

THE ROLE OF INDONESIAN MICRO, SMALL, AND MEDIUM ENTERPRISES OWNERS IN CHOOSING E-COMMERCE STRATEGY IN THE GLOBAL MARKET

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Abstract—Global Market is an inevitable reality that must be faced by all countries including Indonesia. Rapid development prompts every country and business communities to be able to compete in achieving success, including Micro, Small and Medium Enterprises (MSMEs). In Indonesia, MSMEs are one of the important and strategic business sectors that can withstand the Indonesian economic crisis in 1998 and the global crisis in 2008. The increasing number of MSME entrepreneurs after the 1998 crisis reinforces those facts, even until 2012 MSME was able to absorb 85 million to 170 million workers. Moreover, the largest contributor to GDP (Gross Domestic Product) in Indonesia derives approximately 60 percent from the MSME sector down to date. The role and strategy of MSMEs in terms of making right decisions and taking right attitudes are indispensable to be up against business competition in the global market. There are several constraints faced by MSMEs in developing countries, ranging from cultural factor to technology. Therefore, the role and strategy of risk takers in changing their Micro, Small and Medium Enterprises is considered extremely important. One way that MSMEs use in dealing with changes in the Global Market is through e-commerce. E-commerce technology can improve economy of the community through the ease of buying and selling done by online so that the market share is increasingly wide open. E-commerce is able to make a transaction faster, practical, efficient and safe.

Keywords—*Micro Small and Medium Enterprises, E-commerce, Global Market*

I. INTRODUCTION

Indonesia, the most populated country in Southeast Asia, has quiet extensive trading and industrial sector throughout the country. The industrial and trading sectors play a very important role in Indonesia. Currently, almost 60% of Indonesian industry is centralized in Java Island [1]. The contribution from the industrial sector in Indonesia is not only from the increasing numbers of production but also in employment. At this moment, the Indonesian government intensively executes development in various fields to increase the economy rate, expand the employment opportunity, improve the income equalization, and reduce as well as balance the economic differences between regions [2]. Data from the Statistics Indonesia showed that in 2013 the industrial sectors were able to hire 14 million people, in which almost 70% of them came from the micro, small, and medium enterprises (MSMEs) sector [3].

Trade and industry gradually develop in accordance with the demands of the eras. The competitive competition requires a business to have innovations in various aspects, from the products offered to the way the products arrived well in the consumers. Changes in the economic world make each company competes in all aspects, such as product competitiveness, production amount, distribution, communication, and product marketing [4]. The Revealed Comparative Advantage (RCA) index notes that in 2015 and 2020, the products from Indonesia's industry is on the fifth rank, which is still left behind from other ASEAN countries such as Singapore, Thailand, Malaysia, and Vietnam. Competitiveness and product productivity of the micro, small, and medium enterprises sector are very vulnerable to the implementation of the ASEAN Economic Community since 2015 [5].

Micro and Small Enterprises (MSEs) are a type of home-scale business with 1-19 employees, while Medium Enterprises have around 20-99 employees [1]. Micro, Small, and Medium Enterprises (MSMEs) are one of the important industrial sectors in the Indonesian economy. MSMEs are also able to show their resilience in the Indonesian economy. When the 1998 monetary crisis occurred in Indonesia, small businesses had more capability to survive compared to the large-scale industries with even the increasing number after the crisis occurred. It was due to the small capital needed by MSMEs without foreign loans, making them be stable against the exchange rate. Of 99.99% of industry actors in Indonesia are the industry actors in Micro, Small, and Medium Enterprises (MSMEs) [5].

Good economy and development of a country can be seen from national income received in that year. National income can be measured from GDP (Gross Domestic Product). GDP is an important indicator to investigate the country's economic conditions. Increase in GDP might mean better country's economy than the previous year [1].

The significant developments make MSMEs play an important role as the largest contributor to GDP in Indonesia. Data showed that Indonesia's GDP averagely progress of 18.33% per year or GDP increase from 2,107,868 billion IDR to 4,869,568 billion IDR from 2007 to 2012 [2]. The proliferation of small and medium enterprises makes several positive occurrences. Besides being the source of income that can improve the country's economy, small and medium enterprises need many labors. Indonesia's Labor Statistics

shows that 99.5% of Indonesian labors work in the MSME sector. About 97.16% of the total industrial labors in Indonesia or 107,66 million people work in Micro, Small, and Medium Enterprises, while the rest is in Large Enterprises [1].

This phenomenon becomes the focus of the government to improve the activities of MSMEs and make MSMEs as one of the development focus contained in laws and regulations. The dominant role of MSMEs in Indonesia's economic growth makes the empowerment of MSMEs is very important to increase Indonesia's economic growth. The role of MSMEs in the Indonesian economy is considered very remarkable when measured through GDP. The development of micro, small, and medium enterprises (MSMEs) is in accordance with the direction of economic development policies in the RPJMN (National Medium - Term Development Plan, Rencana Pembangunan Jangka Menengah Nasional) 2010-2014, which is a guide for all national component including the government, society, and business sector in realizing the national ideals and goals synergistically, in coordination, and complementary [2].

Nowadays, a rapid emergence of new systems shifts the old conventional systems, one of which is the implementation of e-commerce system. E-commerce system is growing rapidly, as evidenced by the emergence of the startup online business all over Indonesia. It is possible that Micro, Small, and Medium Enterprises in Indonesia need to compete with other business sectors if they choose to use new methods and slowly abandon the old methods they have used for years. Some challenges in increasing the perception of MSMEs owners to be able to compete in the market are indirectly caused by the characteristics of developing countries with different backgrounds.

Developing countries have their own uncertainties and challenges in business change, especially small businesses or MSMEs in this case. Several issues related to the challenges of making MSMEs into the e-commerce-based business include the lack of infrastructure and the low data division between industries and finance [6]. These are challenges for MSMEs owners in implementing a new system. In addition, the role of MSMEs owners is very important in the decision making to join the currently evolving business start-up trends. Furthermore, the owners' decision can also be influenced by the culture of a country. From Hofstede's cultural dimensions, for example, some Indonesian cultures show several factors causing Indonesia to have difficulties toward a positive direction development. Therefore, some aspects need to be improved such as Individualism, Uncertainty Avoidance, Long-Term Orientation, Masculinity, and Power Distance. The owners' role in the development of Small and Medium Enterprises is very important because, in a hierarchical structure, the owners have a full effort in determining their business competitiveness strategy. The owners have various options to determine the more competitive business actions. These strategic actions will certainly have an impact on the income received by MSMEs. In addition, the people mindset in developing countries becomes an important factor that supports or even obstructs the owners' decision to compete.

II. FINDING AND DISCUSSION

A. Classifications of MSMEs

Micro, Small, and Medium Enterprises in Indonesia are regulated in UU No. 20 of 2008. Micro Enterprises shall be productive businesses owned by individual persons and/or individual business entities that meet the criteria of Micro Enterprises as provided by the Law. Next, Small Enterprises shall be productive economic businesses standing alone, done by individual persons or business entities not constituting subsidiaries or not constituting company branches owned, controlled, or becoming direct or indirect portions of Medium or Large Enterprises that meet the criteria of Small Enterprises as intended in the Law. Finally, Medium Enterprises shall be productive economic businesses standing alone, done by individual persons or business entities not constituting subsidiaries or not constituting company branches owned, controlled, or becoming direct or indirect portions of Small or Large Enterprises with the number of net assets or annual sales proceeds as provided in the Law [7].

In general, MSMEs can be categorized based on assets and number of workers. Related matters of MSMEs in Indonesia based on assets are regulated in the UU No. 20 of 2008 while MSMEs based on number of workers are regulated in BPS 2015. Those categorizations can be seen on Table 1 and Table 2 below, respectively.

TABLE I. CLASSIFICATIONS OF MSMEs. (SOURCE: LAW NO. 20 OF 2008)

No.	Type of Enterprises	Assets
1	Micro	1. having maximum net assets of 50,000,000.00 IDR, exclusive of land and building of their place of business 2. having maximum annual sales proceeds of 300,000,000.00 IDR
2	Small	1. having net assets of more than 50,000,000.00 IDR up to a maximum amount of 500,000,000.00 IDR, exclusive of land and building of their place of business 2. having annual sales proceeds of more than 300,000,000.00 IDR up to a maximum amount of 2,500,000,000.00 IDR.
3	Medium	1. having net assets of more than 500,000,000.00 IDR up to a maximum amount of 10,000,000,000.00 IDR, exclusive of land and building of their place of business 2. having maximum annual sales proceeds of more than 2,500,000,000.00 IDR up to a maximum amount of 50,000,000,000.00 IDR

TABLE II. ENTERPRISES SCALE ACCORDING TO STATISTICS INDONESIA. (SOURCE: STATISTICS INDONESIA, 2012)

No	Type of Enterprises	Numbers of Workers
1	Micro	with 1-4 workers
2	Small	with 5-19 workers
3	Medium	with 20-99 workers

B. Hofstede's Cultural Theory

Culture is the knowledge used by each individual to interpret experience and produce social behavior. Culture consisting of mindset, feelings, and reactions obtained and transmitted with symbols is a typical human achievement. Besides, the core of culture consists of traditions, ideas, and contained values. According to Hofstede, cultural dimensions exist [8]. Cultural dimensions describe the effects of a society's culture on the values of its members and how these values affect behavior, using a structure derived from various factor analyzes. Hofstede's cultural dimensions in his website are as follows:

Power Distance concerns the society's equality degree of power. A low power distance shows equal society. In a society with low power distance, people easily accept responsibility. In a society with high power distance, people are more disciplined because of the fear of power.

Individualism vs. Collectivism concerns the ties in society. In an individualistic society, individuals are expected to take care of themselves and their families independently. In Collectivism, people/employees are easily committed. On the other hand, in Individualism, management authority is more easily disseminated because new leaders are easily created.

Masculinity vs. Femininity concerns the style differences between genders. Masculinity highlights assertiveness and competitiveness, while femininity shares modesty and caring. Within Masculine culture, people are suitable for mass production, efficiency, heavy industry, and bulk chemistry. On the other hand, feminine culture is suitable for the personal service industry, customer needs-adjusted production, agriculture, and biochemistry.

Uncertainty Avoidance concerns the society's tolerance for ambiguity. In a society with a high degree of uncertainty avoidance, people are suitable for matters which demand precision, while a society with a low degree of uncertainty avoidance is suitable for basic innovation.

Long-term Orientation concerns the society's mindset. A society with a high degree of long-term orientation highlights the status, frugality, and perseverance and has a high sense of shame.

Hofstede's explored Indonesian culture through the 6-D Model. From the model, we can get a good overview of the deep drivers of Indonesian culture relative to other world cultures. Indonesian score on high power distance of 78 which means that the hierarchy of expresses the attitude is the most dominant model in Indonesian organization. The lower individualism proves that Indonesian people tend to have a high level of togetherness, as evidenced by the low level or point of individualism. Masculinity in Indonesia is quite high but insignificant. It proves that Indonesian people appreciate the value of work performance and assertiveness, but Indonesian people also respect gender equality in leadership. Indonesia has sufficient value in relation to uncertainty avoidance. It proves that Indonesian people in relation to business are very careful about the possible uncertainties, for example by applying laws, regulations, and policies to avoid uncertainty. Indonesia reaches a high score in planning or long-term orientation. Careful planning is one of the focuses for organizations. Organizations have long-

term planning which, if utilized properly, will be useful for the organizational progress [9].

Business owners have great authority in determining each business progress, including small and medium enterprises owners. Small and medium enterprises in Indonesia, in particular, face great challenges. As quoted from *industri.bisnis.com*, there are at least three challenges faced by MSMEs, among others capital, administration, and technology. The main challenge faced by MSMEs is capital. Banking institutions sometimes do not consider them because of its micro and small enterprises status. Regarding the administration of MSMEs, it is usually still difficult to record everything related to sales and administration. In addition, technology becomes one of the challenges faced by MSMEs. Capital limitations cause difficulties for MSMEs to develop.

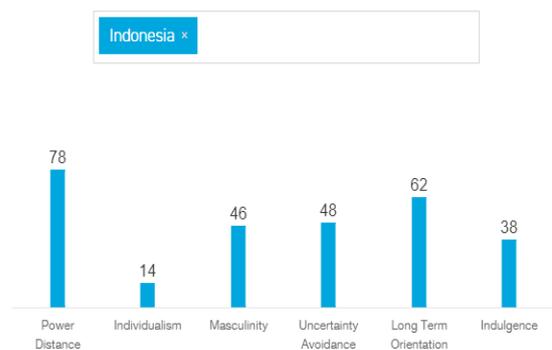


Fig. 1. Indonesia's Culture according to Hofstede. (figure caption)

Business owners of each MSME have similar but not identical role between one business unit and another. Some factors inhibiting an MSME toward the e-commerce concept include several perceptions, i.e.:

- The higher profit received with e-commerce system implementation in the business.
- The compatibility of MSMEs with startup business makes the good perception of e-commerce system implementation.
- The higher costs mean MSMEs do not need to apply e-commerce system.
- High acceptance of risks causes greater doubts about e-commerce system implementation.
- The owners' knowledge level on technology and computers influences the implementation of e-commerce systems
- The higher business owner innovation causes the better e-commerce system implementation.

All MSMEs in Indonesia basically face some of these perceptions. Doubts about the above factors occur in MSMEs in Indonesia and are experienced by every business owner when they want to advance their business units. In fact, not only in Indonesia, but other developing countries around the world also face the same condition. In addition, the infrastructure condition of developing countries is still left behind the developed countries. Related to Hofstede's

cultural dimensions, it can be concluded that Indonesia as a developing country has a particular tendency such as the clear boundary of the power hierarchy in which leaders have very clear powers and great efforts. It is shown by quite high Indonesian power distance in the Hofstede's cultural dimensions. Related to the owners' role in the development of MSMEs, the owners have more power which makes subordinates more likely to be the recipients of the assignment and there is no flexible discussion regarding decision making between leaders and superiors. However, it is generally seen in SMEs in Indonesia. The weakness is the owners will be alone in determining the direction of MSMEs in a better direction such as e-commerce system.

MSMEs owners also need to face the possible risk factors when the business unit implements e-commerce system. Some factors mentioned above, such as the risk level and costs, tend to be the most worrying problems for the MSMEs owners. In Hofstede's cultural dimensions, it is related to uncertainty avoidance.

Developing countries such as Indonesia have a high degree of uncertainty avoidance. People with high uncertainty avoidance tend to be more emotional. They try to minimize the occurrence of unknown or unexpected circumstances. They run changes carefully and step by step by planning and implementing applicable laws and regulations. For example, in deciding to be a business unit with e-commerce system which requires high costs and future risks such as partners, payment systems, and goods delivery system. Business owners, especially in Indonesia, will still fight and think about the changes thoroughly although they will face uncertainty. Most MSMEs owners try hard to improve their business units even though it causes stress, emotion, and anxiety. The effect of hierarchy also causes intolerance to new and different ideas because the uncertainty will have a great impact on the business progress.

Implementation of e-commerce in the developing countries such as Indonesia is far below that in the developed countries for example China. 15.6% Indonesian MSMEs are using the internet for business transactions and 48.9% use the internet network to access information [10]. In 2014, there are 0.67 million or 67% company websites in China [11].

III. CONCLUSION

Culture indeed influences the decision making of every business owner, including Small and Medium Enterprises

which develop their businesses and struggle with limited capital. The role of the business owners is very important for every business because the business owners must set a good strategy for e-commerce system implementation. E-commerce system facilitates every transaction, but MSMEs in developing countries face difficult challenges. The owners' role becomes the key to the success of MSMEs. Cultural dimensions prove that Indonesia as a developing country has the potential to empower MSMEs through the owners' roles. When MSMEs can develop through e-commerce system, it is not impossible that MSMEs will still be a major contributor to GDP in the next few years.

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