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The Small Medium-Sized Enterprise’s Characteristic in Batam Free Trade Zone that Able to Acquire Debt

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Abstract

The objective of this research is to identify Small Medium-sized Enterprise (SME) Characteristics in Batam Free Trade Zone that have the ability to acquire debt. Sampling method used in this research is purposive sampling method. 79 selected samples were taken from SME that located in Batam during 2008-2009. The methods used for analysis were comparison analysis and logistic regression model. The result of this research indicates that firm size, firm growth, firm location, foreign shareholder involvement, type of industry, export activities, and educational background of top manager at SME in Batam have significant correlations to the SME’s ability to acquire a debt. The ability to acquire debt by SME in Batam is positively related to location, export activities and manager education but negatively related to size, growth, foreign shareholder and type of industry. The firm age and development strategy seems to have no significant impact on the SME’s ability to acquire debt. The groups which are SME’s using debt and not using debt can be distinguished by Mean Difference Analysis for independent samples. Based on the analysis, we concluded that firm location, export activities, background educational, foreign shareholder and firm size were the differentiating factors between two groups.

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Keywords: Small Medium-sized Enterprises (SME), acquire debt, debt financing, Batam Free Trade Zone

1. Introduction

The Batam Free Trade Zone has been conceived as one part of a larger strategic development initiative by the Indonesian Government. It has roles to promote regional economic development for attracting foreign

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direct investment and stimulate export-oriented industrial developments. By providing special regulatory frameworks and investment incentives to targeted sub-regions of the country, Batam was expected to become one of prospective areas not only for large-scaled industry and business enterprises but also for the small medium-sized enterprises (SMEs) that have been operating in Batam and had a big contribution to the total number of workforce in Batam. According to Batam Industrial Development Authority (BIDA) report in 2008, the total number of SME in Batam during the last ten years attained 9,900 unit with at least 60,000 employees. There are a lot of opportunities for SMEs, due to its strategic role as supporting industry for big and multinational business in Batam.

However, despite the important role of SMES in economic growth and employment creation, they commonly constrained by finance when they tried to expand their business. According to Zhao, Wu and Chen (2006), the most important obstacle to get bank financing is information asymmetry between borrower and lender, e.g., the borrower has private information about the firm that lender doesn't have. Moreover, for SMEs, because of their small size, short history, obscure accounting, etc, the extent of information asymmetry becomes more serious.

To solve the financing problem that arises, it is necessary to find out the key measurements that could be used as indicators that will reduce degree of information asymmetry. Specifically, conveying the intrinsic soundness of SME project and distinguishing them from riskier borrower. Those elements signalling SME's quality and alleviating informational problem undoubtedly become important factors affecting SME's ability to acquire financial support from bank. Nevertheless, many literatures have discussed the financing aspects of SMEs at home and abroad. But many of them mainly focused on sources of capital, capital structure and similar topics, and only few of them investigated SMEs' ability to acquire debt from lender institution such as Bank, financing company or venture capital. Therefore, based on both points of view, the objective of this research study is to identify and explore how firm characteristics affect SME's ability to acquire debt in Batam Free Trade Zone. After the factors known, it could be one of parameter by lender to assess borrower ability to acquire debt. This research also identified what are the differentiating factors between groups of SME those get loan or debt and for those who didn't.

The remainder of this paper is organized as follows. Section 2 presents related literature review and empirical hypotheses. Section 3 introduces data source and methodology, Section 4 presents result analysis, Section 5 draws a conclusion and point out our future research direction.

2. Literature Review and Proposition Development

A first question in all Small Medium Sized Enterprises (SMEs) literature is the definition of what is really considered as a small & medium scaled business. In Indonesia, there are some terms to define the Small Medium Sized Enterprises. They are mostly from related government institution such as Ministry of Cooperative and SME, Ministry of Finance, Central Bureau of Statistic, etc. The definition of SME that used in this research refers to Central Bureau of Statistic that categorized based on the number of paid employee. Small firms have less than 20 employees and medium sized firm have 20-100 employees. The definition is almost same with Van der Wijst (1989) that considers small and medium-sized business as privately held firms with 1–9 and 10–99 people employed.

A few empirical studies have been performed specifically to analyze the factors affect SME's ability to acquire debt and related determinants of capital structure. Bebczuk (2004) conducted SME financing research through Logistic Model Analysis at SME in Argentina. He found that profitability, debt ratio, the use of overdraft credit increases probability to obtain the loan from bank, meanwhile size, liquidity, tangibility, expectation of higher investment, expectation of export growth and length of lending relationship that tested, seems have no correlation significantly. Zhao, Wu and Chen (2006) revealed the different result at SME in China. They found size factor, close relationship with bank, internal funds, willingness to accept bank's clauses

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