

ANALYSIS OF THE PERFORMANCE OF SMES IN THE CLUSTER: A CASE STUDY OF FOOTWEAR CLUSTER

Wawan Dhewanto, Sri Herliana, Qorri Aina, and Nur Lawiyah

School of Business and Management, Institut Teknologi Bandung, Indonesia

Email: sri.herliana@sbm.itb.ac.id

Abstract. Clusters are the most ideal place for SMEs to compete and work with one another. Therefore, competitive cluster environment will create a positive competitive atmosphere because resources are already available in the cluster. The purpose of this study was to analyze the performance of SMEs in the cluster, so that the results of this study will be known how the performance conditions of SMEs in clusters in developing countries, such as Indonesia. This study uses a case study research, the largest footwear cluster in Indonesia, named Cibaduyut cluster. This study involved primary and secondary data, where primary data obtained from unstructured interviews and observation and secondary data were obtained from literature reviews from various article journals. The results show, there are 4 performance categories of SMEs in the cluster, namely high growth domestic and export performance, high growth export performance, high growth domestic performance, and low performance.

Keywords: SMEs performance; cluster performance; SMEs growth; cluster's growth

INTRODUCTION

Many previous literature discuss how important SMEs in both developed and developing countries are (Kachlami & Yazdanfar, 2016; Sharma & Wadhawan, 2009). Their performance is closely relate to the growth of nation's economy. Uniquely, most of them are located in the same region and it also happened in Indonesia (Mawardi, Choi, & Perera, 2011). In Indonesia, there are more than 50 million of SMEs in 2013 and empowering more than 117 million employees (Kementerian Koperasi dan Usaha Kecil dan Menengah Republik Indonesia, 2012). In 2017, the number of MSMEs in Indonesia reached 59.2 million. This means that the growth of MSMEs in Indonesia indicates that the Indonesian people have the potential to be independent through MSMEs (CNN Indonesia, 2017). The existence of SMEs which are in the same location and engaged in the same business, making these locations is called cluster or industrial district.

Thus, creating horizontal and vertical relationships directly and indirectly in the business process undertaken. Significant role of clusters for SMEs in it, was able to open the door of export markets in addition to creating jobs. Although competing in the same target market, those in it also share information, facilities, and apply the prevailing norms in business such as salary and working hours (Varman & Chakrabarti, 2011) therefore, each cluster has its own characteristics. Surely, the performance of SMEs can indicate the growth of the company, where in it there are successful and unsuccessful company. Therefore, in limiting this research, researchers focused on research on the performance of SMEs in the footwear cluster, called Cibaduyut cluster. The selection of Cibaduyut footwear clusters due to this cluster has grown since the 1920s, where cluster patterns and cluster characteristics have been formed from generation to generation. Cibaduyut cluster is a cluster that focuses on making footwear products and continues to experience development by venturing into various other fashion products. The development of this cluster helped open jobs by lowering knowledge and expertise from generation to generation. Thus, the labor resources and raw materials are available as well as the target market. This study aims to analyze the performance of SMEs in the Cibaduyut cluster, where at the end of the study will be known the performance of successful and unsuccessful companies. Thus, this research is expected to contribute theoretically or practically in the interests of academics and policy making in developing clusters that are seen from the performance of the company.

LITERATURE REVIEW

Performance of cluster

Cibaduyut is the largest footwear cluster in Indonesia. Indonesia is one of the developing countries where the growth of SMEs is supported by the existence of clusters. As revealed in the introduction, researches chose Cibaduyut as the focus of this study, because it could represent the performance conditions of SMEs in the cluster, especially in developing countries. As stated in the Gunawan, Jacob, and Duysters, (2015) study, Cibaduyut has a broad market, where its products have been distributed to all regions in Indonesia. This cluster was also supported by skilled human resources, where the cluster was able to absorb more than 6000 employees in 2012. In the same year 845 SMEs were focused on production, 25 SMEs were large distributors, 115 SMEs were small distributors, 152 SMEs which are showrooms or shops, 4 SMEs which are commercial centers, 38 SMEs which

are the main and complementary raw material stores, 8 SMEs which are shoelace producers, 3 SMEs which are manufacturers of equipment and spare parts, and 15 SMEs which are packaging manufacturers.

The great potential of the Cibaduyut cluster is also able to enter the foreign market, this can be seen in the Dhewanto, Herliana, Lantu, & Lawiyah (2019) study, how SMEs in Cibaduyut entered the export market.. Fundamentally and agreed upon by many experts, clusters do help accelerate the spread of knowledge and foster a positive atmosphere of competition, because they face the same situation and conditions in terms of producers, markets or buyers, suppliers and distributors. So, it can foster motivation to innovate that indirectly develops the region (Gunawan et al., 2015). However, in the Lehmann (2011) study, it was shown that the cluster performance was more dominated by the activities of SMEs who worked together one another, compared to the innovation activities they did. Ties among SMEs in the cluster is very possible for the collaboration, it can improve the performance of each of these SMEs. Although the cluster is an "ideal" place for SMEs in developing the potential to access the market, every SME in it has a different purpose. These objectives are classified into short or medium-term goals. So that the performance of each SME in it will be different and it is difficult to be equated.

Firm Growth

The company's performance is closely related to the company's growth. Business growth can be seen from the performance in the business development process undertaken. SME business development is fundamentally different from large companies. These differences can be seen in the business process carried out, where SMEs do not have a system due to using informal methods, so that the business development of SMEs tends to be more conservative, because it is centered on one person, that is, the business owner or manager who has a high influence in the practice of company management (Achtenhagen, Ekberg, & Melander, 2017). Based on Yazici, Köseoglu, and Okumus (2016) study, explained that the company's growth factor is determined by economic and non-economic factors. Economic factors are related to innovation, the state of the economy, the age of the company, the size of the company, tangible and intangible resources, market conditions, brand orientation, and sales. Non-economic factors relate to entrepreneurial activities, entrepreneurial competence of founders, educational background, motivation and goals of the company, family background, government, and company location. This is the same as expressed in the Audretsch, Coad, and Segarra (2014) study, where in analyzing the company's growth there is its own complexity. It is not only traditionally measured (measured quantitatively) but also involves non-specific factors that are not measurable, such as company managerial and workforce expertise.

Promising SME growth can be seen from the actions of innovation that are carried out at the initial stage in the business process. The results of this growth can be seen from the employment created and the wealth generated (Hänninen, Jokela, Saarela, & Simunaniemi, 2017). According to Weber, Geneste, and Connell (2015) of the many growth indicators in the company, the indicator of the number of workers is a key indicator in analyzing the performance of a growing company. The number of employees can present whether the company is successful or not. However, Hänninen et al. (2017) stated that, businesses that are well-managed or productive will continue to grow, while non-productive businesses will experience a setback or even go bankrupt.

METHODOLOGY

The purpose of this research is to analyze the SMEs performance in the cluster. In this study, researchers used a single case study (Aberdeen, 2013), that focused on examining the performance of SMEs in a footwear cluster called the Cibaduyut cluster. In collecting data, researchers conducted a qualitative approach to 10 SMEs. The qualitative approach was carried out by unstructured interviews and observations, as well as the basis of a qualitative approach based on Creswell (2007) theory. In this study also supported by literature data from various article journals for a deeper analysis of the performance of SMEs in the cluster. The description of the analysis is done by descriptive method, to explain the results of the analysis carried out. The 10 informants in this study gave the code for each SME, namely Z1-Z10. The educational background of each informant is Junior High School (2), Senior High School (4), Diploma (1), bachelor's degree (3). Details about the profile of informants include, Z1 (owner and craftsman, 36 years old, senior high school), Z2 (owner and craftsman, 39 years old, junior high school), Z3 (marketing staff, 30 years old, junior high school), Z4 (owner, 40 years old, senior high school), Z5 (owner, 40 years old, senior high school), Z6 (marketing staff, 33 years old, bachelor's degree), Z7 (marketing staff, 41 years old, bachelor's degree), Z8 (information division, 37 years old, diploma's degree), Z9 (owner, 40 years old, bachelor's degree), Z10 (owner, 28 years old, senior high school).

Table 1. Informant's profile

| Respondent | Product | Annual Revenue (Rp Million) | | Employee |
|-------------------|------------------------|------------------------------------|---------------|-----------------|
| | | Domestic | Export | |
| Z1 | Carved leather product | 2.532,5 | 118 | 18 |

| | | | | |
|-----|----------------------------|--------|-----|----|
| Z2 | Leather footwear | 462,5 | 220 | 20 |
| Z3 | Leather footwear | 6.605 | 10 | 4 |
| Z4 | Sport shoes | 46,25 | 185 | 1 |
| Z5 | Synthetic leathear sandals | 600 | 5 | 21 |
| Z6 | Footwear, bags | 8.400 | 500 | 35 |
| Z7 | Footwear, bags | 10.800 | 5 | 10 |
| Z8 | Footwear, bags | 300 | 50 | 10 |
| Z9 | Fotwear | 312 | 35 | 15 |
| Z10 | Footwear | 300 | 20 | 7 |

FINDINGS AND ARGUMENT

SMEs performance in Cibaduyut cluster

As mentioned earlier, this study uses a qualitative and descriptive approach to the Cibaduyut case study cluster. Measurements of sales are carried out by calculating average income in one year, then compared to other SMEs and the conditions of the SMEs themselves. Thus, there is a significant difference between SMEs which is seen from their sales. The results of data collection regarding the performance of SMEs in the Cibaduyut cluster are as follows;

Table 2. The performance of SMEs in Cibaduyut Cluster data

| SME | Established | Product | Sales | | Employee |
|-----|-------------|-----------------------------------|----------|--------|----------|
| | | | Domestic | Export | |
| Z1 | 2008 | Carving leather product (fashion) | High | High | 18 |
| Z2 | 2013 | Leather sandals | Low | High | 20 |
| Z3 | 1980 | Leather shoes | High | Low | 4 |
| Z4 | 2011 | Sport shoes | Low | High | 1 |
| Z5 | 1996 | Synthetic leather sandals | High | Low | 21 |
| Z6 | 2007 | Shoes | High | High | 35 |
| Z7 | 2007 | Leather shoes and mountain shoes | High | Low | 10 |
| Z8 | 1985 | Shoes | Low | Low | 10 |
| Z9 | 1998 | Shoes and sandals | Low | Low | 15 |
| Z10 | 2010 | Leather shoes | Low | Low | 7 |

SME's Performance

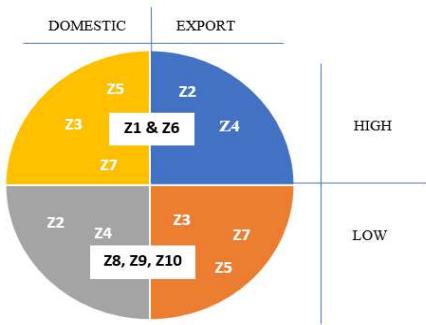


Figure 1. SME's Domestic and Export Performance

Figure 1 shows the distribution of the performance of SMEs in the domestic and export sectors from the results of the research conducted. Although there are SMEs that have been established more than 30 years ago, it does not guarantee that SMEs can grow positively, precisely what attracts growth is shown by SMEs Z1 and Z6 where the two SMEs were established in 2008 and 2007. Both SMEs show performance good in both market sectors, namely domestic and export. The performance of these two SMEs as expressed by Sharma and Wadhawan (2009), where they are oriented to grow sustainably. So, they focus on innovating, both in terms of products and in terms of marketing. Therefore, they can reach a broad market, because they adapt to the development of information technology and market tastes. Then from the table data, there are SMEs that have very good performance in the export market, namely Z2 and Z4. Both SMEs have good sales in the export market compared to the

domestic market, because they get greater profit margins than the domestic market. Another thing that makes their performance good in the export market is because they already have loyal customers.

The condition of the SME is like what was conveyed by Sharma and Wadhawan (2009) study, where they were satisfied with the market they were aiming for. The condition of their SMEs is experiencing growth despite having the potential to be further developed, they choose to remain in their comfort zone. Then, from the results of the data and analysis, there are SMEs that focus on the domestic market and get high performance, namely Z3, Z5, and Z7. This was influenced by the high market demand in the domestic market, even though the profit margin was small. These SMEs are very focused on the quantity of sales. One of the sales methods that they do is to use a product catalog, so that they capture resellers in various regions in Indonesia. This makes the effectiveness and efficiency of SMEs create a market. The condition of the SME is also what was conveyed by Sharma and Wadhawan (2009) study, where they were satisfied with the market they were aiming for. So, they focus on their comfort zone. Finally, although Cibaduyut cluster has great potential both in the domestic and export markets, it does not guarantee that SMEs will grow and adapt to market conditions. This happened for the three SMEs, namely Z8, Z9, and Z10. Although two of them have been established in the past 30 years and 20 years ago, the reality is that their companies have not experienced significant changes. Thus, this is as expressed by Sharma and Wadhawan (2009), that these two SMEs belong to the category of independent survivors, where they are not successful enough in lowering their companies to the next generation. The performance of these three SMEs in the domestic and export markets is very low, this is due to their inability to adapt to market conditions.

Conclusion

The results of the analysis and discussions that have been conducted, show that the performance of SMEs in the cluster is different. Although different, there are some similarities in performance seen from the sales point of view, then supported in terms of employments. Therefore, the results of this study have summarized the 4 main core performance categories of SMEs in the cluster, including high growth exports and domestic performance, high growth export performance, high growth domestic performance, and low performance. SMEs that are in the category of export high growth and domestic performance are SMEs that always adapt and seek new market gaps to grow their business. They always focus on the quantity of high quality products. So, they can get high profit margins, besides that they make a variety of innovations in terms of marketing and sales, to reach a wider market, both in domestic and overseas markets. SMEs that are in the category of high growth export performance and high growth domestic performance are SMEs that focus on one market, so that the business model conducted is adjusted to the intended market conditions. SMEs that focus on export markets, they focus on quality even though products are sold in terms of quantity not as much as domestic. Likewise, with the domestic market, where they are more focused on the quantity of sales, even though the products sold are not as high as exports; the quality of products manufactured is adjusted to the product price and target market. The export market makes the potential profit margins achieved can be higher than the domestic market. So, the innovation they are doing is in terms of how to make quality products, it is very rare for them to innovate in terms of marketing and sales, because they already have loyal customers, so they are comfortable in their zone. The thing to watch out for is that if sales in the export market go down, it will have a direct impact on the decline in company revenue, this will affect the heads of SMEs or SME owners in empowering their employees. While in the high domestic market, the innovations they are doing are in terms of marketing and sales, where they continue to try to adapt to market conditions, one of which is by marketing and selling through product catalogs. They are competing to present attractive product photos and commissions to their resellers. The last SME performance category is in the category of low performance. SMEs in this cluster are those who do not have the ability and willingness to adapt and innovate to market conditions that occur. As a result, their company's performance tends to stagnate or even decline. This is because they are still adapting the same business pattern as what the previous generation did. Considering, many SMEs in the cluster are family businesses. So, they are satisfied with what they have achieved, even though these conditions can cause bankruptcy threats for SMEs.

The performance of SMEs in the cluster greatly affects the overall activities in the cluster. Therefore, the performance of SMEs must be maintained and continuously improved so that the SMEs in the cluster can develop and survive the onslaught of imported products and from increasingly fierce business competition. The large potential of the cluster will have a negative impact if the performance of SMEs turns out to experience a decline, this impact will be felt directly by employees, where they get a limited salary while the cost of living must still be fulfilled. This will create a domino effect from the upstream to downstream sectors, where this business series will experience a decline in terms of turnover.

References

Aberdeen, T. (2013). Yin, R. K. (2009). Case study research: Design and methods (4th Ed.). Thousand Oaks, CA: Sage. *The Canadian Journal of Action Research*, 14(1), 69–71. Retrieved from <http://journals.nipissingu.ca/index.php/cjar/article/view/73>

Achtenhagen, L., Ekberg, S., & Melander, A. (2017). Fostering growth through business development: Core activities and challenges for micro-firm entrepreneurs. *Journal of Management and Organization*, 23(2), 167–185. <https://doi.org/10.1017/jmo.2016.58>

Audretsch, D. B., Coad, A., & Segarra, A. (2014). Firm growth and innovation. *Small Business Economics*, 43(4), 743–749. <https://doi.org/10.1007/s11187-014-9560-x>

CNN Indonesia. (2017). Kemenkop UKM: 3,79 Juta UMKM Sudah Go Online. Retrieved from <https://www.cnnindonesia.com/ekonomi/20171115161037-78-255819/kemenkop-ukm-379-juta-umkm-sudah-go-online?>

Creswell, J. W. (2007). *Qualitative Inquiry and Research Design: Choosing Among Five Approaches*. Book (2nd ed., Vol. 2nd ed). California: Sage Publications, Inc. <https://doi.org/10.1016/j.aenj.2008.02.005>

Dhewanto, W., Herliana, S., Lantu, D. C., & Lawiyah, N. (2019). SME informal export model in Cibaduyut SME cluster in Indonesia. *International Journal of Public Sector Performance Management*.

Gunawan, T., Jacob, J., & Duysters, G. (2015). Network ties and entrepreneurial orientation: Innovative performance of SMEs in a developing country. *International Entrepreneurship and Management Journal*, 12(2), 575–599. <https://doi.org/10.1007/s11365-014-0355-y>

Hänninen, K., Jokela, H., Saarela, M., & Simunanniemi, A.-M. (2017). Micro-Business Owner-Managers' Growth Intentions in Sparsely Populated Areas in Northern Finland. *Managing Global Transitions*, 15(1), 3–22.

Kachlami, H., & Yazdanfar, D. (2016). Determinants of SME growth: The influence of financing pattern. An empirical study based on Swedish data. *Management Research Review*, 39(9), 966–986. <https://doi.org/10.1108/MRR-04-2015-0093>

Kementerian Koperasi dan Usaha Kecil dan Menengah Republik Indonesia. (2012). *Perkembangan Data Usaha Mikro, Kecil, Menengah (Umkm) Dan Usaha Besar (Ub) Perkembangan Data Usaha Mikro, Kecil, Menengah (Umkm) Dan Usaha Besar (Ub)*. [Www.Depkop.Go.Id](http://www.Depkop.Go.Id).

Lehmann, S. (2011). What can be learned from cluster evaluation studies for cluster theory and future cluster policy ? First results of a survey of the empirical literature on cluster performance by Stephanie Lehmann. In *ICSB World Conference Proceedings* (pp. 1–33).

Mawardi, M. K., Choi, T., & Perera, N. (2011). The Factors of SME Cluster Developments in a Developing Country: the case of Indonesian clusters. *ICSB World Conference Proceedings*, 1–28. Retrieved from http://search.proquest.com/docview/922575128?accountid=10297%5Cnhttp://sfx.cranfield.ac.uk/cranfield?url_ver=Z39.8-2004&rft_val_fmt=info:ofi/fmt:kev:mtx:journal&genre=article&sid=ProQ:ProQ:abiglobal&atitle=The+Factors+of+SME+Cluster+Developments+in+a+Dev

Sharma, M., & Wadhawan, P. (2009). A Cluster Analysis Study of Small and Medium Enterprises. *IUP Journal of Management Research*, 8(10), 7–24.

Varman, R., & Chakrabarti, M. (2011). Notes from small industry clusters: Making sense of knowledge and barriers to innovation. *AI and Society*, 26(4), 393–415. <https://doi.org/10.1007/s00146-011-0319-5>

Weber, P., Geneste, L. A., & Connell, J. (2015). Small business growth: Strategic goals and owner preparedness. *Journal of Business Strategy*, 36(3), 30–36. <https://doi.org/10.1108/JBS-03-2014-0036>

Yazici, S., Köseoglu, M. A., & Okumus, F. (2016). Identification of growth factors for small firms: evidence from hotel companies on an island. *Journal of Organizational Change Management*, 29(6), 994–1029. <https://doi.org/10.1108/JOCM-12-2015-0231>