

READINESS OF SMALL MEDIUM ENTERPRISES IN WEST SUMATRA FACES ASEAN ECONOMIC COMMUNITY

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Abstract: *One era that will be faced by SMEs and economic actors is ASEAN Economic Community (AEC) in 2015. The problem is that SMEs in West Sumatra have to contend with the economic actors who come from other ASEAN member countries relatively more developed and stronger in terms of capital, technology, human resources and other resources. Without any serious effort from all parties, the Indonesian economic actors (such as SMEs in West Sumatra) will be spectators in their own country. Therefore, we need to do research to analyze the readiness of SMEs in West Sumatra to face AEC in 2015 and found the empowerment model to support the competitiveness of SMEs in the region. The population was food-producing SMEs in the city of Bukittinggi and Padang with snowball sampling techniques. Data analysis techniques are quantitative descriptive analysis.*

Keyword: *ASEAN Economic Community, SME, Empowerment Model*

INTRODUCTION

Small Medium Enterprise (SME) is one type of business in Indonesia based on the scale of business, in addition to large enterprises. SME often being a concern to government because it is the most widely cultivated business community and absorb huge workforce, although it has a smaller income than larger companies. Even the Central Bureau of Statistics (BPS) noted that the contribution of SMEs to Gross Domestic Product (GDP) nationwide reached 56.5%.

As an independent business organization, SMEs considered more resilient to face of the crisis in Indonesia. This may be based on many SMEs that made it

through the storm of crisis, even the number of SMEs actually increasing. SMEs must be able to optimize the advantages that they have in order to survive in competition. Zimmerer and Scarborough in Renko et al. (2011) explain that competitive advantage in SMEs is a combination of factors that could differentiate them from competitors, and ensure the company's unique position within the industry. Competitive advantage is one of the aspects that must exist in SMEs, so they can survive in long term period. SMEs competitors are not only fellow SMEs, but also larger companies. Thus, SMEs should also be able to withstand onslaught of big companies that have capital and resources of a strong and professional management.

One era that will be faced by SMEs and economic actors is ASEAN Economic Community (AEC) 2015. Azyumardi (2014) states that the concept and agreement on the 'single community' appears in ASEAN Summit in Bali in 2003 which resulted in 'Bali Concord II', which is a strategic step towards a new balance between ASEAN countries. Some basic principles contained in this agreement are maintenance of regional stability that allows the acceleration of economic growth, strengthening and consolidation of democracy, increased respect for human rights, and strengthening good governance and law enforcement. The problem is Indonesian people must compete with economic actors whose come from other ASEAN countries which are relatively more developed and stronger in terms of capital, technology, human resources (HR) and other resources. Without any serious effort from all parties, Indonesian economic players will be spectators in their own country.

Therefore, each region in Indonesia should be able to identify their competitive advantages in order to increase regional competitiveness by optimizing the role of all economic actors in society. To be competitive in long period, SMEs not only have to focus on the company and their nearest competitor, but they should identify the elements that could affect company's position in the industry. Porter (1994) tried to identify those elements that known as five-force model (5FM). In the model, there are five forces that must be considered by company; threat of new entrants, bargaining power of buyers, bargaining power of

suppliers, threat of substitute products, and strength of competitors in the industry. By understanding these five elements, the company has the advantage that could produce better profit compared to competitors.

West Sumatra as one of the areas that are on the west side of the island of Sumatra would also have to clean up and get ready to welcome the AEC. Therefore, the government and related agencies should have and executed a clear and comprehensive policy in order to increase the competitive advantage of SMEs and regional competitiveness. This research analyzed the readiness of SMEs in West Sumatra to face AEC by identifying their strength and weakness. Thus, SMEs have to pay attention to any changes in the future and adapt to these changes. Many companies suffered a setback due to mistaken in analyzing changes in this environment, even less notice and just focus on the immediate environment.

LITERATURE REVIEW

Definition of Small Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) is one of the main economic activities of the foundation of the economy in many developing countries, including Indonesia. The literature in the study of SMEs explained that SMEs are well developed could increase entrepreneurial spirit, create new jobs, increase the productivity of society, increase the value of exports and so on. Even, Piper in Tambunan (2010) explained that SMEs have a major role not only in developing countries but also in developed countries, including the United States. Nearly 63.2% of the workforce in the United States working in the 350,000 companies that have less than 500 employees.

The role of SMEs in the Economy

Economists have long recognized that the small business sector (SME) is one factor of success and economic growth. Small businesses contributed to the development because of the advantages possessed by SMEs such as easy-going innovation in product development; human relations familiar in SMEs; the ability to create enough employment opportunities; flexibility and ability to adapt to

changing market conditions faster than large-scale enterprise and dynamism presence of managerial and entrepreneurial roles.

In Indonesia, SMEs are often described as the sector plays an important role, since most of the population poorly educated and live in small business activities in both the traditional and modern. In Indonesia, the management of SMEs conducted by the Ministry of Industry and Trade and the Ministry of Cooperatives and SMEs.

Currently SMEs face increasing competition due to the opening of the domestic market. The amount of goods and services coming from abroad as a result of globalization is a major threat to SMEs. Therefore, guidance and development to SMEs is an absolute thing that must be done. Through the enhancement and development efforts are expected SMEs independence can be achieved in the future so that it can increase eople's economy. With the development of the people's economy is expected to boost people's incomes, employment opportunities, and prosperity of the society as a whole.

SME activities cover various fields of economic activity, but most small businesses are engaged in agriculture, producing food, craft, trade, restaurants, and the processing industry. The extent of the economic activity undertaken by SMEs require appropriate policies so that these businesses can grow and helped promote regional economy in particular, and the economy in general society. Shape the policy, among others in the fields of licensing, technology, business management, marketing, training and financing.

SME and Regional Competitiveness Improvement

The role of SMEs in the economy began to develop in the 1980s. Along with the development of the national economy (regional), the involvement of SMEs increasingly important. This is because SMEs make a major contribution to the GDP of a region. SME's role in improving the competitiveness of the region can be seen from some of first factor. First, the involvement of SMEs towards the establishment of income per capita. Second, the involvement of SMEs in GDP formation. Third, the involvement of SMEs in the formation of regional

economic growth. An increase in income per capita, GDP and economic growth can bring negative and positive impacts on the development of SMEs.

The positive impact of the increasing in income per capita, GDP and economic growth to SMEs such as improvements to the products of SMEs. Increased demand for SME products will open up employment and open new small businesses opportunities and in turn this will reduce unemployment.

The negative impact of the increase in income per capita, GDP and economic growth to the development of SMEs is the SME is an industry that is only able to make a product that is inferior so that SMEs face difficulty competing with products produced by medium and large enterprises.

ASEAN Economic Community 2015

ASEAN Economic Community (AEC) consists of four components, namely (1) a single market and production base regionally, (2) highly competitive region, (3) the region with equitable economic development, and (4) integrated with the world economy. ASEAN Community will commence on 31 December 2015. The consequences of the implementation of the AEC is the liberalization of trade in goods, services, investment, skilled labor freely and freer flow of capital, as outlined in the AEC Blueprint.

Vice Minister of Commerce (Wamendag), Krisnamurthi claimed that 83 percent of Indonesia has been prepared for the AEC. Meanwhile, Chairman of the Indonesian Employers Association (Apindo) Sofjan Wanandi and researchers the Center for Strategic and International Studies (CSIS) Yose Rizal Damuri stated that Indonesia is not yet ready to compete.

AEC is like two pieces of blades for Indonesia, could be an opportunity to bring the benefits and blessings (land of opportunities) can also be a disaster (loss of opportunities). Indonesia will be exporting producers or importers depend on the readiness of Indonesia to face the AEC.

Many parties urged the government to make preparations to welcome AEC 2015. The following seven strategic steps that can be carried by the Indonesian government: a massive socialization; improving the quality of human resources;

empowerment of micro, small and medium enterprises; capital adequacy; infrastructure improvements; government and institutional reforms and investment climate reform.

METHODS

This research is descriptive quantitative. This research will make observations and surveys to analyze the internal and external aspect of West Sumatra SMEs, especially food-producing SMEs in enhancing regional competitiveness to face AEC. The early stage of this research will be initiated by 1) identifying SMEs strengths in West Sumatra, 2) identify the weaknesses of SMEs in West Sumatera and 3) identify environmental conditions SME industry of West Sumatra. This stage analyzes readiness of SMEs in facing the AEC in 2015.

The survey held in Bukittinggi and Padang. Bukittinggi is a tourist city, visited by many people and have SMEs grow fast. While Padang is the provincial capital of West Sumatra, which was also has a lot of SMEs. This reseach was conducted over two years. This is done because many food products imported into West Sumatra. So that food-producing SME in West Sumatra still could become a popular consumer product.

RESULTS

Respondent in this research were owners or employees of SMEs who would represent their SME. Respondent characteristics were seen including their position, educational background, and earnings per month.

Table 1. Respondent Characteristics

| Characteristics | Frequency | Percentage |
|--|-----------|------------|
| Position | | |
| <input type="checkbox"/> Owner | 79 | 76.7% |
| <input type="checkbox"/> Employee | 24 | 23.3% |
| Educational Background | | |
| <input type="checkbox"/> Ungraduated Elementary | from 1 | 1.0% |
| <input type="checkbox"/> Elementary School | 9 | 8.7% |
| <input type="checkbox"/> Junior High School | 6 | 5.8% |
| <input type="checkbox"/> Senior High School | 59 | 57.3% |
| <input type="checkbox"/> Diploma | 10 | 9.7% |
| <input type="checkbox"/> Bachelor | 18 | 17.5% |
| Income / Month | | |
| <input type="checkbox"/> < 5,000,000 | 18 | 17.5% |
| <input type="checkbox"/> 5,000,000 – 10,000,000 | 31 | 30.1% |
| <input type="checkbox"/> 11,000,000– 15,000,000 | 10 | 9.7% |
| <input type="checkbox"/> > 15,000,000 | 44 | 42.7% |

Source: Primary Data (2015)

Table 1 illustrates that the majority of respondents are business owners (76.7%). The remaining 23.3% are employees. The majority respondents is the owner make results obtained be more accurate. This is because owners are more aware of their own company. Table 1 also indicates that majority of respondents are high school graduates (57.3%). Only 9.7% of respondents who completed diploma, and 17.5% are bachelor degree graduates. A total of 42.7% of respondents said that their SMEs have monthly income more than 15,000,000, IDR. Meanwhile, 30.1% of respondents replied that their business earnings range between 5,000,000 IDR to 10,000,000 IDR per month.

Internal analysis. On the internal side of the company, this research see the aspects of products, pricing strategies, promotion used, sources of funding used by company, and organizational structure.

Table 2. Internal Analysis

| | Frequency | Percentage |
|---|------------------|-------------------|
| Product | | |
| <input type="checkbox"/> Flavor Variations | 87 | 84.5% |
| <input type="checkbox"/> Package Variations | 55 | 53.4% |
| <input type="checkbox"/> Product Differentiations | 47 | 45.6% |
| <input type="checkbox"/> Brand | 87 | 84.5% |
| <input type="checkbox"/> Halal Logo | 61 | 59.2% |
| <input type="checkbox"/> License from MOH | 59 | 57.3% |
| <input type="checkbox"/> Expire Date | 37 | 35.9% |
| <input type="checkbox"/> Ingredients | 45 | 43.7% |
| Pricing Strategy | | |
| <input type="checkbox"/> Cheaper than competitor | 49 | 47.6% |
| <input type="checkbox"/> Equal to competitor | 48 | 46.6% |
| <input type="checkbox"/> Above competitor | 6 | 5.8% |
| Promotion Media | | |
| | Yes | No |
| <input type="checkbox"/> Electronic | 19.4% | 80.6% |
| <input type="checkbox"/> Print Media | 21.4% | 78.6% |
| <input type="checkbox"/> Brochure | 43.7% | 56.3% |
| <input type="checkbox"/> Billboards | 58.3% | 41.7% |
| <input type="checkbox"/> Others | 28.2% | 71.8% |
| Used of Owners Equity | | |
| | Frequency | Percentage |
| <input type="checkbox"/> Yes | 100 | 97.1% |
| <input type="checkbox"/> No | 3 | 2.9% |
| Used of Debt | | |
| <input type="checkbox"/> Yes | 55 | 53.4% |
| <input type="checkbox"/> No | 48 | 46.6% |
| Organizational Structure | | |
| <input type="checkbox"/> Exist | 81 | 78.6% |
| <input type="checkbox"/> Not Exist | 22 | 21.4% |
| Financial Report | | |
| <input type="checkbox"/> Exist | 66 | 64.1% |
| <input type="checkbox"/> Not Exist | 37 | 35.9% |
| The Uniqueness of Product | | |
| <input type="checkbox"/> Exist | 68 | 66% |
| <input type="checkbox"/> Not Exist | 35 | 34% |

Source: Primary Data (2015)

Internal analysis shows overview of the products produced. Table 2 shows whether a product has a variety of flavors, packaging variations, a wide choice of products, brands, logos, department of health permits, expiration date, and the ingredients of the product. Almost all of the products had variations of taste

(84.5%). Amounted to 53.4% have a variety of packaging. And 45.6% of have differentiation product from competitors. Overall, of the 103 respondents, 84.5% have their own brands. Amounted to 59.2% had halal logo on the packaging. And 57.3% of SMEs have permission from department of health for the products sold. And amounted to 35.9% have included an expiration date on the packaging. Lastly, amounting to 43.7% of SMEs already included the ingredients of product on the packaging.

After seeing the picture of product in general, this research also sees pricing strategies used by SMEs. For pricing strategies, respondents who answered that their SMEs established a cheaper price than competitors (47.6%) are almost as many as that set a price equal to their competitor (46.6%). Only 5.8% of SMEs stated that they set a higher price than competitors.

For promotional purposes, out of 103 respondents, 19.4% use electronic media. Then, amount of 21.4% using print media. The majority of respondents use the brochure (43.7%) and banners / billboards (58.3%) as a promotional media. Moreover, at 28.2% of respondents use other media in addition to those mentioned above as a media for promotion.

To fund its business, SMEs have two alternative sources of funding; equity and debt. Based on table 2, 97.1% used their own equity. Only 2.9% are not using their own equity as funding alternatives. In addition to its own equity, SME respondents also use debt as a source of funding. Out of 103 respondents, only 53.4% use debt as a source of funding for their company. The remaining 46.6% did not use debt as financing alternative. Then, the internal analysis also looks at the organizational structure of SMEs respondents. Amounting to 78.6% already have an organizational structure and leadership. While the rest, 21.4% do not yet have an organizational structure and leadership. Besides, it appears that as many as 78.6% of SME respondents already have a division of labor. While the rest, amounting to 21.4% yet have a division of labor.

Furthermore, this research also looked at whether the respondents have financial statements, and whether the financial statements are in accordance with the applicable standards. A detailed description can be seen in Table 2. Table 2

also shows that only 64.1% of SMEs already have financial report. The remaining 35.9% do not yet have the financial report. Of the 64.1% who already have financial reports, only 44.7% financial reports are in accordance with applicable standards. While the remaining 19.4% of its financial reports not accordance with the applicable standards.

Hence, this research looked at the uniqueness of the business respondents. Questionnaire data processing results show that 66% of SME respondents have their own business uniqueness that sets it apart from other similar SMEs. The remaining 34% did not have the uniqueness of the business.

External analysis. External analysis of the company in this research is the development of the concept of five forces Porter's. First, we analyze the newcomers. Eighty one point six percent of respondents stated that their enterprises have newcomers. Only 18.4% respondents answered that their businesses do not have a newcomer. After the newcomers, this research sees the power supplier, which is assessed from the source of raw materials, prices of raw materials, and availability of raw materials.

A total of 88.3% of SME respondents obtain raw materials from suppliers. The remaining 11.7% of respondents produce their own raw materials. Of the 88.3% who get the raw materials from suppliers, as much as 36.9% suggests that the price of raw materials is high, while 47.6% suggested that raw material prices are moderate. Only 3.9% were considered that the prices of raw materials are low. For availability of raw materials, 88.3% said that the availability of raw materials is stable. Only 11.7% of which found that the availability of raw materials unstable.

Table 3. External Analysis

| | Frequency | Percentage |
|---|------------------|-------------------|
| Newcomers | | |
| <input type="checkbox"/> Exist | 84 | 81.6% |
| <input type="checkbox"/> Not Exist | 19 | 18.4% |
| Source of Raw Material | | |
| <input type="checkbox"/> Supplier | 91 | 88.3% |
| <input type="checkbox"/> Made by themselves | 12 | 11.7% |
| Price of Raw Material | | |
| <input type="checkbox"/> High | 38 | 36.9% |
| <input type="checkbox"/> Moderate | 49 | 47.6% |
| <input type="checkbox"/> Low | 4 | 3.9% |
| Availability of Raw Material | | |
| <input type="checkbox"/> Stable | 91 | 88.3% |
| <input type="checkbox"/> Unstable | 12 | 11.7% |
| Consumers Interest | | |
| <input type="checkbox"/> High | 59 | 57.3% |
| <input type="checkbox"/> Moderate | 42 | 40.8% |
| <input type="checkbox"/> Low | 2 | 1.9% |
| Substitute Product | | |
| <input type="checkbox"/> Available | 95 | 92.2% |
| <input type="checkbox"/> Not Available | 8 | 7.8% |
| Competitor | | |
| <input type="checkbox"/> Exist | 100 | 97.1% |
| <input type="checkbox"/> Not Exist | 3 | 2.9% |

Furthermore, this research analyzed the bargaining power of buyers for the company's products. Hence, 57.3% of SME respondents argued that the interest of consumers to local products is high. Then, 40.8% thought that the interest of consumers to the local product is moderate. Only 1.9% who considered that consumer interest for local products is low. Furthermore, this research also viewed substitutes of products produced by SMEs. As many as 92.2% of respondents said that the product of its SMEs have substitutes. Only 7.8% who do not have substitutes. Then, this research sees the competition in the same industry. As many as 97.1% of respondents stated that their enterprises have competitors. Only 2.9% of SME respondents do not have a competitor.

DISCUSSIONS

After conducting an internal and external analysis, this research analyzed SME strength and weakness. The strengths of food-producing SMEs in West Sumatra are their uniqueness and low price strategy. These can be used as their competitive advantage if they maintain it carefully. However, these SMEs also have their own weakness. Educational background of owner and employee still not enough for them to manage their company professionally. And the SMEs need to advance their marketing strategies, such as product packaging, and promotion. And also the financial aspects of SMEs need to be fixed.

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