

# Building Indonesia's Micro Small and Medium Enterprise :

## Lesson Learned from Australian SME

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**Abstract**—The micro, small and medium enterprises (MSME) in Indonesia played a crucial role in developing and sustaining the economy of Indonesia. More than 99 percent of the enterprise in Indonesia were in MSME category. Nevertheless, many micro enterprises face many impediments to sustain and/or to develop to the bigger scale. This paper presents the case study of a micro enterprise in South Sulawesi and provide a lesson learned from SMEs in the State of Victoria, Melbourne, Australia. The study employed qualitative approach. Data were gathered by using observation and interviews to a micro, small and medium enterprises both in Indonesia and in Australia. A micro enterprise in Indonesia was analyzed by using the SWOT analysis. The study uncovered the strength and weaknesses, the opportunities and treats of that enterprise. The result of the SWOT analysis and the application of the knowledge management of the enterprises as well as the lesson learned from Australian SME provide the possible solution for the impediment factors of the enterprise.

**Keywords**—MSME; economy; values; sustainability; enterprise

### I. INTRODUCTION

Micro, small and medium enterprises (MSMEs) defined inconsistently by countries and organization. The variable and criteria for categorizing the enterprises are varied. The criteria are mainly quantitative. The World Bank and the European Union use different criteria and categories for scaling the enterprises. The World Bank uses variable of number of employees, which was the threshold for medium-sized businesses to 300 workers while European Union only 250 head count annual work unit. Inconsistencies are most pronounced in financial criteria the World bank use the criteria of total assets and total annual sales and European Union use criteria of annual turnover and balance sheet total. The two institutions also have different denomination USD versus EUR. World Bank criteria seize more minimalist thresholds than the European Union. WB criteria for micro business must not exceed annual sales of up to one hundred thousand dollars While for the EU criteria has a turnover of up to two million Euros, EU sets maximum threshold of fifty million Euros to distinguish medium businesses from large ones, while WB sets it to only fifteen million [1].

There is no single definition of SMEs accepted worldwide. Many studies discovered the popular way to classify the business by using the number employee variables and criteria [2]. Australia, Brunei, New Zealand were the three countries use the number of employee for categorizing SMEs [2]. Indonesia itself categorizing the MSMEs based on net asset and annual revenue. The micro account until for IDR 50,000,000-, of the total asset and not including land and buildings used for the business; or have annual revenue from sales up to IDR 300,000,000. The small enterprises have net assets over IDR 50,000,000 to IDR 500,000,000 not including land and buildings used for the business; or have annual revenue from sales over IDR 300,000,000 to IDR 2,500,000,000 Medium enterprises have net assets over IDR 500,000,000 to IDR 10,000,000,000 not including land and building used for the business; or have annual revenue from sales more than IDR 2,500,000,000 to IDR 50,000,000,000 [3] [4].

Studying MSMEs is important as they played important role in a country economic development. Almost all enterprises in Indonesia were in MSMEs category. The percentage of SMEs was more than 99.99 percent of the total business establishment [4] [3]. Australia also had a very high percentage of the SMEs. In June 2013, the number of its SMEs was nearly 99.8 per cent compared to only around 0.2 per cent were large businesses [2].

Looking from their economies of scale, MSMEs were not much but their total MSMEs was very large and dominant. Their contributions provided by them were good for the community and to the state. MSMEs were labor intensive. The MSMEs absorbed a great amount of labor than large enterprises. SMEs in Australia employed more than a half of the Australian employment industry in total [2]. Indonesia MSMEs employing 97 percent of the population [5], it leads to a more equitable distribution of income and will ensure increased productivity with better technology. Promote indigenous technological know-how; are able to compete. Use mainly local resources, thus have less foreign exchange requirement, cater for the needs of the poor and adapt easily to customer requirements [6].

Although there was a large number of MSMEs, the majority of them were micro enterprises. They were mostly self-employed enterprises without formally hired paid employees. Most of them had low productivity, little or no technology usage, poor quality products, and operate only in local markets. Some of these enterprises could sustain for long periods, but a great number of them found difficulties to transform their business to bigger scales [5].

In order to facilitate the sustainability and growth of Indonesia's MSMEs through transformations of several of its micro-enterprises to SME status, the business analysis was required. The business analysis could be applied to enterprise was Porters' five forces frameworks [7]–[9] and the SWOT analysis to see the internal forces: strength and weaknesses and external forces: opportunities and treat [10] [11].

The aim of this paper is to present the internal and external forces of the MSME in South Sulawesi Indonesia and provides lesson learned from the SMEs that can be applied for sustaining and improving the scale of the enterprise.

## II. RESEARCH METHODOLOGY

The study employed qualitative approach. By using a case study method. The study was conducted in both Indonesia and Australia. The case study of an enterprise in Indonesia is UD Mamminasata. In Australia, I visited a number of enterprises both in the city center of Melbourne and in Regional Centre of Shepparton, Victoria. Data were gathered by using observation and interviews. Data were collected and analyzed them by using the SWOT analysis. The author identified the internal and external forces in terms of the strength and weaknesses, opportunities and threats of the Business respectively.

In Australia, the author visited two areas of enterprises: in the city center and in the remote areas of Victoria. The author spent more time visited a number of SMEs in the countryside of Victoria than in the city. The SMEs includes the agricultural and food processing. In the City Centre of Melbourne, the author visited the Street Café, a social enterprise that trained and employed the youth homeless. In the countryside of Victoria, the author visited the agricultural enterprise of vineyard, apple, cattle, milk and wine and tomato factories.

### A. *Small and Medium Enterprise in Indonesia*

The enterprise involved in this study was UD Mamminasata. It was located in Jalan Tun Abdul Razak, Somba Opu, Gowa. This enterprise was a supplier of building materials.

### B. *Small and Medium Enterprise in Australia*

The informants were the trade, business and government body in Melbourne and Regional Center of Shepparton, Victoria, Australia. The object of research were the small and medium enterprises in Shepparton, and in the City Centre of Melbourne, Victoria. The enterprise sector including agriculture, food processing and social enterprise.

## III. RESULT AND DISCUSSION

UD Mamminasata was called by the name of the bypass MAMMINASATA in South Sulawesi. This enterprise was categorized as a micro scale business if we see the number of staffs (seven people altogether) employed or less than 10, that became the case of the research.

A micro enterprise started January 2009. The Mamminasata enterprise had employed seven people including a general manager, financial manager and three drivers as well as two helpers.

The general manager was the owner of the business. The finance manager of the business was the owner's wife. Four workers had responsibilities to serve the customers in the shop and to do the delivery services. They delivered the building material to the customer places by using utilities. Another worker was truck driver collecting the building material from mining industry and delivering them to the costumers housing industries, or individual housing for renovation. This scale was usually in bulky and in far distant from the shop. The two drivers were for utilities, all staffs were males except the financial manager was a woman.

UD Mamminasata provided various product for sale. The products were: building materials including cement, sand, stones, splitting stone, and iron; carpenter tools, pipes and electrical wires as well as gas for stove.

The main marketing strategies are direct and indirect selling. The direct selling was the customer pay the goods in advance and the enterprise send the materials to the customers places. Meanwhile, the indirect selling where the customer order in advance and pay later on. The customers could buy a small amount and the bulky amount of the materials. The marketing strategy were the words of mouth, provide good services in term of friendly and quick delivery services as well as good prices.

### A. *SWOT Analysis of Mamminasata Enterprise*

Mamminasata Enterprise had strength and weaknesses, opportunity and treats describes below:

The strength of the UD Mamminasata were human capital, social capital, physical capital, and financial capital. The human capital includes the skill, knowledge, ability to run the business and intention. The social capital including the network to the communities. The physical capital that Mamminasata had their own shop, and had their own transport facilities to deliver the building material to the customer. There were three means of material transportations comprise one truck, and two utilities. Furthermore, the enterprise had its own financial capital flow and stock.

The strength of the business was Mamminasata provided the primary building material. The strength also included the cheap labor cost. The materials were also nonperishable. It was also easy to sell and it had many substitutes.

The weaknesses of the business were divided into four main points. First, it was labor dependence. The materials were big

and heavy. Second, the product need a large inventory and storage.

Third, it had low profit while the capital is high because there were a lot of product allocation. Fourth, the sale was easy to be manipulated by the distrust salesmen/women.

The opportunities of the business were: first, the building material was in high demand. The development of the housing industry including shops and office building as well as business renovation for individuals demanded building materials a lot. Second, the business was located in the strategic location. It was located close to many housing development. Many costumers could access this location easily since it was located in the main road of Jalan Tun Abdul Razak, Somba Opu, Gowa.

The threat of the business was the strict competitor and the price fluctuation. When people saw there was opportunities in one place, many of them came to open the same business. They become the new comers. This is a treat for the existing Enterprise. That is because the new comers often provide a cheaper Price and used the substitute as well as have better business management. The Next, many customers who had loan, often did not pay their loan on time or even many customers did not pay their loan at all.

#### *B. Lesson Learned from Australian Small and Medium Enterprise*

During the study, visit to the enterprises in Victoria, Australia, I Found many lessons to be learned that can be seen as follows:

The first, the study visit in STREAT Cafe give me lesson about the social enterprise. The STREAT Enterprise had vision to stop youth homelessness and disadvantage, one mouthful at a time. The mission of the STREAT was Youth homelessness and disadvantage are hard to swallow. That is why STREAT works with others like you to stop it, one mouthful at a time. Together we offer disadvantaged youth aged 16-25 a supported pathway from the street to a sustainable livelihood [12]. The lesson learned that I got was how the STREAT Cafe trained and employed the youth homelessness to solve the social problem of the homeless.

The second lesson learned was the farming enterprise at Naringalook. What I learned from this visit was how a retired professor of agriculture and his wife could manage the huge areas of farming land (about 450 hectares) and hundreds of cattle. How skillful of the old couple to use the machinery for their huge agricultural and cattle business. There is no clear division of gender role practices in running the business and the household matter. Another lesson was the age. Farming industry was not only the domain of young men, but also old men and women.

The third was the family enterprise of traditional and modern winery (Chatweau Tahbilk, Nagambie and McPherson Wine). The one interesting thing for this winery was the sustainability of the family business for five generation. The business was established since 1860. The most interesting thing was men traditionally ran the winery

business but the last predecessor was a woman. This was consistent for the winery enterprise for four generation led by men.

The last enterprise was the Food Industry of Kagome Australia Pty. Ltd at Ecuca. In this visit, we had a tour to the Tomato processing factory. The author observed the process starting from unloading the tomatoes from trucks, washing, sorting, and processing all done by the machinery. Then observing the quality control until the packing for the final product. The lesson learned the author got from the Kagome Enterprise, was the use of machinery in the business.

#### *C. Discussion*

Having analyzed the business by using the SWOT analysis the author identified the strength and weaknesses of the internal forces and the opportunities and treat of the external forces. Lesson learned the author get from the Australia SMEs were the social enterprise of STREAT café who try to stop youth homelessness and disadvantage. This lesson learned was applicable in terms of training and employing the deprived youth. Because of that, we participate in economic development by reducing the social problem of unemployment and poverty.

The other lesson was the management of large farming industry manage by the old couple aged at mid 70s. The lesson learned from hire could be applied to the case enterprise to solve the limitation of reliable employee. Like in Tahbilk winery, the farming industry gave me important lesson learned about the labor division of men and women. The old women was not only stayed home waiting her husband from the Plantation field and the cattle ranch, but she and her husband work together in the farming enterprise. The author witnessed her to drive a cart to lead her cattle.

The next lesson learned was the sustainability and improvement of the wine factory business for five generations. This industry preserved the traditional winery as the Chatweau Tahbilk, Nagambie. Another important lesson learned from the Tahbilk was the shift of leadership. The wine industry was traditionally lead and manage by men as the case for Tahbilk for four generation. Then it leadership was transferred to a female leader. The wine industry not only preserved the traditional but also the modern one. The Modern wine industry could be seen in Mac Pherson Wine factory.

In order UD Mamminasata to be scaling up, it had to utilize the machinery tools like those big enterprise for lifting and transporting the heavy and dusty building materials. This would solve the unreliable labor problem.

#### **IV. CONCLUSION AND SUGGESTION**

The case study of SMEs in Indonesia was potentially to sustain and develop to a bigger scale if the enterprise harnessed its strength and mitigated the weaknesses. The enterprise was keen to see the opportunities for supply and

demand in order to sustain and develop. The Business also make efforts reduce the treat.

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