

BUSINESS PERFORMANCE ACHIEVEMENT AT GROWTH LEVEL

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ABSTRACT

Mico Small and Medium Enterprises (MSMEs) play a very important role in stability, job creation and economic development of the nation. Thus, MSMEs need to acquire the attention of all parties by paying attention to the potential that exists in each region especially in the era of Asean Economic Community (AEC). This research is generally aimed to describe: MSMEs Strategy in facing AEC. This research uses descriptive explorative approach by analyzing MSMEs strategy in facing AEC. The survey was conducted on five featured clusters of MSMEs in Semarang City namely batik cluster, food processing cluster, handicraft cluster, tourism cluster and milkfish cluster. The population of this study consists of MSMEs entrepreneurs who joined MSMEs clusters in the city of Semarang. Selection of Semarang city as a research location is determined based on the consideration of economic development plan aspect especially in the field of trade. Determination of the MSMEs entrepreneur samples is done purposively based on the consideration of homogeneity and real condition of MSMEs clusters in Semarang City. The number of employer samples is 78 people. Data obtained from the field of research are analyzed descriptively by using Internal-External Matrix model. This study resulted in the conclusion that to face the era of AEC, the appropriate strategies for MSMEs in Semarang city is the strategy of growth through horizontal integration.

Keywords: strategy, MSMEs, AEC

INTRODUCTION

Background and Problems

The presence of Micro, Small and Medium Enterprises (MSMEs) has been tested, especially during the crisis of 1997. MSMEs were still able to run its business and able to absorb unemployment. According to Maria Jose, et al, 2015; Fritsch and Storey, 2014; and Mazzarol et al., 1999; 90.0 percent to 99.0 percent of companies worldwide are small and medium enterprises by which the majority of business is very small and even micro. These small and medium-sized micro enterprises play a very important role in stability, job creation and economic development of the nation. Thus, MSMEs need to receive the attention of all parties by considering the potential that exists in each region especially in the Era of the ASEAN Economic Community.

The Era of the Asean Economic Community (AEC) which was enacted at the end of 2015 is a challenge as well as an opportunity for Micro, Small and Medium Enterprises (MSMEs). Through the AEC (Arisandy, 2015) there will be integration in the form of "free trade area",

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the elimination of trade tariff among ASEAN countries, as well as free labor market and capital market, which will greatly influence growth and economic development of each country.

To face the free market era, MSMEs in Central Java, especially the city of Semarang must have a strategy in order to compete with MSMEs from ASEAN countries. This is done so that problems that appear on MSMEs can be resolved. The basic problems faced by MSMEs in Semarang are as follows (1) the ability to access and apply appropriate technology is still low because the level of knowledge and education is still low (2) the business being conducted is micro business (household scale) (3) limited sources of capital and marketing access as well as weak in organization and management. This condition resulted in the inability of the subsequent performance to compete in the free market, especially with regard to export performance.

In the city of Semarang there are five featured clusters of MSMEs, namely Batik, Food Processing, Handicraft, Tourism, and Milkfish. Each cluster has members of approximately 50 people. By understanding the problems and the resulting consequences, it is necessary to research on strategies to improve business performance for MSMEs.

So far, the management of MSMEs problems in Semarang has been handled by the relevant government agencies both within the government and non-government. However, it is not exactly known what the appropriate strategy is in dealing with AEC. Therefore, the research questions arise: (1) What are the strategic factors that exist in MSMEs? (2) What strategies can be undertaken to deal with AECs for MSMEs? (3) What activities can be done in accordance with the objectives of MSMEs strategy in facing the AEC? Thus, the formulation of the problem is: What is the right strategy for MSMEs in Semarang City in facing the AEC? Based on the formulation of the issue, the title of the proposed article is "Strategy of Micro, Small and Medium Enterprises Facing the ASEAN Economic Community (AEC)", an Empirical Study on Five Featured Clusters of MSMEs in Semarang City.

Special Objectives

This study particularly aims to describe: (1) What the strategic factors are that exist in MSMEs (2) What strategies can be undertaken to deal with AECs for MSMEs? (3) What activities can be done in accordance with the objectives of MSMEs strategy in facing the AEC.

Urgency (Research Main Objective)

The result of this research can be applied to entrepreneurs in general, especially entrepreneurs who are included in the category of MSMEs facing free market AEC. In addition, the results of this study can be used by the government in carrying out guidance that leads to the free market economy AEC. As for the field of education, it is expected that the results of this study can be used as a reference and development of similar research in the future.

LITERATURE REVIEW

MSMEs (Micro Small and Medium Enterprises)

Based on Law Number 20 of 2008 regarding Micro, Small and Medium Enterprises (MSMEs) there are several criteria used to define the understanding and criteria of Micro, Small and Medium Enterprises. According to Rahmana (2008), several institutions or agencies even provide their own definition on Small and Medium Enterprises (SMEs), such as the State Ministry of Cooperatives and Small and Medium Enterprises (Menekop and UKM), Central Bureau of Statistics (BPS), Decree of Finance Minister No. 316/KMK.016/1994 dated June 27, 1994. The definition of MSMEs which is being delivered varies from one to another.

Table 1. MSMEs Criteria

No	Business	Criteria	
		Asset	Turnover
1	Micro Business	Max. 50 Mill.	Max. 300 Mill.
2	Small Business	> 50 Mill. – 500 Mill.	> 300 Mill. – 2,5 Bill.
3	Medium Business	> 500 Mill. – 10 Mill.	> 2,5 Mill. – 50 Bill.

Source: Ministry of Cooperatives and Small and Medium Enterprises, 2012

The Criteria of Small and Medium Enterprises Based on MSMEs Developments are grouped into several criteria (Rahmana, 2008), namely:

1. Livelihood Activities are Small and Medium Businesses that are used as work opportunity to earn a living, which is more commonly known as the informal sector. The examples are street vendors.
2. Micro Enterprises are a Small and Medium Enterprises that have craftsmanship but have no entrepreneurial character.
3. Small Dynamic Enterprises are a Small and Medium Enterprises that already have an entrepreneurial spirit and are able to accept subcontract and export work.
4. Fast Moving Enterprises are Small Medium Enterprises that already have entrepreneurial spirit and will make the transformation into Big Businesses.

Strategy

Understanding of Strategy

According to Chandler (Rangkuti, 2008) strategy is a tool to achieve corporate goals in relation to long-term goals, follow-up programs, and resource allocation priorities. According to Learned, Christensen, Andrews, and Guth, (Rangkuti, 2008) strategy is a tool to create competitive advantage. Thus, one of the strategic focus is to decide whether the business should exist or not exist. According to Argyris, Mintzberg, Steiner and Miner (Rangkuti, 2008) strategy is an ongoing and adaptive response to external opportunities and threats and internal strengths and weaknesses that can affect the organization. According to Porter (Rangkuti, 2008) strategy is an excellent tool to achieve competitive advantage. According to Andrews, Chaffe (Rangkuti, 2008) strategy is a motivating force for stakeholders, such as stakeholders, debt-holders, managers, employees, consumers, communities, governments, etc., which either directly or indirectly receive the profits or costs incurred by all actions

conducted by the company. According to Hamel and Prahalad (Rangkuti, 2008) strategy is incremental (constantly increasing) and continuous action and is based on the viewpoint of what future customers expect. Thus, strategy planning almost always starts from “what can happen”, not starting from “what happens”. But the pace of new market innovation and changing consumer patterns require core competencies. Companies need to look for core competencies in the business they undertake.

The first strategy definition put forward by Chandler states that “Strategy is the long-term goal of a company, as well as the utilization and allocation of all necessary resources to achieve that goal”. A good understanding of the concept of strategy and other related concepts is crucial to the success of the developed strategy. The concepts are as follows:

a. Distinctive Competence, which is the actions taken by the company in order to perform activities better than its competitors. A company that has strength that is not easily imitated by a competitor company is seen as a company that has Distinctive Competence. Distinctive Competence describes the specific capabilities of an organization. According to Day and Wensley (Rangkuti, 2008) the identification of distinctive competence in an organization include:

- Labor skills
- Resource capability

These two factors cause the company to be superior to its competitors. High human resource expertise arises from the ability to form special functions more effectively than the competitors. By having the ability to conduct better marketing research, the company can precisely know all that the consumers want so that it can develop better marketing strategies compared to its competitors. All these forces can be created through the use of all the potential resources of the company. These are advantages that can be created to gain profit from the market and beat competitors.

b. Competitive Advantage, is a specific activity developed by the company to be superior to its competitors. Competitive advantage is caused by the choice of strategy by the company to seize market opportunities. According to Porter, there are three strategies that can be done by companies to gain competitive advantage, namely:

- Cost leadership, the company can gain more competitive advantage than its competitors if it can provide a cheaper price than the price given by its competitors with the same product value/quality. Lower selling prices can be achieved by the company because it utilizes economic scale, production efficiency, use of technology, and so forth.
- Differentiation, companies can differentiate strategies by creating perceptions of certain value to their customers.
- Focus, the strategy of focus can also be applied to gain competitive advantage in accordance with the segmentation and the expected target market.

Objective of Strategies

According to Griffin, 2000; Sule & Saefullah, 2008; for business organizations (companies), strategy is intended to maintain the company's business continuity compared to its

competitors in meeting consumer needs. In addition, for company's strategy is needed to gain profit.

Components of Strategies

According to Sule & Saefullah (2008) the three components are:

- a. Different competences. For example, marketing and online payments.
- b. Scope.
- c. Resource Deployment.

Types of Strategies

According Rangkuti (2008) in principle, strategy can be grouped based on three types of strategy those are, management strategy, investment strategy and business strategy.

a. Management Strategy

Management strategy includes strategies that can be implemented by the management with the development orientation of macro strategy for example, product development strategy, pricing strategy, acquisition strategy, market development strategy, financial strategy and so on.

b. Investment Strategy

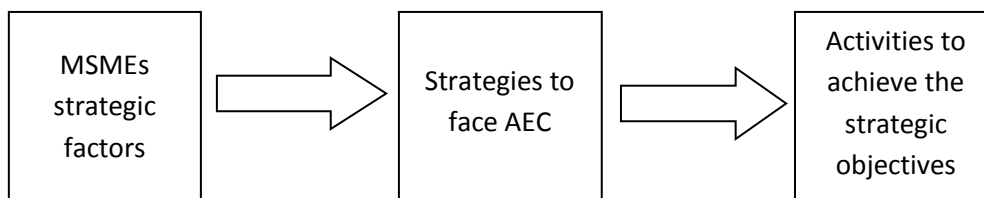
This strategy is an investment-oriented activity. For example, does the company want to engage in aggressive growth strategies or attempt to penetrate markets, survival strategies, rebuild a new division or divestment strategy, and so on.

c. Business strategy

This business strategy is often also called functional business strategy because it is oriented to the functions of management activities, such as marketing strategy, production or operational strategy, distribution strategy, organizational strategy, and financial-related strategies.

Framework

The frame of reference that has been proposed is:



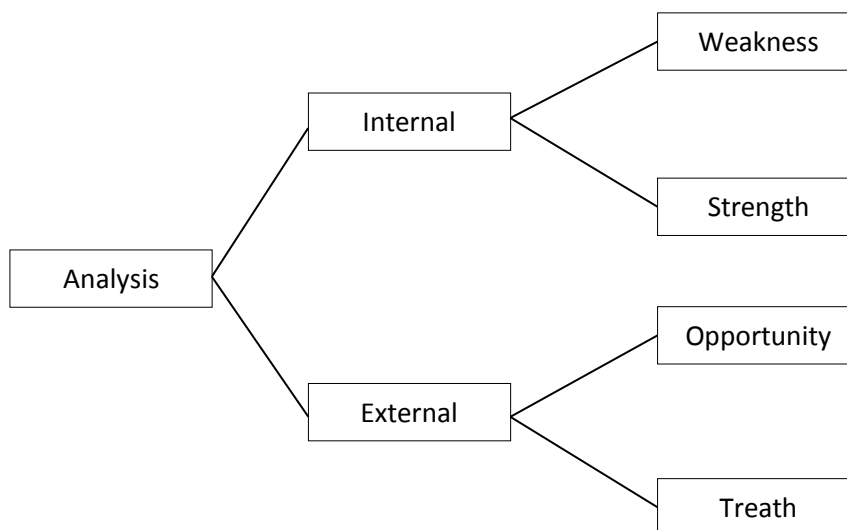
METHOD, DATA AND ANALYSIS

This research uses descriptive explorative approach by analyzing MSMEs strategy in facing AEC. This study is a survey on five featured clusters of MSMEs in Semarang City namely batik cluster, food processing cluster, handicraft cluster, tourism cluster and milkfish cluster. The population of this study consists of entrepreneurs who joined MSMEs clusters in the city of Semarang. Selection of Semarang city as a research location is determined based on the consideration of economic development plan aspect especially in the field of trade. Based on this aspect, it is expected that existing potentials of performance can be improved so as to

compete in the era of free market of AEC. The sample of MSMEs entrepreneurs is done purposively based on the consideration of homogeneity and real condition of MSMEs cluster in Semarang City. The number of sample employers are as many as 100 people with as much as 78% of the return of questionnaires that can be processed. The entrepreneurs are chosen because they will be used to know the right strategy for the entrepreneurs concerned in order to compete in the era of free market of AEC.

Research Stages

The steps taken in this research are as follows: (1) identifying strategic factors in facing AEC (2) these factors will then be analyzed with the total score of internal factors and external factors by using Internal-External Matrix model. The attributes used in the questioner are obtained from the perception of MSMEs entrepreneurs, which generally include the attributes of internal and external conditions of MSMEs. With a flowchart, the flow of analysis can be seen in the following figure:



Source: developed for this study

Figure 1. Research Analysis

Data Collection Technique

The first step of this research is to conduct FGD (Focus Group Discussion) with MSMEs entrepreneurs to look for strengths, weaknesses, opportunities and threats about strategic factors that exist in MSMEs clusters. Furthermore, with the help of the questionnaires primary data are collected through interviews with MSMEs entrepreneurs.

Data Analysis

The data obtained from the field of research are analyzed descriptively by using Internal-External Matrix model. The descriptive data analysis is to illustrate the MSMEs strategy in facing free market of AEC.

CONCLUSION

Internal and External Strategy Factors

From the acquisition of research results internal strategy factors consist of:

Strengths:

1. Cluster has already been formed
2. Able to create product/service innovation
3. Easily obtain information about the market
4. Able to establish relationships with the government
5. Able to organize training
6. Easily obtain business license
7. Able to attend both national and international exhibitions

Weaknesses:

1. The product's expiration period is very short
2. Raw materials depend on other parties
3. Not many work force
4. Low knowledge level
5. Not able to compete in global market
6. Work force has not been able to utilize new technology
7. There is no good business management
8. Not able to speak foreign languages well

While external strategy factors consist of:

Opportunities:

1. Digital technology is available
2. Free trade area available
3. Available trainings to develop the business
4. Online marketing
5. Easily obtain facilities from the government
6. There is an opportunity to establish cooperation with business partners
7. There is an opportunity to obtain certification
8. Available cooperation with CSR

Threats:

1. Imported products are cheaper
2. Competitor price is cheaper
3. Free capital markets
4. Competitor product quality is better
5. Unstable raw material prices
6. The wage of work force is expensive

Once the internal and external strategy factors are obtained, each factor is weighted from 1.0 (very important) to 0.0 (unimportant). After the weighing is done, rating of 4 (outstanding) to 1 (poor) shall be done based on the influence of these factors on the condition of the MSMEs. Rating values for strengths and opportunities are positive. The

greater the strength and opportunity, the +4 rating will be given, the smaller the rating, +1 will be given. As for the rating of weaknesses and threats if the value is very large, the rating is 1 otherwise if the value of weaknesses and threats are low the rating is 4. According to Rangkuti (2008) weighing is based on the relative advantage to the main competitors, while the rating is based on the ability of MSMEs in the future.

Weight and rating values can be seen in the following table:

Table 2. Internal Strategic Factors Analysis Summary (IFAS)

Internal Strategic Factors	Weight	Rating	Weighted Score
Strengths:			
Cluster already formed	0.08	3	0.24
Able to create product/service innovation	0.07	4	0.28
Easily obtain information about the market	0.07	3	0.21
Able to establish relationships with the government	0.08	3	0.24
Able to organize training	0.07	3	0.21
Easily obtain business license	0.07	3	0.21
Able to attend both national and international exhibitions	0.06	3	0.18
Weaknesses:			
The product's expiration period is very short	0.06	2	0.12
Raw materials depend on other parties	0.06	2	0.12
Labor has not been much	0.06	2	0.12
Low knowledge level	0.07	3	0.21
Not able to compete in global market	0.07	2	0.14
Labor has not been able to utilize new technology	0.06	2	0.12
There is no good business management	0.06	2	0.12
Not able to speak foreign languages well	0.06	2	0.12
Total Weighted Score	1.00		2.64

Source: Primary data that is processed

Based on the IFAS table it can be seen that MSMEs have relative advantages to the competitors, especially in the case of cluster formation and able to establish relationships with the government. This is in actual a cluster in the city of Semarang which has been formed and has become a member of the Forum for Development and Employment Promotion (FEDEP) which is an organization facilitated by the city government of Semarang. After the internal strategic factors have been analyzed, the subsequent analysis will be the external strategic factors consisting of opportunities and threats.

Based on the EFAS table, the free trade and online marketing areas are a great opportunity for MSMEs in the AEC era. On the other hand, the biggest threats to MSMEs are better quality of the competing products, unstable raw material prices and expensive work force costs. To obtain the opportunities by using the strengths possessed by MSMEs, the strategy that can be done is to establish cooperation with various parties to expand the business and market share. On the other hand, to avoid threats with the strength possessed by the MSMEs, MSMEs can organize or participate in business plan training to improve business and product quality as well as reduce cost to be more efficient. In addition, the ability to

master foreign languages, especially English should be improved. The results of external strategic factors are shown in the table 3.

Table 3. External Strategic Factors Analysis Summary (EFAS)

External Strategic Factors	Weight	Rating	Weighted Score
Opportunities:			
Digital technology is available	0.06	4	0.24
Free trade area is available	0.07	4	0.28
Available trainings to develop business	0.06	3	0.18
Online marketing	0.07	3	0.21
Easily obtain facilities from the government	0.06	3	0.18
There is an opportunity to establish cooperation with business partners	0.06	3	0.18
There is an opportunity to obtain certification	0.05	4	0.2
Available cooperation with CSR	0.06	3	0.18
Threats:			
Imported products are cheaper	0.09	2	0.34
Competitor price is cheaper	0.09	2	0.36
Free capital markets	0.09	1	0.17
Competitor product quality is better	0.08	2	0.32
Unstable raw material prices	0.08	2	0.32
The wage of labor is expensive	0.08	1	0.16
Total Weighted Score	1.00		3.32

Source: Primary data that is processed

Strategy in Facing AEC for MSMEs

The use of the Internal - External Matrix model can determine the position of the company and the strategy being used in dealing with the era of AEC. According to Wheelen, 1995; Rangkuti, 2008 determination of the company position is based on the analysis of the total score of internal factors and external factors, by using Internal-External Matrix.

The findings in the field by using the Internal - External Matrix show the total score IFAS = 2.64 and EFAS = 3.32. Thus, the strategy in accordance with MSMEs in the city of Semarang is growth. This AECNs that MSMEs can grow either in sales, assets, profit or a combination of sales, assets and profit. To increase the sales of MSMEs, new products should be developed, improve product quality or improve access to wider markets. Apart from that, in determining the price, they must also be able to compete with foreign and imported products. An effort that can be done is to minimize costs so as to increase profit. This is the most important strategy because MSMEs are in a position of growth and the competitive conditions are very competitive. Thus, the market share is expected to increase. If the company has not gained profit from large-scale production, it will experience defeat in the competition. Therefore, MSMEs can focus themselves on certain profitable markets.

In addition to the growth strategy, MSMEs can perform the concentration strategy through horizontal integration. Activities that can be done are to expand the market, increase production and technology through internal and external development by strengthening own and external resources through cooperation with fellow cluster members and other similar MSMEs.

MANAGERIAL IMPLICATION AND SUGGESTIONS

Managerial Implication

Based on the results and discussions in this study, it can be concluded as follows:

1. The strategic factors that exist in MSMEs include internal factors consisting of strengths and weaknesses, and external factors which include opportunities and threats to MSMEs in facing the era of AEC.
2. A strategy that can be undertaken to confront AECs for MSMEs is a growth strategy through horizontal integration.
3. Activities that can be done in accordance with the objective strategies of MSMEs in facing the AEC are:
 - a. Increase sales
 - b. Strengthen resources
 - c. Organize or participate in business plan training and improve language skills in foreign languages especially English.

Suggestions

1. To increase sales, MSMEs should be able to develop new products, improve product quality or increase access to wider markets. Apart from that, determination of price must be able to compete with foreign and imported products, an effort that can be done is to minimize the cost so as to increase profit.
2. Strengthening its own resources as well as externally through cooperation with fellow members of other similar clusters and MSMEs.
3. MSMEs can organize or follow a business plan training to improve business and product quality and reduce costs to be more efficient. In addition, the ability in foreign languages, especially English should be improved.

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