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**MANAGEMENT OF SMALL AND MEDIUM-SCALE INDUSTRIES  
IN INDONESIA IN DEALING WITH GLOBAL CHALLENGES:  
PLS-SEM APPROACH****Kusumastuti D., Sutoyo \***

**Abstract:** To prepare the competitiveness of products produced by Small and Medium Scale Industries (SMI), a law protection attempt is required to enable the products to compete in the global era, namely, the law protection expectedly can improve the quality and quantity of SMI products. The objectives of the research is: 1) to identify the law protection for SMI in Indonesia, and 2) to obtain the profile of SMI in Indonesia in a global era today by examining the effect on business management. This study used primary data collected through questionnaire from the actors related to the management of SMI. The data obtained from primary data were analyzed using an Partial Least Square (PLS)-Structural Equation Modelling (SEM). The conclusions of the study is, 1) law protection for SMI has significant effect on SMEs business management. Such the policy was intended to improve the existence and competitiveness of SMI in dealing with global challenges; (2) profile of SMI included simple production process, bookkeeping, and marketing support which effect significantly on business performance and to keep them existent and having competitiveness in dealing with global challenges.

**Key words:** law protection, small and medium-scale industries (SMI), competitiveness, globalization, bookkeeping, marketing support

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**Introduction**

The potency of Small and Medium-scale Industries (SMI) increases over the years in Indonesia both qualitatively and quantitatively. SMI in their development can be beneficial, i.e. giving welfare and evidently being resistant to economic crisis shock, in addition to absorbing labor. In global era development where there is no longer border between countries, the product exchanging more smoothly across countries. Globalization has encouraged many changes in the trading sector, particularly leading to free trade. It started with the World Trade Organization (WTO) that was then followed with similar treaties with free market principle. The WTO treaties also include clauses that qualify the applicability of these and other non-discrimination principles. WTO has affected the trading flow, improved trade between the proximate developing countries in one region. Augmented gravity model explaining WTO trade requirement theory shows that the countries with

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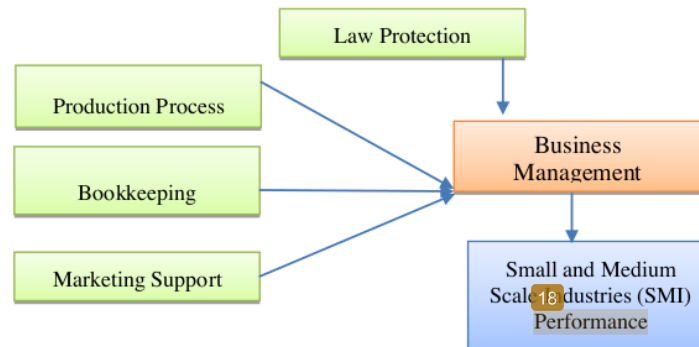
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a higher incentive for bargaining tariff reduction before WTO accession experience the next positive and significant WTO trade. Attempts to address this uncertainty were made at WTO political bodies such as the Committee on Trade and Environment (Becchetti and Trovato, 2002).

Recalling the free product exchanging, SMI competitiveness and abilities should be improved in order to utilize the free trading system occurring today. The system can be utilized as an opportunity of introducing their superior products in the global market, participating and even contributing significantly to the system. Nevertheless, not all SMI can utilize such a market situation to penetrate the broader market or to compete in an increasingly global market. The requirements and resources of SMI are different from big firms (Pillania, 2008). In this condition, although the market chance is opened more widely, trading liberalism cannot automatically help but it can threaten SMI. SMI will be the next importance revenue for the countries in the future (Abidin et al., 2014).

- 1) To identify the law protection for SMI in Indonesia.
- 2) To obtain the profile of SMI in Indonesia in a global era today by examining the effect on business management.



**Figure 1. Theoretical framework of the study showing the relationship between law protection, production process, bookkeeping, marketing support, business management and SMI performance**

## Literature Review

### *Law Protection for Small and Medium Scale Industries (SMI) in Indonesia*

ASEAN countries have liberalized intra ASEAN trade over the last 20 years by establishing the ASEAN Free Trade Area (AFTA) (Okabe and Urata, 2014). Some motives can be seen behind the establishment and implementation of AFTA. Firstly, ASEAN policymakers think that the expansion of intra ASEAN trade will encourage economic development in ASEAN countries because export expansion will result in output growth. Specifically, the creation of a large ASEAN integrated

market through AFTA will enable the ASEAN producers to exploit the benefit resulting from the economic scale.

Safeguard policy is defined as a provision existing in an agreement of trade liberalization enabling the countries to participate in the agreement to take some measures to recover or to protect industry in their country from serious loss or loss threat, as the result of trade liberalization enactment. In Indonesia, the regulation is Presidential Decree No.84 of 2002 about The Measure to Secure Domestic Industry from Import jump in accordance with the in which the character formation phase is acquired through habituation (Pambudi and Mardati, 2019). In line with setting direction as mentioned Zuhaery et al. (2018), the reinforcement of leadership is the understanding of local wisdom, benchmarking, and professional training, enhancing the beliefs, strong character with high integrity.

Asean Free Trade Area (AFTA) agreement ratified with Presidential Decree (Keppres) in fact has a broad impact in the local industry, particularly SMI going bankrupt or encountering the decreased volume sale due to their defeat from imported products coming into Indonesia. Plantation sector is the one affected by this presence of AFTA agreement. The attempt of protecting local industry has been discussed in, among others, Law Number 20 of 2008 about Micro, Small, and Medium-scale Enterprises, in the term of business empowerment and development, funding and partnership. Law protection for SMI is also supported with Banking Law, Local Government Law, Investment Law, and Antimonopoly and Unhealthy Business Competition Law.

Small and Medium scale Industries in Indonesia is a micro business informal sector and generally use local basic material with the local market. That is why it is not affected directly by the global crisis. *World Economic Forum* (WEF) report in 2010 put the Indonesian market onto the 15<sup>th</sup> rank. It indicates that Indonesia is a potential market for other states.

Small and Medium scale Industries ability to deal with global competition current's exposition should be thought of further in order to survive for the sake of Indonesian economic stability. In addition, the human resource factor also has a distinctive contribution. Small and Medium-scale Industries developing strategy to keep surviving can be taken through improving its competitiveness and human resource development in order to have value and survivability in dealing with Asean China Free Trade Agreement (ACFTA) market, among others, through distributing credit (KUR), providing access to marketing information, training for micro financial institution through capacity building, and developing Information Technology (IT).

**H1:** Law protection has relationship with business management.

### Profile of Small and Medium Scale Industries in Dealing with Globalization

The development in the industry sector is the main priority of economic development without ignoring the development in other sectors. The industrial sector is distinguished into large and medium, and small and home industries.

Central Bureau of Statistics (BPS) defines the large industry as the companies with 100 or more workers, the medium industry as the one with 20-99 workers, small and the home industry as the one with 5-19 workers, and the home industry as the one with 1-4 workers. Small and Medium Enterprises (SMEs) are entrepreneurial organization with a limited number of employees and/or with fixed financial parameters. A wide range of schemes and initiatives were introduced to promote (industrial) clusters, Investment Development Zones (IDZs), Spatial Development Initiatives (SDIs), target sectors (IT and biotechnology), and SMEs (Jeppesen, 2005).

There are various elements which make the profile of SMI. Production process is an important part of these SMI. It has significant role in firm performance (Alvira et al., 2010). Better production process has positive effect on SMI performance. Consistent with production process, bookkeeping also has positive effect on SMI performance. As the performance and bookkeeping has relationship with each other (Boncoeur et al., 2004; Lampit et al., 2014). Furthermore, marketing support also lead to the better business management (Merrilees et al., 2011). As business management has positive role in performance (Patterson et al., 1997).

**H2:** *Production process has relationship with business management.*

**H3:** *Bookkeeping has relationship with business management.*

**H4:** *Marketing support has relationship with business management.*

As discussed above, production process, bookkeeping and marketing support has positive role in business management, the business also has effect on SMI performance. As various studies show that business management has role in firm performance (Dess and Robinson Jr, 1984; Malhotra, 2005). Better business management has the ability to increases the operations which lead to the better performance. Therefore, business management has significant role in SMI performance.

**H5:** *Business management has relationship with SMI performance.*

## Research Methods

The type of search employed was quantitative approaches in which a survey was carried out. Field research is unavoidable where large-number data are simply not available, as will be the case for informal institutions. Primary data was collected through questionnaire from the Indonesian SMI employees.

This study used 7-point scale to collect the data. Scaling was graded from strongly disagree = 1 to strongly agree = 7. The survey questionnaire was divided in to two major sections. First section of survey instrument was based on to collect the information related to the demographic profile of respondents such as age, marital status, education, gender and income. Other section was based on the questions related to the key variables of the study, namely; law protection, production process, bookkeeping, marketing support, business management and SMI performance. Total 200 questionnaires were used and 120 were returned.

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Population of the study is based on SMI located in Indonesia<sup>3</sup>. The employees of these SMI were preferred to collect the primary data. Cluster sampling was used in this study to collect the data. As this study do not have sampling frame and population was spread to wide area (Ul-Hameed et al., 2018).

### Data Analysis and Results

This study employed PLS for data analysis. PLS-SEM was employed because of small sample size. As PLS-SEM is suitable for data analysis while using small sample as it is evident<sup>23</sup> from various studies (Hameed and Naveed, 2019; Hameed et al., 2018; Memon et al., 2012). Figure 2 shows that all the item has factor loadings above 0.7, composite reliability (CR) above 0.7 and average variance extracted (AVE) above 0.5 (Hair et al., 2017).

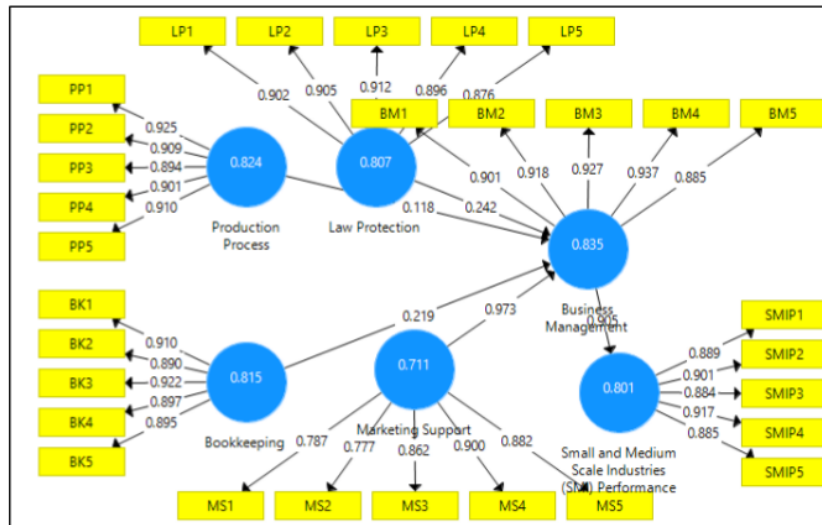


Figure 2. Measurement Model Assessment

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These values are shown in Table 1. Discriminant validity is shown in Table 2.

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Table 1. Reliability and Validity

	Alpha	rho_A	CR	(AVE)
Bookkeeping	0.943	0.945	0.957	0.815
Business Management	0.95	0.951	0.962	0.835
Law Protection	0.94	0.943	0.954	0.807
Marketing Support	0.899	0.913	0.925	0.711
Production Process	0.947	0.948	0.959	0.824
Small and Medium Scale Industries (SMI)	0.938	0.938	0.953	0.801



Performance				
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Table 2. Discriminant Validity

	BK	BM	LP	MS	PP	SMIP
Bookkeeping	0.903					
Business Management	0.649	0.914				
Law Protection	0.724	0.722	0.898			
Marketing Support	0.777	0.706	0.817	0.843		
Production Process	0.734	0.675	0.737	0.794	0.908	
Small and Medium Scale Industries (SMI) Performance	0.599	0.705	0.651	0.782	0.616	0.895

After analysing the measurement model, structural model was examined to test the relationship between different variables. In this process, t-value 1.96 as considered. Figure 3 shows PLS bootstrapping and Table 3 shows the results. It is evident that all the hypotheses have t-value above 1.96 which accepts all the hypotheses (H1, H2, H3, H4, and H5). Thus, law protection, product process, bookkeeping and marketing support has positive effect on business management and business management has positive effect on SMI performance (Hussain et al., 2019).

Table 3. Results

	(O)	SD	T Statistics	P Values
Bookkeeping -> Business Management	0.219	0.084	2.608	0.009
Business Management -> Small and Medium Scale Industries (SMI) Performance	0.905	0.013	70.863	0
Law Protection -> Business Management	0.242	0.093	2.606	0.009
Marketing Support -> Business Management	0.973	0.042	23.112	0
Production Process -> Business Management	0.118	0.053	2.267	0.015

Some other studies have also explored the relationship between SMEs and various challenges they are facing the domestic and international market. In the study of (Mundim et al., 2000), it is observed that globalization is the biggest challenge for the SMEs to survive over long run.

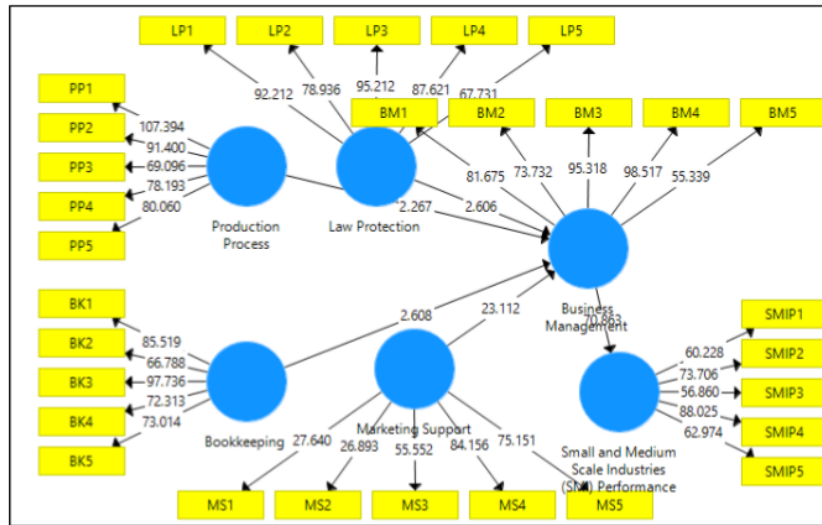


Figure 3. Structural Model Assessment

Some other studies like (Gray and Boshoff, 2004; Jurigová and Lencséssová, 2015; Muhammad et al., 2010; Rajnoha and Lorincová, 2015; Van de Vrande et al., 2009; Van Scheers, 2011) have considered the factors like innovation, growth, market opportunities, market trends, and management challenges for SMEs in global context (Haseeb et al., 2019).

### Conclusion

The law protection for Small and Medium Scale Industries (SMI) has been stipulated through policy at Central level and policy in Provincial Local Regulation domain and elaborated into Local Government policy at either Regency or Municipal level. Such the policy was intended to improve the existence and competitiveness of SMI in dealing with global challenges. The profile of SMI included simple production process, bookkeeping, and marketing support from government to deal with the constraints with the development of SMI and to keep them existent and having competitiveness in dealing with global challenges. The current study is more significant for Small and Medium Scale Industries (SMI) of Indonesia. It provides valuable insights for business management. This study helps to make strategies related to the business management and SMI performance. SMI can improve business management by focusing on law protection, by improving production process, bookkeeping and marketing support which can help to promote SMI performance. Therefore, the practitioners can get help from the current study while making the strategies to build good SMI performance. As per



recommendations, this study is highly recommended to the management and owner's who are dealing with the various challenges in the market place. To understand the better market trends, present study is providing a conceptual understanding about different challenges faced by SMEs and their owners. However, study is limited in terms of sample size, application of advanced techniques for the data analysis, and limited by generalizing the findings for the better implications of the results. Future studies can be reconsidered while addressing these limitations and application of better sample size.

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### ZARZĄDZANIE MAŁYMI I ŚREDNIMI PRZEDSIĘBIORSTWAMI W INDONEZJI W POWIĄZANIU Z GLOBALNYMI WYZWANIAMİ: PODEJŚCIE PLS-SEM

**Streszczenie:** Aby przygotować konkurencyjność produktów wytwarzanych przez małe i średnie przedsiębiorstwa, wymagana jest ochrona prawna, aby produkty mogły konkurować w erze globalnej, ochrona prawna prawdopodobnie poprawi jakość i ilość produktów MSP. Cele badania to: 1) określenie ochrony prawnej MSP w Indonezji oraz 2) uzyskanie profilu MSP w Indonezji w erze globalnej poprzez zbadanie wpływu na zarządzanie przedsiębiorstwem. W badaniu wykorzystano dane pierwotne zebrane za pomocą kwestionariusza od podmiotów związanych z zarządzaniem MSP. Dane uzyskane z danych pierwotnych analizowano przy użyciu metody częściowych najmniejszych kwadratów (PLS) Strukturalnego Modelowania Równań (SEM). Wnioski z badania są następujące: 1) ochrona prawna SMI ma znaczący wpływ na zarządzanie biznesem MŚP. Taka polityka miała na celu poprawę istnienia i konkurencyjności SMI w radzeniu sobie z globalnymi wyzwaniami; (2) profil SMI obejmował prosty proces produkcyjny, księgowość i wsparcie marketingowe, które znacząco wpływają na wyniki biznesowe i utrzymują je w istnieniu oraz mają konkurencyjność w radzeniu sobie z globalnymi wyzwaniami.

**Słowa kluczowe:** ochrona prawa, małe i średnie przedsiębiorstwa (MSP), konkurencyjność, globalizacja, księgowość, wsparcie marketingowe

#### 应对全球挑战的印度尼西亚中小型工业管理：PLS-SEM方法

**摘要：**为了使中小型工业（SMI）生产的产品具有竞争力，需要进行法律保护，以使产品在全球范围内竞争，即法律保护有望提高SMI的质量和数量。产品。该研究的目标是：1）确定印度尼西亚SMI的法律保护；

2）通过检查对企业管理的影响，在今天的全球时代获得印度尼西亚SMI的概况

。本研究使用通过调查问卷收集的与SMI管理相关的主要数据。使用偏最小二乘（PLS）

结构方程模型（SEM）分析从主要数据获得的数据。该研究的结论是：1）SMI的法律保护对中小企业的经营管理具有重要意义。这项政策旨在改善SMI在应对全球挑战方面的存在和竞争力；

（2）SMI概况包括简单的生产流程，簿记和营销支持，这些都对业务绩效产生重大影响，并使其保持存在并具有应对全球挑战的竞争力。

**关键词：**法律保护，中小型工业（SMI），竞争力，全球化，簿记，营销支持

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