

Analysis of Restricting Factors of Small Medium Enterprises in Bandung, West Java - Indonesia

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ABSTRACT

The demand of the community for decent jobs and incomes encourages the emergence of Micro Small Medium Enterprises (MSMEs). The existence of MSMEs has provided job opportunities. This should be supported by the government, especially local governments where MSMEs are located. On the other hand, many MSMEs face problems, such as limited working capital, low human resources, and lack of science and technology skills. In addition to these factors, there are also inhibiting factors originating from the environment and business actors mentally. Therefore, government intervention and the involvement of SMEs are needed to overcome the problems faced by MSMEs.

Keywords: MSMEs, Inhibiting Factors, Solutions.

1. INTRODUCTION

Every individual has the desire to earn sufficient incomes and achieve a decent life. The difficulty of getting a job requires individuals to think about alternative ways to earn incomes; one of the ways is starting a business. In addition to generating revenue, there are other reasons why people choose to start their own business, such as the desire to have a larger source of incomes, the desire to have a lot of time with family, reluctance of being ruled by others, or because there is no choice but to do business. Many people who start a business on a micro scale, small and medium enterprises (MSMEs) are actually have the potential to earn fixed incomes such as food business that is generally based on an independent capital. It can generate incomes; small food stalls, such as fruit juice business, and others can also generate incomes.

Actually, many MSMEs face barriers in carrying out their business, such as in terms of licensing, human resources, promotion, and financing. These factors become obstacles for the development of MSMEs. In terms of actual permits, the government makes it easier to make permits under one roof policy. People can obtain licences from one office, not as complicated as it used to be. However, not many SMEs are willing to take business licensing. Many small and medium-sized micro businesses have grown, but most are still unclear in terms of financial affairs. Human resources are the main cause. Many entrepreneurs are not too concerned with finance issues because employers do not employ accountants in their business. This is unfortunate because the financial process becomes unclear. On the other hand, these financial statements are crucial for taxation. When a business obtains the government licensing, there will be some taxes to

be paid by the business. The amount of tax will be determined based on the financial statements that have been made by the business; then, the role of the accountant is needed in micro business (KIE FEB UNS, 2015). MSMEs have been proved to be the backbone of the Indonesian economy. Some of the contributions of MSMEs to the Indonesian economy, among others, are as a solution to reduce poverty, as a provider of employment, and a means of improving the economy of small communities. The number of SMEs in the city of Bandung has increased significantly every year. Furthermore, MSMEs are able to encourage economic development and play an important role in the absorption of labor.

Table 1
Number of SMEs in Bandung

No	Type	Year											
		2010	%	2011	%	2012	%	2013	%	2014	%	2015	%
1	Micro	3649	86.45	3827	86.49	3921	86.54	4115	86.7	4301	86.92	4527	87.09
2	Small	301	7.131	325	7.345	337	7.438	357	7.522	372	7.518	390	7.503
3	Medium	271	6.42	273	6.169	273	6.025	274	5.773	276	5.578	281	5.406
	Total	4221	100	4425	100	4531	100	4746	100	4948	100	5198	100

Source: KUMKM and Deperindag of Bandung Year 2015

Small and medium enterprises are becoming increasingly important for the creation and development of a modern, dynamic and knowledge-based economy. This is because of their ability to promote entrepreneurship and entrepreneurial skills, and because of their ability to be flexible and adapt quickly to an ever-changing marketplace and generate new jobs. SME sector is the backbone of economy in countries with higher incomes, while the sector is less developed in low-income countries (Govori, 2013)

2. LITERATURE REVIEW

2.1 Understanding SMEs

Defining SMEs can be a challenge because the term covers a variety of definitions. When defining MSMEs, countries and businesses often use their own valuation, using the value of company assets, the number of people employed, and the annual turnover generated (Sitharam & Hoque, 2016).

MSME stands for Micro, Small and Medium Enterprise. In Indonesia, MSMEs are regulated in Law Number 20 the Year 2008 regarding Micro, Small and Medium Enterprises.

- a. Micro Business is a productive enterprise owned by individuals and or individual business entity fulfilling the criteria of Micro Business as regulated in this Law;
- b. A small business is a stand-alone productive economic enterprise carried out by an individual or business entity that is not a subsidiary or not a branch of a company owned, controlled or part of a direct or indirect effort of a medium size or large scale business meeting the criteria of small business as defined in this law;
- c. A medium enterprise is a stand-alone productive economic enterprise, carried out by an individual or business entity that is neither a subsidiary nor a branch of a company

owned, controlled, or becomes part directly or indirectly with a small business or a large enterprise with a viable network or annual sales proceeds as provided in this law.

The criteria of MSMEs according to the Law of the Republic of Indonesia No. 20 of 2008 are as follows:

1. Micro Business:

- a. having a net worth of at most Rp50,000,000.00 (fifty million rupiahs) excluding land and building of business premises, or
- b. having annual sales of at most Rp300,000,000.00 (three hundred million rupiahs).

2. Small Business:

- a. having net worth of more than Rp50,000,000.00 (fifty million rupiahs) up to a maximum of Rp500,000,000.00 (five hundred million rupiahs) excluding land and building of business premises, or
- b. having annual sales of more than Rp300,000,000.00 (three hundred million rupiahs) up to a maximum of Rp2,500,000,000.00 (two billion five hundred million rupiahs).

3. Medium Enterprises:

- a. having a net worth of more than Rp500,000,000.00 (five hundred million rupiahs) up to a maximum of Rp10,000,000,000.00 (ten billion rupiahs) excluding land and building of business premises; or
- b. having annual sales of more than Rp2,500,000,000.00 (two billion five hundred million rupiahs) up to a maximum of Rp50,000,000,000.00 (fifty billion rupiahs).

In the business perspective, SMEs are classified into four groups, namely:

- a. SMEs in the informal sector, for example street vendors;
- b. Micro MSMEs are MSMEs with the ability of craftsmen but have less entrepreneurial spirit to develop their business;
- c. Dynamic Small Business is a group of SMEs having entrepreneurship capability by establishing cooperation (receiving subcontract work) and export.
- d. Fast Moving Enterprise is an MSME that has entrepreneurship capability and is ready to transform into a big business.

2.2 Problems faced by Micro Small and Medium Enterprises

The development of micro and small enterprises in Indonesia cannot be separated from various problems. According to Abrar-Ul-Haq, Razani, Jali, Md, & Islam (2015), access to financial results, managerial skills and government support are the most important factors contributing to SMEs. In addition, the main constraint factors for successful development of small and medium enterprises are the difficulties in collecting debtor accounts, complex legal procedures governing the work and business operations of the company, the high tax rate and contribution to wages, the negative impact of the global economic crisis and expensive and complicated procedures for obtaining loans from commercial banks (Petković, Jäger, & Sašić, 2016). The intensity and nature of the problems cannot be classified only by the type of product or market served, but they also differ across regions or locations, between centers, between sectors or subsectors or types of activities, and between business units in activities or sectors (Tambunan, 2002). However, the problems that are often faced by micro and small enterprises, according Tambunan (2002) to include:

a. Marketing difficulties

Marketing is often regarded as one of critical constraints for the development of micro and small enterprises. One aspect related to marketing is competitive pressures, both

domestic markets of similar products made by large businesses and imports, as well as in export markets.

b. The financial limitations

Micro and small enterprises in Indonesia face two major problems in terms of financial aspect: starting-up capital and access to working capital, the long-term financial investment required for long-term output growth.

c. Limited human resources

Limited human resources also become a serious problem for many micro and small enterprises in Indonesia, especially in terms of entrepreneurship, management, production engineering, product development, engineering design, quality control, business organization, accounting, data processing, marketing techniques, and market research. This limitation impedes Indonesian micro and small enterprises to compete in the domestic and international markets.

e. Raw material issues

Limited raw materials and other inputs are also a serious obstacle to the growth of output or production continuity for many micro and small enterprises in Indonesia. This limitation is due to the high price of raw materials.

f. Technological limitations

Micro and small businesses in Indonesia generally still use old or traditional technology in the form of old production machines or tools that are manual. The drawback of this technology is the productivity and efficiency in the process.

A study by Benzazoua Bouazza, Ardjouman, & Abada (2015) in Algeria identified different internal factors that may be responsible for the instability and limited growth of MSEs. The growth of SMEs in Algeria is hampered by several interrelated factors, which include the business environment factors that are beyond the control of SMEs and internal factors of SMEs. External factors include the legal and regulatory framework, access to external financing, and human resource capacity. The internal factors consist of entrepreneurial characteristics, management capacity, marketing skills, and technological capacity.

Another obstacle faced by SMEs is the relationship with the business prospects which have less clear and unstable vision and planned missions. Providing information and market network, ease of access to funding and facilitation as well as capacity building of information technology are some strategies to increase the competitiveness of SMEs in Indonesia. Therefore, the synergy of all parties, especially involving is needed (Sudaryanto, Ragimun, & Wijayanti, 2014).

2.3 The development of small and medium enterprises

Development is an action, process, result or question to be better (Thoha, 2008). The definition of development has two elements, namely: (1) development can be an action, process or statement of a goal; and (2) development can show the improvement of something. According to Warren G. Bennis (Sutarto, 1995), development is an answer to change, a complex educational strategy that is expected to change trust, attitudes, values and organizational structure, so that organizations can better align with technology, markets, and challenges of the new and rapid turnaround of the change itself.

Based on the above description, the development of SMEs can be defined as an action or process to advance the condition of SMEs to a better direction, so that MSMEs can better adjust to new technologies, markets, challenges and fast turnaround of the changes. The development of small and medium enterprises (MSMEs) is an important

component in the national development program, particularly to lay the foundation for sustainable and equitable economic development. The following aspects are targeted in the development of SMEs, namely:

- a. Achievement of business field and wide employment
- b. Increased income of the community
- c. The realization of SMEs that are more efficient and able to develop independently
- d. Realization of equitable distribution of industry
- e. The achievement of the ability improvement of MSMEs in the aspect of supply of finished products, raw materials for both domestic, and export markets.

The development of MSMEs should also be the provision of strategic management. The introduction of strategic management to small and medium enterprises provides the following benefits (Analoui & Karami, 2003):

- a. helping understand the current situation in which the company is located,
- b. giving a clear view of the vision and mission of the company,
- c. determining the strengths and weaknesses, emphasizing those that are strategically important for the company's activities,
- d. contributing to setting the right goals for the company,
- e. allowing the company to be more active,
- f. preparing the organization to be able to deal with expected and unexpected problems,
- g. creating a background in communication management in the organization,
- h. evaluating environmental issues and its changes,
- i. allowing the introduction of ethics and corporate social responsibility in the strategic process.

The essence of guidance and development of MSMEs is basically lying in the efforts to improve the quality of human resources. With the existence of qualified human resources, SMEs will be able to grow and develop into competitive MSMEs. Business people today must start being innovative businessmen. Innovative firms are market oriented and customer focused, aiming at product enrichment in terms of different characteristics with respect to competitors' products in order to produce superior products in terms of quality. Innovation results are part of business strategy, to be based more on developing new ways of producing new product innovations (Bigliardi, Colacino, & Dormio, 2011). Innovations have become not only a very important determinant of successful development of firms but also their necessity. Small and medium enterprises are forced to make innovations because they are under the pressure of competitors in the market. From this point of view, the ability to compete plays a very important role as a factor of competitiveness (Lesáková, 2009).

3. METHOD

The research conducted by the author employed the quantitative descriptive method. The quantitative research applies precise measurements of something (Cooper & Schindler, 2014). Descriptive research studies problems, applicable procedures, specific situations, including relationships, activities, attitudes, views, and processes that take place in a society as a result of a phenomenon. This research departs from the data obtained from observations then measures based on one or more variables in the sample or population.

Data collection was also done through literature study which is a method of collecting data by searching information through magazines, books, newspapers, and other literatures that aims to form a theoretical basis (Arikunto, 2006). Literature study explores various references and related previous research to obtain the theoretical basis of the problems to be studied (Sarwono, 2006). The method used in selecting the sample for this study is nonprobability sampling type of convenience sampling, that is nonprobability sampling technique which tries to get samples from a convenient element, sample unit selection submitted completely to the researcher.

4. RESULT AND DISCUSSION

Based on the results of data collection, there are at least 32 types of businesses successfully identified. The culinary business segment becomes the favorite choice of economic participants (54.17%). This business is regarded as having a potential and relatively sustainable prospect amidst the increasingly competitive level of business competition. In the era of information disclosure, business actors can easily access information related to the selected culinary type. The production process is considered more simple than other businesses. The raw material procurement process is relatively easy and supply availability in the market tends to be stable. In the next position, there is fashion business with a percentage of 12.77%/ The form of various fashion business lines range from tailor, convection, clothing store, and so forth. Trends in dynamic fashion models and extensive market coverage provide enough space for business actors to create ideas and innovations that are expected to get a positive response from consumers. Traditional shop business is the third largest business type (9.29%). Although its existence is threatened by the presence of minimarkets increasingly mushrooming and eroding the market share of traditional minimarkets, up to now they still survive with all their limitations. The craft business, *makloon* services and cooperative savings and loan business are the other businesses with a range of 3-4%. These six businesses represented 87.95% of the total business activities of the participants. Meanwhile, 26 other businesses only contributed 12.05%. This proves that the type of business selected by MSMEs sector is still not evenly distributed. There is a concern that if not directed to other sectors that are still less desirable, then there will be market saturation.

In terms of the ease in obtaining raw materials, as much as 58% of the respondents answered that it is easy to obtain raw materials, and others gave answers 30% (easy enough), 5.3% (quite difficult), 1.5% (difficult), the rest did not provide answers. Approximately 60% of raw materials used in the business are obtained from Bandung and surrounding areas. Some other businesses, which are 40% , obtained raw materials from outside Bandung. The ease in accessing raw materials in terms of capacity and lead time is a very important factor. From that percentage, it is found that none of the business actors brings in imported raw materials. Components of raw materials used by majority of local goods or at least already available in the country.

A total of 51.5% of respondents gave easy answers for the process of obtaining supporting materials, 30.3% (easy enough), 2.8% (quite difficult), 1.4% (difficult), and the rest of MSMEs did not use raw materials or not answering. Business actors to obtain raw materials for production are relatively close, ie 20% of business actors obtain from the local environment and 30% in the city of Bandung. This suggests that access to raw

materials is relatively easy. Raw materials that are imported directly into 10% of business actors. There are several reasons why business operators should import directly from abroad, as there are no importers providing the goods or supplies that are often stagnant if they rely entirely on importers. This indicates a relatively good potential for business sustainability, as it depends less on imports and outside areas. To obtain raw materials and auxiliary materials, the cost and time spent by business actors tend to be minimal so that the level of threat that can disrupt the production process can be minimized. Business actors do not need to purchase raw materials for large reserves and funds can be allocated for other, more urgent and prioritized purposes.

In terms of the process by which small and medium entrepreneurs get employees for their business, 38.9% answered easily, 19.8 (easy enough), 4.8% (quite difficult), 3.7% (difficult), and the rest did not provide answers. The majority of labors are from Bandung (86%). Meanwhile, the rest are from around Bandung or West Java and Indonesia. Both scopes share the same percentage, that is in the range of 7%. Meanwhile, a small portion come from outside the city of Bandung and 5% others chose not to answer because it indicated no recruitment of employees. Bandung still dominates the quantity of supply so it is expected to support the stability of business sustainability. Generally, business actors, in getting the workforce, rely on networking factors in the environment. Commonly, the employees has been known before by business actors. The advantage gained from the recruitment of labors coming from the surrounding environment is the ease of controlling and supervising the labors. The amount of wages paid is relatively low compared to labor coming from outside. Judging from the characteristics of the work, there are no excessive demands on specific skills that must be owned by the workforce. The work variations tend to be simple and complementary.

In terms of competition in the business that is done by the perpetrators of SMEs, as much as 54.9% replied that despite many competitors, for them it is not a problem in the business. A total of 19.6% said many similar competitors, around 13.5% (few competitors supported the business) and 8.7% (few competitors, profitable businesses). The number of similar business competitors in the neighborhood is in the "many competitors" position, but it does not matter. Small and medium business actors realize that the market has formed a high level of competition because the number of business actors is relatively large, but the opportunity to seize the market is still open. The tendency that business actors do not have enough competence in giving attributes as their product characteristic. Prospective consumers are still difficult to identify the brand strength of the products offered. They tend to still use a conventional and general approach to marketing their products.

This micro-small business is characterized by the flexibility to open and close business easily. Usually, the production capacity is small and faces major obstacles to be able to scale up production due to management capability and access to resources. Revenue earned from such ventures is usually not very large, subsistent or just to fulfill daily needs. The ability to cultivate capital and expand is also very limited. In business actors examined, generally, the market reaches only around business and local locations. Access raw and auxiliary materials from around and local, and start to have another Indonesian territory, and a small part imported. Origin of labor from around and local. Research conducted by (Amentie, Negash, & Kumera, 2016), identified that strong competition in the markets, high level of interest rates on loans, poor infrastructure, speed of debt payment by customers, unavailability of an appropriate property, state of

the country's economy, low market demand for firms' products / service, pricing of competitor products, unavailability of raw materials, attitude of banks and low availability of finance from lenders were rated as high barriers for small and medium business growth. On the other hand, strong competition in the markets, high level of interest rates on loans, and poor infrastructure are the highest barriers for small and medium business growth in developing countries.

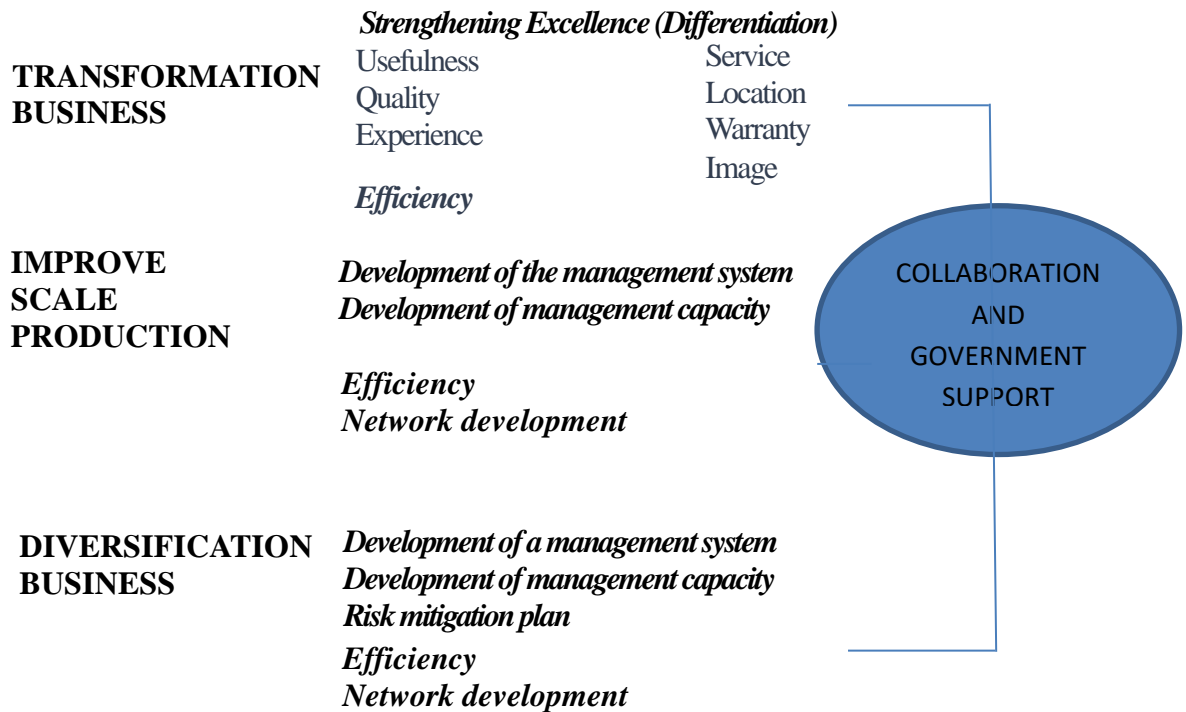
Entrepreneurs also need to enhance their skills and knowledge to make their enterprise a learning organization. Knowledge sharing and knowledge management should be given priority to encourage innovation and creativity. Entrepreneurial capital (social, human, and financial) should be used to address the problems of core competency, managerial capacity, availability of skilled workers, mobilization and access of resources, acquisition of external financing, and environmental and competitive pressures (Shah et al, 2013).

SMEs in Bandung today have many characteristics such as products produced have no characteristic, very many competitors, barriers to entry low market, two-way flow of information, and the important benefits received can be said no profit or no loss. Based on these characteristics, it can be said that the perpetrators of SMEs are in perfect competition. SMEs can "go up" with the meaning of positions of SMEs perpetrators are no longer in perfect competition position, but trying to be in monopolistic competition. The following is a strategy of how MSMEs can "increase class" according to (Muftiadi, 2018) :

1. Business Transformation, (a) strengthening excellence (differentiation): usability, quality, experience, service, assurance, and image. (b) efficiency
2. Increasing the scale of production: management development, capacity management development, efficiency, and network development
3. Business diversification: development of management capacity management system, risk mitigation plan, efficiency and network development.

These three strategies require collaboration and support from the government. Policy makers have to play an important role in promoting economies of scale and developing technical skills of labors, which will lead to higher efficiency levels among SMEs (Radam, Liana Abu, & Mahir Abdullah, 2008). It requires support from interested parties in terms of the development of more sustainable entrepreneurs. For example, training and development programs should be provided to SMEs with relevant sustainability knowledge. Because SMEs have scarce resources, financial assistance is helpful in the early stages. Furthermore, other non-financial assistance such as expertise and support, can also be useful in encouraging SMEs to enter into entrepreneurship sustainability (Koe & Abdul Majid, 2013)

Tips for implementation of MSME strategy "upgrade" (Muftiadi, 2018):



Such a strategy can make the MSMEs no longer in perfect competition, but maybe in a monopolistic competition that has product characteristics, quite a large number of competitors, increased market entry barriers, reduced information flows, and increased profits.

5. CONCLUSION

Small and medium-sized micro-enterprises are characterized by the flexibility to open and close business easily. Its production capacity is small with the constraints of management capability and access to resources when it will carry out expansion. Revenues earned are not too large, subsistence or just to meet daily needs. The ability to cultivate capital and to expand is also very limited. Bandung City Government needs to develop business forum with regular meetings which involve various parties such as big producers, buyers, investors and small and medium business actors to build business networks and increase the scale of business, also direct program activities for small and medium enterprises, among others in the form of business facilitation, business training, socialization, exhibition, and business coaching. A trainings for new entrepreneurs must be continuously done. With its active role, the city government is expected to accelerate the progress and growth of SMEs in the city of Bandung.

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