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## **The Determinants of Micro, Small and Medium Enterprises Development: A Case Study of MSMES Entrepreneurs in Jakarta**

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**Abstract:** The purpose of this research is to explore the readiness of Indonesian Micro, Small and Medium Enterprises (MSMEs) in free trade. The research utilises a case study methodology based on in-depth interviews with the owners or managers of eight MSMEs in Jakarta, Indonesia. The result of the study shows that many entrepreneurs, especially in Jakarta have more interest to develop micro and small enterprises, because it is low risk and is supported by human capital as a workforce. The entrepreneurs also need government roles, especially to open access to finance, information and export market. Training programs and entrepreneur trainers are needed to raise entrepreneurs' skill. The entrepreneurship intentions, entrepreneur's skill, ability of entrepreneurs to access finance as well as information and export market are determinants to develop MSMEs in Jakarta.

**Key words:** Indonesia SMEs, micro enterprises, small enterprises, MSMEs performance, workforce

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### **INTRODUCTION**

According to Rahman (2004), the roles of SMEs in a country's economy can be seen in the macroeconomic indicators as follows: contributing to GDP, employment, minimises unemployment rate, minimises inflation rate, improving employment opportunities and as an agent or a source of new innovations. Rahman (2004) also describes the business sectors of Indonesian SMEs which currently include: agriculture, livestock, forestry and aquaculture, mining, processing industry, electricity, gas and water, construction, trade, hotels and restaurants, transportation and communication, financial and leasing and services.

SMEs in Indonesia according to Tambunan have historically played an important role in the economy of Indonesia where >90% of all companies across sectors of which employs >90% of the workforce in this country, most women and young people are SMEs. Rahman (2004) said that the contribution of SMEs to the economic performance in Indonesia was significant, namely: Contribution to employment rate: >99% and the contribution to GDP by 54-59% and contribution to export by 14-15%.

According to Mourougane, SMEs have been a major contributor to the growth of employment in Indonesia in recent years. SMEs helped to sustain household income during crisis and was one of the important factors that explain the decline in poverty levels. SMEs have

contributed more to the growth of value added in large companies with micro-enterprises that represent contributions, mostly SMEs.

According to Bhasin and Venkataramany (2010), Indonesian SMEs include a very large number of Micro Enterprises (MIEs) which are essentially self-employed individuals or core family members. Above research showed that the roles of SMEs and MIEs in the Indonesian economy are very important. So an in-depth study of what are the determinants of Micro, Small and Medium Enterprises' (MSMEs) performance. The result of the study is a conceptual research or a mini theory based on field data.

### **Literature review**

#### **Opportunities SMEs in the era of the free market:**

In line with the trend of globalisation, SMEs are increasingly involved in international business. The roles of SMEs are not only in exports activities but also imports and contribute connecting global production networks. Utilisation of advances in technology, telecommunications and infrastructure, SMEs in developing countries has improved relationships and networks with new customers while strengthening relationships with existing business partners. High profits earned through export growth has prompted them to invest more in foreign markets to further increase their profits. But not all are winners. Many of those who fell on the road when crossing international borders. They failed

to overcome the obstacles entering internationalisation (Julien and Ramangalahy, 2003; Knight, 2000; Gunaratne, 2009). Furthermore, most of their victims are SMEs from developing countries (Gunaratne, 2009).

To take the opportunities to successfully enter the free market, Riyanti in Bhasin and Venkataramany (2010) found the factors that affect entrepreneurs in the SME level in Indonesia: the age and experience of the entrepreneurs affect on the ability to exploit the sources of success in the business world, personality traits contribute to innovative behaviour which then led to the success of the business and direct involvement in the management of the business can give birth to the new entrepreneurs.

#### **Obstacles of SMEs in the era of the free market:**

According to Gunaratne (2009), SMEs were very important in increasing export earnings in developing countries but a large number of SMEs in developing countries fail to enter the overseas market due to their inability to overcome entrance obstacles (entry barriers) and business under represented in the international economy as a result of market access barriers. Some say that some dramatic changes in the global market will create new opportunities for businesses and bring prosperity to the exporting countries (Cateora and Graham, 2007; Gunaratne, 2009). Those changes include: advances in information technology and transportation, easing restrictions on trade with the elimination of both tariff and non-tariff, the establishment of a multinational market area, region free market, economic union, political union and the regional economic bloc to encourage regional trade and the establishment of the WTO to resolve the problems of world trade. However, this change is more precisely enjoyed by exporters from developed countries.

According to Fliess and Busquets, although the chance of SMEs to engage in international business has improved, when they tried to enter the international market, SMEs often encounter greater barriers. These barriers are complex and can come from both internal and a larger business environment in which SMEs operate, including barriers of trade policy. Overcoming barriers to trade requires a significant investment in both time and resources. As a result, SMEs may be unable or unwilling to fully engage and utilise available government consultation mechanisms and strategies to deal with barriers in foreign markets.

At the 2008 meeting of APEC, reports were received that while globalisation of SMEs quickly were to take the position but only a small amount of about 0.05% of Indonesian exporters were to export directly and mostly through third parties in trade. This is according to Bhasin and Venkataramany (2010) due to the following factors:

limited financial access of SMEs to develop business and to enter foreign markets, most products of Indonesian SMEs do not meet the export standards and inability to understand information relating to world markets.

In his research, Gunaratne (2009) found that at least there were four barriers of SMEs in developing countries to enter the global market, there were the barriers of information, operations, marketing and environment. Gunaratne also found that all four of these obstacles affect business 'growth' or 'ungrowth'. Then he concluded that the internationalisation of SMEs is constrained by a number of obstacles in the environment within their own country.

## **MATERIALS AND METHODS**

The research design in this study is a qualitative research method. According to Denzin and Lincoln (Ihalauw 2011), qualitative research is a multi-method research in its focus which involves interpretive and naturalistic approaches. Qualitative researchers study things in their natural framework and interpret the phenomenon of the meaning from the standpoint of the people who were directly involved in the phenomenon. The reason for using qualitative methods by Mays and Pope is a development of concepts that help understand social phenomena within the natural framework, giving emphasis on meaning, experiences and the views of the participants.

This research was conducted in Jakarta from May to September 2015 and chose several MSMEs entrepreneurs as our key informants to been involved into in-depth interviews. The following are our key informants: Mr. DA, owner of a cake business, Miss JS and Miss MS, owner of a cake business, Miss SI, owner of a culinary business, Miss RZ, owner of a fashion business, Miss RT, owner of a leather bag business, Mr. SY and Miss ML, owner of a bags and shoes business, Mr. IS, owner of a leather crackers and Miss A, owner of a handicraft business.

## **RESULTS AND DISCUSSION**

Through in-depth interviews, we see that MSMEs in Indonesia have opportunities in free trade era. They are less risky and have productivity for young labour potentials. But it is also right that MSMEs in Indonesia have barriers in the free trade era. They are financial access, entrepreneurs' skill, information access and export access.

#### **MSMEs opportunities in free trade Era**

**MSMEs have less risk:** Opportunities to start a business, especially micro-enterprises are the largest and most targeted by the lower and middle classes. When we

interviewed our informants about which were the majority of businesses in Indonesia and how the speed of production was, most of our informants said that they are micro-enterprises, Miss RZ said: 'I think majority is microenterprises'.

And Miss. RT said: 'Micro business is most majority.' There are a number of reasons why they think that micro enterprises are the most dominant in Indonesian business. According to our informants, micro-enterprises became the first choice for some reasons that it does not require too much capital for business start-up and less risky. Miss AY said.

'Micro enterprise becomes the first choice in my opinion, it is not only that capital required is very small but each person can start with a risk that is not too big.' Miss SI also said: 'Micro business is most because it does not require a lot of capital and minimal risk.' Likewise, Mr. IS said: 'Micro business became the most business majority in my opinion because it needs small capital and less risk.'

**Productivity young labours potential:** Productive and young populations in Indonesia are very big and it becomes potential for a nation's development. But the quality of the human resources is still needed to be empowered, so the potential can be a real opportunity in the business world development in Indonesia. When we interviewed our informants about access to productive human resources for MSMEs in Indonesia, most of them said that in fact, Indonesia has great potential for productive human resources but they must be empowered to convert potential to be business capabilities. Miss AY said.

'We have great population. Please imagine if all of them are productive. We can be developed country and has ability to compete with developed countries as well as China and United State of America.'

As a business woman, Miss AY saw great potential that Indonesia has especially for the potential of productive labours that will move Indonesia to have the ability to compete with other countries. But in her confidence, she also saw the lack of improvement of human resources. She hopes that not only quantity but also quality is needed to be improved to support the business world and Indonesia's development in the global arena. Miss AY's statement is confirmed by Miss SI's statement, she said.

'We have many human resources. But they are still must be developed and improved.' Likewise, Miss RZ said: 'I think that there are enough resources productive, just need more developed with provide training programs to increase quality and capability of these resources.' Miss RT also said.

'Indonesia has great population and it most depends on education programs. If they get good education, Indonesia is enough potential to create productive human resources.' Later in the context of the utilisation of human resources for the business world, Mr. DA saw a potential resource when MSMEs have leadership skills in managing them and have a good system in utilising their productivity. Mr. DA said: 'Quite a lot of potential resources, owner leadership and system of MSMEs are important to bring their potential.'

#### **MSMEs barriers in free trade Era**

**Access to finance:** Research findings of Gill and Biger (2012) show that barriers to small business growth in Canada include lack of financing, market challenges and regulatory issues. Furthermore, we want to know if the barriers are faced by MSMEs owners in Indonesia. We interviewed our informants about how they got financial access to develop business and getting opportunities for entry into foreign markets. Miss AY told us.

'To entry foreign market many things into consideration in addition to the product quality, one of them is financial or capital access. We need fund, so the lack of financial no longer a factor which inhibits the business'.

So as an entrepreneur, Miss AY saw that a financial problem became one of the barriers to develop MSMEs in Indonesia. Besides product quality of MSMEs, a lack of financing is also one of the barriers for Indonesian MSMEs to gain entry into foreign markets.

Mr. DA and Mr. SY were optimistic to overcome the financing problem with financial access from a bank. Mr. DA said: 'Open access to banking, if you know how.' Mr. SY said: 'Many possibility to financial access, just maybe the rules and processes should easy to borrow money.' And Mr. IS said:

'The government through banking is ready to help finance a business entity both large and small. It's just that there are some requirements that must be met.' Miss RZ hopes the government plays an active role in opening access to banking financing in order to enhance the growth of SMEs in Indonesia. Miss RZ said,

'I think the role of government must be begins from here. How the government can accommodate the creative community to develop their business that they have. It can be a convenience for entrepreneurs to get loans from banks which include interest loans eligible. Through it economic growth will be seen, along with the development of ability or competitiveness of the local market to enter foreign markets.'

If Mr. DA, Mr. SY and Miss ML and also Miss RZ expect easy access to bank financing, Miss SI expect investors to be interested in investing in the development of SME business. Miss SI said.

'I think the necessary in the future, SMEs must be able to find investors willing to invest. Of course, with the best deals that benefit both parties.' Meanwhile, for Miss RT, financial access through banking and investors are equally important. Miss RT said: 'Many ways can be done, in addition to hook investors. We also can access a loan from banks. Of course, we must follow the given requirements by banks.'

**SMEs owners' skill:** Gill and Biger (2012) found that a lack of ability or skills of SME owners often also can be an obstacle in the development of SMEs in particular to enter foreign markets or global markets. When we interviewed our informants whether SMEs owners understood and experienced entering the global market, the following are their answers. Miss AY said: 'The global market is a target. In addition, we are able to introduce products in the domestic marketplace, we can also reap more benefits if it can compete in the global marketplace.' Miss RZ said: 'I think it is a requirement that must be owned by the SMEs entrepreneurs, they should be able and quickly adapt to any situation to be able to enter the global market.'

And Mr. IS said: "I think it to play in the global market, it is necessary. It will fast or slow toward get there." Then the question arises, whether it is necessary to enter the global market and is supported by the ability of business owners to be able to enter and compete in the global market? Are they ready? According to Mr. DA.

'Some have already and some have not.' Meanwhile, Mr. SY said: 'It depends. If he was already long in the business, it was supposed he was ready because his experience is a lot but if they are new player it was a difficult because they lack experience.' And then, according to Miss JS.

'In general, our entrepreneurs already understand the important of foreign market but they have not had the experience, yet.'

And then Miss. RT saw that the skills of MSMEs entrepreneurs are an absolute requirement to be able to compete in the free market.

**Access to information:** Information access is crucial to help MSMEs enter the global market. We interviewed our informants whether MSMEs have enough information about how to compete in the free market. Miss AY said: 'Not yet.' Mr. IS also replied, 'Not yet.' Mr. DA said, 'Some have already, some have not.' Mr. SY said, 'Nothing.' According to Miss RT.

'There is still limited information. Maybe because for a while I have not put the target to plunge into the international market. But I will keep trying, so when it came time to survive in a free market competition.'

From the testimony of the MSMEs entrepreneurs above, it shows that information access on global markets is still a barrier for them to be able to enter the global market competition. Meanwhile, according to Miss JS and Miss RT, the Internet can be utilised for MSMEs entrepreneurs to access the information. However, it is still too limited for them. Even Miss JS still does not have confidence in the correctness of the information available. According to Miss. RZ,

'A lot of information can be obtained from the internet, it's just that I see, there are many among our society, many are not maximised use of existing facilities, in this case the Internet, in the quest for this information.' Meanwhile, according to Miss JS.

'A quite a lot of information but the degree of truth of the information that needs to be questioned because today a lot of sources of information that needs to be questionable.'

**Access to foreign market:** In this Era of global markets and to meet the ASEAN Economic Community is whether our MSMEs were ready to enter the competition and foreign markets. A majority of MSMEs entrepreneurs in Jakarta which became our informants are not ready. Miss AY said:

'So far, they are coming to see directly and buy the items that we sell. After that the rest is just using a delivery service only.' While others are still not interested with a foreign market, yet. For example, Mr. DA said: 'We has not been working on overseas markets.' Mr. IS said: 'I have never gotten a client from overseas.'

Meanwhile, Mr. SY said: 'We do not know. We have not had plans to do export, so we have not thought it, yet.' Based on the above testimony of a number of MSMEs entrepreneurs, this indicates that access to foreign markets is still very limited for MSMEs business.

**Entrepreneurship training programs:** We interviewed our informants to ask them whether Indonesia has enough professional agencies to educate and train entrepreneurs. Some informants said there were and others did not know. For example, Mr. DA said: 'I know that there are some entrepreneur schools and also many workshops on entrepreneurship.'

Meanwhile, according to Miss AY said, 'Yes, quite. Education is one of facilitations to train the prospective entrepreneurs. Various attempts were made to equip and knowledge about the business world.' And then, Miss JS said: 'For the professional institutions, I do not know exactly. But it's been quite a lot of seminars on the entrepreneurship themes and usually are hold not by special institutions to train entrepreneurs. I also saw a lot of media that gave inspirations talk show of entrepreneurs.'

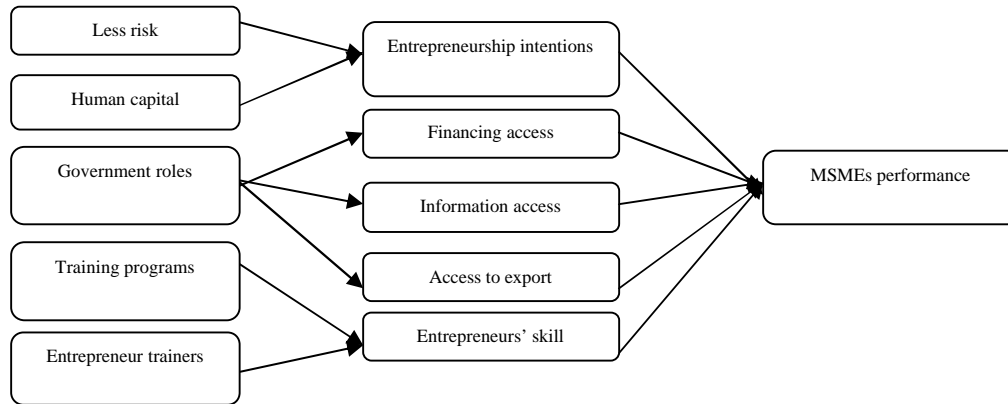


Fig. 1: Mini-theory

According to our informants, many MSMEs entrepreneurs were not prepared by training but rather on experience alone. For example, Miss RZ said: ‘I knew it a little.’ Mr. SY said: ‘I think this time, I still have not found professional agency to assist and train the owners of MSMEs.’

While Miss. SI said: ‘The main capital is the willingness of yourself. The government, in this case, only provide a means in the form of places of skill and creativity where there people can be equipped with a particular field of knowledge.’ Another view has the expectation that education can become one of the institutions in preparing and developing entrepreneurs. Miss RZ said.

‘My view is that entrepreneurship education should be started from formal education, by providing the motivation to open or grow the spirit of an entrepreneur itself within each student.’ Mr. IS said: ‘The formal education is one of institutions to train the prospective entrepreneur. Help them to have motivation to become an entrepreneur.’

Meanwhile Miss RT hopes, ‘In addition to training venues created by the government, it will be better if there was a role or initiative from the community itself.’

**Availability of entrepreneurship trainers:** When we interviewed whether Indonesia has enough experienced trainers in the field of entrepreneurship to educate and train people to become entrepreneurs, most of our informants answered there were. Mr. DA said: ‘I think many.’

Miss AY said: It is many. Even among those willing to share the life experiences that made them become a successful entrepreneurs like now.’ Miss SI said: ‘There were many successful entrepreneurs. See their stories who also (have experienced) ups and downs to run their businesses, (we) have the same principle that is diligent and hard work.’

The same thing also delivered by Miss RZ, ‘There were many of successful entrepreneurs who even willing to share their experiences. It just might take an institution that can be used to they can share their experiences with prospective entrepreneurs.’ Also Mr. IS said, ‘Yes, there were many. Even among those willing to share the life experiences that made them became a successful entrepreneur like now.’ Likewise, according to Miss. RT, ‘Yes. Many successful leaders, even they want to share about their experiences. I often browse the internet and look at some of them want to share their experiences.’

From the above testimony of the entrepreneurs who were also our informants, it can be seen that the availability of entrepreneurship trainers was many. They mainly come from entrepreneurs who have been successful and experienced rather than the trainer who was prepared by government agents to boost the growth of MSMEs in Indonesia. Luckily for entrepreneurs who can access information about the availability of the entrepreneurship trainers who will help provide insight and business development strategies. But there are also entrepreneurs who are less able to access the information. Therefore, they cannot access the availability of entrepreneurship trainers. Miss JS said: ‘There were but there were not an appropriate institution to accommodate the cadres’.

**Mini theory:** Based on the interpretation and presentation of data analysis in the above interviews, there appeared a number of related concepts forming propositions and finally, a model or a mini theory. Concepts that appear in them are less risk, human capital, entrepreneurship intentions, government roles, financing access, information access, access to export, training programs, entrepreneur trainers, entrepreneurial skills and business performance. The relationship between the concepts can be explained below as a conceptual model or mini theory (Fig. 1).

## **CONCLUSION**

The above mini theory shows that many of Indonesia's MSMEs entrepreneurs have entrepreneurship intentions, especially to develop micro enterprises. They see that micro enterprises have less risk and can utilise human capital potential as a workforce. These entrepreneurship intentions are absolutely important to develop MSMEs performance. But government roles to support and develop MSMEs are needed by entrepreneurs, especially to open financing access, information access and access to export market. The accesses are important to develop MSMEs performance. Then training programs and entrepreneur trainers are needed to raise entrepreneurs' skill, since the entrepreneur skill is needed to raise MSMEs performance.

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