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Perceived Competitiveness and Innovativeness of Small and Medium Enterprises Products against Chinese Creative Goods: Case of Indonesia

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ABSTRACT

This study attempted to assess the perception of small medium enterprises (SMEs) regarding the competitiveness and innovativeness of their products against the Chinese creative goods sold in Indonesia. The study was conducted in Banyumas regency Central Java Indonesia. The population of the study was SMEs producing creative goods. There were 10 cluster of SMEs producing creative goods based on the kind of raw materials used. The inquiry was exploratory in nature because it attempted to explore the perception of SMEs using questionnaires and interview. Descriptive statistics was used to analysed SMEs perception towards the competitiveness of their products as well as identifying the characteristics of the Chinese creative goods that were considered threatening in terms of prices, product design, packaging, technology, marketing channels. Perceived innovativeness of SMEs Products and factors hindering SMEs creativity and innovativeness in product development were also evaluated. SMEs were asked to provide thoughtful solution as desired in order to increase their inovative ability in product development. The result of the study indicated that majority of employees believed that their product competitiveness against the Chinese creative goods are low up to medium.

Keywords: creative industry, small and medium enterprises, Indonesia

1. INTRODUCTION

Creative industries provide new opportunities for developing countries to cultivate into growing sectors in the world economy through participation in the field of international trade. The creative industry is the industry that is derived from the utilization of creativity, skills and talents of individuals, to creating prosperity and employment, through the creation and utilization of resource creations, and creativity of an individual (DMCS, taskforce, 1998). This concept was firstly developed

in the United Kingdom during the Government of Tony Blair, and developing towards different meaning in various countries such as America, Australia and some Asian countries (Flew and Cunningham, 2010)

In Indonesia, creative industry has contributing significantly to the national GDP with an average contribution of 6,28 % or equivalent to 56.48 104,637 trillion rupiah in the year 2002-2006. This contribution is dominated by fashion (43,71 %); craft (25,51 %) and advertising (7,93 %). But the average growth of creative industries are just 0,74 % far below the national economic growth which has reached a figure of 5,24 % (Ministry of Trade, 2008). One factor that slows down the growth of these industries is the presence of competition from creative goods from China. Massive inflow of creative goods from China with its low prices has threatened creative industries in various countries including Indonesia (Park, 1993). Small and Medium Enterprises (SMEs) in Indonesia have difficulties in competing with the Chinese products with its efficient market whereby production costs is minimum (Adiningsih, 2008). This condition shall give significant impact to the development of creative industries in Indonesia.

Debate arose over a massive inflow of creative industries in urban areas as compared to rural one (Florida, 2002). This sector has the potential of creating high-quality and sustainable SME which can create jobs in the rural economy (Wojan and McGranahan, 2007; Experian, 2006). The existence of the creative individual and enterprise in rural areas can attract other knowledgeable workers, entrepreneurs, as well as domestic investors. The role of creative industries in stimulating development in rural areas is often overlooked by Government (Waitt and Gibbons, 2009). The magnitude of the benefits obtained by the local authorities in the field of economy over the existence of creative industries in Banyumas Regencies must be accomplished with better coaching so that the original creative product of Banyumas has prime quality in order to compete in domestic and international markets

Massive inflows of creative goods from china- with its lower price- in the domestic market has derived people in the region to purchase it. Adawiyah et al (2011) alleges that lower prices, attractive packaging are among the factors that triggers consumer preference on products of China. Lack of government support to compulse the society in consuming local goods has further deprive the local goods competitiveness.

The success of Chinese goods to penetrate the international market is due to the support of various parties towards the development of creative industry in China. High labor productivity in China occur as a result of strong unions support in the form of work discipline training and employees development through optimization of the unions (Nyaw, 1990). The study also indicated that workers

China are passionate over their job. The Chinese Government also encourages its people to saving up to get a source of venture capital. The Chinese people save up 40% of their income (Heap, 2006). Those factors play important roles towards the development of creative industries in China. This study attempts to discover the perception of SMEs on their competitiveness and innovativeness of the local goods against that of China.

2. LITERATURE REVIEW

A. The Concept of Creative Industries

The creative industry is the industry that is derived from the utilization of creativity, skills and talents of individuals to create prosperity and employment, through the creation and utilization of individuals creativity and innovative behavior. According to UK DMCS, *taskforce*, (1998) creative industries is defined as :

” creative industries as those industries which have their origin in individual creativity, skill and talent, and which have a potential for wealth and job creation through the generation and exploitation of intellectual property and content”

Creative industries subsector include: advertising, architecture, crafts, design, fashion, video, interactive games, music, performing arts, publishing and printing, software and computer services, television and radio.

An inquiry on creative industries mapping by Ministry of Trade Indonesia in 2007 concluded that creative industries' contribution towards the Indonesia economy can be distinguished on 5 main indicator i.e. the gross domestic product; employment; the number of growing firms companies; export; and finally its impacts on other sectors.

B. Opportunity for Creative Industries in Rural Areas

Creative industry is often regarded as an icon of urban areas even though rural areas are large enough thus able to create individual creative (Florida, 2002). Along with the development of the local Government's attention towards creative industries, this industry shall bring strategic advantage for rural areas. Research in the US concluded that employment opportunities in creative fields have positive relationships with a growing number of workers in rural areas (Wojan and McGranahan, 2007). Report by a team of creative industries in the United Kingdom also discovered the existence of a creative and cultural sectors in the countryside (Experian, 2007)

Similar opportunities are also found in Indonesia. Along with the improvement of the quality of life of human resources in Indonesia, people in the countryside do not only require physical needs and security but the need has reached a higher level such as the need to socialize, self-confidence and self-actualization, according to Maslow's hierarchy of needs. This reality is forcing the industry to pay more attention to the tastes of the consumer (customer driven) that result in the emergence of special edition products which focus on individual tastes and emotions on products and services. The creative industry is loaded with emotional can encourage the evolution of technological developments and increasingly flexible manufacturing industry as one of the advantages in supplying the products Indonesia's cultural diversity can be used as a source of aspiration that never dried up as a source of inspiration for the creative industries in the Banyumas Regency. Utilization of local wisdom needs Government attention, academics as well as the business world attention

C. Challenge for Creative Industries in Indonesia

The development of creative industries in Indonesia face a wide range of challenges such as: the existence of creative people in the region, availability of educational institutions that are able to produce Indonesia's creative people. To generate human creative, the government should make a breakthrough early education curriculum that sparked children creative thinking. College graduates with a high GPA need to be provided with soft skills which enable them to solve problems creatively. Education institution is supposed to lead to a system of education that create: competitive competencies and multi dimension intelligence which includes intellectual question, emotional intelligence and spiritual question. To face free trade flow of imported products there is a need for creative industries in utilizing abundant natural resources and local wisdom to control foreign players to presides over the resources. Support by financial institutions to the human creative is among the factor that determine the future of creative industry in Indonesia

D. SMEs Innovative Behaviors

Innovative ideas and products are turn out to be crucial in countering the price oriented competition from low-cost producers from emerging economies, domestically and abroad (Tiwari et al., 2007). Despite of this fact, SMEs frequently encountered with a number of barriers to innovation, e.g. resource constraints, which slow down their ability to invent and successfully commercialize new products, services or processes (Tiwari and Buse, 2007)

Innovation, according to Rogers (2003), is “an idea, practice, or object that is perceived as new by an individual or other unit of adoption”. This “newness” need not necessarily

involve “new” knowledge thereby effectively implying that the “newness” may also concern advancement or modification of existing knowledge. In this paper, innovation shall be considered as invention and commercialization of new products, processes and/or services (Tiwari, 2007)

The idea of globalization create stiff competition in the local market as the traditional stronghold of many SMEs (Tiwari and Buse, 2007). In Indonesia as well as in many ASEAN member countries, SMEs usually operate under high overhead costs, such as labour costs, and find themselves faced with tough price-oriented competition from low-cost producers from emerging economies in China. Strong market competition is certainly in favour of consumer in the form of cheaper and/or better goods and services.

“Consumption is the ultimate aim of all production and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer” (Smith, 1994). Moreover, blocking Chinese firms from conducting business in the domestic market may lead to trade retaliations that could severally affect the international trade flow of Indonesia. In addition, globalization does not only create challenges for SMEs but also presents an opportunity to internationalize sales in new, rapidly growing markets and thereby to generate additional revenues (Tiwari and Buse, 2007). Entering global markets implies the requirement to produce goods in services which have been adapted to the taste and needs of the people in the new markets thus the need of innovative product emerge. Producing innovative goods with improved utility shall strengthen SMEs competitive position in the local and international markets. This indispensable innovation efforts to release new and/or better goods and services into the market while developing organizational and production processes which yield in more efficient and cost-effective production, distribution and after-sales services; see e.g. Dangayach et al. (2005)

Huge number of population in Indonesia create a potential market for foreign business followed by slow progress in science and technological development has weaken SMEs competitiveness in the domestic market. While other countries such as China are producing a large number low cost products with attractive design. This situation becomes a serious concern for many “emerging” countries around the globe, especially Indonesia.

3. METHODOLOGY

The method used in this research is a survey method whereby data was collected using questionnaires. The location of this research covers several rural areas in Banyumas, Central Java province. The population in this research is the creative industries located in Banyumas Regency. The sample of this research was more focused on creative industries using local resources as its raw

materials in production. The data were analysed using descriptive statistics to provide an overview about SMEs perception on their competitiveness and innovativeness against Chinese goods which are currently penetrating and yet dominating sales in the domestic market in Indonesia.

4. FINDINGS AND DISCUSSION

4.1 Based on the type of business

There were ten kinds of creative industries involving in this research as stated in table 1. The number of sample for each category is proportional ranging from 7.9 percent to 13.2 percent. It appears that the highest participant comes from creative printing and the lowest comes from fashion.

Tabel 1 Sample descriptions based on the business types

No	Type of Business	frequency	Percent (%)
1	Design graphics	20	10.5
2	Creative bamboo	15	7.9
3	Batik	20	10.5
4	Creative clay	20	10.5
5	Creative aluminium	20	10.5
6	Creative rubber	20	10.5
7	Creative wood	15	7.9
8	Creative printing	25	13.2
9	Fashion	15	7.9
10	Creative steel	20	10.5
Total			

Based on the research location 26.2 percent of the sample was located in the North area of Banyumas Regency while the remaining were located at the East (31.6 %); South (21.1 %) and the West (21.1 %). The highest number of participants was located in the East of Banyumas.

Tabel 2 Sample description based on location

Business location	frequency	Percent (%)
North	50	26.2
East	60	31.6
South	40	21.1
West	40	21.1
Total	190	100

It is indicated in tabel 3 that the number of employees varies from less than 25 up to 78 employees. Since the sample was small and medium enterprises, majority of the sample possess between 1 to 25 employees. Based on the observation during data collection the employees involved in the industries come from the people live in the surrounding area such as relatives and neighbours.

Tabel 3 Sample description based on number of employees

Number of Employees	frequency	Percent (%)
1-25	181	95.2
26-51	6	3.2
52-77	2	1.1
>=78	1	0.5
Total	190	100

The amount of gross sales range from 1 million rupiah up to more than 5 million rupiah. Majority of the business earns more than 5 million rupiah per month. Some of them can reached a figure of 200 million per month for their gross sales with around 15 employees. This phenomena indicated that SMEs contribution towards the local economic development is quite high and determinant.

Tabel 4 Description of gross sales

Gross Sales	frequency	Percent (%)
< Rp 1.000.000	10	5.3
Rp 1.000.000- Rp 3.000.000	50	26.3
Rp 3.000.000- Rp 5.000.000	52	27.4
>= Rp 5.000.000	78	41.1
Total	190	100

The local goods are competing with the Chinese goods – with its cheaper price- in the local market therefore SMEs were asked about their perception towards the existence of the Chinese goods whether they consider it as a threat or not. Around 64.2 percent consider Chinese goods as threatening their existence in the market while the rest did not consider so. Those who do not consider it as a threat believe that they only capture small portion of the market share therefore less affected by the Chinese goods.

Tabel 5 Consideration on Chinese goods as a threat

SMEs Perception	frequency	Percent (%)
Yes	122	64.2
No	68	35.8
Total	190	100

SMEs were asked to further specify the forms of threats given by the Chinese goods. Around 85 percent of the respondent agree that low prices is among the highest threat. There were several characteristics of Chinese goods that were considered threatening namely: low prices, attractive design, packaging, technology used in the production which result in a better product and finally its wide marketing channel. The fact of tough price-oriented competition offered by Chinese products occur because of the ability of firms in China to produce goods efficiently with minimum waste.

Investment in advance technology has further stimulate the ability of the Chinese firms to produce better products.

Tabel 6 Perceived Chinese Goods' Forms of threats

No	SMEs Perception	Frequency		Percent	
		Yes	No	Yes	No
1	Low prices	105	85	55.3	44.7
2	Attractive Design	55	135	28.9	71.1
3	Good Packaging	27	163	14.2	85.8
4	Technology advancement	41	149	21.6	78.4
5	Vast Marketing network	43	147	22.6	77.4
6	Others	9	181	4.7	95.3

It is indicated in table 6 that there are eight kinds of innovativion barriers for SMEs encompasses: lack of training on product design, organizational climate, low technology adoption, the need for continuous coacing from the government, lack of marketing knowledge, lack of access on information on product design, lack of working capital and unlegal levies. Most respondents consider that unlegal levies and lack of working capital were the two highest factors hindering their innovative behaviors.

Tabel 6 Perceived SMEs' Innovation Barriers

No	SMEs Perception	Frequency		Percent	
		Yes	No	Yes	No
1	Lack of training on product design	135	55	71.1	28.9
2	Organizational climate	158	32	83.2	16.8
3	Low technology adoption	139	51	73.2	26.8
4	Need continuous coaching from the government	158	32	83.2	16.8
5	Lack of marketing knowledge	158	132	21.6	78.4
6	Lack of access on information on product design	43	147	22.6	77.4
7	Lack of working capital	181	9	95.3	4.7
8	Unlegal levies	180	10	94.7	5.3

The lack of financial resources was found to be one of the major barriers to SMEs development. Majority of the responding firms reported problems in financing their development program. The negative impact of this barrier can be gauged from the fact that the financial constraints were cited 177 SMEs raised up the issue as a major barrier. SMEs have problems to acquire loans because financial institutions are often reluctant to (co-)finance their projects moreover another financial constraint refers to problem of getting access to public funding offered by the State Authority. Another major hurdle faced by the survey respondents related to the difficulty in finding suitable, qualified personnel. Around 126 firms agreed that lack of skilled labour is a factor hindering SMEs development program. Nearly all respondents who cited such a problem reported the shortage of

experienced workers especially in the field of technology. Other issues raised up were low investment in technology, lack of government support on creative industry, lack of market access and weak institution. Shortage of suitable and qualified personnel though present in both the sectors to a significant extent reflecting the declining interest of the youth work for SMEs in rural areas.

Tabel 7 Perceived SMEs Development Barriers

No	SMEs Perception	Frequency		Percent	
		Yes	No	Yes	No
1	Lack of focus on human resources development	126	64	66.3	33.7
2	Lack of investment on technology	106	84	55.8	44.2
3	Lack of government development scheme on creative industries	150	40	78.9	21.2
4	Lack of financial resources	177	13	93.2	6.8
5	Lack of market access	116	74	61.1	38.9
6	Institutionally creative industry is still weak	158	132	21.6	78.4

Respondents' perception on the extent to which their market possession domestically was hit by Chinese goods existence various quite varies. Most SMEs agreed that their level of competition in the market is low to medium. Around 25.8 percent respondents believe that their products can encounter the existence of Chinese goods in the Market while 70 percent consider their competition as low to medium only.

Tabel 8 Perceived degree of Local Goods' Competitiveness against Chinese goods

SMEs' Perceptions	frequency	Percent (%)
High	49	25.8
Medium	74	38.9
Low	59	31.1
No idea	8	4.2
Total	190	100

Product design, prices, market access and packaging were reported as Chinese goods characteristics considered threatening wer. Those factors were several issues in the field of marketing, while the information technology sector, can be implied from product design and packaging, had relatively less trouble market competition.

Tabel 9 Chinese Goods' Characteristics Consider Threatening

SMEs' Perceptions	frequency	Percent (%)
Product Design	68	35.8
Prices	72	40.0
Market Access	32	17.7

Packaging	18	9.5
Total	190	100

Towards the end, SMEs were asked to proposed solution to their problems hindering their competitiveness and innovative behavior. Around 62 respondents raised up the needs for training on products quality while 58 respondents raise the needs for training in product design. Other issues considered important is marketing intelligence (23.2%) and marketing strategy (13.7%)

Tabel 10 Perceived Solutions to Increase SMEs' Competitiveness

SMEs' Perceptions	frequency	Percent (%)
Innovative product design	58	30.5
Product quality	62	32.6
Market Intelligence	44	23.2
Pricing Strategy	26	13.7
Total	190	100

5. CONCLUSION

Globalization opens up new arenas for firms, especially SMEs, to strengthen their innovation capabilities and thereby to increase their competitiveness in the market. In this respect there is a need to apply several forms of training as an instrument to mitigate the effects of barriers to innovation often faced by SMEs in Indonesia. The existence of Chinese products in the domestic market has create challenges for SMEs products in Indonesia. SMEs identify some characteristics of the Chinese creative goods that were considered threatening were prices, product design, packaging, technology, marketing channels. Perceived innovativeness of SMEs Products and factors hindering SMEs creativity and innovativeness in product development were also identified as stated in table 7 to 9. The result of the study indicated that majority of employees believed that their product competitiveness against the Chinese creative goods are low up to medium. SMEs identified their training needs as training on inovative ability in product development; training in product design; marketing intelligence and marketing strategy.

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