

Barriers of Exporting Food Products for Micro, Small and Medium Enterprises in the Malang Greater Region of Indonesia: A Literature Study

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Abstract

Micro, Small and Medium Enterprises (MSME) in Indonesia totaling around 64,200,000 contribute to economic growth of 8,575.89 trillion Rupiah, providing employment opportunities and strong output principles. The East Java region, which is part of Indonesia, has a total of 72,526 food and beverage processing MSMEs in Indonesia out of a total of 762,857 MSMEs located in the Malang Greater area. Malang Greater area Region which consists of the regions: 1. Malang City, 2. Batu City, 3. Malang Regency. MSMEs Malang Greater area, has many comparisons and outstanding achievements and has the potential to be made into an industry, has the potential to be exported. Nevertheless, very few exports 13.94% of the total export value of Indonesia in 2019, because there are barriers faced by MSMEs for export. There are many models of export barriers, in this Thesis using the Leonido export barrier classification model, this model was chosen because it is more systematic and comprehensive with 39 indicators and can be developed according to the actual problem faced by MSMEs. This indicator/indicator consists of query

material and data processing using the SEM-PLS method. If MSMEs are allowed to export, many benefits will be obtained, including: reducing competition between similar MSME products in Malang Greater area, reflecting excessive power in providing financial benefits to MSMEs, developing markets, increasing foreign exchange, increasing life expectancy, increasing competitiveness, reduce domestic market applause and low profit domestic market. It is hoped that MSME food products will be allowed to be exported after all e-sports barriers are identified and data is processed and solutions are found instead of investigation results. The results of this investigation are expected to help remove barriers to the export of MSMEs, so that MSMEs can export directly or indirectly, the cooperation of the governments of Indonesia and East Java as well as Malang Greater area can provide guidance, help MSMEs to export food.

Keywords: export barriers, food products, Micro, Small and Medium Enterprises (MSME), Malang Greater Region

1. INTRODUCTION

Micro Small and Medium Enterprises (MSMEs), is one of the factors contributing to economic support in several countries [1]: China, India [2] and also in SEA countries [3]. [4]. The development of MSMEs is one of the important factors in the economic development of a country, especially in Asian countries [4]. For the country of Indonesia, MSMEs provides several advantages including: 1) a strong spending base so that in the future it should have high competitiveness [5]; 2) Indonesia's domestic economy is controlled by MSMEs [6][7][8]; 3) important economic support factors [9][10][11][12][1][5][6] contributed 8,579.89 Trillion Rupiah in 2019 [13]. Total Indonesian MSMEs 64,200,000 in 2019 [13], 60% are food MSMEs [14]. 72,526 MSMEs Provision of Accommodation and Food and Drink in Malang Greater area [15], so it has great potential to improve the people's economy [16]. The number of MSMEs in East Java according to data from the Indonesia Central Bureau of Statistics in 2016 amounted to 9,782,262 with various business categories, the region of Malang Greater area (Malang City, Batu City and Malang Regency) and Probolinggo has the largest number of MSMEs in the food and beverage processing industry in Indonesia, has a comparative advantage [17].

These food MSMEs have potential for export [18][19]. The Malang Greater area region consists of three broad administrative districts: the first is Malang City, the second is Batu City and the third is Malang Regency [11]. So, there is a reason why Malang Greater area was chosen as the study location. The three food sales systems of Malang Greater

area MSMEs so far are direct sales, the second sales through e-commerce or on-line [19], the third largest is dependent on the number of tourists who "travel while shopping Malang's special food products" [20], tourism data in Malang Greater area in 2019 totaled 18,423,444 tourists (Central Bureau of Statistics, Malang city, 2020). The size of the MSMEs market has resulted in domestic market competition [21][22] and many new entrepreneurs appearing in Malang Greater area [21]. To overcome competition on similar product, some MSMEs sell through e-commerce [19] and some sell in other areas in East Java [23] and some export.

Some Indonesian MSMEs have the potential to export their products [24][25], and want to become exporters, but face many barriers or difficulties [26][6][25], Indonesian MSMEs have barriers, especially the export market [27]. Not many MSMEs companies are able to export directly [28]. Barriers to exporting are defined as attitudinal, structural, operational and related constraints that hinder or impede a firm's ability to initiate, expand or sustain export marketing [22]. If MSMEs exports, there are advantages, among them: 1) reflecting being able to compete in the international market [29][30]; 2) financially profitable to increase the country's foreign exchange [31][32][33]; 3) expanding the market, increasing the country's foreign exchange [34][32][35]; 4) overcoming difficulties in the domestic market, because many new entrepreneurs appear like this in Malang Greater area [21]; 5) overcoming difficulties in the domestic market by avoiding competition with big players [22]; 6) Improving the living standards of exporters [36]; 7) reducing domestic market saturation and market profits low domestic [37]; 8) Increase economic development [38]; 9) to make food processing MSMEs have superior performance and export competitiveness [39].

Several studies on the classification model of MSMEs export barriers, the Upsala export barrier model is underdeveloped [37], Leonidou's second export barrier model with 39 barrier indicators [40], widely used by researchers among others: 1) Al Hyari used factor analysis and regression methods [26]; 2) Uner [22]; 3) Elvia [28]. The Leonidou Classification Model as the basis of the export route model and some variables from the reality of export barriers faced by MSMEs in Malang Greater area, among them: 1) previous researchers, 2) reference sources, 3) government sources that nurture MSMEs in Malang Greater area, 4) sources from MSMEs processing food in Malang. The outcome of this Thesis is to obtain a model and measurement of structural equations, resulting in barriers to food exports: 1) MSMEs in Malang Greater area can be prepared, in preparation for exporting products 2) For the government to make a model policy to foster MSMEs so that

they can export. 3) The results of this study become the basis and can be developed by further researchers.

2. STATEMENT OF PROBLEM & CONTRIBUTION OF THE STUDY

From the study of the problem of MSMEs food products in Malang Greater area, they have the potential, by exporting they get a lot of benefits, but in reality, they export very little because there are export barriers. The researcher made a study of the problem as follows:

- 1) MSMEs food products in Malang Greater area have superior products but there are export barriers, so they experience difficulties in exporting?
- 2) What are the barriers to MSMEs food exports in Malang Greater area?
- 3) How to find a solution so that food MSMEs can export?

Furthermore, research contributions are obtained as follows:

- 1) Most MSME food products in the Malang Greater area area basically already have advantages and competitiveness, MSMEs have competitive advantages, but still experience export barriers.
- 2) These export barriers should be identified so that food MSMEs can export, minimizing export barriers will contribute to the tendency for higher export performance
- 3) For research material for subsequent researchers

3. MSME EXPORT BARRIERS METHODS

Export barriers are defined as attitudinal, structural, operational and related constraints that hinder or hinder a firm's ability to initiate, expand or sustain export marketing [22]. Methods to study export barriers have been carried out by many researchers, starting from the difficulty of the method of classifying export barriers into different categories [41], over the past four decades starting in the early 1980s in Anglo Saxon countries [22] quoted from Cavusgil (1976, 1984), Cavusgil & Zou 1994, Leonidou (1995) then the research journey moved to Finland, Brazil, Germany, Greece, South Korea and Turkey.

The internationalization process of MSME at the initial stage does not have enough knowledge about the market and the export process, because the development of the level of export knowledge increases, the export process begins [36], but many MSMEs in developing countries do not consider export as a business goal they or they hesitate because of various export barriers [36]. Export barrier method: 1) Export barrier method is the staged model, Internationalization model or Uppsala

model [22]; 2) The second export barrier method is the innovation model or model I [22]. The export barrier method is an export barrier classification model developed by Leonidou [40].

A. Uppsala Model

The Uppsala model export barrier method is widely used as a theoretical basis [42]. Internationalization in particular of small and medium enterprises is the result of the learning process [42]. The model is described and illustrated in Fig. 1.

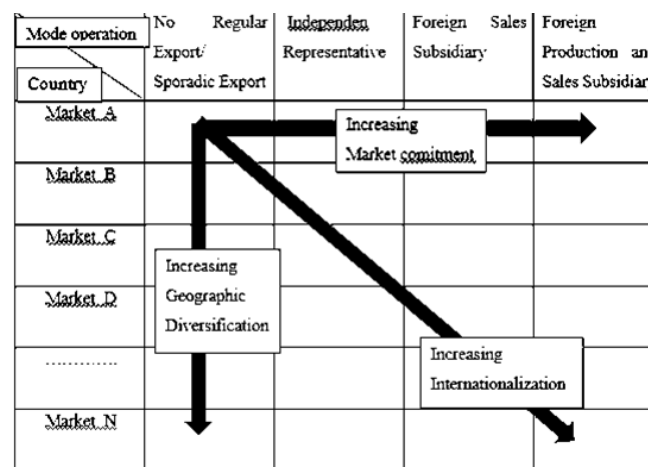


Figure 1. The Uppsala internationalization model quoted from Forsgren & Johanson, 1975) [43]

B. Hierarchy Theory

The theory introduced by Cavusgil (2008) is known as the five-stage theory, exporting is a continuous process that occurs slowly and gradually and sequentially in five stages [6], including:

- 1) The first stage, the stage focused on the domestic market, because they are not yet able and do not want to be involved in international business.
- 2) The second stage, is the pre-export stage, the company begins to receive orders from abroad even if the value is small, which means that the company has begun to analyze the readiness of international business and carry out certification for export requirements.
- 3) The third stage, experimental involvement, begins to carry out direct or indirect exports

- 4) The fourth stage, the stage of active involvement, where there is a commitment from the management of the company to start analyzing the best way to enter the international market systematically and actively.

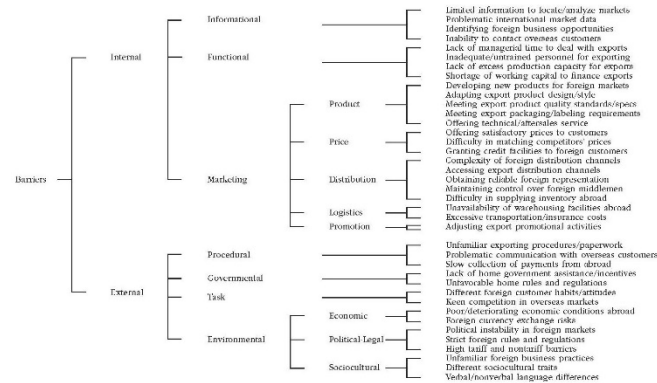


Figure 2. Classification of Export Barriers Among MSME according to Leonidou [40]

- 5) The fifth stage, the export commitment stage, is to make the foreign market the main target of the company's business, and the company's resources are focused on export activities to gain profit.

C. Leonidou Classification Model

By carrying out a comprehensive analysis of 39 export barriers taken from a systematic review of 32 empirical studies, the results of the classification model for export barriers are as shown in the Fig. 2 which consists of two main barriers namely: the first barrier is internal. (comprised of information, functional barriers and marketing) and the second barrier is external (consisting of procedures, government, tasks and environment) [40].

4. DISCUSSIONS AND CONCLUSIONS

SEA member countries have different definitions of Small and Medium Enterprises, micro enterprises are included in it [44]. In Indonesia they are known as Micro, Small and Medium Enterprises (MSME), is one of perpetrator the economy in Indonesia has productive businesses owned by individuals , in part big is domestic market players [45]. Data on the number of MSME in Asean countries include: Indonesia has 65,500,000 MSME, Thailand 3,100,000 MSME, Malaysia 1,200,000 MSME, Philippines 996,700 MSME, Vietnam 651,100 MSME, Cambodia 512,900 MSME, Singapore 279,000 MSME, Laos 133,700 MSME and Myanmar 72,700 MSME [46]. Indonesia has 65.5 million micro, small and medium businesses (MSME) in 2019, consisting of 98.62% micro businesses,

1.22% small businesses and 0.16% medium businesses [47]. Malaysia has MSMEs too a total of 1,151,399 comprised from 78.4% of businesses micro , 20% business small and 1.6% business simple [48]. In Indonesia the existence MSME are spread in urban and regional areas rural [49], is perpetrator economy that has business productive owned by most individuals is players market domestic [45], with nature ownership individual and informal [50]. The number of MSME in Indonesia is increasing from year to year in 2016 to 61,651,177 SMEs , increased in 2017 to 62,922,617 MSME, and in 2018 increased to 64,194,057 MSME, in 2019 increased to 65,465,497 MSMEs [51]. Indonesian MSMEs play a role in absorbing the workforce , in 2016 there were 112,828,610 workers, in 2017 it increased to 116,431,224 workers, and in 2018 it increased to 116,978,631 workers, in 2019 it increased to 119,562,843 workers [52]. MSME is one of the pillars of Indonesia's economy[24], and contributed to an increase in gross domestic product (GDP) in 2017 by Rs. 7,820,282.6 million or 60.5% [53], the GDP contribution in 2018 is around 60.34% [54]. MSMEs play a role in increase Indonesian economy because of them is perpetrator trade largest , has contribution to job , contribute to output in gross countries , and has opportunity export and create opportunity jobs in the sector informal (Ministry of [55]. Therefore , MSME can be alternative for increase well-being society in the present and future [56].

A. Classification of MSME

Definition and understanding of Micro, Small and Medium Enterprises (MSME) in general no accepted universally in some countries, because every country has different definitions , classifications and meanings based on [57] situation in each country, including : income , number employees , profit margins and so on . Definition between different countries to be controversial and debated [58]. Definition of MSME in European countries defined by the ' *European Commission*' are:

- 1) Micro Enterprises, have less of 10 workers and turns replace / balance yearly or key about yearly no above EUR 2 million
- 2) Small Business, have less of 50 workers and turn replace/balance yearly or key about yearly no above EUR 10 million
- 3) Medium Business, have less of 250 workers and turns replace / balance yearly or key about yearly no over EUR 43 million

The definition of MSME in Malaysia is defined by ' SMECORP Malaysia are :

- 1) Micro Enterprises , procurement sales less from RM 300,000 or employee less of 5 people for category manufacturing and services as well as other sectors .

- 2) Business , Procurement sales of RM 300,000 up to less than RM 15 Million, or employee full time 5 people to 75 people, for category manufacturing and services as well as other sectors of the workforce full time 5 people to 30 people .
- 3) Medium Enterprises , Procurement sales of RM 15 million until less from RM 50 Million, or employee full time 75 people to 200 people, for category manufacturing and services as well as other sectors of the workforce full time as many as 30 people to 75 people.

Definition and classification of MSME in Indonesia, first according to the Indonesian Statistics Agency BPS, based on sum employees, among others: 1) Micro businesses by energy work between 1 to 4 people. 2) Business small by energy work between 5 to 19 people 3) Business simple by energy work between 20 to 99 people [59]. Second is definition and classification of MSME based on Rules Government Republic of Indonesia No. 7 years 2021 based on article 35 [60]. Micro enterprises and enterprises small collected based on business capital criteria or results sales yearly. Venture capital criteria is used for stance or registration activities effort. Working capital criteria are consists of:

- 1) Micro Business have business capital until maximum Rp 1,000,000,000.00 (one billion Rupiah) no including land and buildings for premise business.
- 2) Small business has venture capital more from Rp 1,000,000,000.00 (one billion Rupiah) to maximum Rp 5,000,000,000.00 (five billion Rupiah) no including land and buildings place effort the said to be
- 3) Venture capital small and medium exceeding Rp 5,000,000,000.00 (five billion Rupiah) to maximum Rp 10,000,000,000.00 (Ten billion Rupiah) no including land and buildings for premise business

For give convenience, protection and empowerment effort micro, small and medium enterprises (MSME), besides venture capital criteria as referred to in paragraph (2), criteria results sales yearly as referred to in paragraph (4). used consists of:

- 1) Micro business has sales yearly until maximum Rp 2,000,000,000.00 (two billion Rupiah).
- 2) Small Businesses have sales yearly more from Rp 2,000,000,000.00 (two billion Rupiah) to maximum Rp 15,000,000,000.00 (fifteen billion Rupiah).
- 3) Medium Enterprises have sales yearly more from Rp 15,000,000,000.00 (fifteen billion Rupiah) to maximum Rp 50,000,000,000.00 (fifty billion Rupiah).

The number of Indonesian MSMEs in business food agriculture in Indonesia exceeds 98%, until potential big for increase people's economy [16]. Total processing MSMEs food in Indonesia around 60% [14] from the total number of MSME in Indonesia. Business this MSME food accounted for 41.4% of sum a total of IDR 922.59 trillion total contribution to the creative economy of food , and 7.44% of output in gross national GDP of Indonesia in 2016 [61]. Most Indonesian MSMEs are based in the agricultural sector (vegetables: carrots, sweet potatoes, potatoes, etc.) and plantations (fruits: jackfruit, salak, pineapple, apple, etc.) and process the results into food products [49], the [49]situation the same at MSME in Malang Greater area. MSME activities in Indonesia experience dynamics movement activity business they , who can classified to four groups , including [62].

Total MSME in East Java according to MSME survey data and census economy of the East Java by Indonesia Central Statistics Bureau in 2016 totaled 9,782,262 [52] by various category business contribute to output in gross country , national GDP 5.4% [63]. Province East Java has the largest number of MSME in industry processing food and drink in Indonesia, and the cities of Malang, Batu, Probolinggo . have a comparative advantage [64]. MSME in Bandar Batu has outstanding achievement _ from side number 4,000 MSME, and 60% of them are MSME processing fruits, vegetables and beverages: apple juice, guava juice, apple juice and various snacks or chips or fruit and vegetable chips (jackfruit, watermelon, banana, pineapple, apple, salak, banana, pineapple, rambutan, durian, watermelon, papaya, carrot, bean, pumpkin, turnip, button mushroom and others). The chip industry in the Malang area is concentrated in 5 sub-districts, so that the Malang area has become a center for the processing of fruit and vegetable chips [5]. Food processing MSMEs play an important role in improving the Malang region's economy and have contributed to increasing Malang region's income and contributing nationally [65]. According to Indonesia Central Statistics Bureau, category MSME food is preparation place stay and eat drink , MSME in Malang Greater area totaling 72,526 with details in Malang City 27,589 MSME, in Batu City 6,173 MSME and in Malang Regency 38,764 MSME [52]. If MSME food managed by standards export, them potential for export . And if this MSME , they can carry out product innovation activities, which are adapted to market needs or market orientation [18] potential for enter market export [6]. Study internationalization of MSMEs Indonesian exports are very little [66].

Export product is one way for increase profit for MSME and future growth , play role important in growth and will face competition international [67]. MSME experience international consider presentation national as a promising growth strategy [68]. Be found some strategies

for enter market international , including : franchise , licensing , contract , manufacturing , venture same international , agreement strategic international and investment alien _ [69]. [69]. Business processing MSME food has potential export and the Indonesian government also encourages MSME to innovate and develop product them

For export company face a lot barriers [70], Barriers export defined as constraints attitudes , structures , operations and related barriers or prevent ability firm for start , develop or maintain marketing export [22]

B. Method Barriers Export the Uppsala Model and Theory Level

Known by model gradually or chasing internationalization regularly slowly and gradually , because MSMEs start export with learning by doing, that is need a very long stage [70]. Early Uppsala model this assuming development four leading stage _ to experience and knowledge different markets, four level the said is:

- 1) Rank first, none activity export normal, none knowledge and experience market export
- 2) Rank second, Export through independent agents or agent or intermediary, acquire experience export through intermediary
- 3) Rank third, Export through child company alien
- 4) Rank fourth, Production in the child company foreigners in the destination country export

Weakness method barriers Uppsala export and theory level in modern global economy is too slow for quoted [71] and where MSME can follow development different aliens from the international model conventional in developed countries [71], until the model is sparse used, and illustrated Igwe like below this , until the barrier model this is old. Come on MSME age usually only 5 years

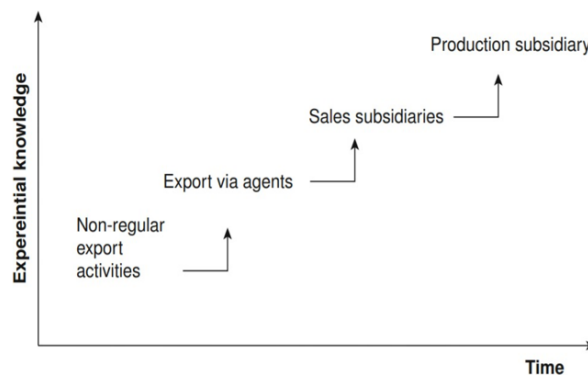


Figure 3. Internationalization Mechanism [72]

Leonidou carried out a comprehensive research in 1960-2000 [40], explained barriers export is all limiting problem way to : initiate , develop, and maintain opportunity business in the market international [36]. By run analysis comprehensive against 39 barriers exports taken from survey systematic against 32 studies empirically , the results of the classification model for barriers export is as shown in the diagram that consists of two barriers main that is: barriers first is internal (comprised from information, barriers function and marketing) and barriers the second is external (comprised from procedures , government , tasks and environment) [40]. The classification model proposed by Loenidou in 2004 is very interesting because of the barriers export to be more systematic until can provide comprehensive basis _ for understand barriers export [26] and more popular [36].

Research about the barrier model export Leonidou a lot used by researchers , discussed here four researcher who use Method barriers Leonidou Model export ,

The first research, method barriers Leonidou Model export already conducted by Elvira [28] at MSME Solo Raya, using the SEM-PLS model, the results all variables constructs and variables indicator can accepted and supported the model . Basic for classification barriers export Leonidou can expanded [22], because of the nature barriers MSME exports in each country are specifically [36]

The second research, method barriers Leonidou Model export conducted by Elvia Ivada , Sri Sumaryati , Nurhasan Hamidi [73] using the basic model barriers export Leonidou and the augmented SEM-PLS method to factor barriers and responders all SMEs in Solo Raya with potential for export , combine Barriers Export In question survey

developed by the researcher earlier in. variables prevent is based on results research previous overseas and researcher _ previously in Indonesia, using four category : 1. Barriers Knowledge . 2 Resource Barriers.3. Barriers Procedure. 4. Barriers Exogenous. 400 Respondents from MSME in Solo City, Central Java, Indonesia, all MSME types do *export directly* and *export no directly* who knows barriers to export and not exporters because of them no export due to face some barriers export. Not yet research previously in Indonesia, decision constructive data processing variables can support the model.

The third research, method barriers Leonidou Model export carried out by Khalil Al- Hyari , Ghazi Al- Weshah and Muhammed Alnsour [26], barriers export for exporters and non-exporters , using a classification model Leonidou with 36 barrier items selected export of items, due to classification systematic , and understanding comprehensive about barriers export , use Likert scale for variables data. Using method survey research quantitative and analytical regression double, for manufacturing and other MSME and samples is based on Jordan's Ministry of Industry, Chamber of Commerce and Statistics General. Barriers export for exporters and non-exporter. Variables free barriers export: internal and external and variables lean back performance export. Exporters and non-exporters strongly agree by the view they are about existence some barriers export. Barriers: export, economy, law politics, government, finance and information has relationship negative by performance export of small and medium enterprises (SMEs) in Jordan.

The fourth research, method barriers Leonidou Model export carried out M. Mithat Uner [22], Akin Hilarious , Erin Cavusgil , Salih Tamer Cavusgil , No differentiate type company , exporting company _ or no ever export at the level certain and at the level company in exporter current [22]. Using classification and analysis resistance Leonidou using ANOVA, barriers main among others: Barriers procedure Barriers marketing Barriers information market alien to be barrier to the remaining SMEs not yet export, information about market export very difficult obtained. Barriers to development product for companies that have export. Extending the Leonidou model for classification barriers to export SMEs. Barriers MSME export is specific in each country. Literature about barriers MSME continue grow , but still be found significant difference , and it vary and differ on various level internationalization , especially in still business in level marketing domestic [22] Researcher fourth , method barriers Leonidou Model export carried out Vijay Narayanan [36], manufacturing MSME Barriers Method Leonidou , for MSME in internationalization , none solution concrete , because there is possible barriers _ generated and there are special ones for region and situation

market local . Approach using technology modern by MSME is effective in overcome most barriers traditional in business international SMEs grow for looking for solution dynamics from internal MSME. Support government and manufacturers base needed by MSME for activity business international Barriers information is the most difficult is prerequisite main and knowledge market target export, for make For MSME manufacturing Barriers for MSME in internationalization, none solution concrete, because there is possible barriers _ generated and there are special ones for region and situation market local. Approach using technology modern by MSME is effective in overcome most barriers traditional in business international SMEs grow for looking for solution dynamics from internal MSME. Support government and manufacturers base needed by MSME for activity business international Barriers information is the most difficult is prerequisite main and knowledge market target export , for make advantage power compete Barriers functional related by source humans play role important related _ by experience manager export and production and finance Barriers marketing by take advantage of opportunity market international is key success in compete in Barrier global market procedure , is techniques and procedures that are not known , payment slow. Barriers refer to to attitude support or no to exporter, aid incentives linked by success export, facilitate rules about practice export, promotion export linked by performance export. The task, is because of rules / requirements / standards varies due to differences topography, climate, economy, habits Barriers the environment external / exogenous, related by the environment economic, political-legal, social-cultural market outside. From the third researchers, that Method barriers Leonidou Model export can carried out.

CONCLUSION

There are several model methods barriers export , and from study literature can concluded that method barriers Leonidou Model export can carried out for looking for solution barrier food MSME export in Malang Greater area Indonesia.

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