

Strategy in Enhancing the Competitiveness of Small and Medium Enterprises in ASEAN Free Trade Era

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DOI Link: <http://dx.doi.org/10.6007/IJARBSS/v6-i12/2471>

Published Date: 04 December 2016

Abstract

The existence of entrepreneurs in Indonesia is still incapable to triggering the emergence of the need for planning the systematic, simultaneous, comprehensive development program which has an orientation to the small scale of an entrepreneur. Studies about entrepreneurs have so wide scope comprising of skill problem, education level, family background, civilization, and personality. This study was done to examine the various factors encouraging the community who grows as entrepreneurs. This research was conducted in the central industry of bag and suitcase located in the sub-district Tanggulangin-Sidoarjo district. Determination of this location was specified by purposive. Observation, documentation, and interview were applied to collect the data. This report was also prepared based on study literature point of view which referred to some books and scientific journals. Therefore, all of the ideas were compiled into one framework thought. The results show that there have been high efforts supported by the government for entrepreneurs in Indonesia, such as facilitation, capital access, legality, and training about standardization of Indonesian national product. To encourage the competitiveness of small and medium enterprises in the global market, the more effective strategy is needed, especially on the improvement of the quality of the human resources and market access by applying for information technology advances.

Keywords: Small and Medium Enterprises, Entrepreneur, Global Market, ASEAN.

Introduction

According to ASEAN Summit on January 2007 in Cebu, Philippine, ASEAN leaders collectively agreed to accelerate economic integration and the establishment of ASEAN Economic Community (AEC) from 2020 to 2015. The goal of AEC is creating a single market and production base which will allow the free flow of goods, services, investment and skilled labor, and the freer movement of capital across the region. This AEC is built

on four interrelated and mutually-reinforcing pillars: highly competitive economic region, a region of equitable economic development, and region fully integrated into the global economy.

To achieve this goal, the EAC blueprint was launched at the 13th ASEAN summit in November 2007. This blueprint has served as a comprehensive master plan to chart the region's journey towards the formal establishment of the AEC, where one of the main points of this cooperation is about free trade. Indonesia has been recognized as the largest potential of the basic economy among the ASEAN members. Indonesia with 246.5 million populations, about 40-50 million populations is in a consumptively middle-class level. From that number, around 40 percent is the portion of the consumption that still has been supplied by import. Therefore, when there is no acceleration to realize Indonesia as a production base, then Indonesia will be overwritten by the liberalism.

In line with this, David Mc Clelland stated that the prosperity of a nation can be reached when at least the number of entrepreneurs is 2 percent of the total population. According to AIBI (Association of Incubator Business Indonesia), the number of Indonesian entrepreneurs today is only 0.18% or 400,000 from that of the ideal target number of 4.4 million (2%). As a comparison, in the United States, the percentage of entrepreneurs reached 11.5%, China is 10%, Singapore is 7.2%, and in Malaysia is 4% of the total population (Narsa et al: 2012). The field fully supported and encouraged by the government are Micro, Small, and Medium Enterprises (MSMEs) and cooperation powered by the society that has entrepreneurship soul. The government supports over determination to build the economy of the people through MSMEs. MSMEs in Indonesia have the opportunity to be succeeded at the international level as long as they have good quality and appropriate strategies against the challenge. MSMEs in Indonesia also have the potential to become the leading brands of the world, therefore the quality and competitiveness must be improved in both local and international market.

However, until now the perpetrators of MSMEs still face many obstacles to grow and develop. The research studied by Rifai (2011) resulted that the problems faced by the perpetrators of MSMEs are the problem of capital expenditure, legality, recording of finance and business strategy. In the other hand, the other study conducted by Sriyana (2010) who do research on strategies to the development of MSMEs showed that MSMEs still face various fundamental issues, i.e., quality product marketing and business sustainability. Breakthrough of the various policy was required to cut off the chain of the MSMEs problems, especially to overcome some of the obstacles in the field of product development and marketing.

The low economic competitiveness in Indonesia is caused by many factors from both internal and external small scale enterprise. Therefore, the identifying the factors that cause the low small business competitiveness then finding the model of small business competitiveness improvement are important and urgent in the condition of the free market competition (Rifai, 2013). Refer to the importance of MSMEs to strengthen Indonesian economy, thus the right construction model is required in order to encourage the performance of MSMEs to be able to compete with various similar products especially from abroad. Therefore, the agreement of ASEAN Economic Community started in 2015 is not a threat for the products of MSMEs in Indonesia, but this is very lucrative opportunities for MSMEs and leading the Indonesian economy forward to achieve prosperity for all layers of Indonesian society.

As explained in the above, MSMEs still face various fundamental issues, i.e., quality product marketing and business sustainability (Sriyana, 2010). Breakthrough of the various policies was required to cut off the chain of the MSME problems, especially to overcome some of the obstacles in the field of product development and marketing. Sholeh (2013) who researched the preparation of Indonesia to face AEC (ASEAN Economic Society) in 2015 reported that a strategy must be prepared by Indonesia to face AEC requiring the Indonesian government to run more quickly. Besides, the lack of socialization about AEC and its development to the society also became the things that are crucial for the Indonesian government. Rifai et al (2016) also reported that there were still many obstacles to face ASEAN free market for Indonesian SMEs; i.e., the capital expenditure, human resources, business networking, business mentality, business climate, facilities and infrastructure, and limited access information.

Literature review

Micro, Small, and Medium Enterprises (MSMEs)

In the Indonesian economy, MSMEs are a business group that has the greatest number and has proven to be resistant to the various turbulent economic crisis. The criteria of MSMEs have been arranged in a legal law. According to the Act No. 20 the year of 2008 about Micro, Small, and Medium Enterprises (MSMEs), there are several criteria used to define the understanding and the criteria of MSMEs. According To Rahmana (2008), some institutions or government agencies even provide the definition itself on Small and Medium Enterprises (SMEs), such as the State Ministry of cooperatives and Small Medium Enterprises, the Central Bureau of Statistic, Finance ministerial decree No. 316/KMK.016/1994 27 June 1994.

Definition of SMEs is varied each other. According to the Ministry of Cooperatives and Small Medium Enterprises, Small Enterprise including Micro Enterprise is an enterprise whom net worth do not exceed Rp.200,000,000, not including land and building of business place, and the annual sales do not exceed Rp. 1,000,000,000. Meanwhile, Medium Enterprise is an enterprise owned by Indonesian citizens who has a net worth greater than Rp. 200,000,000 up to Rp. 10,000,000,000, which is not including the land and building. The Central Bureau of Statistic gives a definition of SMBs based on the quantity of employee. Small Enterprise is an enterprise that has a large number of an employee of 5 - 19 peoples, while Medium Enterprise is an enterprise that has an employee of 20 to 99 people.

Based on the Decree of the Minister of Finance No. 316/KMK.016/1994 27 June 1994, a Small Enterprise is defined as an individual or business entities that have been doing business activities with the sales or turnover as high as Rp. 600,000,000 per year or assets as high as Rp. 600,000,000 (out of the land and building). This Small Enterprise consists of: (1) business agency (Fa, CV, PT, and cooperatives) and (2) individuals (craftsmen or domestic industry, farmers, ranchers' fisherman, Forest Squatters, miners, merchants of goods and services).

Criteria of Micro, Small, and Medium Enterprises (MSMEs)

According to Law No. 20 the year of 2008, MSMEs are defined as follows: Micro Enterprise is a productive business owned by individuals and/or the individual business that has the maximum net worth of 50 million rupiahs which is not including land and building or has the maximum annual sales of 300 million rupiahs. Small Enterprise is a standing alone of the productive business economy which is conducted by an individual

or entity that is not a subsidiary company or is not a branch of the company which was owned, controlled, or part of either directly or indirectly medium or large enterprises. This small enterprise has a net worth in the range of 50 up to 500 million rupiahs which are not including land and building or has the annual sales of 300 million to 2.5 billion rupiahs. Medium Enterprise (ME) is a productive economic business which stands alone and is conducted by individuals or business entities. This ME is subsidiary or branch of the company which is owned, controlled, or become part of either directly or indirectly the small or large enterprises with the amount of net worth greater than 500 million up to 10 billion rupiahs, not including land and building, or has the annual sales greater than 2.5 billion up to 150 billion rupiahs.

Criteria for Small and Medium Enterprises, besides defined by the law as explained above, from its development point of view, Rahmana (2008) classifies MSMEs in some criteria as follows: (1) Livelihood Activities, is a Small and Medium Enterprises that used as a job opportunities to earn livelihood which is commonly known as the informal sector. The example of this first criteria is street peddlers. (2) Micro Enterprise, is a Small and Medium Enterprises that have craftsmen- character but do not have entrepreneurship skill. (3) Small Dynamic Enterprise, is a Small and Medium Enterprises that have entrepreneurship skill and ability to receive subcontract work and export activities. (4) Fast Moving Enterprise, is a Small and Medium Enterprises that have the entrepreneurship skill and will try to transform into large business scale.

The Empowerments of MSMEs

In the framework of the empowerment of MSMEs in Indonesia, Bank Indonesia (2011) developed Five Finger Philosophy where each finger has each role and could not stand alone and will be more powerful if use them simultaneously. (1) Finger-thumb represents the role of the financial institutions that plays role of financial intermediation, especially to give loans/financing to customers of MSMEs and also to act as development agent; (2) Index finger represents the regulator i.e. the government and Indonesia Bank that play an important role in the real sector of regulatory and fiscal, publishing business permits, certifying the land thus it can be used by the MSMEs, creating a conducive climate and providing a source of financing; (3) Middle finger represents the catalyst that plays an important role to support the banks and MSMEs, including Promoting Enterprise Access to Credit (PEAC) Units; (4) Ring finger represents the facilitators that have a role in assisting MSMEs, especially micro enterprise, helping MSMEs to obtain bank financing, and supporting the bank for credit monitoring and consultation of MSMEs development; and (5) Little finger represents the MSMEs that plays important role in the business players, taxpayers and the admission of employees.

The collaboration of MSMEs and commercial bank is one of the many forms of symbiosis mutualism in the economy. This collaboration not only gives beneficial for both, but also for the community and the government. The society enjoys the availability of jobs while the government enjoys the performance of the economy by rising in Gross Domestic Product (GDP) which give contribution for more than half of the GDP of Indonesia. However, both MSMEs and the commercial bank still need to be careful in this collaboration to ensure the realization of the benefits for both sides. The empowerment of MSMEs in the current globalization and high competition make MSMEs must be able to face the global challenges, such as improvement of the innovation on the products and services, development of the human resources and technology, and the expansion

of the marketing area. These strategies are required to increase the resale value of MSMES itself, mainly in order to compete with foreign products that increasingly fulfill the center of industry and manufacturing in Indonesia, since MSMES are the economic sector that is able to absorb the largest labor in Indonesia (Sudaryanto, 2011).

Research Method

This research was performed in the sub-district of Tanggulangin-Sidoarjo district with respondents of bag and suitcase craftsman who have export quality products. A quantitative approach was applied in this research. Observation, documentation, and interview were done to collect the data. The observation was done to the craftsmen of bag and suitcase, data documentation was collected through the data from government and Intako cooperation, while the interview was done to the perpetrators of the policy on the local government. Descriptive analysis was used as the analysis method to explain the phenomena that happened. The collected data were presented and analyzed by the descriptive statistics qualitative method in order to present the results in the tabulation and percentage. Therefore, the results can be easily understood by the reader. In addition, SWOT analysis was also applied in this research, as shown in **Figure 1**.

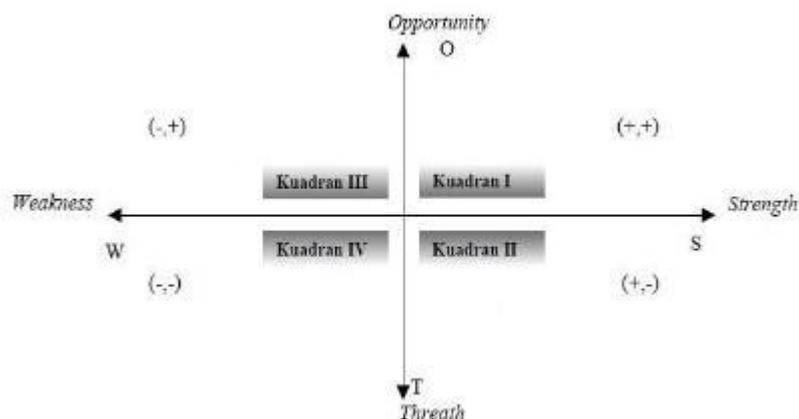


Figure 1. Diagram of SWOT analysis

The results of this research were discussed in detail based on the analysis results of the collected data then continued by making the conclusions. This scientific journal was also supported by literature review point of view. The theory or concept referred to several sources, such as books, scientific journals, and articles from the internet. Then, all of the ideas were compiled into one framework of thought.

Results and Discussion

Various programs to empower SMES now get large enough attention from various stakeholders including government. This matter has been confirmed by the existence of various empowerment assistance provided by the government. In addition, attention from the private sector is quite large, especially banks, through the micro credit schemes in order to help SMEs development. Empowerment programs and business development generally received a positive response from SMEs. They take the beneficial from these strengthened programs in order to expand their business. However, in the fact, according to the research that reported elsewhere, it was found that many SMEs often still less proactive and do not maximize the provided assistances. The expected independence of SMEs has not yet fully succeeded. (Dewanti, 2010).

At this time, there are more than 15,000 MSMEs in Sidoarjo which consists of various business sectors such as handicrafts (batik, bags, suitcase, wallet, shoes, sandal, silver, embroidery, and shellfish), food (crispy, shrimp farmers, mussels, eggs ducks, and fungi) and other small industrial products. MSMEs are spread in 18 sub-districts in Sidoarjo (BPS, 2014). Tanggulangin is one of the sub-district in Sidoarjo district where most of the population has small scale industry of leather handicrafts. The center of this leather handicrafts is located in Kludan Raya street, Tanggulangin. Various kinds of products prepared from this leather are sandals, shoes, bag, wallet, suitcase, jackets and so on. This leather handicraft has been established since 1939. At this time, some of the craftsman bag in Tanggulangin started to make bag and suitcase. In 1976, a cooperation of bag and suitcase industries was established in Tanggulangin, namely Intako (Industry of bag and suitcase). Intako is the precursor on the appearance of Tanggulangin's brand as the center of handicraft shop. Intako is also the cooperation pioneer of bag and suitcase craftsman in Tanggulangin which was established on 7 April 1976. The background on the establishment of this cooperation is due to the desire of the craftsmen that want to not only become 'builders' handicraft makers but also have a better bargaining position. Until now, there have been 306 MSMEs who became members of Intako.

Intako has its own production center and produces specific products that could not be produced by other members. Therefore, Intako has the high competitiveness against the other shops. In addition, Intako is the only one cooperation who pays the products from members in cash. Further, Intako is gently applying HKI (Intellectual Property Rights) on the Quality Control (QC). Many products for man and woman can be found in here. There are a usual bag, sports bag, working bag, and wallet for both men and woman. The products were also including belt, shoes and passport case. Based on the raw material, the products are divided into synthetic leather and natural products. Most of the products are made from synthetic leather due to the cheaper price compared to that of a natural one. The market of Intako's products is not only in Indonesia but also in abroad. However, unfortunately, in general, the development of this such kind of industry in Indonesia still has problems regarding the existence of raw materials, and so do in Tanggulangin. These industries need about 5 million of leather sheets per year whereas the supply of the leathers with good quality are only around 2 million sheets per year. This problem must be resolved immediately since Indonesia has to face competition in the business when the era of ASEAN Economic Community (AEC) is started.

SWOT Analysis

The strength, weakness, opportunities, and threats of SMEs Intako-Tanggulangin were identified, then these results were used for the creation of SWOT matrix to determine the alternative strategy. This matrix showed how the opportunities and external threats faced by the perpetrators of SMEs adjusted to their strength and weakness. Therefore, SMEs development strategy is based on a combination of strength, weakness, opportunity, and threat.

Priority strategy mapping of processing sector in the central industry of Intako was analyzed based on internal and external factors, namely Internal Factor Analysis Summary (IFAS) and External Factor Analysis Summary (EFAS). The arrangement of the either IFAS or EFAS is conducted in four steps, as follows: (a) determine the strengths and weaknesses and opportunities and threats factors of SMEs, (b) give the score for each

factor with the scale of 0.0 (not important) up to 1.0 (very important), where all the scores are not higher than 1.0, (c) calculate the rating for each factor by providing a scale ranging from 1 (below average) up to 4 (good), and (d) calculate the total score which is the multiplication between the score and rating. The rating of strengths and weaknesses always have contradictive values, and so do that of opportunities and threats. Determination of score and rating values is based on the opinion of the business owner. The results of SWOT analysis are summarized in **Table 1**.

Table 1.

SWOT analysis matrix

Identification factors	Score	Rating	Total score
Strengths			
SMEs have had market segments since long time ago	0.20	2	0.40
SMEs have been able to produce marketable products	0.10	2	0.40
SMEs have adequate equipment	0.20	2	0.20
The turnover of SMEs processing sector has increased significantly from year to year	0.10	2	0.20
SMEs have relied on the strength of the independent capital cooperation	0.20	1	0.20
SMEs have an orientation and motivation to increase the product quality	0.20	1	0.20
			1.6
Weaknesses			
SMEs do not have SNI standardization of quality	0.25	3	0.75
There are still some SMEs who do not have the business legality	0.25	3	0.75
The availability of raw material is limited	0.25	2	0.50
Awareness of the product quality has not yet fully understood by the SMEs owners or the human resources are limited	0.20	1	0.20
			2.2
Opportunities			
SMEs have well-known brand product in the wider community	0.25	2	0.25
The existence of a real supports from the local government to SMEs	0.25	2	0.25
Business management was coordinated by professionally managed and independently cooperation	0.20	2	0.50
SMEs have a wide marketing network both national and local scale	0.20	2	0.50
Business players have skills and experiences in the production of bag and suitcase	0.10	2	0.10
			1.6

Threats			
Import products have higher quality and cheaper	0.25	2	0.25
The availability of raw material has become rare	0.25	2	0.25
Many competitors exist, therefore consumers can choose and switch to manufacture's products	0.25	2	0.25
The imposition of ASEAN free market	0.25	2	0.25
			1.0

Source: Primary Data (processed), Author (2016)

According to the above results, it can be seen that SMEs still have many weaknesses with the total score of 2.2. The opportunity and strength have the same score of 1.6 while threat has the total score of 1. Therefore, it can be concluded that even though many weaknesses still exist, the real threat regarding the existence of ASEAN free market do not give significant impact to Intako since Intako's products have their own market. However, it should be considered that SMEs become one of the important sectors in the development of Indonesian national economy. Thus, it is still important to support the existence of SMEs, therefore, their product can compete in domestic markets against the same products from other countries since we have entered ASEAN free market in this time.

The strategy to enhance the competitiveness of SMEs

The role of the government on some empowerment program of SMEs in Indonesia cannot be separated from the bank support through distribution of credit for SMEs. The amount of this credit is growing every year where the growth is higher than the total banking credit. This MSMEs credit is a credit to the debtor of MSMEs that meet the definition and criteria of MSMEs as regulated in Law No. 20 the year of 2008 about MSMEs. Based on this law, SMEs are productive businesses that meet the criteria of business with certain restrictions of net worth and annual sales. The successful of SMEs in Indonesia cannot also be separated from the supports and roles of the government in encouraging the distribution of credit to SMEs. Various credit scheme/SMEs financing have been launched by the government related to the task and economic development program on certain business sectors, such as the food resilience, livestock, and plantation. The role of the government in this MSMEs credit scheme is on the side of the provision of funds from the national budget allocated for the interest subsidy of this credit scheme, while the whole credit fund/ financing (100%) are provided by banks appointed by the government as the bank executive. In addition, the government has a role in preparing SMEs for being funded by this scheme, specifying the policy and priority which one of business will receive the credit, to perform the construction and assistance during the credit period, and facilitating the relationship between SMEs with other parties.

The expansion of information access and marketing network for SMEs

In order to face the market mechanism that has become more open and competitive, the knowledge of market controlling are required for improving the competitiveness of SMEs. For controlling the market, SMEs need to get information quickly and easily either about production market or production market factors. Information about the production market is required to expand marketing network of

their products. The required information of production market or commodity market are as follows: (1) the type of goods or products that are needed by consumers in certain areas, (2) how the purchasing power of customer against the product, (3) how the market price is, and (4) the sense of consumers in the local, regional and international markets. By knowing this information, SMEs can anticipate various market conditions, thus their business will be more innovative. Besides, information about market production factors are also required, especially to know: (1) the source of required raw materials, (2) the prices of raw material that want to be purchased, (3) where and how to obtain business capital, (4) where to get the professional labor, and (5) salary level or proper salary for labor, and (6) where can obtain the required tools or machines (Effendi Isaac, 2005).

Conclusion

The strategy to anticipate market mechanism that becomes more open and competitive particularly in ASEAN region is the market controlling, which is a prerequisite to improving the competitiveness of SMEs. In order to control the market, SMEs need to get information quickly and easily about either production market or production market factors for expanding the marketing network of their products. The application of information technology on MSMEs lead the market expansion of MSMEs to become easier and efficient in both domestic and foreign markets. The establishment of SMEs Development Center with IT based has been considered for encouraging the growth and development of MSMEs in this era of information technology. The good synergy between the government as a policy maker and supporting organizations, particularly microfinance institutions, is required to facilitate the access of credit markets and the expansion of marketing information network. In addition, the culture of loving our domestic products is also needed to be nurtured for achieving well-developed MSMEs and stronger national economy. The perpetrators of MSMEs need to cooperate and coordinate actively with both the government and the local government to continue the upgrading and training through the increasing on the capacity building and applications of information technology (IT), including reactive the local government website that is currently not optimal as the base of the SMEs communication.

Acknowledgement

This paper is dedicated to the academic community with the hope that this work can be useful for all people

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