



## A Study of Export Barrier in Garut Leather Tannery Industry

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**ABSTRACT:** The economic development of a country currently cannot be separated from the condition of global economy. Economic relations between country is an influencing factor for the development of both country involved. Therefore, export activity of an industry is very important for the development of a country's economy. Based on data obtained through the Ministry of Trade of the Republic of Indonesia, export distribution in the form of footwear is 86%, leather finished goods are 13%, and leather is 1%. According to these data, it can be seen that the contribution of the leather tanning industry which is included in Leather Goods is very small in the total export distribution of leather. Meanwhile, by carrying out export activities, the leather industry will benefitted because it will open access to new customers who will have the potential to increase revenue and long-term growth. The data for this research was collected through 52 factory owners in this industry. After the data has been collected, an exploratory factor analysis was conducted to see how many factors become the barrier of exporting in Garut leather tannery industry. The result of this research is there are three factors that become the barrier to do export in Garut leather tannery industry, namely functional, international and governmental barriers. Meanwhile the result of descriptive analysis shows that Garut leather tannery industry perceive high cost of capital to finance exports, difficulties in organizing promotional activities abroad, and lack of financial resources to conduct market research in overseas markets as the barrier to do export activities. The findings suggest that the government should support both the knowledge and infrastructure regarding export for all the business owners in Garut leather tannery industry, meanwhile the business owners should also be active in searching for business opportunities in international market. For future studies, it was suggested to consider management's entrepreneurship capabilities as a factor that can hinder exports.

**KEYWORDS:** Barriers, Export, Factor Analysis, Leather Industry.

### I. INTRODUCTION

Leather industry plays and important role in the economy of Indonesia, where according to The Ministry of Industry (Kemenperin) the performance of this industry was in the top three in the manufacturing sector. The Ministry of Industry (Kemenperin) also stated that the leather, finished leather goods and footwear industry grew positively by 13.12 percent in the second quarter of 2022. [1]

Besides being in the top three in the manufacturing sector, the tannery business actors in Garut itself consist of MSMEs, where MSMEs itself is one of the most important pillars in the economy of Indonesia. Based on a press release issued by the Coordinating Ministry for Economic Affairs of the Republic of Indonesia, the number of MSMEs currently reaches 64.2 million, with a contribution to GDP of 60.51% or Rp.9,580 trillion in 2021. In addition, the leather industry is one of the industries that has the most workers among the sub-sectors of the manufacturing industry, which is 444,526 thousand people in 2020.[2]

**Table 1.** Number of Workers in Large and Medium Industries

Description	Number of workers in large and medium industries by sub-sector (KBLI 2020)		
	2018	2019	2020
TOTAL	6.123.185	6.241.121	5.902.367

Food	1.005.612	1.014.886	989.066
Apparel	763.314	797.947	695.920
Textile	629.298	581.235	519.299
Rubber, Rubber Goods, Plastic	442.841	454.384	440.403
Leather, Leather Goods and Footwear	391.200	483.543	444.256

Source: BPS

From the information above, it can be seen that the leather tanning industry in Garut, plays an important role to contribute in the economy of Indonesia.

However, the economic development of a country currently cannot be separated from the condition of global economy. Economic relations between country is an influencing factor for the development of both country involved.. Therefore, export activity of an industry is very important for the development of a country's economy.

Based on data obtained through the Ministry of Trade of the Republic of Indonesia, the export value of leather, finished leather goods and footwear as of June in 2022 reached USD4.62 billion, an increase of 41.26% compared to the same period in the previous year of USD3.26 billion. [2]

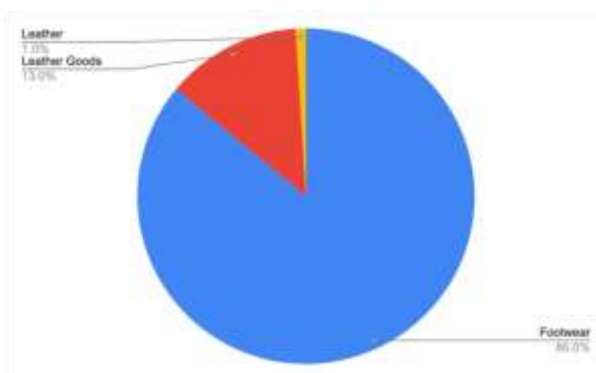


Figure 1. Leather Export Distribution

Source: Ministry of Trade of the Republic of Indonesia

From the value of Figure 1, export distribution in the form of footwear is 86%, leather finished goods are 13%, and leather is 1%. According to these data, it can be seen that the contribution of the leather tanning industry which is included in Leather Goods is very small in the total export distribution of leather. Ridwan Kamil as Governor of West Java also stated that the raw materials for making leather handicrafts are still not suitable for export, causing the leather industry in arrowroot to remain stagnant. [3]

In fact, exports are very important for the sustainability of the leather tanning industry. This is because by competing in the global market, it will simultaneously improve the quality made by the leather industry business people in Garut. Then, by carrying out export activities, the leather industry will benefit because it will open access to new customers who will have the potential to increase revenue and long-term growth. According to the information that has been explained, the research problem in this study was considered: A Study of Export Barriers in Garut Leather Tannery Industry.

II. LITERATURE REVIEW

Exporting could become one of the strategy to enter foreign market by firms of all sizes. Besides increasing the revenue and profit for the company, exporting could make a contribution to the development and the economic growth of the country. Usually,



export activities are associated with multinational companies that have the capabilities to enter foreign market. However, according to the interview with the Chairman of APKI Garut, leather tannery industry in Garut consists of MSMEs. Meanwhile, smaller companies usually have low level of export because of the limited resources and capabilities to enter foreign market [4].

Export barrier itself can be defined as the attitudinal, structural, operational and other constraints that could restrain a firm’s ability to do international operations [5]. Understanding export barriers is very important since it could waste resources of a firm and it could become a threat for the effectiveness and the efficiencies of a firm’s operation [6]. The negative impact of export barriers has become the topic of interest among many researchers in business. For instance, Leonidou (2004) developed a conceptual framework that categorizes export barrier into two, which is internal barriers and external barriers. Internal barriers according to Leonidou (2004) include Informational, Functional and Marketing (Price, Product, Distribution, Logistics, Promotion), meanwhile External barriers include Procedural, Governmental, Task and Environmental (Economic, Political-Legal, Sociocultural). In the research, he concluded that smaller-sized path to do export activities has many obstacles which frequency, intensity, or importance of export barriers can be different according to different time, spatial and industry contexts. Also, the impact of barriers exporting is situation-specific, depends on the idiosyncratic managerial, organizational, and environmental background of the firm [5].

Another study regarding export barriers was done by Tesfom and Lutz (2006) where they also categorized export barrier into internal and external barriers. According to Tesfom and Lutz (2006), internal barriers include company barriers and product barrier meanwhile external barriers include industry barrier, market barriers and macro environmental barriers. The method of the study was to review 40 articles that has been published in the span of 25 years (1980-2004). In the study, it was shown that there is high similarity between the export problems faced by manufacturing firms in developed and developing countries, where the problems are interrelated and can be categorized into five problem such as company barriers, product barriers, industry barriers, export market barriers and macro environment barriers [7].

Many years later another study was done in Lesotho by Mokhethi (2019) where the objective of the study was to determine the barriers of exporting from MSMEs in Lesotho. The method that was used in this study was to study seven out of ten industrial areas in the country where the enterprises were engaged in manufacturing and they were given questionnaire to complete. The result of this study was that there are three barriers that constrains the firms in Lesotho to do exporting such as international constraints, distribution constraints and financial constraints. These constraints are among the few that made Lesotho-based firms have minimal participation in the international market despite the significant number of enterprises [8].

Another study was conducted by Morini et al. (2021) where they study the barriers affecting the export process of small and medium-sized non-tech companies in emerging markets. Using the study of Leonidou (2004) as reference, Morini et al. added another dimension which is managerial/entrepreneurial barriers. External barrier according to Morini et al. include political / economic / legal barriers, procedural & monetary barriers and sociocultural barriers. Meanwhile, internal barriers include informational barriers, management barriers, financial barriers, market barriers and barriers to entrepreneurship. The method that was used was to study 71 firms that are non-tech companies in emerging markets by using questionnaire, where the results are then analyzed using Confirmatory Factor Analysis (CFA). The results of the study was the main barriers related to external is the governmental and sociocultural barriers meanwhile main barriers related to internal are market barriers and the manager’s personal dimensions [9].

**III. ANALYSIS AND RESULT**

Exploratory factor analysis was conducted in this research to see how many factors were formed regarding the export barriers that happened in Garut leather tannery industry.

**Table 2.** Result of Rotated Component Matrix

	Component		
	1	2	3
PC2	0.797		
MK1	0.762		
TAS1	0.757		



FC3	0.715		0.507
ENV3	0.715		
GOV2	0.703		
FC1	0.701		
IF2	0.663		
PC3	0.650		
FC2	0.643	0.518	
PC1	0.630		
FIN2	0.625	0.608	
MK2	0.617		
TAS2	0.606		
ENV1	0.548		
MK4		0.846	
FIN3		0.838	
MK5		0.831	
MK3		0.813	
FIN1	0.513	0.656	
IF3	0.606	0.619	
ENV2		0.592	
IF1	0.530	0.544	
GOV1			0.863
GOV3			0.841
GOV4			0.796

Source: Author Analysis on SPSS 2022

Based on the exploratory factor analysis conducted, there are three factors that have an eigenvalue > 1, namely factor 1, factor 2, factor 3. Next is to interpret the factors that have been formed based on indicators that dominate these factors. Following the factors that have been formed are presented in Table 3:

Table 3. Factor Interpretation

Factor	Item	Indicator	Factor Name
Factor	PC1	Unfamiliar exporting procedures/paperwork	Functional
1	PC2	Problematic communication with overseas customers	Barriers
	PC3	Slow collection of payments from abroad	
	FC1	Lack of managerial time to deal with exports and foreign customers	



	FC2	Inadequate/untrained personnel for exporting	
	FC3	Lack of production capacity	
	TAS1	Different foreign customer habits/attitudes	
	TAS2	Keen competition in overseas markets	
	MK1	Inability to develop new product for foreign market	
	MK2	Difficulty in matching competitors' prices	
	IF2	Difficulty to identify foreign business opportunities	
	FIN2	Inadequate marketing budget	
	ENV1	Foreign currency exchange risks	
	ENV3	Verbal/nonverbal language differences	
	GOV2	A lot of corruption that occurred in customs	
Factor 2	MK3	Complexity of foreign distribution channels	International Barriers
	MK4	Expensive transportation / insurance costs	
	MK5	Difficulties in organizing promotional activities abroad	
	FIN1	Lack of financial resources to conduct market research in overseas markets	
	FIN3	High cost of capital to finance exports	
	IF1	Limited information to locate/analyze markets	
	IF3	Inability to contact overseas customers	
	ENV2	Strict foreign rules and regulations	
Factor 3	GOV1	Lack of home government assistance	Governmental Barriers
	GOV3	There is no seriousness from the government's promotional actions regarding exports	
	GOV4	Difficulty getting a business license in Garuda	

Source: Author Analysis



Based on the table above, it can be seen that there are three factors that becomes the barrier to export in Garut leather tannery industry. The first factor is Functional Barriers. This factor consists of barriers that relates to the limited capabilities of exporting regarding to human resource, production and finance. This factor comes from the definition of functional barriers as stated by Vozikis and Mescon (1985) in Leonidou (2004), that said “*Functional barriers relate to inefficiencies of the various enterprise functions such as human resources, production, and finance, with regard to exporting*”. The second factor is International Barriers that consists of exporting process both in domestic and foreign export environment, which comes from Ball et al.. (2010) in Mokhethi (2019) that defined international barriers as “*...the forces of the interaction between the domestic and foreign environments or between sets of foreign environmental forces*”. Lastly, the third factor is Governmental Barriers that consists of limited support that comes from the government in Garut regarding exporting. This governmental barriers comes from a statement from Leonidou (2004) that defined governmental barriers as matters related to actions taken by the government regarding export activities in its territory. The data in this research was also analyzed using descriptive analysis. The following table will describe the respondent’s answer regarding factors that become barriers to exporting in leather tannery industry in Garut.

**Table 4.** Result of Descriptive Analysis

Indicator	Mean
IF1	3.38
IF2	3.25
IF3	3.48
FC1	3.25
FC2	3.60
FC3	3.19
MK1	3.12
MK2	3.23
MK3	3.60
MK4	3.69
MK5	4.02
FIN1	3.73
FIN2	3.60
FIN3	4.08
PC1	3.50
PC2	3.40
PC3	3.27



GOV1	3.56
GOV2	2.71
GOV3	3.50
GOV4	3.37
TAS1	3.46
TAS2	3.46
ENV1	3.62
ENV2	3.62
ENV3	3.25

Source: Author Analysis on SPSS 2022

Based on the Table 4, it can be seen that the highest average answer on the indicators that becomes the barriers to export in Garut leather tannery industry is on FIN3 with the value of 4.08. FIN3 statement is about high cost of capital to finance exports. This result has similar findings with Mokhethi (2019) where financial constraints is the highest reason why export activities in Lesotho’s MSMEs is minimal. After that, MK5 with the mean value of 4.02 is the second highest average answer on the indicators that becomes the barriers to export in Garut leather tannery industry. MK5 is about difficulties in organizing promotional activities abroad. Regarding to Akdogan et al. (2011), promotional activities can be hard in export activities because some enterprises are unaware of advertising, exhibitions, fairs and face to face interaction with potential buyers. The high cost of promotional activities also becomes the issue regarding marketing activities in exporting, thus business player in leather tannery industry in Garut can’t conduct promotional activities properly. Then, FIN1 with the mean value of 3.73 is the third highest average answer on the indicators that becomes the barriers to export in Garut leather tannery industry. FIN1 is about Lack of financial resources to conduct market research in overseas markets. This finding is also similar to the research that has been conducted by Mokhethi (2019) as has been mentioned before, where financial constraints is the biggest barriers to do exporting in Lesotho’s MSMEs.

**III. CONCLUSION**

Based on the information from the previous section, it can be seen that there are three factor that determined the low export activities in Garut leather tannery export, such as Functional Barriers, where this factor consists of barriers that relates to the limited capabilities of exporting regarding to human resource, production and finance. The second factor is International Barriers that consists of exporting process both in domestic and foreign export environment. Lastly, the third factor is Governmental Barriers that consists of limited support that comes from the government in Garut regarding exporting. After that, based on the descriptive analysis, it can be seen that the highest average answer on the indicators that becomes the barriers to export in Garut leather tannery industry is about high cost of capital to finance exports. After that, the second highest average answer on the indicators that becomes the barriers to export in Garut leather tannery industry is about difficulties in organizing promotional activities abroad. Then, lack of financial resources to conduct market research in overseas markets is the third highest answer.

Based on the conclusion above, the recommendations for the government, business owners and future studies are:

1. The government needs to provide guidance to entrepreneurs in the Garut leather tannery industry regarding export activities and the benefits of these exports, as well as provide training and infrastructure assistance that can improve product quality so that it can be accepted in the international market.
2. Business owners in the Garut leather tannery industry need to actively look for business opportunities in the international market and need to ensure that the products they produce meet the quality standards desired by foreign clients.





3. For future studies, it was suggested to consider management's entrepreneurship capabilities as a factor that can hinder exports, because capability, readiness and knowledge management will determine whether a company can do export activities.

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