

IMPROVING SMALL BUSINESS ENTERPRISE MANAGEMENT AND STUDENT INTEREST IN ENTREPRENEURSHIP THROUGH STUDENT-INVOLVED LEARNING IN INDONESIA

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ABSTRACT

Despite SMEs' resilience with regard to the economic crisis, their contribution to the Indonesian economy is still very small. Even though many ideas have been offered to improve the performance of SMEs, the SMEs themselves have a lot of constraints preventing implementation, such as limitations with regard to their human resource capacities. The purpose of this paper is to present a learning design offering business students a chance to implement the theories they get in the classroom to the real business world as well as improving their interest in entrepreneurship, while at the same time giving small business enterprises an opportunity to have their problems investigated, discussed and resolved.

Keywords: small business enterprises, education, student, entrepreneurship, practical experience.

INTRODUCTION

When an economic crisis hit Asia in 1997, Indonesia suffered severely. The Indonesian rupiah depreciated in excess of 70 percent, which resulted in the collapse of many enterprises, most of which were large corporations with high foreign debt exposure. This situation raised unemployment, a result of which was social unrest and large demonstrations that successfully forced the late president Soeharto to step down after 32 years in power.

What happened to corporations, however, had only a small impact on small and medium-sized enterprises (SMEs). This was because they had little or no foreign debt in their portfolios, which prevented them from experiencing currency fluctuations. In addition, most of them also relied on domestic sources and markets for their products.

Despite SMEs' resilience with regard to the economic crisis, their contribution to the Indonesian economy is still very small. The latest data shows that 96.2 million people work at 52.8 million small and medium scale companies, while only 2.7 million people work at 4,677 big corporations. However, those huge numbers of

SMEs, along with their workforces, contribute only 56.5 percent to the national economy. [19]

The small contribution of SMEs to the Indonesian economy stem from the fact that SMEs are still faced with many traditional problems, namely lack of financing (around half of SMEs are not bankable), difficulties with exploiting technology, constrained managerial capabilities, low productivity, as well as regulatory burdens, which become more acute in a globalized and technology-driven environment. Most of the human resources in SMEs are also not well-educated people. These weaknesses of SMEs are found not only in developing countries, but are also found in developed countries, as described by an OECD (Organization for Economic Co-operation and Development) report. [22] When compared with medium-sized enterprises, small-sized enterprises seem to have poorer management.

In the context of Indonesia, this situation meets its importance when the huge numbers of SMEs and the current practice of teaching in most business schools are taken into consideration.

RESEARCH ON SMEs

Many researchers have been trying to identify general methods by which to improve SME performance. Some researchers have focused on various aspects of human resource management as a way to enhance the quality of SMEs [12][14][27], while the others have investigated how SMEs can take benefits from strategic alliances and partnerships [8][9][13][16], the ways good financial management can contribute to SMEs performance [18][32], risk management practice and ideas in SMEs [3][6][30], implementation of knowledge management [5][29], roles of financial and managerial accountancy for SMEs [20][23], as well as strategic management in SMEs [7][21].

Even though many ideas have been offered to improve the performance of SMEs, the SMEs themselves have a lot of constraints preventing implementation, such as limitations with regard to their human resource capacities. In this context, universities can play a significant role. However, so far only a small amount of research has paid

attention to the contribution universities may give to SMEs. [2][10][31]

CURRENT PRACTICE OF TEACHING AND CONDITION OF SMEs

Current teaching practice in business schools at undergraduate level in Indonesia is conducted mostly in one-way model. When studying financial accounting, cost accounting, managerial accounting, financial management, production management, marketing management, human resource management, risk management, and the like, students are usually treated just the same as they would be if they were studying literature, for example. In the class, instructors of business classes describe the theory of the courses in front of the students, ask the students to do quizzes and give them exams in the middle and end of each semester. In financial accounting classes, for example, the students never even see a real financial statement, balance sheet, ledger, or any other financial transaction forms, even though they are well versed in performing accounting transactions and in producing various accounting reports. Similar situations also exist in other such classes, where students have a high knowledge base but lack practical experience.

On the other hand, SMEs lack qualified human resources. More than half of them only graduate from elementary schools, while the other quarter is junior high school graduates. Most of them even do not know how to make transaction records let alone produce financial reports that are very important in running their businesses, in their decision-making processes and in improving the quality of their businesses.

In Indonesia, in addition to small-scale and medium-scale enterprises, there is third category called micro-sized business enterprises. Indonesian Law on Micro-, Small-, and Medium-scale enterprises [25] distinguishes amongst those three categories of enterprises from their total assets and annual sales.

An enterprise is categorized as micro-sized enterprise if its total assets excluding land and building less than Rp (Indonesian Rupiah) 50,000,000 (US\$ 5,747) and annual sales not more than Rp 300,000,000 (US\$ 34,482). Meanwhile, a company is classified as small-scale enterprise when its total assets more than Rp 50,000,000 but less than Rp 500,000,000 (US\$ 57,471) and annual sales in the range of Rp 300,000,000-Rp 2,500,000,000 (US\$ 287,356). Lastly, an enterprise will be categorized as medium-sized company if it has total assets more than Rp 500,000,000 but less than Rp 10,000,000,000 (US\$ 1,149,425) and annual

sales between Rp 2,500,000,000-Rp 50,000,000,000 (US\$ 5,747,126).

In terms of financing, there is a group called the “productive poor” which includes poor small farmers, micro entrepreneurs, and poor sectors of the rural population including women and youths, and the like. “Productive poor” means that person are poor but they are working to generate an income for themselves, either through being self employed or forming a partnership or a group, being a part of an association trying to generate income for themselves [33].

Unfortunately, a survey reveals that 70% of productive poor in Indonesia still see banking institutions as specter because of procedural complexity, collateral needs, and the like. They just consider banks as not for them [15].

PURPOSE OF THE PAPER

The purpose of this paper is to present a learning design offering business students a chance to implement the theories they get in the classroom to the real business world, while at the same time giving small business enterprises an opportunity to have their problems investigated, discussed and resolved.

This paper emphasizes that students with practical experience will have a better understanding of the courses they attend, and proposes a design to further develop and advance some previous researches. [10][31] This paper also suggests the mixture of business students of various specializations in order to get better and more comprehensive understanding of the wide aspects of problems of small business enterprises. In addition, this paper also describes the importance of this learning arrangement as the way to develop student interest in entrepreneurship. This purpose is getting strategically important in current circumstances where society often consider that being a civil servant or an employee of a large company is more prestigious than being an entrepreneur.

THE ARRANGEMENT OF THE PROGRAM

Instead of focusing on medium-sized enterprises, this paper pays more attention to small-sized business enterprises (SBE) for two reasons. First, SBEs need more assistance to improve the quality of their management, which is worse when compared with medium-sized enterprises, and thus, SBEs also offer more problems that can be addressed by students. Second, SBEs are likely more eager to offer opportunities to students to get involved in their businesses.

We can also widen the targets by including micro-sized enterprises as long as they meet criteria in providing students sufficient business problems to be learnt in terms of size and complexity.

This learning model proposes students as groups of consultants for small business enterprises. Unlike Dumouchel [10] that allows a student acts as an individual consultant and assumes any single student knows every problems faced by the SME, in this arrangement students are grouped into small groups of no more than 10 students, and each group is assigned to a specific small business enterprise. We suggest that each group consists of students from different specializations in order to give a more comprehensive understanding of the problems of the SBEs.

The Schools first issue the guidelines of the program, describing every step need to know and obey by students. During the first week of semester, every group of students needs to search the SBEs around their campus that willing to accept the students to “work” and provide enough problems to be investigated and resolved simultaneously. A contract then needs to be signed by each party as the guidelines.

During the semester, the students are asked to routinely visit and oversee small business enterprises assigned to their groups and learn how those companies operate and run their businesses. This visit can be arranged once every one or two weeks. Accounting students, for example, can assist enterprises with accounting transaction records, producing financial statements, balance sheets and other reports, while students of other specialty areas can discuss ways to overcome the problems companies face in the areas of functional management such as finance, marketing, and operations as well as those areas involving human resources and the future development of the enterprises.

While the program is running, faculty members assigned to supervise this program regularly visit the SBEs to see whether there are any problems or any other obstacles need to be overcome. They will also take notes to be discussed with the students when they report their work in the last week of the semester.

In the last week of the semester, every group of students will have to report their work, including the condition of the SBE, problems experience by the firm, actions taken to resolve the problems, as well as plans of business development in the future.

The assessment of the students will be based on

the combination of students’ activities during the program, reports, presentation, and assessments from the owners/managers of the SBEs. Dumouchel [10] suggests sources for evaluation along with their percentage: student journal (15%); participation: peer support and feedback (10%); report 1: client project proposal (10%); client contract (5%); report 2: interim report—progress to date and literature review (15%); report 3: final write-up of deliverables including major projects (25%); in class presentation of final report and consulting experience (10%); and client assessment of student performance, motivation and attitude (10%).

There are two sources of funding to implement this program. The first source, of course, is from the university itself. Secondly, we can expect corporate social responsibility fund from large corporations which operate around the university or community.

The economic crisis and reformation era have brought up a new spirit of transparency, democracy, and social awareness. Initiated by multinational companies, now, more and more companies operating in Indonesia are adopting corporate social responsibility because they believe it is the right thing to do. However, its implementation is not always easy due to some external factors affecting business [17].

Corporate social responsibility is a voluntary principle, but government is tempted to impose regulation that would force business to comply with corporate social responsibility principles. In 2007 Government of Indonesia enacted Indonesian Law on Corporations that stipulates obligation for every corporation that its operation related with natural resources to implement social and environmental corporate responsibility. This responsibility should be formally budgeted and reported as corporation’s operational cost and will be punished for disregarding this obligation [24].

Many companies in Indonesia (local and international) have proved corporate social responsibility as a business case, or that being socially responsible is good for their business. Being socially responsible can help business to build business sales, quality and reliable workforce, as well as build trust in the company as a whole [17].

Even though there is still question on the effectiveness of this corporate social and environmental responsibility program, corporations generally obey this obligation. These companies usually grant 1-5% of their profit to fulfill their obligation to community.

Many of them also have good commitment to education and will likely be willing to participate in the program of student involvement in the business entities. By allocating the corporate social and environmental responsibility fund to finance the program of student-involvement in small-scale business enterprises will also increase the effectiveness and usefulness of the fund's spending. Corporations can choose to allocate their funds to university and community that have strong linkage with their business.

BENEFITS OF THE PROGRAM

This teaching arrangement offers mutualistic symbiosis among the students, universities, and small business enterprises. By participating in this arrangement, students have opportunities to implement the knowledge they have already acquired in the classroom. Participating in the day-to-day business of enterprises also enhances their practical understanding of the courses they are taking.

Having students with a higher level of understanding will also benefit universities since the students will enter the job market with better skills and a higher level of confidence and will also be better prepared for real world situations.

Small business enterprises, of course, will also benefit from "recruiting" a fresh group of consultants. Since they have weaknesses in wide aspects of their management, they will have opportunities to discuss these weaknesses with students who have been equipped with state-of-the art knowledge of management and business.

One more party that will also benefit from this student-involved learning activity is the nation, as a result of having an opportunity to have more entrepreneurs in the future. As previous scholars have found, entrepreneurship are important factors in the economic development of a nation. [1][4] However, according to the latest statistics, the ratio of entrepreneurs to the general population is only 0.24% of 238 million in the Indonesian population. This figure is far below the ratio of entrepreneurs to the population in the United States (11%), Japan (10%), Singapore (7%), or Malaysia (5%). Therefore, in line with previous researchers' findings as [11][26][28] we believe that the opportunity for students to be involved in the business activities of small business enterprises is more likely to increase the interest of the younger generation to become entrepreneurs in the future.

This program also provides corporations with useful and effective way to allocate their funds of

corporate social and environmental responsibility as required by Law.

CONCLUSION

The current practice of teaching in most Indonesian business schools is conducted in traditional way, which is in the classroom without giving enough opportunity to the students to feel the real world of business.

By giving opportunity to the business students to interact with the real business practices and problems, students will have a better understanding of the courses they are taking. Meanwhile, SBEs will take benefits from having opportunities to get their problems discussed and resolved.

In addition, through this program arrangement student interest in entrepreneurship and their intentions on entrepreneurial career choice in the future is likely to increase.

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