

CHARACTERISTICS OF SMALL-SCALE ENTERPRISES IN WEST SUMATRA

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ABSTRACT

Small-scale enterprises in West Sumatra experienced slow growth and some constraints in their development process. In 1998, small businesses represented 99.61% of total business units operating in West Sumatra and absorbed 88.8% of total employment. The orientation of their businesses mostly on domestic market although recently they enter international market. Export contribution of small businesses still very low but growing steadily during the last three years. This research showed that enterprises dealing with embroideries, garments and handicrafts are ambitiously orienting their products towards foreign markets. At the same time these business categories are also proven to be the most profitable businesses.

INTRODUCTION

The West Sumatra province is located in the west coast of Sumatra Island and well known as a home of the *Minangkabau* tribe. The people of this province are known for their entrepreneurship talents and there exist the tradition of migrating out of the province among the young generation. The famous *Nasi Padang* (Padang Food) and the chain of Padang restaurants network that easily found in every city in Indonesia could be seen as one indicator of the success of the *Minangkabau* entrepreneurs in business sectors.

The West Sumatra province consists of nine regencies and six municipalities, each has specific potential commodity. In 1998 there were 34,559 registered small-scale industries dealing with trading, crafting, agricultural and services (Central Bureau of Statistics, 1998). The city of Padang, as the capital city of West Sumatra province plays important roles as the centers for trade, government, education, culture and tourism. Most of the export commodities from the region are shipped from Teluk Bayur, the seaport of Padang.

In 1998, the province was inhabited by 4.2 million people with the total land area of 4.2 million km². The main economic drivers are agriculture, trade, service and tourism where small and medium enterprises play important roles. In addition, each regency and city within West Sumatra province has special products, technically called *komoditas unggulan* (potential product). These commodities

operated as the "economic drivers" of rural economy and local government provides special attention in facilitating the development of such commodities. Local government also provides various technical, financial and marketing assistances to support the growth of these potential products.

SIGNIFICANCE OF SMALL SCALE ENTERPRISES IN WEST SUMATRA

Small businesses represented 99.61% of total business units operating in West Sumatra with average annual growth of 2.59% during the period of 1995–1998. Total employment absorbed by small businesses approaching 88.8% of total labor force in West Sumatra with annual growth of 5.57%. Because of the operations of small-scale businesses are closely associated with simple technology and labor-intensive system, small businesses plays significant roles in absorbing labor forces. Characterized by the small amount of capital needed to invest in this type of business, it will attracted new entrants to start new business and creating new employment.

Total investment of small businesses amounted only 7.57% of business sectors in West Sumatra in 1998 with annual growth of 35.26%. Despite of their low contribution to regional income, small businesses are expected to grow higher in the future. This is in line with the policy of local government to promote small businesses as the top priority in the regional economic development. The active participation of West Sumatra government in the regional economic cooperation (i.e. the Indonesia Malaysia Singapore Growth Triangle or IMS-GT and the Indonesia Malaysia Thailand Growth Triangle or IMT-GT) could also be considered as the important factor to the regional trade promotion which has brought significant impact to the development of small businesses in West Sumatra.

During 1998, there are 34,559 small-scale businesses operated in manufacturing industry within West Sumatera region. The majority of these companies were involved in wood products and crafts (9,724 units), food industries (7,907 units), garment and leather industries (5,249 units), and the rest are chemical, mining, iron, paper and others.

TABLE 1
NUMBER OF COMPANIES BY FIELD OF BUSINESS

No.	Field of business	Number of business unit	Percent of total
1	Food, beverage and tobacco	7,909	22.88
2	Textile and leather	5,249	15.19
3	Wood and wood products	9,724	28.14
4	Paper and paper products	81	0.23
5	Chemical, oil, coal and rubber	4,794	13.87
6	Mining non metal	2,293	6.64
7	Metal based industry	24	0.07
8	Metal based products	1,454	4.20
9	Other manufacturing	3,033	8.78
	Total	34,559	100.00

Source: Statistical Bureau of West Sumatra.

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RESEARCH OBJECTIVES

The purpose of this study is to investigate the characteristics of small enterprises in the manufacturing sector within West Sumatra province. Characteristics of small businesses being observed in this research are categorized into four aspects, which includes business scale, financial performance, capital structure and the quality of human resources of the companies. In addition, industry competitiveness is evaluated according to profitability, sources of raw materials, market orientation and availability of skilled workers needed.

This study was conducted in 1998. The close-ended survey instrument is used to collect primary data from 350 entrepreneurs of small businesses in 17 different categories.

RESEARCH FINDINGS

This section is divided into three sub-topics: characteristics of respondents, their markets and competitiveness of their products in entering national and international markets. These information are presented in Tables 2 to 7.

TABLE 2
NUMBERS OF BUSINESSES BY INDUSTRY AND ANNUAL TURN OVER
(IN PERCENT, N = 350)

No.	Industry/product	<Rp20 m	Rp20–50 m	Rp50–100 m	Rp100–150 m	>Rp150 m
1	Cassava chips	68.8	9.4	12.5	3.1	6.3
2	Embroidery	37.8	18.4	17.3	11.2	15.3
3	Garment	18.8	43.8	6.3	6.3	25.0
4	Wood products	30.0	20.0	30.0	–	20.0
5	Coffee	8.3	16.7	8.3	–	66.7
6	Cake and bakery	61.6	15.4	7.7	7.7	7.7
7	Handicraft	70.4	20.4	3.7	3.7	1.9
8	Traditional weaving	60.0	11.4	11.4	8.6	8.6
9	Leather products	35.3	35.3	23.5	–	5.9
10	Leather processing	40.0	–	20.0	20.0	20.0
11	Fish processing	5.6	–	16.7	11.1	66.7
12	National hat	0.0	75.0	–	–	25.0
13	Rice cakes	55.6	22.2	22.2	–	–
14	Gambier processing	73.3	6.7	6.7	–	13.3
15	Patchouli oil	75.0	–	25.0	–	–
16	Fish chips	75.0	25.5	–	–	–
17	Coal products	75.0	25.0	–	–	–

TABLE 3
NUMBERS OF COMPANIES BY INDUSTRY AND CAPITAL STRUCTURES
(IN PERCENT)

No.	Industry/product	Equity < Loan	Equity = Loan	Equity > Loan
1	Cassava chips	9.4	3.1	87.5
2	Embroidery	13.3	3.1	83.7
3	Garment	–	–	100.0
4	Wood products	20.0	10.0	70.0
5	Coffee	25.0	–	75.0
6	Cake and bakery	–	7.7	92.3
7	Handicraft	16.7	1.9	81.5
8	Traditional weaving	8.6	2.9	88.6
9	Leather products	11.8	5.9	82.4
10	Leather processing	–	–	100.0
11	Fish processing	–	5.6	94.4
12	National hat	–	–	100.0
13	Rice cakes	22.2	–	77.8
14	Gambier processing	–	–	100.0
15	Patchouli oil	25.0	–	75.0
16	Fish chips	–	–	100.0
17	Coal products	–	–	100.0

TABLE 4

NUMBERS OF COMPANIES BY LEVEL OF EDUCATION AND CAPITAL STRUCTURES
(IN PERCENT)

No.	Level of education	Equity < Loan	Equity = Loan	Equity > Loan
1	Not finished elementary school	7.5	2.5	90.0
2	Finished elementary school	4.9	1.2	93.8
3	Finished junior high school	13.0	2.6	84.4
4	Finished senior high school	13.7	3.2	83.1
5	University graduates	14.3	7.1	78.6

Characteristics

With regard to business scale, this study found most of respondents are categorized into small business units with business volume less than Rp100 million per year (41.8%) and business volume less than Rp50 million (28.9%). These figures are believed as the margin of safety or critical point of survival for average small scale and family run businesses in West Sumatra.

There is a positive indication concerning the capital structure of small-scale industries in West Sumatra. As much as 86.3% of them are heavily dependent on equity capital and only few companies utilizes external financing or bank loan to support their activities. There is a strong believe among local entrepreneurs that using equity capital is ever cheaper in comparison to loan and this may become one of the obstacle when they intend to expand their business.

In regard to quality of personnel, 41.4% of the workers are high school graduates and 37.0% of the workers have lower education than high school. Companies with high portion of debt are found to have better quality of personnel with composition on: 10.5% university graduates, 44.7% high school graduates and 7.9% elementary school graduates.

Most of the products are marketed in the local markets but there is a growing interest among small entrepreneurs to enter international markets, especially to those of neighboring countries (e.g. Singapore, Malaysia, Thailand and Brunei Darussalam). The following table shows the result of field survey concerning the product distribution of small companies according to market area.

Table 5 shows that embroidery, gambier and coal products are already enter the international markets. In accordance, most of products of small-scale industries have extended their market beyond their original operating location. This could be an indicator that most of entrepreneurs are already aware with the importance of outside market for expansion of their traditionally local products.

This survey also indicated that there is a strong intention of local entrepreneurs to go to international market. This intention is also supported by the existence of special economic cooperation among neighboring ASEAN countries (i.e. sub-regional economic cooperation) such as IMS-GT and IMT-GT. Significant figures are shown in Table 6, especially for gambier (100%), coal products (100%), textiles such as traditional weaving (91.4%), embroidery (95.9%), and national hat (75%).

TABLE 5
NUMBERS OF RESPONDENTS BY INDUSTRY AND MARKET COVERAGE
(IN PERCENT, N = 350)

No.	Industry/product	Within regency	Within province	Outside province	Regional Sumatra	International
1	Cassava chips	59.4	28.1	6.3	6.3	–
2	Embroidery	14.3	48.0	5.1	18.4	14.3
3	Garment	6.3	6.3	87.5	–	–
4	Wood products	40.0	20.0	–	40.0	–
5	Coffee	33.3	25.0	25.0	16.7	–
6	Cake and bakery	30.8	69.2	–	–	–
7	Handicraft	22.2	48.1	18.5	9.3	–
8	Traditional weaving	5.7	37.1	17.1	40.1	–
9	Leather products	17.6	58.8	17.6	5.9	–
10	Leather processing	20.0	80.0	–	–	–
11	Fish processing	11.1	66.7	11.1	11.1	–
12	National hat	25.0	50.0	–	25.0	–
13	Rice cakes	33.3	55.6	11.1	–	–
14	Gambier processing	93.3	–	–	–	6.7
15	Patchouli oil	100.0	–	–	–	–
16	Fish chips	50.0	25.0	25.0	–	–
17	Coal products	–	50.0	–	25.0	25.0

TABLE 6
EXPORT INTENSITY BY INDUSTRY (IN PERCENT)

No.	Industry/product	Export market	Domestic market
1	Cassava chips	46.9	53.1
2	Embroidery	95.9	4.1
3	Garment	50.0	50.0
4	Wood products	60.0	40.0
5	Coffee	50.0	50.0
6	Cake and bakery	23.1	76.9
7	Handicraft	70.4	29.6
8	Traditional weaving	91.4	8.6
9	Leather products	23.5	76.5
10	Leather processing	20.0	80.0
11	Fish processing	5.6	94.4
12	National hat	75.0	25.0
13	Rice cakes	55.6	44.5
14	Gambier processing	100.0	0.0
15	Patchouli oil	50.0	50.0
16	Fish chips	0.0	100.0
17	Coal products	100.0	0.0

Profitability

Table 7 shows the distribution of respondents based on their financial performance. The majority of the respondents (92.3%) stated that their businesses were in profitable conditions, while less than 10% of the companies operates around the break-even point.

TABLE 7
PROFITABILITY BY INDUSTRY (IN PERCENT)

No.	Industry/product	Highly profitable	Profitable	Fluctuate profitability	Not profitable
1	Cassava chips	15.6	68.8	12.5	3.1
2	Embroidery	17.3	56.1	19.4	7.1
3	Garment	6.3	75.0	18.8	–
4	Wood products	40.0	60.0	–	–
5	Coffee	25.0	66.7	8.3	–
6	Cake and bakery	–	53.8	30.8	15.4
7	Handicraft	20.4	63.0	16.7	–
8	Traditional weaving	22.9	31.4	11.4	34.3
9	Leather products	17.6	47.1	11.8	23.5
10	Leather processing	–	60.0	40.0	–
11	Fish processing	–	72.2	27.8	–
12	National hat	50.0	50.0	–	–
13	Rice cakes	–	100.0	–	–
14	Gambier processing	26.7	73.3	–	–
15	Patchouli oil	–	75.0	–	25.0
16	Fish chips	25.0	50.0	25.0	–
17	Coal products	25.0	75.0	–	–

Industry competitiveness

Previous discussion suggests that small-scale industries in West Sumatra have bright economic prospects in the future. Most of the companies are operating in profitable conditions so that they can sustain their businesses and some of them have started to access international market. Relatively well-educated personnel with high sense of entrepreneurship manage the companies and the needs of skilled workers can be fulfilled from local sources. Most of small companies are highly competitive due to the extremely high motivation of the owner-manager to expand their business once they perceived there are opportunities available.

The competitiveness of this industry is also supported by the fact that most of the industries have local sources of raw materials. Most of the companies in the sample (91.4%) procured their materials within the province, while only 7.7% of them are from out side of province and only 0.9% are imported. This is also becoming an argumentation of the ability of small-scale industries to sustain during the economic crisis where they can perform higher survival rate than those of large-scale industries with high import contents in their production process.

CONCLUSION AND RECOMMENDATION

Small businesses play significant roles in economic development of West Sumatra province. This industry requires low investment but can absorb high employment rate. Small businesses in West Sumatra are also competitive due to high motivation of the so-called "owner-manager" to ever expand their businesses. Although most of small companies were initially established for local market, but there is a strong intention of the entrepreneurs to expand their venture to foreign markets. From these findings, it is suggested that the government should provide sufficient supports to promote the development of small businesses in West Sumatra. The development of small businesses will also bring positive impact not only to the employment but also other aspects such as income distribution and social stability within the region.

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