

2013 Almmilia et al IJESB

by 2013 Almia Et Al Ijesb

Submission date: 16-Jan-2020 08:37AM (UTC+0700)

Submission ID: 1242440987

File name: 2013_Almilia_et_al_IJESB.pdf (252.53K)

Word count: 12530

Character count: 66251

Comparative managerial practice and export potential of small medium enterprises in Indonesia

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Abstract: This study aims to develop a national strategic network by expanding information access for both internal and external sides of SMEs that have characteristics of easy to operate, useful, in accordance with the needs and demands of SME managers, and affordable. However, in the early stages, this study will describe the profile of SMEs in the region of East Java in order to obtain information and data on the management and export potential of SME in East Java. The number of respondents in this research is 101 people. The result of this study shows that: low level managerial practice of SME in East Java including: business and management system, operational and technology systems, financial and administrative systems, customer and sales systems, marketing systems and export strategy. The findings of this result also show that SME in East Java have problems on managerial, human resources management, marketing and strategy implementation.

Keywords: managerial practice; small medium enterprise; management systems; technology systems; financial systems; export strategy; Indonesia.

Reference to this paper should be made as follows: Almilía, L.S., Diptyana, P., Budisusetyo, S. and Nita, R.A. (2013) 'Comparative managerial practice and export potential of small medium enterprises in Indonesia', *Int. J. Entrepreneurship and Small Business*, Vol. 20, No. 1, pp.35–62.

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1 Introduction

Small and medium enterprises (SMEs) play an important role in the Indonesian economy. This is because by SMEs, unemployed due to the labour force that is not absorbed in the workplace is reduced. The sector of SME has been promoted and used as the main agenda of economic development in Indonesia. The SME sector has proved resilient during Economic Crisis 1998. Only the SME sector that survived from collapse of the economy, while the larger sector actually fell by the crisis. During 1997–2006, the number of SME-scale businesses reached 99% of all business units in Indonesia. The contribution of SMEs to gross domestic product (GDP) reached 54% to 57%. The contribution of SMEs to employment was approximately 96%. A total of 91% of SME conducted export activities through a third-party exporter/intermediary trader. Only 8.8% were in direct contact with buyers/importers abroad.

In dealing with increasingly intense competition, as the more open markets in the country, it is a threat to SMEs by the increasing number of goods and services coming from the outside as a result of globalisation. Therefore, fostering and development of SME currently were perceived more urgent and very strategic to the raise of people' economic, in order to create the independence of SME in the future. With the development of people's economy, it is expected to increase community incomes, employment opportunities, and prosperity of society as a whole.

However, SMEs are often faced the lack of technology information that affects the length of the business chain for SMEs that have an impact on the inefficiency of business processes for SMEs. This study is expected to shorten the chain of business for SMEs, through a national strategic networking by expanding access to SME information and knowledge management of SME business administration.

This study aims to develop a national strategic network by expanding information access for both internal and external sides of SMEs that have characteristics of easy to operate, useful, in accordance with the needs and demands of SME managers, and affordable. In addition, the information access of SME is expected to facilitate others who want to conduct a partnership programme on SMEs to access information related to SME products or services produced, marketing of products/services, available resources, and resources needed. However, in the early stages, this study will describe the profile of SMEs in the region of East Java in order to obtain information and data on the management and export potential of SME in East Java.

This research is important to be conducted because SMEs have limited economic scale. The limitation of economic scale, causing the business of SME having difficulty in

building a competitive capacity when trying to enter (entry) market spatially has wider coverage levels. Therefore, it is very difficult to expect SME to develop under its own power (self-sustaining growth) without any intervention of related parties, which specifically favour the importance of SME. ²¹

Meanwhile, history has shown that SME has a significant role in contributing to the economic development of the nation. It is proven in the high proportion of economic performers who are on the business, with a much larger proportion than the large-scale business entities (UB), amounting to 99.8% of the total existing economic actors, while the rest, amounting to 0.2% is large business performers. In addition, SMEs also have a high absorption rate for labour, so it is able to reach 88.3% of the total labour force in Indonesia, and it is able to be one of the sub-sectors of business that can survive the exposure of the 1998 economic crisis in Indonesia.

The province of East Java is one area that has a great potential on the development of SME business. It can be seen from the high number of SME in this region, amounting to 2.32 million business unit, with the level of contribution to GDP up to 53%, so it can be concluded that 50% more than the level of economic growth in East Java was contributed by SME sector. Therefore, it is sensible that colleges or universities may give contribution to SME in encouraging progress and development of existing SME. ¹

There are several motivations of researchers to focus on the development of national strategic network by expanding information access for both internal and external parts of SME, which are:

- 1 SMEs in Indonesia, especially in East Java are quite a lot, but there are not the optimal attempts of development and empowerment related on how information systems and information technology are good and appropriate for SMEs to promote the sustainability of SMEs.
- 2 SMEs are faced with the capital problem. This emerged because accounting information system was inadequate so that SMEs could not present a report on simple accounting information required by creditors.
- 3 In addition to capital, SMEs are also faced with marketing problem because they do not have technical and administrative skills of marketing products, and in the product marketing, they tend to use traditional technologies. The lack of product marketing in SMEs is also caused because SMEs in conducting product distribution, was conducted by marketing directly to consumers.

The SME profile that will be described in the study includes:

- 1 business and management systems
- 2 operational and technology systems
- 3 financial and administrative systems
- 4 customer and seller assessment system
- 5 marketing systems
- 6 export strategy
- 7 the obstacles experienced by SMEs in business management.

The aspects of business and management system analysed include strategic and business planning, the authority of daily operational decision, job descriptions, motivation systems developed and training given to employees/workers.

Aspects of operational and technological systems analysed include: conducted preventive examinations, the level of technology, the implementation of innovations in quality management systems and perceptions of SME managers on the quality assurance that is the most important. Aspects of financial and administrative system that are analysed include: the level of SME in using information technology-based accounting system, the level of efficiency in applying budgeting systems, the level of efficiency in cost calculating systems, liquidity analysis conducted by SME manager and selection strategy on supplier.

Aspects of customer and sales assessment system that are analysed include: sales activity, recording on customer, ordering process, marketing training, and foreign language skills of sales department. Aspects of marketing systems that analysed include: individuals who are responsible for marketing activities, market research and market intelligence, customer satisfaction surveys and marketing strategies of SMEs.

Aspects of export strategies that are analysed include: the market target of the company, product adaptation and standardisation, assessment on available sources of export capacity (production capacity, finance, and human resources) and SME involvement in international trading fairs. Aspects of obstacles in SME management that are explored in this research are obstacles in finance, and financial management, obstacles in the management of human resources, obstacles in marketing technique, and obstacles in the strategy of implementation.

2 Literature review

2.1 Managerial practices of SMEs

Hamid et al. (2004) presented a number of evidence on managerial practices and problems faced by SME in Malaysia. The research result showed that generally SME was unlikely to take advantage of managerial practices in the management of SME. It was because SME managers seemed to have limited knowledge of managerial practices. The research result of Hamid et al. (2004) showed that the problems encountered in SME in Malaysia tended to revolve around high product cost, high overhead costs, employees who did not have the dedication, the difficulty of finding good employees, and SME was having a strict price competition. This research also showed that SMEs in Malaysia focused only on staying on the market by concentrating in penetration and market development. SMEs that did not face significant problem in applying technique mentioned above had shown a positive atmosphere that included government support and employee-employer relation.

Lin (1998) explored success factors of small and medium sized enterprises in Taiwan. Lin (1998) showed that successful SMEs in Taiwan place a greater emphasis on 'soft' rather than 'hard' issues. Soft 'people' events were reported much more frequently than hard 'structure' and 'technology' events. In addition, 'soft' attitudes, skills, and operating method are emphasised more often than 'hard' equipment. This finding reveals the unique coping strategies of SMEs in Taiwan. Lin (1998) also showed that the management skills and management concepts of business founders are deemed much

13 more important than their technical skills and their concern about production, which has resulted in an overall positive organisational performance.

Wong (2005) examined critical success factors for implementing knowledge management in SMEs. Wong (2005) proposed a more comprehensive model of 11 factors for implementing knowledge management in SMEs. They are: management leadership and support, culture, information technology, strategy and purpose, measurement, 11 organisational infrastructure, processes and activities, motivational aids, resources, training and education, and human resource management. The set of critical success factors proposed is in itself important because it can act as list of items for SMEs to address and deal with when accomplishing knowledge management. This helps to ensure that essential issues and factors are covered when they are planning and developing knowledge management.

Miller et al. (2007) examined why SMEs were willing to join in the association and maintain the network in it. The findings of this study indicated that sharing vision and sources among network members significantly provided benefits to business members, these benefits related to general perception of membership benefits of SME networking, and positively affected the participation future plan of the members.

The researcher (Garengo and Bernardi, 2007) aimed to illustrate how SMEs could survive in a competitive environment, and how SMEs could improve their capability to keep the viability of the company's development. Data were collected by paper-based and online survey. The survey was for five years by sending a questionnaire to 100 companies. Criteria for the respondent firms were:

- 1 The manufacturing sector, to equalise capabilities. If the company's services, capabilities among respondents could be different.
- 2 The local operating area (rather than foreign companies), but the market could be non-local.
- 3 The number of employees was 20 to 250 people.
- 4 Was not a subsidiary or a member of certain group companies.

These criteria were made to avoid bias caused by the management of SMEs that were mostly dominated by one person or group of people. Subsidiary company might be the respondent only if the subsidiary had independent authority to take decisions in other words, the company's decision did not depend on holding company.

The research results of Garengo and Bernardi (2007) showed that there were several factors that caused organisational crisis of SMEs, namely: first, planning and strategy. Most of SMEs conducted strategy changes without considering the organisational impact. SMEs conducted experiment with models of the new business, product variation, or developing service and the experiment was not set (not formalised). SMEs invested new technology, but did not consider the change in strategy and management. The only trigger changes in their perception / point of view was the market needs.

Second, managerial control. Most SMEs' corporate governance structure could affect managerial growth. Overlapping between company ownership and family caused complicated corporate-governance, the end of strategic decision-making power and managerial issues existing in relation to the complicated matter before, and held up operational and managerial functions of work; owners were usually forget the managerial activity and development of the company.

Third, performance measurement. Frequently, there were discrepancies in the company's performance, such as: there were only indicators that measured the efficiency of traditional products and information production costs. Performance measurement approach was informal, unplanned and not based on models that had been well-defined (predefined); some performance measurements were presented to solve specific problems such as the crisis of the organisation and the needs to enhance empowerment of certain resource.

Fourth, continuous improvement. Managerial practices were specifically influenced by the values and knowledge of the owner as the owner's values and knowledge determined in management style. Fifth, production. Production control system was very rarely used, most SMEs conducted production and received an order to respond customer demands. Sixth, personal management. In almost all SMEs, no one was responsible for HR management. HR was often not systematically managed by employers. The performance and knowledge of the human resource could not be measured with a good system. HR criteria were set informally and based on trust and feelings. Although these findings were uncertainty, the results of research on SMEs stated that SMEs were at comfort equilibrium, or in other words, these kinds of HR managerial situations still could be controlled by the entrepreneur.

Based on the survey, the description obtained indicated that condition faced by respondents of SME employers was two, which are: chaos-zone and new-equilibrium zone. Employers must determine the selection to be able to determine the sustainability of the company. This study demonstrated that managerial investment affected on the success of SMEs. Companies must conduct investment on qualitative development in order to move from chaos-zone and solve managerial problems. This study also confirmed previous studies that SMEs tended to be more attentive, and more dedicated to the operational and technological aspects, and ignored the organisational and managerial problems. There was a discrepancy between strategy-structure – and operating system, so that all three could not be coherent, even though having sufficient capability and capacity. This may cause a crisis in the company. Actually, SMEs had the ability to determine the strategy and specific needs in the business area, but to bring this capability required internal and external support.

The research objective of Kumar and Antony (2008) was to assess the status of the quality initiative state, such as ISO, TQM, Lean, Kaizen, at SMEs in the UK. Survey-based research, questionnaire data were collected from the selected SMEs with stratified random sampling. In the database of SMEs, 500 SMEs were registered, only manufacturings were selected, 75 companies responded, and the questionnaires were returned and could be processed were 64. The study's findings of Kumar and Antony (2008) showed that there were trends in the use of ISO on SMEs before they used Lean or Six Sigma. Quality management practices, such as measurements of customer-focus and methods of knowledge transfer to employees, could be observed in companies that already have ISO. SMEs' main reason for not implementing Six Sigma was a discrepancy of knowledge or understanding of the system and the limited resources. Other research results of Kumar and Antony (2008) showed that there were significant performance differences between companies applying Six Sigma or Lean and ISO certified companies. This showed that 'Six Sigma can only be done by large corporations' was a myth. These findings indicated that Six Sigma was useful for all types of companies, and it did not depend on the size of the company. Most SMEs struggled to have quality department or to build a quality team. SMEs implementing Six Sigma or having ISO-certified used

based on customer complaints as a main method to capture customer conscience. However, the application of Six Sigma in SMEs needed more help of external consultants, when compared to the ISO companies (when ISO needed employees training, and it could have been done in-house). In-house training was their main way to do knowledge-transfer.

Alavi and Karami (2009) examined the relationship between mission statement and performance of SME. Data were collected by the survey of 150 SMEs in the UK, using a mail survey. The results of this study showed that there was a significant correlation between the mission statement and the performance of SMEs. SMEs stating its mission formally had higher performance. The study also showed that there was a significant positive correlation between the level of managerial and non-managerial employee involvement in developing mission statements and company performance of SMEs. The higher employee involvement in the mission statement, the better company's performance would be. Alavi and Karami's (2009) research show that the correlation between prioritising financial objective and company performance was not proven. However, the results indicated a negative direction. These results recommended SMEs that financial goals were unnecessary to be stated in the company's mission.

The research of Singh et al. (2010) aimed to analyse the challenge differences of SMEs in India and China in facing the global economy, by describing the status of the situation and examining the role of government policy and the development of a competitive strategy. Data were collected by the survey. The research results of Singh et al. (2010) showed that the challenges faced by SMEs in the two countries were the same, such as: improving quality, reducing cost, upgrading technology, having same problems on the limitations of the product design (hence, in China many duplicated designs of branded goods) and developing capabilities. However, the growth rate of SMEs between the two countries was different: Indian SMEs gave more attention to development of suppliers, the total productivity management, and organisational culture. Meanwhile, Chinese SMEs gave more attention to relationship management and cost reduction to improve their ability to compete. Other research results of Singh et al. (2010) showed that the development of human resources and quality improvement also related to competitiveness.

2.2 Internationalisation of SMEs

Many studies have been conducted to determine which determinants factors that may be able to improve internationalisation of SME. Several studies also showed an increase in the internationalisation of SMEs, and some even focused on the increase of SME's internalisation in developing countries. Etemad et al. (2001) examined the growing use of collaborative arrangements by internationalising small business, with an emphasis on works of small and large firms. Etemad et al. (2001) suggest that collaborative networks between small and large firms, which can bring potential competitive benefits to both sides. Dana et al. (2002) suggest that franchising is an alternative method for SMEs to independent and international SMEs.

Bell et al. (2004) explored the linkages between the overall business strategies of small firms and their patterns, processes and pace on internationalisation. Bell et al. (2004) show that there were close relationships between product policies and market focus, with product or process innovation often providing an important stimulus to international expansion. Alon et al. (2009) investigated the motives of small-scale entrepreneurs to internationalise via exporting, and particularly evaluate the role of

government assistance. Alon et al. (2009) conclude that declining domestic sales, saturated domestic market and excess capacity were found to be significant for firms already exporting. Alon et al. (2009) also concluded that stimulating exporting is very important for economic growth and a country's wellbeing; understanding these motives can help policy makers and practitioners facilitate this process.

The study of Amal and Filho (2010) aimed to describe more on the determinants of SMEs internationalisation in Brazil; the description focused on the effect of entrepreneurship and networking to their selection of market strategy, and mode of entry (entry way) into foreign trading/foreign market. This study used case study in a developing country (Brazil) in order to fill in gaps of previous studies mostly using quantitative method. The sample of this study was three manufacturing companies that play an important role in export market. Based on interviews and document matching, it was concluded that: entrepreneurs (entrepreneur in this case was 'measured' using three attributes, namely: innovation, pro-active and risk-taking), and network-relationship was a key factor that influences the selection of market, entry-mode, and international performance (read: export performance). The main key of internationalisation was on the manager/entrepreneur. The export performance and diversification of products highly depended on the ability of companies to innovate and proactive behaviour as a learning process while maintaining national and international networks. The greater involvement of SMEs in a network-relationship (networking), through integration with customers and/or suppliers, the higher the tendency of SMEs to achieve better performance in foreign market.

Amal and Filho (2010) state that public policy in Brazil has not been used as a determining factor of internationalisation performance. However, most SMEs conducted internationalisation because they were involved or had a relationship with public institutions/governments. However, in many cases, capital of entrepreneurial spirit and risk-taking strategies, the ability to work and learn through network-relationship (network connection) were major triggers of rapid and sustain SME internationalisation. Amal and Filho (2010) state that further research could be done by cross-country analysis so there were other perspective comparisons (with different cultures) about important factors that could affect the internationalisation strategy and performance of an institution.

Dana et al. (2008) investigated the strategies adopted by a small primary sector firm that has recently initiated an export venture in the absence of government support. Dana et al. (2008) show that the challenges faced by the micro-enterprise are enormous due to a lack of support from the government and a limited amount of supplies, which makes it difficult to satisfy its foreign customers. Dana et al. (2008) also indicate some internationalisation strategies approach, include: *first*, starting an export venture with a relatively small commitment. *Second*, differentiating by selling unique products and applying a brand to them. *Third*, forming strong networks of relationship to ensure supplies and distribution overseas.

The study purposes of Karadeniz and Gocer (2007) was to identify the factors underlying the occurrence of SMEs' internationalisation. Data were collected from 471 owners/entrepreneurs of SMEs in Turkey; then, researchers examined variables thought to affect the internationalisation by using Pearson and regression analysis. The dependent variable was 'the level of company's internationalisation', measured by the ratio of overseas sales to total sales. Independent variables: company size as measured by the number of permanent employees, company age as measured by the length of company's

establishment, the intensity of R&D, the level of competition, and the company's growth rate, and the activity of company's internationalisation planning.

The results (Karadeniz and Gocer, 2007) showed that: first, the company size was positively related to the level of company's internationalisation. The bigger the company, the more it would be able to commit to the resources on international activities and gradually to increase the sales market share in the international market. Therefore, the larger companies had more resources available to develop the company's international activities.

Second, company's age was positively related to the level of company's internationalisation. The older a company was, the more it would be able to sell abroad. To understand other cultures, tastes and distribution patterns in other countries, took time. These findings indicated that there was a gradual process in obtaining knowledge and motivation to reduce risks when companies in Turkey conducted expansion abroad.

Third, the intensity of R&D was positively related to the level of the company internationalisation. In addition, the researchers analysed further and found that there was a positive correlation between the intensity of R&D and the market growth rate. The higher growth of the domestic market and the greater chance the company in the domestic market, the more the company has the ability to perform R&D activities.

Fourth, the level of competition in domestic market was not shown to be related to the company's internationalisation. This might be due to the company's condition that was not concerned to the structure of market or because they were too small in proportion in foreign market share. Therefore, the level of competition in domestic market was not supported to be factor to explain the level of SMEs' internationalisation in Turkey.

Fifth, the company's growth rate was significantly negatively related to the company's internationalisation. The lower growth in domestic market and low domestic market opportunities, the more it would be able to support companies to expand into foreign markets.

Sixth, the activity of company's internationalisation planning was significantly positively related to the level of company's internationalisation. The higher the level of planning and information gathering activities related to export, the higher the level of company's internationalisation. Larger companies paid more attention to the structure of organisational export and planning process related to export. Moreover, there was also found that the activity of company's internationalisation planning was also significantly positively related to the intensity of R&D. A company that invests in R&D tended to spend time and sources to the activities of international planning.

Lindstrand and Lindbergh's (2011) study investigate whether bank was needed as SMEs' partner, and if it was necessary, what the way was. Data were collected by questionnaires collected from 318 Swedish SMEs that conducted internationalisation activities. Data were analysed using descriptive statistics. The research result of Lindstrand and Lindbergh (2011) showed that bank was used as SMEs' information source when conducting internationalisation. Bank did not participate in SMEs' business networking. SMEs depended on bank only when they developed business relationship, but nevertheless, before internationalisation, SMEs depended on bank to run business.

Dana et al. (2009) explored export incentives facing New Zealand entrepreneurs. Dana et al. (2009) show that there are 13 export incentives perceived as being positive incentives to export by New Zealand entrepreneurs included: reduction of tariffs in target countries, presence of export-minded management, expectation of economies of scale resulting from added volume of trade, favourable sales and profit opportunities in foreign

markets, chance to diversity into new markets, receipt of voluntary orders from foreign markets, availability of unused productive capacity, adverse domestic market conditions, provision of hedge against an economic downturn in the domestic market, opportunity to utilise management talent better, ability to modify products easily for foreign markets, and close proximity to foreign markets. Dana et al. (2009) also found that the chance to diversity into new markets was a significant incentive to engage in international business.

The internationalisation business strategy is not only performed by SMEs, but also by the exporting company. Bayfield et al. (2009) provides empirical evidence in order to characteristic the nature of internationalised firms in New Zealand. Bayfield et al. (2009) show that, *first*, there are 81.7% of firms included in the sample export traditional products compared with 18.3% of firms which export knowledge intensive products. *Second*, there are 58.3% of firms being primarily driven by reactive factors compared with 41.7% of firms being driven by proactive factors. *Third*, there are 46.7% of firms included in the sample viewed the New Zealand Government as facilitator to their internationalisation activities compared with only 28.3% of firms who referred to the government as an inhibitor. *Fourth*, there are 41.7% of firms viewed the various foreign government they deal with as inhibitors to their internationalisation activities.

3 Research method

Research population is all SMEs in Indonesia. The sample is a SME located in East Java and has export potential based on data from the Department of Industry, East Java. Moreover, the research sample is also selected based on the produced products that have the potential to be exported. Table 1 shows data on SMEs in some regions in East Java that have been visited and conducted interviews.

Table 1 Data of visited and interviewed SME

No.	City	Number of visited SME	Number of interviewed SME
1	Malang	22	10
2	Batu	5	3
3	Pasuruan	3	2
4	Surabaya	22	8
5	Mojokerto	19	15
6	Nganjuk	18	14
7	Jombang	15	6
8	Ngawi	19	16
9	Bangkalan	10	7
10	Jember	18	10
11	Probolinggo	10	10
	Total	161	101

Data used in this study is primary data, which are data obtained from direct interview to SMEs manager. Data collecting method commonly used is an interview method, which is two-way communication to obtain data from respondent, this research focuses more on personal interview, the interview by conducting direct face-to-face meeting with the respondent.

Data analysis in this study is using descriptive data analysis techniques. Descriptive data analysis is performed on seven aspects, namely:

- 1 business and management systems
- 2 operational and technological systems
- 3 financial and administrative systems
- 4 customer and sales assessment system
- 5 marketing system
- 6 export strategy
- 7 the obstacles experienced by SMEs in running the business.

4 Research results

4.1 Respondent description

Respondents in this study are the owners and managers of SMEs in East Java. The number of respondents in this research is 101 people consisting of 67 (66%) male and 34 (34%) female. Table 2 presents demographic information on research respondents. Data of respondent last study shows that as much as 19 respondents (19%) are elementary school, 14 (14%) are junior high school, 35 (45%) are high school, 2 (2%) are Diploma III and 28 (28%) are undergraduates. Data of research respondent demography related to respondent age shows that as many as 5 (5%) of people aged less than 25 years, 12 (12%) of people aged 25–34 years, 35 (35%) of people aged 35–44 years, 38 (37%) of people aged 45–54 years, and 1 (11%) of people aged over 54 years.

Table 3 shows demographic data of SME. Data of SME related to the number of employees shows that there are 70 (69%) UMKM having employees less than 25 people, 21 (21%) SMEs having the number of employees ranging from 25 – 50 people, 4 (4%) SMEs having the number of employees between 51 and 100 people and 6 (6%) SMEs having more than 100 employees. The data of SMEs' business age shows that 23 (23%) SMEs have been running the business for 1–10 years, 51 (50%) SMEs have been running the business for 11–20 years, 20 (20%) SMEs have been running the business for 21–30 years, 5 (5%) SMEs have been running the business for 31–40 years, 1 (1%) SME has been running the business for 41–50 years, and 1 (1%) SME has been running the business over 50 years.

Table 2 Data of research respondent demography

<i>Sex</i>	<i>The number of respondents</i>	<i>%</i>
1 Male	67	66
2 Female	34	34
<i>Total</i>	<i>101</i>	<i>100</i>
<i>The last formal education</i>	<i>The number of respondents</i>	<i>%</i>
1 Elementary	19	19
2 Junior high	14	14
3 Senior high	35	34
4 D3	2	2
5 Undergraduates	28	28
6 Graduates	1	1
7 Others	2	2
<i>Total</i>	<i>101</i>	<i>100</i>
<i>Respondent age</i>	<i>Total</i>	<i>%</i>
1 < 25 years old	5	5
2 25–34 years old	12	12
3 35–44 years old	35	35
4 45–54 years old	38	37
5 > 54 years old	11	11
<i>Total</i>	<i>101</i>	<i>100</i>

Table 3 Demographic data of micro, small, medium business

<i>The number of employees</i>	<i>Total</i>	<i>%</i>
1 < 25	70	69
2 25–50	21	21
3 51–100	4	4
4 > 100	6	6
<i>Total</i>	<i>101</i>	<i>100</i>
<i>Business age</i>	<i>Total</i>	<i>%</i>
1 1–10 years	23	23
2 11–20 years	51	50
3 21–30 years	20	20
4 31–40 years	5	5
5 41–50 years	1	1
6 > 50	1	1
<i>Total</i>	<i>101</i>	<i>100</i>

4.2 Data analysis

This study aims to explore how the profile of SME in East Java reviewed from six characteristics, namely: management and business systems, operational systems and technologies, financial and administrative systems, customer ratings and sales systems, marketing systems, and export strategies. Table 4 shows the data of SMEs profile based

on the characteristics of business and management systems. The profile of SMEs in East Java, based on the characteristics of business and management systems shows that: First, 41 (41%) SMEs do not have a written business plan and 54 (43%) SMEs do not have a written business plan, but conduct planning on business activities. The results of this study indicate that the majority of SMEs do not have a business plan, but if they have a business plan, so it is not a formal business plan.

Table 4 Business and management systems

<i>Business and management systems</i>	<i>Number of SMEs</i>	<i>%</i>
<i>Strategic and business planning:</i>		
1 We do not have a written business plan	41	41
2 We do not have a written business plan but we plan our business activities	54	53
3 We implement business activities according to our company strategy	6	6
4 We regularly review our company strategy and adapt our plans accordingly	0	0
5 We involve company managers in drafting strategy and business planning	0	0
6 No response	0	0
<i>Our company decisions in relation to every day operation are made by:</i>		
1 Only one person (owner/highest level of management)	65	64
2 Sometimes in small groups of key persons and sometimes just the general manager/owner	31	31
3 A management group	3	3
4 Sometimes in informal management groups sometimes left to the line managers	1	1
5 Line managers/function managers	1	1
6 No response	0	0
<i>Our job descriptions are:</i>		
1 We have no job descriptions	42	42
2 We have but not in written form	53	52
3 Not useful, although we have them	0	0
4 Minimum 50% of them are according to the tasks	3	3
5 100% up to the task	3	3
6 No response	0	0
<i>Motivation systems in the company:</i>		
1 We have not established a motivation systems	53	52
2 Minimum benefits for national holiday, bonus, and public transport	44	44
3 Awards, rewards, career promotion plans over the basic benefits	1	1
4 Awards, rewards, career promotion and other benefits (retirements, holidays, public and private transport) are occasional practice	1	1
5 Awards, rewards, career promotion and other benefits (retirements, holidays, public and private transport) are part of the company incentive system	2	2
6 No response	0	0

Table 4 Business and management systems (continued)

<i>Business and management systems</i>		<i>Number of SMEs</i>	<i>%</i>
<i>Related to the training of the employees:</i>			
1	We train our employees on the job	70	69
2	Never plan, but we train our employees from time to time	14	14
3	Never plan, but we use training for the key personnel utilising different emerging opportunities from international donors	0	0
4	Plan and use trainings available in the country on a regular basis	2	2
5	We always plan and use trainings available in the country and abroad on regular basis	1	1
6	We do not train our employees	14	14

Second, 65 (64%) SMEs state that the operational decisions are made by only one person (the owner/³⁵ highest level of management), whereas, only 31 (31%) SMEs that their operational decisions are made by a small group of individuals who are the key persons and frequently made by the owner/the highest level of management. The results of this study show that most operational decisions are made by the owner, and there is no management group that has the authority for operational decisions. Characteristics of SMEs management in East Java are more to the management of the business done by the individual and/or only their family.

Third, 42 (42%) SMEs stated that they do not have a job description and 53 (52%) SMEs stated that they have a job description but it is not written. This study indicate that most of SMEs have a job description, but it is unformalised (not written), the rest, they do not have any job description, so there is no specific assignment for each of the employee in those SMEs. *Fourth*, most of SMEs as many as 53 (51%) SMEs do not create a motivation system for employees, and only 44 (44%) SMEs provide minimum benefits ⁵ employees including national holidays, public transport and consumption money. The results of this study show that managers do not focus on the SME award to their employees. *Fifth*, most of the SMEs as many as 70 (69%) SMEs provide training ³⁴ employees only when on the job training and 14 (14%) SMEs do not provide training on employees. The results of this study indicate a lack of their management awareness that by improving the skills of employees, they would improve SMEs' performance. In general, the profile of SMEs in East Java when being view¹⁰ from the characteristics of the business and management systems, indicate that there is the lack of SMEs' management awareness to the importance of business planning, motivation system, job descriptions and training for employees in running the operational activities of SMEs.

Overall, there is a clear tendency among Indonesian SMEs to rely on the leadership, planning and management skills of only one person, most often the enterprise owner. In turn, the owner/senior manager is hesitant in a systematic business planning process, and reluctant to document the work tasks of his/her employees. This one-man-show management style may be appropriate to very small business operations, but acts as primary hindrance for enterprise growth. Often there exists a degree of lack of trust between owners and (non-family) staff, a negative feeling reinforced by less developed motivation systems and limited investment in staff capacity-building programmes. Dana (2007) shows that lacking of knowledge becoming entrepreneur with short-term goals, and the SMEs owner can be encouraged to the employee knowledge.

Table 5 shows data of SMEs' profile based on the characteristics of business and management systems. The profile of SMEs in East Java based on the characteristics of operational system and technology shows that: *first*, 43 (43%) SMEs have never done preventive checkups on the equipments they have and let those equipments work as usual until it is damaged, and 47 (46%) SMEs conduct preventive checkups on the equipments they have from time to time without any planning and taking into account the time of the equipment use. *Second*, 29 (29%) SMEs do not use equipments with advanced technology, 50 (51%) SMEs use equipments with outdated technology, and 13 (13%) SMEs use contemporary equipments, but are not suitable with the recent technology/innovation.

Table 5 Operations and technology systems

<i>Operations and technology systems</i>	<i>Number of SMEs</i>	<i>%</i>
<i>We perform preventive checks:</i>		
1 Never, we let our equipment run until it signals it is out of order	43	43
2 From time to time without planning and taking into account the running hours of the equipment	47	46
3 Periodically according to the running time of the equipment	8	8
4 Periodically with planning of the preventive maintenance and interventions	1	1
5 Regularly, according to the manufacturer's recommendations taking especially into account the planning of the preventive maintenance and interventions	1	1
6 No response	1	1
<i>The level of our technology is:</i>		
1 Poor, outdated and overrun by the time	29	29
2 Old fashioned, equipment from 'my father's' generation	50	51
3 Contemporary, but not in accordance with the current advanced technologies/innovations	13	13
4 Previous generation, in accordance with the previous advances/innovations	6	6
5 Up to date, latest technology available on the market	2	2
6 No response	1	1
<i>We introduced and implemented application based on internet:</i>		
1 We have not any internet connection	63	62
2 We are connected and we use e-mails for informal communication	25	25
3 We use e-mails for daily communication with our business partners	5	5
4 We use e-mails very frequently to communicate with our business partners and we have a website that presents our company profile	5	5
5 We use internet for communicating (even for formal communication), for promoting our products/services, and for gathering information about new business opportunities.	3	3
6 No response	0	0

Table 5 Operations and technology systems (continued)

Operations and technology systems		Number of SMEs	%
<i>We introduced and implemented innovation in quality management systems (QMS):</i>			
1	No QMS	81	80
2	Less than 1 year ago	14	14
3	Between 1–3 years ago	4	4
4	Between 3–5 years ago	1	1
5	Over 5 years ago	1	1
6	No response	0	0
<i>For our activities this quality assurance is the most important:</i>			
1	We do not have enough information about it	54	53
2	ISO 9000	11	11
3	ISO 14000	35	35
4	HACCP	0	0
5	Other relevant quality assessment (QA)	1	1
6	No response	0	0

Third, the low utilisation of internet-based applications in SMEs, that is shown with 63 (62%) SMEs do not have an internet connection and 25 (25%) SME have internet connection and use e-mail for informal communication. *Fourth*, the lack of SMEs' management awareness related to the Quality Management System, that is shown with 81 (80%) SMEs do not have a quality management system. *Fifth*, the lack of information for managers of SMEs on quality assurance, that is shown with 54 (53%) of SMEs do not have information on quality assurance.

The results of this study show that the characteristic profile of SMEs reviewed from operations and technology systems are: lack of SMEs management awareness related to preventive checkups on equipment they have, low use of the latest technology in the operational activities of SMEs, lack of implementation of internet-based applications, low implementation of innovations in quality management systems and lack of SMEs manager understanding on quality assurance. Indonesian SMEs are in great need of systemising their Quality Management Systems, to structure and document their business operations, so as to assure an effective transfer of working methods, techniques, control function, and other operations and technology functions from the owner/manager to other managers and staff.

As a second step in Quality Management Systems process, Indonesian SMEs need to start thinking about achieving Quality Management Systems standards, which are internationally recognised, such as ISO and HACCP. The need for information about Quality Management Systems and certification of international quality standards, as well as practical advice on the process of achieving Quality Management Systems will be addressed by way of a specific training module on Quality Management Systems within government programme.

Table 6 shows data of SME profile based on the characteristics of financial and administrative systems. The profile of SME in East Java based on the characteristics of financial and administrative systems shows that: *first*, 86 (85%) SMEs do not use a computer-based accounting system, and 12 (12%) SMEs use accounting system of cost, payroll, supply, and sales that is computer-based. *Second*, the low of efficiency level in applying budgeting system that is shown with 59 (58%) SMEs are having discrepancy in organising budgeting system for different purposes, and 35 (35%) SMEs have budgeting system based on external purposes. *Third*, the low of efficiency level in costing system that is shown with 23 (23%) SMEs who do not have costing system/do not conduct calculating on costs, and 66 (65%) SMEs who conduct calculating manually directly the cost of each product or service when it is needed. *Fourth*, the low of understanding of SME managers on the importance of liquidity analysis is shown with 68 (67%) SMEs who have not done analysis on business liquidity and only 19 (19%) SMEs who do the analysis twice a year.

Table 6 Financial and administrative systems

<i>Financial and administrative systems</i>	<i>Number of SMEs</i>	<i>%</i>
<i>Level of your company usage of IT accounting systems:</i>		
1 Absence of any computerised accounting systems	86	85
2 Use of computerised invoicing, inventory, payroll, cost accounting	12	12
3 Different application in different departments-systems not integrated	1	1
4 There is low level of integration, at least LAN	0	0
5 Completely computerised and integrated accounting information systems	0	0
6 No response	2	2
<i>Level of efficiency of applied budgeting systems in the company:</i>		
1 Lack of organised budgeting systems for different purposes	59	58
2 Existing of basic budgeting systems only for external purposes	35	35
3 At least semi-annually checking the actual performance against the budget	4	4
4 At least quarterly checking the actual performance against the budget	1	1
5 Monthly checking the actual performance against the budget	0	0
6 No response	2	2
<i>Level of efficiency of cost calculation systems:</i>		
1 We have no cost calculation system/we do not calculate the costs	23	23
2 Manual calculation of direct cost per product or services when needed	66	65
3 Automated accounting of direct and indirect costs	7	7
4 Automated accounting of direct and indirect cost using ABC, or other advanced models	2	2
5 Automated and complete cost accounting system fully integrated with other systems – enterprise resource planning	0	0
6 No response	3	3

Table 6 Financial and administrative systems (continued)

<i>Financial and administrative systems</i>	<i>Number of SMEs</i>	<i>%</i>
<i>We analyse the liquidity of our company:</i>		
1 Never, we do not analyse liquidity (is the company able to pay its debts, purchase, salary, etc., now and in future)	68	67
2 On a semi-annual basis (twice a year)	19	19
3 From time to time specially, during the 'critical' moments in our fiscal/financial operation	11	11
4 On a monthly basis and we use it as an 'early warning indicator'	1	1
5 On a monthly basis and we are using a software-based decision model for decision making and 'early warning'	0	0
6 No response	2	2
<i>We select our suppliers:</i>		
1 Without any procedure and with no defined criteria	35	35
2 Without strictly defined criteria	42	41
3 We do not change suppliers if they are reliable	13	13
4 We shop-around for best offers (quality, price, time of delivery, and terms of payment)	4	4
5 Developed procedures and defined criteria, always competing offers	5	5
6 No response	2	2

Fifth, the low of understanding of SME managers on certain procedures and criteria in the supplier selection that is shown with 35 (35%) SME that do not have certain procedures and criteria in the supplier selection, 42 (41%) SMEs that do not have strict criteria in the supplier selection, and 13 (13%) SMEs that will never move to other suppliers if the supplier is still available. The results of this study show that the characteristic profile of SMEs reviewed from financial and administrative systems are: low use of computer-based accounting systems in SMEs, the discrepancies in the budgeting system organised for different purposes, low use of cost accounting system on SMEs, lack of SMEs understanding of the importance of business liquidity analysis, and lack of SME managers' understanding of the importance of specific procedures and criteria in the selection of suppliers.

The importance of professional cost-calculation can not be overestimated, especially for the manufacturing industries. The fact that so many Indonesian SMEs still rely on manual calculation of cost only underlines the urgency of the need. There is general lack awareness concerning the link between accounting, budgeting and cost calculation, and the overall performance of the enterprise.

Table 7 shows the data of SME profile based on characteristics of customer and sales systems. The profile of SMEs in East Java based on characteristics customer rating and selling systems show that: *first*, 64 (63%) SMEs state that selling activities are done exclusively only by the owner, and 32 (32%) SMEs state that selling activities are done only by the owner and owner's trusted people. *Second*, 57 (56%) SMEs state of having customer records, but they are kept by the manager or the owner, whereas, 31 (31%) SMEs state of not having any customer records, and customer data are available only in original documents. *Third*, 84 (83%) SMEs state that they do not have formal procedures for ordering process and 10 (10%) SMEs state that they have formal procedures for ordering process initiated by the sales department, but there is no control on supply and

goods in process. *Fourth*, 70 (69%) SME state that the training of marketing staff is done by learning from experience obtained while working and 23 (23%) SMEs state that they have not given training for marketing staff. *Fifth*, 60 (59%) SME state that staff in sales department never talk in any foreign language, 37 (37%) SMEs state that staff in sales department has limited knowledge of foreign language (the key individual is able to speak only one foreign country). The results of this study show that the profile of SMEs reviewed from the characteristics financial and administrative systems are: lack of involvement of the sales staff in selling activities, low utilisation of customer records, there is no formal procedure for ordering process, lack of awareness on the importance of marketing staff training at SMEs, and the low of foreign language skills in SMEs.

Table 7 Assessing the customer and sales systems

<i>Assessing the customer and sales systems</i>	<i>Number of SMEs</i>	<i>%</i>
<i>Internal sales systems: sales activities in our company:</i>		
1 Are exclusively performed by the owner	64	63
2 Performed by the owner and people to whom he/she trusts	32	32
3 Sales staff is involved but does not use information and communication technology	4	4
4 Sales staff is involved and uses information and communication technology	1	1
5 Sales staff involved and uses a fully integrated and customer oriented system and automation of all sales activities	0	0
6 No response	0	0
<i>Internal sales systems: keeping records of customers</i>		
1 No records, data about customers are available only through the original documents (invoices)	31	31
2 Record kept only in the owner/manager's office	57	56
3 Customer records available at the accounting department	2	2
4 Customer records available at the sales department	10	10
5 Fully integrated contact data of all customers, network exist and is accessible from inside and outside the company	1	1
6 No response	0	0
<i>Order processing: in our company we have:</i>		
1 No formal procedure for processing the orders	84	83
2 Formal procedure, initiated by the sales department, but no control of the inventory and work in process	10	10
3 Formal procedure initiated by sales department to inventory and production with inventory and work in process control systems	5	5
4 Computerised order processing procedure	1	1
5 Fully integrated system of order processing with the production information system and sales department information system	0	0
6 No response	1	1

Table 7 Assessing the customer and sales systems (continued)

<i>Assessing the customer and sales systems</i>	<i>Number of SMEs</i>	<i>%</i>
<i>Sales force training: in our company:</i>		
1 Sales staff members learn from the experience, on the job	70	69
2 We organise training session/courses only for the newly employed staff	2	2
3 Training course are organised for new people, new products and new regulations	4	4
4 We train our employees regularly by implementing a training plan including: predefined courses, allocated budget and dedicated time	2	2
5 Training courses and their delivery are customised to meet the needs of each member of the sales department	0	0
6 We do not train our sales staff members	23	23
<i>The staff in our sales department</i>		
1 Speaks no foreign languages	60	59
2 Has limited knowledge of foreign languages (key personnel speaks one foreign language)	37	37
3 Has average knowledge and utilisation capacity in foreign languages (all staff members speak at least one foreign language)	4	4
4 Has above average knowledge and utilisation capacity foreign languages	0	0
5 All staff members speak one foreign language (one language of the region) and the language he/she is responsible for	0	0
6 No response	0	0

Strong centralisation of the sales activity around the enterprise owner appears to be the model among many Indonesian enterprises, which indicates a low level of trust between owner and his/her employees, at all levels. Overcoming this distrust will require more than improving practical sales skills among staff. It will involve measures to improve overall human resource management and strategic management within the enterprise. Future needs would include methods to integrate the customer database into the marketing and sales strategies, and mechanisms for sharing the information internally within the enterprise.

There is a strong need for staff training in sales skills, yet this capacity-building activity would be most effective if coordinated with an expansion of the sales activity beyond just the enterprise owner/manager. The improvement of skills among sales staff may require improvements in other functional skills areas, such as management and human resources management, in order for the enterprise to reap the full benefit of a specific capacity-building event.

Table 8 Marketing systems

<i>Marketing systems</i>	<i>Number of SMEs</i>	<i>%</i>
<i>Marketing department or person responsible for marketing of the company:</i>		
1 We do not have a marketing department/person	86	85
2 Our marketing department has very limited function and responsibility	8	8
3 Our marketing department discharges its duties to a satisfactory extent	5	5
4 Our marketing department discharge its duties to a more than satisfactory extent	1	1
5 We have completely functional department fully consistent with the aims of the company	0	0
6 No response	1	1
<i>We conduct market research or market intelligence:</i>		
1 Never, we base our decisions on impressions from our operation	68	67
2 On a (very) limited scale and issues, when the certain problem occurs (need)	28	28
3 Occasionally before we launch new product (service) or upgrade existing product/service lines	2	2
4 On a regular basis (at least once a year)	1	1
5 On a regular basis (at least once a year) and we base our business decisions and company development/improvement on this survey	1	1
6 No response	1	1
<i>We implement a customer satisfaction survey:</i>		
1 Never, we base our decision on product requirements	65	64
2 Ad-hoc, on a (very) limited scale and issues, when the certain problem occurs (need)	24	24
3 Occasionally in order to be aware if we maintain the position and status we used to have	7	7
4 On a regular basis (at least once a year)	3	3
5 On a regular basis (at least once a year) and we base our business decisions and company development/improvement on this survey	1	1
6 No response	1	1
<i>Our marketing strategy can be described as:</i>		
1 No strategy at all	27	27
2 Not completely clear idea of target customers and markets	65	64
3 A clear idea about our target customers/markets and their perceptions of our product	6	6
4 Exactly formulated strategy (segmentation – targeting – positioning – product portfolio) on a basis of regular market surveys/researches	1	1
5 Exactly formulated strategy (segmentation – targeting – positioning – product portfolio), implemented, monitored and upgraded constantly	1	1
6 No response	1	1

Table 8 shows the data of SME profile based on the characteristics of marketing systems. The profile of SMEs in East Java based on the characteristics of marketing systems shows that: *first*, 86 (85%) SMEs do not have marketing department nor an individual who is responsible in marketing field and 8 (8%) SMEs have the marketing department that has limited function and responsibility. *Second*, 68 (67%) SMEs state that they have not done a market research and market intelligence on the limited scale and problems which is when specific problems occurring.

Third, 65 (64%) SMEs state that they have never implemented customer satisfaction surveys and made decisions based on production demand and 24 (24%) SMEs implement customer satisfaction surveys on an ad-hoc and limited scale and problems, when there is a specific problem. *Fourth*, 65 (64%) SMEs state of having marketing strategies, but they are not clear and comprehensive related to consumer and market targets and 27 (27%) SMEs do not have any marketing strategy.

The results of this research shows that the profile of SMEs reviewed from the characteristics of marketing systems is: many of SMEs that do not have marketing staff and the marketing activities are done by the owners of SMEs, many of SMEs that have not conducted a market research and market intelligence, as well as customer's satisfaction survey, many of SMEs that do not have marketing strategies and if they have a marketing strategy, then the marketing strategy is not clear nor comprehensive related to consumer and market target. There is a clear need to improve the management of marketing services within Indonesian SMEs, starting from the establishment of a marketing department, cost-effective mechanisms for researching and new markets, and keeping track of customer satisfaction. Moreover, there is a great need to formalise the marketing activities into a written marketing strategy, allowing management to monitor outcomes more effectively and make changes over times as required.

Table 9 shows the data of SME profile based on the characteristics export strategy. The profile of SMEs in East Java based on the characteristics of export strategy shows that: *first*, 39 (39%) SMEs have market target that is unclear and only based on the desire of the company to fulfil consumer's demands and 48 (47%) SMEs try to identify the market target, but it is not done formally. *Second*, 35 (35%) SMEs state that there is no adaptation and standardisation as a whole, and the products produced only based on product specification sold in domestic market; 41 (40%) SMEs stated that adaptation and standardisation are limited and 17 (17%) SMEs stated that a number of adaptation and standardisations have been done, but partially according to the requirements desired by the customers.

Third, 45 (44%) SMEs never do assessment on available export resources (capacity of production, finance, and human resources), 39 (39%) SMEs stated that sometimes they conduct assessment on available export resources; and 12 (12%) SMEs stated that the assessment on available export resources is done partially which is not done to the whole resources owned by the company. *Fourth*, 32 (32%) SMEs stated that they never get involved in international trading exhibition because export is not the market target of the company, 41 (40%) SMEs stated that they join international trading exhibition in an ad-hoc basis or if there is an opportunity or once in some years, and 14 (14%) SMEs stated that they join international trading exhibition once a year.

The results of this research shows the profile of SMEs reviewed from the characteristics of export strategy which are: there is no clear market target, there is no adaptation or standardisation as a whole related to resulting products, there is no assessment on available export resources and the low of SME involvement at

international trading exhibition. The need to export strategy skills is more predominant among those SMEs which are either already exporting or have the internal resources to take the step into the international trade.

Table 9 Export strategy

<i>Export strategy</i>	<i>Number of SMEs</i>	<i>%</i>
<i>Our target markets are:</i>		
1 No clear target market, based on the desire to produce our product/services.	39	39
2 We made an effort to identify the target markets, but not in a formal way.	48	47
3 Identified target markets, but does not have enough information about them.	7	7
4 Clearly identified target market without research into the market specifics.	5	5
5 Clearly identified and analysed (having information on the size of the market, the specific customer culture, standards, info on the local competitors, etc.).	2	2
6 No response.	0	0
<i>Product adaptation and standardisation:</i>		
1 No adaptations or standardisation at all, the product will be exported as it is sold on the domestic market.	35	35
2 Limited adaptation or standardisation.	41	40
3 Some adaptations or standardisation are done but does not fully met customer requirements.	17	17
4 Improvements/adaptations to meet the export markets based on market research.	2	2
5 Adopt or standardised products according the market requirements.	6	6
6 No response.	0	0
<i>We asses our available export resources (production capacities, finance, personnel):</i>		
1 Never, prior to export. We usually perform no assessment at all.	45	44
2 Occasionally, without giving any importance and utilisation of the assessment.	39	39
3 Partially, not taking into account all necessary resources and their specifics.	12	12
4 On a regular basis prior to any export activity, but without any follow up activities or reassessment.	4	4
5 On a regular basis for all our export activities including the follow-up activities and regular reassessment related to the individual markets.	1	1
6 No response.	0	0

Table 9 Export strategy

<i>Export strategy</i>	<i>Number of SMEs</i>	<i>%</i>
<i>We participate in international trade fairs:</i>		
1 Never. This is/was not our approach towards exporting.	32	32
2 Ad-hoc, if a good chance occurs, once in several years.	41	40
3 Once a year, only on the selected fairs on target markets specialised for our target audience.	14	14
4 Following our promotional plan (several fairs per year) followed by other promotional activities.	9	9
5 Regularly on regional and international fairs according to the promotional plans elaborated on yearly basis, planning for follow-up activities.	5	5
6 No response.	0	0

In addition to exploring how the profile of SMEs in East Java reviewed from six characteristics, this study also explored the obstacles experienced by SMEs in the aspects of: finance and financial management, human resource management, marketing techniques and strategy implementation. Table 10 shows the obstacles experienced by SMEs in the aspects of: finance and financial management, human resource management, marketing techniques and strategy implementation. The research results related to financial obstacles and financial management showed that: 55 (54%) SMEs have a discrepancy in obtaining capital, 43 (43%) SMEs stated that the high level of credit interest/lending interest rate in obtaining loans, 28 (28%) SMEs stated that obstacles in financial aspect is the high cost of production, and 26 (26%) SMEs stated the poor financial records.

Table 10 Managerial problems

<i>Managerial problems</i>	<i>Number of SMEs</i>	<i>%</i>
<i>Financials problems</i>		
1 Lack of capital	55	54
2 Poor financial records	26	26
3 High product costs	28	28
4 High overhead costs	0	0
5 Overdue account receivables	12	12
6 Difficulties in obtaining loans	26	26
7 Difficulties in credit	2	2
8 High tax rates	0	0
9 High interest rates	43	43

Table 10 Managerial problems (continued)

<i>Managerial problems</i>		<i>Number of SMEs</i>	<i>%</i>
<i>Human resources management problems</i>			
1	Not many dedicated worker	28	28
2	Difficult to find good worker	23	23
3	Poor employee motivation	18	18
4	High turnover	18	18
5	High absenteeism	34	34
6	Dissatisfaction with pay	3	3
7	Lack of concern	0	0
8	Conflict	2	2
9	Family problems	54	53
<i>Marketing problems</i>			
1	Price competition	59	58
2	Low profits	24	24
3	Brand competition	20	20
4	Low sales	28	28
5	Poor product quality	2	2
6	Unable to export	21	21
<i>Strategy implementation problems</i>			
1	Not enough resources	58	57
2	Not optimistic on strategy chosen	26	26
3	Workers cannot accept new idea	8	8
4	Conflict between workers	0	0
5	Disturb company operations	11	11
6	Government policies	41	41
7	No support from management	2	2

The results of this research related to the obstacles of human resource management show that: 54 (53%) SMEs have obstacles of human resource management related to the high of family problems from staff/employees, 34 (34%) SMEs have obstacles in the high of staff/employee absence, 28 (28%) SMEs stated that not too many staff/employees having a high dedication, and 23 (23%) SMEs stated that it is difficult to find good staff/employees.

The obstacles experienced by SMEs related to marketing techniques show that: 58 (58%) SMEs have obstacles related to price competition, 24 (24%) SMEs have obstacles related to the low of profits/earnings, 21 (21%) SMEs have difficulty in exporting products/services, and 17 (21%) SME have obstacles in brand competition. These obstacles experienced by SMEs related to the strategy implementation show that: 58 (57%) SMEs stated of limited resources owned by both financial and human resources, 41 (41%) SMEs stated that government policies interfere determined strategies of SMEs,

government policy in this care is the increase in fuel prices, and 26 (26%) SMEs stated that the strategy choice of SMEs is not optimistic.

5 ³² Conclusions

The result of this study shows that: *first*, the profile of SMEs in East Java when being reviewed from the characteristics of the business and management systems, indicate that there is the lack of SMEs' management awareness to the importance of business planning, motivation system, job descriptions and training for employees in running the operational activities of SMEs. There is a strong need to improve Business Planning, Management Systems and Human Resource Management among Indonesian SMEs. Furthermore, there appears to be a lack awareness about the importance of strategic and business planning, as key functions in the company. This is particularly true among the very small enterprises, where management is often centred around the enterprise owner. Moreover, the relationship between enterprise owner and the management/workers, (often organised by work descriptions, incentive schemes and organisational schemes) need strengthening. The specific training needs identified above will be addressed by the development of tailored training modules in Human Resources Management as well as Business Planning and Management for enterprise owners and senior managers.

Second, lack of SMEs management awareness related to preventive checkups on equipment they have, low use of the latest technology in the operational activities of SMEs, lack of implementation of internet-based applications, low implementation of innovations in quality management systems and lack of SMEs manager understanding on quality assurance. There seems to be a lack awareness among Indonesian SMEs about the benefits that installing and working by Quality Management Systems may have their daily business operations. There is consequently a need to assist the owner/manager in realising the magnitude by which their centralised management style is jeopardising the future of the enterprise, and raise awareness about the potential benefits for the owner and his/her enterprise by adapting a Quality Management System.

Third, low use of computer-based accounting systems in SMEs, the discrepancies in the budgeting system organised for different purposes, low use of cost accounting system on SMEs, lack of SMEs understanding of the importance of business liquidity analysis, and lack of SME managers' understanding of the importance of specific procedures and criteria in the selection of suppliers. In order to stay competitive as a manufacturing location, there is an over-arching need among Indonesian enterprise to:

- 1 improve their managerial technique and use of available software-based accounting and budgeting tools
- 2 become more sophisticated in calculating cost.

Fourth, the profile of SMEs reviewed from the characteristics financial and administrative systems are: lack of involvement of the sales staff in selling activities, low utilisation of customer records, there is no formal procedure for ordering process, lack of awareness on the importance of marketing staff training at SMEs, and the low of foreign language skills in SMEs. To date a large proportion of Indonesian SMEs have relied on their owners/managers to plan and implement sales activities or the foreign buyers to access the international markets. As Indonesian SMEs attempt to carve out a larger market share

in the domestic market, under their own brand, they will increasingly need sophisticated sales strategy and staff to accomplish their business goals. The same is true for those export-oriented enterprises that will attempt to add value margin to their products and services, and at the same time stay competitive in the international markets.

Fifth, many of SMEs that do not have marketing staff and the marketing activities are done by the owners of SMEs, many of SMEs that have not conducted a market research and market intelligence, as well as customer's satisfaction survey, many of SMEs that do not have marketing strategies and if they have a marketing strategy, then the marketing strategy is not clear nor comprehensive related to consumer and market target. There is a strong need to improve marketing skills among Indonesian SMEs. The strong centralisation of the marketing activity around the owner/manager shows that there is a need to improve also fundamental management skills within the SMEs, of which the marketing strategy is an integrate part.

Sixth, the profile of SMEs reviewed from the characteristics of export strategy which are: there is no clear market target, there is no adaptation or standardisation as a whole related to resulting products, there is no assessment on available export resources and the low of SME involvement at international trading exhibition. The need to export strategy skills is more predominant among those SMEs which are either already exporting or have the internal resources to take the step into the international trade.

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PAGE 7

PAGE 8

PAGE 9

PAGE 10

PAGE 11

PAGE 12

PAGE 13

PAGE 14

PAGE 15

PAGE 16

PAGE 17

PAGE 18

PAGE 19

PAGE 20

PAGE 21

PAGE 22

PAGE 23

PAGE 24

PAGE 25

PAGE 26

PAGE 27

PAGE 28
