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INDONESIAN SMES READINESS FOR ASEAN
ECONOMIC COMMUNITY

This study aims to conduct a preliminary assessment of Indonesian SMEs readiness for ASEAN Economic Community (AEC) and to identify the related potential economic barriers and opportunities. The results obtained from the index performance analysis revealed three levels of SMEs priority that influence their productivity while facing global markets.

Keywords: Indonesian SMEs; performance analysis; economic barriers and opportunities; ASEAN Economic Community.

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ГОТОВНІСТЬ МАЛОГО ТА СЕРЕДНЬОГО
БІЗНЕСУ ІНДОНЕЗІЇ ДО АЕС

У статті зроблено спробу провести попереднє оцінювання готовності малого та середнього бізнесу Індонезії до роботи в нових умовах Економічного співтовариства АСЕАН (АЕС). Визначено як бар'єри, так і нові можливості на шляху МСБ до АЕС. Результати проведеного аналізу вказують на існування трьох рівнів пріоритетів факторів впливу на продуктивність малого та середнього бізнесу в умовах світової конкуренції.

Ключові слова: малий та середній бізнес Індонезії; аналіз показників діяльності; економічні бар'єри та можливості; Економічне співтовариство АСЕАН.

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ГОТОВНОСТЬ МАЛОГО И СРЕДНЕГО
БИЗНЕСА ИНДОНЕЗИИ К АЭС

В статье сделана попытка провести предварительное оценивание готовности малого и среднего бизнеса Индонезии к работе в новых условиях Экономического сообщества АСЕАН (АЭС). Определены как барьеры, так и новые возможности на пути МСБ в АЭС. Результаты проведенного анализа указывают на существование трёх уровней приоритетов факторов влияния на продуктивность малого и среднего бизнеса в условиях мировой конкуренции.

Ключевые слова: малый и средний бизнес Индонезии; анализ показателей деятельности; экономические барьеры и возможности; Экономическое сообщество АСЕАН.

Introduction. State Ministry of Cooperatives and Small and Medium Enterprises (SMEs) of Indonesia stated that significant contribution to economic development of the country was generated by SMEs. Until 2012, the contribution of SMEs to gross domestic product (GDP) reached more than 50%, furthermore, SMEs successful in helping the government address the problem of unemployment in Indonesia, more than 95% of Indonesian migrant workers are working for SMEs. The government relies on SMEs in reducing poverty, especially in 2013 when Indonesia had a poverty gap index rising from 1.75% to 1.89%. Then the poverty severity index rose from 0.43% to 0.48% (Indonesian Statistical Center, 2014). Currently, there are 56 mln SMEs in Indonesia able to provide employment to 15 mln people annually. Rapid development of SMEs in Indonesia has succeeded in fostering economic growth quite

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high, it reached 6% per year, and slowly increased especially after the economic crisis of 1998. Nowadays, SMEs are the foundation of Indonesian economy.

Despite having the essential role for Indonesian economy, SMEs are facing many barriers and weaknesses that may make it difficult to face global trade competition such as ASEAN Economic Community (AEC), especially in terms of demand and quality standard. On the other side, AEC is actually an opportunity for Indonesia to accelerate its economic growth because Indonesia is a country with large population supported by abundant natural resources. Indonesia has potential market share, as well as it is a producer of various SME products being supplied to many countries. Thus, AEC supposed to be an opportunity and a challenge for Indonesia to develop its SME and contribute to Indonesia economically.

In addition, one factor that should be considered by SMEs is their readiness to face global competition, since many foreign investors invest into Indonesia, and their number is rapidly. Although Indonesian government has created various programs to strengthen Indonesian SMEs, many of them are not yet able to optimally manage their business. Based on data from the growing Wholesale Private Banking in Indonesia, from total SMEs, only 36% have bank accounts. This one indicator shows the lack of access for Indonesian SMEs to many financing schemes. Most Indonesian SMEs still rely on personal and family capital to maintain business continuity, whereas taking the opportunity to partner with banks will accelerate their business development. Furthermore, weak financial management of SMEs, causes significant losses for their internal management, because there are many failures in accurate calculations of net income from business. As a result, many Indonesian SMEs are taxed based on their turnover. With these challenges, SMEs are required to pay more attention to the quality and competitiveness so that they will become able to win in international competition.

The purpose of this study is to measure the extent of SMEs readiness addressing the challenges of AEC and to identify the factors that are the current weakness of Indonesian SMEs in global competition.

Literature review. In order to meet the global markets challenges, entrepreneurs must cultivate the vision of going global in managing business in order to direct steps towards achieving international quality standards (Yu, 2012). Meanwhile, a successful business starts from the personality in charge who is supposed to convert ideas into concrete action (Pitts, 2008). To maximize business potency, an entrepreneur must take business as a challenge, be enthusiastic about it, therefore, it would be appropriate if business is started from a personal interest or a hobby (Kropp et al., 2008).

Responding to challenges at the global market definitely could not be separated from various constraints faced. Nowadays, one of the main obstacles faced by Indonesian SMEs is high competition and difficulty with business financing (Iriyanti and Azis, 2012). However, an entrepreneur should focus on the main purpose achieved rather than questioning small obstacles that appear in each activity when trying to build or develop business. The person also has to build great mentoring relationships with other entrepreneurs who have the ability to look at certain situations with a variety of perspectives. Vision will be closely linked to individual decisions. Especially when they prepare to global markets, therefore, the entrepreneur aiming to win in global competition should start to think globally (Yu, 2012). Furthermore,

skill factor also affect business performance, thus, an entrepreneur must undertake continuous learning to develop new knowledge, approach, and ability (Schalenkamp and Smith, 2008; Jones and Holt, 2008).

Additionally, knowledge is also a major capital of entrepreneurs when they intend to start a business (Huovinen and Tihula, 2008). Knowledge can be acquired through experience, thus, entrepreneurs should be able not only to master products but also have good managerial skills to support business continuity (Huovinen and Tihula, 2008; Jin et al., 2010; Kropp et al., 2008; Omerzel and Antoncic, 2008; Pitts, 2008).

Other foundations to be considered by the entrepreneurs facing the challenges at global markets are presented in Table 1.

Table 1. Critical success factors for SMEs, authors' compilation

Item No	Indicators	References
1.	Business character	(Kropp et al., 2008)
2.	Global vision	(OECD, 2009; Yu, 2012)
3.	Discipline	(Jin et al., 2010; Omerzel and Antoncic, 2008)
4.	Continuous learning	(Jones and Holt, 2008)
5.	Skill	(Schalenkamp and Smith, 2008)
6.	Internal management	(OECD, 2009)
7.	Supply chain	(Hamisi, 2011)
8.	Opportunity	(Jin et al., 2010; Jones and Holt, 2008; Yu, 2012)
9.	Strong business capital	(OECD, 2009; Irjayanti and Azis, 2012)
10.	Good internal communication	(Rowe and Christie, 2008)
11.	Information and adopted technologies	(OECD, 2009; Lawrence and Tar, 2010)
12.	Knowledge	(Omerzel and Antoncic, 2008; Jin et al., 2010; Huovinen and Tihula, 2008; Pitts, 2008; Kropp et al., 2008)
13.	Customer satisfaction	(Pribadi and Kanai, 2011)
14.	Relevant experiences	(Jin et al., 2010; Huovinen and Tihula, 2008)
15.	Innovation	(Jones and Holt, 2008)
16.	Business ethics	(Holme, 2008)
17.	Proper marketing strategy	(Pribadi and Kanai, 2011)

Critical success factors (CSF) were collected from previous literature studies to be used as indicators for questionnaire's questions in the preliminary assessment.

This research was conducted in several stages. Firstly, all information related to SMEs conditions from the global market perspective was collected. Secondly, various factors were examined especially those identified as cause for SMEs failure in competition. This research focuses on critical factors playing significant roles in SMEs success. Through factor analysis, this research mapped the position of SMEs nowadays, and gave an overview of readiness, weakness, and solutions required to anticipate the potential barriers faced.

Each indicator is accompanied by its measurement standard and will be documented within observation reports and questionnaires. This system requires strong commitment of SMEs managers to set certain standards that must be fulfilled in order to achieve global vision.

Research methodology. The data was obtained by primary data through a questionnaire distributed at 200 SMEs in West Java. The sampling technique used is non-probability and purposive sampling; the respondents were SMEs according to the legal criteria of Indonesian SME.

Data obtained were analyzed through Important Performance Analysis (IPA) to determine the superior or dominant variables. Important Performance Analysis also distinguishes the priority variables. Qualitative data was obtained through observations and indepth interviews for each variable performance based on the priority importance level relevant to business development in the future.

Key results. Using the IPA method, the data analyzed was derived from the respondents' answers, supported by qualitative data from interviews and observations. The results show the degree of expectation is reality in terms of business critical success factors that showed certain score levels. Table 2 sums up the description related to expectations vs. reality within SMEs.

Table 2. Degree level of reality vs. expectations in the respondents answers, authors' calculations

Item No	Indicators	Reality	Expectation	RE Ratio, %
1.	Business Character	174	174	100.00
2.	Global vision	159	175	90.86
3.	Discipline	179	199	89.95
4.	Continuous learning	177	197	89.85
5.	Skill	178	189	94.18
6.	Internal management	170	192	88.54
7.	Supply chain	140	181	77.35
8.	Opportunity	171	190	90.00
9.	Strong business capital	156	158	98.73
10.	Good internal communication	182	191	95.29
11.	Information and adopted technologies	167	181	92.27
12.	Knowledge	179	182	98.35
13.	Customer satisfaction	187	200	93.50
14.	Relevant experiences	175	178	98.31
15.	Innovations	171	186	91.94
16.	Business ethics	168	180	93.33
17.	Proper marketing strategy	172	191	90.05

The assessment results shows the variety of level between expectations and reality. The frequency distribution shows the inconsistency level between reality and SMEs expectations in terms of critical success factors. The highest level of assessment belongs business character, on which the respondents agreed that business character is the priority for them, as well as, the reality successfully achieved by their business. The rest of indicators show gaps in degree levels. Even though major indicators achieved more than 90% of consistency between the expectation and the reality, still many SMEs failed to fulfill those critical indicators in their successful business.

Several indicators have significant gaps (below 90% of assessment) including discipline behavior, lack of continuous learning for relevant business, internal management process, and supply chain management. The largest gap was found for supply chain management, interview identified that SMEs felt no worries about their supply

chain for the future even though they thought it was a significant factor for their operations. During their operation, they still maintain a good relationship with suppliers whether they are able to accommodate their long-term business, or not.

The authors identified three tendency characteristics successfully achieved by Indonesian SMEs in their business operations. The tendency characteristic is based on their % ratio between expectations and reality limited to 70–100% (Table 3).

Table 3. Tendency characteristics of SME, authors'

Low	Moderate	High
Supply chain	Global vision	Business character
	Discipline	Skill
	Continuous learning	Strong business capital
	Internal management	Good internal communication
	Opportunity	Knowledge
	Proper marketing strategy	Information and adopted technologies
		Customer satisfaction
		Relevant experiences
		Innovations
		Business ethics

Table 3 specifies 3 low-to-high levels of achievement for every indicator provided. Low level indicates low achievement by SMEs for their priority, the authors limit the ratio achievement here to less than 80%. Moderate level is classified as successfully achieved, the standard is more than 80% but less than 91%. Finally, high level is categorized as the achievement level of more than 91% upto 100%.

These several indicators are placed in moderate level: global vision, discipline, continuous learning, internal management, opportunity, proper marketing strategy.

Surprisingly, most indicators are effectively gained by SMEs and are categorized as high level of achievement, including: business character, skills, strong business capital, good internal communication, knowledge, information and adopted technologies, customer satisfaction, relevant experiences, innovations and business ethics.

Further assessment is to identify the level of importance or priority in the reality for all the indicators assessed. These indicators are presented in Cartesian diagram.

Cartesian diagram shows the indicators that need to be improved in order to fulfill the standard of priority for SMEs, along with the items that are less important according to the respondents. Thus, these indicators can be eliminated. Cartesian diagram has 4 quadrants called A to D with the following explanations:

1. Quadrant A indicates factors or attributes deemed to affect reality, including those considered to be very important, but have not been implemented yet, thus the result is disappointing expectations.

2. Quadrant B shows the factors which have been successfully implemented, for it shall be maintained. These elements considered to be very important and satisfying.

3. Quadrant C shows less important factors among other quadrants.

4. Quadrant D demonstrates the factors that affect customer in a less important way, but are still implemented excessively. These factors are considered to be less important but very satisfying at the end.

A Cartesian diagram in Figure 1 shows the level of reality to importance based on the respondents' statements in the survey.

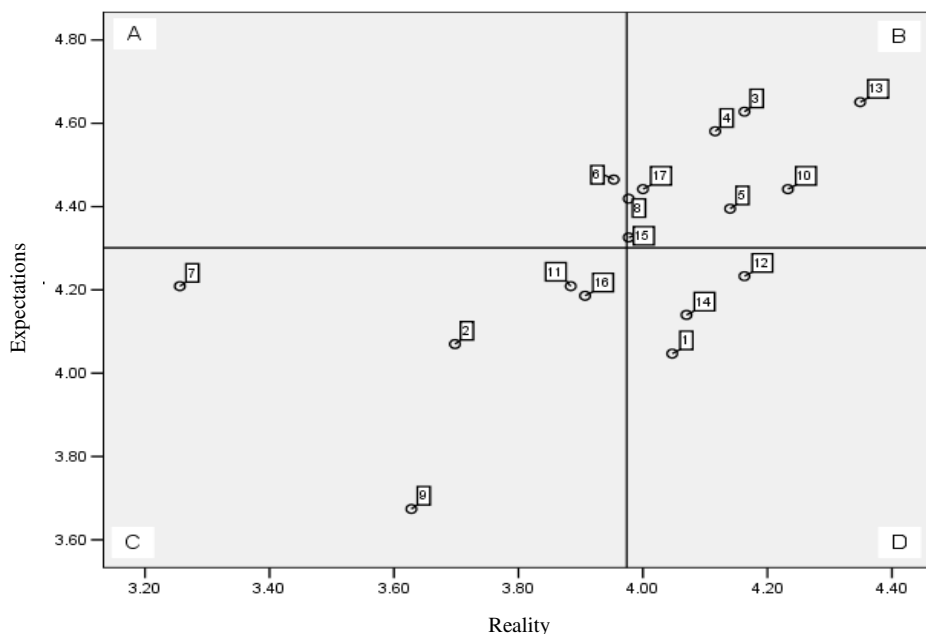


Figure 1. Cartesian diagram of reality vs. expectations, authors'

The only statement located in Quadrant A is statement number 6. SMEs expectation on their internal management was less supported by the reality. This mean, SMEs were not quite successful in their business running according to the plan.

Factors considered as low priority and shown less in reality were assigned into quadrant C, with these following items:

1. Having a global vision is a low priority for Indonesian SMEs nowadays, thus, this was not one of critical success factors for their business (Statement 2).

2. SMEs tend to neglect their supply chain management, even though there are potential risks related to resources (Statement 7).

3. SMEs still have difficulties in gaining operational funds, there are many financing programs by the government (Statement 9).

4. There are only a few SMEs that have already adopted supporting technologies for their business sustainability, they lack training and knowledge related and have only limited access to information and communication technology training program (Statement 11).

5. SMEs run their business based on necessities, business ethics is not their major concern (Statement 16).

Ironically, there were several statements in the mapping between the levels of reality and expectation located in quadrant D. Several SMEs mentioned items that have low priority for them, although conversely, they implemented them excessively. Those items are as follows:

1. They thought their business is very challenging, but it seems less important in reality, because successful business is not about implementing hobby or passion, it is just the matter of customer wishes fulfillment, whether challenging or not (Statement 1).

2. SMEs found knowledge is one of critical success factors for business, but in reality they barely use it. Many SMEs just run business with traditional methods (Statement 12).

3. Many SMEs run their business for years, it means experience should be one of critical success factors, though otherwise, many of them stated that this nothing to do with their success (Statement 14).

It shows that the items above were less important for SMEs, but they have excessive experience on them. However, there were significant items successfully achieved by SMEs. Both expectations and reality showed similar degree level, although several items were located close to another part of quadrant. Items located in B include these statements:

1. Disciplined behavior is important to be successfully achieved by SMEs while running business (Statement 3).

2. SMEs thought that continuous learning is an important factor for business success, and they were satisfied with the existing results (Statement 4).

3. Mastering necessary skills is one of critical success factors for business (Statement 5).

4. SMEs always monitor opportunities for potential income generation (Statement 8).

5. Good interaction between owners and employees is proven to be one of critical success factors in business (Statement 10).

6. SMEs must always prioritize customer satisfaction among critical success factors (Statement 13).

7. SMEs try to innovate for their business survival (Statement 15).

8. Appropriate marketing strategy is one of critical success factors, and most respondents agree that they are on the right track (Statement 17).

Conclusions and directions for further research. According to the results identified, Indonesian SMEs current weaknesses in terms of global competition include: insufficient internal business management, lack of global vision, inadequate supply chain management, poor financial access, using conventional methods in business rather than advanced information- and technology-based ones, ignoring ethics in business, and finally, lack of relevant knowledge related to business.

In future, this research will expand on the weaknesses of potential solutions that the government may undertake.

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