

## Chapter 1.Introduction

### 1.1 Background

During this reign of Joko Widodo's presidency, Indonesia has target to increase the welfare and the development of micro, small, and medium enterprises (MSMEs). Entrepreneur ratio in Indonesia has reached the minimum level for a country to have at least 2% entrepreneur ratio out of its total population to have a prospering society. In 2017, at least 3.1% of the total population was identified as entrepreneurs and targeted to be at least at 4% in the end of the year of 2017 (Depkop, 2017). According to the minister of cooperation and small medium enterprises, Mr Puspayoga, the targeted ratio will increase to 5% in 2018 (Dini, 2018). This rapid increase in number of entrepreneur in Indonesia reflects the government target of creating 1 million newly created startup, which has growing and innovative potentials, during the 5 years of Jokowi's Presidency period (Kementerian Perencanaan Pembangunan Nasional, 2014).

Indonesian government also have other target such as an increase in GDP produced by MSMEs, 6.5-7.5% per year; increase in workforce absorption, 4.0-5.5% per year; increase in export outside oil and gas, 5.0-7.0%; increase of productivity, 5.0-7.0%; and increase of investment done by Cooperation and MSMEs, 8.5-10.5% (Menteri Koperasi dan Usaha Kecil Menengah Republik Indonesia, 2015). This shows that an increase of newly created entrepreneurs is not enough to boost the development of MSMEs and preserve its welfare. Beside MSMEs creation, Government should also include a target for sustainable growth in the MSMEs and Cooperation Sector.

In most cases, MSMEs have great contribution towards economy in both developed countries and developing countries because its significant contribution towards gross domestic product (GDP) in every country (Bamford & Bruton, 2011). Similarly with Indonesia, MSMEs are considered as the foundation of economic development. It contributes towards national and regional income through its absorption of employment, growth of local economics, and the distribution of goods and wealth (Riyadi & Supriady, 2004). As A whole it contributes towards 61.41% of national

GDP, 96.71% of total absorbed workforce, and 15.73% of export excluding oil and gases (Kementerian KUKM, 2017). In Indonesia the majority of MSMEs are small and micro enterprises with 59,203,509 units or 99% of the total enterprises in Indonesia. The number of small and micro enterprises is very far from the number of medium enterprises, 59,263 units and followed by large enterprises of only 4,987.

MSMEs also act as a buffer towards economies downturn, as it has more flexibility and less vulnerable towards dynamic market situations (Machmud, 2011). After Indonesian monetary crisis in 1998, there were a lot of large enterprises that get affected and become stagnant or even ceased its operation, SMEs has been proven to be able to withstand such crisis (Chabib, 2016). Not only surviving the crisis, SMEs in Indonesia were able contributes towards the economic recovery when large enterprises were not able to develop its business (Chabib, 2016).

The contribution of MSMEs in Indonesia undeniably helping the economy to grow; however, its contribution is not yet at its peak (Wardi, Y., 2017). Based on Indonesia Businessmen Association (APINDO) report in 2012, there are 5 factors, which show why the contribution is still weak. The first factor is that MSMEs in Indonesia are still lacking in entrepreneurial mindset, where innovation towards product and process is still minimum. The second factor is that they are lacking of managerial expertise. Lack of managerial expertise is causing the entrepreneur or the owner to have difficulties in solving organizational or even business management problem. This will cause their business process to be inefficient, ineffective, and not flexible. The third factor is the lack of established networking infrastructure. Lack of networking slows down the received information regarding market situation and supply situation thus, decrease the flexibility and adaptability of MSMEs and entrepreneurs. The forth factor is the lack of established tangible infrastructure. These limitations cause inability for MSMEs and entrepreneurs to exploit the regional and national market thoroughly. The last factor that becomes the weakness of MSMEs and entrepreneurs in Indonesia is limited financing. Limited access towards finance hampers their ability to scale-up their business.

Moreover, according to Lantu, Triady, Utami, and Ghazali (2016), limited access towards finance decrease the competitiveness in certain province in Indonesia.

A research conducted by Amarjit Gill and Nahum Biger in Canada and published in Journal of Small Business and Enterprise Development by Emerald Group Publishing Limited in 2012 measures factors that act as a barrier towards small business growth. The research measured the lack of financing, lack of management skill, market situation and regulatory issues towards the small business growth. The research shows that there are significant effect caused by the presence of lack of financing, market situation and regulatory issues towards small business growth.

The research conducted by Amarjit Gill and Nahum Biger shows similarities on what MSMEs in Indonesia is facing based on report from APINDO in 2012. Therefore a research on lack of financing, lack of management skill, market situation, and regulatory issues as a barrier towards MSMEs growth should be conducted. This subject is quite interesting as growth and creation of entrepreneurs and MSMEs are one of the government agenda.

However, to explore the growth barrier of MSME in Indonesia will takes too much time, resources, and manpower. With a limited time, resources, and manpower a smaller target population of MSMEs can be chosen to illustrate on how do barriers actually hinders the MSMEs growth in Indonesia. In this research West Java is chosen as a smaller target population to depict Indonesian MSMEs growth barrier condition.

West Java, as the province with highest amount of MSMEs, has 18.6% out of the total MSMEs of Indonesia (BPS, 2006). Furthermore, according to preliminary survey of Hamali, S. (2013), MSMEs in West Java do have difficulties in financing their business, marketing their product, and having high production cost. All three difficulties experienced by MSMEs in West Java are related in some ways with the main issues of Indonesian MSMEs. Due to this, West Java as the province with the highest amount of MSMEs, can give a depiction of what do MSMEs are facing as a growth obstacle.

## **1.2 Problem Formulation**

This research focuses on examining the influence of lack financing; lack management skill, market situation, and regulatory issues towards small business growth. This research were adopted from the research conducted by Amarjit Gill and Nahum Biger which is conducted in Canada and published in Journal of Small Business and Enterprise Development by Emerald Group Publishing Limited in 2012, with the title of “ Barriers to Small Business Growth in Canada.”

Based on the introduction, main problems of this research can be identified, which are:

1. What is the influence of lack of financing towards small medium enterprise business growth?
2. What is the influence of lack of management skill towards small medium enterprise business growth?
3. What is the influence of market situation towards small medium enterprise business growth?
4. What is the influence of regulatory issues towards small medium enterprise business growth?

## **1.3 Research Purposes and Benefits**

A proper research should have a purpose to begin with and an outcome as a result. A purpose is required to give a base on where does the research positioned. While a benefit is required to shows the end result of the research. Both aspects are needed to create a contributive research.

### **1.3.1 Research Purposes**

The research has a purpose to understand factors that affect business growth in micro small and medium enterprises. After literature review and deciding the research model, some factors were used as the research factors. Therefore the purpose is to see whether the factors have any influence towards micro small and medium enterprise business growth. Below is the list of purposes based on the factors and business growth.

1. To understand the influence of lack of financing towards micro small medium enterprise business growth
2. To understand the influence of lack of management skill towards micro small medium enterprise business growth

3. To understand the influence of market situation towards micro small medium enterprise business growth
4. To understand the influence of regulatory issues towards micro small medium enterprise business growth

### 1.3.2 Research Benefits

This research will benefit various beneficiaries. In this research three beneficiaries are found, which are: MSMEs, government, and academic. Below is the detail explanation on each beneficiary:

1. For MSMEs this research can give an idea on what will be the barrier that they will face if they want to scale-up their business. Because of that, entrepreneurs and MSMEs can plan on how to tackle the barrier when they face the problems or anticipate for when the barriers hinder the business growth.
2. For Government, this research serves as depiction on what the entrepreneurs and MSMEs will face. Therefore the government can support either directly or indirectly for the MSMEs and entrepreneurs to prepare on facing such barriers.
3. This research also benefit for further research, which will investigate the barrier for small medium enterprise business to grow. This research is expected to be a reference for further specific research on the already existing variables or even newer variables.

## 1.4 Thesis Structure

The Thesis structure is developed based on I3L thesis guidelines. It includes every chapters that will be written in this researched. Contents of every chapter will be briefly discussed to create a summarization of what will be done in this research.

### 1.4.1 Chapter 1: Introduction

Introduction chapter discuss on the background of this research on why does this research is conducted. Background information, problem formulation, and purposes and benefits of this research will be explained in this chapter.

#### 1.4.2 Chapter 2: Literature Review

In literature review, current progress and debates on theories related with the research will be discussed. It includes the debates on variables used in this research and the empirical studies of previous research. Theories relevant to entrepreneurial barriers growth will be discussed.

#### 1.4.3 Chapter 3: Research Methodology

Research methodology chapter will explain the flow of this research. It includes research design, data collection method, sampling technique, research model, hypothesis, operational hypothesis definition, data processing and analysis method, hypothesis testing method, and questionnaire design.

#### 1.4.4 Chapter 4: Results

Results chapter shows the findings related to data collection. However discussion over the result will be further elaborated in chapter five.

#### 1.4.5 Chapter 5: Discussion

This chapter aims to provide answers to the problem formulated in the introduction chapter. Interpretation and opinion on gathered data will be discussed. Moreover, implication of the discoveries and future research will be explained.

#### 1.4.6 Chapter 6: Conclusion and Recommendation

Conclusion chapter summarized the research by restating the answers of the previously proposed question in the introduction chapter. This section also stated the contribution towards the respective field of research. Limitations of this researched will be presented to help future research to avoid or prevent the same obstacles to occur. Suggestions for researcher and entrepreneur will be mentioned.