

Conference Paper

Working Capital of Kampoeng Batik Jetis Sidoarjo SMEs in East Java

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Abstract

The purpose of this study was to examine the source and use of working capital at Kampoeng Batik Jetis Sidoarjo SMEs. It was conducted using a qualitative descriptive method. The results showed that the source of working capital was mainly personal, such as family money, savings and ploughing back profits. Funders and formal financial institutions such as banks did not play significant roles in financing SMEs due to the complexity of credit procedures and requirements. The use of working capital was limited to the purchase of raw materials and wage payments.

Keywords: Working Capital, SMEs, Kampoeng Batik Jetis Sidoarjo

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1. Introduction

Kampoeng Batik Jetis Sidoarjo produces typical Sidoarjo traditional handmade batik. It is located in the city center, precisely on the Diponegoro Street. This place was established decades ago, and the expertise of the community in making batik is gained and mastered across generations. Importantly, the potential of the community led to the establishment of Sidoarjo Batik Association (BPS) on April 16, 2008. The inauguration of the Jetis market as a batik industrial area took place on May 3, 2008, by the regent of the district government. The construction of the Kampoeng Batik Jetis gate as the entrance to the village began right after the inauguration. However, the buildings were constructed in impressive old-style house architecture equipped with large windows and antique iron bars.

The batik produced include pieces of cloth, *jarik*, and sarong, and the prices vary from IDR 75,000 to 2,500,000, depending on their complexity. Moreover, they are marketed to several regions, including Surabaya, Makassar, Solo, Bali, Gresik, Madura, Jakarta, Aceh, and Jayapura. During the reign of the former regent, Win Hendrarso (1999 – 2010), a large number of the government officers' uniforms and activity clothing were

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entrusted to it. Also, the visitors are not only from the country, but also such as Australia, Japan, and Switzerland. Nevertheless, the number of entrepreneurs is decreasing in the region. There are only 10, 3 of and three of them also work as craftsmen. Additionally, each of the entrepreneurs has around 6 – 30 employees, both working in the production house and outside. The ones in the production work and take part in all the activities involved in selling and buying, while the other category works on the processes of making batiks, such as sewing and patterning.

Since it has a significant role in the economy of the area, coaching and development from the government must be conducted for businesses to overcome the problems faced, become better, advanced, and independent. For this reason, the government is currently empowering, developing, and encouraging “Kampoeng Batik Jetis Sidoarjo,” thanks to its impressive cultural heritage as a village. Importantly, Batik is a cultural heritage of the archipelago, which has officially been recognized by UNESCO and included in the representative list as the Intangible Cultural Heritage of Humans (Kompas, October 2, 2009). SMEs entrepreneurs must be able to develop their business and improve the sharpness of visions. This will enhance its performance, considering the increasingly tight competition globally. However, in the globalization era, not all SMEs are able to maintain their existence. Several have closed down or gone bankrupt due to inability to cope. In running their business, there is a need for working capital, either from within the venture or through debt. In other words, any funding of operations might be obtained from two sources, including equity from business owners and debt obtained from other parties.

According to Kasmir (2012: 250), working capital are “the funds used to finance the company’s operational activities. It is an investment in current or short-term assets, such as cash, banks, securities, accounts receivables, inventories, and current assets.” If an SME is able to optimize and use its working capital efficiently, its operational activities might increase profitability. It is imperative to regulate the source of working capital and how it is used for the smooth running of the business operations to increase the chances of survival. Furthermore, Riyanto (2005: 54) explained, “efficiency of working capital is using its sources as much as possible without any extravagance.”

According to Ramdhansyah & Silalahi (2013), MSMEs are still facing capital problems, both internally and externally, and this makes it difficult to develop. Also, the results Sugiono (2015) showed working capital originated from members’ dues at the beginning of the business establishment. As a result of business operations, retained earnings provide additional working capital and cover any shortage. Its usage should be limited to the purchase of raw materials and wage payment to improve the economic prosperity

of the community, especially for the batik craftsmen. Moreover, it is also a form of preservation of Sidoarjo's local cultural products.

2. Method

This study used a descriptive qualitative method. According to Denzim & Lincoln in Moleong (2010), this approach is based on natural facts to interpret the phenomena. It combines various methods, including analyzing directly the condition of the object and how it runs, interviewing the related parties and interpreting the data obtained. The data collection techniques used include interviews, observation, and document review. The informants selected were all batik entrepreneurs with a total of 10 respondents at the Kampoeng Batik Jetis Sidoarjo and the chairman of the Sidoarjo Batik Association.

Data analysis was conducted during and after the completion of the data collection within a specified period (Sugiyono, 2009: 246). An interactive pattern developed by Milles and Huberman in Ahmadi (2014), including data reduction, data presentation, and verification/conclusion drawing was adopted in this regard.

The validity of the data was examined using the triangulation technique, a model of improving the possibilities that the findings and interpretations might be trustworthy (Ghony, 2012). According to Sugiyono (2009), the metis divided into three, including source, technique, and time triangulations. The stages involved in this study included determining the focus, setting, and subject, then collecting, processing, analyzing, and presenting the data (Suyanto, 2015).

3. Result and Discussion

3.1. Sources of Working Capital at SMEs Kampoeng Batik Jetis Sidoarjo

There were two primary sources of working capital in SMEs Kampoeng Jetis Batik. These include

3.1.1. Own Capital

The source of working capital of SMEs Kampoeng Batik Jetis Sidoarjo was obtained from members. The initial capital was from parents as owners succeeded by their children. The working capital could not be valued because it d was derived in the form of assets.

According to the SMEs entrepreneurs, this business must be continued for a foreseeable future since it is a source of living for their family. Most of the entrepreneurs are family predecessors. Some of them obtained working capital the savings and had never owed a debt from any funding agency. Nevertheless, others used money meant for other purposes in the family.

3.1.2. Profits from the Previous Period

Earnings from the previous period were the primary source of capital, and the craftsmen could use them to finance production activities. However, the amount of the profits obtained was not known precisely due to limited records and the money collected from the sales was directly used for expenses whenever needed. The profits from the business were not only in the form of money but also as supplies, such as the remaining raw materials which could be used for the next period. In essence, all profits from the previous period were managed and set aside for the upcoming fiscal year of the business.

The SMEs entrepreneurs believed the profits from the previous period were more likely to be used for as capital to help the business grow and earn more. Although the precise amount was uncertain, the difference between production costs and earnings were the net profits. These amounts were not directly used for personal needs, but instead saved for the next period.

The sources of capital used by the entrepreneurs were only from the two internal sources discussed above. External sources such as loans from banks were the last options if the capital owned was limited. Furthermore, the entrepreneurs' inability to repay the debt necessitated the need to minimize liability.

Lots of People's Business Credit (KUR) financing products had offered loans to the entrepreneurs. However, they did not want to deal with the debt and credit processes to avoid risking the financial status of their business. Instead, they always used the working capital with personal savings and family money. The business had never experienced working capital shortage to require financial institutions' help. No matter how the condition is, they must use personal money since the family manages it, and there has never been interference from other people. Moreover, it is run as it is, as much as they are capable, like any other business and do not make detailed reports or records.

Entrepreneurs had past experiences with bank loans. Some thought it was exciting, but it turned out to be terrible when it came to repayments. Since they were late, they

had to pay fines and related penalties. Therefore, they resolved never to owe debt again, but instead use capital from the benefits obtained. Moreover, they also admitted that they had never owed a debt for their business anymore, only for personal needs.

Furthermore, the role of funders and formal financial institutions was relatively limited due to the complexity of credit procedures and requirements for approval. The portion of the capital mentioned showed the own capital was more dominant. The entrepreneurs only thought of external capital if the situation was urgent. Nurul Huda, the chairman of the Sidoarjo Batik Association, did not prefer loans since it could disrupt the business operations. For this reason, guidance from financial institutions for entrepreneurs is always conducted regularly in Kampoeng Batik Jetis Sidoarjo. Additionally, there is a program from the Ministry of Cooperatives and Small & Medium Enterprises, referred to as the MAP Model (Initial Capital Funding), which was designed to develop capital in SME centers. Nurul Huda always directs and supervises this production place on financial and capital matters, and so far, there had been no problem.

4. Uses of Working Capital by SMEs' Entrepreneurs

The uses of working capital in SMEs Kampoeng Batik Jetis Sidoarjo was slightly different due to the absence of complete financial records, only relying on the entrepreneurs' memories. It was only used for raw material purchasing and wage payment. The entrepreneurs believed the most important thing was that the business was still running.

4.1. Raw Material Purchasing

The most important use of working capital was purchasing the raw material due to the long and repetitive process of making the batik. It takes about one month to produce one piece of batik cloth ready to be marketed.

The primary raw material in the batik process is *mori* fabric. Most of the entrepreneurs purchased it once a month. However, others only acquired it once in two months, following the requirements of each batik process. This cloth might be bought at *Pasar Grosir Surabaya* one yard up to one roll depending on the needs.

Other supplies that must be purchased were auxiliary raw materials, including wax and dyes. The dyes used were natural and synthetic/artificial with various sources. For instance, the natural dyes are usually obtained from the extracts of various plants such as wood, roots, leaves, seeds, and flowers with different colors. However, they are not strong enough to last long on the batik cloth. Therefore, synthetic dyes are required

to cover the low concentration of color pigments, uniform colors not good enough, and perfect the unsuitable hue spectrums. The synthetic dyes are materials for basic and generating/motif colorings such as naphtol, rapid, and Indigosol. These are usually purchased once a week, or after 14 days. There are still some who acquire them once a month depending on the requirements of the craftsmen and the need to finish batik cloth with various kinds of motifs.

Batik equipment such as *canting*, frying pan or small stove for heating or melting the batik wax, *gawangan* for supporting the fabric, *dingklik*, pendulum for holding the batik cloth, tablecloth, and wooden tables for straightening the fabric surface were only changed when the equipment was utterly broken and could not be used anymore. Therefore, there was no specific budget for it or a regular change. The entrepreneurs assumed that if the equipment still could be used in production, then they would not change it to avoid waste.

This raw material purchasing was meant to facilitate the routine production process to ensure the existing working capital would not be useless and result in losses. And therefore, the existing working capital was always rotated for production to obtain profits.

4.2. Wage Payment

The working capital was used for wage payment. The workers were categorized into artisans, assistants, and shopkeepers. The payment system varied; some were paid following the piece-rate system, and some others were remunerated daily. Usually, the piece-rate system was applied if the market was crowded, and they required additional workers to meet the number of orders. Moreover, some entrepreneurs paid their craftsmen once a week following the cloth production. The wages also varied, depending on the complexity and quantity of the batik cloth produced.

For the daily payment system, the craftsmen received wages of up to IDR 150,000/day. The salaries varied depending on the work assigned. The ones in charge of the significant *canting* process were paid IDR 10,000/piece, while the individuals in the small *canting* process received IDR 12,000/piece, depending on the complexity of the motif. Also, others were given IDR 15,000/piece, while individuals working on the batik shirts got IDR 50,000/shirt since the process involved is quite tricky. The wage payment was in the afternoon upon the completion of the batik process. However, some craftsmen asked for their wages to be paid once a week.

On the piece-rate system, the craftsmen were usually paid about IDR 200,000 – 250,000/day. This system was applied if there were orders from the district government.

It requires the craftsmen to finish batik cloths following the market demand with limited time; therefore, the wages are also high. The craftsmen were around 10 – 30 at each batik kiosk, but the ones registered in this system were about 5 – 8. Overtime hours were not applied to all craftsmen. Only 8 hours per day was required, except on Friday, where there was break time at 12.30 p.m. to 1:30 pm for resting, prayers, and lunch.

The wage payment of the assistants and shopkeepers was managed every month. The number of assistants and shopkeepers at each stall were around 3 – 4 people, and they worked in a shift system. In general, several methods were used in the wage payment at the SMEs Kampoeng Batik Jetis Sidoarjo applied.

5. Conclusion

The sources of working capital at SMEs Kampoeng Batik Jetis Sidoarjo were mainly from family money, savings, and profits from the previous period. The SMEs entrepreneurs did not use capital from bank loans due to their limited ability to repay.

The uses of the working capital were limited only for raw material purchase and wage payment. The financial records were minimum, and the entrepreneurs relied on their memories for the total expenses and incomes. This was referred to as the management of financial records with a pocket model.

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