

**ASEAN ECONOMIC COMMUNITY 2015:
HOW TO IMPROVE THE COMPETITIVENESS AND PERFORMANCE OF
SMALL AND MEDIUM ENTERPRISES (SMEs) IN MAKASSAR, INDONESIA**

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Abstract

The purpose of this research is to examine and analyze the effect of external factors on internal factors; external factors on competitiveness, external factors on SMEs performance, internal factors on competitiveness, internal factors on performance of SMEs, and competitiveness to small and medium enterprises (SMEs) performance in Makassar, Indonesia. Respondents are the owners or managers of small and medium enterprises (SMEs). The number of sample are 100 respondents that consists both 85 small enterprises and 15 medium enterprises. Method of Analysis used in testing hypothesis is structural equation modeling (SEM). The results shows that external factors variables which consists of government policy aspect, the role of related institutions aspect, social and cultural aspects, and information technology aspects directly and positively affect on internal factors, competitiveness and SMEs performance. Internal factors variables which consists of human resources aspects, technical and production aspects, financial aspects, and marketing aspects directly and positively affect on competitiveness and performance of SMEs. Competitiveness has positive and significant effect on SMEs performance. Thus, managers in SMEs have to use their capability and autonomy to make decisions in order to improve the performance of their firms by improving elements of competitiveness such as cost, quality, delivery, and flexibility.

Keywords: external factors, internal factors, competitiveness, business performance, Small and Medium Enterprises (SMEs)

I. Introduction

In the competitive era, entrepreneurship is the way to foster innovation, increase productivity, and competitiveness. Due to global competition, technological progress and the new needs of consumers, competitive paradigms are in constant change. Those changes are leading firms to compete simultaneously in different dimensions such as design and product development, production, distribution, communication and marketing. SMEs play an increasingly important role in the world economy, and are considered the backbone of economic growth in many countries, contributing to the creation of job opportunities and acting as suppliers of goods and services for large organizations. (Singh *et al.*, 2008).

In the ASEAN area context, Small and Medium Enterprises (SMEs) in ASEAN countries will face a new era of liberalization that was declared as one of the objectives in ASEAN Economic Community (AEC) 2015. It is expected that AEC has four main characteristics as follows: (1) The single market and production base unity; (2) competitive economic area; (3) equitable economic growth; and (4) Increased ability to integrate with the global economy (Central Bank of Indonesia, 2012).

According to Tambunan (2010) the role of the SMEs sector is very important both as main factors to increase of Gross Domestic Product (GDP), to reduce unemployment, to increase of investment as well as the social safety net in facing global economic. Thus, Small and Medium Enterprises (SMEs) have an important role in the economic and industrial growth. In line with this opinion, Kuratko and Audretsch, (2009) state that entrepreneurship is considered both as an incentive to wealth creation in emerging and developed economies and as a consequence of the actions, especially, of small and medium enterprises (SMEs). In the twentieth century, the influence of entrepreneurship on economic growth is well known. Therefore, entrepreneurs have a relevant function in the economy; they engender employment creation, productivity growth, and produce and commercialize productivity enhancing innovations (Halabi and Lussier, 2014). Then, it is one of the keys to unlock greater employment, growth and competitiveness (Pinho and De Sa, 2014).

Demirbag *et al.* (2006) argue that the success of small and medium enterprises have direct impact on economic growth both in the developing and emerging countries. Therefore, capacity development of SMEs should be done continuously and consistent in order to generate competitive and high performance of SMEs. Competitiveness is indicated by cost/price, quality, flexibility, and delivery Whereas performance is indicated by sales growth rate, employment growth, return on assets (ROA), market share growth, income growth, and size (Han *et al.*, 2007, Lakhali, 2009).

Based on literature review, issues about performance of SMEs has been carried out by previous research such as Wilkinson (2002) founds that small businesses will grow as environmental rules or policies supportive macroeconomic environment is well managed, stable, and predictable; information that is reliable and easily accessible, and social environment to encourage and reward the success of small businesses. Study is conducted by Maupa (2004) showed that: (1) characteristics of the individual manager or owner, characteristics of the SMEs, external environment of business, and economic and social policies have direct impact, positive, and significant to business strategy; (2) characteristics of SMEs, and social and economic policies have direct impact negatively on business strategy; and (3) business strategy have direct impact, positive and significant on SMEs growth. Then, Rahmana (2009) found that in today's era of global economy, SMEs are required to make changes in order to increase their competitiveness. One important factor that will determine the competitiveness of SMEs is an information technology (IT). The use of IT can improve business transformation through speed, accuracy and efficiency of information exchange in large numbers.

Relate to the performance of SMEs context, Munizu (2010) was found that factors external and internal factors have significant impact on SMEs performance in South Sulawesi. Further stated external factors that consists of government policy, socio-

cultural and economic and role of public institutions. Then, internal factors consist of human resources, financial, technical and production and market and marketing aspects.

Therefore, competitiveness and performance of small and medium enterprises (SMEs) is influenced by two main factors namely external factors and internal factors. The internal factors include four aspects i.e.: human resources, technical and production, financial, and marketing aspects. While external factors consist of government development policy, role of related institutions, socio-cultural aspects, and information technology (Wilkinson, 2002; Maupa, 2004; Rahmana 2009; Munizu, 2010, Tambunan, 2010). Thus, the purpose of the study is to examine and analyze the effect of: (1) factors external to internal factors; (2) external factors on competitiveness, (3) external factors on the performance of the business, (4) internal factors on competitiveness, (5) internal factors on the performance of the business, and (6) competitiveness the performance of small and medium enterprises (SMEs) in Makassar, Indonesia

2. Conceptual Framework and Hypotheses

Organization can improve its competitiveness through its capabilities in the organization. Ability to compete refers to the relative position of the company compared to other companies in the local or global market (Kuncoro, 2010). Competitive advantage can be obtained if each company has the ability to present every process in the business operations are better at producing goods and services that have high quality with competitive prices. Therefore, the resulting products can compete both in terms of quality, price, delivery of the product, and flexibility than its competitors in the market (Heizer and Render, 2012).

According to Tambunan (2010) competitiveness of SMEs is reflected in the competitiveness of products and the competitiveness of the organization. Key indicators of competitiveness of products are export share, market share of foreign and domestic, value/price of the product, and customer satisfaction, while the main indicators of competitiveness organization is profit, human resources, research and development spending, and the type of technology used. Han et al. (2007) measures competitiveness by using indicators: cost, quality, delivery, and flexibility. Furthermore Lakhali (2009) measures competitiveness by using the indicator: price or cost, quality, time to market, and product innovation. Garelli in Kuncoro (2010) asserted that the concept of competitiveness is a multidimensional concept. So it is possible there are various definitions and measurement of the concept of competitiveness.

Performance measurement within an enterprise organization is an important factor for management to manage the company effectively. Some researchers advocate the use of the sales growth rate, employment growth, return on assets (ROA), market share growth, income growth, and size as an indicator in measuring the company's performance (Han *et al.*, 2007, Lakhali, 2009, Munizu, 2010). Conceptual framework of this study were presented in the following figure.

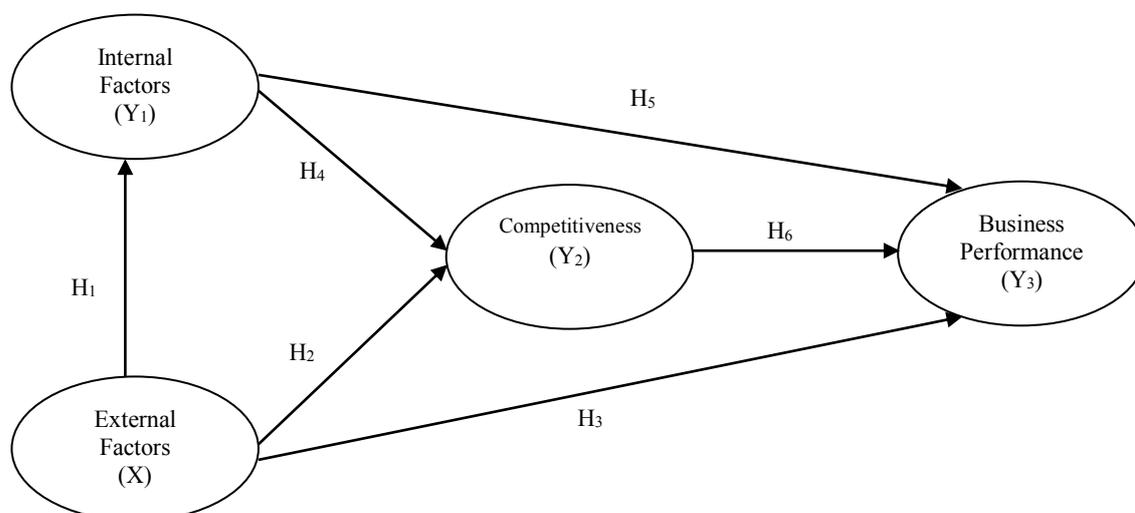


Figure1. Conceptual Framework

Based on literature review and conceptual framework, the research hypothesis could be formulated as follows:

1. External factors have a significant influence on the internal factors of the small and medium enterprises (SMEs)
2. External factors have a significant influence on the competitiveness of small and medium enterprises (SMEs)
3. External factors have a significant influence on the performance of small and medium enterprises (SMEs)
4. The internal factors have a significant influence on the competitiveness of small and medium enterprises (SMEs).
5. The internal factors have a significant influence on the performance of small and medium enterprises (SMEs).
6. Competitiveness has significant influence on the performance of small and medium enterprises (SMEs).

3. Research Methodology

The study is based on primary data, uses deductive (tests research hypotheses), and data collected with the use of a structured questionnaire (Kumar, 2010; Hair *et al.*, 2011; Sugiyono, 2012). Variables tested in this study is external factors (X₁) internal factors (Y₁), Competitiveness (Y₂), and business performance of SMEs (Y₃). Respondents perception is used by Likert scale with values 1 to 5. The number of population based on data from Statistic Institution (BPS, 2014) Makassar - South Sulawesi, Indonesia. SMEs were recorded in 2014 is 9,316 units. They were consists of 9,628 small firms, and 688 medium firms. Determination of the minimum number of samples using Slovin formula with 10% precision level. So, it is generates 99,9 unit of SMEs. Respondents is the owner or manager of small and medium enterprises (SMEs). The characteristics of SMEs in accordance with the definition of BPS. BPS provides a definition of SMEs based on the number of workers. Small business is a business entity

that has a workforce of 5-19 people, while medium-sized businesses is entity business has a workforce of 20-99 people.

The study uses observation, questionnaires, and documentation to collect data. Furthermore, to produce valid and reliable questionnaires, the instrument has to test its validity and reliability. The results of reliability and validity test could be presented in the following table.

Table 1. The results of reliability and validity test

Variable/Indicator	Factor Loading (λ)	λ^2	Error Measurement ($1-\lambda^2$)	Construct Reliability (CR)
Government policy (X _{1.1})	0,766	0,587	0,413	0,852
Role of related institution (X _{1.2})	0,713	0,508	0,492	
Social and culture (X _{1.3})	0,825	0,681	0,319	
Information technology (X _{1.4})	0,765	0,585	0,415	
External Factors (X₁)	3,069	9,419	1,639	
Human resources (Y _{1.1})	0,517	0,267	0,733	0,730
Production and technique (Y _{1.2})	0,665	0,442	0,558	
Finance (Y _{1.3})	0,637	0,406	0,594	
Marketing (Y _{1.4})	0,715	0,511	0,489	
Internal Factors (Y₁)	2,534	6,421	2,373	
Cost/Price (Y _{2.1})	0,521	0,271	0,729	0,780
Quality (Y _{2.2})	0,758	0,575	0,425	
Flexibility (Y _{2.3})	0,685	0,469	0,531	
Speed of delivery (Y _{2.4})	0,697	0,486	0,514	
Product innovation (Y _{2.5})	0,548	0,300	0,700	
Competitiveness (Y₂)	3,209	10,298	2,899	
Sales growth (Y _{3.1})	0,866	0,750	0,250	0,814
Market share growth (Y _{3.2})	0,478	0,228	0,772	
Income growth (Y _{3.3})	0,598	0,358	0,642	
Workforce growth (Y _{3.4})	0,527	0,278	0,722	
Capital growth (Y _{3.5})	0,767	0,588	0,412	
Business performance (Y₃)	3,236	10,472	2,386	

Source: primary data, processed (2015)

The table 1 shows that: (1) The value of loading factor on all indicators is greater than 0.50 ($\lambda > 0.50$) (Hair *et al.*, 2011). So it could be concluded that the indicators used to measure the variables of this study were valid, (2) Instruments used in data collection has a high level of reliability. It can be seen from the construct reliability (CR) of each variable is greater than the value required (CR > 0.60).

Then, method of analysis of this study, namely: (1) Descriptive statistics, and (2) Structural Equation Modeling (SEM). Hypothesis is tested by comparing the probability

value or significance (p) with $\alpha = 0.05$. If the probability value or significance is smaller than α , the hypothesis could be accepted. Conversely, if the probability value or significance (p) is greater than α , the hypothesis was rejected. The processing of data using IBM SPSS and AMOS 22.

4. Results and Discussion

4.1. Description of Respondents

Respondents are owners or managers of SMEs. The number of respondents was 100 people. They consists of 85 small firm and 15 medium firm. Respondents were male dominantly (76%), while women (24%). Most of the respondents were from the Bugis tribe (40%), and Makassar (25%). The other from Javanese, and Sundanese. The education level of respondents were high school level 65 people (65%), Bachelor degree 22 people (22%), and postgraduate was 3 people (3%). The others were elementary and secondary education (10%).

Furthermore, respondents are dominant in the productive level, namely 31-40 years (60%) and 41-50 years (30%). Generally, respondents have business experience of 5-10 years (75%), 11-20 years (23%). while the other was respondent who has been in the business less than 5 years (2 %).

4.2. Description of Variable

There were four variables of this study, namely: external factors, internal factors, competitiveness and business performance. The average value (mean) of each variable could be presented in the following table.

Table 2. The Result of *mean* Variable

No.	Variable	Mean	Description
1.	External Factors (X_1)	3,54	Good
2.	Internal Factors (Y_1)	3,67	Good
3.	Competitiveness (Y_2)	3,51	Good
4.	Business performance (Y_3)	3,82	Good/Incerase

Source: primary data, processed (2015)

The data shows that implementation of four variables in practices, especially at SMEs in Makassar were good level. Business performance mean value was greater than other variable in the study.

4.3. Hypothesis Testing

There were two steps in this section i.e: (1) model testing, and (2) hypothesis testing. Testing of model based on GFI. The results of calculation goodness-of-fit indices (GFI) of completed model were presented in the following table.

Table 3. The Results of Goodness-of-Fit Indices

Criteria	Cut-off Value	Result	Description
Chi-square	Expected small	71,330	Marginal
Prob.	$\geq 0,05$	0,002	Marginal
GFI	$\geq 0,90$	0,928	Good
RMSEA	$\leq 0,08$	0,034	Good
TLI	$\geq 0,94$	0,998	Good
CFI	$\geq 0,95$	0,996	Good

Source: primary data, processed (2015)

The result of criteria goodness of fit model as presented indicates the fit model. Thus, model was valid or accepted. Then, the result of hypothesis testing could be presented as follows.

Table 4. The Results of hypothesis testing

Hypothesis	Variable Relation	Loading Factor	Critical Ratio	Prob.	Description
1	$X_1 \text{ ---} \rightarrow Y_1$	0,530	7,266	0,000	Significant (H1, accepted)
2	$X_1 \text{ ---} \rightarrow Y_2$	0,156	2,557	0,005	Significant (H2, accepted)
3	$X_1 \text{ ---} \rightarrow Y_3$	0,220	2,962	0,001	Significant (H3, accepted)
4	$Y_1 \text{ ---} \rightarrow Y_2$	0,455	5,790	0,000	Significant (H4, accepted)
5	$Y_1 \text{ ---} \rightarrow Y_3$	0,328	4,136	0,000	Significant (H5, accepted)
6	$Y_2 \text{ ---} \rightarrow Y_3$	0,375	4,480	0,000	Significant (H6, accepted)

Source: primary data, processed (2015)

The table shows that relationship between variables in the model have significant, because it has value of probability (prob.) ≤ 0.05 and value of critical ratio (CR) $\geq 1,980$. Therefore, it can be concluded that the hypothesis 1, 2, 3, 4, 5, and 6 which proposed in this study were supported by empirical facts.

External factors consisting of government policy aspect, the role of related institutions, social and cultural aspects, and information technology directly and positively affects on internal factors of SMEs. These indicate that the better of government policies can influence internal factors of SMEs. Related institutions role and social and cultural aspects also give positive contribution to achieve best internal of organization. Furthermore, adoption of information technology can influence internal factors of SMEs. Therefore, the management of the firms has to emphasis on these aspects like technological development, IT adoption, and capacity development of human resource and growth of the company. These findings consistent with previous studies that government policies, the role of related institutions, social and cultural aspects, and information technology can improve internal conditions of SMEs organization (Wilkinson, 2002; Maupa, 2004; Rahmana, 2009; Tambunan, 2009, and Munizu, 2010). Thus, external factors directly and positively affects both on competitiveness and on performance of SMEs.

Internal factors which consists of human resources, technical and production, financial and marketing impact directly and positively affects on competitiveness and SMEs business performance. Therefore, competitiveness and performance could be enhanced through improved human resource capacity, production and operation activities,

financial records, and marketing activities. These results are similar with Munizu (2010), Halabi and Lussier (2014)

Moreover, the results confirm a positive relationship between competitiveness and SMEs business performance. Therefore, according to the findings of the study, it seems that the managers in SMEs have to use their capability and autonomy to make decisions in order to improve the performance of their firms by improving elements of competitiveness such as cost, quality, delivery, and flexibility. Because this study has proved best competitiveness can produce best performance. Additionally, managers of SMEs have to exploit the opportunities of their environment and improve their company's performance. Similar results are also supported by previous empirical evidence, e.g. Han *et al.* (2007), Tambunan (2009), Kuncoro (2010), Munizu (2012), Pinho and DeSa (2014), Halabi and Lussier (2014). Finally, A possible explanation of this study suggest to managers of SMEs in Indonesia, about the important of knowing of their firms capability to get best opportunities in Asean Economic Community (AEC).

5. Conclusions and Recommendations

The aim of the present study was examination of a conceptual framework that investigates the impact of external and internal factors on competitiveness and SMEs business performance. The empirical findings confirm that both external and internal factors when supported by managers, lead to higher competitiveness and SMEs business performance. Therefore, this paper expects to make a contribution to the study of entrepreneurship and the examination of the competitiveness and firm performance of SMEs. Moreover, managers of SMEs, especially in Makassar could be maintained and improved both competitiveness and performance of their firms in ASEAN Economic Community (AEC) 2015 by the best support of the government, relevant institutions, then adoption of information technology and socio cultural consideration. Future research may repeat and continue this study with the proposed new relationships within a wider context (larger sample, wider location and all sectors).

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