

# Proposing a Theoretical Framework of the Successful Factors of Microenterprises in Indonesia

Weni Hawariyuni<sup>1</sup>, Kamisan Gadar<sup>2</sup>

<sup>1,2</sup> Business School, Universiti Kuala Lumpur

## Abstract

The objective of this paper is to suggest a theoretical framework of the factors determine the success of microenterprise. This study concentrates on borrowers of BRI Unit in Medan, Indonesia. BRI (Bank Rakyat Indonesia/People's Bank of Indonesia) is recognized as one of government banks with the excellent reputation in Indonesia. World Bank stated that BRI as the first commercial microfinance in this world [1]. BRI has many branches in all of the provinces in Indonesia. BRI Unit is part of BRI. This unit is focusing on providing microcredit products. It targets microenterprises and small vendors as its principal borrowers. BRI Unit provides its primary micro product called KUPEDES (Kredit Umum Pedesaan/General Rural Credit). The government of Indonesia also appointed BRI Unit to distribute its subsidized micro product called KUR (Kredit Usaha Rakyat/People Business Credit). This study is believed to provide a theoretical framework which may be useful for Indonesian government and BRI Unit, mainly to expand the microenterprise performing in Indonesia, including in Medan.

**Keywords:** Microenterprises, Proposing

## 1. Introduction

Most of the countries in the world are considering the vital role of microfinance institutions (MFIs), as it can create job opportunities and rise economic development [2,3]. Bank Rakyat Indonesia (BRI) located in Indonesia, BancoSol in Bolivia, and Grameen Bank in Bangladesh are successful microfinance institutions in the world. They indicate to the world that they succeed in eradicating poverty and increase the performance of microenterprises. Many previous studies showed the success of MFIs in eliminating poverty and in rising the microenterprise performance in almost every country in the world.

This study aims to propose a theoretical framework of the successful factors of microenterprises of BRI Unit borrowers in Medan, Indonesia. Medan is one of the largest cities in Indonesia. Robinson [4] stated that BRI is a leader of commercial microfinance in the world. Previously, Indonesian government gave more subsidies for BRI to expand its business capacity and mobility. Currently, BRI organizes its savings as the primary fund in enlarging business activities. According to [5] that BRI succeeded to reach 30 million savers and 3.1 millions for borrowers. Further, he added that BRI financed its cost of production from interest rate boundary and funding its business development from its profit. In December 2013, BRI's portfolio achieved US\$1.7 billion for remaining loans. Meanwhile, it reached US\$3.5 billion for surplus of saving, and it had surplus liquidity about US\$1.85 billion.

According to Seibel in [6] that BRI is a good model for other MFIs in Indonesia and other countries in the world. He expected that other MFIs could absorb the golden experience from BRI. The golden experience of BRI regarding converting itself from government bank is subsidized by Indonesian government into

self-financing banking. BRI also could keep their profit during East-Asia economic crisis in 1997-1998. Many of banks were downfall during that time. However, BRI could survive by maintaining 1.3 million new savers.

Further, [7] addressed that BRI is known as an opening commercial microfinance in the world. It offers numerous financial product services regarding savings and loans. She further said that BRI has BRI micro banking or BRI unit which is dedicated to serving micro and small enterprises including poor vendors.. BRI Unit showed its success in generating profit started in 1986. Nowadays, BRI Unit is known as the prominent MFIs in the world in offering the micro products for microenterprises.

### 1.1. Microfinance and Microenterprise

[8] stated that microfinance is described as a financial institution which offers the variety of financial services covering microloans, insurance, and other microcredit products. Most of the targeted borrowers are those from middle and low-income classes and self-employed.

Meanwhile, [9] divided the groups of micro, small, and medium enterprises (MSMEs) from number of assets owned by entrepreneur, trades volume, and some labor hired. He also added that the definition of MSMEs is varied among the countries in the world. Usually, the definition of MSMEs is relying on assets levels and the magnitude of economic performance of those countries. Further, Indonesian government defines micro and small enterprises as an enterprise with the entire of assets reaching approximately Rp. 200 millions, excluding land and building. [10] further said that the total assets belonging to micro and small enterprises are not more than Rp.1 billion (US\$100,000).

## 1.2. Factors Determining the Success of Microenterprises

There are various studies which have been executed in the past to analyse the factors causes the successful of microenterprises through their business performance. These studies showed that an entrepreneur's background and characteristics such as age, educational background, marital status, business experiences, proficiency in the local languages, formal business training, motivation, and foresights; and the firm's characteristics through size and year of establishment are essential determinants affecting the success of microenterprises [11].

Further, some case studies running in Eastern Finland, Bangladesh, Thailand, Jordan, Eastern Finland, and Africa indicated that entrepreneur features, human capital, household features, village appearances, firm features, types of financing, motive, and purpose, history, and constraints, customer and markets, resources, the steps in making business, and other external factors are crucial factors in making the success of microenterprise operation. Several studies that attempted to review the literature systematically concentrate on factors involving the success of microenterprises. The factors are grouped regarding entrepreneurs determinants, human resources determinants, institutional characteristics, organizational determinants, environmental determinants or external factors, and loan characteristics [12,13].

Entrepreneur determinants refer to family ties, education level, age of manager, gender, working experience, owing initiative to raise the income, public perception, family relationship, previous success, job security, successful business plan, personal satisfaction, employment opportunities for family fellow, leadership, risk-taking tendencies, interaction with other people, dedication, motivation, specialized in some business areas, formal business preparation, ICT literacy, willingness to innovate, monthly income and financial knowledge. Meanwhile, human resources determinants refer to employee commitment, job flexibility, tendency to leave job, personal job satisfaction, conformity with behaviour and attitude, system of honour, dedication for continuation, solid communication within organisation, tractability of management on employees, system of paternalistic relationships, practising the works, and agency of employment.

## 1.5. Proposing a Theoretical Framework of the Success Factors of Microenterprises

This study focuses on the theoretical framework in explaining the success of microenterprises that receives loans; either KUPEDES or KUR, from the BRI Units. These factors are entrepreneur characteristics, financing regarding loan accessed, characteristics of the firm, human resources, and the others. To analyse this, a theoretical framework is constructed to be based on findings of previous studies on crucial factors that cause the successful of enterprises. This study uses microenterprise performance as an indicator of success, which is a method used by numerous previous business studies. [14].

The theoretical framework constructed here is based on a review of the previous literature. The crucial factors that influences the success of microenterprises are classified into four components, namely:

- 1 Entrepreneur characteristics: This refers to the behaviour of the entrepreneur that influences the success of enterprises.
- 2 Characteristics of the firm: This refers to the natures of the firm, its size, age, management style, advertising, advanced technology, internet usages, team setup, practices of specialized management, and site of the firm.
- 3 Financing: This factor has a crucial role in investment and improvement of business productivity.

- 4 Household features: This refers to the numbers of family members, educational qualification of family members, etc. This study focuses on household income per month as a household characteristic.

The theoretical framework below illustrates the factors that influence the success of microenterprises. This study focuses on four factors namely financing, household behavior, firm's features, and entrepreneurs' features. The measurement used to measure success is the microenterprise performance regarding its income, fixed assets, and household expenditures. The measurements of success used here are related to financial performance indicators from the objective perspective.

This study proposes a theoretical framework on the factors lead on the success of microenterprises that borrow micro loan from BRI Unit in Medan, Indonesia.

In this respect, this study is focused specifically on the BRI Unit in Medan City, Indonesia. These selected factors based on findings of previous studies are household characteristics, entrepreneurs characteristics, a firm's characteristics, and financing. There are two measurements of success: financial or wealth indicators and non-financial indicators. In this respect, this study uses the financial or wealth indicators as a measurement of success concerning income, fixed assets, and household expenditures.

It is expected that this theoretical framework can help policy maker of BRI and Indonesian government to provide solution for micro, small, and medium enterprises in terms of funding, advanced technology, factors of production and other obstacles. MSMEs has the essential role as a backbone in supporting the economic development of Indonesia through job creation and eliminating poverty level.

## References

- [1] Ardianti, Retno&Atmadja, Surja. Adwin. Microfinance and Women's Microenterprises: Assessing the Impact of Microfinance on Business, (2011).
- [2] Bamidele, Adenkule. The Relationship between Credit Characteristics and Microenterprise Performance: A Brief Analysis. University of Guelph. Retrieved January 28, 2012. <http://www.growinginclusivemarkets.org>, (2008)..
- [3] Bank Rakyat Indonesia (BRI). Annual Report, (2000).Bank Rakyat Indonesia (BRI). Annual Report, (2006).Bank Rakyat Indonesia (BRI). Annual Report, (2010).Bank Rakyat Indonesia (BRI). Annual Report, (2011).
- [4] Bhasin, K. Vijay & Akpalu, Wisdom. Impact of Microfinance Enterprises on the Efficiency of Microenterprises in Cape Coast. IFLIP Research Paper 01-5, International Labour Organization. Retrieved February 20, 2012. <http://www.ilo.org/wcmsp5/groups/public/edemp/documents/publications>, (2001).
- [5] Central Bureau of Statistics of Indonesia (BPS). Trends of the Selected Socio-Economic Indicators of Indonesia. BPS Catalogue, August, 2010.
- [6] Central Bureau Statistics of Indonesia. Statistical Yearbook of Indonesia. Central Bureau Statistics Catalogue, 1401, (2007).
- [7] Chittithaworn, Chutamas., Islam, Md. Aminul., Keawchana, Thiyada&DayangHaslizaMuhd Yusuf. Factors Affecting Business Success of Small & Medium Enterprises (SMEs) in Thailand. Asian Social Sciences, Vol. 7, No. 5. Retrieved January 28, 2012. <http://www.ccsenet.org/ass>, (2011).
- [8] Cooperation of Central Bureau Statistics of Medan City with the Regional Development Planning Board of Medan City. Medan in Figures, (2007).
- [9] Cooperation of Central Bureau Statistics of Medan City with the Regional Development Planning Board of Medan City. Medan in Figures, (2008).
- [10] Daou, Alain & Karuranga, Egide. Success of SMEs in Emerging Economies: Propositions for Future Research. Retrieved March 13, 2012. <http://www.wbiconpro.com/218-Alain>, (2012).
- [11] ELLE, MESSOME Serge. Microfinance and Entrepreneurship in Cameroon. University of Buea, Cameroon, (2011).

- [12] Eviews 5. User's Guide. Quantitative Microsoftware, LLC: United States, (2004).
- [13] Faridi, Rushad. Determinants of Women's Success in Microcredit Program. *The Journal of Developing Areas*, Vol 45, pp.167-189. Retrieved January 10, 2012, from Academic Search Premier Database, (2011).
- [14] Greene, H. William. *Econometric Analysis* (6<sup>th</sup>edn.) United States of America: Pearson Prentice Hall, (2008).
- [15] Gujarati, N. Damodar & Porter, C. Dawn. *Basic Econometrics* (5<sup>th</sup>edn.) United States of America: McGraw-Hill Irwin, (2009).
- [16] Gujarati, N. Damodar. *Basic Econometrics*. (4<sup>th</sup>Edn.), McGraw Hill, (2003).
- [17] Indonesia and Family Planning: An Overview. Retrieved on 28 February, 2012. <<http://www.searo.who.int>>, (2004).
- [18] Indonesia Education Info. Retrieved on 28 February, 2012. <<http://www.stats.uis.unesco.org/unesco>>
- [19] INDONESIA. Retrieved on 28 February, 2012. <<http://www.unstats.un.org>>
- [20] Israel, D. Glenn. Determining Sample Size. University of Florida, IFAS EXTENSION. Retrieved at <http://www.edis.ifas.ufl.edu> at 1<sup>st</sup> October 2011, (1992).
- [21] Kantor, Paula Determinants of Women's Microenterprise Success in Ahmedabad, India: Empowerment and Economics. *Feminist Economics*, 11 (3), pp. 63-83. Retrieved May 10, 2012, from Academic Search Premier. (2005).
- [22] KC, Pukar. Assessment of the Performance of Microenterprise in Rural Nepal Overtime. *Journal of Case Research in Business and Economics*, 1-7, (2011).
- [23] Khandker, R. Shahidur., Samad, A. Hussain., & Khan, H. Zahed. Income and Employment Effects of Micro-credit Programs: Village Level Evidence from Bangladesh. *The Journal of Development Studies*, Vol. 35 (2), 96-124, (December 1998).
- [24] Masakure, Oliver., Henson, Spencer & Cranfield, John. Performance of Microenterprise in Ghana: A Resource Based View. *Journal of Small Business and Enterprise Development*, Vol. 16, Iss: 3, pp. 466- 484. Retrieved January 5, 2011, from Emerald Database, (2009).
- [25] Maurer, Klaus. Bank Rakyat Indonesia: Twenty Years of Large-Scale Microfinance. A Case Study from Reducing Poverty, Sustaining Growth-What works, What Doesn't, and Why A Global Exchange for Scaling Up Success. Paper presented at Scaling Up Poverty Reduction: A Global Learning Process and Conference, May 25-27 organized by the World Bank, Shanghai, (2004).
- [26] McPherson, A. Michael., Molina, J. David & Jewell, Todd.R. The Determinants of the Growth of Microenterprises in Central Mexico: Evidence from a Survey in Toluca. *Canadian Journal of Development Studies* 31, nos 1-2, pp.223-252. Retrieved on January 12, 2012, from ISSN 0225-5199, (2010).
- [27] Mohd. Sobri, Minai & Igwe-Lucky, EsuhOssai. The Conceptual Framework of the Effect of Location on Performance of Small Firms. *Asian Social Sciences*, Vol. 7, No. 12, December 2012, pp. 110-118. Retrieved February 5, 2012, from Academic Search Premier Database, (2011).
- [28] Morris, Shad. Collective Loans for Bulgaria's Self-Employed: A Field Study of Social and Financial Capital on Enterprise Growth. *Journal of Entrepreneurial Finance and Business Ventures*, Vol. 8, pp.57-76, (2003).
- [29] Mosley, Paul & Hulme, David. Microenterprise Finance: Is There a Conflict Between Growth and Poverty Alleviation? *World Development*, Vol. 26 (5), 783-790, (1998).
- [30] Muhammad Abi Sofian Abdul Halim., ShaladinMuda., Wan Abd Aziz Wan Mohd Amin & Ahmad MunirMohdSalleh The Significance Difference on Entrepreneurial Profile Toward Entrepreneurial Personality in Micro and Small Business: Malaysia Creative Industry. *Asian Social Sciences*, Vol. 8, No.3, pp. 236-245. Retrieved November 5, 2012. <http://www.ccsenet.org/journal/index.php/ass/art>, (2012).
- [31] Najib, Muhammad & Kiminami, Akira. Innovation, Cooperation and Business Performance: Some Evidence from Indonesian Small Food Processing Cluster. *Journal of Agribusiness in Developing and Emerging Economies*, Vol. 1, Iss: 1, pp.75-96. Retrieved January 20, 2012, from Emerald Database, (2011).
- [32] Ngaosi, B. Lorraine & Navarro, M. Gladys. The Characteristics of Selected Microentrepreneurial Ventures: A Vital Tool Towards Success. Paper presented at 10<sup>th</sup> National Convention on Statistics (NCS), EDSA Shangri-La Hotel, October 1-2, (2007).
- [33] Nor HafizahSelamat., RatnaRoshida Abdul Razak., Salfarina Abdul Gapor & Zainal AbidinSanusi. Survival Through Entrepreneurship: Determinants of Successful Microenterprises in Balikpapan, Penang Island, Malaysia. *British Journal of Arts and Social Sciences*, Vol. 3, No. 1, pp.23-37. Retrieved January 20, 2012. <http://www.bjournal.co.uk/BJASS.aspx>, (2011).
- [34] NorhaziahNawai & Mohd. Noor MohdShariff. Determinants of Repayment Performance in Microcredit Programs: A Review of Literature. *International Journal of Business and Social Science*, Vol. 1, No.2. Retrieved January 20, 2012. [http://www.ijbssnet.com/journals/vol.\\_1\\_No.2\\_/12.pdf](http://www.ijbssnet.com/journals/vol._1_No.2_/12.pdf), (2010).
- [35] Norma Md. Saad & JaritaDuasa. An Economic Impact Assessment of A Microcredit Program In Malaysia: The Case of AmanahKhtiar Malaysia (AIM). *International Journal of Business and Society*, Vol. 12, No. 1, pp. 1 -14, (2011).
- [36] Olu, Ojo. Impact of Microfinance on Entrepreneurial Development: The Case of Nigeria. *The International Conference on Economic and Administration, Faculty of Administration and Business, University of Bucharest, Romania, ICEA – FAA Bucharest, 14 – 15<sup>th</sup> November, 2009*.
- [37] Olusola O, Akande., Jonathan O, Adewoye., Morufo O, Oladejo & Abimbola O, Ademola. Performance Analysis of the Strategic Effect of Age, Size and Sources of Funds on Micro Enterprises in Nigeria. *Journal of Emerging Trends in Economics and Management Sciences (JETEMS)* 2 (6), pp. 483-489. Retrieved May 10, 2012. <http://www.jetems.scholarlinkreserach.org>, (2011).
- [38] Pallant, Julie. *SPSS Survival Manual* (3<sup>rd</sup>edn.) United Kingdom: Open University Press, McGraw-Hill Education, (2007).
- [39] Reijonen, Helen. Understanding the Small Business Owner: What They Really Aim At and How This Relates to Firm performance: A Case Study in North Karelia, Finland. *Management Research News*, Vol. 31, pp. 616-629. Retrieved April 20, 2012, from Emerald Database, (2008).
- [40] Robinson, S. Marguerite. Why the Bank Rakyat Indonesia has the World's Largest Sustainable Microbanking System and What Commercial Microfinance Means for Development. Paper presented at BRI's International Seminar on BRI's Microbanking System, December 2004 organized by Bank Rakyat Indonesia (BRI), Bali, Indonesia, (2005).
- [41] Rogerson, M. Christian. Successful SMEs in South Africa: The Case of Clothing Producers in the Witwatersrand. *Development Southern Africa*, Vol. 17, No.5. Retrieved February 15, 2012, from Academic Search Premier Database, (2000).
- [42] Rudjito. Strategies for Developing Micro, Small and Medium Enterprises (MSMEs). Paper presented on The Non-Alignment Movement's Business Forum on South-South Cooperation, organized by International Visitor Program, Bnak Rakyat Indonesia, (2004).
- [43] Schutjens, A.J.M. Veronique & Wever. Determinants of New Firm Success. *Papers in Regional Science*, 79, pp.135-159. Retrieved May 10, 2012, from Academic Search Premier, (1999).
- [44] Seibel, Dieter. Hans. The Microbanking Division of BRI: A Flagship of Rural Microfinance in Asia. University of Cologne, Development Research Center, (2005).
- [45] Sekaran, Uma. *Research Method for Business, A Skill Building Approach*. Fourth Edition. India: John Wiley & Sons, Inc, (2003).
- [46] Springuel, Elise. Socio-Political and Cultural Factors in the Failures and Success of Microenterprises in Empowering Women. Paper presented at the National Conference on Undergraduate Research (NCUR), organized by Ithaca College, New York, (2011, March 31 – April 2).
- [47] SPSS Inc. *SPSS Base 15.0 User's Guide*. United States of America, SPSS Inc, (2006).
- [48] Stock, H. James & Watson, W, Mark. *Introduction to Econometrics* (3<sup>rd</sup>edn). United States: Pearson Education, Inc., publishing as Addison-Wesley, (2011).
- [49] St-Pierre, Josée & Audet, Josée. Intangible Assets and Performance: Analysis on Manufacturing SMEs. *Journal of Intellectual Capital*, Vol. 12, Iss: 2, pp. 202 – 223. Retrieved January 20, 2012, from Emerald Database, (2011).
- [50] Tambunan, TulusTahiHamonangan. Development of Small and Medium Enterprises in a Developing Country: The Indonesian Case. *Journal of Enterprising Communities: People and Places in the Global Economy*, Vol. 5, Iss:1, pp.68-82. Retrieved January, 2012, from Emerald Database, (2011).
- [51] The Assessing the Impacts of Microenterprises Services (AIMS). Conceptual Framework for Assessing the Impacts of Microenterprises Services, AIMS Paper, No.11, USAID, (2001).
- [52] Timberg, A. Thomas. Small and Microenterprise Finance in Indonesia: What Do We Know? USAID-funded Partnership for Economic Growth (PEG) Project. The views expressed in this

report are those of the author and not necessarily those of USAID, the U.S. Government or the Government of Indonesia, (1999).

- [53] Tovstiga, George & Tulugurova, Ekaterina. Intellectual Capital Practices and Performance in Russian Enterprises. *Journal of Intellectual Capital*, Vol. 8, Iss: 4, pp.695-707. Retrieved January 20, 2012, from Emerald Database, (2007).
- [54] Vogelgesang, Ulrike. The Impact of Microfinance on Clients' Enterprises: Evidence from Caja Los Andes, Bolivia. G.K. Working Paper Series, No. 2001-03, (2001).
- [55] Welsh, Dianne., Munoz, J. Mark., Deng, Shengliang & Raven, V. Peter. Microenterprises Performance and Microenterprises Zones

(MEZOs) in China. *Management Decision*, Vol. 51, Iss: 1, pp. 1 – 26. Retrieved March, 24, 2012, from Emerald Database, (2012).

- [56] Wooldridge, M. Jeffrey. *Econometric Analysis of Cross Section and Panel Data*. England: The MIT Press, Cambridge, Massachusetts, (2002).
- [57] World Data on Education (WDE). Educational, Scientific and Cultural Organizations, 7<sup>th</sup>edn, United Nations Development Programme (UNDP), (2010).

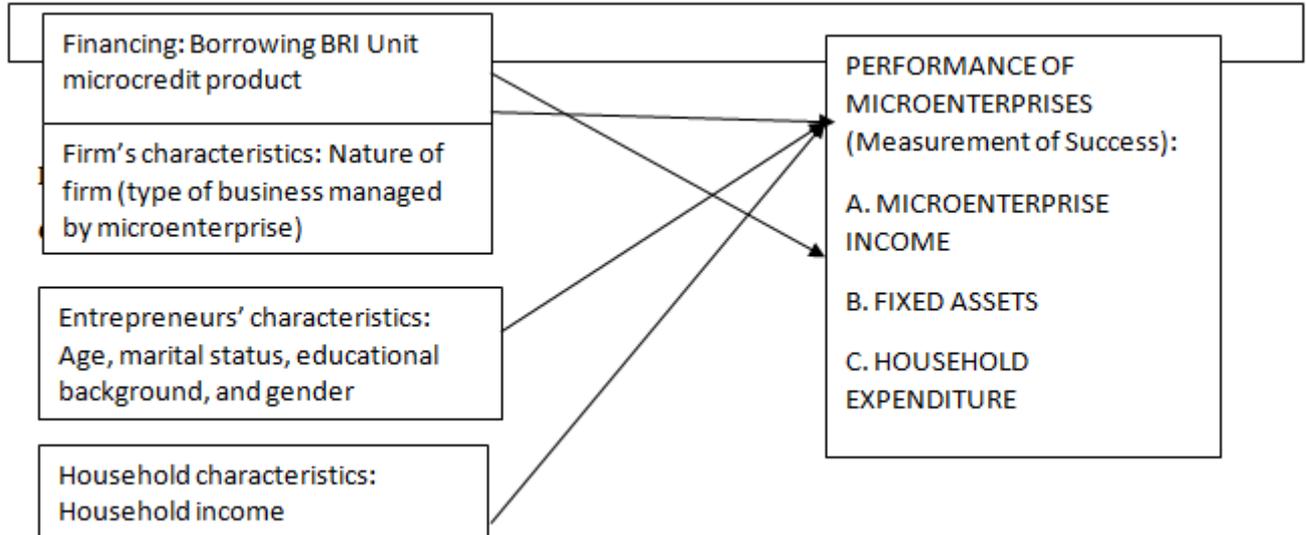


Figure 1: A Theoretical Framework of the Successful Factors of Microenterprises in Indonesia