



The role of subcontracting in SME development in Indonesia: Micro-level evidence from the metalworking and machinery industry

Mitsuhiro Hayashi*

Faculty of Economics and Commerce, The Australian National University, Canberra ACT 0200, Australia

Received 1 January 2001; received in revised form 1 July 2001; accepted 1 September 2001

Abstract

This study investigates whether subcontracting linkages are an important support mechanism for the development of Indonesian small- and medium-scale enterprises (SMEs). It estimates production functions and calculates indices of total factor productivity (TFP) based on micro-level data from 60 metalworking and machinery firms that supply their products to automobile, motorcycle, agricultural machinery and bicycle manufacturers. The estimation results confirm our main hypothesis that inter-firm cooperation through subcontracting ties increases productivity of Indonesian SMEs. This study implies that the situation where subcontracting ties in Indonesia did not function well in supporting SMEs has been changing recently. Better financial access and business continuity are important in facilitating subcontracting transactions, which can provide SMEs with support necessary for improving productivity. A comparison of TFP indices indicates differences in productivity between firm groups. Larger SMEs, *non-pribumi* SMEs and SMEs producing automotive/motorcycle parts have, in general, higher TFP than their counterparts. © 2002 Elsevier Science Inc. All rights reserved.

JEL classification: D24; O14

Keywords: SME development in Indonesia; Subcontracting; Labor productivity; Production function; Metalworking and machinery industry

* Tel.: +61-2-6125-5440; fax: +61-2-6282-9621.

E-mail address: mitsuhiro.hayashi@anu.edu.au (M. Hayashi).

1. Introduction

The role of small- and medium-scale enterprises (SMEs) in the process of industrialization and economic development varies according to the type of economy, stage of economic development and sector of industry. Berry and Mazumdar (1991, p. 35–39) list common reasons for the importance of SMEs in developing countries, such as (1) the high share of SMEs in economies in terms of the number of establishments, the number of employees, the value of output, etc.; (2) the contribution of SMEs to the favorable combination and utilization of production factors (i.e., labor and capital) through the adoption of technologies appropriate to resource endowments and through this participation in an inter-firm division of labor;¹ (3) the contribution of SMEs to the establishment of foundations for industrialization; and (4) the contribution of SMEs to a more equal income distribution as a consequence of their larger share in labor earnings.

SMEs in Indonesia are regarded as an important issue in the economy.² Hill (2001, p. 248–250) lists reasons why SMEs are spotlighted in Indonesia: (1) the significant contribution of SMEs to the economy (e.g., workforce and output);³ (2) high priorities given by the government to SMEs; (3) the potential role of SMEs in promoting *pribumi* (indigenous Indonesian) enterprises that have lagged behind the business race with *non-pribumi* (ethnic Chinese) counterparts; (4) the necessity to formulate economic policies different from those for large-scale enterprises (LEs), because of SME-specific characteristics such as higher concentration on particular industrial activities, less foreign ownerships and less export orientation; (5) the expected role of SMEs in promoting industrialization; and (6) the better response of SMEs to the 1997–1998 crisis, relative to LEs.

SMEs have these potential roles in economic and industrial development. At the same time, however, as Berry and Mazumdar (1991, p. 54–58) stated, many SMEs in Asian developing economies have suffered from their insufficient capabilities in technology, management, marketing and financing and from a lack of access to effective support systems. Similarly, Urata (2000, pages, 22–27, 87–96) found that the main problems SMEs in Indonesia face are (1) lack of technological knowledge; (2) lack of marketing knowledge; (3) lack of managerial knowledge; and (4) poor access to formal financial sources. Insufficient entrepreneurial and managerial skills are typical internal constraints to SME growth, while limited access to technologies, markets and credit and government policies in favor of LEs are common external constraints (Schmitz, 1982, p. 430–441).⁴ It is difficult for SMEs with limited human and financial resources to acquire technology, develop markets and arrange financing by themselves. SMEs cannot rely on their internal resources to the same extent as LEs. Given such internal constraints, how can developing economies foster SMEs?

According to Berry (1997, p. 7), the above limitations for SMEs make the assistance from and collaboration with LEs imperative. The typical economic logic for inter-firm cooperation between LEs and SMEs is found in the fact that LEs can do some things better than SMEs. Berry (1997, p. 6) pointed out that apart from the fostering of entrepreneurial capabilities, one of the main determinants for the success of SME development is the establishment of useful linkages between LEs and SMEs through subcontracting arrangements. He emphasized that this kind of “linkage-inducing” policy is, mostly and in most places, a new and experimental issue with considerable potential.

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات