



ICBE 2019

INTERNATIONAL CONFERENCE ON BUSINESS AND ECONOMY

THEME:

Creating, Managing, and Distributing Wealth: Fulfilling the ASEAN Economic Community (AEC) Goals

- Management of Technology and Innovation
- Resource Management and Sustainable Development
- Entrepreneurship
- Accounting, Business Law, Economics, and Finance
- Governance and Corporate Social Responsibility
- ASEAN Economic Community: Challenges and Prospects

13-14 March 2019
Semarang, Indonesia



Adjustment of Jepara Industrial Furniture Business for Business Stability

Angelina Ika Rahutami, Widuri Kurniasari, Chatarina Yekti Prawihatmi

College of Economics and Business, Soegijapranata Catholic University, Semarang, Indonesia

Abstract

Furniture industry in Jepara is a strategic industry both for local and national economy. Furniture industry in Jepara is uniquely known for its carving. This research is aimed to conduct a mapping of furniture industry condition in Jepara. In addition, this research also conducts an investigation of how furniture industry in Jepara performs its online and external business adjustment. The research has been conducted in Jepara district, Central Java. The sample collected from micro small medium enterprises (MSMEs) in the furniture field. The research used primary data collected through questionnaires and in-depth interviews. The key informants of this research are policy makers, such as Head of the Industrial Board, Head of the Trade Board, and Head of Cooperative and MSMEs, Head of furniture association at the provincial level of Central Java and Jepara District, and 5 players of furniture industry in Jepara. The variables observed in this study are: business competition, management priority, performance and innovation. In facing globalization, furniture industry in Jepara conducts some adjustments internally and externally. All industry players attempt to behave adaptively toward business development and competition by doing design innovation continuously. Furniture industry businessmen also motivate their employees to be creative and innovative. Externally, local government constantly supports the existence and competitiveness of the industry by providing facility for promotion and exhibition both national and international level. Business strategies that can be applied are improving product durability and design variation. This needs to be done because of market demands that move fast in terms of designs and seasonal fluctuation in furniture production itself.

Keywords: furniture industry, small and medium enterprises, adjustments, creative, innovative.

©2019 The Authors. Published by Center for Entrepreneurship and Lifelong Learning of the School of Business and Economics, University of San Carlos, Cebu, Philippines.

*corresponding author e-mail: yekti@unika.ac.id

ADJUSTMENT OF JEPARA INDUSTRIAL FURNITURE BUSINESS FOR BUSINESS SUSTAINABILITY

Angelina Ika Rahutami¹

Widuri Kurniasari²

Chatarina Yekti Prawihatmi³

MG. Westri Kekalih⁴

1,2,3,4 Soegijapranata Catholic University

yekti@unika.ac.id

Abstract

Furniture industry in Jepara is a strategic industry both for local or national economy. Furniture industry in Jepara is uniquely well known for its carving. This research is aimed to conduct a mapping of furniture industry condition in Jepara. In addition, this research also conducts an investigation of how furniture industry in Jepara performs its online and external business adjustment. The research has been conducted in Jepara district, Central Java. The sample collected from Small and Medium Enterprises (UKM) in furniture field. The research used primary data collected through questionnaires and in-depth interviews. The key informants for this research are: policy makers, such as Head of the Industrial Board, head of the Trade Board, and Head of Cooperative and Small Micro Medium Enterprises (UMKM), head of furniture association at the provincial level of Central Java and Jepara District and 5 major players of furniture industry in Jepara. The variables observed in this study are; business competition, management priority, performance and innovation. In facing globalization, furniture industry in Jepara conducts some adjustments internally and externally. All industry players attempt to behave adaptively toward business development and competition by doing design innovation continuously. Furniture industry businessmen also motivate their employees to be creative and innovative. Externally, local government constantly supports the existence and competitiveness of the industry by providing facility for promotion and exhibition both national and international. Business strategies that can be applied are improving product durability and design variation. These need to be done because of market demands that move fast in designs and seasonal fluctuation in furniture production itself.

Keywords: furniture industry, Small and Medium Enterprises, adjustments, creative, innovative

Introduction

Furniture Industry becomes one of priority industries in Indonesia. It generates a highly qualified products and has global competitiveness. It also becomes a source of foreign exchange. Furniture industry significantly absorbs human resources and it is supported by raw material resources, such as wood, rattan, and bamboo. Furniture industry shows a big contribution in developments of economy and empowerment since it has various interesting products.

Jepara becomes the center of furniture industry in Indonesia. Furniture industry in Jepara is uniquely well known for its carving. It is one of intellectual treasures of local wisdom that has improved the value added of products of furniture industry and wood craft, not only in Jepara Region but also in Central Java Province and Indonesia. Based on the Statistics report of Jepara district in 2016, there were 5.993 furniture business units. They were able to absorb 77.187 human resources. The furniture industry in Jepara district gave dominant contribution in non oil and gas export.

In the first quarter of 2016, the export value of Jepara furniture was 46,26 US million dollar with the volume of exported goods reached 12,6 million kilograms. That condition was different with the one in the same period last year. The export value in the first quarter of 2015 was 41,82 US million dollar with the volume of exported goods reached 10,89 million kilograms. The number of exporters in the period of January to March 2016 was 247 exporters, while there were 206 exporters in the same period last year.

Based on data from Investment Agency and One-stop Permit Services Board (BPMPT) in Jepara, the number of foreign investors who invest their investments in wood processing industry in 2015 had reached 11 investors. Their investment value was Rp158,69 billion. In 2014, there were more foreign investors who invested their investment in Jepara District. It reached 19 investors with the investment value of Rp 266,5 billion. Several parties consider that the enforcement of Certificate of Timber Legality Verification System (SVLK) has contributed in elevating the export value of Jepara furniture industry since timber legality regulation is applied by only certain countries.

Behind the splendor of furniture industry in Jepara district, there are many classical and new problems that are resulted from technology development. The difficulty of getting the raw materials that are recently brought in from outside Jepara and their expensive price have become classical problems. Timber needs to be brought in from outside Java island so that it costs high production fee. The other problem is that it is difficult to find employees, both carpenters and sandpaper workers. Nowadays, along with the rise of industrial investment climate in Jepara, many workers prefer to work in factory because the salary is higher. Many new factories are established in Jepara recently.

Lately, the number of the doer of home industry furniture business has reduced. One of the causes is that he/she changes in becoming an exporter, a business person who uses his/her mobile phone as a capital. Now, there are many furniture businessmen who sell their products online. They do not need to produce the furniture. By using online selling method, they only need to know the market prices, have photos of the products and sell them online. The products they sell are not their own products.

It is shown that Jepara experiences a decline in production, design and competition in furniture market of ASEAN and the world. Problems in market network, capital, production, and craftsman's welfare become the major propositions in Jepara.

This research is aimed to conduct a mapping of furniture industry condition in Jepara. In addition, this research also conducts an investigation of how furniture industry in Jepara performs its online and external business adjustment.

Study of related literatures

The condition of industry in Jepara, as reviewed by Berry, Albert, Edgard Rodriguez, and Henry Sandee (2001) discussed about the cluster role and subcontract as factors in the evolution of small and middle enterprises in Indonesia for the last quarter century. This research has found that 50% of furniture export is dominated by 10 big companies where foreign investors donate 25% of the total of export. The players of small business are able to penetrate export market through buyer driven of trading network (wood furniture crafting) and brokers, agents, and sellers functioned as intermediary between international buyers and small scale producers.

The research conducted by Loebis, Lienda, Hubert Schmitz (2005) discussed whether furniture craftsmen in Central Java are able to survive or not in international market. From the results of their research, it can be determined that the company and workers in fact obtain their earnings from productions of products sold to international markets. However, they do not get sustainable profit since the export viability depends on woods as the raw materials that are obtained illegally. Furthermore, the number of those raw materials are running low. On the other hand, according to Zainuri, Muhammad, Waridin, Purbayu B, and Santoso I (2012), the ones who did the research on the condition of furniture in Jepara through the analysis of Structure Conduct Performance, the results showed that the furniture industry in Jepara had monopolistic competition. The market behaviors that are experienced by the market players, especially small and middle industries are quite weak. Large scale industry is considered to have good performance. The level of competition in small and middle industries is relatively low, while small scale industries have higher level of competition. From the results of this research, it can be shown that the arrangement of production and distribution strategies needs to be prioritized in small and middle industries.

Methodology

The research was conducted in Jepara district, Central Java. The sample has been collected from Small and Medium Enterprises (UKM) in furniture field. This research used the purposive random sampling. The primary data has been collected through questionnaires and in-depth interviews. The key informants for this research who will be interviewed thoroughly are:

1. Policy makers, such as Head of the Industrial Board, Head of the Trade Board, and Head of Cooperative and Small Micro Medium Enterprises (UMKM).
2. Head of furniture association at the provincial level of Central Java and Jepara District.
3. 5 major players of furniture industry in Jepara.

Variables used in this research are :

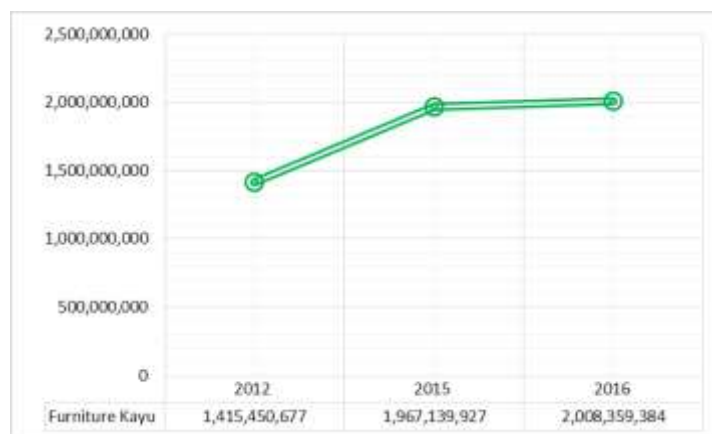
1. Business competition. Several approaches of business competition in furniture industry will be applied to determine how important the condition of business competition as a consideration in business development is. These approaches are the conditions or product qualities, post-sale service, fee and price, and production time and shipping.
2. Management Priority. Measuring the scale of interest of respondents for several major things, such as things related with products, production, cost of goods produced, and product selling.
3. Performance. The performance of managers and production supervisors will particularly be measured during production process.
4. Inovasion. Measuring the inovasion of importance level for business development, both in measuring inovasion of subordinates in soliciting new production ideas and measuring inovasion for the company's importance in general, for example matters related with production and marketing fees.

The analysis method used in this research is a descriptive research to make a profile of furniture industry in Jepara. The data will be described comprehensively. This research will also consider some related policies. The search of the policy will be beneficial in making the decisions of strategic steps of development which can be conducted by furniture industry in Jepara.

The Profile of Furniture Industry in Jepara

The development of the number and volume of business unit and production of furniture industry in Jepara shows that the trend in the number of Middle Small Industry (IKM) and production volume has risen from year to year. However, there is an indication that there was a fall of the number of IKM from 2015 to 2016 even though the production volume increased. Based on the whole industrial data in Jepara, wood furniture industry has the most number of IKM. In 2012, there were 4,104 IKM units. It accelerated to be 5,993 IKM units or 43,03%. However, if it is compared to the number of IKM units in 2016, there was an downward of the number of IKM units. There were 5,870 units or 2,05%. Meanwhile, the production volume had increased from

2,948,824 pieces in 2012 to be 4,098,164 pieces in 2016. It increased for 41,89% in 2012 to 2015 and increased for 2,10% in 2015 to 2016.



Source: Central Statistics Body, processed data

Figure of Production Value Development of Wood Furniture Industry in Jepara District

Overall, from 2012 to 2016, the number of IKM in Jepara experienced an increase. The number of IKM in 2012 was 9,959 business units. It became 19,340 business units in 2015. In 2016, it decreased to 18,695 business units. From various IKM growing in Jepara District, the data shows that the number of business unit of wood furniture becomes a dominant industry with the data as follows: 4.104 units out of 9.959 units of IKM in 2012; 5.993 units out of 19,340 units of IKM in 2015 and 5.870 IKM units out of 18.695 IKM units in 2016 . viewed from the work force absorption, furniture industry successfully absorbed 54.000 people in 2012. In 2015, the number increased into 77.187 people. It rapidly rose into 75.603 people in 2016. The value of furniture IKM shows that there was an increase of production value from Rp 1.415.450.677 thousand (2012) into Rp1.967.139.927 thousand (2015) and it increased again into Rp 2.008.359.384 thousand in 2016. The orientation of furniture IKM in Jepara fulfills domestic needs and export oriented.

Based on the previous description, it can be seen that wood furniture industry has an important role in economy, such as its role in goods availability, production values, and work force absorption and export foreign exchange. Furniture IKM has a contribution of furniture for 52,13% out of all IKM in Jepara with the portion of work force absorption of 33,27% and the contribution

value of 49,54%. 49,60% of the exporter number in Jepara become furniture IKM and show export contribution of 82,51%.

There are 30 respondents as the sample in this research. They are companies in furniture industry in Jepara District. The respondent detail description of single ownership is in the following table. 77% of the samples (it means most of the respondents), with company's legal status of single ownership, is owned by men, not women. The latest education level of those business owners are high school graduates (38%), and under graduates (35%).

In production process, not all production processes are conducted by the companies. There usually are companies which use sub-contractors or not in production process. Based on the questionnaires, the data shows that 17% of IKM use sub-contractor system and the remaining 83% do not. It is shown that 60% of respondents stated that they uses sub-contractors for peak works, while 20% of them stated that they used sub-contractors when they need them, and the remaining 20% stated that they always used sub-contractors. Based on sex, 61% of the sub-contractors were men and 39% of them were women. Sub-contraction is conducted in the same area (60%) and the remaining percentage were from Jepara or Central Java.

Some IKM have separated offices and factories. The following information is the condition of offices and factories of furniture IKM. From the ownership, 97% of offices and 86% of factories are private property. The location of most offices and factories is in housing areas, not in commercial ones.

Considered from the raw materials, 89% of furniture products use local raw materials, while the remaining percentage use imported ones. The following table shows the resulted products. In average, tables and chairs are the most products made. The number of products produced is also in fluctuation. It depends on high and low seasons of order. The high season of order usually happens in the beginning of the year and seasonal change for export products.

Viewed from marketing performance, furniture product is one of strategic commodities for the economy in Indonesia. Several criteria that make furniture industry as strategic commodities are because furniture product has high additional value and it is globally competitive. Furniture product from Jepara is quite famous. It has given significant contribution for local, regional, or national economy.

The export value of furniture in Jepara District in 2017 decreased for 13%. The export of furniture products until the end of last year was USD 166,8 million. In the previous year, export value reached USD 174,1 million. A decrease of export value was followed by a decrease of the number of export destination country. In 2016, there were 113 destination countries for export. The number decreased to 111 export destination countries in 2017. However, it is inversely proportional to the number of exporters in Jepara. The value and the number of export destination country decreased, but the number of exporters increased.

One of the causes of export value decrease is because some businessmen prefer to strengthen domestic markets. This is along with the weakening of purchasing power of importing countries. Some European countries experience a downward of export value. United States is the only country that experience an increase of export value from Jepara. Furniture businessmen depend on the economy condition of importing countries. United States is quite stable and tends to increase. However, European and East Asia countries tend to decrease.

Discussion: Business Adjustment and Business Sustainability Strategy

This research digs up business sustainability process conducted by furniture industry in Jepara it will eventually be used as business sustainability strategies. Based on discussion and questionnaire, it can be seen that furniture industry moves rapidly, faces tight competition, and has challenges in design, environmental problem, and marketing. There are some adjustments to face business world that moves fast so that furniture IKM able to survive and develop.

Furniture companies in Jepara are quite adaptive in updating technology development to develop their products. It is proven that 58,82% of furniture companies in Jepara make websites to promote their furniture products. Promotion through website has more interesting advantages. It can be accessed easily, it has cheap fee, and interactive.

Table of Conducted Promotion

Promotion Activity	Frequency	Percentage (%)
Website	20	58,82
Brochure	8	23,53
Exhibition	6	17,64
	34	100,00

Source: Questionnaire, processed data

Recently, marketing orientation of furniture companies in Jepara is no longer aggressive to export markets. They consider the fact that export market is full of competitors from Tiongkok and Vietnam. Producers of Jepara furniture then shift their orientation to domestic market along with the increasing of middle income amount in Indonesia. From all respondents, only 33,25% of furniture companies oriented in export, while the remaining percentage orientate to domestic market. The main destinations of export are ASEAN, Middle East, Australia, and Europe. Jepara furniture companies oriented in local markets only cover district and inter-island markets.

Table of Marketing Orientation

Marketing Orientation	Destination
Export	ASEAN, Middle East, Australia, Europe, Arab and others
Domestic	Local – inter-island in Indonesia

Source: Questionnaire, processed data

Marketing channels of furniture product marketing in Jepara are short because majority of products is sold in own shops. Furniture companies in Jepara usually own showrooms to display their furniture product collection. Periodically, the products displayed in the showrooms are replaced with new design products. Product innovation becomes one of successful keys for furniture industry in Jepara.

Table of Marketing Channels

Marketing Channels	Total Percentage	
Department		
Stores	1	2,85
Boutiques	1	2,85
Own Stores	21	60,00
Sellers	6	17,14
Contractors		
Direct Selling	6	17,14

Source: Questionnaire, processed data

Potential of furniture market in Jepara is still very high in the future. There are many things to do to seriously develop furniture products in Jepara. Domestic market for furniture industry will continuously increase. Data show that requests for domestic furniture products keep increasing because of developments of housing and property, markets for companies, governmental institutions, hotels, State-Owned Enterprise (BUMN), and hundreds of Local-Government-Owned Enterprises (BUMD).

In identifying the strategy to guarantee business continuity, questionnaires are used to determine importance levels of several indicators of business continuity strategy. The following table indicates manager performance using levels of very unimportant to very important. Most of managers (40%) determine that it is very important for managers to be able to adjust the capacity rapidly. Whereas, there are 3% of them who consider it unimportant. Most of managers also have perception that it is important (50%) to very important (17%) that a manager should be able to change the design of the products even after the production process starts. It is important, even very important, for a manager to be able to reduce the total inventory and production time.

It is clearly shown in the table about the competency qualification needed for managers in furniture industry. Because production has become an important thing for business continuity, a manager should be able to manage things related to design, supplies, production processes, and processing time well and carefully.

Table of Managerial Performance

Notes	1	2	3	4	5	6	7	total
The ability of managers to adjust the capacity rapidly.			1	3	5	9	12	30
	0%	0%	3%	10%	17%	30%	40%	100%
The ability of managers in changing the product designs after the production starts.			1	4	5	15	5	30
	0%	0%	3%	13%	17%	50%	17%	100%
The reduction of supplies			1	1	8	17	3	30
	0%	0%	3%	3%	27%	57%	10%	100%
The reduction of production time.				5	8	9	8	30
	0%	0%	0%	17%	27%	30%	27%	100%

Source: Questionnaire, processed data

Here is how employers evaluate the behaviors of their employees related to their working innovation. Most respondents evaluate their employees using the scales of important to very important when they are motivated in searching new things (ideas, technology, process), bringing up creative ideas, giving ideas to other people, securing funds, and developing plans to implement new ideas. Most respondents also evaluate that their employees are innovative.

4.16. Innovation

Notes	1	2	3	4	5	6	7	Total
Enthusiastically looking for new technologies, new processes, new techniques, and/or new ideas regarding to the products.				1	4	12	13	30
	0%	0%	0%	3%	13%	40%	43%	100%
Often bringing up creative ideas.			1	5	19	5	30	
	0%	0%	0%	3%	17%	63%	17%	100%
Promoting and giving ideas to other people.				3	7	15	5	30
	0%	0%	0%	10%	23%	50%	17%	100%
Securing funds needed to implement ideas.			3	3	13	11	30	
	0%	0%	0%	10%	10%	43%	37%	100%
Developing suffice plans and scheduling to implement new ideas.				1	5	15	9	30
	0%	0%	0%	3%	17%	50%	30%	100%
Your employees are innovative.				3	12	12	3	30
	0%	0%	0%	10%	40%	40%	10%	100%

Source : Questionnaire, processed data

Based on the results of the survey to 30 respondents, it can be seen that the business competition side is an important thing to be concerned in the future, both to maintain markets and expand markets. Only 47% of respondents stated that the high quality of products is very important. They stated that the durability of products is the most important (60% respondents). In the question of product reliability, from the scale of 1 to 7, it can be seen that the product reliability is important. The interesting part is about the accuracy in handling customers' complaints. There are 3% of respondents who consider that handling customers' complaints is not a major thing, even though there are 53% of respondents stated otherwise. Feature variation or furniture design are also important for them. Considering this condition, it can be seen that business competition has become an aspect to be noticed. Business strategy that can be applied is by improving products durability and product design variation.

Table of Business Competition

Notes	1	2	3	4	5	6	7
High quality of products						16	14
						53%	47%
High durability of products					2	10	18
					7%	33%	60%
High reliability of products					5	13	12
					17%	43%	40%
Convenience in product service (fee and time)					5	11	14
					17%	37%	47%
Accuracy in handling customers' complaints				1	4	9	16
				3%	13%	30%	53%
Short period of delivery				1	4	16	9
				3%	13%	53%	30%
Delivery on the due date (on time)				2	6	8	14
				7%	20%	27%	47%
Variation of product features				4	18	8	
					13%	60%	27%

Source: Questionnaire, processed data

The last question in the questionnaire is about management priority. In management priority, it can be seen that reduction of production period and reduction of supply are not options to choose by furniture IKM. The most important strategy is still related to products, they are

introduction of new designs and fast and precise adjustment of product capacity. It is conducted due to market demands that move fast in designs and seasonal fluctuation in furniture production itself.

Table of Management Priority

Notes	1	2	3	4	5	6	7
Cost of products sold (fee)				1	3	15	11
				3%	10%	50%	37%
Productivity of employees				2	1	17	10
				7%	3%	57%	33%
Capacity Usage					4	14	12
					13%	47%	40%
Suitability of final products to design specification				1	3	13	13
				3%	10%	43%	43%
Ability of introducing new products rapidly to production team					2	18	10
					7%	60%	33%
Ability in adjusting capacity quickly and in a short notice					5	18	7
					17%	60%	23%
Ability in changing product design after production starts				1	8	15	6
				3%	27%	50%	20%
Reduction of supplies			1	3	11	13	2
			3%	10%	37%	43%	7%
Reduction of production period			1	3	7	10	9
			3%	10%	23%	33%	30%

Source: Questionnaire, processed data

Conclusion

Furniture industry in Jepara is a strategic industry both for local or national economy. In facing globalization, furniture industry in Jepara conducts some adjustments internally and externally. All industry players attempt to behave adaptively toward business development and competition by doing design innovation continuously. Furniture industry businessmen also motivate their employees to be creative and innovative. Externally, local government constantly supports the existence and competitiveness of the industry by providing facility for promotion and

exhibition both national and international. Business strategies that can be applied are improving product durability and design variation. These need to be done because of market demands that move fast in designs and seasonal fluctuation in furniture production itself.

BIBLIOGRAPHY

Berry, Albert, Edgard Rodriguez, and Henry Sandee . 2002. Firm and Group Dynamics in the Small and Medium Enterprise Sector in Indonesia. *Small Business Economics* February, Volume 18, Issue 1–3, pp 141–161

Loebis, Lienda, Hubert Schmitz .2004 . Java furniture makers: winners or losers from globalization? *Economics and Finance in Indonesia* vol. 52, 279-308

Pabuayon , Isabelita M., Merlyn N. Rivera, Leina H. Espanto. 1998. The Philippine rattan sector : a case study of the production-to-consumption systems. *International Network for Bamboo and Rattan*.

Zainuri , Muhammad, Waridin, Purbayu B, . Santoso, Indah Susilowati. 2012. The Performance and Prospect of Small Medium Enterprises of Furniture Industry in Jepara Regency, Central Java, Indonesia. *International Proceedings of Economics Development & Research*, Vol. 46, p101

Zos , Victoria . Local Cooperation and Upgrading in Response to Globalization: The Case Of Cebu’s Furniture Industry. dlsu.edu.ph

-----,. 2017. Kabupaten Jepara dalam Angka