ASSESSMENT OF ENTREPRENEURSHIP IN INDONESIA TOWARDS COMPLIANCE ON FACING AFTA

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ABSTRACT

Entrepreneurship as a process of establishment of SMEs or business ventures in many sectors, have greatly contributed in the creation of jobs, innovation and to economic growths. Economic activities of large company tend to create opportunities for SMEs through creating new market as technology implementation. Government supports are needed to provide national intermediaries for supporting the entrepreneur to start the business, also preparing them for global competitive market. Intermediaries support government for educate entrepreneur increase their skill, knowledge, and motivate them as a coach. Intermediaries can from expert individual, private institution, and higher education institution. The purposes of this paper are to assess entrepreneurship in Indonesia and to offer some recommendations that can be followed up that can significantly give positive impact on entrepreneurship development in Indonesia ahead of the implementation of AFTA.

Keywords: Indonesia, entrepreneurship model, AFTA, SME.

ABSTRAK

Entrepreneurship sebagai sebuah proses pembentukan dari Usaha Kecil dan Menengah (UKM) atau usaha bisnis dalam berbagai sektor memberikan kontribusi yang besar dalam penciptaan lapangan pekerjaan, inovasi dan pertumbuhan ekonomi. Ekonomi dari perusahaan-perusahaan besar cenderung menciptakan peluang bagi UKM melalui penciptaan pasar dan penggunaan teknologi. Dukungan pemerintah sangat diperlukan untuk menyediakan perantara secara nasional dalam mendukung wirausahawan dalam memulai bisnis, juga dalam menghadapi pasar global yang kompetitif. Perantara yang didukung pemerintah itu untuk mengedukasi usahawan untuk meningkatkan keahlian, pengetahuan dan memotivasi mereka sebagai pembimbing. Perantara tersebut dapat saja dari ahli individual, institusi swasta dan perguruan tinggi. Tujuan dari tulisan ini adalah untuk melakukan pembebanan kewirausahaan di Indonesia dan mengusulkan rekomendasi yang dapat ditindaklanjuti untuk memberikan dampak positif secara signifikan terhadap pengembangan kewirausahaan di Indonesia dalam mengahadapi implementasi AFTA.

Kata kunci: Indonesia, entrepreneurship model, AFTA, SME.
INTRODUCTION

In the International Conference on Business, International Relation and Democracy 2012 (ICoBIRD 2012) on November 2012 at Binus University, Jakarta, The General Electric CEO for Indonesia, Handry Santriago, said that Indonesia is not ready in facing the very near AFTA implementation in year 2015. And the question is why Indonesia will not be ready. One a very bold reason is the transportation cost and the traffic in Indonesia. The cost is very high and a lot of traffic jams in Indonesia, especially in Jakarta and Java Island. Indonesia has competitiveness in human resource wages and natural resources but not in the transportation. This opinion, of course, is based on experiences of General Electric (GE), a global company in the world. GE saw Indonesia as a huge market but not as a country to produce some products; Indonesia is not an attracting country for investment in new industry development as well as the supporting aspects for business are not ready.

Similar with Indonesia, twenty years after the Philippines signed the ASEAN Free Trade Area (AFTA) agreement; this country may still not be ready to join the ASEAN Economic Community (AEC) by 2015. In an interview with Rappler, Josef Yap, president of state-owned think tank Philippine Institute for Development Studies (PIDS), said that without a strategy in place, the Philippines was not ready for many things, including its membership to the World Trade Organization (WTO) in 1995 or various free trade agreements (FTAs) undertaken in recent years. Yap said the absence of an industrialization policy may prevent the Philippines from sharing the gains of globalization, which its neighbor countries such as Singapore, Taiwan, or Japan were already able to enjoy. Philippines jumped in too soon without any strategy and Philippines did not adjust effectively unlike neighbor countries. And, Philippines did not experience the same level of investment inflow as neighbor countries. (source: http://www.rappler.com/business/11600-ph-may-not-be-ready-for-aec-pids)

Regarding two opinions on Indonesia and The Philippines on facing AFTA, actually there are opportunities on developing Indonesia economic through Entrepreneurship development on SMEs (Small Medium Enterprises). SME has given a proven record on economic development.

Many analyst and economics theoreticians recognized that entrepreneurship and entrepreneurs are important drivers of economic growth, employment, innovation and productivity has been long understood by analysts and economic theoreticians. Entrepreneurship is the engine driving of economy and society for most nations (Brock and Evans, 1989; Acs, 1992; Carree and Thurik, 2002). Arowomole (2000) defined entrepreneurship as the coming into existence (in a society or country) of the class of individuals, who are not timid to face odds and are ready to achieve a significant performance. Entrepreneurship also can define as the process of get profit from unique and valuable product or service in an unpredictable and dynamic environment. Therefore, entrepreneurship involves the process of nurturing potential person who can become an entrepreneur or a person that already entrepreneur to become more effective in running their own business.

Entrepreneurship is a process of establishment and creation of SMEs or business ventures in many sectors. Akande and Ojokukku (2008) noted that SMEs have greatly contributed in the creation of jobs, innovation and to economic growths. SMEs contribute significantly to economic growth and employment, based on 2010 data, SMEs contribute 56% to the Gross Domestic Product (GDP) and the employment rate of over 97 percent makes the SMEs sector as an important sector for the economy of Indonesia in general.

This condition has emerged for a number of reasons, such as the fact that entrepreneurship is perceived as bringing benefits at both the macro level of economic development (Birch, 1979) and also at the micro level of personal satisfaction and achievement (Anderson, Kirkwood and Jack, 1998). Parallel to the evolution of the field of entrepreneurship we can note an increasing interest in the development of educational programs to encourage and foster entrepreneurship (Solomon et al., 2002).
The relationship between entrepreneurship and economic development has been identified as having a strong, positive relationship between the two. The authors used data taken from the Global Entrepreneurship Monitor (GEM) Report 2011 and has been designed to be output-oriented, with an emphasis on developing recommendations to be implemented by various stakeholders, and provide actionable plans for the way forward. The role of entrepreneurial support organizations, both non-governmental states sponsored or given a particular thought, is very important for their interest and crucial role.

**Problem Definition**

The authors identify the importance of Entrepreneurship in Indonesia, but what would happen when this country implementing AFTA. What support mechanisms that have been done until now. Relating to that questions, the authors define the purposes of this paper are to assess entrepreneurship in Indonesia and to offer some recommendations that can be followed up that can significantly give positive impact on entrepreneurship development in Indonesia ahead of the implementation of AFTA.

**RESEARCH METHOD**

This study will explore a literature research from experts relate to AFTA, Indonesia economic and entrepreneurial model. The entrepreneurial models proposed are: Timmons model and Revised GEM Model.

**RESULTS AND DISCUSSION**

**Indonesia: Economic and Entrepreneurs**


<p>| Table 1 GDP by Industrial Year 2009-2011, and Sources of Growth Rate Year 2011 |</p>
<table>
<thead>
<tr>
<th>-----------------------------------</th>
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</tr>
</thead>
<tbody>
<tr>
<td>1. Pertanian, Perkebunan, Kehutanan, dan Pertanian</td>
<td>535.7</td>
<td>981.6</td>
<td>1,053.5</td>
<td>295.9</td>
<td>304.7</td>
</tr>
<tr>
<td>2. Pertambangan dan Penggalian</td>
<td>592.1</td>
<td>718.1</td>
<td>863.6</td>
<td>180.2</td>
<td>186.6</td>
</tr>
<tr>
<td>3. industri Pengolahan</td>
<td>1,477.5</td>
<td>1,596.8</td>
<td>1,803.5</td>
<td>570.1</td>
<td>597.1</td>
</tr>
<tr>
<td>4. Listrik, Gas, dan Air Bersih</td>
<td>46.7</td>
<td>49.1</td>
<td>53.7</td>
<td>17.1</td>
<td>18.1</td>
</tr>
<tr>
<td>5. Konsentrasi</td>
<td>555.2</td>
<td>660.9</td>
<td>756.5</td>
<td>140.3</td>
<td>150.0</td>
</tr>
<tr>
<td>6. Pedagang, Hotel, dan Restoran</td>
<td>745.5</td>
<td>862.5</td>
<td>1,022.1</td>
<td>369.5</td>
<td>400.5</td>
</tr>
<tr>
<td>7. Pengumpulan dan Komunikasi</td>
<td>333.7</td>
<td>423.2</td>
<td>491.2</td>
<td>192.2</td>
<td>218.0</td>
</tr>
<tr>
<td>8. Keuangan, Real Estat, dan Jasa Perusahaan</td>
<td>405.2</td>
<td>466.6</td>
<td>530.0</td>
<td>209.2</td>
<td>221.9</td>
</tr>
<tr>
<td>9. Jasa-Jasa</td>
<td>574.1</td>
<td>654.7</td>
<td>783.3</td>
<td>205.4</td>
<td>217.8</td>
</tr>
<tr>
<td>Produk Domestik Bruto (PDB)</td>
<td>5,606.2</td>
<td>6,456.3</td>
<td>7,427.1</td>
<td>2,178.9</td>
<td>2,313.8</td>
</tr>
<tr>
<td>PDB Tangga Milik</td>
<td>1,141.4</td>
<td>1,356.2</td>
<td>1,794.4</td>
<td>2,036.7</td>
<td>2,171.0</td>
</tr>
</tbody>
</table>

Source: www.bps.go.id/brs_file access date 20 October 2012
During the year 2011, all economic sectors experienced growth. The highest growth occurred in Transportation and Communication Sector reached 10.7 percent, followed by Trade, Hotels and Restaurants Sector 9.2 percent, Financial Sector, Real Estate, and Business Services 6.8 percent, Services Sector and Services Sector Construction 6.7 percent respectively, Manufacturing Sector 6.2 percent, Sector Electricity, Gas and Water Supply 4.8 percent, 3.0 percent Agriculture Sector and Mining and Quarrying Sector 1.4 percent. Without oil GDP growth in 2011 reached, that means 6.9 percent higher than the overall GDP growth of 6.5 magnitude percent.

Manufacturing Sector and Trade Sector, Hotels and Restaurants experiencing growth amounted to 6.2 percent and 9.2 percent contributed to the largest source of growth of total GDP growth, respectively by 1.6 percent. And it followed by Transportation and Communication Sector that provides contribution of 1.0 percent (Table 1).

Interestingly, the Indonesia total growth rate of 6.5 percent resource from the Transportation and Communication Sector growth rate of 10.7 percent when the Agriculture Sector growth rate only 3.0 percent. Indonesia, as one of the biggest agriculture country, the contribution of Agriculture Sector is very small. On the other hand, the Mining and Quarrying Sector contribute only 1.4 percent (the smallest). This condition is also contrary with the condition of Indonesia huge natural resources. The Trade, Hotels and Restaurants Sector contribute for the second highest. These economic facts mean that the contribution of Indonesia natural resources is not completely optimized.

Based on data from IMF Economic Outlook April 2011, Indonesian GDP amount USD 3,023, below Singapore and Malaysia (Table 2).

Table 2 ASEAN: Population, Territory and Economy, 2010

<table>
<thead>
<tr>
<th>Country</th>
<th>Total land area (sq km)</th>
<th>Total population (thousand)</th>
<th>Gross Domestic Product at current prices (US$ M)</th>
<th>Gross Domestic Product per capita (US$)</th>
<th>GDP per capita in PPP$ (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei Darussalam</td>
<td>5,765</td>
<td>415</td>
<td>12,402,19,406</td>
<td>29,915,56,411</td>
<td></td>
</tr>
<tr>
<td>Cambodia</td>
<td>181,035</td>
<td>15,269</td>
<td>11,168,28,985</td>
<td>731,1,898</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>1,860,360</td>
<td>234,181</td>
<td>708,032,1,030,986</td>
<td>3,023,4,403</td>
<td></td>
</tr>
<tr>
<td>Lao PDR</td>
<td>236,800</td>
<td>6,230</td>
<td>6,506,16,105</td>
<td>1,045,2,585</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>330,252</td>
<td>28,909</td>
<td>238,849,415,157</td>
<td>8,262,14,381</td>
<td></td>
</tr>
<tr>
<td>Myanmar</td>
<td>676,577</td>
<td>60,163</td>
<td>43,025,76,601</td>
<td>715,1,273</td>
<td></td>
</tr>
<tr>
<td>Philippinies</td>
<td>300,000</td>
<td>94,013</td>
<td>189,326,351,686</td>
<td>2,014,3,741</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>710</td>
<td>5,077</td>
<td>223,015,291,934</td>
<td>43,929,57,505</td>
<td></td>
</tr>
<tr>
<td>Viet Nam</td>
<td>331,051</td>
<td>86,930</td>
<td>107,650,291,260</td>
<td>1,236,3,351</td>
<td></td>
</tr>
<tr>
<td>ASEAN</td>
<td>4,435,670</td>
<td>598,498</td>
<td>1,858,683,3,107,829</td>
<td>3,106,5,193</td>
<td></td>
</tr>
<tr>
<td>CLMV&lt;sup&gt;+&lt;/sup&gt;</td>
<td>1,425,463</td>
<td>168,592</td>
<td>168,351,412,951</td>
<td>999,2,449</td>
<td></td>
</tr>
<tr>
<td>ASEAN6&lt;sup&gt;*&lt;/sup&gt;</td>
<td>3,010,207</td>
<td>429,907</td>
<td>1,980,322,2,694,678</td>
<td>3,932,6,289</td>
<td></td>
</tr>
</tbody>
</table>

Note: GDP per capita in PPPS is GDP converted to international dollars using purchasing power parity (PPP) rates; hence PPP $1 in a country, say Cambodia has the same purchasing power as PPP $1 in all other countries in the world. PPP is an index of purchasing power, showing the purchasing power of US$1 in a country compared to US$1 in the benchmark country (USA).

Source: ASEAN Finance and Macroeconomic Surveillance Database and IMF-World Economic Outlook April 2011.

Table 2 shown data from IMF Economic Outlook April 2011, Indonesian GDP amount of USD 3,023, below Singapore and Malaysia. Indonesia GDP is only less than 50 percent compared to Malaysia GDP and less than 10 percent compared to Singapore GDP, even the Indonesia GDP still...
remains in the average of ASEAN countries (USD 3,106). On the other hand, Indonesia population (234,181,000 people) is about 10 times compared to Malaysia (28,909,000 people) and almost 50 times compared to Singapore (5,077,000 people). And the comparison in total area: Indonesia total area (1,860,360 km²) is about 6 times compared to Malaysia (330,252 km²) and 2,600 times compared to Singapore (710 km²). What did these conditions try to show? Indonesia did not explore its huge resources when a small country like Singapore did.

These conditions show that entrepreneur’s role to explore Indonesia resources is very important. The number of population means market for a huge giant company such as General Electric, but on the other hand it is also a big opportunity for Indonesia to develop and build competence level of Indonesia people. Again and again, the high number of population and low GDP reflects that the appropriate Indonesia model of venture is SME.

According to research Winarni (2006) and Situmorang (2008) concerns faced by SMEs, summarized as follows: lack of capital, difficulties in marketing, a simple organizational structure with division and non-standard employment, low quality of management, limited high quality human resources or most of them is low, most do not have the financial statements, weak of legality, and the poor quality of technology.

These problems resulted in weak business networks, the limited ability of market penetration and market diversification, economies of scale too small and difficult to press charges, margin profit is very small, and furthermore SMEs do not have a competitive advantage. Furthermore if they do not have competitive advantage, what is the impact of AFTA implementation in Indonesia? It may result in unemployment in the industry that is comparatively disadvantages. According to Tambunan (2002) characteristics of SMEs which have a competitive advantage is as follows: the quality of human resources well, optimal utilization of technology, ability to improve efficiency and increase productivity, to improve the quality of products, having access to extensive promotion, having a quality management system structured, adequate capital resources, having a wide business network, having an entrepreneurial spirit.

**Indonesia and AFTA**

ASEAN Free Trade Area (AFTA) is a trade bloc agreement by the Association of Southeast Asian Nation (ASEAN) supporting local manufacturing in all ASEAN countries. The AFTA agreement was signed on 28 January 1992 in Singapore. When the AFTA agreement was originally signed, ASEAN had six members, namely: Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, and Thailand joined in 1995, Laos and Myanmar in 1997 and Cambodia in 1999. AFTA now comprises the ten countries of ASEAN. All the four latecomers were required to sign the AFTA agreement in order to join ASEAN, but were given longer time frames in which to meet AFTA’s tariff reduction obligations.

The primary goals of AFTA seek to increase ASEAN’s competitive edge as a production base in the world market through the elimination, within ASEAN, of tariff and non-tariff barriers; and to attract more foreign direct investment to ASEAN. The primary mechanism for achieving the goals given above is the scheme, which established a schedule for initiated phase in 1992 with the self-described goal to increase the "region’s competitive advantage as a production base geared for the world market".

SMEs are integral to the economic development and growth of the ASEAN Member States (AMS) as they largely outnumber large enterprises in both quantity of establishments and share of the labor force they employ. SMEs account for more than 96% of all enterprises and 50% to 85% of domestic employment. The contribution of SMEs to GDP is between 30% and 53% and the
contribution of SMEs to exports is between 19% and 31%. They are important in terms of income and employment generation, gender and youth empowerment through business participation, and their widespread presence in non-urban and poorer domestic regions. SMEs are the backbone of ASEAN and SME development is integral to achieve long-run and sustainable economic growth.

With the strong forces of globalization, it is therefore essential to build the capacities of SMEs in the region in order to ensure that they are highly competitive, innovative, and be able to utilize the regional economic initiatives and incentives provided by the government.

The Strategic Action Plan for ASEAN SME Development 2010-2015 outlines the framework for SME development in the ASEAN Region. The Plan covers mandates stipulated in the ASEAN Economic Community (AEC) Blueprint, and the current and future work of the ASEAN SME Working Group (ASEAN SMEWG), which is composed of the SME Agencies of all ASEAN Member Countries. In partnership with donor agencies and the private sector, the ASEAN SMEWG seeks to ensure the advancement of SMEs in the region.

The ASEAN SMEWG has established joint consultations with the SME Agencies of the ASEAN plus Three (China, Japan and the Republic of Korea), which enables valuable exchanges of best practices and fruitful cooperation on several SME Projects and Workshops. There are five major deliverables targeted for SME under the AEC Blueprint namely the establishments of (a) a common curriculum for entrepreneurship in ASEAN (2008-2009); (b) comprehensive SME service centre with regional and sub-regional linkages in AMSs (2010-2011); (c) SME financial facility in each AMS (2010-2011); (d) a regional program of internship scheme for staff exchanges and visits for skills training (2012-2013); and (e) a regional SME development fund for use as a funding source for SMEs that are undertaking business in ASEAN (2014-2015).

**Entrepreneurship Dynamic Model**

Before discussing further, we will look at the birth of the entrepreneurial process.

**Entrepreneurial Process**

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Timmons Model of the Entrepreneurial Process

Opportunity -> Business plan -> Resources

Ambiguity -> Team

Creativity -> Exogenous forces

Leadership

Uncertainty -> Capital market context

Communication

Figure1 Entrepreneurial Process
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The key factors in the Timmons model (see above) are the entrepreneur and the founding team, the opportunity, and the resources that are mustered to start the new organization. Put simplistically, the Timmons model is normative. The key ingredient is the entrepreneur. If the entrepreneur has the right stuff, he or she will deliberately search for an opportunity, and upon finding it, shape it so that it has the potential to be a commercial success, or what Timmons calls a high-potential venture. The entrepreneur then gathers the resources that are necessary to start a business to capitalize on his or her opportunity. Explicit in the Timmons framework is the notion that the entrepreneur and the provider of capital will be rewarded with profits, and that both are commensurate with the risk and effort involved in starting, financing, and building the business. The entrepreneur usually risks career, personal cash-flow, and some or all of his or her net worth. In an ideal situation, all this is quantified in a business plan before the business is operational.

The conceptual framework of GEM takes a slightly different angle. It analyses the success of large firms advancing market opportunities for SMEs and the role of entrepreneurship in the enterprise creation/growth process as the main mechanisms driving macroeconomic growth along with their complementary nature.

The Revised GEM Model

The revised Global Entrepreneurship Monitor (GEM) (http://www.gemconsortium.org/Model) model introduced a in line with Porter’s typology of “factor-driven economies”, “efficiency-driven economies” and “innovation-driven economies” (Porter et al., 2002) model. This model proposes GEM’s unique contribution: to describe and measure, in detail, the conditions under which entrepreneurship and innovation can thrive. The revised GEM model also has a new dynamic element in that it incorporates an understanding of how economies change as they develop, and the changing nature and contribution of entrepreneurship in this development: in factor-driven economies, economic development is primarily driven by basic requirements development of institutions, infrastructure, macroeconomic stability and health and primary education; in efficiency-driven economies, government focus is (or should be) on ensuring smooth mechanisms such as a proper functioning of the market; higher education systems, goods and labor markets and technological readiness. Even though these conditions are not directly related to entrepreneurship in the Schumpeterian sense of “creative destruction”, they are indirectly related since the development of markets will also attract and enable more entrepreneurship; in innovation-driven economies, entrepreneurial framework conditions become more important as levers of economic development than basic requirements or efficiency enhancers. The outcome of the model is national economic growth through, for example, job creation and technical innovation.
CONCLUSION

These conceptual frameworks that linked between two main pillars: improving national framework conditions and entrepreneurial framework conditions, but should be considered that still miss when the individual need mentoring from large company for challenging their ideas and turn into action to start business. Regarding to the Indonesia business environment, the hybrid model between Timmons model and Revised GEM model can be implemented in Indonesia. Timmons model can be the basic model for individual and Revised GEM model can be used as a whole both individual and government. As the results for entrepreneur are the attitudes, activities and aspirations can give impact to the national growth at the end.

Timmons model relates to individual entrepreneur more than to the government. This model gives a picture of entrepreneurial process. The components of the model consist of team, resources and opportunity. And, entrepreneur needs to support the relation with creativity, leadership and communication.

In the Revised GEM model, Government’s role in the Basic Requirements, Efficiency Enhancers and Innovation and Entrepreneurship is very big. Government can support development in institutions, infrastructure, macroeconomics and health and primary education. Also, government’s role is very important in education and policies or regulations. Even though, mostly, the roles of government are less than private sector; the needs of government support still high and really needed.

As a result, even though Indonesia is ready on facing AFTA, the exploration of own country resources are not optimal, the rate of education growth of entrepreneurship still low but Indonesia still can make preparations to increase the level of competitiveness. On facing AFTA or not, Indonesia has to increase the competitive advantage.
However this research has limitation, but a study sponsored by the World Bank noted that a major problem facing the entrepreneur to start a business was the constraint on their ability to access capital. One study of young potential entrepreneurs attempting to start a business in the UK found that access to capital was the number one barrier to entry. In these cases government need to provide national intermediaries for supporting the entrepreneur to start the business, also preparing them for global competitive market. Intermediaries supporting government for educate entrepreneur increase their skill, knowledge and motivate them as a coach. Intermediaries can from expert individual, private institution, and higher education institution.

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The revised Global Entrepreneurship Monitor (GEM). [http://www.gemconsortium.org/Model](http://www.gemconsortium.org/Model)
