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Development Competitiveness Model for Small-Medium Enterprises among the Creative Industry in Bandung

Ramadhilla Maghfira Utami and Donald Crestofel Lantu

School of Business and Management (SBM), Bandung Institute of Technology (ITB), Indonesia

Abstract

In Indonesia, Small-Medium Enterprises (SMEs) have a major role in term of generating employment, contributing to GDP, and being safety valve in national economic recovery. Nevertheless, nowadays the role of SMEs is not sufficient to promote the economic growth and to increase society income. It is difficult toSMEs to grow becoming larger business "next stage" or persist in sustainable productivity. This problem is considered related to the decreasing of SMEs competitiveness. This study aims to develop model of competitiveness for SMEs especially among the creative industry in Bandung. As a means to address its issue, it uses depth interview method using semi-structured interview. The data collection had three phases: preliminary phase, first phase, and second phase. Preliminary phase is conducted to test the questions. The first phase interview is conducted to some sub-sectors of creative industry in Bandung that are included the SMEs criteria. Then, the data would be analyzed using grounded theory analysis in order to generate initial codes, sub-concepts, concepts, and categories. The second phase is conducted to validate the results of first phase and generate the final sub-concepts, concepts, categories, and finally build the theory.

Competitiveness is viewed as a comprehensive concept. It can be accessed from the influences up to the results achieved. Three dimensions that are included in competitiveness concept are potential dimension, process dimension, and performance dimension. Potential dimension consist factors that are needed to develop the business, started from owner characteristics and company's characteristics that are influenced by internal capability and external environment. The second dimension named process dimension, which is consist effective operation strategy and implementation and effective growth strategy and implementation. The third dimension is performance dimension which is divided into financial performance and non-financial performance. The hypotheses related to model can be developed. Finally the recommendation based on previous analysis can be given to some entities such as business owner, government, and mediator in order to develop the SMEs.

Key words: SMEs; Creative Industry; Competitiveness; Success Factor.

1. Introduction

In developing countries, entrepreneur, particularly in the context Small and Medium Enterprises (SMEs) is essential for economic growth. SMEs contributes as a solution to the State's economic growth, in term of generating employment (Birch 1979), offering innovative products or services and competitiveness (Porter 1990; Schumpeter 1942) and enhance international trade of an economy through diversification (Hussain, et. al, 2012). Entrepreneur may be a solution for workforceempowerment by creating jobs for themselves and others.

Indonesia as one of the developing countries need to prepare themselves in order not to lag behind other countries, especially in ASEAN, especially in the case welcomed the ASEAN single market by 2015. One of Indonesia's economic problems is unemployment. The population is currently out of balance with the availability of jobs leaving many residents do not have a job and a steady income.

Small and Medium Enterprises (SMEs) can be seen as a safety valve in national economic recovery. SMEs' role in the rapid growth economic and employment is expected to be a starting point for efforts Government moves production sector in various business fields. They have proved to be able to live and thrive in the storm crisis that hit Indonesia in the past 5 years since the year 1998. The existence of SMEs according to BPS data 2011 has been able to contribute to GDP nearly 57.60% of total national GDP (BPS and Ministry of Cooperative and SMEs, 2012). While the number of SMEs in 2011 reached nearly 55.21 million units by the number of labor as 101.72 million people. The number of units SMEs and the absorption of labor increased 2.57 percent and 2.33 percent compared to 2010.

Nowadays, SMEs in creative industry considered as potential industry. It is able to absorb labor; the creative industry can also help in building the image and values of the national culture. According to Ministry of Tourism and Creative Economy of the Republic of Indonesia (2012), the projected growth of the creative industries in the period 2009-2015 is between 7-9 percent. The contribution to GDP about 7-8 percent increased from 6.28 percent.

But SMEs in Indonesia only contributed one-third of the total contribution of companies in Indonesia to stimulate the economy. It shows low contribution of SMEs to support economic growth in Indonesia. The lack ofSMEs' role to economic growth in Indonesia is caused by some constraints. Based on State Ministry of National Development Planning (2012), the constraints experienced are usually associated to low of capacity, low of human resources quality, high of transaction cost, and limited access to productive resources such as capital, natural resources, information, knowledge, skills, and technology. These constraints cause difficulties of SMEs to 'the next class' or held in sustainable productive business.

This study is purposed to identify factors of competitiveness and develop comprehensivemodel of SMEs competitiveness, especially for creative industry in Bandung. Therefore, the result can be used to provide the understanding on how to start-up business or to increase the competitiveness in order to get "next class" by looking at all factors affecting business competitiveness. The result will be a first SMEs competitiveness model for creative industry in Indonesia. This study also provides recommendation for government to enhance government's role in supporting SMEs development. Government is a catalyst, in terms of taxes, permits, access to funds, and other policies. The recommendation is also addressed to mediator, academician, and community. Mediator is an institution that has a concern for SMEs. Forms of assistance that can be provided by mediators can be a business mentoring or providing information on access to capital and market, for examples: CSR of state-owned companies, CIEL-ITB, and business incubators like LPIK ITB. Academician is a person or institution that concern to do research about SMEs and entrepreneurship. Community is a group of people who have similar interests, in this case is SMEs and entrepreneurship, for

example: HIPMI, TDA, and NgaduIde.

2.   Literature Review

2.1   Small-Medium Enterprises (SMEs)

Small businesses are defined as employing not more that 5-10 workers, including the owners and family (ASMSE, 2010). The United Nation Industrial Development Bank (UNIDO) classifies small scale enterprises as those with less than 150 employees. The definition is only applicable to industrial and newly industrializing countries. Based on Panitchpakdi (2006), a Secretary-General of the United Nations Conference on Trade and Development, SMEs are a source of employment, competition, economic dynamism, and innovation. SMEs stimulate the entrepreneurial spirit and the diffusion of skills. Because SMEs enjoy a wider geographical presence than big companies.
Then SMEs also contribute to better income distribution.

In Indonesia, there are some criteria of Small-Medium Enterprises (SMEs). It determined by revenue, number of workers, and assets.

2.2   Creative Industry

Creative industry is a potential industry in the economic and cultural development of the country. According to the Ministry of Trade of Indonesia, the creative industry 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 mentioned individual. The term of creative industry based on refers to industry which combines the creation, production and commercialization of creative contents which are intangible and cultural in nature. The contents are typically protected by copyright and they can take the form of a good or a service.

The classification of creative industry sub-sector has evolved over time. In 1986, UNESCO published its landmark Framework for Cultural Statistics (FCS) which was the first comprehensive attempt to develop common methodologies to capture information about cultural activities, defines ten distinct categories. The government's Department forCulture, Media and Sport of UK produced the first Cultural Industries Mapping Documents in 1998 and 2001 defines and classifies creative industries into the following thirteen separate fields. In Indonesia, Ministry of Trade divided creative industry into fourteen sub-sectors. Then, in 2011, Ministry of Tourism and Creative Economy of the Republic of Indonesia entered culinary as 15th sub-sector of creative industry due to its potential that rapidly growing.

While the data for the creative industry in Indonesia, the contribution for GDP was 6.3%, or 104.73 trillion rupiah. The level of employment from creative industry reached 5.4 million workers with a participation rate of 5.8%. The export value is reached 81.4 trillionrupiah and contributes to the total value of national exports (nominal growth of exports).
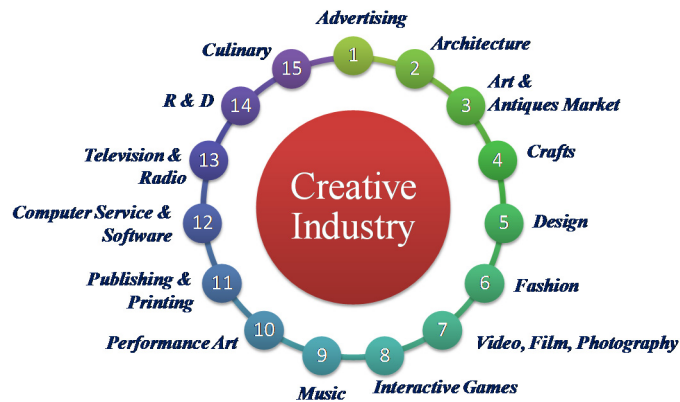
Figure 1. Creative Industry Sectors

According to the Ministry of Tourism and Creative Economy of the Republic of Indonesia (2011), nominal GDP of creative economy was growing in recent years, in the year 2010 amounted to 472.8 trillion rupiah, with the level of employment was 11.49 million workers, increased in 2011 to 526 trillion rupiah with the level of employment was 11.51 million workers.

Seven largest contributors to national GDP According to Simatupang: (1) Fashion (2) Crafts, (3) Advertising (4) Television and Radio (5) Architecture, (6) Music, (7) Publishing and Printing. This is in line with the Ministry of Trade of the Republic of Indonesia (2008) which stated that GDP of creative industry contributed by Fashion, Crafts, Advertising and Design with an average GDP in 2002-2006 each is 46 trillion rupiah (44.18%), 29 trillion rupiah (27.72%), 7 trillion rupiah (7.03%) and Rp 7 trillion (6.82%). Meanwhile, based on the export growth, the sub-sectors that give highest contribution for export are fashion (60%) and crafts (36.5%) of the total exports that increased by an average growth of 12.2% (Ministry of Culture and Tourism, 2011).

After culinary entered into one of the 15 sub-sectors of creative industries, in 2011, culinary contributed largest revenue to the creative industry in Indonesia is about 32.2% of the total contribution of creative industries to GDP or about 169.62 trillion rupiah.

Followed by fashion, it contributed 28.1% of the total GDP of the creative industries that reached to 526 trillion rupiah or equivalent to 147.60 trillion rupiah. While crafts sub-sector addressed third largest after culinary and fashion that contributed 79.40 trillion rupiah, or about 15.1% of the total contribution of creative industries to GDP (Ministry of Tourism and Creative Economy of the Republic of Indonesia, 2012).

Creative industry has huge potential to economic contribution in Indonesia. Indonesia, especially Bandung, starts to be seen as one of place where creativity developed. In order to increase competitiveness of SMEs in Indonesia, especially for creative industry , this research is conducted. The concept of competitiveness should be shaped, starting from knowing the competing object, gathering competitive ability, and measuring competitive results. From those procedures, the strategies that are related to creative industry competitiveness can be built to future development. To gain that information about creative industry procedures, exploratory study should be conducted because there are limited researches about creative industry competitiveness especially in Indonesia.

2.3   Competitiveness

Competitiveness comes from word "competition". Stigler (1991) in Li (2011), defined competition as: "*A rivalry betweenindividuals and it arises whenever two or more parties*

strive for something that all cannot obtain". Li (2011) stated that competitioncomprises four dimensions:

1. Competitors

   Competitors mean those with whom you will be competing, including existing and potential competitors.

1. Competing objects

   This is the specific object of competition, which includes such things as profits, market share, material sources, ideas and innovation, service networks, and customers' satisfaction.

2. Competitive capability

   Independent interested individuals demonstrate their special characteristics and abilities duringthe competitive process. The greater quality or ability one has, the greater the chance of success as compared with one's competitors.

3. Competed results

   The result of competing is a reasonable allocation of competing objects among competitors. If the results are not mutually satisfactory, competition will continue.

Based on these dimensions, each competitors try to develop their competitive ability by improve their capabilities and products or services to reach desired competitive objects. Repeated competition among competitors will reach point that called competed results. So, each competitor develops their own specific competitiveness.

Li (2011) categorized the subject of competitiveness into three levels: micro, meso, and macro. These can be further characterized as being applicable to organization competitiveness, industrial competitiveness, and national competitiveness (Nelson, 1992 in Li 2011). From macro perspective, for example national competitiveness, competitiveness enhances the prosperity of the nation by improving the real income of its citizens whose performance comprise the social, cultural, and economic variables in international markets. Scott and Lodge (1985) defined national competitiveness as: "*A country's ability tocreate, produce, distributes and/or service products in international trade while earning rising returns on its resources*".From micro-meso perspective, the competitiveness built in company or industrial levels. Krugman (2007), individual firm level competitiveness is a comparative concept of the ability and the performance of a firm, sub-sector or country to see and supply goods and/or services in a given market. Therefore, Li (2011) measured firm competitiveness by the competitive ability of a firm to earn desired competitive objects (e.g. profit, market share) and ensure its future development. The focus of this study is the competitiveness of creative industry for Small-Medium Enterprises (SMEs) which means firm competitiveness; competitiveness will be reviewed from micro perspective.

2.4   Theories on Firm Competitiveness

Based on UNESCA, competitiveness if seen as enterprise-level or firm-level concept referring to the relative performance of firms in particular product market. At complete statement, competitiveness is the ability of enterprises to sustain superior market positions and profitability relative to their domestic and international competitors by producing products and services of superior quality and functionality, at competitive prices, delivered on time to both domestic and international buyers. Flanagan et al. (2007) made critical review of competitiveness research and reviewed insights about firm competitiveness. Its research summarized three main schools that are dominant: the competitive advantage and competitive strategy model (Porter, 1980, 1985), the resource-based view and core competence approach (hereafter the RBV) (e.g. Wernerfelt, 1984; Prahalad and Hamel, 1990; Barney, 1991), and the strategic management approach (e.g. Chandler, 1962; Ansoff, 1965). Competitiveness research comprises some generic procedures such as environmental scanning, strategy formulation, strategy implementation, and evaluation and control

(Wheelen and Hunger, 2002). Each procedure uses different tools to conduct its functions. For scanning the competitive environment, the tools that can be used are the five forces model, value chain analysis, and resource-based approach. For formulating strategies, the tools that can be used are the SWOT matrix and three generic strategies.

Porter's Five Forces theory for corporate competitiveness is characterized as the industrial organization view of competitive advantage (Flanagan et al., 2007). Five Forces model analyses based on market and industry structures and value chain analyzes firm's activities into a series of value-creating steps, while RBV focuses to the resources developed by a firm.

Porter'sCompetitive   Strategy   andCompetitive Advantage Model
According to Kale (2002), Porter's theory for firm's competitiveness is characterized asthe industrial organization view of competitive advantage in the area of industrial organization economic. Porter's theory was grounded on the earlier works of Mason (1939) and Bain(1959). Major components in Porter's theory competitive strategy and competitive advantage model based on Flanagan (2007) are:
1. The five competitive forces model
2. The three generic competitive strategies
3. The value chain

Porter's Five Forces
For analyzing competitive environment, this study used Porter's Fiver Forces. Porter's FiveForces is a tool of analysis to assess the attractiveness of an industry based on the strengths of five competitive forces.
The five forces are:

1. Threat of new entrants
The threat occurs when new competitors decide to enter an industry. It is possible if they will gain more profit by gaining more consumer and capacity. The threat of new entrants is high if competitors can easily enter the industry.

2. Bargaining power of buyers
Buyers have ability to control the price by bargaining quality they want and substitute their choices to other competitors. The bargaining power of buyers is high when there are some choices. Buyers can choose their producer by considering low price offered.

3. Bargaining power of suppliers
Power of supplier determined by raising or reducing the prices of purchased product or service. Bargaining power of suppliers is high when there is only one or limited supplier who supply the products. Consumers are forced to buy to limited producers. In the other words, the dependency of supplier is high.

4. Threat of substitute products or services
This is not only about competition from new entrants or other competitor, but also from products and services which can meet similar needs. Threat of substitute products or services is high, when consumers can substitute their needs to other things. For example, consumerscan substitute video game player with doing sports or watching television.

5. Intensity of rivalry among firms in an industry
Rivalry can increase when competitors in an industry see an opportunity to improve their

market position.

Three Generic Strategies

After diagnosing the competitive environment using Porter's Five Forces, the firm should general a superior value for the firm. In order to achieve superior value, the firm can apply its strategy related to help a firm outperform rivals within an industry and so successfully position itself against the five forces (Porter, 1980). Those three generic strategies are:

1. Overall cost leadership strategy
The firm charges lower prices compare to competitors without sacrificing the quality of the product or service.

2. Differentiation strategy
The firm produces products or services which are unique or different so that consumers perceive to be better value than competitors' products or services.

3. Focus strategy
The firm choose specific market segment in order to serve its particular market efficiently.

The Value Chain

A technique to help for assessing an organization's resources and in so doing determine its strengths and weaknesses. In value-chain analysis, the factors are based on firm's activities into a series of value-creating steps. It allows an organization to ascertain the costs and value that emanate from each of its value activities. Zikmund et al (2010) said "*thevalue-chain analysis views the organization as a sequential process of value-creating activities*".The value or margin resulted iscalculated by the amount of revenue it earns. It referred as the value chain system because it analyzes the value in the relationship between value chain activities of the organization and its suppliers, distributors, and consumers. To be more effective, value chain analysis needs to recognize and understand the relationship orlinkage between the activities. The activities of an organization can divided into two kinds:

1. Primary activities
The activities which are directly involved in the creation of a product or service, such as: inbound and outbound logistics, operations, marketing and sales, and service.

2. Support activities
The activities which ensure that the primary activities are carried out efficiently and effectively, such as: firm infrastructure, human resource management, technology development, and procurement.

The Resource-Based Approach

In contrast with Porter's approach, resource-based view exhorts the organization to look within itself at its own resources and core competences, and use these as a basis for competitive advantage (Henry, 2011). Core competencies or strategic capability is a of attributes of resources and capabilities that an organization possesses which in turn allow it to achieve competitive advantage. Capabilities can be simply defined as what the point of an organization good at. It is capacity of organization to deploy resources that have been purposely integrated to achieve the target. Some people use the term distinctive capabilities to make same point with competencies. It is the attributes that firms require in order to be able to compete in the marketplace. It is the efficient organization of resources that provides

an organization with competencies. Some people use the term distinctive capabilities to make same point with competencies. These distinctive capabilities derive from three areas: architecture, reputation, and innovation.

Resources-based view uses as a complement toPorter's approach since the analysis views the profitability to be characteristics of the industry itself and the firm's position in the industry, while the resource-based view analyzes the profitability affected by firm's resources and capabilities. In the resource-based view, the factors are analyzed from the collection of tangible and intangible resources and organizational capabilities. Resources areinput that can make organization run its businesses.

1. Tangible
Physical assets that an organization possesses that can be observed and quantified.
- Financial resources: cash balances, the borrowing capacity.
- Organizational resources: the formal reporting structure.
- Physical resources: building, machinery, materials, and productive capacity.
- Technological resources: stock of technology, copyrights, and patent.

2. Intangible
Assets that an organization possesses that cannot be quantified.
- Human resources: knowledge, trust, and managerial capabilities.
- Innovative resources: ideas, scientific capabilities, and capacity to innovate.
- Reputational resources: brand power, reputation with costumer, and reputation with supplier.

The Strategic Management Approach

Strategic management refers to a set of managerial decisions and actions that determines the long-run performance of a corporation (Wheelen and Hunger, 2002 in Flanagan, 2007). The approach contains some procedures start from environmental analysis both external and internal environment, strategy formulation, strategy implementation, and evaluation and control. Each procedure contains some tools that usually used, such as for scanning the environment, the tools that can be used are Porter Five Forces, Value Chain analysis, and Resource-Based View. Then after scanning the environment, for formulating strategy, the tools that can be used are SWOT matrix and Three Generic Strategies.

One of strategy formulation tool is SWOT analysis which is shaped in the SWOT matrix. SWOT analysis refers to strength, weaknesses, opportunities, and threats. Strengths means the firm more excel compare than competitors, while weaknesses means the firm's minuses ordisadvantage situation. Strengths and weaknesses come from internal environment and controlled by the firm itself, while opportunities and threats come from external environment and has less control by firm. In other words, SWOT analysis may prove useful in both the general environment and the competitive environment (Henry, 2011).

The useful tool when scanning the competitive environment is Porter Five Forces which has been discussed before, while the useful tools when scanning the general environment is PESTLE analysis. PESTLE analysis is used to detect the factors that appear in the external environment. PESTLE refers to:
- Political: it deals with the effects of government policy include government stability, taxation policy, and government regulation.
- Economic: it captures some key indicators include interest rate, disposable income, unemployment rates, retail price index (inflation), gross domestic product (GDP), and

exchange rates.

- Social: social factor can influence consumer behavior. In this term, social factors include cultural change within the environment and are often referred to as socio-cultural.
- Technological: recently, the major change of industry is rapidly technological changes. The change of technology and innovation causes new industries to emerge and competition over existing industries.
- Legal: these are related to the legal environment in which firms operate.
- Environment: environmental factors include the weather and climate change. PESTLE used to help organization detectand monitor weak signals of recognizing the discontinuities or fractures shaping the environment. This tool can also be used to detect trends in the external environment, so that an organization can find the way into competitive environment optimally.

Using different terminology, Gal (2010) used STEEP factors to analyze macro environment that affecting the firm. STEEP factors come from Kotler-Keller Model (2006) that divided macro environment into:

SWOT analysis is conducted after both internal and external environment analysis done. The Porter Five Forces and PESTLE analysis can be used to identify the external opportunities and threats facing a firm. The firm's internal strengths and weaknesses can be determined by identifying the capabilities and resources using Value Chain analysis, Resource-Based View, and 7S Model.

7S Model identifies the strength and the weaknesses of the firm by considering the links that exist between the seven factors: strategy, structure, system, staff, style, shared value, and skills. This analysis is useful to assess internal factors that influence performance. The explanation of each factor can be seen below:

1. Strategy: action leading to allocation of resources.
2. Structure: hierarchies and interconnection.
3. System: procedures, processes including information flows.
4. Staff: personnel.
5. Style: style of key managers and how goals are achieved.
6. Shared Value: guiding concepts shared by organization's members.
7. Skills: capabilities of key personnel and organization as whole.

The Implementation of the Theory

It would be appropriate to consider those three theories in supporting the competitive advantage. This study will adopt a hybrid of three theories above. Porter Five Forces is a powerful tool to analyze the competitive environment. Value chain is a tool to disaggregate the firm into its strategically relevant value activities. Resource-based approach shifts the focus from the external industry structure to the internal resources possessed by a firm. It can be seen that competitive strategy, value activities, and resources are three major sources of competitiveness. In addition, the general environment should be considered as determinants of competitiveness. The generalenvironment can be assessed by PESTLE analysis.

2.5   Grounded Theory

Grounded Theory is a form of qualitative research. This study used grounded theory as the method might be utilized to generate a theory, in accordance with the original purpose of the study. Grounded theory does not start from the formation of hypotheses, but used to form the hypotheses. Grounded theory starts from data collection through a variety of methods of data collection. In this study used in-depth interviews and semi-structured interviews that will be explained in the next section.

There are four criteria of grounded theory according to Strauss and Corbin (1990):
1. **Fit** (or relevance) entails that the theory fitssubstantive data in addition to validity, meaning that the naming of the category or its property fits the data.
2. **Understanding** entails that the theory iscomprehensible to all involved in the area of study.
3. **Generality** entails that the theory isapplicable in a variety of contexts.
4. **Control** implies that the theory shouldprovide control with regard to action toward the phenomenon.

From the data collected in the form of text, words that are marked as key words named as a series of codes. Then the codes complied into group become similar concepts. The next step is forming categories from previous concepts. Categories were the basis of the theory or reverse engineered of hypothesis. The grounded theory steps can be seen in Figure 2.

| *Codes* |
| Identifying anchors that allow the key points of the data to be gathered |

| *Concepts* |
| Collections of **codes** of similar content that allows the data to be grouped |

| *Categories* |
| Broad groups of similar **concepts** that are used to generate a *theory* |

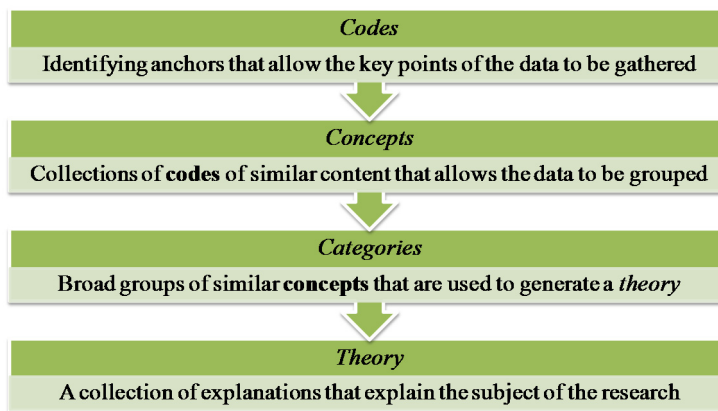| *Theory* |
| A collection of explanations that explain the subject of the research |

Figure 2. Grounded Theory Steps

The process of data analysis of grounded theory includes three coding:
- Open coding
- Axial coding
- Selective coding

3.   Research Methodology

3.1   Research Sample

Survey is conducted to creative industry of SMEs in Bandung area. The sample taken from seven sub-sectors of creative industry: (1) Crafts, (2) Fashion, (3) Interactive Games, (4) Performance Art, (5) Publishing, (6) Software, and (15) Culinary. Those sub-sectors are filtered whether included small or medium enterprise.

3.2   Data Collection Method

Data collection had been conducted to construct variables of research model by in-depth interview and semi-structured interview. A set of questions is asked by interviewer. This method is chosen in order to get deep insight from respondent, ensure all the questions had been answered, and to feel the real natural atmosphere of the firm directly.
This study conducted in three phases:

A preliminary phase

At this phase, data collection conducted to establish the study pattern and check the interview guide and approach used. Method that used in this phase is one-on-one in-depth open-ended interviews to generate more detailed information about how the sampling process should be running. In-depth interview techniques used in this phase in order to dig insight about what competitiveness is and the factors that influence it from the entrepreneurs. Data collection is conducted to some different sub-sectors:

- Craft
- Fashion
- Culinary

The interview guide is checked using Aaker (1995) guidance in Syaifullah (2005):

1. Are the questions having simple vocabulary, familiar, and not confusing?

The questions should be understood by all respondents. From preliminary phase obtained the following results:

- Respondents were not understood about the terminology of 'performance', so that the word is changed to 'target achievement'.
- Respondents were not understood about the terminology of 'competitiveness', so that the word is changed to 'more excellent or capable to compete'.

2. Are there words that has unclear meaning or ambiguous?

Respondents said the terminology of 'external environment' has unclear meaning, so that the question should be explained more details to its indicators.

3. Are there double-barreled questions?

Double-barreled occurs if one item asking two different things to respondents would be confused to answer. At the preliminary test, there were no respondents who found double-barreled item.

4. Are there leading or loaded questions?

Leading or loaded happens if an item asking something that directs the respondent to answer according to the researchers expected. At the preliminary test, there were no respondents who found leading or loaded questions.

5. Is the instruction potentially to confuse respondents?

When preliminary test, all respondents stated instruction is clear and well understood.

6. Are all the questions applicable for all respondents?

When preliminary test, all respondents can answer all items.

Phase Stage 1

This phase is a more detailed phase to build initial categories and build hypotheses. Data collection is done by semi-structured interviews method. Interviews were conducted using questions that have been prepared based on the literature review and the results of the preliminary phase.

Interview is conducted using open-ended questions that can generate rich data set. Interview conducted for 30 minutes - 1 hour and recorded by mobile phone. Interview conducted depend on respondents time and located in-house in respondents office, workshop, or respondents' choice.

Point of interview focused on the context of competitiveness by in-depth interview and semi-structured interview refers to the analysis tools such as Porter's Five Forces, Value Chain, 7P, STP, and PESTLE Analysis. Interview conducted for several hours by face-to-face or via phone or email in accordance with the wishes of the interviewees.

3.3 Sampling

This study used purposive sampling method using smaller sample. Purposive sampling is a sampling method that uses specific respondents can provide desired information for only

those who have that information or those who fit the criteria of the research that has been compiled (Sekaran et. al., 2009). The samples are selected for satisfy the research' specific purposes, even if the samples are not fully representatives (Zikmund, 2010). The grounded theory tradition typically includes detailed interviews with individuals or groups willing to share the conscious aspects of their experiences with the researcher (Creswell, 1998).

In this study, the respondents selected based on the specific criteria. The criteria refer to SMEs' criteria in Indonesia. If a SME run in the creative industry and located in Bandung, that mean it meets the criteria established for this research, that SME can be respondent to this study which will then be visited to do the interview and observation.
Interview conducted to several categories:

1. The owner or person who understands a lot about the business. Interviews can be conducted on-site or carried out in a predetermined location between the interviewer and the interviewee. Interview conducted to explore insight about the performance that has been achieved by the business and the factors that influence the success of the business has ever faced, not the product of the business.
2. Employee who works on the company. Interview conducted to gather the employees' opinion about the performance of the business that has been achieved, the factors that influence the success of the business has ever faced, and how the owner and management factors can affect the performance of the company.

Table 1 Respondent List

ID	Company	Sub-Sector	Position
A	Indscript Creative	Publishing	CEO
B	Akal Interaktif	Computer Software	Marketing Manager
C	The Dreamscake	Culinary	CEO
D	Purezento	Crafts	CEO
E	Lazuli Sarae	Fashion	CEO
F	Nightspade	Interactive Games	CMO
G	Saung Angklung Udjo	Performance Art	CEO
H	Saung Angklung Udjo	Performance Art	Corporate Secretary

3. Phase Stage 2

This stage includes testing to validate the categories that have been established and testing the hypothesis that has been formed in stage 1 to build a grounded theory about competitiveness. Data collection is done by a semi-structured interview method based on results of the hypothesis in stage 1.

4.   Analysis

4.1   Open Coding

Open coding is the initial stage of the interview analysis. The interview data were analyzed sentence by sentence using opencoding (Strauss and Corbin, 1998 in Chong, 2008). Charmaz (2006) in Shannak et al. (2009) recommended the data are separated into segments called incidents. An incident is found in a phrase, a sentence or two but infrequently in as many words as a paragraph (Glaser, 1998). The incidents were compared with other

incidents and other data, to discover or develop the code.

Key point and codes of competitiveness term are taken from writing agency. Symbol A* refers to interview number and the number1, 2, 3…etc refers to the number and arrangement of the key point; for example: A*1 means the key point number one.

The following examples are key points from initial interviews and indicate the incidents that were identified and given a code. Some people indicated that:

*"Yes, the **equipment** that used already for **production scale**."(C*2)*

*"We **utilized technology** from manual to be **computerized**."(D*48)*

These incidents were given the code: **technology enhancement.**

Other interviewees stated that:

*"If seen from software itself, it is still **ordinarysoftware**, I think it was not important as longas appropriate with our needs."(D*28)*

*"Images made manually then scanned and reproduced by **computer**, after that printed."(D*58)*

*"Well, now it no longer made manually but **drawn by computer**, then it is printed,produced, and sold."(D*59)*

*"We only use ordinary **sewingmachine**."(E*25)*
*"We **utilize technology**."(E*215)*

*"**Notebook, internet**, already used."(F*39) "By **internet**, simple, we already bypassed the barrier."(F*56)*

*"Now, we are **still in thesmartphone**."(F*103)*

*"After that, insert to the **website**. So, actually it depends on the **distribution in the internet** itself."(F*95)*

These incidents were given the code: **technology utilization.**

Other interviewees stated that:

*"So,I use Facebook for business. Yes,**Facebook for business.**"(A*21)*

*"I made some certain groups in the **Facebook** that helped the writers and our network to communicate continuously with us."(A*22)*

*"**Social network helps us to grow verymuch**."(A*23)*

*"We did sales promotion through **socialmedia**, starts from **Twitter, Facebook, and website**."(F*33)*
*"We made own **social media**."(C*62)*

*"I controlled the **social media** by myself. But now there are other people to control*

it."(C*65)

*"Then, we used **Twitter and Facebook pagefor social media**."(E*12)*
*"Special event published on **Twitter**."*

*"We also did some effort for Appstore, such as we published through **Facebook,Twitter**."(F*33)*

*"We already had **Twitter, Facebook**, and website. But it is not purposed to marketing, it is only for maintaining the information delivery and the customer relationship."(G*83)*

These incidents were given the code: **socialmedia utilization.**

After the first stage the researchers revisited the data and analyzed and compared all the key points to see if similar codes occurred often and grouped them together under the related concept.

From all codes grouped into concepts: Marketing Effectiveness, Financial Capability, Technological Optimization, HR Development & Operation, Quality System, Internal Structure, Innovation, Reputation, PPIC, R&D, Competitor, Buyer, Mentor, Government, Community, Media, Bank, Third Party, Vendor, Supplier, Economic Condition, Socio-Culture, Legal Permission, Vision, Mission, Passion, Experience, Motivation, Personality, Knowledge & Skill , Intuition & Mindset, and Business Role.

4.2　Axial Coding

At this stage, the key words in the form of codes identified to develop concepts. Then concepts formed the categories and sub-categories. In addition, this step includes establishing the relationship between the categories. According to Chong (2008), there is no fixed rule for the number of categories or sub-categories that will be established. The process will continue until finding the purpose of the research and the theoretical framework. Then concepts above were grouped and regrouped to find higher commonalities called categories.

These concepts grouped into sub-categories: Internal capability, External Environment, Company Characteristic, Owner Characteristic, Financial Performance, and Non-Financial Performance. These categories grouped into dimensions: Performance, Potential, and Process.

4.3　Selective Coding

The final process of grounded theory is selective coding. Categories and sub-categories that have similar nature and properties grouped, refined, and reshuffled for regrouping. It can be seen in Figure 3. This process of grouping will continue until the individual categories can be distinctively identified, readily Expressed in causal conditions, environmental conditions, organizational conditions, management strategies and Consequences, and more importantly, meet the aims of investigation (Strauss and Corbin, 1990). According to Glaser (1998), this stage is trying to connect, and explore the relationship between categories and its properties to develop hypotheses related to the theory. The initial framework has been changed because other data that collected.

5. The Theory

The core hypotheses which stemmed from the theory generation process are:
Hypothesis 1:
The effective operation strategy and implementation of SMEs is positively related to financial performance which is indicated by market performance and asset.

Hypothesis 2:
The effective operation strategy and implementation of SMEs is positively related to non-financial performance.

Hypothesis 3:
The effective growth strategy and implementation of SMEs is positively related to non-financial performance.

Hypothesis 4:
There is a relationship between the effective operation strategy and implementation of SMEs and the effective growth strategy and implementation of SMEs.

This hypothesis includes the following sub-hypotheses:
Hypothesis 4a:
The effective operation strategy and implementation of SMEs is positively related to the effective growth strategy and implementation of SMEs.

Hypothesis 4b:
The effective growth strategy and implementation of SMEs is positively related to the effective operation strategy and implementation of SMEs.

Hypothesis 5:
The owner characteristic is positively related to the effective operation strategy and implementation of SMEs. This relationship is moderated by company characteristic.

Hypothesis 6:
The owner characteristic is positively related to the effective growth strategy and implementation of SMEs. This relationship is moderated by company characteristic.

Hypothesis 7:
The owner characteristic is positively related to the company characteristic.

Hypothesis 8:
There is a relationship between internal capability and owner characteristic.

This hypothesis includes the following sub-hypotheses:
Hypothesis 8a: The internal capability ispositively related to owner characteristic.
Hypothesis 8b: The owner characteristic ispositively related to the internal capability.

Hypothesis 9: The external environment ispositively related to the company characteristic.

Hypothesis 10: The external environment ispositively related to the owner characteristic.

Hypothesis 11: The external environment ispositively related to the internal capability.

6. Conclusion

There some conclusion that resulted from this study:

a. Competitiveness is a comprehensive concept that consists of potential dimension, process dimension, and performance dimension.

b. Potential dimension is factors that the business should have and affect the business itself. Potential dimension consists internal capability (financial capability, human resources capability, and innovation capability), external environment (general environment, competitive environment, and supportive environment), owner characteristics (passion, motivation, personality, knowledge, skill, experience, and role as leader), and company characteristics (vision, mission, and value).

c. Process dimension means strategy that used to make the business get its objectives. Process dimension divided into two parts: effective operation strategy and effective growth strategy. Effective operation strategy means strategies that have be planned and the implementation for regularly operation, whereas effective growth strategy mean strategies that used to plan the future development.

d. Performance dimension means the competitive objects, divided into two measurements: financial performance (market performance and asset) and non-financial performance (product quality, customer satisfaction, market expansion, increasing of human resources, reputation,
and social contribution).

There are some recommendations that should be considered by related entity of SMEs in achieving the competitiveness.

For Business Owner

a. Do the business with passion. By having passion, the process of running business would be fun. Passion can emerge from hobby, pleasure, even experience.

b. Doing innovation is the key of creative industry business. Continuous innovation will make business more competitive. Customer will see the business from the innovation first instead of brand reputation. Innovation that well-managed will result best performance.

c. Business is not only operating the existing product, but also to develop business growth. So that it is important to have growth strategy in order to get sustainability in business.

For Government

a. Most of complaint about government policy is associated with bureaucracy. Related to this case, it is better if government simplify its bureaucracy, especially that are related to small-medium enterprises. Simplification process of legal entity and other business certification making will make business growth faster.

b. Set the appropriate tax value. Tax is the obligation of every citizen, but the tax rate for SMEs should be fair and not to be considered burdensome, so that SMEs feel overwhelmed and cannot pay tax.

c. Provide supportive development program for SMEs, such as exhibition, cultural exchange, etc. Open the opportunities of development fairly for all SMEs. Do not choose the parties who have close relationship.

d. Engage the local SMEs to participate the international scale in order to get international response and good reputation for Indonesia.

For Mediator

Mediator is an institution that has a concern for SMEs. Forms of assistance that can be provided by mediators can be business mentoring or providing information on access to capital and market, for examples: CSR of state-owned companies, CIEL-ITB, andbusiness incubators (Kinara Indonesia and LPIK ITB.Related institutions in this case refer to institution that concern about SMEs and entrepreneurship. This party also has important role in SMEs development. There are several recommendations that can be applied by the mediator:

a. Conduct the training or education to SMEs with the topic related to the development of SMEs, both technical and management skills.

b. Provide or help the business owner to have business mentor. Sometimes, business owner already have a willingness to be assisted by business mentor but do not have access to business mentor personally. In this case, independent institution can facilitate the business mentor.

c. Do the research that is related to SMEs so that the knowledge about entrepreneurship or SMEs can update continuously.

d. Facilitate the business owner to have access to investor, bank, or other parties.

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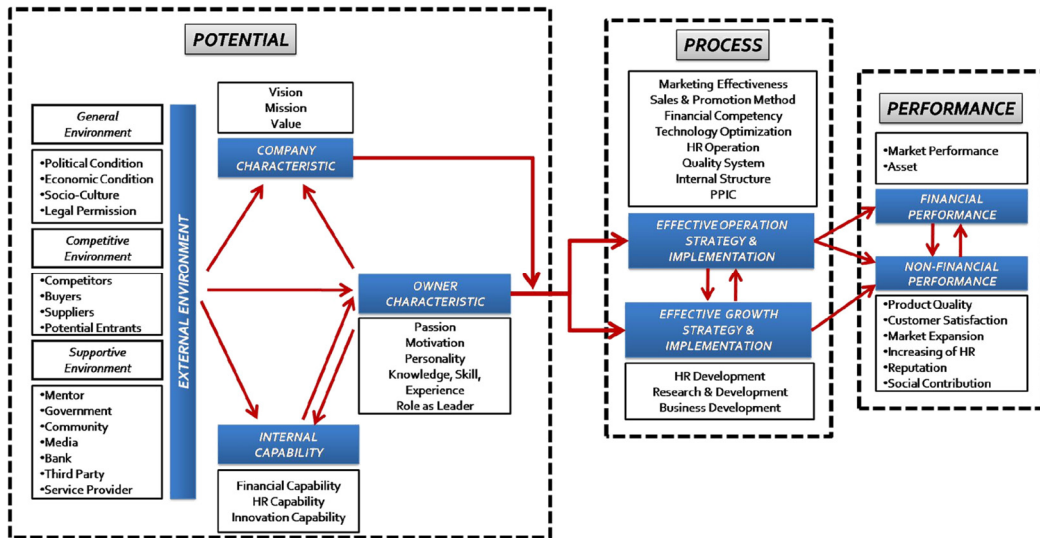
Figure 3. Grounded Theory Framework