

# **CREATION EXCELLENCE SMALL AND MEDIUM ENTERPRISES TO COMPETE IN NATIONAL AND INTERNATIONAL MARKETS**

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## **Abstract**

The role of entrepreneurship to the increase in national income means that the emergence of new products both in the form of goods and services can contribute to the increase in national income. Until now recognized that a foreign power products of SMEs in the global market are very low. This is caused mainly by difficult access to financing, dependence on SMEs products to the domestic market, which is less reliable human resources, productivity and product quality is low, poor access to technology resources, as well as the low mastery of the technology. SMEs export excellence is still a comparative advantage, which depends on natural resources and labor, have not managed optimally into a competitive advantage (competitive advantage).

Keywords: entrepreneurship, SMEs, competitive advantage, productivity

## **1. BACKGROUND**

The economy of a country is one indicator of the ratings if the country is said to go forward or not. Priming like that make each country vying to develop its economy. More and more countries are trying to develop its economy will require rules that are not detrimental to other countries however, still gives freedom for countries that are seeking the welfare of his people. Conditions such as these must be supervised as well to keep it out of the rules that have been made, so we need cooperation between countries in order to bring economic prosperity.

Based on this, the enacted free market is a concept of international trade. The free market is a concept that offers the freedom for the parties concerned in it to take economic decisions, such as pricing, goods, and services with no force and approved by the seller or buyer. Moreover, government intervention on price regulation is minimized even almost abolished. This concept has been applied in many countries and reap success, some of which is the European Union that involves the countries of Europe and NAFTA for the countries in North America.

The success achieved on the implementation of the free market to make it come to be seen by many countries, one of which states that joined in Southeast Asia or commonly referred to as ASEAN. The desire to achieve the same success makes countries in Southeast Asia agreed on the establishment of the Asean Economic Community (AEC), or can be called by the Asean Economic Community (AEC) by applying also the concept of the free market.

Once the importance of the role of entrepreneurship in economic growth in Indonesia statistical news in March 2015 reported that energy can be absorbed from the SME sector amounted to 79.39 million for the year 2014 and amounted to 79.07 million for 2015. The complete data can be seen in Table 1 below :

**Table 1. Total Business Unit and Labor Absorption for Small, Medium and Large Enterprises Period 2014-2015**

Scale of Enterprises	Amount of Enterprises (million of unit)		Amount of Labor (million of people)	
	2014	2015	2014	2015
Usaha kecil	42,48	43,42	71,09	70,92
Usaha Menengah	0,05	0,06	8,30	8,15
Usaha Besar	2,17	2,25	0,42	0,40

Source: *Berita Statistik, Maret 2015*

Table 1 shows that the number of small business units amounted to 43.22 million units for 2015 is greater compared with the large number of business units that only a total of 2.25 million units and small business sector is the largest provider of employment in Indonesia.

## **2. Theoretical Framework**

### **2.1 Entrepreneurship**

Drucker (1985) defines entrepreneurship as the spirit, skills, attitudes and behaviors of individuals in handling the business (activity) that leads to the search for, create, implement ways of working, technologies, and new products to improve efficiency in order to provide better services and or obtain greater profits.

Hisrich and Brush (in Winardi, 2003) states that entrepreneurship is the process of creating something different in value to the sacrifice of time and effort required to bear the financial risk, psychological and social activities and receive

results in the form of monetary rewards and personal satisfaction as a result of activities the.

Kao (1997) defines entrepreneurship as a process of creating something new (creation) and / or to make something different (innovation), whose goal is to achieve well-being of individuals and the value added to the community.

Similar delivered by Schumpeter (in Winardi, 2003) by stating that entrepreneurship is a process and the entrepreneur is an innovator who take advantage of the process.

Leibenstein Harvey (1968, 1979), suggests, entrepreneurial-kegiatan includes activities required to create or implement the company during all the market yet or have not been clearly identified, or the components of the production function is not completely known.

Penrose (1963) states that the entrepreneurial activities include identifying opportunities within the economic system. Managerial capacity or ability is different from entrepreneurial capacities.

Frank Knight (1921) states that entrepreneurs try to predict and respond to market changes. This definition emphasizes the role of entrepreneurs in the face of uncertainty on the market dynamics. An entrepreneur is required to carry out the basic managerial functions such as direction and control.

Based on some of the above definition, it can be concluded that entrepreneurship is a passion, capabilities and behavior of individuals who dare to risk, whether it is financial risk, psychological, and social in conducting a process of creating something new (new creation) and create something different from existing (innovation) to receive the results in the form of monetary rewards and personal satisfaction.

According to M. Scarborough and Thomas W. Zimmerer (Suryana, 2001: 8-9) suggests eight characteristics:

1. Desire for responsibility, that has a sense of responsibility for those businesses that do. Someone who has a sense of responsibility will always be introspective.
2. Preference for moderate risk, that prefer moderate risk, meaning that he always avoids the risks are low and avoid high risiki

3. Confidence in their ability to success, which is believed to be her ability to succeed
4. Desire for immediate feedback, which always requires immediate feedback
5. High level of energy, that has passion and hard work to fulfill his desire for the sake of a better future
6. Future orientation, which is oriented to the future, perspectives, and far-sighted
7. Value of achievement over money, that have skills in organizing resources to create added value
8. Skill at organizing, which have skills in organizing resources to create added value

According to Kathleen L. Hawkins & Peter A. Turla (in Suryana, 2001: 25-26) entrepreneurial behavior patterns reflected in the behavior and capabilities as follows:

1. Personality, this aspect can be observed in terms of creativity, self-discipline, self-confidence, the courage to risk, have the drive, and a strong will
2. Ability relations, operations can be seen from the indicators of communication and inter-personal relationships, leadership, and management
3. Marketing, includes the ability to determine the products and pricing, advertising and promotion
4. Expertise in managing, operating realized in the form of goal setting, planning and scheduling, as well as personal settings
5. Financial, the indicator is the attitude toward money and how to manage money (Drucker, 1985)

## **2.2 SMEs (Small and Medium Enterprises)**

According Rudjito (2003) Small and Medium Enterprises (SMEs) in Indonesia, which has an important role in the Indonesian economy, both in terms of number of businesses and in terms of job creation. The definition of SMEs given by several institutions, namely:

In Article 1, paragraph 1 of Law No. 20 of 2008 on Micro, Small and Medium Enterprises that are meant Micro state that Micro is a productive enterprise belonging to individuals and / or entities that meet the individual businesses of Micro, as stipulated in this Law.

In Article 1, paragraph 2 of Law No. 20 of 2008 on Micro, Small and Medium Enterprises that is Small Business state that small business is an economic enterprise productive stand-alone, conducted by an individual or business entity that is not a subsidiary or not branches of companies owned, controlled or become part either directly or indirectly from medium or large businesses that meet the criteria of business tiny referred to in this law.

According to Eugene and Morce (1965), the type of government policy greatly determines the growth of SMEs. There are four options:

- a. Policies do nothing policy: governments are aware whatever reason do not need to do anything and let SMEs granted.
- b. Policy protection (protection policy) to SMEs: this policy is to protect SMEs in the competition and even subsidized.
- c. Policies based on the ideology of development (developmentalist): this policy choose industry pontesial, (picking the winner) but not subsidized.
- d. The policy is becoming more popular is the so-called market friendly policy with an emphasis on selection of brood based, without subsidies and competition.

## **2.2 AEC**

ASEAN Economic Community (AEC) in 2015 (ASEAN Economic Community (AEC)) is an ASEAN economic integration in the face of free trade between countries of ASEAN countries. All ASEAN countries have agreed this agreement. MEA is designed to realize the ASEAN Insight 2020.

ASEAN Economic Community is formed with a mission to make economies in ASEAN to become better and be able to compete with countries whose economies are more advanced than the current condition of the ASEAN countries. In addition, by the realization of the ASEAN Community that is where there are AEC, can make the position of ASEAN to be more strategic in the international arena, we expect the realization of community ASEAN economic community is able to open the eyes of all parties, so that there is a dialogue between the sectors where the latter also complementarity among stakeholders in the state sector of the economy of ASEAN countries is very important.

Still according to Tambunan (2000), noted that in Indonesia, in view of the number of business units are very much present in all sectors of the economy and contributes significantly to employment and income, especially in rural areas and for low-income families, can not be denied the importance of SMEs to national economic development

### **3. Discussion**

#### **3.1 Role of Entrepreneurship in Business Competition Against AEC**

The involvement of all parties in all member countries ASEAN absolutely necessary in order to realize the ASEAN as a competitive region for investment and free trade, which in turn can benefit all ASEAN countries. For Indonesia, the number of population, area and geographic location as well as the GDP of the largest in the ASEAN should be an asset that Indonesia could be a big advantage in the 2015 ASEAN.

Strategy and preparation had been done by the stakeholders, especially entrepreneurs in Indonesia in order to face liberalization systems applied by ASEAN, especially in terms of economic integration which was felt still less than optimal. But it is indeed grounded in domestic issues that require more intensive treatment. In addition, over the years, Indonesia with its abundant potential resources to bring the movement to a more forward again.

The entrepreneurs in the country are expected to welcome the plan to implement the ASEAN economic community. The action is considered as an opportunity to expand the market and increase production, given the very big ASEAN market. Expected 2015 AEC to make Indonesia as a major player in its implementation.

#### **3.2 Entrepreneurial Spirit and Attitude**

Creative and innovative process is only done by those who have the personality of a creative and innovative, that is, those who have a soul, attitude and entrepreneurial behavior, with traits: confident, the indicator is full of confidence, optimistic, committed, disciplined, responsible, initiative, the indicator is full of energy, deft in acting and active, have the achievement motive, the indicator consists of a results orientation and insight into the future, to have a spirit of

leadership, the indicator dared to be different, trustworthy, and resilient in the act and dare to take risks with calculating (hence love a challenge)

While Scarborough and Zimmerer (1993) expressed as follows:

1. Desire for responsibility: having a sense of responsibility for those businesses that do.
2. Preference for moderate risk: has a moderate risk (not high or low).
3. Confidence in their ability to success: have the confidence to succeed.
4. Desire for immediate feedback: always wanted immediate feedback.
5. High level of energy: having a passion and hard work to realize the desire for the sake of a better future.
6. Future oriented: oriented and have a perspective and insight to the future.
7. Skill organizing: having skills in organizing resources to create added value.
8. Value of achievement over money

More appreciated achievement than money.

AEC 2015 will inevitably be faced by SMEs where it leads SMEs fall into a state of "emergency", which require immediate action in order to be able to enter the 2015 AEC. In marketing the product, SMEs are faced with the classic problem of both internal and external.

The weakness in business management, SMEs in general is a business that has a Human Resources (HR) with the level of education and low skills. Low mastery of the technology because of the lack of opportunity to participate in education and training, consequently business run experiencing difficulties in integrating and compete with other businesses, who have the skills and knowledge of a more modern management.

- 1) The weakness of market access, product / services produced by a limited number of SMEs, have generally poor quality and continuity is often questionable. SMEs have very little information about the market and the lack of knowledge about marketing. As a result of product marketing, especially abroad of products / services SMEs have not been optimal.
- 2) The negative effect of globalization, free trade cause SMEs also have to face global competition coming from various forms of business. SMEs actually face the dual pressures (double squeezes), namely: the problem of the internal

(domestic) in the form of high transaction costs that must be paid as well as the lag in increasing productivity, efficiency and innovation. Intense competition problem is coming from the external environment (globalization).

Based on a survey that has been conducted there were other issues related to the problems being faced by SMEs as follows.

- a. A weak link in the development and strengthening of business.
- b. Limited access to sources of finance from formal financial institutions.
- c. Problems relating to the Entrepreneurial Citra.
- d. Lack of government programs related to SMEs.
- e. The trouble opening a new business.
- f. Lack of purchasing power.
- g. Tax matters.
- h. Poor regional government support.
- i. The lack of coordination of the institutions that houses SMEs.
- j. The lack of supportive government policies.
- k. Poor quality products.
- l. The low quality of human resources and low levels of education.
- m. Lack of market information for SMEs.
- n. Lack of marketing ability.
- o. Lack of training in order to increase foreign.

### **3.3 SMEs Problem Solution**

Given the internal and external problems facing SMEs at this time can not be completely resolved, then the solution necessary steps strategy of SMEs and cooperatives in the face COMUNITY ASEAN FREE TRADE AGREEMENT (ACFTA), through a process that develops and systematic.

#### **1) Increase Competitive Advantage**

SMEs are scattered throughout the region have the potential diversity. Various goods production of small industry and households have the potential to be developed and marketed got the chance to go abroad. Until now recognized that a foreign power MSME products in the global market are very low.

2) Increase Using of Technology

In order for SME products can compete in the face ACFTA is necessary to enhance the ability of technological mastery. The production system in accordance with international standards, price, quality, and quantity of reliable, meet standards for export and import countries reference is an absolute requirement for export.

3) Strengthening the Competitiveness To improve competitiveness, it is necessary handling of domestic issues include: governance of land and industrial areas, improvement of infrastructure and energy, providing incentives (taxes and other non-tax), establish Special Economic Zones (SEZ); expansion of access to financing and a reduction in interest costs Kredit Usaha Rakyat / KUR, Credit Food and Energy, venture capital, Islamic financial, factoring, export financing institutions Indonesia etc, improvement of logistics systems, improving public services (NSW, OSS / SPIPISE etc.), regulatory simplification and increased labor capacity).

4) Security Domestic Market Increased domestic market potential needs to be done through:

- a. Supervision border with increased surveillance provisions of the import and export in the implementation of the FTA, applying the Early Warning System for monitoring early response to the possibility of a surge of imports, tightening supervision over the use of Certificate of Origin (SKA) from partner countries FTA, surveillance initial adherence SNI, label , ingredients, expiration, health, environment, security etc; the application of trade instruments permitted by the WTO to the industry which suffered serious losses due to the pressure of imports and the application of instruments of anti-dumping and countervailing duties on importansi are unfair
- b. Circulation of goods in the local market include the task force monitoring the circulation of goods which are not in accordance with the provisions of consumer protection and industry, and the obligation to use labels and manuals in Indonesian language; and
- c. Promotion of the use of domestic products with overseeing the effectiveness of the promotion of the use of domestic products (Instruction No. 2 of 2009)

including KLDI reinforce and clarify the obligations of maximizing use of local products revision of Presidential Decree Number 80 Year 2003 concerning Procurement of Goods / Services by the government.

5) Strengthening Export export growth is done by strengthening the role of the foreign missions, the development of a trading house, promotion of tourism, trade and investment, overcoming the problem of market access and export case, monitoring the use of SKA Indonesia, increasing the role of LPEI in supporting export financing and optimization of trade financing.

a. Guidance on Sustainable

Continuous guidance necessary so that SMEs can implement stock management more adaptive to market and market differentiation that allows the cross-subsidies.

b. Need Assessment study is needed on an ongoing basis on the condition SMEs greater detail the kinds and variations productproducts agriculture and small industries that have a large market opportunity and to do specifically in the various regions.

c. Provision of Role Larger To Trading House should be given a greater role to the trading house (BLU / LLP) to penetrate the products KUKM in various ASEAN countries and China are carried out periodically, (eg during one month in each of each country).

d. Coordination and Synergy central and regional authorities should be coordination and synergy with central and local authorities in managing the products that can be manufactured SMEs and promote the use of domestic production.

### **3.4 Efforts SMEs Compete with AEC Product**

In addition to meeting the needs of capital and partnerships, SME development efforts can also be done as follows.

- 1) Increase cooperation between SMEs to strengthen the network in the face of competition from large employers, including the quota of goods (number of orders).
- 2) Improving product quality and more stringent quality control.

- 3) Innovate to create a design and product variations that follow market needs or desires.
- 4) Increased use of appropriate technology to improve product quality standards (ISO 9000, ISO 9001).
- 5) Improving entrepreneurial skills and take advantage of business opportunities such as trade fairs, business meetings, trade exchanges, workshops and skill-building.
- 6) The government is preparing a program to improve market opportunities for SMEs to institutional development of product promotion and development of market access, and access business information using computer technology, telecommunications and the like
- 7) The government provides special tax rate on SMEs
- 8) Obtain ISO certification
- 9) Establish a training or a business incubator that will educate the entrepreneurs of SMEs, where the educational program is not only evaluate the business has been running, but also analyzes strenght and weakness of SMEs seek a strategy for its development (Hadi Kurniawan, 2009).
- 10) Provide training to SMEs intended to cultivate the entrepreneurial spirit and enhance the entrepreneurial skills especially for their ability to improve business productivity, improve effectiveness and efficiency, ability to find and enter the market (market entry) as well as the ability to provide products that match the preferences will market (consumer).

It is expected from these efforts will have an impact on the increase in bargaining power and the creation of competitive advantage (competitive advantage) of SMEs that will ultimately have an impact on the development of Micro Finance Institutions.

#### **4. Conclusion**

Entrepreneurship is a passion, capabilities and behavior of individuals who dare to risk, whether it is financial risk, psychological, and social in conducting a process of creating something new (new creation) and create something different from existing (innovation) to receive the results in the form of monetary rewards and personal satisfaction. Establish a training or a

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