



The Implementation of SMEs Sector's Strategic Management Accounting to Win The Local Competition Relating to Facing Global Business Competition

(A Sharing from a manufacturing company in Bandung)

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Abstract

Fact has proved, as BPS (2000) data shows about 9 of 10 Indonesia's business is Small, Medium Enterprise sector (SMEs), and that biggest foundation of Indonesia's Gross Domestic Product (GDP) is coming from SMEs sector. It's expected that SMEs will still grow in the future because the domestic demand is still very big. Because of that, and to stronger SMEs sector, so all stake holders have to use SMEs product to fulfill their consumption, so then SMEs's profit will increase continuously.

And in other side, SMEs sector has to develop their business capability, so they can reach their competitive advantages. One tool which can be used to win the competition is strategic management accounting (Collier: 2006: 48), with step such as: (1) finding competitor's information about their pricing, cost, sales volume, and market share; (2) doing management cost reduction; (3) developing their business strategy. These 3 steps will come-up to SME's competitive advantages, so they can maintain their sustainability and also improve their market share in domestic and analogously also in global market. In other words, SMEs business can survive in global competition.

Key words: Small, Medium Enterprise sector, competitive advantage, strategic management accounting, global market

INTRODUCTION

Based on Indonesian Statistics (BPS: 2000), 9 out of 10 (about 90%) businesses in Indonesia are Small, Medium Enterprises (SMEs). This sector employs 96.6% workforce and contributes 56% of Gross Domestic Product (GDP). It is known that during the 1997-1998 crisis, this sector was the sector that could resist the crisis. Looking at the current trend, various daily, secondary, and tertiary foreign products, especially goods from China flood Indonesian domestic market (Kompas: 13.5.11: 38). Domestic consumers switch



their choice to imported goods due to their lower price, better design, and easier treatment. And the reason why the goods from China are less expensive is due to their low production cost because of low labor, low capital interest, and the availability of tax incentive for importers. The impact of these various incoming imported goods which are lower in price is also felt by SMEs. Considering that SMEs as the biggest contributors to GDP, this fact demands full attention from all the stakeholders related to business; they should find new ways to increase business capability of the enterprises in facing tougher competition.

One of the tools to win competition is to apply strategic management accounting, in which the pricing, cost, sales volume, and market share of the competitor will become benchmark for the enterprises so that they can compete. If the enterprises have reached their competitive advantages, the enterprises, including the SMEs, will be able to face local competition and later the global one. The introductory explanation above can be seen in the following scheme:

Scheme 1. Introduction Concept



Statement of the Problem

1. How is the present condition/position of SMEs in Indonesia?
2. How can the implementation of strategic management accounting in SMEs increase their competitive advantages?
3. How can SMEs enter global market competition after winning local market competition?

THEORETICAL BACKGROUND

Definition, Characteristics, and Criteria of SMEs

Some institutions and laws have defined SMEs. According to the Ministry of Minister of State for Cooperation and Small Enterprises, small enterprise, including micro enterprise, is a business entity that has net wealth of not more than Rp. 200,000,000.00



excluding land and building. In the President's Instruction number 10/1999, medium enterprise is said to be an enterprise unit with net asset value (excluding land and building) between Rp. 200,000,000.00 and Rp. 1,000,000,000.00, and if larger, it is categorized as big enterprise.

In their developmental perspectives, SMEs can be classified into 4 groups; they are: (1) Livelihood activities, SMEs that are used as job chances to earn a living, generally known as informal sector, such as vendors; (2) Micro Enterprise; SME that has the characteristics of craftsman but does not have the spirit of entrepreneurship; (3) Small Dynamic Enterprise: SME that has spirit of entrepreneurship and is able to accept subcontract and export projects; (4) Fast Moving Enterprise: SME that has the spirit of entrepreneurship and will transform to a big enterprise.

Characteristics of SMEs

Based on the research done by AKATIGA, the Center for Micro and Small Enterprise Dynamic (CEMSED), and the Center for Economic and Social Studies (CESS) (2000), the characteristics of SMEs are to have the resistance to live, and even to have the ability to increase its performance during economic crisis. This is seemingly due to the fact that SME's flexibility in adjusting its production process, is able to develop with its own capital, and to return its loan with high interest, and is not involved too much in bureaucracy (Barlian, et.al: 2011:22).

The Concept of Strategic Management Accounting (SMA)

The contribution of management accounting to the development of business strategy is reflected in strategic management accounting, which aims to win competition with the competitor's company, so that the company's business development can be sustainably retained. In other words, strategic management accounting connects the implementations of all company's activities to business strategy to increase the company's competitiveness. According to Simmons (1994), as quoted by Collier (2006: 48), Strategic Management Accounting (SMA) is defined as "The provision and analysis of management accounting data about a business and competitors which is of use in the development and monitoring the strategy of the business." This explains there is analysis and understanding of the information of the competitor's company to evaluate the company's business strategy. It also explains the way generally used by evaluating the competitor's position from the aspects of "cost, price, sales volume, market share, cash flow, and resources (Collier: 2006: 48). Whereas Wilson (1995), as quoted by Collier (2006:48), states that strategic management accounting is "An approach to management accounting that explicitly highlights strategic issues and



concerns. In sets management accounting in a broader context in which financial information is used to develop superior strategies as a means of achieving sustainable competitive advantage.” This means that strategic management accounting is an approach of management accounting to company’s strategy, by using a broader point of view, in which financial information is used to develop business strategy to reach sustainable competitive advantage. There are three phases in conducting strategic management accounting, according to Lord (1996), as quoted by Collier (2006: 48-49); they are: (1) to collect information of the competitor’s company concerning pricing, cost, sales volume, and market share – after which comparison of the same information the company has reached, can be done to identify which critical points in the company should be improved; (2) to find ways to reduce the company’s cost by doing continuous improvement, and by using the information given by non financial performance measurement (such as measurement of the performance of stakeholders, supplies, internal business process, learning and growth); (3) to evaluate the connection between the information produced by management accounting and the company’s strategy – which means that the information produced by accounting is used to measure whether the company’s strategy has been conducted effectively. From the explanation it is clearly seen that strategic management accounting is a development of strategic cost management, that is, an approach to develop values starting from increasing the value of raw materials up to delivery of products/services to customers, in order to increase customer’s and supplier’s values by long term continuous cost reduction.

Global Market

Recent development of information and technology has abolished borders among countries and thus, the circulation of service and goods infiltrate every country freely. For Indonesia, this global era is more obvious as there are agreements among ASEAN countries to open single market by 2015, as stated as follows, “the Association of South East Asian Nations (ASEAN) has agreed in principle to speed efforts to create a single market by 2015” (August 22, 2006; www.google.co.id/frost.com/market-insight). The purpose of creating a single market is to reach a better agreement among the ASEAN countries and to face the competition with China and India. This means that the business competition in our business world will be tougher not only because of competition among domestic products, but also against imported products.

There are at least 3 reasons why developing countries consider the existence of SME very important (Berry et. Al: 2001), they are: (1) SME’s performance tends to be better in producing productive manpower; (2) SME, as part of its dynamics, can increase



its productivity through investment addition and technological changes; (3) SME is convinced to have more advantages in flexibility than big business.

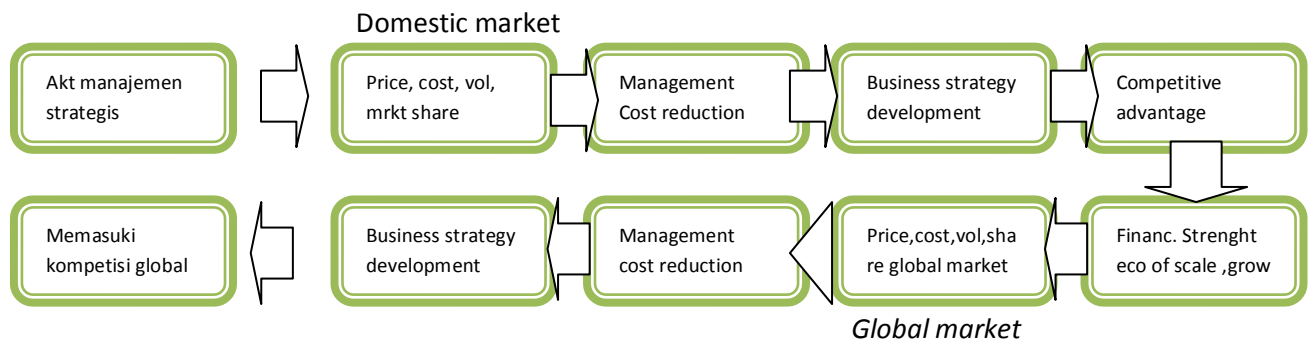
DISCUSSION

The discussion will be based on the 3 scientific problems explained in the Introduction. The aspects of position and condition of SME in Indonesian business world can be seen from BPS data (2000) that at present 90% of the all businesses is small, medium enterprise, with 56% contribution to Indonesian GDP. This sector has absorbed 96.6% of workforce. As this sector are the biggest contributors to GDP, in other words, the data shows that if the sustainability of this sector is not well taken care of, our GDP will decrease significantly, and there will be great unemployment which later causes social anxiety and social conflicts.

How to implement strategic management accounting on SMEs can be explained first through the following scheme which explains the discussion on the implementation of strategic management accounting on SMEs to reach the aim of winning competition, both locally and globally. From the scheme it is clear that in domestic condition, the company starts implementing strategic management accounting by collecting competitor's information about their pricing, cost, sales volume, and market share to be compared with the condition of the SME's company about the same aspects. Take for example, the company can identify why their products are sold with different price (is it necessary to fix a price based on target price?), the method of fixing the selling price which the company applies will determine how much production cost is desired, or the identification of promotion method which should be used, or the decision whether the company will act as a leader or a follower in the market. If these things have been well identified, it is easier for the company to go on to the second phase, which is the cost management, to be able to compete with the competitors to produce high quality products with competitive price, or to be able to do business strategy development needed. In this domestic market condition, if a company has reached its competitive advantage so that it can increase its market share, the company will be on a strong and stable financial condition. It means the company has reached the phase to win the local competition; it also means that the company can develop its business scale to a bigger one in order to achieve better operational efficiency so that its products can be better both in quality and price. This becomes an asset to produce competitive advantage in global market. In global market condition, the company should always implement strategic management accounting as a tool to win competition, starting from collecting foreign competitor's information, evaluating it, and then reducing cost management, and

ending up by determining a new business strategy, so that SME is ready to enter global market and the third phase, to enter global market, can be done. Some company can of course enter the global market directly (quantum leap), if they have been evaluated that their products are better than those of the foreign competitors, especially in pricing, cost, sales volume, and market share.

Scheme 2 The implementation of Strategic Management Accounting



It is really difficult to imagine how this small (or medium) enterprise sector conducts such phases in this strategic management accounting, prior to the possible fact that they are too complex and too difficult, or it is possible that many enterprises have not measured their competitors. So this is a chance to be taken by educational institutions to serve their community. Lecturers and students can share their knowledge, giving training and guidance in doing calculation needed by community. They can also help interpret the result, and together try to find ways to develop SME business so that they can reach the desired goal, that is to make SMEs an economic sector both within the country and abroad.

Small, Medium Enterprise as a sector which enables the community/society to be widely involved in doing business which can produce income, as BPS data shows that 96% of the workforce is in this sector. This means that the community has widely contributed in productive business sector, considering that small, medium enterprise generally moves in the real sector, and from the macro economics point of view this will produce additional gross domestic product. Besides, this can avoid income distribution defect, as the income from this SME sector can be received by a large number of employees involved in this sector. In other words, income is not distributed to only a certain group of people, and thus, this can avoid social conflicts as income has been distributed evenly (Kompas: 2/9/11:6).



Considering the great number of Indonesian inhabitants, up till now it seems that Indonesia's small, medium enterprise will be in the long run developing because it is pushed by the high domestic consumption. This fact should become mutual attention; both the government and all stakeholders involved have to maintain conducive atmosphere so that the stability of the creation of competitive advantage and SME's added value can be retained, not only prior to seasonal factor (such as Lebaran) (Pikiran Rakyat: 3/9/11:11). Some examples of the desired conducive atmosphere are that the society prefers to consume products from this sector (starts reducing imported products); the society can also educate SME businessmen about the types of products they need, and the quality and specification they want. Thus, it can be clearly seen that there is a close relationship between domestic consumers and producers in mutually maintaining good and sustainable economic condition.

The Implementation of SMA in A Manufacturing Company in Bandung.

The study of how the role of SMA in improving the competitive advantage in a manufacturing company has applied in a manufacturing company in Bandung-Indonesia. This company has about 45 employee, which is producing Plastic Bag in 3 shifts a day. The owner has been done the 3 steps of SMA, such as: (1) making analyzed about price, cost, sales, and market share of the competitor plastic bag company. And the result of this analyze come-up to decision that company have to manage cost reduction process; (2) in second step, the owner make a decision to reduce cost with applied new technology and using machines in full capacity; (3) after finding that the production cost can be reduced significantly, then the third step that the owners making the new strategy decision namely making company expansion with built the new factory which is located beside the old one.

CONCLUSION

Some conclusions that can be drawn from the whole discussion are among others:

1. The present condition in Indonesia shows that 9 out of 10 businesses (about 90%) are Small, Medium Enterprise (SME sector). This sector employs 96.6% workforce and contributes 56% to GDP. So this sector is still the foundation of the country's economy.
2. Strategic Management Accounting (SMA) has three phases: (1) to collect competitor's information about pricing, cost, sales volume, and market share; (2) to reduce cost management; (3) to develop business strategy. These three phases will produce competitive advantages for SME so that



they can survive in both domestic and global market. In other words, SMEs can survive in global competition.

3. SMEs that succeed in local competition will get financial stability and sustainable operation. By collecting competitor's information in global market as stated in strategic management accounting, this sector is ready to enter the global market.

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