# CHAPTER I

# INTRODUCTION

## 1.1 Background of Study

Small and Medium Enterprises (SMEs) have played importance role in Indonesia in term of employment growth, gross domestic product (GDP) and has already fostered Indonesia's economic development (Suryo, 2015). These roles have contributed to create job opportunities, sustaining household income and decrease the poverty. According to the Cooperatives and SME Ministry, in 2014 published that SMEs have constributed on GDP around 58.92 percent and absorbed about 97.30 percent to country's employment. Small and medium enterprises (SMEs) also have played a critical role in term of sustainable growth and employment as new challenges in Ghana, in 2012 SMEs have contributed about 40 percent to Gross Domestic Production (GDP), have 90 percent for accounting of existing business and provided manufacturing employment about 80 percent (Collins & Ebenezer, 2015)

Tulus (2008) has perspective about the reason of importance role of SMEs toward Indonesian's economic development. First, local people own these enterprises which more than 90 percent of all firms and the biggest firm to provide job for workforce. Second, SMEs are scattered by rural areas and the activities based on agriculturally as important contribution toward rural economic development. Third, labor intensive which less educated women and youth. The fourth, most of SMEs finance their operation by their own personal saving. The

1

last SMEs do not depend on product import since theirs able to produce consumers' goods for domestic market and low-income customer.

The importance this role in Indonesia has increased from the period of 2007 until 2013. SMEs counted as 47,840,000 number enterprises and were big difference between large enterprises. While in 2013, the number of enterprises was around 61,490.00. The SMEs from 2013 was a growth about 28.5 percent rates and the number was about 61,496,000 firms.

**Table 1.1**
**Number of SMEs and Large Enterprises in Indonesia (in 000 units)**

|  | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|
| Small and Medium Enterprises | 47,84 | 52,367 | 52,764 | 55,914 | 57,229 | 59,768 | 61,49 |
| Large Enterprises | 4.5 | 4.4 | 4.7 | 4.73 | 4.94 | 5.04 | 5.21 |
| Total | 47,845 | 52,372 | 55,919 | 55,919 | 57.234 | 59.773 | 61.496 |

Source: Badan Pusat Statistik

Based on Badan Pusat Statistik, the growth structure of the SMEs in Indonesia has four different things because first, SMEs have the flexibility to specialist either to become larger firm. This flexibility was help SMEs to survive and growth in financial crisis, secondly, the growth of SMEs depend on the level of maturity. The earliest stages of development started from household industries and growth become manufacturers. Third, the increasing of number customers to the new market development has become demand. This situation helps the growth of SMEs and increase market competitive between SMEs to do some innovation to win the market. The last reason, the growth of urban are is faster than rural areas which urban have higher population leads to higher demand in business growth

However, although SMEs contribute to national economic growth, it is still having critical problem which lack of strong foundation and cycle growth business which are limitation of financial access, lack of innovation and business knowledge (Suryo, 2015). Other dominant constrains in all SMEs are lack of capital, lack of ability to produce the raw materials, lack of access relate to business information, high transportation cost, difficult in marketing, communication problem, policies and regulation in the market (Tulus, 2008). These critical factors in SMEs that need improvement are motivation, education, government policy, business competition, and technology.

In order to maintain the existence and development of SMEs, they need to measure their performance and helped by government, research centers, universities how to increase their productivity, shorten time production, and raise the quality and the ability to compete in the market. In Ghana, SMEs have poor performance since they lack of effectiveness and efficiency management framework and strategies sufficient to allocate all the resources in aim to meet the goals of company (Collins *et.al* 2015).

Performance measurement is an integrated strategic to increase the effectiveness of business by improving the performance of employee, capabilities of team and individuals. Performance measurement is both necessary and vital because performance is not only measure to know the business is performing but also how to perform better in next period. The goal of performance measurement is improving working environment of employees, growth for owner, stakeholders and provides customer satisfaction (Collins *et.al 2015)*.

Performance measurement also a guide to direct enterprises throughout the high competitive environment and a process to show the importance of performance measurement and management in strategic management process trough using performance measurement tools and techniques. The tools of performance measurement are Balanced Score, Integrated Performance Measurement Performance (IPMS) and SMART System. This study adopt SMART system tool to measure the performance of SMEs since it integrated financial and non-financial perspective. According to Cross and Lynch (1991), SMART (Strategic Management and Reporting Technique) is known as a performance pyramid, was developed to eliminate the disadvantage associated with traditionally, financially focus performance measurement system. The pyramid integrates the strategic objective and operational dimension trough four level structures (Umit, 2015).

Research conducted by Agus Taman (2011) studied on how the performance of the SMEs (CV Batara) and concluded that CV Batara has good performance in department and work centers, business operating unit and but need improvement in the business unit level in the next term. This consideration also motivated researcher to do case study of SMEs measurement performance based financial and non-financial aspects on SME: Dairy farm.

Ferri, M.Mohd, & Radiah, (2012) studied about the innovation in distribution channel, cost efficiency and firm performance in SMEs. This studied concluded that innovation in distribution channel was positively significant with distribution efficiency to improve the performance of SMEs. This studied more

concerned on Innovation in distribution channel, cost efficiency, and firm performance, only some of internal aspect. This reason-motivated research to do study which more indicators not only based on financial but also non-financial aspects in order to have comprehensive performance measurement.

Emad Harasg, Suhail Al-Timimi, Jabbar Alsaadi (2014) examined the effect of finance on SMEs performance. This study focused on how finance influence the performance of SMEs such as capital sources, cash in hand, additional capital, find loan, financial institution requirements; Bank require collateral and interest, and financial institutions. While the current research, the measure the performance not only based on financial but also non-financial aspect.

Previouss studied concern on specific part such as only financial aspect, production aspect, and external aspect. This reason motivated researcher to do study which considerate all the aspect include internal and external aspect, finance and non-financial aspect. The motivation of researcher measure the performance of dairy farm since Indonesia import 80 percent milk from other countries to supply demand means the ability Indonesia to supply the demand of dairy farm only 20 percent (Industri Bisnis.com, 2017).

The contradiction happened since in 2016, the production of dairy farm in East Java higher than 2015 at 481,399 tons from 472,212 tons (detik.com, 2017). Based on statement from Gus Ipul, farm minister believes that the increasing of number dairy farm since government support SMEs by decreasing the interest of loan, namely Kredit Usaha Rakyat (KUR) from 9 percent to 67 percent per year. This inconsistence motivated the research to do study related the performance of

SMEs include analyzing the main problem and future improvement in Dairy Farm of "H. Achmad Marzuki"

This research is a case study to measure the performance of Dairy Farm of "H. Achmad Marzuki" in Surabaya. Their market share located in Surabaya and Sidoarjo and the demand for products are keeping on stagnant while the users of dairy farm are keeping on higher. More than sixty years this SME operated, but this SME has never apply performance measurement although this SME published by SuryaNews (2011) as the biggest supplier of dairy farm in Surabaya. This phenomena support a researcher to help SME to measure their performance comprehensively based on financially and non-financially; such as the customer satisfaction, flexibility, productivity, quality, delivery, cost, and process time. This is motivated researcher to help Dairy Farm of "H. Achmad Marzuki" measuring how far the company performing, analyzing the current situation of SME and providing future improvement.

**1.2   Research Problem**

Based on background of study, the research problem is as follow:

1. How the performance of Dairy Farm of "H. Achmad Marzuki" on department and work centers?

2. How the performance of Dairy Farm of "H. Achmad Marzuki" on business operating unit?

3. How the performance of Dairy Farm of "H. Achmad Marzuki" on business unit?

## 1.3 The Objective of the Study

According to research question, the objective of the study is:

1. To measure the performance Dairy Farm of "H. Achmad Marzuki" on department and work centers.

2. To measure the performance Dairy Farm of "H. Achmad Marzuki" on business operating unit.

3. To measure the performance Dairy Farm of "H. Achmad Marzuki" on business unit

## 1.4 Benefit of the Research

The result of this study expect to provide benefit is:

1. Small and Medium Enterprises (SMEs):

   a. Helping the Dairy Farm of "H. Achmad Marzuki" to measure their business performance based on SMART system model.

   b. Providing detail information what Dairy Farm of "H. Achmad Marzuki" could do in order to improve their performance in the next term and how this SME eliminate factors that influence performance.

2. Author

This study provides information why performance measurement are necessary to do and how to measure performance, which are important for being an entrepreneur in future.

3. Future Research

This study provides information how to measure the SMEs performance based on SMART system. The result should inspire the future research to do

further study relate SMEs performance measurement in order to help SMEs could compete in market.

## 1.5 Systematic of Writing

This study write according to the systematic, which consists about five chapters and explains as follows:

CHAPTER 1       INTRODUCTION

This chapter describes about the current issue of SMEs; the role of SMEs in Indonesia economic development, the critical factors that influence of SMEs, the performance measurement in SMEs, problem of research, research of objective and benefit, and systematic proposal writing.

CHAPTER II       LITERATURE RIVIEW

This chapter describes the previous study, basis theory, and research framework.

CHAPTER III       RESEACH METHOD

Chapter three discusses the research method such as research approach, unit of analysis, research location, steps of research, data collection procedure, data validity technique, technique of data analysis.

CHAPTER IV       RESEARCH RESULT AND DISCUSSION

In this chapter explains the characteristics of research subject elaborate the research subject based on SMART system and discuss the result of research subject.

CHAPTER V        CONCLUSION

This chapter concludes the result of case study, informs the limitation, and recommendation to future research.