

# **What Support or Impede The Success of Small- and Medium -Scale Industry In DKI Jakarta?**

## **A Case Study of the Traditional and Informal Sector Industry in West Jakarta**

**Omas Bulan Rajagukguk**

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**Abstract.** *The population dynamics in Indonesia have brought several implications on manpower condition. Fertility level that was high in the past still has impact on the high supply of manpower in Indonesia today. One consequence is that the Government has to provide job opportunity for working age population that is continually growing in number. However, formal sector occupations can only absorb about one third of manpower in Indonesia. As a result, most working age Indonesians have to create their own job opportunity in informal sector in particular in small and medium scale industry (UKM). The success of a UKM depends on many factors. This study aims to investigate the factors that support or impede the non-corporate body UKM in particular informal and small scale and traditional industry (USIT). The study location is in West Jakarta. For the purpose of the study, a survey was conducted. The survey collected data through face-to-face interviews to USIT owners using a structured questionnaire. Data analysis was done descriptively. It is hypothesized that the progress of a USIT depends on the USIT owners demographic and socioeconomic characteristics, business characteristics and other characteristics (whether owns DKI Jakarta's identity card/KTP), the presence of difficulty in doing business, economic crisis effects on business, training, financial assistance and business prospect). There are eight indicators of growing business used in this study: duration of business and the ability to expand the business. The ability to expand the business is viewed from whether there is growth in physical assets, financial capital, sales, labor and customers from the beginning of business to the time of the study (October 2002). Results of the study show that the advancement of a USIT depends on the demographic and socioeconomic characteristics of USIT owners, the characteristics of business and other characteristics. Economic stability and financial resources are the two factors stated to affect the growing of a USIT. Access to information about financial aid from the Government is inadequate. The*

*assistance from the Government in form of business training is lacking. The hindrances for business loan from the bank are high interest rate and difficult procedure.*

**Keywords:** Industry; small-scale industry; medium-scale industry; informal sector industry; traditional industry; demographic characteristics; socioeconomic characteristics; USIT; Jakarta; Indonesia.

## 1. Introduction

In the 1970-1990s period Indonesia experienced rapid population dynamics where mortality and fertility levels declined. High fertility levels during the 1950-1960s period have caused the increasing number of working age population since the 1990s. One implication is that the government has to provide job opportunity for the growing number of labor force in the country. However, the growth of working age population has been faster than the economic growth. This fact has caused formal sector job could only absorb about one-third of the labor force. As a result, about two-third of working age population in Indonesia have to create their own job through informal sector in particular in small and medium scale industries (*Usaha Kecil dan Menengah* (UKM)). Even after the economic crisis many workers were laid off and switched to informal sector. It was reported that in 2003 the UKM in Indonesia contributed 56.7 percent to the Gross Domestic Product (GDP) where 41.1 percent was contributed by small-scale industries and 15.6 percent was contributed by medium-scale industries (KOMPAS 2004). In addition, the UKM in Indonesia absorbed 79 million workers where 70.3 million of them worked at small-scale industries. This indicates that UKM has given important contribution to Indonesia's economy and become economic buffer particularly during the economic crisis.

Since the economy of Indonesia is also supported by UKM it is important to study the factors that support or impede the success of UKM. It is important not only to foster economic growth but also to improve the quality of life of the UKM owners in particular those who have non-corporate body and informal-small-scale and traditional business (*Usaha Sektor Informal dan Tradisional* (USIT)). They are the majority of UKM owners (about 80 percent). It is well known that in Indonesia many USIT owners live in "enough for living" or "to keep alive" conditions (Wirosardjono 1985; Hidayat 1986; Mangkuprawira 2002). Few of them have opportunities and vision to expand. This is particularly because their business are small in scale with lower income consumers.

In the Law (*Undang-Undang*) Number 9 of 1995 qualitatively small-scale industries include informal-small-scale industries and informal-traditional industries. Informal-small-scale industries involve non-corporate body and non-registered business such as peasants, home industry, street vendors, market sellers, travelling salesperson, massagers and rickshaw drivers. Informal-traditional industries consist of businesses that use simple production tool that have been used for generations and/or related to art and culture. Quantitatively, there are several definitions of small-scale industry. The Department of Industry and Trade divide small-scale industry into two: small industry and small trade. Small industry is small-scale business that has invested on equipment not more than 70 million rupiahs and on each labor not more than 625 thousand rupiahs, the number of labor not more than 20 and assets not more than 100 million rupiahs. The Chamber of Commerce and Industry (*Kamar Dagang dan Industri* (KADIN)) defines small-scale industry as business that has maximum assets of 250 million rupiahs, has not more than 20 labors and has sales less than 100 million rupiahs. The Central Bureau of Statistics (*Badan Pusat Statistik* (BPS)) categorizes small-scale industry as business with 5 to 19 labors and assets not more than 500 million rupiahs. Based on work status, the BPS defines small-scale business owner as someone who has business without labor or business with unpaid labor (family worker or temporary worker). The Law Number 9 of 1995 define small-scale business as business with assets not more than 200 million rupiahs (not including land and building), sales less than one billion and labor not more than 20.

The success of a business can be influenced by many factors both internal and external. Among the external factors is the role of the Government. In developing countries including Indonesia the role of Government in supporting healthy business climate has been a great argument. As a study by Rice and Ganiarto (1990) in six cities (Ujung Pandang, Kendari, Palu, Banjarmasin, Malang and Kendari) found that the main external factor that support a business is the availability of infrastructure such as road network, harbor and shipping container. The internal factor that has an impact on business progress is the supply of local entrepreneurship. However, their study found that a factor that impeded a business mostly came from the Government. They listed changes in regulations, non-deductibility of tips, complicated permission renewal procedure and insufficient telecommunication and electricity facilities as factors that impede a business to invest in Indonesia.

The role of the Government in supporting UKM in Indonesia has long been questioned. In fact, the Government claimed that financial assistance for

UKM owners are available in large amount. However, this financial assistance did not reach by targeted UKM owners. Triaswati (2002) stated that this is an asymmetric information where financial assistance allocation mismatch happened. The Government should supervise this financial assistance distribution so it would not be received by imaginary UKM. Hermanto (2002) did not agree that the UKM owners should be given financial assistance because according to him UKM in Indonesia is in good condition. He suggested that the Government should give assistance in form of information, technology and distribution channel.

This paper presents the results of a study on the factors influencing the progress of UKM in DKI Jakarta. For the purpose of the study, a case study on USIT in West Jakarta was conducted. DKI Jakarta was chosen because it is the capital of the country and a gate for foreigners who want to visit Indonesia. Improvement of UKM in this city can be a model of UKM improvement in other parts of the country. It is hoped that this improvement will increase the quality of UKM products, promote Indonesian tourism and in turn improve living standards of UKM owners. West Jakarta was selected because it was conducting some programs to improve UKM owners in the region. This study became the part of the programs.

In this study USIT includes non-corporate body, informal-small-scale business and small-traditional business. The factors analyzed consist of internal and external factors. Internal factors include demographic and socioeconomic characteristics of the owners. External factors involve business location, the presence of assistance from the Government (training or financial assistance) and partnership with other business and business environment.

## **2. Methodology**

As mentioned before, the study of factors influencing UKM in DKI Jakarta was conducted through a case study of USIT in West Jakarta. It was designed that business sectors included in the study were (1) small scale and home industry, (2) building/construction, (3) trade, (4) restaurant, (5) accommodation, (6) transportation and (7) communication. However, in the survey one interviewer had interviewed an owner of electricity, gas and drinking water business.

Respondents of the study were USIT owners such as vegetable sellers, small food or fruit shop owners, basic food shop owners, telecommunication shop owners, construction workers, small repair shop owners, small city

transportation owners and small scale and home industry owners. There were 1000 USIT owners successfully interviewed. Method of sampling used was snowball sampling where interviewer found information about a respondent from previous respondent.

Data collection was conducted in October 2002 using a structured questionnaire. Information collected includes demographic, socioeconomic, cultural, business, financial capital, expenditure (for workers, at the start of business and at the time of the survey), business activity (number of workers, business location and customers) and environment characteristics of USIT owners. In addition, the survey also collected information on business condition after economic crisis, the role of Government and expectation on business prospect in the future. Demographic, socioeconomic and cultural characteristics involve sex, age, marital status, education, number of dependent and ethnicity. Business characteristics include business sector, product, reason to start the business, duration of business and the presence of other business. Financial capital characteristics include source and management of capital, reason not to borrow from the bank, services from cooperatives, whether it has business partner and sales at the start of business and at the time of the survey. There are eight indicators of growing business used in this study: duration of business and the ability to expand the business. The ability to expand the business is viewed from whether there is growth in physical assets, financial capital, sales, labor and customers from the beginning of business to the time of the study.

Data obtained in the study was analyzed descriptively using contingency table (cross tabulation) analysis. It is hypothesized that the success of a USIT depends on the background characteristics of the owner. The background characteristics of USIT owners include (1) sex, (2) age, (3) marital status, (4) education, (5) number of dependent, (6) business sector, (7) the presence of other business, (8) financial management, (9) financial capital sources, (10) whether it experiences services from cooperatives, (11) whether it has business partner, (12) business location, (13) whether it has DKI Jakarta's identity card, (14) the presence of difficulty in doing business, (15) economic crisis effects on business, (16) training, (17) financial assistance and (18) business prospect. The success of a USIT is measured by the percentage of USIT that has (a) duration of business more than five years, (b) increased physical assets, (c) increased sales, (d) increased financial capital, (e) increased number of paid workers, (f) increased number of unpaid workers, (g) increased individual customers and (h) increased firm customers. The value of statistic test  $\chi^2$  was used to test whether the success of a USIT

depends on a background characteristics of the owner using the level of significance  $\alpha = 0.05$ .

### **3. Findings**

#### **3.1 Characteristics of USIT Owners**

In this section the characteristics of the respondents of the study are described (tables are not presented). The characteristics involve demographic and socioeconomic, business, financial capital, expenditure, business activity, business condition and environment, business condition since economic crisis in 1997, government role and expectation on business prospect in the future characteristics. This description is hoped will give understanding on the situation faced by the USIT owners in West Jakarta.

There are 1000 USIT owners in West Jakarta that were successfully interviewed in the study. By sex, 69.5 percent of respondents were male and 30.5 percent were female. By age group, most respondents were aged 35-44 (31.0 percent), while the others aged 25-34 (28.5 percent), aged 45-54 (20.8 percent), aged 15-24 (10.0 percent) and aged 55 or above (9.1 percent). Most of respondents were married (82.9 percent). By education, almost one third of the respondents had completed primary education (32.6 percent), followed by senior secondary education (24.1 percent) and junior secondary education (22.5 percent). The number of dependents of most respondents was three or less (56.9 percent), and the others had 4-7 dependents (38.9 percent).

Most respondents had business in small scale and household industry (33.4 percent), while others were in trade (23.8 percent), restaurant (14.3 percent) and accommodation (10.0 percent) business. The mostly stated reason to establish the USIT was business opportunity (72.5 percent), followed by no other job or being laid off (53.8 percent), expertise (38.6 percent) and hobby (21.7 percent). Most respondents stated that the idea of doing current business came from themselves (58.6 percent), and from husband or wife (12.0 percent). Almost three-quarter of respondents started their current business after 1990 (74.5 percent), between 1980-1990 (18.6 percent) and before 1980 (6.9 percent). Only 15 percent of respondents had other business and only 19 percent ever had other business.

For those who ever had another business before the current business, mostly had business in trade sector (53 percent) and run the business for 2-5 years (37 percent), nine years or more (24 percent) and less than two years (23

percent). Most of these owners stated that the reason to stop the previous business was no profit (31 percent), too many competitors (13 percent) and insufficient financial capital (10 percent). This result indicates that trade sector is the most chosen informal sector, easy to do and to be abandoned, in particular if there is no indication of profit (*free entry, free exit*).

In term of business financial management, most respondents managed it by themselves (77 percent) and by themselves with other's help (18 percent). For those who were helped by others in managing their business finance, indicate husband or wife as the most stated person (62 percent), confirming that USIT is a family business in nature.

Most respondents stated that the source of their business capital is themselves (75 percent) followed by partly from other people (15 percent) and all from other parties (9 percent). For those whose financial capital source was partly or all from some one else, got this from individual lender or family (56 percent) and joint capital (15 percent). Few borrowed money from the bank as main financial capital for their business (5 percent).

Some banks provide financial capital loan for USITs. However, not all USIT owners utilize the service. In this study, 226 respondents stated that they did not utilize this bank service. For those who did not borrow money from the bank to get financial business capital, the reasons are: not interested (21 percent), high interest rate (19 percent), difficult procedure (17 percent) and did not know the procedure (12 percent).

Being a member of cooperatives or having business partner could support one's business. However, these two services have not been used optimally by the USIT owners. The results of this study show that only 6.2 percent of the respondents were member of cooperatives and only 9 percent had business partner. For those who were the member of cooperatives 70 percent stated that the services they got are financial capital loan, 31 percent stated they got materials, 6 percent stated marketing services and 9 percent stated other facility (such as training). For those who had business partner, mostly stated that they got materials for their products (53 percent), followed by financial capital loans (40 percent), marketing services (27 percent) and help in business management (23 percent).

The progress of a business could be measured from the condition of its financial capital and magnitude of the production, sales and monthly income both at the beginning of the business and at the time of the survey. Business capital could be in the form of physical assets (such as building, cart

or kiosk), materials and others (such as machine, sewing machine, stove or saw). In this study, the value of these assets were converted into rupiahs. The results of the study show that at the beginning of their businesses most respondents (47 percent) had physical assets valued less than 1.5 million rupiahs (if 1 US\$ = 8,500 rupiahs, 1.5 million rupiahs equals to 176.5 US\$), others had more than 3.5 million rupiahs (32 percent) and between 1.5 million and 3.5 million rupiahs (4 percent). At the time of the survey, the percentage of USIT owners that had no physical assets increased to 16 percent from 4 percent at the beginning of the survey, while the percentage that had physical assets valued more than 3.5 million rupiahs increased to 36 percent and those with physical assets valued less than 1.5 million rupiahs and between 1.5 million and 3.5 million rupiahs declined to 32 percent and 11 percent respectively.

The sharp increase of USIT owners that did not have physical assets in study location might indicate the effects of economic crisis. It is possible that these owners had to sell their physical assets in order to cover operational expenses and did other strategies to replace sold physical assets such as renting machine or cart. A meatball vendor might sell his cart and rent a location to continue his meat ball business. On the other hand, the increase of USIT owners that had physical assets higher than 3.5 million shows the increase in the price of the physical assets as an impact of economic crisis, in particular the prices of oil and electricity. The same thing happens in the case of material and other capital. There is an increase in the percentage of those who had no capital and who had assets more than 3.5 million rupiahs.

There had been an improvement among the USIT owners in the study according to their monthly production, sales and income since the beginning of their business to the time of the survey. The percentage of owners that had sales less than 1.5 million rupiahs at the beginning of their business declined from 57 percent to 40 percent at the time of the survey. Meanwhile at the same time the percentage of those who had sales more than 3.5 million rupiahs increased from 24 percent to 40 percent. In terms of daily capital, there had been a decline in this aspect. The percentage of those who had daily capital less than 1.5 million rupiahs increased from 57 percent to 79 percent.

In this study the information on business expenditure and payment for workers was also collected. Most respondents in the study did not have expenditure for workers (48 percent). It might be because most of the respondents in the study run their own business. About 29 percent spent less than 1.5 million rupiahs to pay their workers, 6.9 percent spent between 1.5 million and 3.5 million rupiahs and 7.1 percent spent more than 3.5 million



rupiahs. In term of overtime pay, bonus and gifts, most respondents stated that they did not provide them (77 percent).

The study collected information on business activity. This includes the average of daily and weekly work hours, number of workers at the beginning of business and at the time of the survey, business location, number of customers at beginning of business and at the time of the survey and marketing strategy. The results of the study show that on average most USIT owners work more than eight hours per day (60 percent), work 1-8 hours (33 percent). Weekly, USIT owners on average had to work seven days (65 percent), work 1-6 days (27 percent). This result indicates that in order to survive USIT owners had to work beyond normal working hours and days.

More than half of the USIT owners in this study had no paid workers at the beginning of their business (57 percent), while others had 1 to 10 paid workers (37 percent). At the time of the survey, the percentage of USIT owners that had no paid workers declined to 54 percent while those with 1 to 10 paid workers increased to 39 percent. In terms of unpaid workers, almost 60 percent of the respondents did not have them at the beginning of their businesses and the figure declined to 57 percent at the time of the survey.

Fifty point six percent of respondents run their business at their place of residence. For those who run their businesses at other places, 29 percent moved from one place to another such as surrounding places, road intersection, road border, night market, tourist resort, school, mosque, factory and housing). For those who did not move, most of them run their businesses at road intersection (45 percent), the other's housing (18 percent), traditional market (15 percent) and at other places such as bus station (11 percent) and central business (9 percent).

Respondents in the study were also questioned about their business strategies to attract and maintain their customers and consumers or to increase their sales in the form of quality preservation, promotion, offering good services, variation in food flavor or allowing payment by installment. Most respondents stated that they offered good services (80 percent), maintained the quality of their products (68 percent) and kept cleanliness (62 percent) in order to attract customers and consumers or to increase their sales. About 35 percent of respondents stated that they made variation in food flavor for their products, 23 percent allowed payment by installment and 12 percent did other strategies (such as giving bonus, cheaper price, being honest, design variation, trust, complete facility, convenience, safety, freshness, new design or giving warranty).

The condition and environment of business may affect the progress of a business. In this study, these information were collected in form of retribution that they had to pay, ownership of DKI Jakarta's identity card, the level of business safety and convenience, reasons for inconveniences and difficulties faced in conducting their businesses. About 62 percent of respondents stated that they paid the cleanliness (sanitation) retribution, and the others paid the safety retribution (55 percent). Only six percent of respondents had to pay retribution to the government (PEMDA or PAD (Regional Original Income)) and three percent stated that they had to pay for other contribution such as membership of their association, tax, village office, gang man and police.

The amount of retribution they have to pay varies. Most USIT owners had to pay between 500 to 10,000 rupiahs (66 percent) and 34 percent of them paid more than 10,000 rupiahs for cleanliness retribution. For safety retribution most respondents paid between 1,000 to 10,000 rupiahs (74 percent) and 26 percent paid more than 10,000 rupiahs. For the government, most respondents paid between 1,000 to 10,000 rupiahs (61 percent).

Being a native person in a region may support a business by knowing market situation in the region. In particular in DKI Jakarta, having its identity card is compulsory for many activities. As shown in this study, most respondents already lived in Jakarta for more than 10 years (65 percent) and had DKI Jakarta's identity card (72 percent).

Most respondents of the study stated that the condition of their business location was safe and convenient (61 percent), followed by safe and convenient enough (29 percent). Only four percent of respondents stated that the environment of their business location was very safe/convenient. Six percent of the respondents stated their business location was not safe/convenient with the main reasons most stated were high costs (32 percent), followed by robbing (22 percent) and exploitation (22 percent).

Fifty one percent of the respondents of the study stated that they experienced difficulties in conducting their business. The most stated difficulty was financial capital (67 percent), followed by marketing (62 percent) and material (22 percent). This result confirms general difficulties faced by the small scale and traditional industry owners.

In mid 1997 an economic crisis hit some parts of Southeast Asian countries including Indonesia. This event had significant impacts on the

national economy in particular on USIT. To study this impact, the study also collected information on USIT journey after crisis. More than half of respondents of this study already initiated their business before the economic crisis (50.7 percent). Most of them stated that the economic crisis had impact on their business and they could manage it (52 percent), some of them did not experience its impact (23 percent) and others had felt its impact and they could not manage it (21 percent). The most stated impact was the increase in the price of material (86 percent), the reduction in the number of customers and consumers (62 percent), the decline in sale (55 percent) and the decline in buyers (52 percent). To manage the impact of the crisis most respondents improved efficiency on the use of electricity or material (48 percent), reducing the production (37 percent), cutting down the workers (16 percent) and reducing the quality of the products and materials (10 percent).

The economic crisis had caused the reduction in financial capital of most respondents of this study (34 percent). Thirty two percent of the respondents experienced an increase in their financial capital after the economic crisis and 27 percent had no financial capital changes. In terms of sales and number of customers and consumers, most respondents experienced a decline in these two aspects after economic crisis (55 percent and 47 percent respectively). In terms of production costs, most respondents experienced an increase in production costs after economic crisis (64 percent) and most of them experienced an increase by between 2 to 99 percent (70 percent), while others had an increase by between 100 to 500 percent (17 percent). The price of product or service offered also increased and mostly it increased by between 2 to 99 percent (75 percent), and by between 100 to 500 percent (12 percent).

Another important information collected in this study was the role of the government in supporting USIT. The role includes giving training, assistance during economic crisis, source of support and form of support. Most respondents of the study had never attended any training for conducting a business (89.5 percent). For those who attended a training, the most stated training was on production technique (48 percent), followed by management technique (42 percent), marketing technique (32 percent) and financial management (30 percent). Only nine percent of the respondents obtained support during economic crisis. For those who did not obtain assistance during crisis, most of the respondents stated that they did not know there was assistance available (50 percent), while some of them was not interested (23 percent) and did not know the procedures (11 percent). The most stated assistance was financial capital (49 percent). What interesting is that the most stated source of assistance was non-governmental source (60 percent).

Expectation on business prospect in the future can support a business. In this study the respondents were asked about their opinion on their business conditions three months before, a year before and three months after the time of the survey as well as the most important thing to improve their businesses. Most respondents stated that the condition of their businesses three months before was the same with the condition of their business at the time of the survey (50 percent), others stated better (30 percent) and worse (18 percent). When asked to compare the existing condition of their business with that of before the time of the survey, most respondents (44 percent) stated their business had been better than it was at the time of the survey, while 30 percent said it was the same and 20 percent stated it became worse than the year before. Most respondents could not forecast how the situation of their business would be in the next three months (33 percent), 28 percent stated would be the same, 28 percent stated would be better and 12 percent stated would be worse. To improve their business, most respondents stated the most important aspects were financial capital assistance (41.3 percent) and economic stability (40.9 percent).

### **3.1.1 Factors Influencing Business Duration**

The progress of a business could be measured through the duration of the business survival. A business that can survive for a long time is usually headway (ongoing) although economically the owner does not have profit. In this study business duration is grouped into two categories: five years or less and more than five years. Five year was used as time limit because it was related to the time of economic crisis that hit Indonesia (August 1997). As can be seen from Table 1, about 45 percent of USIT in this study survived for more than five years.

There was no significant difference in the percentage of USIT owners that survived for more than five years by sex. The age, marital status, education and number of dependent of USIT owners have significant effect on business duration. The age of USIT owner has positive effect on business duration: the older the age, the higher the percentage of USIT owner with business duration of more than five years. This fact indicates that the older a USIT owner, the more experienced the USIT owner is in running the business. Those who were married are more likely be able to make USIT survive for more than five years, showing their more careful efforts in maintaining their businesses for the sake of their family lives.

The higher the education of the owner, the lower the percentage of USIT owner with business duration more than five years. This result reflects the survivorship of lower educated USIT owners in informal and traditional business sector than those who have higher education. It is possible also those who have higher education start their USIT later. By number of dependent, the more the number of dependents, the higher the percentage of USIT owner with business duration more than five years. This result shows that those who have more dependent have to be diligent in running their USIT not only in order to get profit but also in order to fulfill their dependent needs.

It can be seen from Table 2 that factors such as having another business, managing financial business, having partner and whether the location of business is the same with the residence, have no significant impact on business duration. Business sector, source of financial capital and having cooperatives services have significant effect on business duration. Those who had business in accommodation services and construction sector were more likely to survive in their business. Those who had their own financial capital were more likely to survive, indicating they were in "safer condition" in running their businesses and could survive longer. Meanwhile, having services from cooperatives (such as financial loan, material and marketing) have positive impact on USIT business duration: the business is more likely to survive for more than five years.

There is no significant effect of business location, having business problems and expectation on business prospect in three months after the time of the survey on business duration (Table 3). Having DKI Jakarta's identity card, economic crisis effects, ever had training, getting financial assistance during crisis and opinion on business condition a year before the time of the survey all have significant impact on business duration. Those who had DKI Jakarta's identity card, could manage economic crisis effect, experienced business training, got financial assistance during crisis and thought that their business condition a year before was the same with their business condition at the time of the survey are more likely to survive their businesses for more than five years.

### **3.1.2 Factors Influencing Physical Assets Condition**

The progress of a business can also be measured by the ability to expand in the form of increase in physical assets such as building and cart. In this study the physical assets was converted into rupiahs to enable the evaluation of increase in physical assets. The physical assets were categorized

into less or the same (if the physical assets at the beginning of business was more than or the same as at the time of the survey) and as increasing (if the physical assets at the beginning of business was less than at the time of the survey).

The results of the study shows that the percentage of USIT owners that experienced an increase in their physical assets during their businesses is higher for women, aged 45-54, divorced, had completed primary education and had seven or more dependents. However, only the age, marital status and education that have significant impact on physical assets condition. It shows that these three factors have important role in increasing physical assets. Those who were older, married and less educated are more likely to expand their business by investing business results on physical assets that have higher values nowadays.

Regarding business characteristics the results of the study shows that the percentage of USIT owners whose physical assets increased is higher for those who had restaurant business, had no other business, managed their financial business by themselves, had their own financial sources, never had cooperatives services, had no business partner and had business location at their place of residence. In business sector, owning another business, financial capital source and business location are the factors that have significant impact on physical assets condition. This fact indicates that concentration on one business with self-source of financial capital and business location at the place of residence can support business progress through the increase in physical assets.

The percentage of USIT owners that experienced an increase in physical assets is higher for those who had DKI Jakarta's identity card, could manage economic crisis effects, had unsafe business environment, experienced difficulties in running business, never had business training, got financial assistance and thought their business condition a year before the time of the survey and in the three months after the time of the survey was worse. Having difficulties in running business, ability to handle economic crisis effects on business and thinking that business condition a year before was worse are characteristics that have significant impact on physical assets condition. Difficulties in doing business and the thought of the previous worsening condition of the business may cause a USIT owner to invest more on physical assets in order to expand. Those who have difficulties in conducting their businesses or those who think that their business in the past were declining usually have more spirit and ideas to advance their business including through increasing their physical assets.

### **3.1.3 Factors Influencing Sales**

Another indicator of an ongoing USIT in this study is whether a USIT experiences an increase in its sales since the business was started. The findings of this study shows that the percentage of USIT owners that experienced an increase in their sales is higher for those who were female, aged 55 or more, were married or divorced, had completed primary education and had seven or more dependents. Only marital status has significant impact on sales condition, which indicates that those who were married or divorced had higher ability to expand their business by increasing sales than those who were not married.

The percentage of USIT owners that experienced an increase in sales is higher for those who had accommodation service business, had no other business, managed their financial business by themselves, had their own financial capital source, never got cooperatives services, had no business partner and run their business at their place of residence. Only business sector and business location that have significant impact on sales condition. It shows that running business at the place of residence may support business expansion through increase in sales.

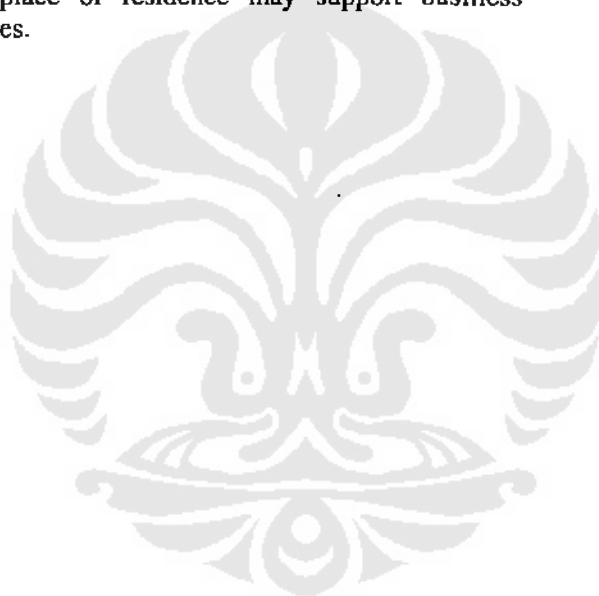


Table 1  
THE PERCENTAGE OF ONGOING USIT BY DEMOGRAPHIC AND SOCIOECONOMIC BACKGROUND CHARACTERISTICS OF USIT OWNERS,  
WEST JAKARTA, OCTOBER 2002

Demographic and Socio-economic background characteristics of USIT owners	Duration of business more than five years	Increased physical assets	Increased sales	Increased financial capital	Percentage of USIT owners with						Number of USIT owners	
					Increased number of paid workers	Increased number of unpaid workers	Increased number of individual customer	Increased number of firm customer				
Sex:												
Male	45.5	54.8	74.4	65.2	20.1	6.8	42.4	6.9	695			
Female	43.6	57.7	76.1	71.2	12.1	13.8	50.2	4.3	305			
Age (years):												
15-24	19.0	41.0	68.0	60.0	10.0	6.0	49.0	7.0	100			
25-34	30.9	57.9	72.6	73.7	18.3	7.0	47.4	6.0	285			
35-44	51.3	56.8	76.4	69.3	21.9	10.7	45.2	5.8	310			
45-54	56.7	58.6	76.0	65.9	19.7	9.6	46.2	7.2	208			
55 or above	68.1	52.7	80.2	49.4	5.5	9.9	28.6	4.4	91			
Marital status												
Unmarried	11.2	43.3	66.4	57.5	11.9	3.7	46.3	6.0	134			
Married	49.1	57.3	76.1	68.9	18.8	10.0	45.2	6.1	829			
Divorced	73.0	64.9	78.4	59.5	13.5	2.7	29.7	5.4	37			
Education												
No schooling/incomplete primary	55.8	54.5	76.4	61.8	11.5	14.5	38.8	55.8	165			
Completed primary	51.2	60.4	77.6	72.4	17.2	10.4	45.1	51.2	326			
Completed junior secondary	41.3	55.6	75.6	72.4	21.3	6.2	45.3	41.3	225			
Completed senior secondary	35.3	51.9	71.4	62.7	20.3	6.6	49.8	35.3	241			
Completed university	27.9	46.5	65.1	41.9	11.6	2.3	34.9	27.9	43			
Number of dependent Three or less	36.9	54.8	72.9	64.7	16.3	5.8	46.6	6.0	569			
4-7	55.0	56.3	77.1	70.7	19.5	12.1	42.4	6.7	389			
7+	59.5	61.9	80.9	64.3	19.0	21.4	42.9	2.4	42			
Total	44.9	55.7	74.9	67.0	17.7	8.9	44.8	6.1	1000			

Note: \* significant at p = 0.05; \*\* significant at p = 0.01; \*\*\* significant at p < 0.0001.



Table 2  
THE PERCENTAGE OF ONGOING USIT OWNERS BY BUSINESS BACKGROUND CHARACTERISTICS OF USIT OWNERS, WEST JAKARTA, OCTOBER 2002

Business background characteristics of USIT owners	Duration of business more than five years	Percentage of USIT owners with							Number of USIT owners
		Increased physical assets	Increased sales	Increased financial capital	Increased number of paid workers	Increased number of unpaid workers	Increased number of individual customer	Increased number of firm customer	
<b>Business sector</b>									
Small scale and home industry	50.9	57.8	81.1	83.5	33.5	14.7	53.0	15.0	334
Electricity/gas/drinking water	0.0	100.0	100.0	0.0	0.0	0.0	100.0	0.0	1
Building/construction	61.9	53.6	80.9	53.6	33.3	2.4	27.4	3.6	84
Trade	34.0	57.6	68.1	71.0	3.8	8.0	49.2	0.8	238
Restaurant	40.6	60.1	66.4	75.5	11.2	9.1	51.8	2.1	143
Accommodation	67.0	55.0	84.0	18.0	4.0	3.0	22.0	1.0	100
Transportation	38.0	46.0	68.0	66.0	4.0	2.0	26.0	2.0	50
Communication	4.0	34.0	68.0	36.0	12.0	4.0	42.0	2.0	50
<b>Had other business?</b>									
Yes	46.3	45.6	71.5	51.7	15.4	10.1	47.0	6.0	149
No	44.6	57.5	75.0	69.7	18.1	8.7	44.8	6.1	851
<b>Business financial manager</b>									
Self	45.6	57.5	76.5	68.9	18.2	8.7	46.7	6.2	771
Self with other's help	42.5	48.6	69.8	63.1	15.1	11.7	39.1	6.1	179
Other	42.0	54.0	68.0	52.0	20.0	2.0	36.0	4.0	50
<b>Financial capital sources</b>									
All belongs to the owner	48.3	57.7	75.4	66.6	18.5	8.9	44.1	5.8	752
Other	34.7	49.6	73.4	68.1	15.3	8.9	46.8	6.8	248
<b>Ever had services from cooperatives</b>									
Yes	57.1	52.9	72.9	71.4	22.9	12.9	52.9	8.6	70
No	44.0	55.9	75.0	66.7	17.3	8.6	44.2	5.9	930
<b>Had business partner?</b>									
Yes	37.5	47.7	73.9	59.1	25.0	9.1	43.2	9.1	88
No	45.6	56.5	75.0	67.8	17.0	8.9	45.0	5.8	912
<b>Business location = place of Residence?</b>									
Yes	47.8	61.1	78.5	68.2	19.4	12.1	49.2	4.7	506
No	41.9	50.2	71.3	65.8	16.0	5.7	40.3	4.7	494
<b>Total</b>	44.9	55.7	74.9	67.0	17.7	8.9	44.8	6.1	1000

Note: \* significant at p = 0.05; \*\* significant at p = 0.01; \*\*\* significant at p < 0.0001.

Table 3  
THE PERCENTAGE OF ONGOING USIT BY OTHER BACKGROUND CHARACTERISTICS OF USIT OWNERS, WEST JAKARTA, OCTOBER 2002

Other background characteristics of USIT owners	Percentage of USIT with										Number of USIT owners	
	Duration of business more than five years	Increased physical assets	Increased sales	Increased financial capital	Increased number of paid workers	Increased number of unpaid workers	Increased number of individual customer	Increased number of firm customer				
<b>Had DKI Jakarta identity card?</b>	**											
Yes	48.1	56.7	75.9	65.8	19.5	9.3	45.5	7.1			719	
No	36.6	53.0	75.2	70.1	13.2	7.8	43.1	3.6			281	
<b>Business location condition</b>												
Safe	45.5	55.5	75.1	67.4	17.8	8.4	45.3	6.2			940	
Other	35.0	58.3	71.7	60.0	16.7	16.7	36.7	5.0	**		60	
<b>Had problems in doing business?</b>												
Yes	45.7	60.6	73.6	70.7	20.9	11.8	45.5	7.5			508	
No	44.1	50.6	76.1	63.1	14.3	5.9	44.3	4.5			490	
<b>Economic crisis effects</b>	***	**	***	*	*		**	**				
No effect/increased	87.0	56.1	81.8	69.6	21.8	10.9	43.4	9.3			385	
Affected, can handle	89.8	74.1	84.3	75.9	20.4	11.1	33.3	4.6			108	
Affected, could not handle	69.2	46.1	69.2	61.5	15.4	7.7	15.4	0.0	***		13	
<b>Ever had training?</b>	*				***	**		***				
Yes	54.3	55.2	79.0	71.4	31.4	18.1	50.5	16.2			105	
No	43.8	55.7	74.4	66.5	16.1	7.8	44.1	4.9	*		895	
<b>Had financial aid during crisis?</b>	**											
Yes	58.8	57.7	72.2	73.2	16.5	10.3	55.7	11.3			97	
No	43.4	55.5	75.2	66.3	17.8	8.7	43.6	5.5			903	
<b>Business condition a year ago</b>	***	**	**	***	**	*	***	***				
Better	45.1	55.4	74.0	69.2	22.3	9.7	52.2	6.7			300	
Same	51.3	57.7	81.7	66.0	12.7	7.3	34.7	5.7			495	
Worse	46.0	61.4	72.3	72.8	17.8	12.4	46.5	6.4			177	
Could not compare	9.5	30.2	57.1	38.1	9.5	0.0	36.5	3.2			28	
<b>Business condition in the next three months</b>					*		**					
Better	42.9	52.4	76.0	68.0	19.3	8.7	54.9	8.4			275	
Same	45.0	59.3	73.2	60.7	14.3	7.1	36.4	4.6			280	
Worse	50.9	60.3	75.0	71.6	25.9	6.9	45.7	8.6			116	
Could not compare	44.4	53.8	75.4	69.9	16.4	11.2	43.2	4.6			329	
<b>Total</b>	44.9	55.7	74.9	67.0	17.7	8.9	44.8	6.1			1000	

Note: \* significant at p = 0.05; \*\* significant at p = 0.01; \*\*\* significant at p < 0.0001.

By other characteristics the percentage of USIT owners that experienced an increase in their business sales is higher for those who owned DKI Jakarta's identity card, could manage economic crisis effects, had safe business environment, did not experience difficulties in running business, ever had business training, did not get financial assistance, thought their business condition of the previous year was the same and thought their business following condition in the three months after the time of the survey is better. However, only being able to handle economic crisis effects on business and opinion about business condition a year before have significant impact on sales condition. This result confirms that there is survival spirit among USIT owners in expanding business in particular during difficult situation.

### 3.1.4 Factors Influencing Financial Capital Condition

The increase in financial capital is another indicator of growing USIT. The results of this study shows that by background characteristics, the percentage of USIT owners that experienced increased in their financial capital is higher for those who were female, aged 25-34, were married, had completed primary education and had four to seven dependents. The age, marital status and education of USIT owners have significant impact on financial capital condition.

By business characteristics, the percentage of USIT owners that experienced an increase in their financial capital is higher for those who had small scale and home industry, had no other business, managed their financial business by themselves, had financial capital source partly, ever got cooperatives services, had no business partner and run their business at their place of residence. Business sector, whether having another business and financial manager have significant impact on financial capital condition, indicating the important role of these **three factors** in business expansion through increase in financial capital.

The percentage of USIT owners with an increase in financial capital is higher for those who did not have DKI Jakarta's identity card, could manage the effect of economic crisis, had safe business environment, experienced difficulties in running business, ever had business training, got financial assistance during crisis and thought their business condition of the previous year and in the three months after the time of the survey was worse. However, only the ability to handle economic crisis effects on business and opinion about business condition a year before have significant impact on financial capital condition.

### **3.1.5 Factors Influencing the Number of Paid Worker**

Business expansion could also be measured by the increase in the number of paid workers. This study shows that the percentage of USIT owners with an increase in the number of paid workers was 18 percent. The figure was higher for those who were male, aged 35-44, were married, had completed junior secondary education and had four to seven dependents. Only the sex and age factor of USIT owners do have significant impact on the number of paid workers.

The percentage of USIT owners with an increase in the number of paid workers is higher for those who had small scale and home industry, had no other business, managed their financial business by themselves, had financial capital source partly, ever got cooperatives services, had no business partner and run their business at their place of residence. Only business sector has significant impact on the number of paid workers, indicating the important role of this factor in business expansion in terms of an increase in the number of paid workers.

By other characteristics the percentage of USIT owners with increase number of paid workers is higher for those who owned DKI Jakarta's identity card, did not experience economic crisis effects, had safe business environment, experienced difficulties in running business, ever had business training, did not get financial assistance during crisis, thought their business condition a year before was better and thought that their business condition in the three months after the time of the survey will be worse. Among these characteristics, namely having DKI Jakarta's identity card, experiencing problems in running business, experiencing economic crisis effects, had training, and opinion about their business condition in the past and in the future all play an important role in the increase of the number of paid workers. This finding shows that having DKI Jakarta's identity card, having difficulties and training might in fact support a USIT owner to expand their business by increasing the number of paid workers. Those who had DKI Jakarta's identity card probably have easier access to more workers if they need them in order to obtain a target amount of their product. Those who experienced difficulties in running their USIT might solve the problems by increasing the number of paid workers and at the same time expand their business. It is possible that these USIT owners are those who have to meet orders for their products and do not have enough workers to produce. Those who had business training

visibly gain new strategy to increase their products and fulfill the purpose by increasing the number of paid workers.

### **3.1.6 Factors Influencing the Number of Unpaid Workers**

Another indicator of growing business is the increase of the number of unpaid workers since the business was started. The results of the study shows that only a small proportion of USIT owners increased the number of their unpaid workers (about nine percent) after they started their businesses. This figure is higher for those who were female, were aged 35-44, were married, had no schooling or did not complete primary education and had seven or more dependents. The sex, education, marital status and number of dependent of USIT owners have significant impact on the number of unpaid workers. These findings indicate that female USIT owners are more likely to expand their business but by increasing the number of unpaid workers. Married USIT owners as well as those with seven or more dependents might have more access to unpaid workers in order to increase their products. USIT owners who had no schooling or with incomplete primary education are also tending to increase the number of their unpaid workers in order to grow their businesses.

Having small scale and household industry, as well as another business, managing business finance with other's help, having services from cooperatives, business partner and running business at place of residence all lead to higher chance of growing business through the increase in the number of unpaid workers. However, only business sector and business location that have significant impacts on the chance of increasing the number of unpaid workers. This may be because usually owners of small scale and household industry and those who run their USIT at their place of residence have higher needs to increase the number of their unpaid workers.

The percentage of USIT owners that experienced an increase in the number of unpaid workers is higher for those who had DKI Jakarta's identity card, could manage economic crisis effects, had quite safe business environment, experienced difficulties in running business, ever had business training, got financial assistance during crisis, thought their business condition a year before was worse and thought that their business condition in the following three months will be better. Among these characteristics, the condition of business location, the difficulties in running business, having

business training and opinion about business condition in the past all have affected the number of unpaid worker significantly.

### **3.1.7 Factors Influencing the Number of Individual Customer**

The increase in the number of individual customers is an indicator of business expansion. The results of the study shows that about 45 percent of USIT owners experienced an increase in the number of individual customers. The figure is higher for those who were female, were aged 15-54, were unmarried, had completed junior secondary education and had three or less dependents. Among these factors, the sex and age of USIT owners have significant impact on the increase of business customers, indicating that certain sex and age group of USIT owners have unique ability to attract new customers.

The percentage of USIT owners that experienced an increase in the number of individual customers is higher for those who had small scale and household industry, had another business, managed business finance by themselves, had other financial capital sources, had services from cooperatives, did not have business partner and run the business at place of residence. However, only business sector and business location that have significant effects on the number of individual customer. This result confirms that running a USIT at place of residence could make a business grow as shown by the increase of the number of individual customers who could easily find the location. This is particularly true when the business is run near the office areas or residential areas.

By other characteristics, the percentage of USIT owners that experienced an increase in the number of individual customer is higher for those who had DKI Jakarta's identity card, did not experience the effect of economic crisis effects, had safe business environment, experienced difficulties in running business, ever had business training, got financial assistance during crisis, thought their business condition a year before was better and thought that their business condition in the three months after the time of the survey would be better. The factors that determine individual customer condition significantly are whether they experienced the effects of economic crisis, whether they received financial assistance during the crisis and how they judged the condition of their business in the past and in the future. This finding confirms the importance of financial assistance to USIT

owners during economic crisis in order to expand their business through the increase in the number of individual customers.

### **3.1.8 Factors Influencing the Number of Firm Customer**

Another indicator of the growth of a business used in the study is whether there is an increase in the number of firm customer. Only six percent of USIT owners experienced increase in firm customer during their business. The figure is higher for those who were male, were aged 45-54, were married, had no schooling or had incompleting primary education and had four to seven dependents. None of these characteristics affect firm customer condition significantly.

By business characteristics, the percentage of USIT owners that experienced an increase in the number of firm customer is higher for those who had small scale and household industry, did not have another business, managed business finance by themselves, had other financial capital sources, had services from cooperatives, had business partner and run business at place of residence. Among these factors, only business sector has significant impact on the condition of firm customers. This indicates the nature of this factor that determines most whether a USIT has firm customers or not.

The percentage of USIT owners that experienced an increase in the number of firm customers is higher for those who had DKI Jakarta's identity card, did not experience the effects of the economic crisis, had safe business environment, experienced difficulties in running business, ever had business training, got financial assistance during crisis, thought their business condition a year before was better and thought that their business condition in the three months after the time of the survey would be worse. Having DKI Jakarta's identity card, having difficulties in running business, experiencing economic crisis effects, having business training and getting financial assistance during crisis all these determine the number of firm customer condition significantly. This finding confirms the role of these factors in increasing the number of firm customers.

## **3.2 Factors of Business Success**

The results of contingency table analysis are displayed in Table 1, Table 2 and Table 3. Table 1 presents the percentage of growing

USIT by demographic and socioeconomic background characteristics of USIT owners. Table 2 displays the percentage of growing USIT by business background characteristics of USIT owners. Table 3 presents the percentage of growing USIT by other background characteristics of USIT owners. The significance effect of a background characteristic on a growing USIT indicator at a certain significance level is indicated by the presence of the star(s) above the value of the percentage.

#### **4. Closing Remarks**

This study investigates the role of internal factors (socioeconomic and demographic characteristics) and external factors (business and other characteristics) of USIT owners on the expansion of business in term of business survival as well as in the form of an increase in physical assets, sales, financial capital, the number of paid workers, the number of unpaid workers, the number of individual customers and the number of firm customers. The results of the study confirm the important role of both internal and external factors on the expansion of a USIT.

However, it is felt that it is difficult to define the informal-small-scale and informal-traditional industry (USIT) in the study. Therefore, detail definition, classification and coverage of small and medium scale industry (UKM) should be reformulated. This reformulation is needed if there is a plan to conduct an alternative intervention program.

Most USIT owners did not use the facility of business loan from the bank because of the high interest rate, difficult procedure and were not interested. Therefore wider access to financial sources should be opened for small-scale industry owners. The bank should redesign its loan scheme to make it more friendly and can reach small-scale industry owners who need financial loan for their business.

Having partner could expand business. Therefore, identification of medium and large-scale industry that can be partner for USIT owners is needed as input material for the UKM. In addition, support from cooperatives also helps USIT grow. The role of cooperatives in supporting USIT should be enhanced not only in the form of materials and financial capital but also.....

Most USIT owners manage their business by themselves. In addition, economic stability and financial resources are the two factors stated to have



affected the growing of a USIT. Access to information about financial assistance from the Government is inadequate. The assistance from the Government in form of business training is lacking. Therefore, the Government should improve the ability of USIT owners to manage their business, in particular financial management since they have low skill in this aspect. The Government should also make real effort to achieve economic stability and to announce any information on financial assistance to USIT owners in order to help them grow and in turn will improve the quality of their lives.

## 5. Acknowledgement

The study was supported by the research grant from the *Badan Perencanaan Pemerintah Daerah* (Regional Development Planning Board) of DKI Jakarta of the 2001/2002 fiscal years.

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