

Model of MSME's Competitiveness and Performance Excellent Product in Indonesia: an Approach of Government Policy

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Abstract

Empowering Micro Small Medium Enterprise (MSME) in Indonesia has become the major priority in the national development strategy for it contributes to the economic performance embodying: gross domestic, employment, making national foreign exchange by promoting exports. This article generates a relation model describing government policy implementation influencing MSME performance and competitiveness. The method used in this article is based on the most updated journals and books thus creating a new reasoning contribution. This model is of advantage for the government and society in relation to empowerment and development strategy of MSME for competitiveness and performance issues.

Keywords: Government Policy, Competitiveness, Performance, Excellent Product, Model, MSME, Indonesia.

1. Introduction

The total population of Indonesia reached 28.55 million (11.47%) in September 2013. If compared with the total number of poor population by March 2013, there has been a 0.48 million escalation. Based on the area, the poor population grew as many as 0.30 million and 0.18 million in the city and urban area respectively during the period March to September 2013. As such, the percentage in the city increased from 8.39% in March 2013 to 8.52% in September, while that in the urban area slightly escalated from 14.32% in March 2013 to 14.42% (Badan Pusat Statistik, 2014).

For Indonesia, reducing the poverty issue is one of the parameters of development success for there are many countries struggling from this situation, thus making it common International issue. Suppressing poverty policy has been the conventionally committed in the Millenium Development Goals (MDGs) declared and signed by 189 countries, including Indonesia since 10 September 2000. One of the eight goals declared is the determination and commitment to diminish poverty. Accordingly, the government has put its significant effort to contribute to alleviate the poverty and unemployment by promoting MSME in Indonesia. In addition, the target the government needs to reach in empowering the MSME based on the Medium-term National Development Plan (RPJMN) 2015-2015 is to ameliorate the enterprise atmosphere to boast the competitiveness (Kumorotomo, 2008).

The MSME in Indonesia has been significantly beneficial for the progress of the Indonesia economic development; although, in the beginning, it was objected to provide employment and played an important role for the urban economic development. However, in this globalization era, MSME is of benefit as the foreign exchange from non-oil export income for Indonesia (Tambunan, 2008a).

The reason for Indonesia to strengthen MSME is the fact that MSME become the important factor for international trade beside Major Corporation. MSME has become global player, around 25 – 35 percent manufacture international export is contributed by MSME. Meanwhile, 20 percent benefits of manufacture from the company are achieved from national cross-border trading. Nowadays, 25 percent manufacture from MSME that is on the record plays international role of manufacture of trading, known as a competitive manufacture. The need of great support for the MSME in Indonesia is important since the toughness of this sector during the economic crisis in 1998 was tested successfully.

The reason of this toughness of MSME that the main production components in MSME do not depend on import material from abroad; therefore, the effect of high dollar exchange does not influence production rate of MSME. This factor becomes the excellent benefit of the MSME existence in Indonesia (MSME Magazine International Network, 2013)

Since the importance of MSME's role, government through the associate institution, especially Ministry of Cooperation and MSME has launched many support programs. The support of the government is strengthened by several regulations in National Middle-Term Development Plan. This assumption is relevant to Hadiyati, Ernani (2010); she states that government intervention to MSME through National Corporation and Bank has significant effect to entrepreneurship and business performance.

Government gives an abundant support to MSME by releasing profitable policy. National Regulation no. 20, 2008 related to MSME states that this business requires holistic, optimal, and continuous support by creating a good and extensive business condition that is conducive, well-business chance, support, protection and development. Government intervention in the MSME development program can be realized by giving empowerment program. Empowerment is an effort that is carried out by Central Government, Local Government, Business Community, and public synchronically in terms of developing business condition and development to Micro, small, and medium enterprise, therefore; they can grow and progress to be independence and strong business.

In the turbulence business environment, MSME is demanded to take strategic measure to be competitive. One of the ways to increase competitive improvement can be reached through innovative strategy as a form of creativity resulted from business management (Rofiaty, 2010).

FICCI, (2012) describes that high level of growth, MSME in India also faced several problems such as sub-optimal scale of operation, obsolete technology, insufficiency of supply chain, improving global and domestic competition, low budget, strategic change of manufacture and turbulence, and uncertain market scenario. To survive from those matters as well as to compete against big and global company, government needs support to MSME in solving problems that has been through empowerment program. Utami (2007) states that effective empowerment model to MSMEs is by improving the quality of entrepreneurship habit and business independence, that sustained by supportive back up from local government and non-government organization.

The result of the research of Chacuamba, Felizardo Vasco Amizade (2011) states that local government roles are important in developing MSME within their regional territory, city and village. Ayozie Daniel Ogechukwu, (2011) states that many experts admit that marketing is considered as a major problem and in one side regarded as relevant solution to the development of MSME. The roles of government in Nigeria are as regulator and facilitator, legally and politically in the MSME development. The examples of their roles are identifying the marketing problems, availability and validity of supportive and beneficial Act, preparing infrastructure that supports MSME, and forming financial institution to support MSME. Maintaining MSME needs to regard the marketing practice and principal. In America, Europe and Nigeria are cottage, as a growing industry and through marketing ability and skill, and effort to reproduce and create available product, which is better and cheap.

Ji Young Park and Soo Wook Kim (2010) state that to support this argument, Government of Korea has allocated high budget to be invested in financial and human resource. Korea focuses to the research and development budget that distributed to the MSME. The purpose of this program is to deal with obstacle in management and recover economic revitalizations. Strategy to develop MSME that carried out by the government, local government, business community, and public to empower MSME is conducted in several ways. It deals with preparing facilities, counselling, collaborating, and supporting to develop and improve ability and competitiveness. Government and local government facilitates developing of business in terms of a. production and management, b. marketing, c. human resource, d. design and technology.

Weak performance of MSME in the developing country commonly and especially in Indonesia is the lower business competitiveness compare to the corporate industries; meanwhile in the global and free trade era nowadays and in the future, competitiveness regards as an important factor. Without better competitiveness, MSME in Indonesia will disappear (Tambunan, 2010).

In accordance to the development of dynamic and global economic environment, it becomes very important in determining model of Implementation of Government Policy to the Competitiveness and Performance of MSME Special Product in East Java.

2. A General Description of MSME in Indonesia

2.1 Definition and Criteria of MSME

Common limit in this article defines MSME for production industry and non-industry. For the definition of MSME for production industry is following the definition of Central Bureau of Statistic in Indonesia, according to the number of the employee:

1. Micro Enterprise is economic activity which is conducted by individual or family and a group that employ 1-4 employees.
2. Small Enterprise is economic activity which is conducted by individual or family and a group that employ 5-9 employees.
3. Medium Enterprise is economic activity which is conducted by individual or family and a group that employ 20-99 employees.

Meanwhile, the definition of MSME according to non-industry definition, is following Act no. 20, 2008 about MSME:

1. Micro Enterprise is economic activity that carried out by individual or family or a group that has net asset up to IDR. 50 million and their purpose is to produce goods or service to be traded commercially and has selling turnover per year up to IDR. 300 million.
2. Small Enterprise is economic activity that carried out by individual or family or a group that has net asset up to IDR. 50 until 500 million and their purpose is to produce goods or service to be traded commercially and has selling turnover per year up to IDR. 300 million until IDR 2,5 billion.
3. Medium Enterprise is economic activity that carried out by individual or family or a group that has net asset up to IDR. 500 million until 10 billion and their purpose is to produce goods or service to be traded commercially and has selling turnover per year up to IDR. 2,5 billion until IDR 50 billion.

To complete the definition of MSME, the writer also explains the opinion of Baswir (2010:134), he describes the definition of small enterprise as follow: (1). The activity tends to informal and rarely has business planning, (2). Organization structure is simple, (3). The number of the employee is limited with no binding in working division, (4). Most of enterprise do not separate personal and company properties, (5). The accounting system is not well arranged, even most of the enterprise apply no accounting system, (6). The economic scale is too small, so it is hard to suppress the budget, (7). Marketing ability and market diversification tend to be limited, (8). Low margin of profit.

2.2 Common Problem Cases of MSME

MSME has strategic role in the economics of Indonesia, yet it has several complicated problems. Those problems are often found and explained by many previous researchers. Darwanto (2011) describes that MSME commonly faces two main problems, namely financial and non-financial (management organization). A financial problem is explained by Sri Adiningsih, namely:

- (1). Lack of mismatch within available budget which is accessible to MSME.
- (2). No systematical approach in MSME finance.
- (3). High transaction cost as a result of complicated credit procedure which takes time but the amount of the credit is too small,
- (4). Lack of access to finance formal source, since there is no bank in the village (remote area) as well as lack of sufficient banking information,
- (5). High interest credit rate for investment and capital,
- (6). Many MSME is not bankable, as a result of lack of transparent in financial management as well as lack of competent in financial and managerial.

Those problems are considered to slow down the development of MSME. While for the management organization (non-financial) is as follows: (1) lack of knowledge in production technology and quality control as a result of small chance to follow the advance of technology as well as education and training, (2). Lack of market knowledge, this happens as a result of limited information accessible to MSME about the market, moreover, it happens because the limitation of MSME ability to provide appropriate product or service which is accepted by the market needs, (3). Limited source of human resources, it deals with lack of source to develop human resources, as well as understanding to finance and accounting.

2.3 Law Foundation in Empowering MSME

1. Pancasila and National Act of Republic of Indonesia especially in chapter 33, states the realization of national economic development must be based on economic democracy;
2. Resolution of House of People's Representative Number XVI/MPR-RI/1998 about Economic politic in frame of Economic Democracy; Micro, Small, Medium Enterprise needs to be empowered as an integral part of people's economic that has strategic position, role, and chance to create balanced, developed, and fair national structure of economic
3. Act of Republic of Indonesia number 20, 2008 about Micro, Small, and Medium Enterprise.
4. Middle National Phase of Development Plan (RPJMN), year 2015-2019.

2.4 Government Policy and MSME

Middle national phase program which is described in RPJMN 2015-2019 should reflect the government role in the empowerment strategy of MSME in terms macro and micro. MSME needs to acquire support in strengthening technology, marketing and finance; moreover, it must be supported by a good access to the market just like large corporation. This support is greatly needed to sustain the existence of MSME since most of them has no permanent location and no legal status, so they are susceptible to various difficulties. Those difficulties can impede the potential growth, this condition is not likely to happen, because it is against the government policy to improve business situation especially in terms of competitiveness improvement MSME. Kumorotomo, (2008) explains that the challenges for the next five years are as follows; the business competition is getting tough, transaction cost is getting high, and the expensive resource required by the MSME. To face those problems, the national phase program must cover the attempt to improve MSME's access to productive sources.

3. Analysing Competitiveness and Performance of MSME

3.1 MSME Contribution to National Economy

Empowering MSME is strategic since its great benefit in activating economic activity of people and becomes a source of income most of people in improving their economic welfare. The existence and role of MSME to national economic is shown by the following table:

(1). The development MSME in the table 1 from the growth of several indicators such as: unit of business, employee, contribution to gross domestic product and export rate. The growth of business unit MSME from 2010-2013 has improved above average growth 2,35%. The growth of the employee's number MSME from 2010-2013 has improved above average 4,38% in 2010-2013. The growth of MSME contribution to gross domestic product in 2010-2013 is in 6,12% and in 2010-2013, the rate is 3,29%. The growth of export rate in 2012 decreased in 11,10% and in 2013 the rate improved in 9,29%.

Table 1: Growth of MSME Number of Business Unit, Employee, contribution to GDP, Export Rate_{Year} 2010-2013

No	Indicator	Year				
		2010	2011	2012	2013	Average
1	Growth of Number of Business Unit (%)	2,01	2,57	2,41	2,41	2,35
2	Growth of Employee's Number (%)	3,32	2,33	5,83	6,03	4,38
3	Growth of GDP MSME's Contribution (Constant Price)	5,77	6,76	6,00	5,89	6,12
4	Growth of Export Rate (%)	8,41	6,56	-11,10	9,29	3,29

Source: Central Bureau of Statistic 2013

From the table 1 shows the growth indicator number of business unit, employee, and contribution to GDP, and export rate from 2010-2013. It shows variety of growth.

3.2 Competitiveness Space to MSME

1. Competitiveness in Empowering MSME

The importance of MSME in supporting economy in Indonesia must be aligned with the awareness to strengthen MSME by improving competitiveness through improvement of productivity and efficiency. Darwanto (2011) explains strategic measure to improve the competitiveness and performance of MSME by developing the institution of MSME as a means of economic reparation for Indonesian people.

This reparation is set as a movement to help themselves by developing and exposing small and medium enterprise to improve life's welfare and decrease poverty. The main job of the government related to MSME is management purpose or regulatory as well as selective empowerment. In terms of development of MSME, these several things must take as consideration:

a) administration control of MSME's legal status, b) arrange supervising to the new status of MSME, c) organize accreditation or assessment to MSME's law status regularly and continually as a form of public protection, d) strengthen the institution of human resources development in cooperation movement, e) strengthen financial institution of MSME by planning saving and loan institution, f) strengthen capital business selectively and diretively to reinforce MSME's financial system.

The presence of strong MSME's institution by empowering MSME especially micro enterprise is to create a means to cooperate between producer and consumer as well as service user especially finance. By mapping the power MSME through ten years after the global crisis in 1998, the chance of MSME is getting bigger. The empowerment MSME is expected to keep elevating MSME's image as economic booster for people in all level of live.

The next future empowerment of MSME's is expected to be able to improve position and role of MSME's development by having high competitiveness ability in facing business competition.

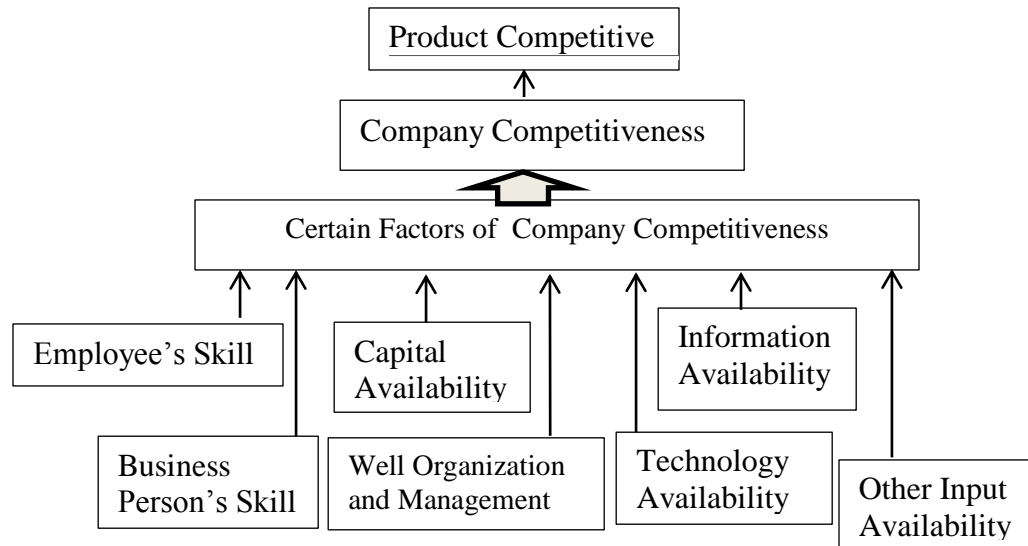
2. Measuring the Competitiveness of MSME

Competitiveness is a common concept which is used in economic related to a commitment upon market competition whether for national or international scope. The economic world and free trade has been launched globally, therefore the competitiveness becomes one key concept to companies, nations, and regions to gain succeed in their participation in the globalization and free trade. This statement is matched to Lengyel, 2005; cited in Markovics, 2005: "...on micro level the concept of competitiveness means the skill of position gain and self-maintainment in the market competition among companies, each other's competitors and - in respect of macro economy - among national economies ...". Man dkk (2002) create a conceptual model to link characteristics of manager or owner of the MSME and long term performance of companies. Conceptual model for MSME's empowerment consists of four elements: scope of companies' competitiveness, organization capability of companies, competence of the businessperson or owner, and performance. The result between competence and the other three elements is the core of this model, and this relation can be formulated into a hyphotesis into three tasks principal of businessperson: (a) creating competitive scope; (b) creating organization capability, (c) designing and reaching purposes. Garg, Deshmukh (2008) explains that many aspects can be developed as a strategic part to elevate MSME's competitiveness. Main sector that must consider in this study is concerned to the market condition, strategic development, competitive priority, process, performance, and benchmarking.

Most studies by researchers have focused to certain problems such as management quality, management technology, competitive priority, leadership problems, obstacle and challenge of MSME. Holistic approach has not been adopted to analyze competitiveness in global economy. To improve continually of many processes and performance measurement, organization requires self standard in accordance to the available standard. Most competition of a company depends on their ability to carry out well in terms of cost, quality, shipment, skill and speed, innovation and flexibility to adjust to a variation in a demand (Carpinetti et al., 2000). There are several important roles in attempt to improve long-term competitiveness. Four well-accepted competitive priority are cost, shipment, quality and flexibility. Competitive priority can be used as a competitive measure (external) and competition (internal) according to the Fleury dan Fleury (2003), organization must optimize quality or price ratio to improve rational benefit. Dangayach dan Deshmukh (2005) has observed that MSME gives highest priority for quality as well as flexibility. Lagace dan Bourgault (2003) has proposed to join reparation and practice of manufacture program as well as competitiveness priority from MSME. Those explanations defines the importance of competitive priority; therefore, it must be considered carefully.

Jahanshahi, Nawaser, Khaksar, Kamalian (2011) states that influential aspects of MSME's competitiveness consist of (1) internal factors of company; (2) external environment; (3) the influence of businessperson or owner. Mohammad dan Khar (2010) describes that competitiveness is characterized by three parts, namely: long-term orientation, controlabilty, relativity and dynamic. The result of the opinions about competitiveness of MSME has been formulated in the concept framework by Tambunan (2010) in the picture 1.

The competitiveness of a company is reflected from the product competitiveness resulted from the company. The competitiveness of a company is determined by many factors, namely: employee's skill, businessperson's skill, the availability of business capital, well organization and organization system (depend on business needs), the availability of technology, information and another input such as energy and raw material. Businessperson and employee's skill are human resource aspects. Employee's skill covers certain area such as production, marketing, research and development. Businessperson's skill covers skill of business knowledge in term of internal and external. Those factors influence company in term of innovation skill to create competitiveness.



Picture 1. Key Determinant Factors of Competitiveness

Source: Tambunan (2010)

Shahid (2007) states that the capability of MSME in creating innovation is influenced by creativity and business knowledge. Those innovation are unique and depend on certain field of business. MSME with high competitiveness has related seven internal aspects, those factors and internal factors are related to the performance (Tambunan, 2010). This statement is supported by Septiani, Sarma, Limbong (2012), they claim that government policy influences to competitiveness. Competitiveness uses certain procedure such as: (1) national market segment defines as a commitment to market competition in the context of MSME's competitiveness, related to the market segment which is exist, (2) domestic market diversification defines as commitment to the market competition in the context of competitiveness, related to the domestic market diversification, (3) value of the product defines as commitment to the market competition in the context of product competitiveness related to the value of selling product, (4) consumer satisfaction to the product defines as commitment to the market competition in the context of product competitiveness in giving satisfaction to the consumer. From that explanation, the MSME's competitiveness will determine the performance of the company.

3.3 Performance of MSME

Mujib states that business performance is a modification of needs to accomplish business purpose, whereas the importance level of business purposes is aligned with assessment to the business purposes, means satisfaction related to the purpose achievement. Moreover, there are 9 items which defines operational performance of business: a. Selling level, b. creating job field. Stability level of business, d. Profit level, e. Contribution to the development or improvement in the community, f. Organization growth, g. Leadership industry or market control, h. Income for the family, i. Low operational cost.

Finally, all innovative activities to achieve competitiveness must create better company performance compare to the non-inovative company. In measuring company's performance, different concept is applicable. Most of the time for the firm steps or economic performance consist of selling per employee, export per employee, selling growth level, total assest, total job field, ratio of operational profit and profit for investment (Sirilli, 2001).

3.4 Excellent Product

Related to the importance of excellent product indentifications in the regional area which is relevant to the local economic basis to boost as well as to absorb work force, the study of excellence product is getting interesting to be researched repetitively (Maulud, 2004). Development of local excellent product is also relevant to the demand of global era, since nowadays the value of comparative benefit is no longer relevant and the most important thing is commitment to boost competitive benefit. Competitive benefit basically can be created so there will be no reason all parties not to create competitive benefit for every valuable chance.

Competition in the global era is determined by competitive product (Heryanto,2003) and this means it has competitive benefit. On the other side, comparative benefit chance is no longer guarantee continuously to global competition (Ayyagari, 2003). In the context of comparative benefit development, local government must start to develop concept of excellent product. This process can be carried out by identifying its excellent product especially which comes from informal sector and MSME by taking assumption that they are labor intensive. This step is considered as a development process of local resources as well as optimizing local economic chance (Mayrowani, 2006). As a strategy of development, improvement of excellent product is valued to have benefit point since it is regarded that one area which applies this model is relatively independence in economic development. Development of excellent product and MSME can become an effective strategy in improving economy in a certain area (Elmi, 2003). The importance of creating local excellent product is important, especially in the rural areas and low economic area to the other area, including in this case is border area (Takahashi, 2003).

The excellent product of MSME in every district will be able to improve their economic and commonly its performance is measured by PDRB. Certain area which has some excellent products will create higher local PDRB and able to give contribution to PDRB in East Java.

Department of Trade and Commerce, East Java Province in Indonesia (2011) states that the development of competent industry is through several improvements, namely: competence of the local core, O V O creative industry and Agro Industry. Development target and program for competent industry can be seen in table 2.

Table 2. Development Strategy and Program of Excellent Industry

No	Target	Program
1	Improving the growth of manufacture industry	Developing MSME
2	Improving the export volume of manufacture product	Arranging industrial structure
3	Improving the number of job field absorbed by manufacture industry	Improving industry based on natural resources
4	Creating conducive business condition	Improving the quality of human resources
5	Improving the application of standardized product in manufacture industry	Improving standard of industry
6	Improving segment for manufacture industry	Improving the capacity of technology in industry
7	Improving the industrial growth which is export oriented	
8	Improving the industrial growth which is export based	
9	Improving the development of industrial centre	

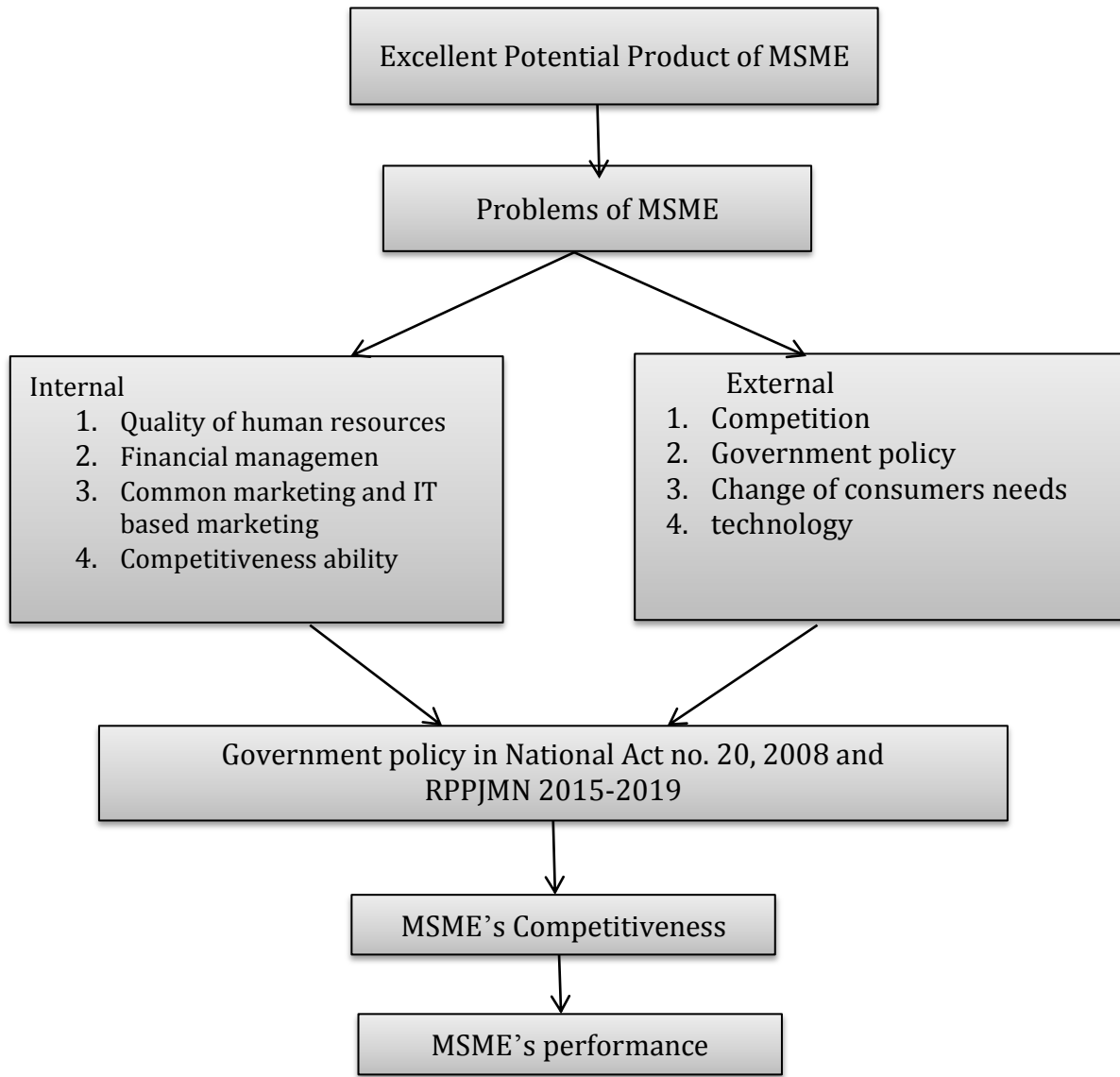
Source: Department of Trade and Commerce, East Java Province Indonesia (2011)

Syaifuddin (2003), states from his research that selection of excellent service subsector is based on the several factors.

The factors are the amount of contribution and the growth of service subsector in the city PDRB, the value of LQ in the service subsector, shift proportional value and differential, the amount of front index value related, back index value multiplier output, and the double influence income in service subsector as a measurement for excellent sector. The determination of this excellent sector is carried out by arranging composite index by considering ten variables, such as (1) contribution percentage of service subsector to PDRB, (2) the speed of growth, (3). LQ value, (4) shift proportional value, (5) shift differential value, (6) index of distribution power, (7) index of sensitive degree, (8) multiplier output, (9) the influence of doubled income, type I, (10) influence of doubled income type

4. Model and Assumption Framework

According to the concept of the theory, the writer can arrange framework of assumption concept in the picture 2.



Picture 2: Model of Competitiveness and Business Performance

5. Conclusion

The role of MSME in national economic in Indonesia is really strategic. This sector is also considered as a savior in crisis in 1997, it happens because its flexibility in adapting to change and absorb job field; therefore, it can cut down unemployment level.

Many limitation faced by the MSME, one of them is limitation in market segment, so the development strategy of MSME needs to be cautiously cared to make the growth of new MSME. Moreover, the purpose of that attention will not weaken the exits MSME. To make it survive to this condition, the figuration of MSME must be directed to export market or fulfil low supply in certain area. Government as the most decisive party in the economic development is supposed not to underestimate the role of MSME in contributing to the national economic. Moreover, the government needs to take more strategic role in empowering MSME through National Act No. 20, 2008 about MSME. The importance role in this empowering program is related to non-economic factor which can disturb MSME's performance. Therefore, competitiveness will be able to improve the business performance.

6. Implication

Article implication: first, government in determining policy must be related to the empowering program of MSME's as well as power of competitiveness and business performance strategy

Second: as a reference of research activity conducted by academicians and practitioners that focused on the MSME's empowerment and it creates excellent products in Indonesia.

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