

The Development Model of Small and Medium Enterprises in Textile Sector (Batik, Weaving and Embroidery) with Triple Helix in Medan

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Abstract *This research is focusing to the identification of the condition and problems of small and medium enterprises (SMEs) textile sector consist batik, woven and embroidery SME in Medan to face the ASEAN Economics Community (AEC), and is giving solution to the problems that they have to approach AEC. This research use qualitative methods. The sample is selected by purposive sampling and snowball sampling. The numbers of informant are 10 people. Data Analysis was performed by Triple Helix models. The results show that the main causes for the inability of Batik SMEs to compete in Medan are laborer, entrepreneur, networking and market penetration, government support, production and consumers. Synergy could be done among academicians, businessmen (SME) and government. Synergy is conducted as a strategy and concrete steps of comprehensive development of SME.*

Key words Development, competitive advantage strategy, small and medium enterprises, ASEAN economics community

JEL Codes: L32

1. Introduction

ASEAN Economic Community (AEC) is the most potential form of economic integration in South East Asia region and worldwide. The establishment of AEC is corresponding with ASEAN 2020 vision. To realize AEC 2015, all of the ASEAN registered countries have to liberate their approach in goods trading, services, investment, skilled labor exchange, and free flow of capital. Therefore, ASEAN countries must execute the economic policy according to open economics, think toward, inclusive, and market oriented.

AEC is the shape of the ASEAN countries dealing to form a free market to increase the economic competition in the ASEAN countries by making it becomes a base of world production and creating a regional market for around 500 million of their population (Wangke, 2014). The enforcement of 2015 AEC leads ASEAN purpose to create a single market and stability of production base, welfare, highly competitive, and an effective integrated economically market and a stable production base with effective

regulation for trading and investment which accompanied with free trade traffic of goods, services, investment, capital, and also facilitated with free movement of enterpriser and labor. This implementation will be focusing on 12 priority sectors, which consists of seven goods sector (agricultural, electronics, automotive, fisheries, rubber-based, wood-based, and textile industries) and five service sector (air transportation, healthcare, tourism, logistic, and IT industries).

The increasing of trade flow in goods and services along with AEC approaching in 2015 will bring a change to each of the participating countries (Nasution, 2013). AEC is a big opportunity to Indonesian, especially in enterprise sector, such as small and medium enterprises (SMES), as one of the economic supporter. Therefore the synergy of government and stakeholders in this sector will be needed. AEC is a light, chances and challenges to SMES in Indonesia. They must contend by widening market range and getting more profit. It is a chance because SMES products will get their market in AEC effective area, and become a challenge caused by the competition of other countries products approach if they're not ready. The biggest challenge in 2015 AEC is how to enforce the SMES for being more competitive in their own and other countries, also having an advantage and competitive factor. Urata (2000) has observed the development of small enterprises in Indonesia, and stated that small enterprises is taking an important part, such as: (1) Small enterprises is a main actor of Indonesian economic act, (2) Job provider, (3) Taking an important role in local economy and society growth, (4) Market creator and innovation by flexibility and dynamical sensitivity with their connection with several companies, (5) Giving contribution to non-fuel export. Approaching the realization of 2015 AEC, SMES need to have a continuous competing strategy to survive. They must fully prepare and increase their competitive factor. The competitive factor is a force to defend their market share and it gives a significant influence toward the company productivity and widening the market access. It will be affecting the increase of total revenue and company profitability. The indicators that can be used to measure the competitive factors are the measurement of output volume and value, product innovation, market share, gross selling value, quality of the product, profit, average education of the laborers and enterpriser, the amount of standardized certification that they have, the amount of patent that they bought, standardization, the used technology, marketing, production, productivity or efficiency, machine value and production equipment or asset value, amount of advertising, and work networking or co-operation with other party (Megasari, 2014). One of the SMES sectors in Medan that is improving at this time is textile industries. This sector is the most promising in the future of economic growth in the city. It can be seen by the amount of SMES enterprises that focusing on embroidery, weaving, north Sumatra batik, and etc, They have competitiveness and superiority.

According to Pusparini (2011), industrial development in embroidery sub-sector and weaving in west Sumatra shows an increasing of the enterprises unit and labor each year. SWOT analysis technique shows that the position index of embroidery is in the first quadrant which is the quadrant that maximally utilizes the strenght to get the opportunity given. The golden thread embroidery is positioned in first quadrant too. Weaving index position with non-machine weaving equipment is located in third quadrant, which is the quadrant that gives a developing strategy by combining a weakness element with the available opportunity. Modern weaving industries with machine weaving equipment are also located in first quadrant accompanied with embroidery and golden-thread embroidery.

According to Ramadhini and Sari (2012), textile sector is developing well, especially in north Sumatra batik industries. The local empowerment and the typical and unique motif of north Sumatra batik can become a top product to seize the wider market and also it is the chance that can be grabbed to improve the development of north Sumatra batik. It has a potential to be improved because it can conserve and use local culture as well as become an alternative choice of national batik. The problem of batik industry growth in north Sumatra is to find raw material supplies, limitation of human resources and the competition with Javanese batik. The development could be done by improving the production and marketing management, also by intensively doing the cooperation with other involved institution. This will be a challenge in developing north Sumatra batik industries. This research is focusing to the identification of the condition and problems of SMES textile sector in Medan to face the AEC, and is giving solution to the problems that they have to approach AEC.

2. Literature review

There are several definitions of small enterprises, but most of them give similar characteristics. Firstly, the work share between the administration and operation can't be known clearly. Most of small industries are managed by individual that act as owner and company director, and also they recruit labors from their family. Secondly, there are low access between small industries and financial institutions, therefore they tend to use their own capital or find it from another sources, i.e. family and moneylenders. Thirdly, most of the small enterprises have no legal law status (Hindasah, 2011).

According to Demirbag *et al.*, (2006), the success of small and medium enterprises has a direct impact to economic growth for developed and developing countries. They have an ability to provide a job with minimal cost, and pioneer in the world of innovation, also have high flexibility that allows the enterprises to fulfill the demand of the customers (Brock and Evans, 1986; ACS and Audretsch, 1990). Competitive factor is an ability to defend the market share. It gives significant influences to the increasing of company productivity and widening the market share, therefore it will increase the gross selling

and company profitability. The indicators that can be used to measure the factor are, output value and volume growth, product innovation, market share, gross selling values, quality of the product, profit, average education level of the labors and owner, the amount of the standardization certificate obtained and bought patent, standardization, technology used in production, marketing, production, productivity and efficiency, value and production equipment or asset value, promotion, and working network or cooperation with other company (Megasari, 2014).

ASEAN Economics Community (AEC) is founded to increase the stability of ASEAN registered countries economy which desired to solve the problems between ASEAN countries; therefore it can form a region that gives free flow of goods, services, investment, skilled labor and capital. AEC is a final economic integration that based on the needs of ASEAN registered countries and make the ASEAN as single market and production base, so it can become more dynamics and competitive. The application of that economic integration is based on the AEC blueprint. It act as tutorial to ASEAN countries to form 2015 AEC. To realize it, all of the ASEAN registered countries have to liberate their trade in goods, services, investment, skilled labor and free flow of capital. It is the form of the most potential economic integration in the south East Asia region even in the world. With the application of AEC, goods, services, capital, and dealt investment will move freely in this region. It is formed to prosper all of ASEAN registered countries; therefore they can face the competition in regional or global level (Nasution, 2013). It will create single market and stable base production, welfare, highly competitive, and integrate economically with effective regulation for trade and investment, which consist of free goods, services, investment, and capital trade traffic flow and facilitate by the liberation of the movement of enterpriser and laborer.

2015 AEC implementation will be focusing on 12 priority sectors, consist of seven goods sector (Agricultural industries, electronic devices, automotive, fishery, rubber-based industries, wood-based industries, and textile) and five service sectors (Air transportation, healthcare, tourism, logistic, and information technology industries or e-ASEAN). The biggest challenge to face 2015 AEC is how to enforce the SMES to compete in their own country or with other countries and has superiority and competitiveness. To the approaching of 2015 AEC implementation, SMES need to have continuous superior competitive strategy to compete in business. SMES have to fully prepare and increase their competitiveness. The first thing that Indonesia government needs to do to face the free goods trade of ASEAN is increasing the local product competitiveness and with the huge population of Indonesia, it will affect the market of a kind product in neighbor country. The increasing of the competitiveness is covering superior or non-superior product (Wangke, 2014; Gaban, 2015). By giving the awareness to production, marketing, profit and gross selling values, networking and cooperation and human resource competency, it can gives the identification of

improving condition and problems that will be faced by textile sector SMES, especially in batik, weaving and embroidery and enterprises in Medan. Based on this condition, the continuous competing strategy will be made, so textile sector SMES in Medan will be ready to embrace AEC. The Relation of SMEs (Business), Government and Academician as a follow:

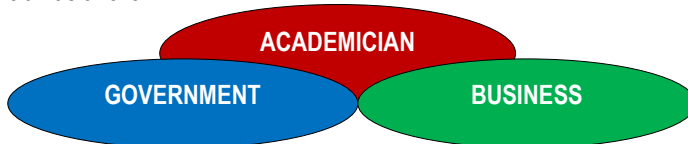


Figure 1. Triple Helix Concept

Triple Helix theory reveals the importance of creating synergy of three poles which are academic, business, and government or known as the A-B-G concept. The purpose of the ABG concept is the sustainable economic development based on knowledge. From this synergy, it is expected that the circulation of the knowledge that leads to innovation would occur (Etzkowitz and Leydersdorff, in Sulastrri and Dilastrri, 2015). The academic has three roles those are; firstly, the education to encourage the occurrence of the creative Indonesian young generations. Secondly, research is conducted in order to suggest insights on the types of policy. *The development of SME and the instruments are required in producing the technology that supports the work method and efficient utilization of resources.* Thirdly, the role of community service is conducted to form the citizens with the social order that supports the development of SME. The role of business is the businessman, investor and the creation of new technology. Business works as the creator of products and employment. Business is also as the founder of community and creative entrepreneur. The role of the government in the development of SME is in form of government's commitment to use its political power proportionally by giving favorable public administration service, financial support, as well as protection.

3. Methodology of research

This research is using a qualitative research and it will be focusing on textile sector SMEs such as batik enterprises, embroidery, and weaving in Medan. The information and data collected is about the continuous competing strategy for textile SMEs in Medan to face AEC and obtained from several textile SMEs in Medan. The data collection technique used in this research is by doing the interview, observation, and

documentation from primary data resources. This research is involving 10 SMEs enterprisers that became the interviewees.

The sampling method uses is non-probability sampling and purposive sampling. Purposing sampling technique is the sampling method by considering interviewees who have small industry enterprise, especially in embroidery and weaving. According to Miles and Huberman in Sugiyono (2013), it is stated that the activity of qualitative data analysis is done interactively and continue until complete or until the data is saturated. The activity in data analysis is consisting of several steps. First, data reduction and it is done by choosing primary problems, and focusing on important things, finding the themes and patterns. Second, data display and it will be given in form of short essay, chart, and relation between categories, flowchart and akin or narrative text. Third, to drawing conclusion and verification.

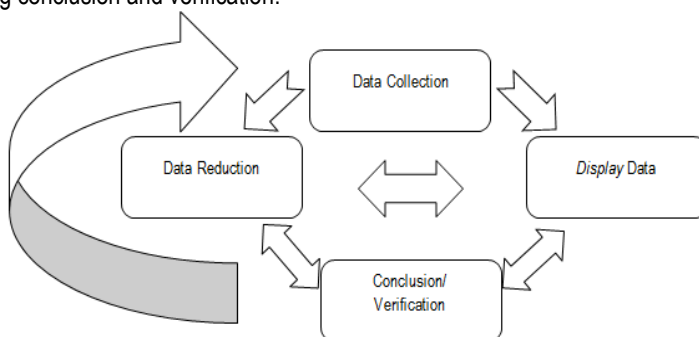


Figure 2. Technique of data analyze

4. Results

According to the information given from the informant from the enterpriser of batik industries, the problem that they have is focusing on the laborer, entrepreneur, networking and market penetration, government support, production and consumer.

1. Laborer

The skill of labor in batik enterprise is limited. Most of them are still following the pattern given and do not have their own ideas to create a more interesting design, furthermore they find it hard to get the 'soul' of the batik design.

2. Entrepreneur

The entrepreneur in batik is still lack of seriousness and is not totally developing their business.

3. *Networking and Market Penetration*

Batik enterprises in Medan don't have market segmentation and clear market target. In other case, the promotion of the product is limited by participating in local exhibition. Social media is still not fully utilized.

4. *Government Support*

The government is still not fully support the batik enterprise and they don't actively accompany the enterpriser. The support given by them is by giving a training and exhibition. Therefore, they are not active in developing and promoting batik product.

5. *Production*

The raw material and equipment of batik is hard to find. It is transported from java and it gives an influence to the production cost and also the coloring agent used is still chemical. The problem that they faced in the production is the limited production capacity. Usually they produce by the order of consumer and not continuously.

6. *Consumer*

The consumer is mainly from Medan and it can be seen clearly that they still do not favor of Medan batik. They are keen on fashionable product.

Based on the analysis data made, the main causes for the inability of Batik SMEs to compete in Medan are labor, entrepreneur, networking and market penetration, government support, production and consumers. Diagram below shows the data gained.

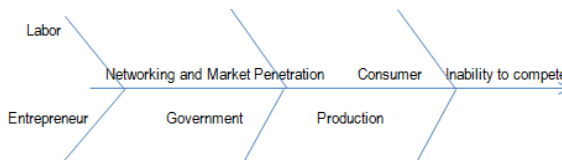


Figure 3. Fishbone Diagram of Batik SMEs

In general, the business of batik in Medan are still categorized as family businesses in which a complex organization structure is not applied yet and in running the business people are relying on the family, relatives, or the local work force that domicile within the business area with limited production capacity. The obstacles that are encountered by the batik, business are the problems with the work force (craftsmen), entrepreneurs, marketing, government, production and customers.

1. *Work Force (Craftsmen)*

The low quality of the batik craftsmen includes the aspects of competency, skills, work ethic, characters, and awareness of the importance of consistency and products

standardization. The craftsmen need to be trained and developed in order to improve the competency. According to Handoko, in Kadarisman (2012), the training is meant to improve the skills and certain technical implementations. According to Gouzali, in Kadarisman (2012), the human resources development is the activity which is compulsory to be implemented by the organization/ business, so that the knowledge, ability and skill are in accordance with the demand of the job. The human resources development is applied to improve and address the shortcomings in performing the jobs better. This circumstance is supported by the research of Ardiana *et al.* (2010) which stated that the competency consists of skills and ability have significant influence towards the SME performance.

2. *Entrepreneur*

The problem that is faced by the SME in batik is the entrepreneurial spirit which means the spirit to continuously create, innovate, be resilient, willing to sacrifice and courageous in taking risks. As the entrepreneurs tend to be quickly satisfied by the current achievements, it causes rare consideration of expanding the business. According to Meredith in Suryana (2006), entrepreneurs possess several characteristics and personality, such as strong self-confidence, task-and-result-oriented, courage to take risks, fond of challenges, leadership skill, creative, innovative and flexible, as well as having vision and perspective of the future. This is also supported by the research of Masykuri and Soesatyo (2014) which stated that the entrepreneur's behaviors affect the successfulness of a business. Thus, entrepreneurs do not only attend trainings, but also need to improve the technical and managerial skills.

3. *Business network and market penetration ability*

The cause of the low ability of market penetration is the limited production capacity and product quality that are inadequate in fulfilling the demand and requirement of market. Market penetration is the strategy which attempts the increment of market share for products/ service through marketing efforts.

The SME are lack of cooperation network among them, so that due to the weak network there are obstacles such as the difficulty in obtaining qualified raw materials continuously. Besides, the weak market access is also a problem for SME in which the SME do not have complete and detailed information regarding accessible markets. The SME marketing programs are also still conducted in simple and traditional way such as waiting for buyers to come without executing any marketing strategy. This is supported by the research of Sijabat (2012), which stated that in accordance with the empowerment of SME, the promotion of products is one of the aspects that need attention, for it will increase the product market share of SME.

4. Government Support

The attention of the government towards SME in batik is still relatively low. The facilities from the government should be distributed to SME which are right on target, not to the businessmen who have proximity with the government.

Another issue is that in one area, the majority of small businesses do not accept technical and financial obstacles. Government should be more active in seeking market instead of merely idling at the showroom. From year to year, the government policy to develop SME is continuously refined, however the implementation has not been perceived by the bureaucracy of SME and permit procedures that are complicated, retarded, tortuous and complex, low quality of public service cause the unfavorable climate to SME. In addition, there are special rights given to a certain groups of people by the government. It is frequent that the government policy is regulated generally so that it is irrelevant with some business types whereas each type of business requires different policy (Bestari and Suprpto, 2016). The role of the government in the development of SME is as catalyst, facilitator, and advocate that triggers stimulus, challenges, and supports so that the business ideas can move to higher competence level (Sulastri and Dilastri, 2015). This is supported by the research of Mahendrawati *et al.* (2014) which stated that it is mandatory for government to be extremely focused on the success of SME in entering ASEAN Economic Community (AEC).

On the other hand, the effort to increase the state revenue and intensification of tax collection brings positive and negative effects to SME. The positive side is that SME is encouraged to improve its administrative and managerial abilities. Meanwhile, the negative impact is that the tax charging to SME which is inadequately proportional will generate extra cost. According to Hidayat in Budiarto *et al.* (2015), the government programs that are overlapping and imperfect cause discontinuity as well as inconsistency of the regulations and the implementations, therefore the development of SME is not achieved. This is in line with the research of Mahendrawathi *et al.* (2014) which stated that government have to be highly focused on the success of SME in entering the era of AEC.

5. Production

The raw materials issue is one of the obstacles encountered by SME in production especially for batik business. The availability of the rare and costly raw materials, particularly for batik production, is the major factor. The reason is because the materials for batik production are obtained from Java and obviously with relatively high price. According to Sukirno (2015), production function explains that there is relation between production factors (input) and the products (output). The input consists of capital, work force, raw materials, technology and skills. The amount of output that is produced depends on the utilization of the amount of those inputs. The availability of

raw materials is the utmost factor for the success of the business. This is consistent with the research of Dewi (2015) which stated that the raw materials positively affect the products. With the simple usage of technology, the production capacity is still limited and the product quality is also low which happened as the result of the limited raw materials used. This is consistent with the research of Meilani and Simanjuntak (2012) which stated that the product quality contributes effects on customers' interest to buy. If the products are favored by customers, then the demand of the products will always exist.

6. Customers

In the globalization era, how the products from one country could enter the area of other countries freely, can be observed. This condition gives unpleasant impact, particularly to Indonesia. The people of Indonesia who are generally consumptive specifically for imported products become the target market of other countries, textile products in particular. Some people of Indonesia feel that it is more prestigious if they are able to wear well-known or branded products that are expensive, or imitative goods for slightly cheaper price. Whereas for the textile products such as batik, weaving and embroidery products, people in general, especially in Medan, assume that the batik cloths are only appropriate for cultural events. This assumption results in hardship for batik, weaving and embroidery products to be preferred by people. The difficulty in changing customers' mindset which does not prefer local or traditional products is caused by social and personal factors. According to Swastha (2000), the motive of purchase has various types of factors that could reason why one buy a product. This is consistent with the research of Parubak *et al.* (2010) that said customers' perception and attitude significantly affect customers' demand in purchasing traditional cloths. Synergy Model in the Development of SME in Batik, Weaving and Embroidery as a follow:

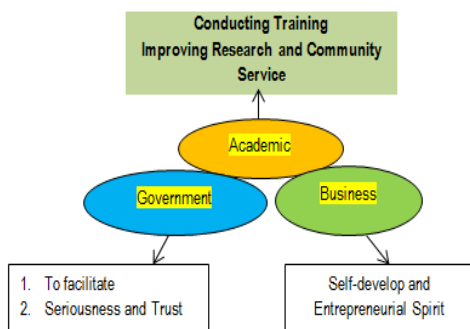


Figure 4. Synergy Model in Development of SME in Batik, Weaving and Embroidery

Considering many benefits if the system can be executed well and the urgency to face the AEC then a serious and mature preparation is needed in order to synergize these elements. Synergy could be done among academicians, businessmen (SME) and government. Synergy is conducted as a strategy and concrete steps of comprehensive development of SME. There are several things that can be the reference for the synergy of these elements in order to actualize SME products that are competitive in AEC market, i.e.:

1. SME has to be prepared to run the business as well as possible optimistically, be creative and open to other people's opinions and is not bound the mindset of management of SMEs that are commonly executed.

2. Academics should be engaged in the development of SME. Thus, they can apply Tri Dharma (Three Pillars) of the Higher Institution, especially community service at its best. Moreover, conducting research that is directed to the development of SME such as the creation of a product or provide strategy model for the development of SME is also one of the applicable efforts. Finally, it is giving appropriate roles to academicians to synergy with the government with purpose of developing SME.

There are still many academicians who although without any instruction from the government remains active in the empowerment of SME, such as doing research and community service which is one of the pillars in Tri Dharma (Three Pillars) of Higher Institution. Although it is not routine activities but merely incidental, but it is helpful for the continuity of SME. Academics are not only professors but also students, their role as mediator between SME and lecturers is an achievement for the students as it can be a medium of learning for knowledge application that they possess and rides to learn how to socialize. Academicians should involve students in the activities for development of SME. Cooperation can be done through student organization which can bridge lecturers with SME, SME with investors or whoever that can realize the competitive SME.

3. The government is able to be a policy maker that eases SME to develop business. Government can be a motivator to SME for developing business. The increase in research funding for lecturers and students provided the impetus to continue to work and develop knowledge that can be applied by SME. Responsibilities to optimize the potential the area as stated in UU RI (Republic Act) No. 20 of 2008 on SME should involve academicians so that the government is more trustworthy and serious for the welfare of the people.

Solution

Based on the survey done in several SMEs joining Inacraft exhibition on 20th - 24th April 2016 in Jakarta, there are several solutions and recommendations that can be given to the SMEs owners. They are:

1. *Laborer*

Problems for human resources need collaboration with the government. For instance, in Bogor they involved homeless kids in Batik production. Besides that, it can also be dealt by recruiting employees from where Batik is originated. Forming a community between the craftspeople and point a coordinator can give a multiplier effect for the surroundings.

2. *Entrepreneur*

SMEs owners need to have the behavior of an entrepreneur, not a broker. They have to be able to produce high quality products which need determination and totality to keep learning and innovating to improve creativity. Products produced have to have characters and are up to date to the current mode. They also must be able to keep document all the patterns well as trends keep circulating and buyers might want to look for old patterns they used to buy.

3. *Networking and Market Penetration*

SME needs to have cooperation network among themselves and other parties in order to obtain broader market. SME also should determine market segmentation and target so that the effective marketing strategy can be arranged by applying the more intensive marketing programs to reach the market.

4. *Government Support*

Supports, willingness and attention from government to help developing textile business in Medan are strongly needed. This need to be discussed between the government and the SMEs owners. Government need to have a program to ensure the development of textile enterprises in Medan like the action of local leaders to show preference of Batik, woven and embroidery products.

5. *Production*

Difficulties for raw material can be overcome by using natural resources in your surroundings to reduce cost and conserving the nature.

6. *Consumer*

The Citizens have to change the consumption behavior to use Medan Batik, woven and embroidery products.

5. Conclusions and recommendations

5.1. Conclusions

Problems faced by Batik SMEs are on the human resource, raw material, entrepreneurship, marketing, support from government, production and consumers. Diagram below shows the data gained. Despite having been receiving socialization

about ASEAN Economic Community (AEC), they are not ready to face it. Furthermore, they have not understood it clearly. There is no confidence showed to compete with similar products from other ASEAN countries, especially Malaysia.

5.2. Recommendations

Several solutions or suggestions that can be recommended to SME are as follows:

1. The SME should have the mentality of entrepreneur instead of broker. They should be able to create high-value products with good quality. It takes seriousness and totalities in producing by continue to learn how to innovate and develop creativity. Products that are created should have character and keep abreast of current fashion. SME must keep records of the designs as they usually rotates back and after approximately 10 years customers would look for the design that they had once bought.
2. The difficulty in providing raw materials should be solved by using the natural materials that can be obtained from the surrounding nature so that the production cost can be minimized while preserving the environment.
3. To solve the difficulty in recruiting work force (craftsmen), cooperation with government is needed. For instance, the government of Bogor empowered the street children to involve in the production of batik. Furthermore, the recruitment of the work force from the city of origin of batik is also applicable. Forming craftsmen communities and appointing responsible coordinators who are expected to contribute multiplier effect for the people in the society.
4. Supports, serious active role and attention from government in developing textile business in Medan such as discussions between government and the SME businessmen are required. Moreover, government programs to keep improving the textile business in Medan such as actions from the local leaders who show the love of batik products in Medan are also needed.
5. People should change the consumption behavior to be willingly to wear the authentic batik products of Medan.

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