

# Managing creativity in SMES: The importance of cultural and social capital.

Elvy Maria Manurung\*

Department of Economics, Parahyangan Catholic University, Bandung, Indonesia

## Abstract

**The era of creativity presents a variety of new consumer needs. Consumers are getting smarter and choose to experience more on products they want. The competition gets tighter. Producers need to manage their creativity better, especially those among small and medium business. Many researches have been done on SMEs that focused on the lack of financial capital and its access to loan from bank. However, research on SMEs bankruptcy and its unreliability to compete and stay competitive are still rare. This research is conducted with qualitative method using several case studies in small-medium businesses in West Java. Three SMEs are chosen to be observed and interviewed. The result show that one of three companies was bankrupt. The case is different with one other company. Two businesses are survive not only because its focus on managing profit, but also because the owner is more concerned with managing creativity in form of accumulation of networking –defined as social capital– and cultural capital to sustain the business and win the competition.**

**Keywords:** SMEs bankruptcy, Creativity, Social capital, Cultural capital.

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## Introduction

Small and medium-scale businesses play important role for economic development, absorb enough numbers of labors, contribute to GDP and development, and increase social welfare. Not only serves in monetary aspect, their contribution also serves as innovation driving force in business which is 55.56% to GDP. The distribution of financial capital from bank have proved positive impact to strong then SMEs [1,2]. SMEs have an important role in encouraging economic development, and also have resilience when facing the global crisis. Encouraging the growth of SMEs becomes an important strategy in Indonesia. A current research on how SMEs develop in Indonesia give some results such as the strategy is to provide easy access for SMEs to financial capital and increasing marketing [3,4]. The main problems are faced by Indonesia SMEs, namely the limitations of SMEs in accessing external capital. The majority of SMEs rely solely on personal capital, in addition to the complexity of procedures when applying for credit in banks not to mention the difficulty of finding and providing guarantees to banks [5].

This is similar with the study of [6], which states that complexity of bank rules of access to capital has a large contribution to the failure of getting loan. Managing the environment of a good policy of capital lending would have a positive impact on business growth. Another empirical studies in Cambodia on distribution of microcredit to families shows negative effect on the welfare of the borrower's family [7]. Some researches on Indonesia SMEs have been conducted recently. Many are focused on how SMEs impact regional economy, and how to develop SMEs competitiveness. A research by Anton SA, et al. shows that financial capital has a positive

significant effect to business performance in SMEs industry [8]. The research also examines four other important factors that impact business performance, namely level of innovation and entrepreneurship, level of education (human capital), potential market, and business strategy, still play important roles to SMEs performance. The research result shows that high level of innovation could benefit high company growth.

Some other research on Indonesia SMEs also emphasize on the importance of financial access, by Mahmud and Huda [9]. Their research revealed that more than half (56%) of their respondents have access to financial institution. The interesting finding is that instead of borrowing money from creditor, they use retained earnings or private savings to expand their businesses. It turns out that SMEs tend to be conventional in doing business. The other reason not to borrow from bank is due to highly transaction cost with the lender and insufficient collateral (not certified yet) if they should put guarantee for bank. A recent study conducted by Suci YR on the development or growth of SMEs in Indonesia, have found that SMEs development still constrained by many factors. Three main factors are, (i) limited capital, (ii) managerial and operational limitations, and (iii) marketing limitations.

In contrast with previous studies on SMEs, this research emphasizes on non-surviving and bankruptcy of SMEs. This research aims to find out what happened with those SMEs and how young entrepreneurs manage their creativity in their small and medium businesses. The result of preliminary research that was conducted in 2015-2016 show that only 12% from 388 SMEs run by young entrepreneurs in West Java, focused on how their creativity could develop and expand the businesses. For instance, only 12% product of

West Java SMEs in fashion and culinary sectors boosting their business through new product design and packaging, and new promotion through online/digital business [8]. This research was conducted to continue the previous one, to explore more reason and explanation why creativity is still poorly managed

**Creativity and capital**

The creative era focuses on the creation and exploitation of intellectual property such as works of art, movie and TV programs, software, games, or fashion design, and includes creative services such as advertising companies, publishing, and design. Creative era arrived in the third millennium wave which was characterized by increased prosperity and by emerging new needs to find meaning when experiencing and consuming goods/services. Design workers are now replacing the knowledge workers to produce goods and services with full meaning and uniqueness [10]. Baker also saw that young people in developing countries are more challenged to overcome unemployment conditions in their countries by pioneering small businesses to boost the local economy [11].

Creativity has become the basis of economy and industry. Creativity as an intangible asset has proven to produce unique, valuable, and meaningful products and services. The notion of creativity is later expanded not only on individuals, but also on the processes within the organization or institution. Florida and Goodnight conclude that creativity is a key driver for social and economic growth [12]. Creativity becomes a field of research that has evolved over the years. Historically, creativity is rooted in the field of psychology that became the conceptual and empirical foundation, which focuses on the factors that enhance or inhibit creativity in different fields.

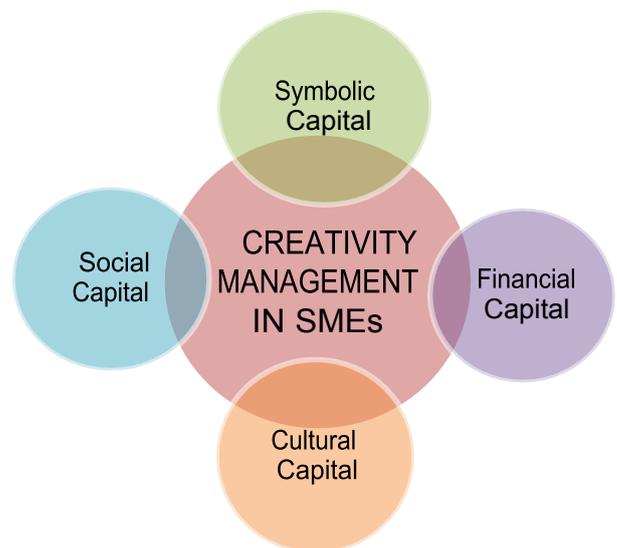
Until now, the notion of creativity has been growing. Creativity in management is considered as an *outcome* or result, as an excavation of ideas, solutions, and processes, and is considered as novelty and useful. The novelty and usability are important to be seen as creative. Therefore, if a novel idea has no usability, it cannot be regarded as creative.

Florida even mentions creative groups, “creative class” - which consist of creative individuals, as economic drivers. In his book *"The Rise of the Creative Class and How Its Transforming Work, Leisure, Community, and Everyday Life"*, Florida outlines ideas about three main components that must exist in a creative class, namely 3T: (i) Talent, (ii) Tolerance, and (iii) Technology. Florida explained that without the presence of educated talents –defined later as knowledge economy-- in certain area, the interrelation between them in value creation process cannot happened [12]. The second factor was a culture of openness, diversity, and inclusiveness that enabled each talent to socialize with one another. And the third factor is the level of use and existence of technology in a region that also determines the creation of creative classes.

Pierre Bourdieu, a French sociologist, offered ideas about capital which were not only limited to a financial capital. Capital, in Bourdieu’s theory, was a broad definition. Capital in Bourdieu’s theory was not limited to material objects, but also intangible ownership. Capital became a meaning of a field. Capital acted as social relation in exchange system. Some types of capital could not be exchanged with other types of capital (inconvertible). Capitals with the highest level of conversion, or powerful, were types of capital that could be converted into symbolic capital. Symbolic capital provided legitimation (legitimate authority) to someone regarding their class and status [13,14].

There were four types of capital influencing the society in determining the power related to social relationships and social gaps; they were (i) *material or financial capital*, (ii) *social capital*, (iii) *cultural capital*, and (iv) *symbolic capital*. Material capital showed the ownership of economic sources, later defined as financial capital, while social capital was the network of social relation owned by someone that could be beneficial in determining the reproduction of its social stance. Cultural capital had several dimensions; they were objective knowledge, creativity, taste and preference, formal qualification (such as degree), cultural skills such as writing skills, language skills, communication skills, and practical skills. Symbolic capital showed the owner’s high status, authority, and prestige. For example, the inherited good reputation, brand image, ways of making guest to wait, and so on. A research result by Adler PS also defines social capital and goodwill as a valuable resources to an organization [15]. Another study by Bell J et al. found that SMEs with knowledge-intensive-defined as cultural capital-have more impact on business strategy and internalization orientation, than traditional one [16].

Using four types of capital according to Bourdieu definition in Figure 1, three businesses case studies in West Java will analyze and explore how they manage their creativity [13].



**Figure 1.** Creativity Management in SMEs.

## Research Method

The research was conducted with qualitative methods, using five case studies of small and medium businesses in West Java at the beginning. During 2015-2016 five chosen SMEs run by young entrepreneurs which selected from 388 businesses observed in previous study being observed and interviewed. The fields of their businesses are vary, but the most chosen sectors by young entrepreneurs in West Java are: fashion and culinary [8]. No similar financial report (such as Income Statement or Balance Sheet) of five SMEs due to the lack of financial literacy of the owners. At the end of research, finally the financial staff were taught to make proforma cash flow to show company business performance.

A brief description of five small businesses being observed is explained in Table 1. Several report of their financial transactions and operational recorded by them are vary and summarize in Figure 1 and Tables 2-5.

### Case study 1:

B-Meatball was a franchise business bought by D and his family. Previously, he and his family had tried to engage in fashion field, making bags, but the business was failed. By employing simple financial record, the business has been recently established and started to show its profit. D started the business with quite huge initial capital from his parents. After eight months, he knew the exact number of money they had and the cost they made for each month though no

*Table 1. Description of Five SMEs.*

No	Brand Name	Length of Business Life	General Description
1	B-Meatball in Jakarta	4 years	Family business in culinary sector, franchise business
2	YY Ricebox in Bandung	5 years	Founded and run by a young couple who just graduate from university
3	Event Organizer (SP) in Bandung	8 months	A business started from birthday party run by a group of young student
4	CC Accessories in Cirebon	6 months	Founded by a young student with his sister based on their hobby of designing gloves for cellphones
5	PS Veil Hijab Store in Subang and Serang	1 year and 9 months	Founded by S an P who is cousin in 2 different cities, based on the same hobby of designing hijab (moslem fashion)

*Table 2. Sales Target and Achievement of "YY" 2015-2016.*

No	Month & Year	TARGET	Achieved (✓), or, Not (x)
3	Dec-14	Sales target 10 box per day;	x
		Event 50 box per day; and	✓
		New Store	✓
4	Jan-15	Sales target 15 box per day in store 1; 5 box per day in store	x
		2; and Event 75 box per day	✓
5	Feb-15	Sales target 15 box per day in store 1 and 5	✓
		box per day store2	✓
6	Mar-15	Sales target 20 box per day in store 1 and	x
		10 box per day store 2	x
7	Apr-15	Sales target 30 box per day in store 1 and	✓
		Event 100 box/day	✓
8	May 2015	Sales target 30 box per day in store 1 and	x
		Event 125 box/day	✓
9	Jun-15	Sales target 30 box per day in store 1	✓
10	Jul-15	Sales target 30 box per day in store 1 and	x
		Event 130 box per day	✓
11	Aug-15	Sales target 35 box per day in store 1 and	✓
		Event 140 box/day	✓
12		Sales target 35 box per day in store 1 and	✓
	Sep-15	Event 140 box/day	✓
13	Oct-15	Sales target 35 box per day in store 1 and	✓
		New Work Shop	✓
14		Sales target 35 box per day and Event 150	x
	Nov-15	box per day	✓
15	Dec-15	Sales target 35 box per day and Event 150	x
		box per day	✓
16	Jan-16	Sales target 35 box per day	x
17	Feb-16	Sales target 35 box per day and Event 150	x
		box per day	✓
18	Mar-16	Sales target 40 box per day and New Store	x
			✓

**Table 3. SP Income (Source: S, 2016).**

No.	Date	Event	Total Revenue
1	Nov 25, 2015	Birthday Dinner Couple	IDR 1.100.000
2	Dec 15,	Surprise Birthday	900.000
3	Jan 14 and 29, 2016	Wedding Anniversary	2.500.000
4	Feb 2 and 16	Birthday	2.500.000
5	March 15 and 27	Birthday	2.500.000
6	April 26, 2016	Birthday Dinner Couple	1.500.000
	<b>Total Income</b>		<b>IDR 11.000.000</b>

**Table 4. Merchandise Inventory in 2015( Source: CC, 2016).**

Month	Beginning balance	Sold	Ending Balance
August, 2015	5	5	0
September	10	2	8
October	28	8	20
November	50	4	46
December	76	38	38
January, 2016	38	-	38

**Table 5. Inventory of 2015-2016 (Source: PS, 2016).**

Month	Stock, beginning	Production	Selling	Stock, ending
March 2015	0	25	5	20
April – October	20	0	0	20
November	20	15	29	6

cashflow recorded and reported. Later, his parents plan to buy a storehouse to open a new branch, as an expansion of the business they had. “B-Meatball” still running until now in Jakarta. D and his family are not expand the business to other location or city due to a huge financial capital they should provide.

**Case study 2:**

YY is a box of meal culinary business established by a student name HH and her husband with their siblings. The business started from her hobby in cooking and having culinary travel to various regions in Indonesia and overseas, the owner wanted to serve complete meal for employees in office who did not have much time to have lunch. Her strategy was to pack the lunch in a boxed meal. The following table was the financial and sales record of YY in 2015- 2016.

Source: “YY”, 2016

The sales of products were carried out by two means, which were store (restaurant) and exhibition (event). Sometimes, sales from event were more obtained than sales from store. It could be seen that the sale achievement of YY was proven to be more maximum and exceeded its sales target through the events or exhibition they joined if compared to in-store (restaurant) sales. The owner (H and her husband) admitted that their business requires quite huge amount of capital and financing at the beginning, due to material and equipment purchases and employee training. HH and her husband and family still run their business and continue to expand. They tried to open several outlets in some mall in the city of Bandung with different menus and theme in each outlet. It looks like they using their creativity to promote and expand their business.

**Case study 3:**

SP is an event organizer (birthday, wedding anniversary, dinner couple), which was established S, a young university student collaborate with his friends. The income for the last six months was presented in Table 3.

According to S, the owner, doing this event organizer business making him happy and be a creative person. Unfortunately, the marketing strategy was not good enough and threats arise from competitors with new concept and design. In mid 2016, S decided to close his business.

**Case study 4:**

CC Accessories was a business on gloves for cellphones and tablet phone case, which were homemade by D and his sister. The beginning and ending inventory were recorded by merchandise sold for the last six months in 2015-2016 that is presented in Table 4.

The table of inventory show that there are still plenty of inventory in warehouse. CC products seems to take time to increase awareness and need more branding strengthening. In the first three months, this business require large enough financing for material inventory. Since the product design is still conducted by d himself, it seems that no new design in the last six months. It looks like D and his sister have difficulty finding orders and create new models using their creativity. At this time, CC business was already bankrupt. They decide to close their operation since the stock still have not sold yet.

**Case study 5:**

PS Veil was a hijab store business established by P and S

with their family. In the initial stage of production, the owner planned to produce on minimum 15 pieces of products with the consideration that they still need to do some adjustments towards market condition -- consumers' preference, model, and so on. The production resumed in March 2015 until November 2016 table of inventory. The selling had not reached the expected target. It looks like they need more promotion for raising awareness and branding.

Since there were still some stock remaining in November 2015, the remaining stock were sent to PS outlet in Serang (Banten area), to be sold. It seems that no sales happened from April until October 2015. PS Veil product is simple models. P and S have no new veil design until then. Although the material is soft and comfortable to wear, the customers did not repeat their orders. The company does not have networking with other business partner. This is PS weakness, lack of social capital. The product design was handled only by one person while the other person responsible to do marketing activities. Other threat come from their competitors who had

already released similar product with more design variation and creative marketing strategy. PS should enhance their marketing strategy and manage their creativity well if they want to stay competitive. Unfortunately, PS business is close now.

### Analysis

Those different financial reporting between SMEs making analysis and comparison from financial aspect difficult to do. To simplify the reports, three owners --who are still willing to provide the data-- were asked to make one-year preform of cash flow. The template was handed over them, and they filled it out as shown in Tables 6-8.

From five selected SMSs of previous research, two businesses are unwilling to prepare proforma of cash flow, they are already busy in a new workplace now. Those three proforma of cash flow Tables 6-8, show several important characteristics of each small and medium- scale businesses by young entrepreneurs, as follows:

*Table 6. B-Meatball Proforma of One-Year Cash Flow.*

<b>Operating Activities</b>		
Net Sales	IDR 1.800.000.000	
Purchase of Franchise Fee and Raw Material	(720.000.000)	
Salary Expense	(120.000.000)	
Utility Expense	(6.000.000)	
Marketing Expense	(3.600.000)	
Income Tax Expense	(190.000.000)	
Net Cash from Operating Activities		IDR 760.400.000
<b>Investing Activities</b>		
New outlet	(300.000.000)	
Net Cash from Investing Activities		(300.000.000)
<b>Financing Activities</b>		
New Borrowings from Bank	200.000.000	
Net Cash from Financing Activities		200.000.000
<b>Increase in Cash</b>		<b>IDR 660.400.000</b>

*Table 7. YY-Ricebox Proforma of One-Year Cash Flow.*

<b>Operating Activities</b>		
Net Sales	IDR 1.550.000.000	
Purchase of Raw Material	(420.000.000)	
Salary Expense	(360.000.000)	
Rent Expense	(100.000.000)	
Utility Expense	(12.000.000)	
Marketing Expense	(15.000.000)	
Income Tax Expense	(128.600.000)	
Net Cash from Operating Activities		IDR 514.400.000
<b>Investing Activities</b>		
New Furniture	(30.000.000)	
Net Cash from Investing Activities		(30.000.000)
<b>Financing Activities</b>		
Net Cash from Financing Activities		---
<b>Increase in Cash</b>		<b>IDR 484.400.000</b>

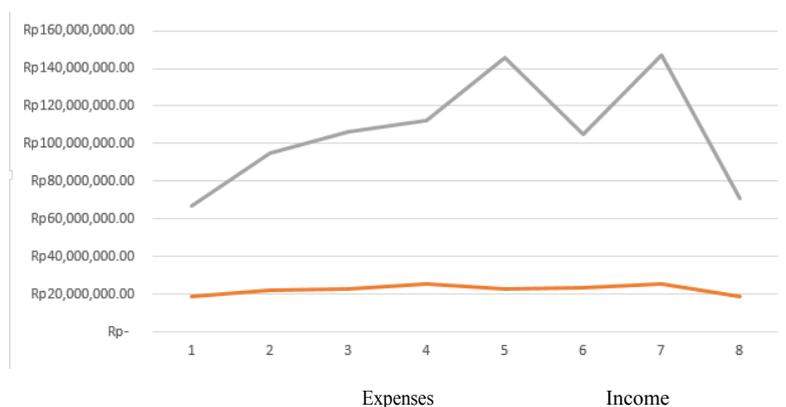
1. The importance of financial capital was found in B-Meatball to buy franchise fee, and purchase raw materials from their franchisor. The financial capital also needed to purchase some furniture and equipment. In the case of YY Ricebox, financial capital needed to pay the expensive rent expense, beside salary (for Chef) and raw material purchases that are not cheap. This is not the case for SP Event Organizer. S does not need huge financial capital to run his business, but S more rely on his network and friends to make the events.
2. It turns out that B Meatball and YY Ricebox do not need huge financial capital only to achieve high return and profit. The fact that B-Meatball in Jakarta and YY Ricebox in Bandung should have good image and reputation (branding) among their customers. The new recipe and taste, especially from H and her husband in her ricebox menus, increase the quality and fit the market condition. The creativity to make new menus and packaging encourage their customers to repeat the order. Experience, knowledge, and creativity become the powerful capital, or weapon, to make the business stay competitive. Digital marketing and online promotion by B Meatball and YY Ricebox via social media, also boosting their businesses to reach larger market and consumers.
3. In fashion and accessories business, to be creative is a must. Consumers always seek new design with affordable

- price. In this business sector, financial capital is not the most important or key factor to start the business. However, CC Accessories and PS Veil were failed. They cannot satisfy their customers through new design and uniqueness. Another problem came from poor marketing and promotion strategy. The customers did not repeat their orders and soon their businesses collapsed.
4. In the case of SP Event Organizer, the important resources are not financial capital. Social capital such as trust and friendship networking are. As many events succeed and satisfy the customers, the number of customers will automatically increase. SP was an example of creative sector of business using trust and networking. Unfortunately, the owner is lack of ideas, he is running the business alone and he does not have a creative team beside him. Later, he decided to close the business.

Each business still need to be creative in the future. B-Meatball is an example of business who need to be more creative. If this business only rely on their recipe from franchisor, and consumers get bored, only time will tell. The fast-flow of information to the customers will change their perception and knowledge of all culinary products including B Meatball. If B Meatball and YY Ricebox did not upgrade their businesses with new knowledge and market changes, the customers soon will leave them. Satisfactory comments from customers in social media also become an effective promotion to raise its

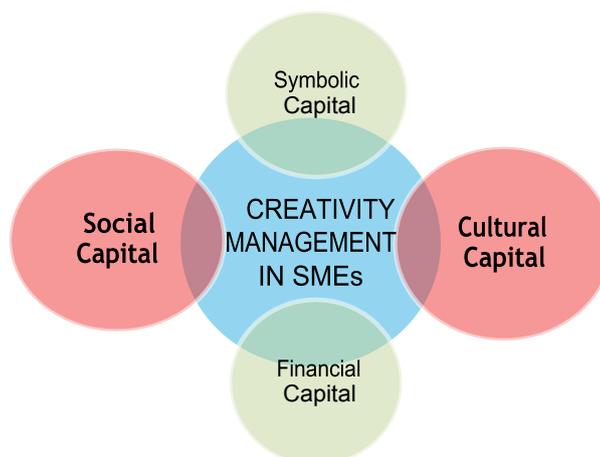
**Table 8.** SP Event Organizer Proforma of One-Year Cash Flow.

<b>Operating Activities</b>		
Net Sales	IDR 200.000.000	
Purchase of Supplies	(9.000.000)	
Salary Expense	(48.000.000)	
Marketing Expense	(3.500.000)	
Income Tax Expense	(20.925.000)	
Net Cash from Operating Activities		IDR 118.575.000
<b>Investing Activities</b>		
Net Cash from Investing Activities		---
<b>Financing Activities</b>		
Net Cash from Financing Activities		---
<b>Increase in Cash</b>		<b>IDR 118.575.000</b>



**Figure 2.** Loss/Profit obtained in 2015-2016.

**Source:** B-Meatball, 2016.



**Figure 3.** *The Importance of Cultural and Social Capital in SMEs Creativity Management.*

sales, or get an endorsement from famous people to support the good quality of products. This type of promotion is worth thinking in the future.

To sum up, using Bourdieu theory of capital, managing creativity in SMEs to achieve sustainability and competitiveness should pay more attention on two important capital: cultural capital and social capital [13]. A new framework for creativity management in SMEs (Figures 2 and 3).

### Conclusion

Several businesses -started from 388 businesses, and continue with five selected entrepreneurs- in West Java were observed and interviewed to uncover their creativity management. During 2017-2018, only three from five available to interview further and willing to be trained to make proforma cash flow (the same form of financial reporting). Most of them still rely on financial capital and promotion in traditional way. Only "B- Meatball" and "YY Ricebox" started using smartphone to promote their products via line and instagram, and only "YY Ricebox" serve delivery order. The three other business only use phone and text message or whatsapp to purchase material and monitor production process.

In this era of knowledge and creativity, they should understand that financial capital no longer become the one and only capital needed to run the businesses. They should explore their other capital, namely social capital and cultural capital. Social capital according to Bourdieu's theory of capital meaning trust and network from friendship [13]. Besides, skills, knowledge, and experiences, as creativity or cultural capital also play an important role as main capital in doing their respective businesses. They also should catch up their knowledge in mastering digital marketing and online promotion.

This research has limitation in contextuality. The informants are new or nascent in the businesses. They are students which start their business in young age between 20-23 years old. They have no business experience before. Another limitations are the various sector business - only culinary and event

organizer in this research-- and different financial report, regarding the limitation of the owner's knowledge (financial literacy). In the future, similar research is suggested to widen the length of time of business, the various sector of business, and similar financial report to be analyse.

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**\*Correspondence to:**

Elvy Maria Manurung  
Department of Economics  
Parahyangan Catholic University  
Bandung, West Java, Indonesia  
Tel: + 022 203 2655  
E-mail: [elvymaria@unpar.ac.id](mailto:elvymaria@unpar.ac.id)