

# Strategy to Improve Small Business Competencies and Capabilities in Global Market Competition (Indonesia Perspective)

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**Abstract:** Globalization is a borderless world with “competition” as a key word. Globalization means opportunities as well as a source of threats. Specific advantages derived from operating in a global market seem to be exploitable only by large organization, unless small business can find the suitable strategy allowing them to cope with global market opportunities without suffering from limited competencies and capabilities. In globalization, there are high market and product competitiveness and also opportunity to grow for small business. Small Businesses should have a specific strategy that are implemented based on the entrepreneurs’ competencies, capabilities and products or service competitiveness strategies in order to compete in the global market. Small businesses in Indonesia suffer from some weaknesses: (1) Internal factors as follows: weak in entrepreneurship spirit; Un-professional employees; low in creative ideas and innovative products; weak in mental sustainability in competitive condition; limited business networking particularly in global market; un-skill and no experiences employee in global market practices; and less capital resources networking. (2) External factors as follows: minimal conducive business environment; shortage in business training for small business actors by government; less government support such as business information center and infra structure for business transportation and communication facilities; limited marketing channel; and limited in global market information. The objective of this article is to provide recommendation in the form of strategy to improve the competencies and capabilities of small business actors (entrepreneurs and employees) in competition strategy in global market competition. Method used in this article is by literature review.

In order to survive and to take advantages of opportunities in the global market, the small business must improve their business competencies, capabilities and product competitiveness as well. (1) Owners and Employees of small business should build the spirit of entrepreneurship and innovation by empowering their capacity building. (2) The entrepreneurs should create relevant and competitive strategies in the market to become a driving force in order to improve their business competencies and capabilities in global market competition. (3) The entrepreneurs should develop a center of alliances strategies for global market. Therefore, by improving the business competencies and capabilities then they will encourage the creation of product or service competitiveness in global market. (4) The role of government with a conducive business environment created by government is considered as supporting factors to encourage the various efforts made by small business employees to improve their competitiveness locally and globally.

**Keywords:** small business strategy, competencies, capabilities, entrepreneurship, competitiveness strategy, small business.

## **Background**

**A**s we know from previous studies, to develop a business, small business face many constraints that are both internal and external problems including: management, capital, technology, raw materials, information and marketing, infrastructure, bureaucracy and collective, partnership. Globalization is a world without boundaries with "competition" as a keyword. Globalization means opportunities as well as threats. Certain advantages that come from global markets that operate seems to be exploited only by large organizations, unless small business can find suitable strategies that enable them to address the global market opportunity because without competence and capabilities small business opportunity in global market will be limited. In globalization, there is a high competitiveness of the product as well as the opportunity to grow in small business.

According to a survey conducted by Oxford Economics (2013), 2,100 small business executives in 21 countries (including Indonesia) state they are confident that Indonesia can equip them to compete with bigger companies and have some real advantages to be able to exceed the larger company. It can be an opportunity for Indonesia in entering the global market. A small business must have a special strategy that can be implemented based on the competence of the entrepreneur, the ability to produce a product and service competitiveness strategy in order to compete in the global market. From the various problems faced by small business, it appears that capital remains one of the essential needs to run his business, both working capital needs as well as investment.

## **Method**

Method used in this article writing is by literature review, which will be discussed theories about small business problems and solutions in Indonesia. To survive and to take advantage of opportunities in the global market, small business should increase their business competence, capability and competitiveness of the products as well. (1) The owners and employees of small business must build the spirit of entrepreneurship and innovation by empowering their capacity. (2) Employees should make a relevant and competitive strategy in the market place to become the driving force in order to improve the competencies of their businesses and capabilities in global market competition. (3) The entrepreneurs should develop strategies of alliance for the global market. Therefore, by improving business competence and ability then they will encourage the creation of products or service competitiveness in the global market. (4) The role of Government with a conducive business environment created by the Government is considered a supporting factor to encourage the various efforts made by the employees of small businesses to upgrade their locally and globally.

This article will reveal and analyze the necessary effort in improving the competitiveness of small business in Indonesia base on competencies, capabilities and strategies.

## **Competencies**

Competencies need to be owned by the entrepreneurs as well as other professions in life, these competencies support towards success. Elsaid (2010) proposed 10 competencies required, namely:

- Knowing your business, the business knows what to do. In other words, an entrepreneur should know everything that has to do with business or business to be done.
- Knowing the basic business of management, namely knowing the basics of business management, such as how to design a business, organizes and introduce the company, including being able to calculate, predict, administer, and record business activities. Understanding business management means knowing about tips, how to, processes and management of all corporate resources effectively and efficiently.
- Having the proper attitude, which has the perfect attitude towards the business that he does? Entrepreneurs should behave like merchants, industrialists, businessmen, executives who truly and not half-hearted.
- Having adequate capitals, which have sufficient capital. Capital is not only material but also spiritual form. Trust and perseverance is the main capital in the venture. Therefore, it should be enough time, enough money, enough power, space and mentally.
- Effectively managing finances, which have the ability/ financial management, effectively and efficiently, look for sources of funding and use it properly, and control it accurately.
- Managing time efficiently, namely the ability to manage time as efficiently as possible. Organize, calculate, and keep time according to their needs.
- Managing people, that is the ability to plan, organize, direct/ motivate, and control the people in running the business.
- Satisfying customers by providing high quality product, which gives satisfaction to customers by providing goods and services of quality, useful and satisfying.

- Knowing how to compete, which determine the strategy / how to compete? Entrepreneurs should be able to reveal the strength (strength), weakness (weakness), chance (opportunity), and threats (threat), himself and competitors. She had to use a SWOT analysis against him and against his competitors.
- Complying with regulation and paper work, which makes the rules/ guidelines clearly express, not implied (Triton, 2007: 137-139).

### Capabilities

While the capabilities that must be owned by an entrepreneur (Scarborough, 2013) are describe as follow: a. Conceptual Skills in organizing strategies and taking into account of the risks; b. Provision of creative skills in creating added value; c. Skills in leading and managing; d. Provision of skills to communicate and interact; and e. The provision of business engineering skills are going to do.

### Competitive Advantage

A competitive advantage allows the small business to produce or sell goods more effectively than any other business. Business owners develop business strategy to maintain competitive advantage. Some type of strategy that is available in the business environment. Business owners can use the standard strategies or develop their own strategies. Flexibility is an important feature of competitive business strategy. The following are some strategies for doing business (Vitez, 2015):

- a) Cost Leadership, is a business strategy that allows the company to become the lowest cost production company in its industry. Traditionally, businesses have two options to increase profits: increase sales or reduce costs. Cost leadership strategy focusing on the acquisition of the raw materials of high quality with lowest price. Business owners must also use the best workforce to turn raw materials into consumer goods of value. Low cost leadership is usually translated into high-quality goods with low consumer prices. The ability to undercut competitors' prices often lead to increased market share.
- b) Differentiation. Business owners use a competitive business strategy to distinguish their goods or services from others in the industry. Differentiation may be actual or perceived. Differentiation in fact involves creating a product that is not currently available in the market economy. Perceived differentiation requires a little more work on the part of the company. Companies usually use the advertising messages that describe the same product on the market with a few subtle differences. This strategy encourages consumers to distinguish the products in their minds.
- c) Pricing Strategy. Many businesses develop a pricing strategy to maintain competitive advantage. This includes penetration, economy, skimming, bundles and promotional strategy. Price penetration using low initial price to gain market share and gradually increase in price to a normal level. The price of the basic product offers economy that have the customer price as low as possible. Skimming pricing strategy is assigned the company a high initial product prices lower to match the lower prices of new competitors. The price of the bundle is a strategy in which the company includes several different products under a single price. This allows a business to provide more products to the consumer at a price slightly lower. Promotional pricing strategy can allow the company to offer additional benefits to consumers, such as "buy one get one free" in business strategy.

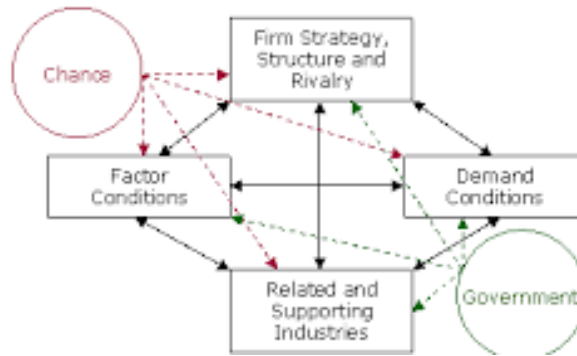
The approaches used to formulate the development strategy of small businesses are (1) Diamond Cluster Model and (2) the SWOT Analysis. Both approaches are as follows:

### Diamond Cluster Model

Diamond Cluster Model Porter (1990) that developed by Michael Porter suggests that the cluster is defined as a "geographic concentrations of firms, suppliers, related industries and specialized institutions that occur in a particular field in a nation, state or city." Another definition of Diamond Cluster Model is a "geographical concentration of industries that gain performance advantages through co-location". Diamond Cluster Model shows the relationship between the companies that also provide complementary services, including consulting services, education and training providers, financial institutions, professional associations and government institutions. From Diamond Cluster Model as presented in Figure 1, can be identified there are 4 (four) components, namely: First, the factor inputs (input factor) which are the variables that already exist in the industry clusters such as human resources (human resource), the resource capital (capital resource), physical infrastructure (physical infrastructure), infrastructure information (information infrastructure), the science and technology infrastructure (scientific and technology infrastructure), infrastructure administration (administrative infrastructure) , and natural resources

(natural resource). Second, the condition of demand (demand condition) relating to the sophisticated and demanding local customer.

Figure 1. Porter's Diamond Model



Source: Porter, M.E. The competitive advantage of nations, New York: Free Press (1990)

The more advanced a society and increasingly demanding customers in the country, then the industry will always strive to improve product quality or innovation to meet the desires of the local customers. Third, related supporting industries (related and supporting industries) for greater efficiency and synergy in the files, especially in terms of transaction cost, sharing technology, information, and skills that can be utilized by other companies or industries, namely to boost competitiveness and productivity. Fourth, the strategy of the company and competitors (context for firm, strategy, and rivalry) that can encourage companies to make improvements to product quality and innovation. The existence of a healthy and tight competition, will lead companies to look for suitable strategies and work to improve efficiency.

**SWOT Analysis**

SWOT (Strength, Weakness, Opportunities, Threats) Analysis commonly used to evaluate opportunities and challenges in the business environment as well as on the company's internal environment (Kuncoro, 2005). In order to ease the implementation of SWOT analysis, we must have SWOT matrix construction, with the combined factors of strengths, weaknesses, opportunities, and threats. The SWOT matrix is presented in table 1.

Table 1. Matrix SWOT Analysis

		Internal	
		Strengths	Weaknesses
External	Opportunities	<b>Strengths - Opportunities</b> Actions to pursue opportunities that are a good fit for the company's strengths.	<b>Weaknesses - Opportunities</b> Actions to overcome weaknesses to pursue opportunities.
	Threats	<b>Strengths - Threats</b> Actions that use the company's strengths to reduce vulnerability to external threats.	<b>Weaknesses - Threats</b> Defensive actions to prevent the company's weaknesses from making it susceptible to external threats.

Source: Kuncoro (2005)

From the SWOT matrix analysis as presented in table 1, we can identify there are four (4) strategies, namely: first, SO that strategy is a strategy to use all the powers to take advantage of the opportunities that exist. Second, the strategy of WO that is a strategy addressing all of the short comings by leveraging existing opportunities. Third, the strategy of ST which is a strategy to use all force to avoid from all threats. Fourth, WT strategies which is the strategy of pressing all the weaknesses and prevent all threats. By using these two approaches, then phases of the research developed are as follows: (a) Initiate the most pre-eminent small business sector can potentially developed, (b) Identify the competitive advantage of small business cluster approach based on diamond model. This competitive advantage will include the input factor conditions, demand, supporting and related industries, and the strategy of the company and its competitors, (c) Classifying small business into competitive advantage of internal and external factors, (d) Determining factors into strengths, weakness, opportunity, and threats, who subsequently served in the SWOT matrix, (e) formulating strategies based on a combination of strength, weakness, opportunity, and threats, (f) Determination the priorities of the strategy the development of small business, and (g) Implementation of the selected strategy.

### **Government Role**

The Government of Indonesia is trying to print new entrepreneurs to break down the colonial economic system and replaced with democracy economic. The legislative body has given its support for the Government to develop small business. Under Law No. 20 year 2008 regarding small business the role of Government among others:

- a. Local governments carry out joint supervision and control over seeks opportunity (Article 13).
- b. Joint local government implements trade promotion activities (Article 14, paragraph 2).
- c. Local government facilitates the development of Joint ventures in the field of production and processing, marketing, human resources, and design and technology (Article 16, paragraph 1).
- d. Drafting government regulations regarding the procedures for development, priority, intensity, and enterprise development period in question (Article 16, paragraph 3).
- e. Along with local governments provide financing for small business (Article 2). In this case, the central government, local governments, and the entrepreneur world can give grants, lobbies for foreign aid, and the pursuit of other financing sources are legitimate and are not binding for the small and micro enterprise (Article 21, paragraph 4).
- f. Provide incentives in the form of licensing requirements, ease of tariff relief, infrastructure and other forms of incentives that provision of legislation with a convenient place to the corporate world that provides financing for small business (Article 21, paragraph 5).
- g. Increase the sources of financing small business (Article 22).
- h. With local governments, improving access of small business against the source of financing (Article 23, paragraph 1).
- i. Along with local governments do Business empowerment in the field of Secondary financing and guarantee (Article 24).
- j. Along with local governments, businesses and communities, supporting, facilitating and stimulating the activities of the partnership, interdependence, trust, strengthen, and benefit (Article 25, paragraph 1). Partnerships between micro, small, and medium enterprises and partnerships between micro, small, and medium with great effort includes process instead of skills in the field of production and processing, marketing, human resources, capital, and technology (Article 25, paragraph 2).
- k. Minister of cooperatives and small business and other technical ministers govern the granting of incentives to big businesses that do partnership with micro, small, and medium enterprises through innovation and development of export-oriented products, the absorption of labor, use of appropriate technology and environmentally friendly, as well as organizing education and training (Article 25, paragraph 3).
- l. The minister of cooperatives and small business can shape the agency coordinating national and regional business partnership to monitor the implementation of partnership (Article 34).
- m. Prohibits large businesses have mastered and/or small and/or as the business partner in the implementation of partnership (Article 35).
- n. Prohibits secondary businesses have mastered and/or small business the business partner (Article 35).
- o. Minister of cooperatives and small business carrying out coordination and control of empowering small business (Article 38, paragraph 1).
- p. Organize and establish government regulation on the procedures for administrative sanctions act infringement number of 20 in 2008 about small business (Article 39 paragraph 3).

With respect to the mandate of the act, the government is implementing various programs that aim to empower small business. The government made a policy to accelerate the economic growth directly related to small business, there are three principal policies of the grain in the field of economics. First, is the increase in financial services particularly for small business, the perpetrators of which include improvement of banking services, capital markets, multifinance, and insurance? The second principal policy is an increase in the financial services infrastructure, market access, service billing and payments, ease investment and saving, as well as general support for the implementation of trading transactions. Increased service and infrastructure, supporters will not mean much without a thorough revamping efforts to improve entrepreneurship for small business of the perpetrator. The third principal policy is to increase the ability and mastery of the technical aspects and management of business, product development and sales, financial administration, and entrepreneurship.

Government policy in the development of the small business sector aims to increase the potential and the active participation of small business in the process of national development, especially in economic activities in order to embody equitable development through the expansion of employment and income generation. According to Abdul Rasyid (2005), "Target and the construction of small businesses is the increasing number of small businesses and make the business more resilient and independent, so that the economy can play a role in the national economy, the increasing competitiveness of national entrepreneurs in the world market, as well as the share of the spread of investments between sectors and type".

Government through a variety of elements such as the Ministry of Cooperatives, the Ministry of Industry and Trade, Bappenas, BUMN are also good financial institution bank or nonbank, doing numerous attempts to embody the small business to become tough and self-sufficient and can evolve to realize the national economy. Support is realized through policies as well as the procurement of facilities and other stimulus. In addition, a lot of support or assistance is needed with regards to the effort, such as assistance in the form of procurement tools production, other physical procurement of goods is also required the existence of a method, mechanisms and procedures are adequate, appropriate, and applicative and leads to compliance implementation efforts and the efforts of the development community with the ability to trade as elements in a system of community-based economy, that was the shape of small business.

### **Discussion**

Small businesses according to Law Number 20 year 2008, namely economic productive effort that stands on its own done by individual persons or business entity which is not a subsidiary or branch is not owned, controlled or being part of either directly or indirectly from medium or large businesses.

According to Andang (2007), the problem of small business can be categorized as follows: (1) Basic problems, among other issues, the form of capital, the form of legal entity that is generally non formal, human resources (HR), access to product development and marketing. (2) Advanced problems, among the introduction and market penetration of export which is not optimal, a lack of understanding of the design of products that fit the character of the market, legal issues regarding rights patent, the procedure of the sales contract and regulations applicable in the country of destination of exports. (3) Intermediate problems, namely the issue of the relevant agencies to resolve basic problems in order to able to deal with the question of follow-up in more good. These issues are about financial management, collateral and limitations in entrepreneurship.

Small businesses typically experience various large obstacles to be resolved soon. Small businesses usually face difficulties or obstacles as follows:

1. The system of capitalization, the most basic things that become an obstacle or hindrance in running small and medium businesses is capital. Generally, small business has limited funding so that its productivity cannot be maximized.
2. Management system and quality of resources, a problem that this one is related to the ability of the existing resource capability. Usually most small businesses are run by the management and less professional. This is not because there is no willingness but more a matter of ability that is in them.
3. The conditions of competition, as a small business are of course the ability of entrepreneurs in competing is still very small and have not been able to penetrate the global market. The competition between small business will certainly differ with corporate business competition, it can be seen from the incentives and taxes paid.
4. Build a brand, describing how far the brand can represent the products/services sold on the markets properly.

5. The utilization of technologies that have not been fullest, this is due to small business in Indonesia are still using conventional means in operating efforts. It is so contrary to the principles of globalization that puts the values of information disclosure.

While the limitations of capital owned is certainly one of the biggest threats in the selection of small business sector by mostly middle low societies, because for those who indeed are at a medium-sized circles to the top then any selected business sector would certainly be different.

Another problems in small businesses in Indonesia is lack of entrepreneurial spirit of the business actors itself. This lack of mental or spirit conditions is one of the factors that make Indonesia has a very small number of entrepreneur. The small business as an economic institution expected could develop more better if its run by an entrepreneur. According Dahlan Iskan former Minister of State-Owned Enterprises (BUMN) in the seminar Youth Entrepreneur Program "To be The Top Entrepreneur" at the Islamic University Bandung (2013): ..... the number of entrepreneurs in Indonesia could be said to be less than the agreed economic theory worldwide. As a comparison, Rizal (2015) mention that the percentage of the number of entrepreneurs in Indonesia is only 1,65 percent of the population. The percentage is far behind Singapore, Malaysia, or Thailand, each of which has a percentage of the employer as much as 7 percent, 5 percent and 3 percent respectively. While developed countries like the United States and Japan even has a number of entrepreneurs over 10 percent of the population.

The Government through the Ministry of Cooperatives and Small Business has for several years encouraged entrepreneurship program for the general public, youth and students. Its programs vary, ranging from the granting of small capital for home-based businesses, entrepreneurial programs to students scattered not only in universities but also in the whole of Indonesia. Proposals varied value ranging from 1 to 10 million rupiah. In addition, the office of Minister Cooperation and Small Business make some program to do internship for prospective entrepreneurs to inspire people to get insight and to create spirit entrepreneurship. The internship expected to motivated people to create business and to become successful entrepreneur.

Infrastructure and communication facilities also an obstacle for small business company to develop. Some sources said that infrastructure and communication sector spending in the country is very small. In 2002, development expenditure becomes is less than 5 billion US Dollars, and only 30% for infrastructure (Johan, 2002) Due to this situation caused inhibiting the activities of raw material collection and sales activities. The bad road condition and less communication facilities are considered seriously inhibiting the growth of small business company development.

Small business company will get a very useful facilities if representatives of Indonesian government abroad in this case commercial attache serve or provide services for small business company needs. The services could be in the form of establishing buyer and seller information desk and inquiry service in each Indonesian representative abroad. The services such as market brief of to help improve the competitiveness of Indonesian products in the global market (djpen.kemendag.go.id: 2015).

Government need to support small businesses in the development of social media that support information on any business that developed in Indonesia and global market. It is a great opportunity for entrepreneurs to have a small business sectors that use a small initial capital investment then a wide range of information that will provide many benefits, because the information can be made as a reference who can give a fresh business ideas.

The small businesses should have special competence and digging as the catalyst for the running of the company, for example with "brand reputation" and low production costs. When this special competence is not modified, then the level of business profits could decline. Therefore, according to Mintzberg (1990) in the theory of the "design school", companies must design a corporate strategy that fits between the external opportunities and threats with adequate internal capabilities and guided the choice of an alternative "strategy" (grand strategy), then supported by growing the core capabilities that are the competence of the management of company resources. Small business in Indonesia is expected to grow beyond their domestic market while facing increasing global competition on the domestic market.

In Oxford Economics (2013) say that as many as 13% of respondents currently Indonesia do business entirely in the domestic market and the figure is estimated to be down sharply to just 2% in three years. In addition, the small business in Indonesia which produce more one-fifth of their income from abroad is projected to rise from 56% is currently 74% in three years. Meanwhile, 14% of small business surveyed Indonesia does not generate income from outside Indonesia at this time, the figure dropped to just 5% in three years. More than half (55%) of respondents in

Indonesia said they are competing with more foreign companies nowadays than in the past. In Indonesia, labor and economic issues is of the highest concern for small business. Rising labor costs are quoted from 39% of small business surveyed Indonesia is the main aspects that affect their business at this time. Economic uncertainty (36%) and shifting customer expectations (30%) occupy second and third order that affected their local market. Small business in Indonesia aware they must do business transformation to be able to compete. Small business in Indonesia understands the need to think of the strategy of their business in order to adapt to an increasingly global market. Two-thirds of respondents in Indonesia had just finished or will initiate a significant business transformation. As many as 64% of small business in Indonesia surveyed agree that the transformation is very important to stay in the competition. More than half of respondents in Indonesia (56%) say that expanding products and services is very important to encourage growth in the era of new markets and customers are empowered. Technology is important for small business in Indonesia and is the main element in the transformation of the business. Invest in new technologies is one of the strategic priorities for small business in transforms their business to global markets. More than half of Indonesia's small business surveyed strongly believes that technology helps them maintain to be strong business and sustainable growth. In terms of investment, 55% of companies mention mobile technology as the biggest priority, followed by social media (51%) and business management software (42%). A number of the 63% of small business in Indonesia say their technology investment depends on a clear result on investment (return on investment). Innovative technology is the key to promote the development of products and services and encourage efficiency-cost efficiency. Small business in Indonesia considered development services as well as products and encouraging cost efficiency as two of the greatest benefit from the application of the technology.

### Conclusion

Based on the discussion above, there are some conclusion about the strategy for small businesses in Indonesia to improve business competencies and capabilities in global market competition.

- (1) Entrepreneurship spirit in Indonesian particularly whom those run business is very low. Entrepreneurship should be a culture for society. Business owners and employees have to build a spirit and soul of entrepreneurial and make innovation by empowering their capacities.
- (2) Employees should make a relevant and competitive strategy in the market to be a force in order to improve their business competencies and capabilities in global market competition.
- (3) Small business development strategies can be used as an attempt to realize the small business into business activities that have added value and competitiveness of high-power, not only have comparative advantages, so that the small business can be engaged in local and global markets. Using Porter's Diamond Model and SWOT analysis, expected to develop small business in Indonesia for penetrating global markets.
- (4) The entrepreneurs develop strategies of the alliance for the global market. Therefore, by alliancing the businesses together is a group, they will encourage the creation of new market for product or service in the global market competition.
- (5) The role of government with a conducive business environment is considered as supporting factors for small business. It can encourage the various efforts made by the actors and employees of small businesses to enhance their competencies locally and globally in the market. The programs should be promoted by government as follows:
  - a. Indonesian diplomat in foreign country should provide services for small business actors to have market information, such as buyer and seller services desk and inquiry service.
  - b. Infrastructure development and communication facilities is one of important and vital aspect to develop small business company competitiveness. Bad road condition and less communication facilities inhibiting small business company to have economical cost price. Government have to increase budget allocation for build more infrastructure and facilities.
  - c. Government of Indonesia should make innovative programs to develop small business and facilitate training and internship programs to develop entrepreneurship spirit.
  - d. Based on Law no. 20 in 2008, small business sector could gain benefit and opportunity to develop small business sector.



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