

## **TRADING HOUSES: PROMOTE, DEVELOP AND EXPAND INDONESIAN COOPERATIVES AND SMALL MEDIUM ENTERPRISES**

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### *Abstract*

Indonesian Cooperatives and Small and Medium Enterprises (SMEs) need to be promoted, developed and expanded, one of the reasons is that cooperatives and SMEs are known as an important post of Indonesian Economics. It is proven in 1998, when multi-dimension crisis hit the country, many of big enterprises collapsed but Cooperatives and SMEs survived. This research is intended to elaborate weaknesses of Cooperatives and SMEs in developing and expanding themselves. Many reasons will be stated and ways to cope with the reasons will be explained. One of the answers is Trading House. Why and how trading houses can help Indonesian Cooperatives and SMEs to develop and expand themselves and how to use trading house in Networking Cooperatives and SMEs to global business will be explained. Success stories of developed countries make trading houses contribute to develop and expand SMEs in their countries will also be shown to figure out how trading houses in these countries contribute to each country. Some suggestions and conclusions will be made in the end of this research.

Keywords: trading house, cooperatives, SMEs

### *Abstrak*

Perusahaan lokal Indonesia dan *Small and Medium Enterprises (SMEs)* harus dipromosikan, dikembangkan dan diperluas, dengan alasan bahwa perusahaan tersebut dan *SMEs* dikenal sebagai faktor penting dalam perekonomian Indonesia. Hal ini dibuktikan pada tahun 1998, ketika krisis multi dimensi menghantam Indonesia, terlihat banyak perusahaan besar yang jatuh, tetapi perusahaan lokal Indonesia dan *SMEs* dapat bertahan. Penelitian ini bertujuan untuk meneliti kelemahan perusahaan lokal dan *SMEs* dalam rangka pengembangan dan perluasan usahanya. Banyak alasan akan diungkapkan dan cara penanggulangan alasan tersebut juga dijelaskan. Salah satu jawabannya adalah *Trading House*. Mengapa dan bagaimana *trading houses* dapat membantu perusahaan lokal Indonesia dan *SMEs* dalam rangka pengembangan dan perluasannya serta bagaimana menggunakan *trading house* dalam jaringan perusahaan dan *SMEs* untuk bisnis global akan dijelaskan. Kisah sukses dari negara berkembang yang membuat *trading houses* dapat berkontribusi untuk mengembangkan dan memperluas *SMEs* di negaranya akan ditunjukkan dalam skema bagaimana peranan *trading houses* dapat berkontribusi di tiap negara. Beberapa pendapat dan kesimpulan akan disampaikan pada penelitian ini.

Kata kunci : *trading house, cooperatives, SMEs*

## 1. Research Background

Based on Ministry of Cooperatives and Small and Medium Enterprises of Republic of Indonesia, there are three kind of enterprises that could be categorized as Small and Medium Enterprises (SMEs) (Tim Penulis, 2004), they are:

- a) Micro Business, small scale economics activities and done in traditional and informal, that means not yet registered, recorded, and have no registration number from regulatory bodies. Maximum sales amount is Rp100 million annually.
- b) Small Business, is people economics activities with following criteria:
  - 1) Business with net asset of maximum Rp200 million, excluding land and business building
  - 2) Business with maximum sales Rp1 billion annually
  - 3) Stand alone business that is not a subsidiary or branch of a company that owned by, acquired by, or affiliated to medium or big scale business either directly or indirectly
  - 4) Could be an individually owned, incorporated or a cooperative
- c) Medium Business, economic activities with following criteria:
  - 1) Business with net assets of more than Rp200 million but not exceed Rp100 billion, excluding land and business properties.
  - 2) Stand alone business that is not a subsidiary or branch of a company that owned by, acquired by, or affiliated to medium or big scale business either directly or indirectly
  - 3) Could be an individually owned, incorporated, or a cooperative

In developing countries the SMEs are usually 70% to 80% of total business types, and absorb up to 90% of workforce of the country. Generally these kinds of business contribute 80% of total export figures of the country. In 1998 when multi dimension crisis hit Indonesia, SMEs were businesses that survive and stand still compared to big enterprises that collapsed and made Indonesian Economics worse because of their huge amount of loan in foreign currencies, especially US dollars domestic and international bases. Based on this history, it is obvious why Indonesian government pays much attention to cooperatives and SMEs, and considers them as one of Post of Indonesian economics. Table 1 shows the profile of SME in Indonesia in 2000 and 2003.

**Table 1. Indonesian SMEs Profile**

Indicators	2000	2003
Total Business Unit (million)	38.72	42.40
Workforce absorbed (million)	70.40	79.03
Export Value (RpTrillion)	75.45	75.86
Portion to Non oil and Gas Export (%)	19.35	19.90
Portion to GDP (%)	54.50	56.70

Source: Statistics Center Body (BPS) 2004 (Anonymous3, 2006)

Table 1 above shows contribution of SMEs to Indonesian economics. In workforce absorbed it shows that SMEs absorbed 79.03 million people and had

contributed to GDP 56.70%. At the same time their portion to non-oil-and-gas export was 19.90% which still could be raised as long as the SMEs treated well.

## 2. Literature Review

There are many barriers to International trade as export considered. There are three types of barriers (Griffin et al., 2002: 236):

- a) Tariffs is a tax placed on an imported or exported good involved in international trade, such as Ad valorem tariff, Specific tariff, and Compound tariff.
- b) Quantitative Restrictions is a trade barrier that imposes a numerical limit on the quantity of good that may be exported or imported. Several Quantitative Restrictions are Quotas, Numerical export controls, Embargoes, and Voluntary export restraints
- c) Other non-tariff barriers such as Government Laws, regulations, policies, or procedures that impede international trade (Product and testing standards, Restricted access to distribution network, Public sector procurement policies, Local purchase requirements, Regulatory controls, Currency controls, and Investment controls)

Besides the barriers mentioned above, there are also domestic roadblocks that are common (Zimmerer et al., 2002): a) Attitude; b) Information; and c) Financing. The attitude comes first because many cooperatives and SMEs tend to think that they are too small to do export or other international trade. Lack of information about how to start international relation and lack of sources of international trade financing available. Cooperatives and SMEs has their own characteristics (APEC-Sahid Team, 2005):

- a) Level of independence is high compare to big enterprises; in penetrating and leaving market
- b) Very adaptive and innovative in fulfilling market needs; sometimes they imitate
- c) Low in overhead cost; which means high competitive
- d) Place to experiment new product
- e) Do functions as price-takers not price-makers, standard-followers not standard setters, product-makers not product-designers, and market followers not market-leaders

Weaknesses of cooperatives and SMEs that make problems in their competitiveness are: a) Limitation to information reach; b) Limitation to market access and production factors; c) Limitation in capital structure and access to capital sources; d) Limitation to technology access and ability; e) Weak in management and organization; f) Limitation in networking and cooperation; g) Lack of experience in fulfilling commodities standards; and h) Lack of experience in bidding. A study shows that entrepreneurs in America have similarity in facing problem, based on order of importance (NOEC, 2000): a) Access to people; b) Access to seed capital; c) Access to information and infrastructure; and d) Role of government.

Access to people has the interpretation that running business need capable personnel and often capable personnel ask for higher salary, at the same time, new established or cooperatives and SMEs business have relatively limitation in ability to pay high salary. Access to seed capital is also issue for entrepreneurs in the United States, and then this can be assumed that in developing country like Indonesia where information is relatively more difficult to be accessed, is also a problem. Access to information and infrastructure and role of government in facilitating cooperatives and SMEs are also need to be made more current and create breakthrough to cooperatives and SMEs in overcoming problems.

### 3. Research Methods

This research based on literatures study and Focus Groups Discussions (FGD). FGD consists of experienced individuals who have earned Certified Business Counselor (CBC) degree conducted by Asia Pacific Economic Cooperation International Network of Institutes for Small Business Counselors (APEC-IBIZ) in cooperation with Post Graduate Program of Sahid University Indonesia. FGD consists of individuals that come from regions of Indonesia and as small business counselors they deal with cooperatives and SMEs. Some of them are also involved in Business Development Services which help cooperatives and SMEs by servicing them with management abilities and assist the cooperatives and SMEs in accessing capital needed.

The discussions were made in 5 rounds, the first round was icebreaking session and discusses the experience of FGD members in dealing with cooperatives and SMEs and next rounds discussed intensively how to assist cooperatives and SMEs in overcoming their obstacles. Each round took more than 3 hours for discussions. Limited meetings with officials of Ministry of Cooperatives and SMEs were made to gain inputs and for purpose of feedback. Many of FGD members thought the result of discussions were very useful, and they eventually made proposals to their regional authorities to establishing trading house in the region. Final decisions for the proposals depend on many considerations, but at the least ideas to promote the future of cooperatives and SMEs had been conducted.

Clear understanding of trading house is needed to gain same perception. Here is an understanding about trading houses from Canadian Federation of Trading House Associations with adoption (Anonymous1, 2006). Trading houses are independent companies staffed by international trade experts. They are business intermediaries between manufacturers and foreign buyers or consumers of goods and services. Trading Houses export, import and engage in third country trading of goods and services produced by other companies by acting as: a) International trader who buy and sell products for their own account; b) Export agents who act on behalf of another party and are paid on commission; c) Export management companies who handle a portion of the parent company's exports, and can be engage in counter trade, if necessary; and d) Purchasing agencies which supply foreign companies.

The understanding above may not be rigid and subject to be adapted with some adjustment to facilitate the needs of cooperatives and SMEs.

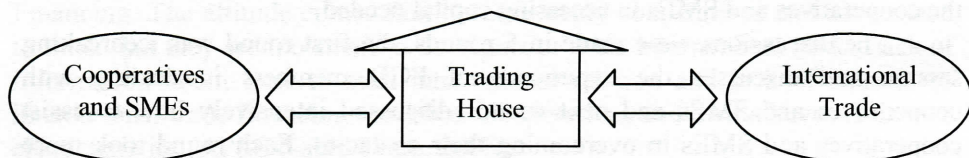
Understanding about trading houses in Canada is adopted since Canada's trading houses have passed a long journey and highly contribute to their country.

#### 4. Result and Discussion

##### 4.1. Result

From the inputs gathered, it is obvious that cooperatives and SMEs need to promote their products; they also need assistance in international trade management, access to sources of financing trade especially international trade. Some cooperatives and SMEs that are quite strong enough require partners to expand their businesses. Based on these requirements an institution that can deal with this is needed, and actually it is trading house. There are already some trading houses in Indonesia, but still not enough and the trading house needed must meet the requirements stated.

The trading houses can hopefully be developed in regions since each region has specialty and uniqueness in products, services and regulation related to regional autonomy atmospheres. Professionalism is compulsory to run this trading house business, its existence is needed to expedite growth of cooperatives and SMEs but at the same time it must create benefits to the stockholders both in financial and non-financial aspects. The pattern of process that helps cooperatives and SMEs to international trade can be shown in Figure 1.



**Figure 1. Role of Trading House in International Trade**

The main activities of trading house would be: a) Strategic partners to strong cooperatives and SMEs; b) Marketing and Promotion Media; c) Consultation and Training Services to cooperatives and SMEs that need to enhance abilities; and d) Trader.

To conduct all activities stated above, utilization of internet and World Wide Web are strongly recommended. Besides costs consideration, it is also known that using internet and World Wide Web mean 24 hour and 7 day a week business, the range is also worldwide, more over the users of internet and World Wide Web are increasing significantly from year to year. Using internet can also help to find resources even financial resource (Longenecker et al., 2000). In activity as strategic partner to cooperatives and SMEs, trading house and cooperatives and SMEs bound in agreements on how business is done and sign how benefits both financial and non-financial can be shared. It is important to make a fair deal before the deal is done to prevent un-necessary conflict.

For marketing and promotion media, cooperatives and SMEs could use trading house's web site to promote and market their products and services. This activity is needed by cooperatives and SMEs since their ability in accessing and acquiring technology are very limited, at the same time trading

house may charge the promotion and marketing fees. Posting advertisement in the website of trading house can also be an alternative.

Consultation and training services are meant to assist cooperatives and SMEs in enhancing their management abilities, especially for international trading and also assist them to access information, source of resources needed. Consultation and training can be case by case basis or contractual basis depends on the needs of cooperatives and SMEs. Trading house gain consultation fees and can charge for training conducted. As trader, trading house can have many kinds of roles depends on agreement with cooperatives and SMEs. Trading house can act as agent, arranger, or broker to facilitate trade. Whatever the role trading house play, certain fees are charge to cooperatives and SMEs.

Activities of trading house stated above could be activated at same time or gradually. Whatever the choice it is important to be considered that trading house means to develop and assist cooperatives and SMEs and fees and other charges occurs must be on mutually beneficial and conducted in professional basis, no party should face un-necessary disadvantage. Implementation of running trading house may have some phases:

- a) Collect products and services data of cooperatives and SMEs that will be served
- b) Collect activities of Cooperatives and SMEs that can be assisted
- c) Determine activities of trading house that will be run
- d) Budget each activity well
- e) Implement activities chosen

#### **4.2. Discussion**

In developed country like Canada, trading houses play important role as they handle more than 50% of exports to destinations outside the United States (Industry Canada, 1990) (Anonymous1, 2006) This means trading houses can be very helpful for business including cooperatives and SMEs in Indonesia should they can be professionally managed. In Canada each region has its own trading houses. Trading houses in one region may be vary in services and subject to follow regulation of the region, but nationwide trading houses form federation of trading house associations. These shows the roles of trading houses in the country are significant. China's products are now dominating world market, and they are now utilizing internet and World Wide Web for the purpose of expanding their market. As an example [www.made-in-china.com](http://www.made-in-china.com) s a complete website and act as trading house purpose.

#### **4.3. Conclusion and Recommendation**

The roles of trading houses in Indonesia need to be improved. As comparison to certain developed country, trading houses in Indonesia are still need to be increased especially to serve cooperatives and SMEs. Trading houses may not be the only answer to develop and assist cooperatives and SMEs, but it can be one of the answers. Government's roles as facilitator to enable trading houses established in regions must be expanded. Many quality products of regions need to be promoted and penetrated to international market.

Trading houses in Indonesia may expand their activities to facilitate the needs of cooperatives and SMEs. Some activities like consultation and training may be added as extended services compare to other countries' trading houses services. Trading Houses exist in many countries in different forms and are involved in various activities depending on the compulsions of their national situations. So it is difficult to formulate a definition of Trading House, which would be universally applicable (Anonymous2, 2006). It is a good strategy should Trading houses in Indonesia also establish cooperation's with trading houses in other countries to create networks, absorb transfer of technology, and lat but not least: promote, develop, and expand cooperatives and SMEs in Indonesia. One of the country's' trading houses can be cooperated is from Canada.

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## **PINJAMAN KORPORASI: BANK KOMERSIAL DAN BANK INVESTASI**

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### *Abstract*

The increasing of fund had followed the investment bank growth between 1990-1997. Different type of institution also has different loan pricing between commercial bank and investment bank. Basically their differences depend on several factors like these: sources of fund, government rules, borrower's relationship, market share, and accounting principles. The aims of this research purpose are testing the differences loan pricing between commercial bank and investment bank before crises period. Variables use in this research is types of bank institution, loan duration, loan amount, collateral, and listing Borrowers Company. Controlling variables are industry and term of loan contract. The testing is also for the level of asymmetry information by listed and non-listed borrowers, versus foreign and domestic lenders. For statistic inferential test is using by Ordinary Least Squares regression with white correction heteroscedasticity. Data collection comes from Dealscan database support by LPC (Loan Pricing Corporation). Meanwhile, the data sampling are before crises start from 1990 until 1997. Finally this research result has proven there are any differences between commercial bank and investment bank borrowing. Therefore, commercial bank more focus on lender come from and investment bank more serious attention to borrower's types. The commercial bank get better than investment bank, even both of them still only look at the general factors, for instance; maturity, collateral, and borrowing types .

**Keywords:** bank, investasi, pinjaman, informasi asimetri

### *Abstrak*

Peningkatan kebutuhan pendanaan pada 1990-1997 diiringi dengan pertumbuhan bankir investasi. Perbedaan jenis institusi keuangan berdampak pada perbedaan penetapan harga utang antara bank komersial dengan bankir investasi. Pada prinsipnya perbedaan tersebut ditentukan oleh beberapa faktor: sumber dana, regulasi pemerintah, hubungan dengan peminjam dana, pangsa pasar, dan prinsip-prinsip akuntansi. Tujuan penelitian ini adalah melakukan pengujian terhadap perbedaan penetapan harga utang antara bank komersial dengan bankir investasi sebelum periode krisis ekonomi. Variabel penelitian adalah jenis lembaga perbankan, durasi pinjaman, jumlah pinjaman, jaminan dan perusahaan peminjam yang terdaftar di bursa efek. Variabel kontrol adalah jenis industri dan jangka waktu kontrak pinjaman. Pengujian ini juga untuk mengetahui derajat informasi asimetri antara perusahaan yang meminjam terdaftar dan tidak terdaftar dengan perusahaan yang meminjamkan dalam dan luar negeri. Untuk uji statistik inferensial menggunakan *Ordinary Least Squares*