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5 Non-market strategies and Indonesian SMEs: casualties of decentralisation?

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Abstract

45 **Purpose** – The purpose of this paper is to examine the non-market strategies adopted by government-contracted small and medium enterprises (SMEs) in order to address the challenges they faced in the business of procurement. Although SMEs are important contributors to employment and the national economy, they 62 onstrated different levels of effectiveness depending on the management strategies they adopted.

Design/methodology/approach – Using case study methodology, data were gathered by conducting interviews with the owners/managers of Indonesian SMEs. Findings were analysed using the (ia)³ framework developed to assist the understanding of non-market environments.

Findings – Findings indicated that a key characteristic of the Indonesian non-market environment was the influence of the government and Indonesian society. This led to differing degrees of dissatisfaction among SME owners and managers who reported that they had to work within a number of constraints for business survival, while simultaneously learning how to “play the games” demanded by the business and regulatory environment.

Research limitations/implications – 61 itations relate to the number of empirical cases represented and the geographical area covered. Further research is recommended in order to provide the opportunity for research generalisation.

Practical implications – These findings illustrate the need for transparency and integrity in the procurement process in relation to Indonesian SMEs. It is proposed that SMEs in similar sectors may benefit from forming strategic alliances/industry clusters to support future knowledge sharing and promote their collective voice.

Originality/value – To date, studies on non-market strategies have largely focused on developed countries and large firms. Consequently, this paper goes some way towards bridging the gap in the non-market environment in developing countries concerning SMEs and potential strategies for adoption.

Keywords Procurement, SMEs, Indonesia, Non-market strategies

Paper type Research paper

Introduction

Competitive advantage is frequently considered to be closely associated with market factors – that is a firm’s products, customers, market share and similar. However, it is increasingly asserted that competitive advantage can be gained or lost outside of these markets (Baron, 2009) d 3 to non-market and management strategies. Non-market strategy requires the recognition that “issues and actors ‘beyond the market’ increasingly affect the bottom line,” and as such “they can be managed just as strategically as conventional ‘core business’ activities within market.” 5 Bach and Allen, 2010, p. 43). Dorobantu *et al.* (2016, p. 1) define non-market strategy as a “firms’ interactions with different components of their institutional environment, fundamentally the ‘rules of the game’ that govern their economic interaction”. Thus, firm success can depend on effective interactions 27 n governments, interest groups and the public, as “the forces these parties generate can unlock markets, reduce regulation, handica 5 ival, and generate competitive advantage” (Baron, 2009, p. 74).

4 It is maintained that “while individual studies provide insight into different facets of firms’ non-market strategies, non-market research as a whole fails to deliver an integrated



understanding of the costs, benefits and corresponding trade-offs of different strategic options” Dorobantu *et al.* (2016, p. 1). This study goes some way towards filling that gap by examining the nature of the political, economic and social factors relating to the non-market environment affecting Indonesian small and medium enterprises (SMEs) in the procurement sector.

SMEs are widely known to support economic growth both in developed and in emerging economies (Tambunan, 2008). Given the number of SMEs and their contribution to the economy, governments support them in various ways. In Indonesia, the President introduced a programme in 2015 intended to strengthen SMEs by increasing their involvement in procurement. Specifically, this involved acquiring goods and services from SMEs, rather than from their larger counterparts. Data were gathered through in-depth interviews with SME owners and managers in the South Sulawesi region of Indonesia. Specifically, the research question concerns the challenges faced by SMEs in South Sulawesi in relation to the nature of the non-market environment in Indonesia and what assisted or prevented them from engaging effectively in the procurement sector.

This study offers a distinct contribution by analysing how the institutional environment influenced the strategic decisions of small firms, particularly in dealing with regulatory uncertainty, a key feature of emerging economies.

The following sections discuss the development of SMEs in Indonesia, before outlining the changes that occurred in the procurement system. Empirical evidence is presented, followed by the findings and recommendations concerning actions for SMEs, government and avenues for future research.

SMEs and Indonesia

SMEs were key players supporting Indonesia during the recent economic crises (Mourougane, 2012). Historically, they have been the focus of various studies and policy analyses given their strategic role in the development of nations (Hill, 2001; Marino *et al.*, 2008; Tambunan, 2008). An important player in Indonesian development, SMEs are consistently recognised as a focus of the government’s priorities and have also been included in the ministerial portfolio in every presidential regime (Hill, 2001). In a broader context, it is clear that it is worthwhile for governments to develop strategies to support SMEs in emerging economies as they reportedly “contribute up to 45 per cent of total employment and 33 per cent of GDP”, while “SME development can contribute to economic diversification and resilience” (Organisation for Economic Co-operation and Development (OECD), 2017, p. 17).

Following the economic crisis and subsequent political transition, culminating in the fall of President Soeharto in 1998, Indonesia began an era of “reformasi” which were expected to result in a process of democratisation and decentralisation. Reforms in the economic and political system were implemented with the expectation that such actions would improve the investment climate, particularly for the development of SMEs in Indonesia. The collapses of the authoritarian and centralised systems were expected to create increased responsiveness to local needs through increased accountability and service delivery (Faguet, 2014). However, the new political and economic systems did not create the expected supportive environment for local investors or SMEs, although larger firms were the most affected by the crisis, given their dependency on imported products (Wengel and Rodriguez, 2006).

Labour issues, local taxes and the tendency for bureaucracy became even more prominent in the post-decentralisation regime (Basri and Van der Eng, 2004). Since then, several policies and programs have been implemented by the central government that were intended to improve economic growth and prevent another crisis, as well as to support the development of SMEs. One of the main policies implemented by the Indonesian Government

was to increase government expenditure in the acquisition of goods and services. With its unique demographic structure and geographic position, the scale of government expenditure in Indonesia is immense, with more than 31 per cent of the national budget spent on goods and services procurement (CIPE, 2011).

While increases in budget allocation for public procurement can be a good indication of economic productivity, the intention for SMEs was that they should consequently prosper and grow. However, a study by the Regional Autonomy Watch (KPPOD, 2011) found that SMEs are more affected by problematic regulations, since many of the regulations cause an increase in transaction costs. In addition, many SME owners stated that local governments favoured large firms (KPPOD, 2011), including the procurement sector, indicating that Indonesian SMEs are more affected by over-regulation and regulatory uncertainties than their larger counterparts (Mourougane, 2012). Predictably, the Enterprise Survey conducted by the World Bank (2009) identified political instability as one of the main constraints of the business environment in Indonesia, while Sacchi and Salotti (2011) maintained that decentralisation tends to increase inequality.

Although there has been recognition of the importance of SMEs as the engine of economy, to date only limited studies have examined SME involvement in procurement in the government sector, especially those based in developing countries. Prior studies on small firms' public procurement have mostly been conducted in Western and mature economies (e.g. Edler and Georghiou, 2007; Uyarra *et al.*, 2014; Loader, 2015) presumably because of the availability of data from reliable sources (Rangamohan *et al.*, 2007).

SMEs and public procurement

SME contribution to the economic development of many countries, particularly developing countries, has been widely discussed in the literature (Berry *et al.*, 2001; Nichter and Goldmark, 2009; Mourougane, 2012; Vujanovic, 2017). Studies have shown that SMEs are the largest contributors to employment across countries according to a sample of 47,745 firms from 99 countries that were surveyed in the period 2006–2010 for the World Bank (see Ayyagari *et al.*, 2011). In addition, SMEs are also perceived as fostering a competitive environment within national economies, whilst having the ability to adapt to constantly changing business environments.

In Indonesia, there is no common agreed definition on what constitutes a small firm. The Ministry of Cooperative and micro, small and medium enterprise (MSMEs), for example, uses the general term MSMEs based on the net assets or annual sale, while the central statistics agency uses the number of employees as the main criterion. The latter criterion was also used by the World Bank in its enterprise survey (World Bank, 2009) where size is defined by the number of employees. Micro enterprises have less than 5 employees, small enterprises are defined as having 5–19 employees, while a firm with 20–99 employees is categorised as a medium enterprise. Micro enterprises are mostly in the agriculture sector and located in rural areas, while small enterprises are mostly found in the service sector (e.g. in trade and hotels). Medium enterprises comprise the smallest category of the MSME sector in Indonesia. Throughout the paper, we use SMEs and small firms interchangeably excluding micro and informal enterprises.

Despite the importance of SMEs in the economic growth of Indonesia, the development of small firms has been constrained by a number of factors. These include the informality of operations (Hill, 2001; Mourougane, 2012; Zhou, 2013), ineffective support by the government (Berry *et al.*, 2001; Hill, 2001), lack of foreign market knowledge and experience (Sari *et al.*, 2008; Bhasin and Venkataramany, 2010), lack of innovation and productivity (Mourougane, 2012) and uncertainty in the market environment (Marino *et al.*, 2008).

An OECD (2017) report argued that the development of viable and efficient SMEs is constrained by factors that are common to all SMEs in the ASEAN region although they are

likely to vary between regions, sectors and so on. These factors include: lack of capital, problems procuring raw materials, lack of access to relevant business information, marketing and distribution problems, low technological capabilities, high transport costs, communication problems, cumbersome and costly bureaucratic procedures and policies and regulations that generate market distortions (OECD, 2017, p. 115) – hence, the relevance of non-market strategies.

Many of these challenges were formally addressed with Law No. 20/2008 where the government reiterated its support for SMEs in terms of better access to finance with the intention of easing regulatory burdens. To further support SMEs in dealing with their financial problems, the government launched various programs. These included improving the access of SMEs to finance and capital, such as subsidised credit schemes (Berry *et al.*, 2002; Mourougane, 2012), opening access to markets (Sari *et al.*, 2008; Bhasin and Venkataramany, 2010), and providing access to business advice and information through training for SMEs from various governmental agencies (Tambunan, 2008). In addition to direct policies, as part of the decentralisation policies, most governments at all levels also created one-stop services to lessen the previous administrative burdens faced by Indonesian SMEs (Patunru *et al.*, 2012).

The size of a firm is also considered a representation of power which affects its influence over governments and other non-market actors (Rehbein and Schuler, 2015). Hence, despite the attention being given by governments to SMEs, evidence suggests that they still struggle and face challenges in the procurement sector, particularly in emerging economies (Berry *et al.*, 2001; Hill, 2001; Tambunan, 2007, 2008).

To address the problems faced by SMEs, governments in many countries, particularly in Europe, have tended to provide support, including access to public procurement (Cattell *et al.*, 2005; Aschhoff and Sofka, 2009; Loader, 2011; Preuss, 2011; Loader, 2015). Public procurement refers to the purchase of goods and services by public sector organisations such as governments (Uyarra, Edler, Garcia-Estevéz, Georghiou, and Yeow, 2014) through contracts (Loader, 2015). Apart from serving as a vehicle for governments to keep functioning and delivering important services to the public, therefore, supporting government policy (Loader, 2011), public procurement is also recognised as a key factor to foster entrepreneurship (Preuss, 2011) assisting the promotion and maintenance of a competitive environment (Caldwell *et al.*, 2005). Involvement of SMEs in public procurement is also expected to stimulate innovation (Edler and Georghiou, 2007; Uyarra *et al.*, 2014), support local economies and provide environmental benefits (Karjalainen and Kempainen, 2008).

Despite the utilisation of public procurement as a means to provide benefits to SMEs and national economies, they still face several challenges when participating in the procurement sector. For example, sometimes SMEs are unable to participate in larger tenders and compete with their larger counterparts (Uyarra *et al.*, 2014). Moreover, in the context of developing countries, public procurement is perceived as not strong enough to support innovation and is not generally covered sufficiently in a country's policy mix (Kattel and Lember, 2010). Other studies indicate that public procurement is mostly supply driven (Edler and Georghiou, 2007), indicating there has been little effort from the private or public sectors to drive procurement reform (Uyarra and Flanagan, 2009; Sacks *et al.*, 2014). Initiatives to promote entrepreneurship through public procurement have also been overshadowed by the focus on results (Loader, 2007; Preuss, 2011). A high degree of formalisation and excessive administrative processes in procurement also contributes to bureaucracy and complexity, limiting the involvement of SMEs in public procurement (Rainey and Bozeman, 2000). In many emerging economies, adopting new technology for public procurement (e-procurement), is also challenging for SMEs given the complexity, related institutional issues (Wahid and Sein, 2013) and the lack of supporting infrastructure (Aman and Kasimin, 2011).

1 Non-market strategies

One of the objectives of the decentralisation strategy in Indonesia is to distribute financial budgeting and authority to local governments. Prior to decentralisation, budget allocations were undertaken by the central government. New laws introduced in 1999 stated that cities and municipalities are the key administrative units that will provide goods and services to the people and consequently, these units would also be responsible for public procurement.

The South Sulawesi region of Indonesia was selected as illustrative of the dynamic changes that define emerging markets. The region provides an ideal setting to study non-market environments faced by small firms undergoing economic development in emerging markets for a number of reasons. First, it is a major city in the Eastern part of Indonesia with a large population (Statistics South Sulawesi, 2014). The region and its capital, Makassar city is also one of the fastest growing cities in the country, with a growth rate of 7.64 per cent during the 2008–2014 period. Second, the intensity of business–government interactions in the region is strong; and third, violations of business rules which allow “interferences” (Siggelkow, 2007) with other Indonesian regions are fairly common.

In 2013, as indicated in Local Government Revenue and Expenditure Budget (APBD), the South Sulawesi Government procurement expenditure was IDR 970bn (about \$ 84.7m), which is approximately 17 per cent of the total provincial expenditure. In Makassar, IDR 532.7bn (\$ 53.68m) was used for public procurement – approximately 30 per cent of the total budget of Makassar. These funds were mostly allocated to support projects in education, healthcare and infrastructure indicating positive signs for many firms who saw opportunities in the government procurement sector. However, decentralisation can also lead to complexity, and in this case, led to a high number of stakeholders involved in the procurement of public funds (Makassar City Local Budget, 2013; South Sulawesi Local Budget, 2013).

The procurement system in Indonesia was formally strengthened in 1998 through various institutional organisational reforms. In addition, in 2014 the then newly elected President Joko Widodo pledged to boost support for SMEs in order for them to become involved in public procurement as well as to prioritise local enterprises in the public procurement process (CNN Indonesia, 2014). However, public procurement still remains problematic due to legal inconsistencies, weak state capacity and insufficient enforcement of this regulatory framework. As Assegaf (2017, p. 6) pointed out, the Corruption Eradication Commission (KPK) found procurement is the second-most vulnerable area of corruption in the country, while data from the Indonesia Corruption Watch (2015) found that Indonesia had lost Rp 3.11tn (\$230m) as a result of corruption in the procurement sector.

The regulatory system restated the need for mandatory certification for officials involved in public procurement where, under the new framework, all government units were required to announce their procurement plans, tender invitations and other related information in designated national/local newspapers and on procurement websites. The new regulations also redefined direct awards/sole sourcing and simple bidding to ease the procurement process. However, the new regulation required firms to make changes, particularly in the matter of e-procurement and many SMEs were not prepared for this.

SME demographics such as age, size and experience influence their non-market actions and interactions with different elements of the institutional environment, that is “the ‘rules of the game’ governing economic interaction” (Dorobantu *et al.*, 2016, p. 114). The non-market strategy of a firm is influenced by the business environment and activities of the government (non-market environment). These non-market factors/influences on SMEs are broadly referred to as governments, regulators, competitors and citizens according to Baron (2009, p. 74) and Bach and Allen (2010, p. 45). Table I, outlines the key factors which constitute the market and non-market environment referred to by Baron (2009) and Bach and Allen (2010) as well as in column 3 the non-market environment factors included in the SME participant interviews and analysis used in this study.

Market environment	Non-market environment	Factors included in interview/analysis for NMS	Non-market strategies and Indonesian SMEs
Governments	Governments	Institutional environment Political connections	
Regulators/regulation	Regulators	Regulation	
Competitors	Competitors	Competitors	
Products/services	Citizens	Other stakeholders	
Customers			
Suppliers			
Company strategies/internal conditions	Company strategies/internal conditions	Company strategies/internal conditions	

Sources: Bach and Allen (2010) and Baron (2009)

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Table I.
A company's market and non-market environments

Non-market strategy can be divided into two general strategies, namely, corporate political strategy (Oliver and Holzinger, 2008) and corporate social strategy (Vogel, 2006). In terms of corporate political strategy, there are several factors that act as triggers of the strategy, namely, institutional factors, political embeddedness and industry characteristics. When implementing a particular strategy, the firm can choose to be either proactive or reactive in their approach (Keim and Hillman, 2008). As Dorobantu *et al.* (2016) pointed out, "the field of strategic management has broadened its scope of inquiry to consider not just the market interactions that firms undertake in the pursuit of economic goals, but also the non-market interactions in which they engage for this purpose" (p. 114). As stated earlier, the intention of this study is to determine some of the challenges faced by SMEs in a developing country, particularly in procurement implementation. The motivation for this study was to assist SMEs many of which were struggling in Indonesia, particularly with regard to how they might deal with non-market environments.

15 Methodology and data analysis

Due to the exploratory nature of this research, case study analysis was adopted to achieve the research goals. This approach supports systematic analysis from the case to mid-range theory (Eisenhardt, 1989) by utilising perspectives of empirical phenomena within specific contexts (Yin, 2014). Moreover, it is intended that such an approach will help to avoid the "taken for granted" paradigm which leads to a lack of reflection (Blackburn and Kovalainen, 2009) resulting in a focus on social and economic phenomena as important elements of theory building (Blackburn and Kovalainen, 2009).

Data were gathered through in-depth interviews with owners and managers of SMEs involved in procurement in South Sulawesi. Employing a snowball technique, eight key players from diverse products and services offered to local governments in South Sulawesi province were interviewed. Table I provides the NMS factors studied, while Table II outlines the respondent details and Table III includes the interview questions. Apart from the snowball technique, SMEs included in the study were identified through government contracts and discussions with several key figures in the region, particularly journalists and NGO activists. To ensure that the participating firms would be able to provide rich data about the political environment and the firm's strategy, a list of criteria for selection were used. Based on relevant literature, the following criteria were formulated:

- (1) the case firms satisfied the definition of "smallness" which was based on Law No. 20/2008 for MSMEs;
- (2) the case firms had been operating for a minimum of five years; and
- (3) the case firms reflect government sales dependency.

As all respondents had experienced a minimum of five years in the industry they were able to provide perspectives on the past and current procurement situation in the region. All interviews were conducted in Bahasa Indonesia and then translated into English in a two-way translation process. Data were then cross-checked with two Indonesian academics. The interviews were conducted during September 2013 through to June 2014. After conducting eight interviews, the researcher did not find any new categories or concepts, which indicated that saturation had been reached. This also indicated that the categories were well-developed and the relationships between the categories were validated and well-established. Data were analysed along each of the dimensions of non-market environment, as outlined in Table I.

The data collected from interviews were coded according to themes that corresponded with the primary research dimensions relating to institutional constraints and SME strategies (Child and Tsai, 2005). Relevant literature was used to assist with the identification of emerging themes when comparing themes emerging from data as suggested by Silverman (2000). The process began with open coding to allow for the emergence of initial coding and this resulted in the creation of tentative categories. Through an iterative process, tentative categories were constantly compared with the new emergent categories that were developed. Thematic analysis (a method of identifying, analysing and reporting patterns of themes) emerging from the data was employed during this process (Braun and Clarke, 2006). Continuous comparative analysis was employed during the coding process and theoretical sensitivity was formulated at this stage, based on the patterns that emerged. Once the theoretical and sampling saturation was reached, theory development commenced.

Table II.
Respondent characteristics

Respondent	Age	Position	Product/Service	Years in the Industry
1	35	Director	Construction	30
2	35	Director	General	6
3	40	Owner	Construction	9
4	56	Director	General	20
5	53	Owner	General	25
6	56	Director	General	10
7	39	Director	Medical equipment	11
8	70	Owner	Consultancy, training	25

Table III.
Interview and analysis guide based on non-market strategy

Factors	Questions
Internal conditions	Does the company have a formal policy in dealing with the government? Does the fact that your company is a family business play a role in its relationship with stakeholders?
Political connections	Does the company have a political connection or some of its members are active politician(s) or former politician(s)?
Strategies	How does the company set its strategies? What are the strategic considerations?
Institutional environment	What do you think about the political conditions? How does the company adjust with such changes? Does the changing political landscape affect the company? Can you observe any specific cultural-related practices that affect the success in the business?
Competition	Are you familiar with your competitors? Do you think your competitor(s) pursue non-market strategies in the competition?
Regulation	Do you find it easy to get government contracts? Are you happy with the process in getting contracts?
Other stakeholders	Has your company had any involvement with other stakeholders such as NGOs? How has this affected your non-market activities and strategies?

To ensure the validity of interpretation, member checks were conducted through informal discussions with three of the respondents. Interview data were complemented with publicly available (i.e. statistics, news reports, web page information) secondary data to help ensure the reliability and construct validity and to serve as a means of triangulation (Gibbert *et al.*, 2008; Mertens and Hesse-Biber, 2012).

Analysis and findings

Constraints faced by SMEs in the procurement sector

Despite the government's encouragement of SME participation in public procurement at all levels in Indonesia, there were still found to be many obstacles that could deter them. Table IV outlines the institutional constraints faced by the SMES in this study when they were involved in procurement.

Regulatory uncertainties. All the participants in this study claimed that the regulatory environment in the region was complex and confusing despite local bills relating to business regulation. Almost all the participants expressed their frustration with the government and their officials, which they stated, did not represent their expectations. As one of the respondents asserted, lack of support from the government and inadequate local regulations left their firm in "chaotic competition". The participant, who is the owner of a small hotel, also emphasised the over-regulation faced by businesses compared to the previous regime:

We have more regulations now compared to the past 14 years. But again, the problem is usually in the implementation and law enforcement. For business, I think the most important thing is stability and clear regulation implementation. (Participant 2-Hotel Owner/Director)

Among the respondents, the majority saw uncertainty as being caused by the constant regulatory changes, particularly following the fall of President Suharto. The changes mattered to the SMEs since, given the small size of their firm and the limited resources they have, constant change affects their operations in both the short and long term. Constant change occurred due to the many regulations that needed to be amended as well as a lack of transparency in the process. Concerns from SME owners were not related to the implementation of the e-procurement system but the complexity surrounding its implementation.

The SMEs in this study that supply goods and services for construction work also had similar concerns. Overly rigid specifications, insufficient demand as well as poor risk management practices were also perceived as constraints. Furthermore, the lack of

Constraints	Case(s)
Regulatory uncertainties	Inconsistency of procurement regulations and lack of transparency during procurement process No clear dispute resolution mechanism
Unstandardised regulation interpretation	Myriad of administrative desk and article work Underutilisation of the new system. Many complaints which were submitted electronically through the new system were not responded to thoroughly The lack of necessary skills from the government technical agencies in dealing with new system (e-procurement)
Rent-seeking bureaucracy	Opportunistic behaviour in the process of bidding from procurement officials
Unclear inter-jurisdictional coordination between various tiers of government	Different political priorities makes political configuration in the local procurement system complex. Sometimes executive and legislative changes influence priorities in the development process without considering the effort and cost from firms

Table IV.
Institutional
constraints faced by
small firms in
procurement sector

support and technical assistance from the government made SMEs reliant on government staff to help them deal with technical issues. As one participant from the procurement sector noted:

The current system is very complex and time consuming. Knowing the officials who handle the procurement is also an important factor, not just in getting a contract but also to manage the risk of getting that contract.

Unstandardised regulation interpretation. Current regulations and laws on tendering and the government's procurement system were created to minimise mismanagement and fraud. One example concerns government officials not being allowed to grant contracts to parliament members and other government officials. However, according to the participants in this industry, the regulations are often violated in practice. Firms may engage in political activities simply to enter into "economic barter" with the government or legislators in order to gain contracts from government agencies. Another participant, the owner of advertising firm, also pointed out that, in terms of government projects, the firms that have close connections with government officials or politicians in parliament benefited the most:

I don't know, I'm just mad at the officials here. They always refer to the regulation just because we tried to protest them. But when you insist they act based on the regulation, they always refuse to do so just because it is related to the relatives of the top officials. As a result, some of us, especially the firms that don't have a direct connection with politicians and top officials usually just ignore them.

It was reported that a lack of understanding regarding the new regulations on e-procurement made the vendors rely on local procurement bureaucrats to help them navigate the cumbersome administrative processes.

Rent-seeking bureaucracy. The majority of participants stressed that bureaucracy was one of the main obstacles in relation to doing business in the region. Many illegitimate payments have to be made by firms, even though from the government officials' perspective, this was considered a "voluntary payment". The majority of participants perceived such informal payments as a form of business transaction, whereby actors had to show their gratefulness to government officials for "favouring" their SME. As a result, such voluntary payments were perceived as normal business practice even though all participants agreed that it is viewed as a rent-seeking activity implemented by government officials and, as such, is commonplace in the region. Several participants emphasised the importance of bribery for the success of their business, stating that they cannot afford to avoid it. Moreover, a framework was found to exist for the distribution of bribes and mark-ups in relation to procurement in Indonesia. Hence, the complexity of the new regulatory framework for procurement does not prevent local procurement bureaucrats from finding chances to exploit the system. One of these methods concerns helping bidders to complete complex procurement documents in exchange for money:

I personally do not like the term "thank you" in the form of payments that need to be paid by us – business people to government officials. However, as you may know, we cannot just ignore it.

Other forms of "red-tape" enforced included unnecessary official routines and lengthy procedures that cause delays. One respondent noted that he wasted a considerable amount of time dealing with administrative procedures just to find that it has nothing to do with the procurement process. Such unfavourable treatment typically occurs when the firm and government officials engage in dispute or disagreement. Once the contract is granted and small firms have fulfilled their responsibilities, small firms also need to deal with issues such as slow payment. A red-tape strategy is required, particularly in dealing with officials who ask for bribes, so that the payment process for the contract can be faster. This means that SMEs feel they have to spend their already limited resources to perform non-market

activities such as gift-giving, banquets and donations which they believe are essential to hasten the payment process.

Non-market tactics in public procurement

As reported, there were various levels of complexity surrounding the institutional environment of the SME participants. As a result, they responded to different types of political issues, various administrative commitments and connections with individuals or groups in different ways. In general, respondents reported that the procurement situation made SMEs react similarly, in turn affecting the whole industry. However, given the nature of competition and market coverage, specific actions were taken individually by the SMEs in this study to achieve their goals. Table V summarises the non-market strategies implemented by the SMEs in this study.

As evident in the themes, patterns and actions identified in Table V, many strategies were adopted by the various SME participants to influence the non-market factors that affected their business. Through various strategies, the SMEs tried to insulate themselves from the external environment with one major objective in mind: that of influencing the non-market environment in their firms' favour.

Violating regulations with bribery is usually driven by the fact that the regulations are hard to follow and weak in compliance policies. Bribery is used as the means to smooth regulatory burdens, even though all participants agreed that such actions should be taken carefully. Pressure from society and massive corruption eradication campaigns have resulted in many business people being prosecuted and this has resulted in more discreet ways of providing "gifts" to officials as outlined here:

With government officials, you have to deal with both the high and low-level ranking officials who handle your documents on a daily basis. For the high-ranking staff, we don't know the suitable amount and as such, if we give them money, it will be useless since they may find that it's not enough. Instead, what we provide is a ticket for travel. Usually they will never outright ask for that. You will need to understand their unspoken hint. For instance, sometimes, the secretary will call me and say, "the boss wants to go to Bali". From that point, you will need to read between the lines and understand that it means, "please provide the travel ticket and accommodation for the boss."

All participants interviewed admitted that such unlawful actions were beneficial to their firm's operations, when the legal framework and economic institutions are found to be weak.

Firm characteristics	Actions of the firm
<i>Reframing</i>	
Short term	Bribes, gift-giving, lobbying, developing personal relations
Long term	Complying with the regulations, adapt to new regulations, philanthropy
<i>Level of participation</i>	
Individual	Medium (lobbying, bribing)
Collective	High (certification from business associations)
<i>Strategic tendency</i>	
Coercive	Medium (signing up for e-procurement accounts)
Supportive	Medium (sub-contracting – pseudo competition)
<i>Form of behaviour</i>	
Bridging	Adapting with new regulations, seeking support from business associations (complying with the new regulations)
Buffering	Seeking support from legislative members

Table V. Non-market actions, institutional constraints and actions

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Discussion and policy implications

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The central concern of this study was first to explore the challenges faced by SMEs in South Sulawesi in relation to the nature of the non-market environment in Indonesia; and second, to examine how firms operate within the non-market environment. The findings emphasised the many challenges faced by SMEs as a result of the changing institutional environment in South Sulawesi and in Indonesia, in general.

3

Bach (2010) maintained that “because the currency of non-markets differs markedly from traditional markets, which makes it imperative for companies to come familiar with it”. The best known framework to assist in this process has been Porter’s (2008) five forces model which refers to the power of buyers and suppliers in the market environment. To better understand the non-market environment, Bach and Allen (2018) built on a framework developed by Baron (2009) which is referred to as the issues, actors, interests, arena, information and assets – i, a, i, a, i, a or more simply known as the (ia)³ framework. As Bach (2010) pointed out the issues may overlap but each should be considered separately to better understand the non-market environment a firm operates in. Table VI illustrates the (ia)³ framework in relation to the findings applied to the Indonesian Government and SMEs included in this study. Column 1 indicates the various (ia)³ factors for analysis in relation to the Indonesian Government and SMEs with underlying issues related to each factor shown in bullet points below.

(ia) ³ Factors for Analysis	Government	SMEs
What are the issues? Unorganised SME representation Multiple issues	Underutilisation of the new e-procurement system Unclear inter-jurisdictional coordination within Government Lack of skills – technical agencies in dealing with new system (e-procurement)	Regulatory uncertainties Unstandardised regulation interpretation Rent-seeking bureaucracy evident
Who are the actors? What are their interests? What do the various actors want? What coalitions are possible?	Government Politics, personal benefit/ advantage Important for government processes to run smoothly but have lots of potential SME contractors to choose from Not applicable	SME owners/managers and staff Financial gain, firm sustainability SME coalitions could help address current problems
In which arenas do the actors meet? Formal or informal settings? Public or private?	Online, telephone – occasionally face-to-face	Online, telephone – occasionally face-to-face
What information moves the issues in these arenas? Preference or key interest groups	Preference was given to SMEs owned by politicians, relatives and law makers	Unfair treatment, the structure of the market that changed by preferential treatment for some SMEs
What assets are needed to prevail? Networks Critical information	Networks/strategic alliances of SME clusters could be useful for government to share critical information concerning regulations and for the provision to government of specific SME competencies	Networks/strategic alliances of SME clusters may be useful for SME owners/managers as a source of critical information and to provide collective voice/lobby groups for change

Sources: Bach and Allen (2010) and Baron (2009)

Table VI.
(ia)³ framework applied to Indonesian Government and SME findings

Table VI clearly illustrates the key aspects relevant to the study – in particular the possibility for the creation of SME coalitions and networks that have the potential to improve the situation for both the government and SMEs concerned.

³ Bach and Allen (2010, p. 46) stressed that “because the currency of non-markets differs markedly from traditional markets” it is “imperative for companies to become familiar with it”. When comparing traditional markets with non-markets they argue that in ³ditional markets money is important vs information in non-markets; leadership vs coalitions; flexibility vs consistency; predictability vs uncertainty and value vs values.

The characteristics of the non-market environment in Indonesia relate to the uncertainty of the regulatory environment and the lack of social and political infrastructure (Meyer *et al.*, 2009). Various issues were also found to affect the non-market environment such as labour restrictions, the myriad of administrative procedures, bureaucracy and the lack of support from the government for SMEs. Confirming previous studies on e-procurement (Aman and Kasimin, 2011), the lack of IT infrastructure and IT skill capability embedded in both SMEs and government officials also challenges the effectiveness of e-procurement implementation in Indonesia. This can also create an environment for rent-seeking behaviour and bribery to ease contract procurement.

The constantly changing regulatory framework led to confusion and delays in procurement for the SMEs involved in this study. This, in turn, encouraged the SME owner/managers to apply various non-market strategies – such as building political connections, political donations, bribery and implementing various social strategies. Although the use of non-market strategies is viewed with some consternation and angst by many SMEs, they were found to be effective in procuring contracts, so were considered necessary if the firm was to compete in the procurement space. Setting aside the outcomes achieved through non-market actions, all the participants indicated that there were barriers that limited their achievements and obstructed their responses to the non-market issues. Such institutional conditions that encourage NMS mostly occur in emergent economies for two reasons – an unstable environment (Hoskisson *et al.*, 2000) and a less conducive environment for economic actors to engage in mutually beneficial economic exchange (North, 1994; Peng, 2003).

Peng and Heath (1996) pointed out that when faced with weak formal institutions, firms tend to rely on informal institutions, since the latter have more significant influence on their performance. Having resource-based relations or personal ties with authorities at various levels is beneficial to the firm and is also one of the main strategies evident in rent-seeking environments (Peng and Luo, 2000) which tends to help firms where political processes are concerned. Personal ties ³⁶ involvement in political processes can also help firms to mitigate uncertainty (Getz, 2002). These findings are consistent with previous studies given the basic premise that firms tend to use rent-seeking activities and relational actions to substitute for market capability (Keim and Hillman, 2008; Chen *et al.*, 2011; Galang, 2012; Ivy, 2012). However, not all participants agreed that personal ties and political involvement will benefit them in the long term and may not necessarily lead them to a better competitive environment. In fact a non-market environment poses great challenges for the development of SMEs.

Conclusion

The findings show that a characteristic of the SME non-market environment in Indonesia was the uncertainty surrounding the regulatory environment and the lack of social and political infrastructure. These factors encouraged an element of compliant behaviour that in some cases might be considered illegal ¹⁴ practices just so that the SMEs concerned could remain viable. That said, a growing “body of the literature demonstrates that an effective non-market strategy is of vital importance to firm survival, organisational performance, and possibly sustainable competitive advantage” (Mellahi *et al.*, 2016, p. 145).

Bach and Allen (2010, p. 46) stressed that “because the currency of non-markets differs markedly from traditional markets” it is “imperative for companies to become familiar with it”. When comparing traditional markets with non-markets they argue that in traditional markets money is important vs information in non-markets; leadership vs coalitions; flexibility vs consistency; predictability vs uncertainty and value vs values.

The characteristics of the non-market environment in Indonesia relate to the uncertainty of the regulatory environment and the lack of social and political infrastructure (Meyer *et al.*, 2009).

One potential way for Indonesian SMEs to develop sustainable NMS would be for SME owners and managers to form strategic alliances with other SMEs in the same sector in the form of industry clusters. Porter’s (1998) cluster definition refers to organisations that are “interconnected” meaning that they are likely to be involved in the market exchange of goods and services, face-to-face interaction and co-operation. Foghani *et al.* (2017) observed that, although cluster development has frequently been linked to regional growth over the past decade, research that investigates the SME process of clustering in Asia is currently quite limited or, in the case of Indonesia quite nascent (see Tambunan, 2009). Cluster development has become an important way of enabling small to medium enterprises to compete internationally (Organisation for Economic Co-operation and Development (OECD), 2005; Montana and Nenide, 2008; Yusuf, 2008). The development and facilitation of industry clusters would be likely to provide SME owner/managers with the ability to share knowledge, collaboratively tender for projects, share resources and more (see Connell and Voola, 2013). Importantly, over time the firms involved in clusters would be more likely to develop the collective power that would provide them with agency and voice to not only interact ethically with government and various representatives but also to provide advice to the same parties to improve the speed, transparency and efficiency of SME–government interactions. As per the issues illustrated in Table VI, the possibility for creating SME coalitions and networks leads to the potential to improve the situation for both the governments and SMEs concerned.

There are clear opportunities to improve the contribution of the Indonesian economy through public procurement. Technological improvements, along with simplified procedures and improved consistency and transparency can help achieve these objectives. As Das (2012) pointed out, countries such as Indonesia are resource rich but, it will take more than resource-based riches to elevate them to the status of high-income economies, as they need to manage them in a “considerate and productive manner, promoting alternative industries and making them into sources of steady income” (p. 444). Given SMEs are critical to Indonesia’s economy, comprising 97 per cent of operational businesses and they are large providers of employment it is important that more effort is exerted by the government to provide an enabling environment for them. This may be in the form of improved communication and/or training in relation to both market and non-market strategy awareness given “issues and actors ‘beyond the market’ increasingly affect their bottom line”, so needs to be managed as “core business” activities within markets” as pointed out previously by Bach and Allen (2010, p. 43). In relation to the practical implications, the findings from this study indicate that it would be advantageous for small firm owners to consider the impact of political and social actors and find ways to strategically interact with them.

Although the findings in this study have shed light on the under researched area of SMEs and non-market strategy in Indonesia and have supported theory on the topic by applying the (Ia)³ framework applied to Indonesian Government and SME findings the topic would benefit from further research. Specifically, the theoretical perspective was supported by limited empirical cases, thus providing restricted possibility for generalisation. These limitations call for further studies that can enhance the understanding of relationship development through empirical testing. That said, this paper provides a foundation for further analysis on important issues related to the non-market environment faced by SMEs in the public procurement sector.

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