

Institutional Revitalization to Increase the Competitiveness of Small and Medium Enterprises (SMEs) in Indonesia: Lesson from Chinese Experiences

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ABSTRACT

The small and medium enterprises (SMEs) are the strongest foundation in Indonesia economy. In the end of 2012, SMEs in Indonesia reached 56.53 million units. This number contributed 59.08% of country's GDP and 97.16% of employment opportunity (107 million people). As the real and strategic economy sector, SMEs have the highest resistance to face the global crisis. In their development, they faces some problems and weaknesses, such as financing, less-knowledge of marketing strategy, and intellectual rights. Indeed there are several concerned aspects in order to face the increasing competitiveness and satisfy the demand, such as standard and quality improvement, innovation and creativity challenges, output diversification, and stability of income. Nevertheless, SMEs in China have achieved

rapid and sustainable growth for over the past three decades. They play a significant role in terms of any further reforms in shifting the components of Chinese economy toward the consumers. Chinese SMEs have gained an amazing expansion in terms of number and scale that exceeded 4.3 million in 2012 and the growth rate is steadily planned at 8%. The SMEs contributed also to 60% of country's GDP, 50% of country's tax revenues, 68% of exports, and provided more than 80% of employment opportunities in China. Strategies to reinforce the SMEs competitiveness in China are clusterization as a concept of "one village, one product" or "one town, one industry" and E-commerce trends. This paper seeks to analyze the institutional revitalization of SMEs to achieve global competitiveness and be resistant against the global crisis.

Keywords: *competitiveness, SMEs, revitalization, strategies*

INTRODUCTION

Globalization gave birth to a new dynamic in world trade, which was the impact of globalization can be positive or negative. This is an opportunity as well as challenges that must be faced by every business either small, medium or large scale. Globalization led to fierce competition between anyone, anywhere, so we should be able to survive and increase competitiveness in terms of both product quality and price competitiveness through production efficiency.

Competition will increasingly face challenges when consumers are looking for products that are high-quality, low-cost, and the business must also be responsive to changes very quickly. New competitors become more proficient and more productive because they are more educated managers and technical expertise as well as cross-border uncertainty and information technology to make their ways and quickly access the latest equipment. Globalization and competition is also felt by SMEs. It is worth noting that the development of SMEs is not just a matter of operational assistance or facilities. The development must be strategic and have a long term impact so as to competitiveness and value-added. Many things need to be considered in addressing the development of small and medium industries, including: (1) Development should be increasing the capabilities and productivity of SMEs, it refers to an increase in

investment and business expansion opportunity, (2) Problems SMEs development is a complex problem entrepreneurship development, which involves motivation, commitment, skills and business networks, and (3) Enterprises SMEs development should not be a reason to reduce national productivity growth, due to the economic burden borne back into the community (Witoelar, 1994).

Experience in developed countries shows that SMEs are the source of production and technological innovation, the growth of creative entrepreneurship, and innovative, the creation of skilled labor and the production process flexibility to cope with changes in demand increasingly diverse market segmentation and more specific. Kemampuankemampuan owned SMEs are largely determined by a number of factors. Among them are the human resources, mastery of technology, access to information, market output, and input. Compared SME partners in Asian countries such as China, Thailand, Singapore and Indonesia SME export performance is still very weak.

Empowerment of Small and Medium Enterprises are very important and strategic in anticipation of economy in the future, especially in strengthening the structure of the national economy. Status of Small and Medium Enterprises in the national economy not only because there are many, but also in terms of employment. Besides, Small and Medium Enterprises also have the potential sizeable foreign exchange earner through the export of certain commodities and to contribute to the Gross Domestic Product (GDP).

In reality there are many problems encountered in the development SMEs, among other weaknesses in information access and market share expansion, capital accumulation, and information technology, organizational management, business networking and partnerships as well as marketing. All of this comes from the weakness of human resources (HR) which adversely affects the quality of products and services that are less competitive, both in the local market and nationally and internationally.

These conditions would have to be improved especially in the face of global market so that SMEs can compete. Competition is the key to increased productivity and efficiency. For those reasons, every SMEs should prepare include manufacture or produce a product that is of high quality. In an effort to strengthen SMEs as a fundamental national economy, it would need to be created domestic investment climate conducive to strengthening the domestic market so that SMEs can be the buffer of the national economy.

SMEs in Indonesian history in the face of the current onslaught of global competition it should be considered further in order to remain able to survive for the sake of the stability of the Indonesian economy. SME development strategy to survive to do with the revitalization of the institution itself SMEs so that the resulting increase in competitiveness and the development of human resources that have value and are able to survive the market ACFTA. The steps that can be taken include distribution through the credit (KUR), providing access to marketing information, training, microfinance institutions through capacity building, and development of information technology (IT).

As a comparison with what is discussed above, the Chinese economic reforms which started in 1978 were not just one set of reforms, but a cumulative and overlapping set of reforms over a 30-year period which effectively embedded knowledge creation in the Coastal regions of China. This resulted from the interaction of four processes, facilitated by Foreign Direct Investment and the increasing prosperity of China's Coastal regions. The first process was the opening up of the Coastal regions to foreign investment through the establishment of Special Economic Zones. The second process was accumulation of knowledge through the establishment of Science and Technology Development Zone's. The third process was the incentive of research. The final process was the reform of China's educational system (Ramesh, 2013). These openness factors stimulated the rising of Small Medium Enterprises in China as becoming the backbone of the Chinese Economy's growth.

We have witnessed the rapid growth of China's industry for over last 30 years. China has gone through the transition not only in the economic growth and capital accumulation, but also in the sectoral composition of output and a growing entrepreneurial skills. Reallocation of labor and capital across manufacturing firms has been a key source of productivity growth. The entrepreneurial skill has been described in the growing numbers of SMEs.

In this paper, explained about efforts to improve competitiveness through the revitalization of institutions to look at the problem issues faced both in Indonesia and in China. There is some points in an effort to finding the root of the problem occurs in order to identify measures that can be taken by policy makers to lessons from Chinese experiences. At the beginning of this article describes some aspects that occurred on SMEs in Indonesia, such as Strengthening Human Resource Aspects, Management Information Systems (MIS) and

Marketing, Increased Production, and Financial Aspects. At the point the Chinese experience described some important things about The Rapid Growth of Chinese Innovation, Role of China 'SMEs, Phases, Cluster, Competitive Advantage, Finance and Constraints.

REVITALIZING AND CAPACITY BUILDING INSTITUTIONS

Management and development of SMEs in Indonesia conducted by the Ministry of Cooperative and SMEs. Some strategies do is focus on improving the business climate conducive (mainly related to the development of regulations and legislation, the establishment of a forum and an increase in inter-agency coordination, increased capacity and quality of personnel, development of technology models). On the other hand, access to capital should also be considered, especially to productive resources are loan rates, quality standardization of production, business management, marketing and human resources. In addition to the focus of the strategy, the Ministry of Cooperative and SME policy is also intended to support the management and implementation of other technical tasks, improving facilities and infrastructure ministry officials, and develop programs and activities related to the development of SMEs.

Strengthening Human Resource Aspects

Human resources greatly affect the success of any business, including SMEs. It can even be called that without HR, SMEs will not be able to move. Therefore, HR is an absolute in any run. According Dullayaphut and Untachai (2012) to determine the needs of Human Resources for SMEs based on skills, expertise, solve problems (problem solving), ability to adapt. Skills relating to human resources and abundant enough to have a high level of expertise, since most SMEs in Indonesia is based on the production expertise when starting a business. As for employee training system to do with the system of learning by doing.

Labor of SMEs comes from the environment around the company. Rarely recruiting employees from outside the business. The intent of this system is in order to make it easier to control the

quality. Almost all the available workforce have the skills in the field of production. The businesses do not want to take the risk to hire unskilled workers. Because it will increase the cost to train and there is a tendency to fail when the production was not handled by the experts. SMEs in Indonesia are not so concerned educational background, because the majority of HR placed on the operation. As is known, the operating power does not require intelligence, but rather a skill.

Labor management system is done with the kinship system and payment system daily. Kinship system means with regard employees as part of the family and given the freedom to determine working hours. If the employee is paid for work, do not enter do not get paid. In addition, if there is celebration event gives entrepreneurs the freedom to holiday indefinitely. Workforce management system such as this by entrepreneurs actually make the worker has the freedom to work, without any time pressure and the target.

HR capability in self-development is the problem of SMEs in Indonesia. The existence of HR who has the ability to be influential on other business functions such as marketing, and innovation in other fields. HR must have the physical and intellectual abilities in conducting the business to innovate in any field. In fact, it is counter to the existing HR in Indonesia which rely more on experience alone. Experience is very important to conducting business, but the improvement in the form of intellectual experience may be more important for the improvement of conducting business.

Management Information Systems (SIM) and Marketing

SIM is an information system that is used to present information to support operations, management, and decision making in an organization that uses a computer-based system for multiple users with similar needs. Unfortunately, the use of information systems by SMEs in Indonesia is not so familiar. The businesses have not been able to realize the importance of information systems to facilitate the work owned. Though Information Systems can be used for planning, implementation, and control of a business. Which is seen from Information Systems is a relatively expensive cost, so they are reluctant to procure the means of information systems. Especially SMEs are doing business with a traditional system. If the system means the information is available, another permasalahan is no operator is able to empower the existence of such information systems facilities.

That still need to be forced business to be able to use information systems in order to develop SMEs. Information systems not only provide the data needed by SMEs, but the application of information systems in SMEs by many actors usahadapat improve competitiveness through value-added products and services it produces. And depends on the aspect of human resource capacity. The higher the human resource capacity to master information technology, the higher the utilization of information systems.

Integrated marketing needs in a business organization if their business continuity. Only an integrated marketing in SMEs in Indonesia have not been implemented to the fullest, especially in micro enterprises. The SMEs do have a strong entrepreneurial spirit, but only on a limited ability to produce. Marketing entrepreneurial spirit is not shared by all SMEs in Indonesia, so the effort is undertaken less fully developed in accordance with the desired. Though Hallback and Gabrielson (2013) entrepreneurial marketing are very influential in the establishment of marketing strategies that support the success of SMEs. In a business context, the internet transformational impact that creates a new paradigm in business, in the form of digital marketing or internet marketing. This term refers to the process of a company engaged in business activities electronically (e-commerce or e-business), utilizing the Internet as a medium, market, and supporting infrastructure.

The businesses still rely mostly on low cost promotional mix, but considered effective. Namely, by applying the word to mouth. In fact, the system is indeed the cheapest and most effective, but the process is limited and known by the less rapid. Another path is to be immediately considered because if not, then SMEs will not be able to thrive. There is only a stagnant position. While the stagnant position in sbuah business organization is very dangerous because of the presence of a threat at any time will destroy the efforts undertaken. Another cause is the tendency of MSME entrepreneurs never proactively to market overseas and do not know the information of foreign markets. Recorded in the Ministry of Cooperatives and SMEs (2012), the value of exports of SMEs is still much smaller than the Eksopor Large Enterprises. SMEs have a value of Rp. 11546.9 billion, while Large Enterprises Rp. 16184.3 billion.

Due to the lack of proactive, product SMEs in Indonesia are still many who have not known outside and only known in the local scope. If known by the outside community, this is not because of the

efforts of business, but of those initiatives / institutions. Example: exhibition organized by the Ministry or Department concerned and guests from outside Indonesia carrying souvenirs to take home to his country. With the second way, then the new SME product known by the outside community. This is contrary to the opinion of Javalgi and Todd (2010) which states internasionaliasi very important SMEs conducted by businesses to address the condition of the domestic market that is already saturated.

Another issue related to the information management systems and marketing is the lack of ability of business actors to make the right marketing strategy. Business operators rely solely on instinct and previous experience. Never conducting research in order to create a marketing strategy. Though research is absolutely necessary every effort to be able to control the market and the capability of the company will decrease without research (Ren et al., 2014). In the minds of the business actors the activities related to market research and market implementation is these activities are expensive. Though not entirely true, because business actors can take advantage of research and implementation of marketing using social media such as Facebook, Line, WhatsApp, Blackberry Messenger, and so the low cost can be used (Karakadilar, 2014). Thus, research, marketing strategies, and implementation of marketing is no longer a weakness business actors.

Increased Production

Entrepreneur certain products of SMEs in Indonesia faces problems of innovation. Especially businesses that implement a product by order systems. They settle on a “one product”. The system of “one product” may be a comparison of the product with other products because of its distinctiveness / uniqueness, but if it is not followed by an innovative form of diversification and differentiation could threaten the ongoing effort to offer products that boring.

Not all entrepreneurs apply the product system by order. Many SMEs that have high levels of creativity innovation is very high, especially in the field of handicrafts made from non-metallic. Business actors engaged in the target being able to have new designs every month at least 3 pieces and original nature. Especially for crafts made from metal, has a duration constraints and less innovative production processes. Less innovative is due to the process of

studying the new design takes a long time and the stages of the production process requires not less. Apart from the issue of product innovation, Indonesia has the advantage of abundant raw materials and abundant labor. It is able to make the production process is carried out efficiently (Ardiana, 2010). Moreover, sometimes working system using a system of partnerships that allow employees to work at home, it's even easier for the performance of the production order is not limited to space and time.

Innovation might not be a major problem in the production the activities of SMEs in Indonesia. The main problem is the production and production standards. The majority of business actors, particularly those associated with the craft does not have a standard. Whereas standard production process and affect the quality of the results and the quality of the product, the cost of production, service, and speed (Jones et al., 1997). The absence of definitive standards in production processes and outcomes resulting products are not in demand by the market, especially the export market.

Financial Aspects

The firms agree that the real sector will re-move, if SMEs are empowered. MSME will rely heavily on the support in the form of bank lending. The fundamental problem for the provision of credit to SMEs is the notion that SMEs are not considered bankable, in other words do not meet the requirements to get a bank loan. On the other hand, to reduce the risk of bad loans, guarantees the availability of objects are often not owned by SMEs. This resulted in SMEs is very difficult to gain access to bank credit. Banks often do not dare to take the risk in lending to SMEs because they could potentially be bad loans, which in turn will affect the soundness of the Bank. It is significant implications for the economy, because the economy as a driver of business actors be no access to finance. The failure of the banking intermediary function that causes paralysis of the real sector, especially SMEs. In addition, the majority of SMEs in Indonesia do not have a mortgage loan at the time of applying for a loan, and do not have the ability to make a proposal to be submitted to a credit banking.

Actual sales turnover of SMEs in Indonesia continues to increase. According to the data in one of the districts in Indonesia.

Regency, in 2012 had a turnover of Rp. 1.2 Billion per year. Unfortunately, the management or managerial finance SMEs has not been executed properly, that is handled by the traditional model and unplanned. The businesses can not separate between capital money with family money. So often happens that produced finished goods, capital is also depleted. This traditional form of managerial eliminate them is a family member, be it the nuclear family or outside the family business at the time of using the goods. In addition, good record-keeping system is not owned by the business. Such conditions are difficult to quantify the development of SMEs themselves. In the absence of notes on the development and consequences of financial statements of financial institutions unwilling to lend their capital.

The problem is actually not entirely fault business agent. Banks or financial institutions also contribute indirectly problems in SMEs. So far, the only financial institution to provide assistance in the form of capital (funds). Actually, not only in the form of capital, capital management assistance is also needed so that (Jozsef, 2014) (Shengce Ren, 2014) (Karakadılar, 2014) (Thomas M. Jones, 1997) business actors are able to manage financial professionals. By applying the guidance in SMEs by banks (financial institutions) actually has elements simbioisis mutualism. Where SMEs gain knowledge of business management the right to obtain the maximum benefit, while banks are guaranteed the return of outstanding loans with an interest rate if successful SME business.

CHINESE EXPERIENCES

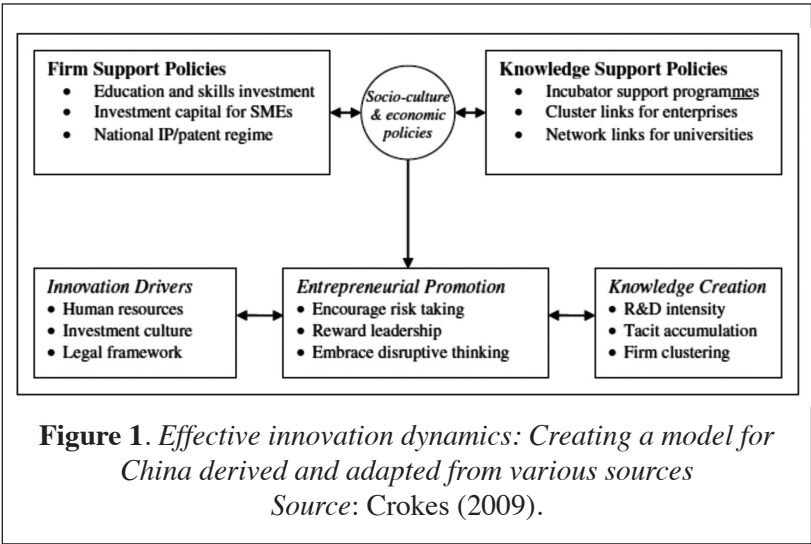
The Rapid Growth of Chinese Innovation

The factor which determine the survival of Chinese SMEs is the rapid growth of the innovation. Chinese governments has been a key factor in promoting the importance of innovation activities and in providing both human resources and institutional funding, and it would be fair to characterize the current framework as broadly state-coordinated, even if no longer predominantly state-owned. Business incubators, typically managed largely by civil servants, have also been growing in visibility across China in recent years. There are still largely anchored to the traditional locations in Beijing, Shanghai, Suzhou, and Shenzhen.

China’s national innovation landscape can be seen as being driven in the following ways:

- a. Increasing innovation solutions, such as patent applications and grants.
- b. Developing innovation productivity, encapsulated in new product sales.
- c. Building an innovation knowledge base, such as papers and citations.

These outputs are created within national innovative infrastructure through combinations of government investment, private-sector funding and the fusion between universities, sector-specific enterprise clusters and state or non-state research institute. The push policies in China’s innovation development, such as national and internal influence, and international and foreign influences. The innovation dynamic in China is summarized in Figure 1.



According to the Law of SMEs Promotion in China issued in 2003, the dimensions for SMEs are including of the amount of employees, the annual revenues, and total assets. Table 1 show the classification of SMEs in China.

Table 1.

Classification of SMEs in China

Size Category	Industries	Employment-based	Total Assets	Business Revenue
Small	Industry	< 300	< ¥ 40 million	< ¥ 30 million
	Construction	< 600	< ¥ 40 million	< ¥ 30 million
	Wholesale	< 100		< ¥ 30 million
	Retail	< 100		< ¥ 10 million
	Transport	< 500		< ¥ 30 million
	Post	< 400		< ¥ 30 million
	Hotel and restaurant	< 400		< ¥ 30 million
Medium	Industry	300-200	< ¥ 40 million-400 million	< ¥ 30 million-300 million
	Construction	600-300	< ¥ 40 million-400 million	< ¥ 30 million-300 million
	Wholesale	100-200		< ¥ 30 million-300 million
	Retail	100-500		< ¥ 10 million-150 million
	Transport	500-300		< ¥ 30 million-300 million
	Post	400-1000		< ¥ 30 million-300 million
	Hotel and restaurant	400-800		< ¥ 30 million-150 million

Source: SME Promotion Law of China (2003)

Role of China’ SMEs

Based on the corporate lifecycle theory, the current status of China’s SMEs are more in the growth stage, mainly concentrated in the infancy stage and go-go stage, and quite a few are in adolescence stage. Therefore, the development ideas of enterprises must be transformed and the traditional model must be adjusted and improved to avoid falling into a crisis of survival and traps of development and realize sustainable development of enterprises (He, 2011).

China’s SMEs play a significant role to promote fast and healthy economic and social development. The SMEs has driven the export growth, job creation (Table 2), the assimilation of innovation, and investment in urban fixed assets in China (Table 3). More than 60% of the GDP is from SMEs. Tax revenue collected from SMEs has also increased significantly in the last decade. Its average annual growth rate of around 25% is well above China’s GDP growth rate (Figure 2).

Table 2.

The rapid development of China’s private enterprises (SMEs)

Year	Number (million)	Average register capital (10 thousand Yuan)	Number of employees (million)
2002	2.64	94	-
2003	3.29	107.4	-
2004	4.02	119	-
2005	4.72	129.9	58.24
2006	5.44	139.7	65.86
2006	6.03	155.7	72.53
2008	6.57	178.6	79.04
2009	7.4	197.8	86.07
2010	8.45	227.1	94.07

Source: Huang, 2012.

Table 3.

Investment in urban fixed assets and exports, 2004-2010 (% by source)

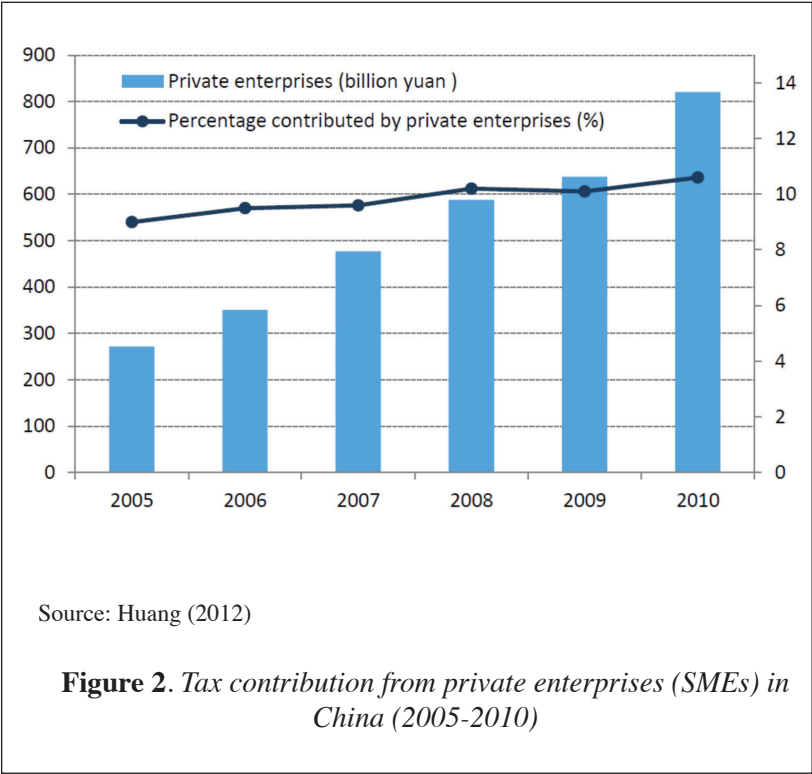
	2004	2006	2008	2010
Total Investment (billion Yuan)	5902.8	9336.9	14873.8	24141.5
State owned enterprises	57.8	48.0	43.0	42.3
Foreign owned enterprises	11.8	10.6	9.5	6.6
Private enterprises	30.4	41.4	47.4	51.1
Total exports (billion US dollars)	762.0 ^a	969.1	1428.6	1577.9
State owned enterprises	22.2 ^a	19.7	18.0	14.9
Foreign owned enterprises	58.3 ^a	58.2	55.3	54.6
Private enterprises	19.6 ^a	22.1	26.6	30.5

^a2005 figure.

Source: Huang, 2012.

It is estimated that around 80% of employment is accounted from SMEs as well. Based on statistics from China's Information Office of the State Council, from 1998 to 2003, nearly 19 million workers laid-off from SOEs were re-employed, and most of them went to SMEs. Therefore, SMEs serve as an engine of job creation and improvement for human capital.

Global competition confront the majority of purely domestic SMEs, whose product and sales are extremely localized or segmented. In fact local SMEs find it increasingly difficult to survive or even maintain their current business position in their respective market (Singh & Garg, 2010).



Phases

Chinese SMEs has long history over the past two decades, along with the reform of Chinese economy and openness. After the reform, SMEs had significantly grown in terms of size, number, profitability, and financial status. The driving forces of this development are township role in terms of labor transfer, and the growth of private-owned SMEs.

The phase of Chinese SMEs development are roughly in three development. The first phase was from 1978-1992, characterized by the expansion of SMEs in number and scale. The government encouraged for township and collective and self-employed enterprises. The second phase was from 1992 to 2002. In this time, government adopted several ways to gradually reduce the state’s ownership, such as restructuring, merger and acquisition, leasing, contracting and

sell-off. The third phase began with 2002. In June 2002, government implemented the SMEs promotion law in order to further improve policies and measures, remove institutional barriers, create a level playing field, promote scientific and technological innovations and upgrading, optimize industrial structure, and enhance the overall quality and competitiveness of SMEs. Furthermore, in 2004 China amended the constitution to grant the non-public economy a legal status in the socialist market economy, which in turn gives great impetus to the development of private-owned enterprises (Chen, 2006). In terms of number and scale, some of Chinese SMEs have grown into large enterprise. For instance, Lenovo Group Ltd. (formerly as Legend Group Ltd.), Haier Group, Wanxiang Group Corp, and UFSoft Co. Ltd. were all SMEs at the beginning. Smaller firms are keener to adopt suitable and available technologies. Larger firms are more inclined to engage in innovation and capacity expansion. China's comparative advantage is clearly in labor-intensive industries.

Cluster

China's SMEs suffer from a lack of innovation facilities and resources. One way to overcome these problems is to develop "clusters", which can provide a platform for SMEs in a region to share innovation facilities and new ideas and production resources through closer business networks. The cluster systems are highly concentrated both geographically and by industrial sector. Most China's SME clusters are heavily concentrated in the Pearl River Delta Economic Zone, the Yangtze River Delta Economy Zone, and the Bohai Rim Economy Zone (Chen & Cao, 2006).

The reason of SME clusters in China are mainly distributed in littoral and special economic zones, where the market is more mature and policies are more favorable. In recent years, SME clusters in western China have grown fast under west-developing policies. Most clusters are low cost clusters that not based on innovation. Smaller firms tend to imitate and learn within the family workshop, and this what leads to the "one town one product" (Chen & Cao, 2006). Table 4 and 5 shows the distribution of different sectors in regional clusters.

Table 4.

Typical case: Distribution of different sectors in Jiang Su Province

District	SME clusters
Nanjing	Badminton, electronics and information, medicine, electric automation
Xuzhou	Trade service, tourist, supply chain, real estate, food, mechanical, auto-industries
Suzhou	Waving, silk weaving and spinning, optical cable, new materials
Nantong	Electric tools
Lianyungang	Agricultural product, tourism, trade finance, real estate, auto-parts, medicine and pharmaceuticals administration
Yancheng	Computer-aided knitting, silk industries
Yangzhou	Toys, electronic components, glass
Zhenjiang	Auto-parts, optical electronic components, electrical power and new materials
Taizhou	Auto-parts, numeral control cutting machine, harbor, and ships, chemical, textile, medicine, electrical motors

Source: Chen & Cao (2006)

Table 5.

Typical case: Distribution of different sectors in Guang Dong Province

District	SME clusters
Chaozhou	Hardware production, food, printing and packing, tea, porcelain, electrical machinery, farming and planting, aquatic products
Dongguang	Electron communication, physical flow, garments, hardware production, trade service industry

(continued)

District	SME clusters
Fuoshan	Spinning and garments, hardware production, woodwork manufacture, aquatic breeds, flower, shoes, toy, porcelain, construction materials, housing-electric appliance, furniture, poultry and farming, electron, auto-parts
Guangzhou	Light industry
Heyuan	Agricultural products and by-products
Huizhou	Shoe industry
Jiangmen	Motorcycle and its parts, hardware made through stainless steel, electronic components
Jieyang	Food and its related machinery, electric piano, and garments
Maiming	Ocean products, agricultural products
Meizhou	Audio products, porcelain, craft weaving, textile
Qinyuan	Electronics, porcelain, hardware and manufacturing
Shantou	Toys, knitting and garments, packaging, fine chemicals, wool waving, electronics, food, and construction materials

Source: Chen & Cao (2006)

Competitive Advantage

Based on Chew *et al.* (2008), the data collected from 121 construction SMEs in China has been confirmed about the importance of core capability and competitive strategy to achieve the superior performance of SMEs. There are also a positive relationship between core capability and competitive strategy.

Xie *et al.* (2013) mentioned that the major theoretical implication of industry organization approach and the resource-based view are

to build an expanded notion of competitive advantage. The findings that core capability and competitive strategy are prime determinants of business performance should be a source of encouragement to marketing managers in these construction SMEs.

The clustering innovation plays a critical role as competitive advantage of China's SMEs because of several reasons. The reasons are the inflow and outflow of technical personnel lead to rapid technical diffusion, the clustering leads also to economies of scale, the free flow of information in a cluster supports innovation by encouraging "intellectual overflow" among employees, and the culture of innovation is easy to be built between people in the same region (Chen & Cao, 2006). The more specialized SME clusters are, the more competitive they are. The concept of "one village, one product" or "one town, one industry" are mostly in the province like Jiangsu, Zhejiang, and Guangdong.

Nevertheless, in order to increase the innovation performance of SMEs several efforts are needed such as more support for financial capital, technically qualified staff and technology information, strong R&D intensity, entrepreneur orientation and innovation networks, effective business strategy, and management capabilities. Other challenges for clustering such as the clusters depend highly on local resources for their operation, family attachment that might inhibit the large-scale and lack of management skills, and the industrial structure tends to be rigid (Liu, 2008).

Policy

The institutional environment of China was originally unfavorable for the emergence and development of SMEs. Private enterprises were not permitted to exist until 1988, ten years after economic reform started in 1978. However, the increasingly significant contribution of SMEs to the economic growth of the country prompted the Chinese government to improve policies and measures concerning the development of SMEs. Table 6 shows the major policies in financing for China's SMEs.

Table 6.

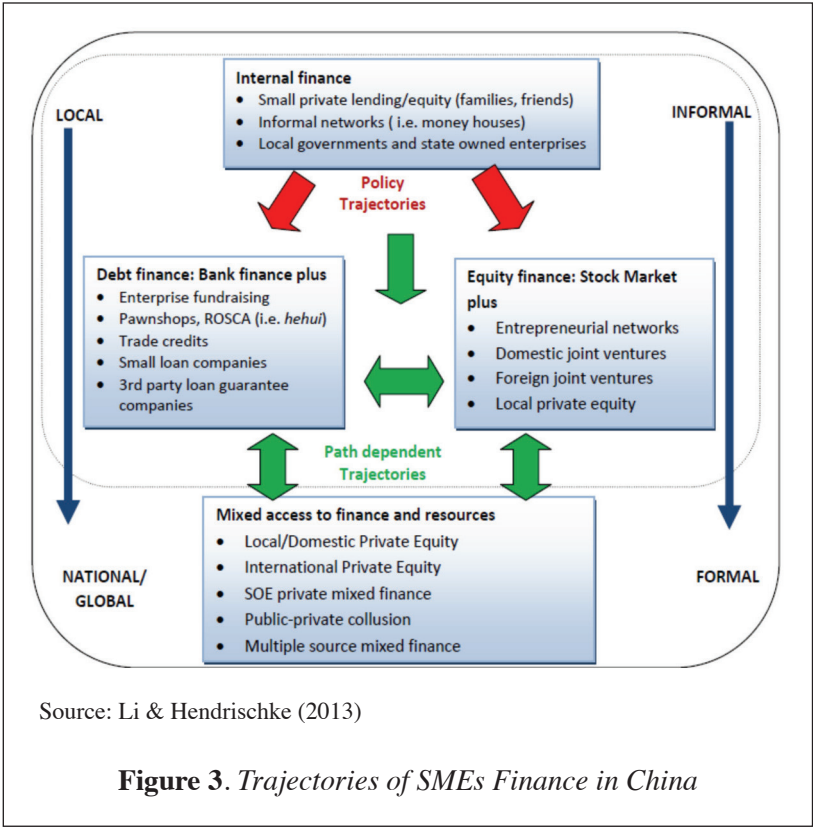
Major Policies and Initiatives

Aspect		Objective
Preferential taxation policies	Income tax policies	Lower the tax rate and value added tax (VAT)
	Taxation policies to promote employment	
	Taxation policies for high tech enterprises	Give an exemption under certain condition
	Taxation policies for service industries	
Fiscal policies		Set up several funds with SMEs as the targeted beneficiaries
Financial and credit policies		Improve financial service, adjust credit structure, and provide diversified financial products
Regulatory policies		Promote a healthy development and accelerate the legislation process for SMEs.

Finance

The institutional debt versus equity framework provides an alternative view of the working of SME finance. The framework is based on the idea that SMEs seek finance in an entrepreneurial environment that does not rigidly differentiate debt from equity by giving creditors the option to convert outstanding debt into equity in future business concerns. The finance mechanism is a combination of debt and equity finance with the flexibility to interchange. This creates a rich dynamic in SMEs finance structure. The contrast between the formal trajectories and actual path dependent trajectories is indicated in Figure 3. Red

arrows indicate the formal trajectories that envision debt and equity as the two possible avenues for formal funding. The green arrows indicated de facto paths of finance which in spite of their informal origin are compatible with formal structures and even international expansion.



Constraints

Many China’s SMEs are full of patriarchal atmosphere and far away from the modern company culture. Most of SMEs still hang around at a low level of development. One important reason is that Chinese SMEs have a short period of development and still pursue the extensive mode of growth. Therefore, their management philosophy, style, industrial structure and product mix do not meet the demands

of market competition. It is still a demanding issue confronting SMEs as to how to meet the requirements of the market reform, enhance industrial structure and transform the extensive business mode into an intensive one. Table 7 shows the SMEs constraints.

Table 7.

SMEs Constraints

Aspect	Explanation
Infrastructure	The same problem faced by other developing countries, is mainly due to the inadequate technological infrastructure (Xie <i>et al.</i> , 2013).
Finance	Domestic loans tend to be short-term in nature and larger companies have exhibited a better record in terms of debt repayment (Hilgers, 2009). Their comparatively weak financial and technological backgrounds cannot sustain enormous R&D fees and the fast pace of technology development cycle (Chen & Chao, 2006). Lack of support by poor credit guarantee, high stock market threshold, inability to make a loan in bank, poor accounting system (Liu, 2008)
Human capital (Chen & Cao, 2006; Liu, 2008; Xie <i>et al.</i> , 2013)	Insufficient R&D resources: most SME clusters lack research personnel for high-end technologies and management. They also lack employees with experience in foreign trade.
	Low-innovative consciousness: Innovation consciousness is weak, technical equipment for value added are low
	Small firms lack proper human capital: inadequate corporate governance and low technical capacity

(continued)

Aspect	Explanation
Ownership Structure	Dominant shareholder: cultivate an atmosphere of autocratic decision-making style and lead the big shareholders to seize the territory of small ones. It will be obviously result in the slack of ownership transition (Yuan & Vinig, 2007).
	Family attachment: family members get the priority for the position even they might be lagged the level of specialized management and they will tend to maintain the company rather than moving forward (Yuan & Vinig, 2007).
	Interposition governance: SMEs gradually moves from the family-owned governance to rent-seeking beneficiaries' aligned-governance who have the same parties of interest. This shareholding is not recognized legally and will make them hardly change their structure (Ouyang & Yan, 2005).
Formal Institution	Weakness in legal system: SMEs operating in an environment characterized by property unprotected and contract uncertainty where the legal framework for the enforcement of contracts is not well developed (Yuan & Vinig, 2007).
	Scarcity of capital and managerial resources: SMEs still have weak governance structure, inadequate information sharing, high business risk, shortage of necessary mortgage easily lead to adverse selection and moral hazard (Yuan & Vinig, 2007).
	Lack of market competition rules: a stable supply of raw materials cannot be easily guaranteed which increase adversely affects the productions of many firms (Yuan & Vinig, 2007).
	There is a negative correlation between the policy environment in China and innovation performance of SMEs (Xie <i>et al.</i> , 2013).

(continued)

Aspect	Explanation
Informal Institution (Yuan & Vinig, 2007)	One-man and insider rule: SMEs always operating on the bases of family authority and internal loyalty
	Society of relationship (<i>guan xi</i>): SMEs will face more difficulty in establishing and maintaining, which inevitably entail higher transaction cost.
	Trust based informal contract: Chinese are not good at establishing a non-personal, contract-based, equal-footed, and official cooperative relationship.

Nevertheless, there are some points that Chinese SMEs should pay more attention, such as they should provide value-added products and services and also a well-rounded marketing competitive strategy to gain market shares. The traditional state-owned enterprise structure in China facilitates the development of hierarchical organizational structure. Socio-cultural influences and mediating environmental factors should be considered when attempting to understand the marketing practices of Chinese small firms, specifically when China is in transition to a socialist market economy.

The findings of this study tend to suggest that readily broad small firm marketing principles specifically generated from the western countries, may not be fully suitable for some specific socio-cultural context, for example small firms in Mainland China. Sociocultural influences should be considered when attempting to understand the marketing practices of small firms in Mainland China.

Based on Auken and Yang (2014), a research of 46 SMEs located in China was aimed to examine the role of financial statements in decision making by SMEs. The result shows the value of using financial statement is evident, increased usage of the information contained in financial statements could guide more effective decisions. Therefore, service providers should help SME owners understand the importance of financial statements of their decision making. In addition, educators should emphasize that financial information can reduce uncertainty and provide insights into how the resulting decisions determine firms' financial stability. The structure of financial statements could be influenced by differences of region and culture.

However, within this state activist paradigm, there has been a gradual shift in China away from an emphasis on wholly government-centric projects into industry funding, with the importance of SMEs being given greater recognition in policy planning and private sector lending. Nevertheless, ongoing issues do remain in the way the domestic banking system reviews risk and evaluates SMEs value propositions, and there also persists a severe lack of private venture capital across domestic sectors (OECD, 2008).

According to Crokes (2009), there are also some inhibitors and constraints to China's innovative objectives, which influenced the growth in Chinese SMEs, such as:

- a. Limited trust in partnership creation, preventing genuinely useful horizontal networks from being created China's distinctive brand of connection (*guanxi*) capitalism.
- b. Educational shortcomings in the way that problem solving and innovative thinking are encouraged in China, promoting the accumulation of facts rather than the application of knowledge. In qualitative terms, many in China's deep human resource pool may not have internationally competitive competences.
- c. A greater focus on new product development than on pure science research, linked to an overemphasis on the immediate application of incremental innovation.
- d. Ongoing weaknesses in the enforcement capability of China's intellectual property (IP) regime, although progress is being made.
- e. Overbearing bureaucratic state institutions undermining the distribution of available funds to genuinely innovative firms, especially in the SME sector.
- f. A potential tension in the national government's policy of providing the platform for nurturing national champions rather than allowing firm-level decisions to govern the right time for mergers with foreign companies seeking a market-entry acquisitions strategy.

CONCLUSION

SMEs empowerment in a structured and sustainable are expected to be able to align the structure of the national economy, accelerate

national economic growth, reduce unemployment rate, reduce poverty, dominated the real sector, and improve income distribution community. Empowerment of SMEs should be directed at efforts to improve productivity and competitiveness, as well as systematically directed towards growing new entrepreneurs in sectors that have high productivity based on knowledge, technology and local resources. With the development of globalization and intense world competition requires businesses to improve competitiveness both in terms of product quality, price, and mastery of technology, marketing, finance and human resources. All that is inseparable from a strong will to revitalize the institution itself SMEs with synergy among stakeholders both government as regulator, the public and other private businesses as well as NGOs.

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