

THE EFFECTIVENESS OF SMEs: EXPLORATORY STUDY OF SME OWNERS' COMPETENCY IN INDONESIA

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FILE	2B-THE_EFFECTIVENESS_OF_SMEA.PDF (184.21K)		
TIME SUBMITTED	20-AUG-2019 12:16PM (UTC+0700)	WORD COUNT	3583
SUBMISSION ID	1161641087	CHARACTER COUNT	20550

THE EFFECTIVENESS OF SMEs: EXPLORATORY STUDY OF SME OWNERS' COMPETENCY IN INDONESIA

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ABSTRACT

This study investigated the competencies of business owners that distinguish the effectiveness of SMEs in Indonesia. We conducted in depth interviews with 10 successful SME owners and 10 static SME owners in Surabaya, the second-largest city in Indonesia. We obtained data of SME owners from The Department of Cooperatives and SME in Surabaya and used structured interviews that include questions about the ability of the business owners in their role as leaders and managers. This study found that there are 48 competency items of successful SME owners. Out of these 48 items, there are 27 items of competency associated with successful SME owners, but not the owners of static SMEs.

Keywords: Competency, SME Owner, SME Effectiveness, Leadership, Indonesia.

INTRODUCTION

In Indonesia, SMEs have a large role in creating jobs and improving community welfare (Japhta, 2016). Therefore, it is important to develop SMEs in Indonesia. Although the number of SMEs generally reached 99.9% of business units in Indonesia and absorbed 89% of the workforce, SMEs can only produce 60% of Indonesia GDP (Asia Pacific Foundation of Canada, 2018). The Governor of Bank Indonesia revealed that there are several problems of SMEs such as limited skills in access to markets-including international markets, financial management, and product innovation (Chandra, 2016). Irjayanti & Azis (2013) found that competition, funding, technology, fuel costs, and production inefficiencies are the biggest obstacles for SMEs in Indonesia. Thus, it can be concluded that SMEs in Indonesia generally face limited capacity to market, innovate, and manage human resources as well as finance.

Boubakary (2015) argues that the growth of SME depends on the leaders including their personality. Furthermore, the role of SME managers are important for the achievement of SME performance related to limited resources (Garavan et al., 2016) SME owners also play an important role in managing SMEs as managers and leaders to support and encourage employees to achieve their goals (Franco & Matos, 2015). Therefore, it is important to develop leader competencies, namely in order to achieve team performance, develop expertise and give recognition to subordinates, and create a culture of innovation (Franco & Matos, 2015). In addition, SME owners have strategic and operational roles, so they need to have the competence to carry out these roles (Garavan et al., 2016). This leadership factor can be the biggest obstacle for managing change in SMEs (Shokri et al., 2016). However, although the factor of owners as

SME leaders is important for the success of SMEs, not many studies have examined the leadership factor in the context of SMEs (Franco & Matos, 2015).

This present study is an initial investigation toward competencies which determine the effectiveness of creative industry SMEs at the micro-level in Indonesia. In this study, we explored the characteristics which distinguish successful and static SMEs. This refers to Boyatzis (2008) and Yukl (2002), that there are several individual characteristics that distinguish effective and ineffective managers. In our study, characteristics of successful SME owners will then show the competencies that SME owners must possess to be effective. SME owners, not only need to have the competence as a manager but also the competence as a leader, which can influence their followers and bring them to high performance. We also considered local cultural factors, because the effectiveness of a business is also determined by the understanding of people about the local culture (Meyer, 2014). The current study explored the determinant of the effectiveness of creative industry SMEs, focusing on the sectors of batik, culinary, and fashion (including accessories) at the micro-business level (SMEs) in Surabaya, the second-largest city in Indonesia. Micro-level businesses are considered not to have enough entrepreneurial ability. Therefore, it is important to investigate what competencies possessed by SME owners in Indonesia.

LITERATURE REVIEW

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The Resource-Based View Theory (RBV) explains that corporate resources that are valuable, rare, difficult to imitate, and irreplaceable can be a competitive advantage of a company (Barney et al., 2001). Referring to the RBV, entrepreneurial competence is the key to valuable resources for the company (Tehseen & Ramayah, 2015). This competence will be a competitive advantage for entrepreneurs and provide business success (Tehseen & Ramayah, 2015). Ritter & Gemunden (2002) define competencies as knowledge, skill, and qualifications owned and used by individuals. Furthermore, Boyatzis (2008) defines competence as capability or ability. This concept of competency is based on theories about performance that individuals will perform high if their competence is in accordance with the work and organizational context (Boyatzis, 2008). In addition, he explains that competence is an underlying characteristic that includes emotional (e.g. self-control), cognitive (e.g. thinking patterns), and social (e.g. managing relationships). According to Taipale-Erävala et al. (2015), competence is a skill, ability, experience, attitude, and other traits that can influence the management of SMEs. SME has the characteristics of limited resources and money, as well as the multi-skills of employees. Therefore, SME owners need to have competencies to overcome those various limitations.

Boyatzis's study (Yukl, 2002) found that competencies such as the trait personality, cognitive, and interpersonal skills are related to managerial effectiveness. According to Boyatzis, effective manager competence can include being able to influence others, seeking information from various sources, analyzing situations, developing creative solutions, developing networks, getting support from other parties, and giving recognition to members' contributions. HBR in Manager's handbook (2017) offers a set of skills that managers need to successfully lead their role as leaders. For example, the ability to get and share information about business and trustworthy people and build trust. In particular, in order to successfully develop new business, entrepreneurs need to have, among others, vision, creativity, networking, perseverance (Entrepreneur's handbook, 2018). However, the effectiveness of a business is also determined by the understanding of business people regarding the local culture (Meyer, 2014; Schweitzer & Alexander, 2015), including in SME (Sajilan, 2015). In Indonesia, building relationships is an

important factor. This is reflected in the use of work time. In Indonesia, employees use 50% of their working time by completing work-related tasks, and 50% for socializing (Schweitzer & Alexander, 2015). Followed by Meyer (2014), in terms of performance appraisal, in the Indonesian context, negative assessments were given indirectly (indirect negative feedback). Negative judgments are given subtly and subtle and in personal situations.

METHODOLOGY

The research participants were 20 SMEs entrepreneurs in the creative industry in the field of batik, fashion accessories, clothes and bags, and food in Surabaya. These products are the main product of SME in Surabaya. The 20 SMEs included 10 SMEs who showed high performance in the past year and 10 SMEs who had experienced static progress in the past year. High performance or static refers to the criteria of sales results in the 2016 period. Information about SMEs and their performance was obtained from the Department of Cooperatives and SME in Surabaya. We asked the participants to share what skills, knowledge, managerial behavior, and leading behaviors which had been carried out in their business. The list of interview questions is based on the activities of leading and managing SMEs in 4 areas of management functions: marketing, finance, production, and human resources. We also asked them about the local culture, especially in managing employees, and what they do to deal with that local culture. We conducted interviews with each participant for about 60 minutes.

Table 1 shows the participant data based on the product, the owner's gender, and Year of establishment.

Table 1 PARTICIPANT PROFILE						
SME's product	Successful SME		Year of establishment	Static SME		Year of establishment
	Number of SME	Gender		Number of SME	Gender	
Fashion and Accessories	4	4 female	2010: 2 SMEs 2013: 1 SME 2015: 1 SME	6	6 female	2009: 1 SME 2010: 2 SMEs 2012: 1 SME 2015: 2 SMEs
Batik	2	2 female	2005: 1 SME 2014: 1 SME	2	2 female	2009: 1 SME 2014: 1 SME
Food and Beverage	4	2 female 2 male	2013: 1 SME 2015: 2 SMEs 2016: 1 SME	2	2 male	2012: 1 SME 2015: 1 SME

RESULTS

Our interviews with successful SMEs resulted in an initial pool of 106 competency items, while interviews with static SME owners resulted in 72 competency items. On the next stage, we identified whether there were items that had the same meaning in each successful and static SMEs profile. The results of this identification showed a list of 45 competency items for the owners of static SMEs and 48 successful SME owners. In addition, this study showed that there are 21 competency items mentioned by both successful and static SME owners in managing their business. Some of the same items are following various types of business training, following certain communities, giving unique characteristics to products and maintaining good relations with employees. However, there are 27 items from successful SME owners that are not

mentioned by static SME owners, such as developing employee skills, understanding consumer desires, having performance targets, and having caution in running a business. On the contrary, there are 24 competency items mentioned by static SME owners but not successful SME owners, such as taking risks, imitating competitors' designs, and not assuming competition. The list of items from the interviews is shown in Table 2.

Table 2		
THE RESULT OF IN-DEPT INTERVIEW		
No	Successful SME	Static SME
1	Following the various types of business training	Following the various types of business training
2	Giving recognition for employee work	Giving recognition for employee work
3	Looking for product development ideas	Looking for product development ideas
4	Adding product variations	Adding product variations
5	Taking credit offered by financial institutions	Taking credit offered by financial institutions
6	Following certain communities	Following certain communities
7	Conducting regular visits to outlets for inventory checking and product conditions	Conducting regular visits to outlets for inventory checking and product conditions
8	Giving a unique characteristic to the product	Giving a unique characteristic to the product
9	Managing product inventory	Managing product inventory
10	Managing consumer payment transactions	Managing consumer payment transactions
11	Managing product delivery to consumers	Managing product delivery to consumers
12	Maintaining good relations with employees	Maintaining good relations with employees
13	Having persistence in running a business	Having persistence in running a business
14	Managing sales revenue	Managing sales revenue
15	Willingness to learn business independently from various media	Willingness to learn business independently from various media
16	Sharing information with successful SMEs	Sharing information with successful SMEs
17	Providing quality products to consumers	Providing quality products to consumers
18	Repairing the work of employees that are not appropriate	Repairing the work of employees that are not appropriate
19	Promoting products by using products	Promoting products by using products
20	Establishing good relationships with consumers	Establishing good relationships with consumers
21	Doing Innovation	Doing Innovation
22	Regularly promoting products via social media	Unusing online media to market products
23	Taking part in the exhibition	Providing adequate packaging
24	Providing work rules to employees	Using machine tools
25	Collaborating with other SMEs	Advising employees
26	Developing employee skills	Self-financing

27	Understanding consumer desires	Do not want to borrow credit offered
28	Having caution in running a business	Dare to take risks
29	Having basic knowledge about the production process	Less checking
30	Taking part in the SME's contest	Innovate if only the old design has been sold out
31	Enthusiastic in running a business	Utilizing the rest of the other party's production as raw material
32	Focus on running a business	Choosing good quality raw materials
33	Performing performance evaluation	Satisfying consumers
34	Carrying out the production process every day	Setting competitive prices
35	Promoting products by distributing a tester	Using raw materials that are easy to obtain and cheaper
36	Bringing lots of products during the exhibition	Producing many different types of products
37	Meeting employee needs	Imitating competitor design
38	Having employees with special expertise	Establishing good relationships with friends
39	Having performance targets	Showing to consumers the example of a finished product before mass production
40	Having a vision	Utilize of unused raw materials into diversified products
41	Implementing an open financial system for employees	Doing most of the production process by her/himself
42	Inviting employees to participate in decision making	There is no special recognition such as incentives for employee
43	Setting product prices	Do not want to develop product variations
44	Developing networks	Not assume there is competition
45	Developing product distribution channels	Not using preservatives
46	Recognizing the right moment to promote the product	
47	Become a trainer	
48	Selecting products based on market potential	

DISCUSSION

The results indicated that there were 48 items which are the competencies of successful SME owners. Referring to the forty-eight profiles, there were 21 items that were also carried out by the owners of static SMEs. For example, following the various types of business training, following certain communities, maintaining good relations with employees, and sharing information with successful SMEs. These results support the finding by Cancino & Bonilla (2015) that SMEs participating in training activities provided by the government will experience high performance. Therefore, it is important for SME owners to have a strong motivation to develop their competencies by participating in various training organized by the government. The results of interviews showed that almost all the participants mentioned that they attended training activities provided by the government that manage SMEs in Indonesia. However, static

SMEs tend not to routinely participate in these activities. Some of participants from static SME owners gave a number of reasons why they rarely attended the training, such as they had already received the topics before.

Muzzi & Albertini (2015) suggested the importance of building networks to get the idea of innovation, with the concept of Innovation Community (IC). Surin et al. (2017) in their quantitative study on SME owners in Malaysia found that strategic business networks influence the business performance. Referring to Surin et al. (2017), the success of the network depends on human capital, namely the managerial ability of SME owners. This study showed that participants tend to try to build networks to obtain information on product development and exhibition activities held by the government as well as promote their product with each other. With regard to culture, Indonesian people, especially Javanese, will respect good leaders (Irawanto & Ramsey, 2011). Therefore, it is important for SME owners to establish good relations with their subordinates. Especially, there is a tendency in Indonesia that SME employees are relatives and neighbors of the owners themselves. Therefore the owners do not want to give too high target and strong reprimands if their employees has not reached their expectations. Even some owners chose to repair by themselves the work of employees who do not meet their expectations.

In addition, this study found that there were 27 competency items mentioned by successful SME but not by static SME owners. For example, SME owners routinely using technology for promoting their products and focus on running their business. This is consistent with Morgan (2014) that managers need to utilize technological developments to run their businesses and strengthen networks. According to Ritter & Gemunden (2002), individuals can achieve innovation success if they have networking and technology competencies. Participants from successful SME owners tend to use technology in the form of social media to promote their products. Some of them actively use Instagram and Facebook; even some participants sell their products through online stores in Indonesia. They are more focused on running their business and more passionate and diligent in running their businesses as well as have a high willingness to learn. While some static SME owners appear to be out of focus, for example, because they have other activities besides running their businesses, such as being engaged in community service. Other static SME owners tend to show their complaints regarding their non-selling products and try to sell other types of products or have difficulty obtaining people who want to be their employees.

The interesting result that differentiates the two profiles of SMEs is that the successful SME owners being careful in running a business, while static SME owners are more willing to take risks. Referring to HBR (*Entrepreneur's handbook*, 2018) regarding how small businesses develop their businesses, caution is needed in taking an opportunity, to reduce the risk of failure. In addition, one of static SME owners said that there was no need to consider a competitor. While successful SME owners mentioned that they need to understand the market potential and manage product prices. *Entrepreneur's handbook* (2018) explains the importance of determining competitive advantage, which is something that differentiates our products from competitors, in order to survive in the industry.

CONCLUSION

Due to the growing number of SMEs in Indonesia and the opening of global markets, SMEs in Indonesia must be more competitive. Therefore, SMEs in Indonesia need SME owners who can play effective roles as leaders and managers. The competence of SME owners is very important to be considered for gaining competitive advantage. The results of the analysis showed that there are 48 competencies of SME owners who are successful in running their businesses. Furthermore, among them, there were 27 successful SME owner competencies but were not carried out by participants of static SME owners. The twenty-seven items of this differentiating competency can be used as a material that needs to be given to training activities followed by SME owners. It is important to be considered by government agencies to provide training materials that fit to the conditions of business and leadership problems faced by SME owners. However, the results of this study are preliminary findings that are still necessary to pass further validation testing. Future studies need to analyze the relevance of the items of the differentiating competencies, especially in the context of SMEs in Indonesia.

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