

# The Footwear SMEs Value Orchestration in Mojokerto

Juliani Dyah Trisnawati

Management Department, Faculty of Business and Economics Surabaya University

E-mail: jdtrisnawati@gmail.com

## Abstract

The single market of ASEAN countries which has been named as the ASEAN Economic Community (AEC) by the end of 2015 makes the competition among enterprises becoming more intense. One of the strategies to win the competition is to produce qualified and innovative goods and services by involving the customers in the value creation of goods and services. This study aims to provide an empirical description of the process of value creation through the orchestration of resources in the Small and Medium Enterprise (SME) sector of footwear in Mojokerto East Java Indonesia which has been survived so far in confronting the market competition. Sample data obtained from five SMEs which directly selected as informants and then in-depth interviewed. By using qualitative analysis we have got the result that's the SMEs owners indirectly has been doing orchestration of its resources nicely in the value creation process. The harmonious-managed resources are human resources, materials, infrastructure, work environment, and corporate governance. Even more unique is the despite limitations on the human resources, especially at the staff level, where the majority of jobs in non-production job is still done by the owners themselves, which sometimes assisted by other family members (wife / husband). This function of the owner, making the owner to act becomes the inspirator, facilitator, and also at the same time becoming the employees in the process of value-added creation of qualified and innovative products.

Keywords: orchestration of resources, SMEs, quality, innovative

## 1. Introduction

The implementation of the free ASEAN single market or namely as the ASEAN Economic Community (AEC), which began in late 2015 led to the intense competition among enterprises. This competition is also experienced by the small and medium entrepreneurs (SMEs) in Indonesia, therefore they should strive to be survived in the competition. The role of SMEs in Indonesia is significant in the jobs creation, because it employed 95% of the workforce and contributed Rp 4,303 trillion per year in the GDP (Kompasiana, 2015).

Small and Medium Enterprises (SMEs) is in accordance with Act No. 20 of 2008 on Micro Small and Medium Enterprises of the Ministry of Cooperatives and SME, is a company /

organization that produces goods and has a net worth between Rp.50.000.000,00 (fifty million rupiah) and Rp.500.000.000, 00 (five hundred million rupiah) not including land and buildings; or have an annual sales turnover between Rp.300.000.000,00 (three hundred million rupiah) and Rp.2.500.000.000,00 (two billion five hundred million rupiah). Presidential Decree no. 99 In 1998 describes that small businesses are economic activities with small scale business sector in the majority of the business activities and need protection in order to prevent unfair competition.

The current SMEs problems are related to the difficulty in marketing, financial limitations, limited human resources, raw material problems, and limitations of technology (Wiratech, 2015). SMEs must have values and strategies that can

be used as a reference to win the competition. One of the strategy to win the competition is to produce qualified and innovative goods and services. Discussing SMEs we can not ignoring East Java, because according to a statement Kemenkop SMEs, Anak Agung Gede Ngurah Puspayoga, until now East Java SMEs are the best engine compared to other cities in Indonesia (Citizendaily, 2014). Mojokerto city is one of the cities in East Java which was important in the development of footwear businesses, because the city has become the center of the cluster development of footwear in Indonesia where SMEs play important role in the production.

SMEs development has close relation with product and service value creation. These values are important because it becomes a guide to the way employees work in SMEs. The majority of small business owners manage their businesses based on the value creation rather than adopting a modern management. Therefore, the product and service value creation process can be used as a guide in managing good and sustainable SMEs.

This study describes a situation where the value proposition is developed outside conventional value, ie proposing entities outside the boundaries of traditional companies. This traditional view is when the management of a company integrates its internal resources and in accordance with the legal agreements (Williamson, 1979; Grant, 1996). The term orchestration in this paper is means activity to manage and closely associated with the concept of control (Mintzberg, 1976) which leads to the activities within an organization. Thus orchestration in this paper is a concept that refers to activities that aim to support the value-added creation process by influencing the company to undertake the integration of the resources required to meet customer desires. These activities are not only limited to facilitate

the interaction between the actors involved, but also as an inspirator in the value creation process. Orchestration metaphor according to Drucker (2007), is similar with the management of a company which is illustrated as a composer and the music collection in an orchestra. Value creation is an interactive effort involving actors outside the firm's boundaries and fit for use although it is out of the company's control (Vargo and Lusch, 2004).

The purpose of this paper is to provide an empirical basis of value creation and orchestration of resources of SMEs. Therefore, this study tries to decipher the issue of value creation in business relationships (Vargo and Lusch, 2004; Sheth and Uslay 2007; Grönroos, 2008; Varga et al, 2008 ;. Grönroos and Ravald 2009) by analyzing examples of an industry where the roles of the value proposes interchanging. This study is important because it is empirically explore value creation, in the context of dynamic business, and therefore it may contribute research management field which believes that the integration of resources needs to be regulated (Baron and Harris 2008 ;. Vargo et al, 2008).

## **2. Literature Review**

### **2.1. Value and value creation**

In economics, value is considered as customer benefits obtained from goods and services. According to Woodruff (1997), value is something felt and can be evaluated by the customer, whereas the customer value is customer preferences that can be sensed and evaluated based on the attributes of a product or service in order to achieve customer objectives. Therefore just the customer itself who can understand its value through the process and experience in using a product or a service (Normann, 2001; Prahalad and Ramaswamy, 2004; Grönroos, 2006). Values used by the

customer emerges from the process of value creation and value support resources, as well as the interaction between the producers and the customers. Interaction is reciprocal action between two or more parties become one integrated process and both are influential (Ballantyne and Varey, 2006; Grönroos, 2011).

Value creation is the primary goal of any business enterprise. Value creation is a performance of actions that can increase the value of goods, services or even business. Many businesses are now focusing on the value creation in order to create better value for customers in the purchase of goods and services, because the creation of a value for customers may increase the sale of products and services. Customers will not experiencing any value if the customer decides not to get involved and take advantage of the value by sacrificing time investment, activities and resources.

The value creation process requires the interaction between the company and the customer (outsiders) as a partner (Prahalad and Ramaswamy, 2004). According to Grönroos (2008), this process requires interpersonal contacts between companies and customers (co-creation), and or resources produced by the company which can be used by the customers to create value (value facilitation). Therefore value creation requires at least two active parties.

### **2.3. Resource integration**

The value will emerge from the integrated interactive process between the company and its customers, along with sharing knowledge and skills. Value creation is interactive efforts by the company outside the boundaries of traditional perspective. Therefore when companies apply the logical perspectives service, the company should have a wish to do an orchestration of value creation, rather than merely manage the

integration of traditional resources (Gidhagen, et.al., 2011).

### **3. Research Methods**

This research uses qualitative interpretative approach. The data used is primary data as the data obtained directly from the source through interviews (semi-structured interview) which are the informants who know the problems of the research, and the observation to the place of occurrence. Data collection methods used are interviews (in-dept interview), field observation and document analysis. The all three methods of collecting such data is not partially used alone, because according to Efferin et al. (2008) the data obtained from the three methods can complement each other as well as to become a method of data verification between one another. In further analysis, the data obtained must meet the criteria of validity and reliability. Efforts to minimize the bias of the study is conducted so that the data obtained can meet the criteria of validity and reliability. This is done by triangulation which can increase the sensitivity of the researcher to interpret subtle clues.

The target of this research is footwear cluster SMEs in East Java with the sample Mojokerto regency which has become the largest Footwear Industry Center in East Java. Informants are 5 entrepreneurs of SMEs footwear in Mojokerto. According to Neuman (2003: 494-395), an ideal informant must meet four characteristics, namely: (1) very familiar with the culture of the phenomenon being studied, (2) is directly involved in the phenomenon being studied, (3) fully able to work together with investigators, and (4) no analytical or invent theories to assess the situation or incorporate various ideas from the outside, such as the mass media or educational background in providing an explanation of what was going on.

The data obtained either from the interviews and observations, verified by analysis of written documents within the SMEs. Analysis of the document begins with a compilation of important documents then sorted based on the relevance to the research level. Furthermore, the documents selected then analyzed in depth to understand the message contained therein.

#### **4. Qualitative Analysis and Interpretation of Results**

Most of the SMEs footwear in Mojokerto this is a hereditary business, but over the time, many of the next generations are not willing to continue the business of his parents for various reasons. Some of them have been doing the business because they already have experience in the production of footwear, for example, have worked in a factory or SME footwear. The types or the shapes of footwear manufactured by the five SMEs are slippers and shoes for men and women using leather or synthetic materials. All of five SMEs observed in this study said that the customer value creation is focused on the product design and development, as well as the selection of the raw materials for the production of footwear.

The initial step before producing the footwear is creating the design. The design can be made by the examples brought by the customers, and also the design is made by the creativity ideas of the SME owners. The design creation emerges from the owner's own creativity which enriched by models that have been made, and also through visits at various stores or from the internet browsing. Once the design is finished, then they start making a footwear sample that will be offered to consumers.

Before selling its products, one of the footwear leather sandals producer always conduct trials involving the local population by providing new slippers for free and asked them to use it

frequently and reminding them not to save it. This step is conducted in order to get feedback of the model, either on the physical attributes of the sandals as footwear, the comfortability, and the durability. The information obtained from the feedback may prevent the products from being not meet the customer requirements. The feedback will be used by the SMEs to improve the model shape, the raw material, even the manufacturing processes. Furthermore, after the re-design, the sandals were tested again to the local population and then re-evaluated again. This product testing is also performed for the products ordered by the customers who brought the slippers model sample.

The value creation in the design and development stages of the products made by SMEs shows their intensive engagement between the two sides or two parties, namely the SME as the producers and the customers as the users. The initiative of the SMEs to have test before the product is submitted to the customer will deliver value to the customers and to the SMEs themselves.

The second value creation in the SMEs is related to the selection of raw materials. In an effort to meet the needs of raw materials, the SMEs should be able to provide sufficient budget to purchase raw materials, especially the leather raw materials as the main raw material which is also has the highest prices compared to other raw materials. The footwear manufacturing process also requires other materials, ie yarn, latex, glue, texon, tamsin, and some accessories. All SMEs will have budget limitation constraints. This budget constraint makes the SMEs have to be selective in the selection of raw materials, because raw material quality will directly influence the production.

All SMEs tend to buy or directly order the leather raw material from the suppliers in Magetan city, while they generally buy the

readily available supporting materials from around Mojokerto city. Actually the leather raw materials are also available in Mojokerto area, but the price is higher than the direct buy in Magetan city as it is known as the best leather-producing city in Indonesia.

The two examples of value creation has been well done by the SMEs (design and product development, as well as the selection of raw materials). With a simple management in the partnership with the customers, it shows that SMEs have been properly conducting the orchestration of its resources on a limited basis in order to their business continuity.

## 5. Conclusion

The importance of the results of this study indicates that the value creation by engaging

customers is indispensable for the survival of SMEs, because their small businesses have to confront numerous competitors, as well as the increasing number of new competitors that have sprung up since the enactment or the implementation of the MEA.

Regarding the efforts undertaken by SMEs for the value creation, it is necessary that the government's role in improving competencies and value creation and provision of resources such as appropriate technology proficiency needed by SMEs, since those resources are vital to improving the quality and the production capacity.

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