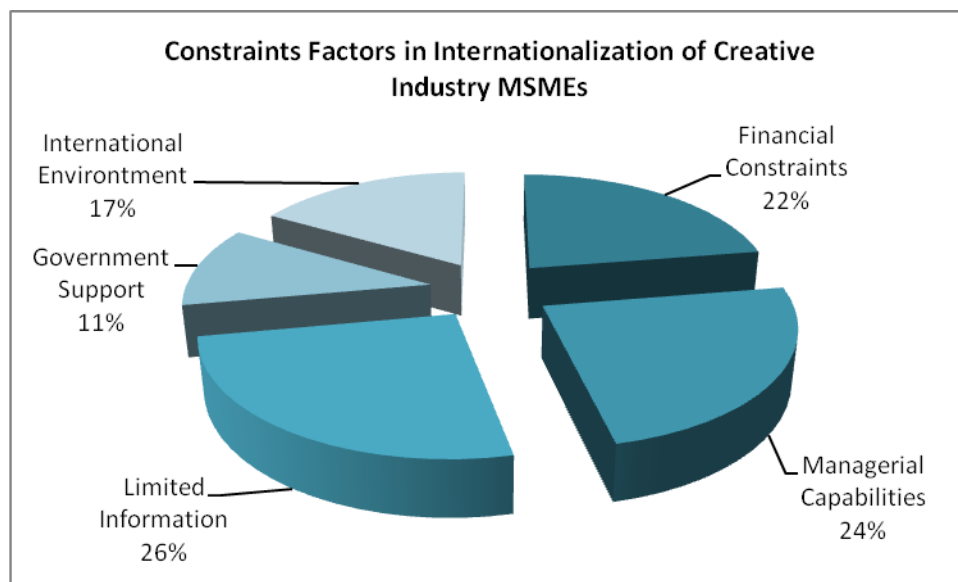
5. International Environment

The readiness of MSMEs actors in facing internationalization process is the dynamic of international environment. Creative Industries MSMEs in development must know exactly how the condition of foreign / international markets will be addressed in running the business. MSMEs should be prepared with different language and cultural differences, uncertain political conditions, different trade rules in each country, uncertain economic conditions, and fluctuations in exchange rates between international and domestic market.

**Constrains Factors in Training of Batik MSMEs**

Based on surveys and interviews, the respondents have perceived constraint factors non optimal creative industry MSMEs internationalization programs were a lack of financial, managerial capabilities, lack of information, government support, and the international environment. Based on the results of the AHP analysis obtained sequentially constraint factors ranging from the most dominant to the least, as below:

Figure: 1

Constraints Factors for Non Optimal in Creative Industry MSMEs Internationalization Programs



Based on figure 1, the biggest constraint for not optimal of creative industry MSMEs internationalization programs were limited information, followed by managerial capabilities, financial support, international environment, and government support. The dominant factor of the limited information on internationalization relates to the lack of information accessed by MSMEs so that the quality of products produced cannot compete with other products in the international market. Even if the product is able to compete in the international market but only circulating in the domestic market, this is due to limited information related to access to international markets. Managerial capabilities also a major obstacle due to the limited capability of human resources, most MSMEs in the creative industries in the business without the planning, control, as well as evaluation of business activities. Then the financial constraint is the lack of capital of MSMEs and limited banking financing. The majority of employers use their own

capital because the business is still a private or closed company. Entrepreneurs rely on limited amount of their own capital, while loan capital from banks or other financial institutions will be difficult to obtain because the administrative requirements submitted to the bank cannot be fulfilled, including collateral requirements because the assets owned by SMEs are still relatively small and also unfinished financial reporting.

Of the five factors existing constraints, they break down into sub-factors that are part of the constraint factors at table 2:

Table: 2 Weight Factors and Sub Factors Constraints in Creative Industry MSMEs Internationalization Program

| First Level | Weight of First Level | Second Level | Weight | Weight of Second Level |
|---|---|---|---|---|
| Lack of Financial | 22.49 | Lack of capital to export | 33,76 | 7,59 |
| | | Lack of access to financing from banking | 38,64 | 8,69 |
| | | High loan interest rates | 27,60 | 6,21 |
| Managerial Capabilities | 24.05 | Lack of knowledge about business management | 14,62 | 3,52 |
| | | Lack of expertise to run a business | 15,51 | 3,73 |
| | | Lack of qualified human resources | 26,50 | 6,37 |
| | | Less sophisticated technology used for production | 23,76 | 5,72 |
| | | Inadequate product with international market demand | 19,61 | 4,72 |
| Lack of Information | 25.61 | Lack of knowledge related to international trade | 29,95 | 7,67 |
| | | Less understanding of information related to the procedures or procedures of international trade | 31,82 | 8,15 |
| | | Lack of relation related to international market | 38,23 | 9,79 |
| Government Support | 11.15 | Complicated bureaucracy related to export trade | 49,15 | 5,48 |
| | | Lack of government support related to export trade | 20,08 | 2,24 |
| | | Inadequate infrastructure of export trade | 30,78 | 3,43 |
| International Environment | 16.70 | Different languages and cultures are used | 14,49 | 2,42 |
| | | Uncertain political conditions | 15,90 | 2,65 |
| | | Different trading rules | 23,05 | 3,85 |
| | | Uncertain economic conditions | 25,96 | 4,34 |
| | | Fluctuating exchange rate | 20,60 | 3,44 |
| | 100.00 | | | 100.00 |

Based on Table 2 it is known that the five sub-factors constraint the most dominant –for non optimal at creative industry MSMEs internationalization programs were: lack of relation related to international market, lack of financing access from financial institution, lack of information concerning international trade procedure or procedure, lack of understanding of information related to international trade, and lack of capital to export.

Lack of relationships relating to international markets, lack of access to finance from financial institutions, and inadequate information on international trade procedures or procedures be sub dominant factor for non optimal creative industry MSMEs internationalization program, It's because of the difficulty of MSMEs get loan facility of banking

fund and other financial institution due to lack of complete administrative requirement and interest rate of loan which still considered burdensome for the perpetrator of MSMEs. Then the government and creative industry entrepreneurs who have gone international which already exist, it is necessary to optimize the extension and mentoring activities for other creative industry MSMEs in the internationalization process, from the socialization of procedures or procedures of international trade to the linkage / development of relationships with sustainable international markets.

## CONCLUSIONS

### Conclusion

Evaluation of the internationalization program is a complex decision making process that requires decision-making method that can decompose a complex problem of multi factors of a hierarchy, the method is AHP. Based on the AHP analysis we concluded that non optimal internationalization programs on MSMEs creative industry sequentially due to factor the lack of financial, managerial capabilities, lack of information, government support, and international environment. While the five sub-factors that form the most dominant non optimal constraints of creative industry MSMEs internationalization program is this is because of the difficulty of MSMEs get loan facility of banking fund and other financial institution due to lack of complete administrative requirement and interest rate of loan which still considered burdensome for the enterpreuner of MSMEs. Then the government and creative industry entrepreneurs who have gone international which already exist, it is necessary to optimize the extension and mentoring activities for other creative industry MSMEs in the internationalization process, from the socialization of procedures or procedures of international trade to the linkage / development of relationships with sustainable international markets.

### Recommendation

Based on analysis of the internationalization for creative industry MSMEs should pay attention to the needs and wishes of participants in the financial constraints, managerial capabilities, limited information, government support, and international environment. One way that the internationalization program in accordance with the needs and desires of the participants is ontinuous counseling and mentoring, in which the government and successful entrepreneurs in the international market jointly help other MSMEs in Purbalingga to succeed in the international market.

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