

STRATEGIES FOR HRM OF SMEs IN INDONESIA

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ABSTRACT

In developing strategies for human resource management in SMEs, one must look at the characteristics of SMEs. SMEs are managed by their owners and are mostly family businesses, and therefore their success depends primarily on the entrepreneurial and management capabilities of the owners. In Indonesia, the population consists of many ethnic groups like indigenous Indonesians (*pribumi*), Chinese, Arabs, Indians and others, each with their own tradition, historical background and attitudes. *Pribumis* again are subdivided into many subethnic groupings. However, the most successful ethnic group in business is the Chinese.

Being small is often identical with personal weaknesses of the owners like weak mentality as lack of motivation for achievement, and not only because of lack of government support facilities, but often also because of the incapability of exploiting opportunities. The paper looks into the background of different attitudes among various ethnic groups in Indonesia as to their entrepreneurial capabilities, and offer suggestions for the development of SMEs. There are at least three groups which needs special attention, the firm owners, the workers, and government officials in charge of SMEs development. There are also at least four important areas in which the skills of SME owners should be enhanced: management, financial management, marketing and technological skills. In addition, credits to SMEs must also be made available, since generally they have little access to formal financial markets because of lack of collateral means.



INTRODUCTION

In developing strategies for human resource management (HRM) for small and medium-scale enterprises (SMEs), one must in the first place look at the specific characteristics of SMEs. SMEs are managed by their owners and are mostly family businesses, and therefore the success of SMEs depends primarily on the entrepreneurial and management capabilities of the owners. The Indonesian Central Statistics Agency divides the scales in manufacturing industries into four categories: large, medium, small-scale and household enterprises¹. In looking at HRM of SMEs, there are three critical problems to be addressed at:

1. the owner of SMEs,
2. the cultural background of various ethnic groups in Indonesia and their respective attitude toward entrepreneurship,
3. government policies toward the development of SMEs and the quality and dedication of government officials involved in promoting the development of SMEs.

In Indonesia, the population consists of many ethnic groups like indigenous Indonesians (*pribumis*), Chinese, Arabs, Indians and others, each with their own tradition, historical background, identities and attitudes. *Pribumi* Indonesians are again subdivided into many subethnic groupings. However, the most successful entrepreneurs are Indonesians of Chinese descent. Ethnical background has a great impact on the general performance of doing business, some groups are more successful than others among ethnical lines. Being small is often identical with personal weaknesses of the owners like weak mentality as lack of motivation for achievement, and not only because of lack of support measures, but often also because of the incapability of exploiting opportunities.

The paper looks into the background of different attitudes among the various ethnic groups in Indonesia as to their entrepreneurial capabilities, and offer suggestions for the development of SMEs, in particular to those owned by *pribumi* Indonesians. What kind of support and training are needed, to the firm owners and to the workers. Though born attitudes and cultural background are difficult to change, education and training can bring to a certain degree some changes in attitudes. Another general weakness is in the supervising and control of workers and products. Special attention should also be given to HRD enhancement of government officials in charge with the support and development of SMEs.

The paper will be organised in the following sections: SMEs in Indonesia, weaknesses in HRM, government policy and assistance, education and training, conclusion and policy recommendations. The government policy of establishing foster father partnership scheme by

¹ Large scale enterprises are defined as those having at least 100 employees, while medium scale as those having between 20 and 99 employees, small scale between 5 and 19, and household industries as having less than 5 employees.



establishing linkages between large and small firms through subcontracting and technical assistance will also be discussed.

SMEs in Indonesia

According to estimate figures for 1997, there were in total 2,610,693 household industry establishments, 241,169 small-scale and 23,632 large and medium-scale enterprises in Indonesia². As can be seen, household industries are very dominant in terms of number of establishments in Indonesia's manufacturing industrial structure, while large and medium-scale enterprises constitute only a relatively small portion. Compared to 1994 figures, the number of large and medium-scale enterprises increased by 24.3 %, small-scale enterprises by 43.4 %, but only 10.1 % in case of household industries. But in terms of contribution to overall employment, the large and medium-scale industries absorb the largest employment level, 4,337,609 in 1997 compared to 4,275,424 in the household industries and 2,077,298 in the small-scale industry sector. Employment growth as compared to 1994 reached 17.3 % in the large and medium-scale industries, 47.6 % in the small-scale industries, but only 8.3 % in the household industries. So the largest contribution to employment came from the small-scale manufacturing industry sector. See Table 1 and 2.

Looking at the individual manufacturing subsectors of small and household enterprises, the picture is as follows. In general, both the number of industrial establishments and the employment level increased sharply during the 1994 to 1997 period. In terms of number of establishments in the small-scale industry category, the four largest subsectors in 1997 were by following order, the food and beverages industry, then the construction material industry, the wood industry, the textile, garment and footwear industry. The three smallest subsectors were the steel and iron industry, the chemical industry, and the paper and printing industry. However, the fastest expanding subsectors from 1994 to 1997 were the iron and steel industry with 126.5%, followed by paper and printing industry with 113%, the chemical industry with 68% and the food and beverages industry with 61%. While the metal and electrical products and motor vehicle components industry remained almost stagnant with 3%. See Table 1 and 2.

In the household industry category, in terms of number of establishments, the four largest subsectors in 1997 were by following order the food and beverages industry, the woodworking industry, the textile, garment and footwear industry, and the construction material industry. The three smallest subsectors were again the iron and steel industry, the paper and printing industry and the chemical industry. The fastest expansion from 1994 to 1997 were to be found in the miscellaneous product industry with 52.9%, followed by the chemical industry with 44.8% and the paper and printing industry with 43.7%. Two industries however showed contracted development, the iron and steel industry with -17.6% and the woodworking industry with -2.1%. See Table 1 and 2.

In terms of employment in the small-scale industry category by subsectors, by far the largest absorption of labour occurred in the food and beverages industry, followed respectively by the textile, garment and footwear industry, the construction material industry

² Indonesian statistics do not make further separation between large and medium establishments.

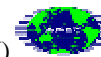


and the woodworking industry. The smallest labour absorption occurred again in the iron and steel industry, the chemical industry and the paper and printing industry. The largest expansion in labour absorption between 1994 and 1997 was to be found in the manufacturing subsectors iron and steel industry with 219.1%, paper and printing industry with 138.4%, food and beverages industry with 99.8%. The smallest increase in labour employment was in the metal, electrical products and vehicle components industry with only 8% during the period, See Table 1 and 2.

In the household industry sector, the four largest subsectors in terms of labour absorption were respectively, the food and beverages industry, the woodworking industry, the textile, garment and footwear industry, and the construction material industry. The smallest were again the iron and steel industry, the chemical industry, and the paper and printing industry. Growth in employment increased fastest during the period 1994 to 1997 in the chemical industry with 87.2%, iron and steel industry with 72%. On the contrary, negative employment growth was observed in the woodworking industry with -7.3%. See Table 1 and 2.

Table 1. Number of Establishments and Persons Employed of Large/Medium, Small and Household Manufacturing Enterprises in Indonesia, 1994 - 1997

Industrial code	Number of Establishments			Persons Employed		
	Large/Medium	Small	Household	Large/Medium	Small	Household
(1)	(2)	(3)	(4)	(5)	(6)	(7)
31 1994	4,826	57,080	840,590	739,133	435,817	1,564,501
1995	5,336	66,318	856,477	895,762	517,545	1,606,248
1996	5,608	79,242	881,586	810,221	617,085	1,642,682
1997	5,713	91,922	963,213	784,667	780,136	1,794,794
32 1994	4,423	29,295	311,828	1,255,536	272,770	429,006
1995	4,958	33,779	319,867	1,312,767	331,353	425,645
1996	5,230	38,965	357,023	1,354,716	381,901	453,403
1997	5,261	38,258	359,240	1,399,827	375,294	456,214
33 1994	2,487	32,414	919,532	527,098	272,936	1,353,799
1995	2,913	34,982	908,461	538,935	286,935	1,276,256
1996	3,145	41,093	886,384	562,231	336,740	1,235,081
1997	3,240	39,740	900,338	581,763	325,964	1,254,595
34 1994	833	2,953	12,351	132,461	25,514	27,027
1995	905	4,101	13,789	149,016	39,634	30,257
1996	1,035	5,833	16,464	165,390	56,354	35,502
1997	1,004	6,293	17,749	174,399	60,823	38,285
35 1994	2,236	2,694	15,293	444,040	25,631	23,902
1995	2,412	3,310	16,992	472,334	30,483	36,600
1996	2,581	4,310	21,026	485,701	39,692	42,495
1997	2,590	4,529	22,151	473,306	41,708	44,751
36 1994	1,603	30,545	179,938	156,904	271,423	373,963
1995	2,027	33,787	194,885	179,847	275,105	403,538
1996	2,158	41,938	214,340	190,308	341,172	440,495



	1997	2,382	43,753	220,533	232,084	356,252	453,225
37	1994	151	275	1,845	46,774	2,035	3,400
	1995	169	317	2,248	47,644	2,670	4,599
	1996	182	623	1,521	50,420	6,494	5,847
	1997	190	623	1,521	54,508	6,494	5,847
38	1994	2,074	8,739	47,960	437,178	63,440	100,863
	1995	2,389	8,993	52,643	499,719	68,362	108,200
	1996	2,596	10,308	60,735	523,438	77,256	121,668
	1997	2,758	9,009	60,371	565,557	68,487	124,223
39	1994	384	4,159	42,881	74,546	37,421	71,711
	1995	442	5,180	47,953	78,117	45,712	77,582
	1996	462	6,666	62,490	72,542	58,684	98,590
	1997	494	7,042	65,576	71,498	62,140	103,490
Total	1994	19,017	168,154	2,372,218	3,813,670	1,406,987	3,948,172
	1995	21,551	190,767	2,413,315	4,174,141	1,597,799	3,968,929
	1996	22,997	228,978	2,501,569	4,214,967	1,915,378	4,075,763
	1997	23,632	241,169	2,610,693	4,337,609	2,077,298	4,275,424

31 Food, beverages and tobacco

32 Textiles, garment and leather products

33 Wood, bamboo, and rattan products including furniture

34 Paper and paper products, printing and publishing

35 Chemical, petroleum, coal, rubber, and plastic products

36 Non-metallic mineral products, except products of petroleum and coal

37 Basic metal industries

38 Fabricated metal products, machinery and equipment

39 Other manufacturing industries.

Source: Central Statistics Agency.



Table 2. Growth Rate of the Manufacturing Industries in Indonesia, 1994 – 1997 (in %)

Industrial Code	Number of Establishments			Persons Employed		
	Large/Medium	Small	Household	Large/Medium	Small	Household
(1)	(2)	(3)	(4)	(5)	(6)	(7)
31	18.4	61.0	14.6	6.2	99.8	14.7
32	18.9	30.6	22.6	11.5	37.6	6.3
33	30.3	22.6	-2.1	10.4	19.4	-7.3
34	20.5	113.1	43.7	31.7	138.4	41.7
35	15.8	68.1	44.8	6.6	62.7	87.2
36	48.6	43.2	22.6	47.9	31.3	21.2
37	25.8	126.5	-17.6	16.5	219.1	72.0
38	33.0	3.1	25.9	29.4	8.0	23.2
39	28.6	69.3	52.9	-4.1	66.1	44.3
Total	24.3	43.4	10.1	13.7	47.6	8.3

Source : Calculated from Table 1.

HUMAN RESOURCE MANAGEMENT IN SMEs

Entrepreneurial attitude, capability and performance differ among the various ethnic groups in Indonesia. The Chinese ethnic minority, it is estimated that they comprise around 5 % of total Indonesian population of around 200 million, dominates the greater part of the Indonesian economy, especially in the medium and large-scale enterprise category. Their presence is very conspicuous, as they dominate the business districts in large cities. And obviously they are the most successful ethnic group, which raises envy and deep-rooted hatred among other ethnic groupings. Consequently the Chinese were often the victim and target of social tensions and frustration in particular from *pribumis*, ending in violent riots and burning, like the violent atrocities of May 1997. Their business success is due to the fact because Chinese in general work harder than *pribumis* (Sutojo: 43), and are diligent, pragmatic, thrifty and trustworthy by nature, qualities that are needed to be a successful entrepreneur. However, among *pribumi* intellectuals, the sentiments towards Chinese are divided. Some praise the Chinese for their good values, but the majority hate them for being cunning, selfish, exclusive, stingy, etc. (see Jahja).

Next to the Chinese are Arabs, whose community is much smaller than the Chinese. In terms of entrepreneurship they are considered to be relatively successful. Contrary to Chinese, they are not considered as aliens but as *pribumis*. This is because they are already fully integrated with the *pribumis*, in particular because of their common Moslem religion, and since many of them are religious leaders in *pribumi* society where the majority is Moslem. In the historical past some rich Arab merchants founded sultanates and became Sultans. Arab Indonesians go to the same schools with *pribumi*, mostly live in the same neighbourhood although there are also Arab quarters, and the rate of intermarriages is high.

Generally on the bottom line are *pribumi* businesses. Seldom can *pribumi* businesses compete equally with the Chinese or Arabs. But here again there are great differences among the various *pribumi* subethnic groups, which are again geographically determined. E.g. people from the Minangkabau area in West Sumatra, from South Sulawesi and from Bali are generally



known as successful business people. Curiously enough, the role of women entrepreneurs is dominant in some parts of Indonesia, e.g. in Minangkabau, in Bali and to some extent also in Java. In these parts, women bear greater responsibility than men to sustain the family economically. In Minangkabau the cultural system is matriarchal, whereas in Bali women's position in society is equal to men.

However in most parts of Indonesia, generally the people have little business acumen. The Javanese cultural heritage of social harmony and to be respectful toward others does not comply to the need of being aggressive in daily business activities (compare Roepke: 112f.; Sutojo: 43; Vroom: 29). In some areas the people are still culturally backward, they live mainly from agriculture, and they are not used to running businesses. The few business activities that exist in these backward regions are owned by migrants from other parts of the country or by large companies having large forest concessions. To give an extreme example, e.g. in Irian Jaya, traditional village people in remote areas still live with minimum body coverings, the older people do not go to school, they do not master agricultural techniques, and they are estranged with monetisation.

Historically, during colonial times, indigenous Indonesians were excluded from business activities, instead the Dutch colonial rulers positioned the Chinese to act as middlemen between the indigenous peasants and the Dutch companies. Hence the Chinese could strengthen their economic dominance even until today. (Compare Roepke: 181, 199-202). After independence, the Chinese could maintain their dominant economic position by colluding with the political and military elites (see Roepke: 222).

Generally speaking, small enterprises is a reflection of personal weaknesses in doing business, as they do not have the necessary business acumen. Basically they are mentally poor: lazy; unreliable; no motivation for achievement, weak financial management, mixing personal and business financial matters together; concentration on the production side and less attention to foster sales; careless in achieving good quality standards; no introspection on one's mistakes and failures and blaming others instead of correcting and improving oneself (compare Priyono et al.: 58, 77). It is even being said that Indian and Chinese merchants inhibit the development of *pribumi* business activities through their well-established business channels (Priyono et al.: 98). Instead, some *pribumi* businessmen tend to compensate their entrepreneurial weaknesses with political relations. These weaknesses of SMEs do not stem from education, because high education does not guarantee successful entrepreneurial performance, since many businessmen can be successful although they receive only minimum education. Though it is difficult to change habits, attitudes, philosophy of life and culture of societies, nonetheless, still the most operational variable to change these weak attitudes to some extent is through education and training.

GOVERNMENT SME POLICY

The Indonesian government has since the early independence day taken discriminatory actions against the Chinese economic dominance and introduced various programmes to promote and support SMEs, in particular *pribumi* businesses, however without much success (Suryadinata: Ch. 6). Nonetheless the former were more successful in developing their businesses without much government support, sometimes even faced with



hostile government policies. The negative sentiments of *pribumis* against the Chinese came already to the surface even during colonial times with the founding of a Moslem Union Movement, the *Syarikat Islam*, in 1911, founded primarily to counter the economic dominance of Chinese businesses. Despite these anti-Chinese sentiments, Chinese businesses managed to flourish.

Important measures taken by the government to promote SMEs development are:

- The foster father partnership scheme, where large firms take care and advice a number of SMEs to support their development, among others through subcontracting. This programme was not very successful. In Indonesian culture *bapak* (meaning father) is a person that is to be honoured, it is “the necessity to honor the older and higher status people, because they are thought to have the role of fathers in the societal family.’ (Vroom: 29). The traditional paternalistic father-child connection “suggests that both parties have mutual obligations in order to maintain social harmony: the first one to protect and to educate the others, the others to provide the first ones with everything they need for a decent living” (Vroom: 29).
- Various credit schemes with relatively low interest rates. This programme was not very successful either, since the banks were reluctant to participate, as the costs of lending small credits are much higher than large ones.
- Using 1-5% state-owned enterprise profits to extent financial support to SMEs with low interest rates. Lack of commitment and weak channeling system of funds made the programme less successful.
- Conglomerates were urged to donate some shares to cooperatives. This was more a political move by former President Suharto to ease the tension between small and large firms. The amount of shares granted to the cooperatives were too small and only few conglomerates comply on the appeal to be effective.
- Education and training for SMEs. “Provision of training is frequently linked to the provision of working capital and, very occasionally, fixed capital.” (Sandee, et al.: 124). However capital is needed to adopt new technologies, and this is generally lacking (Sandee, et al.: 128). Participation rate of these programmes were however low (compare Sandee, et al.: 122-5), because they do not see the direct benefit of these training for running their businesses. In addition there are a number of loan programmes to financially support the development of SMEs (see Timberg, Pangestu). The accessibility to financial credits is imperative for the development of SMEs, since in the formal financial market they usually lack collateral means to obtain loans and therefore they have to depend on non-formal financial market loans with sometimes very high interest rates.

To promote the development of SMEs more forcefully, the government reorganised the Directorate General of Small and Medium Scale Industries to the Department of Cooperatives, forming a new Department with the name Cooperatives and the Development of SMEs.



Another obstacle to promote the development of SMEs is the negative attitude of government officials in charge of the programmes. Government apparatus often obstructs the issuance of permits (Priyono, et al.), and they prefer to collude with large businesses and neglect to support SMEs. The main cause is, because wages of government employees in Indonesia are very low, and the common saying among government officials is: why make things easy if you can make them difficult, so they can abstract some money from the business people. Government support programmes are being planned from the top, motivated by personal interests of government officials and not suited to the needs of SMEs. In reality the officials are learning much from the experiences of SMEs, and not the reverse. (Priyono et al.: 23)

EDUCATION AND TRAINING

Training and educating workers are the other option, but after training they may cause workers to seek better employment elsewhere. The quality of workers employed depends on the recruitment policy of firm owners, since usually all kinds of skills are available in the labour market, depending on wages. Indigenous Indonesian philosophy of life is to see human beings as equals, therefore they tend to seek workers with the lowest pay, not the best qualification. Therefore SME owners are generally reluctant to send their employees for training.

The firm owners themselves are also generally reluctant to attend training to enhance their knowledge and improve their performance, since they do not see immediate results they can use nor increase their sales. They consider such training as wasting time and unproductive, it is more important for them to attend their shops, and instead they send their children or relatives. Training organised by various Departments are often conducted in the evenings, free of charge, the participants get free consumption, and sometimes take place in the neighbourhood of the firms. A training usually get full attendance only if it is linked to a promise to provide loans afterwards.

CONCLUSION AND POLICY RECOMMENDATIONS

There are at least four areas for enhancing human resource development of SME owners, i.e. improving corporate management, financial management, marketing capabilities and increasing technological skills. These can be achieved through various training programmes, organised by the government and respective industry associations. A research on need assessment of the target group should first be conducted before the training starts. Involvement of industry associations is imperative, since they know the needs of their members best. Company visits by experts should also be part of support programmes, as these experts can advise the SME owners and solve problems together directly on the spot.

The support programmes should also be linked to the access of credit facilities. In the past, various credit schemes for SMEs were not very successful, and commercial banks were reluctant to provide credit to SMEs, because the interest rate was set lower by government regulation than the normal loan interest rates to promote the development of SMEs, whereas the administrative costs of extending small loans are much higher. In actuality, because of the difficulty in obtaining loans from commercial banks, many SMEs go to traditional money lenders and loan sharks, who demand high interest rates. Therefore, the Indonesian



government should revise the policy of providing cheap loans to SMEs and instead it should set a slightly higher interest rate than the normal rates, but much below the rates demanded on the informal financial market. This policy would give an incentive for commercial banks to engage more actively in providing small loans to SMEs.

Nonetheless, it is not enough to enhance HRD of SMEs only, but it is also of no less great importance to enhance the HRM capabilities of government officials, in particular those who are directly involved and responsible for the promotion of SME development. Wage improvement of government employees and increase of HRM capabilities are therefore imperative, so they can support the development of SMEs more effectively.



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