The sources of competitiveness in the Indonesian small and medium food processing enterprises

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Indonesia has a huge number of Small and Medium Enterprises (SMEs) including SMEs in the food-processing industry. Food processing SMEs in Indonesia have existed for a long time and had always played an important role in order to distribute cheap food for low-income people all over the country. Further, SMEs in the food processing also play a significant role for job creation and income generation in a rural area.

However, the environment faced by the SMEs always changes dynamically. The structure of the industry also undergoes changes that affect the nature of competition. Nowadays, we are entering a hyper-competition era in which competition occurs not only among domestic companies but also foreign companies. Competitiveness becomes an important issue when dealing in the intense rivalry. Companies with a higher level of competitiveness have a bigger chance for success in exploiting the market and dealing with competitors. Therefore, companies with higher levels of competitiveness will survive and thrive. In other words, for success in this hyper-competition era, companies must pay attention to the sources of competitiveness and must have an ability to

maximize their competitiveness.

Unfortunately, not all the SMEs in the Indonesian food-processing industry could develop their competitiveness well due to the lack of resources. The classical problems such as a lack of capital, simple technology, difficulties in accessing markets and so forth are often considered as something that makes SMEs in the food processing become less competitive in the market. In order to develop competitiveness, SMEs in the food processing should explore what sources of competitiveness they have. By understanding the sources of competitiveness, SMEs can develop a strategy for improving their competitiveness.

The general objective of this study is to determine sources of competitiveness of SMEs in the food-processing industry. We propose the integrated model to analyze the sources of competitiveness. In this study, it will be analyzed in terms of internal and external sources of competitiveness. To analyze the inner sources of competitiveness, the relationship between market orientation, innovation and performance will be analyzed. In order to discover the external sources of competitiveness, this study will analyze the relationship between cooperation, innovation and performance. This study will also examine how the industrial clusters affect the improvement of SMEs' business performances.

This dissertation consists of eight chapters; the first chapter is introduction. This chapter discusses the overall background of the study, such as SMEs in the food-processing industry and general concept of competitiveness. The discussion is started by explaining it in developing countries and Indonesia. This chapter mentions the general concept of competitiveness and sources of competitiveness for food-processing SMEs. The objective of this study is placed within this chapter as well.

To understand the object and area of the study, chapter II describes the condition of SMEs and food-processing SMEs in Indonesia. This chapter also explains the role of SMEs in the Indonesian economy and the problems faced by SMEs. Because this study takes place in West Java, food-processing SMEs in West Java will be explained in more detail using Porter's diamond model approach. Recently, Porter's diamond model has become a key tool for the analysis of competitiveness, especially for the competitiveness of a certain location.

After describing the condition of SMEs and food-processing companies in Indonesia and West Java, this study assesses the competitive forces faced by the food-processing SMEs and examines the strategic behavior of SMEs in response to such

forces. Chapter III discusses the relationship between competitive forces and strategies in food-processing SMEs in West Java. Porter's analysis is used in this chapter as such analysis deals with the dynamic process by which advantage is created. Using the strategic view, our study confirms that the competitive forces faced by SMEs food processing affect competitive strategy and competitiveness. Basically, competitive strategy analysis seeks to identify the sources of increasing profitability. However, the strategic view of competitiveness that represent by the relationship between variables of the rivalry forces, competitive strategy and business performance is not enough to explain the factors of competitiveness on SMEs food processing. That is why we need more variables to explain competitiveness of SMEs clearly.

For answering the research question regarding the external source of competitiveness, chapter four examine the role of cooperation in improving innovation and performance. This chapter examines the hypothesis that cooperation among SMEs and cooperation between SMEs and other parties will benefit SMEs in order to build competitiveness. The results of this study indicate the importance of cooperation, specifically inter-firm cooperation and cooperation between SMEs and research institutions, in the development of innovations at SMEs in the food-processing industry. The results also show significant relationship between the innovations of SMEs to the business performance of the firms. Well-organized cooperation that considers the mismatching agents and tries to find a close to optimum solution in this turbulent environment could be a solution for SMEs problem related to innovation development.

Chapter five examines the relationship between internal variables. This chapter explains the implementation of the market orientation concept in food-processing SMEs and its effect upon innovation and performance. The results of this research indicate that market orientation that consists of three components (customer orientation, competitor orientation, and internal coordination) has positive relationship with innovation in SMEs food processing. SMEs cannot compete successfully by blindly duplicating the strategies and practices of large-firms Rather than attempting to combat the cost advantages that large firms enjoy, small-firm managers can achieve a sustainable competitive advantage by instilling a market-oriented behavior in employees.

Chapter six aims to find out how geographical proximity influences the performance of SMEs. This chapter discusses the differentiation between clustered and dispersed SMEs in the food-processing industry. The concept of the industrial clusters has become more popular recently, especially the advantage of this concept for

improving innovation. Indonesia has been implementing industrial clusters for SMEs. Chapter six discusses the effect of clusters in increasing cooperation, market orientation and innovation. This study shows that the cluster of SMEs food processing is important in minimizing obstacles to innovation that are faced by SMEs. SME clusters provide an opportunity for creating cooperation among firms, with the government, and with research institutions. Cluster also conducive to increase market orientated behavior. This study gives the fact that SMEs food processing which has good cooperation, market oriented and innovative behavior will have better competitiveness in the market.

For completing the explanation regarding the sources of competitiveness in SMEs in the food processing industry, a success story of food processing SMEs in Indonesia will be described. Six success companies are used as case studies in which three companies are from cluster areas and the other three from outside the clusters. All cases confirm that internal sources (market orientation and innovation) and external sources (cooperation and cluster) are needed by SMEs food processing to improve competitiveness.

From this research, it can be concluded that the food processing SMEs is needed by Indonesia to create job, provide cheap food, and economic growth in general.   On the whole, this study confirms the plausibility of our proposed approach, which could be tested more specifically in the future research. Cooperation, market orientation and innovation have been confirmed in this study as function of competitiveness on SMEs food processing. In order to strengthening cooperation, market orientation and innovation, cluster can be considered as the important source.

This study has four principal theoretical contributions. The first, this study give an alternative framework to analyze competitiveness on SMEs food processing industry. Second, this study proposed new integrated approach to increase competitiveness on SMEs food processing in developing country like Indonesia. Third, this study provides empirical evidence to examine identified theory in the real business practice. Forth, this study is strengthening the body of knowledge related to competitiveness on SMEs food processing industry.