

# Buyer-Supplier Relationship Opportunities And Challenges For Indonesian Msmes To Enter The Asean Economic Community

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## Abstract

*AEC provides opportunities as well as challenges to various MSMEs in line with more access to markets and suppliers across ASEAN countries. The main objective of this research is to reveal the opportunities and challenges for MSMEs, especially those in Indonesia, in facing the 2015 AEC era in the context of suppliers and buyers. The theoretical framework is built upon some theories, particularly supply chain management theory. They identify 17 factors determining the quality of supplier-MSMEs qualified relationship. These factors are classified into four dimensions, namely instrumental motive, relational motive, moral motive, and controlling factor. The evaluation is carried out by reviewing the documents of the AEC 2018 action plan and previous research. The result displays that MSMEs have opportunities in quality control, compensation, supplier development, mutual dependence, information sharing, trust, long-term contract, company size, and contract support. Meanwhile, the challenges faced by MSMEs include vision, top management, quality mindset, problem-solving, interest degree, satisfaction, organization compatibility, management and administration, and communication. Thus, ASEAN countries must make efforts to provide more support by increasing the awareness, problem-solving, management and administration framework, supplier and its product information database, and multilanguage platform for the users.*

**Keywords:** *ASEAN economic community, MSMEs, buyer-supplier relationship, business opportunity, market share.*

## 1. Introduction

The basic concept of the ASEAN Economic Community (AEC) is a sector-oriented to the Southeast Asian economic sector that allows capital, investment, human resources, goods and services to move freely in a joint production and market development by 2025 [1]. Despite offering market expansion and resources to all its members, ASEAN countries are still very slow in adapting their policies to facilitate AEC [2]. For example, of the 118 targets set for 2017, only 61% of these targets can be achieved as of December 31, 2017 [3]. Apart from the problems of political economy and the issues that are still being resolved [4], a number of signs of progress have been made and joint commitments have been made between ASEAN members to achieve the vision of 2025 [5].

In the framework of the AEC, MSMEs is one important element to be developed together. AEC contains 5 characteristics. These five characteristics, the fourth characteristic is to create an ASEAN that is resilient, inclusive, and community-oriented and centered. Each characteristic has elements, and the first element in the fourth characteristic is strengthening the role of MSMEs [6]. The AEC 2025 Strategic Action Plan states that every country needs to do many things at MSMEs in their country. Included in these steps include: (1) encouraging MSMEs trade facilitation based on the ATIGA (ASEAN Trade in Goods Agreement) framework, (2) encouraging MSMEs active involvement in the process of regional economic integration, (3) meeting MSMEs needs within the STRACAP framework (Standards, Technical Regulations, and Conformity Assessment Procedures), (4) encourage financial inclusion to provide financial products and services to MSMEs, (5) develop support schemes for MSMEs to encourage asset creation and commercialization, (6) develop support schemes for MSMEs related to awareness, appreciation, protection, and utilization of IPR, (7) strengthening MSMEs competitiveness through the application of science and technology, (8) developing a framework to support MSMEs such as competitiveness policies, providing credit and supporting technology, and (9) creating competitive, resilient MSMEs, and is innovative and integrated into the AEC and regional inclusive development [6].

The last point needs to be highlighted because this is the main point that contains so many action plans. There are a total of 63 key actions spread over five strategic indicators: (1) promotion of productivity, technology, and innovation, (2) increasing financial access, (3) strengthening market access and internationalization, (4) strengthening the policy and regulatory environment, and (5) encourage the development of entrepreneurship and human capital [6].

Unfortunately, if we look at the 63 key ASEAN actions to push MSMEs into the AEC scheme, none specifically addresses the issue of the relationship between suppliers and MSMEs. Of course, suppliers can be assumed to be other MSMEs or large companies. In this regard, the ASEAN action plan framework has been sufficiently facilitating. However, in the absence of a specific action plan, the issue of supplier and MSMEs relations becomes a partial and segmented issue, rather than an important issue that can facilitate the achievement of other objectives [7].

In scientific literature, various studies have been conducted to find out the factors that drive the quality of supplier and buyer relations [8–11]. Moreover, a number of theories have also been put forward as an explanation of the relevance of these factors [12]–[16]. However, no research seeks to evaluate the opportunities and challenges faced in the quality of supplier and buyer relationships using existing knowledge in certain contexts. This absence makes it new for this research.

Using the knowledge gathered from available theoretical and empirical literature, this article aims to evaluate the opportunities and challenges for supplier-buyer relations at MSMEs in their readiness to face the vision of AEC 2025. The significance of this research lies in developing an evaluation framework for the opportunities and challenges of supplier-buyer relations, especially in the context of MSMEs. Furthermore, this study will seek to provide input for policymakers at the national and regional levels in the process of achieving MSMEs business integration in the AEC and more global networks.

Buyer and Supplier Relationship (BSR) is a social relationship between a buyer company and a supplier organization that is formed and takes place on an ongoing basis because both parties provide mutual benefits [17]. Quality BSR is very important for MSMEs because it becomes a determining factor for supplier performance [18-19] thus enabling MSME businesses to run smoothly and sustainably [20].

According to the supply chain management theory [12], the quality of BSR is determined by the motive factors of each party involved. There are three types of motives: instrumental, relational, and moral. Instrumental motives relate to the goal of obtaining one's own benefits regardless of the advantages or disadvantages of partners. Relational motives aim to produce mutual benefits because there is already a sense of shared destiny. Moral motives relate to a sense of responsibility in a partner because they have already built relationships, even when the partner feels less benefited from the relationship.

If it is assumed that MSMEs have been maximized in the three motives, then the problem is just how to maximize the three motives in the suppliers themselves. In line with this, any effort that can encourage the improvement of one of these motives will improve the quality of the BSR. Previous research has found various factors that drive BSR quality improvements such as interdependence, value-based compensation structures [8], and supplier satisfaction [18]. These variables are each directed at least to one of the motives that underpin BSR. For example, feelings of interdependence trigger relational motives while compensation and satisfaction trigger instrumental motives.

Various other theories have also been used to examine the determinants of BSR in addition to supply chain management theory. Included in these theories are commitment-trust theory [13], resource dependency theory [14], partner selection theory [16], agency theory, and resource-based theory [15]. These theories add a variety of new variables that are known to affect the BSR. These variables include firm size [19], trust [9-10], Long-term Orientation / commitment / long term contract [8, 10]. Organizational compatibility, Top management vision and support, Quality mindset and willingness to improve, Quality assurance team [8], Problem solving team [8], Information sharing [11], Governance and administration [9], Communication [9], Supplier development, incl. training framework, supplier evaluation, asset specificity, and joint action [8, 10], Degree of importance [18], and Contract support [19].

Assuming that the above factors are entirely valid for improving the quality of the BSR, we have 17 factors to examine in the supplier-MSMEs relationship within the AEC. These 17 factors need to be reduced to a more manageable amount. Based on the greatest possibility of the ability of

each factor to serve a particular motive, the 17 factors can be grouped into three groups of motives (Table 1). Instrumental motives are served by the factors of vision and top management support, quality mindset and desire to go forward, quality assurance team, problem-solving team, value-based compensation structure, supplier development, degree of importance, and supplier satisfaction. Relational motives are supported by interdependence, organizational compatibility, information sharing, governance and administration, and communication. Moral motives are supported by long-term trust and orientation. The company size factor and contract support are variables that are generally seen as controls.

**Table 1. Factors that Influence the Quality of Buyer-Supplier Relations**

Antecedents	Group
Interdependence	Relational
Trust	Moral
Long-term Orientation/ commitment/ long term contract	Moral
Organizational compatibility	Relational
Top management vision and support	Instrumental
Quality mindset and willingness to improve	Instrumental
Quality assurance team	Instrumental
Problem solving team	Instrumental
Information sharing	Relational
Value based compensation structure	Instrumental
Governance and administration	Relational
Communication	Relational
Supplier development, including training framework, supplier evaluation, asset specificity, and joint action	Instrumental
Degree of importance	Instrumental
Satisfaction	Instrumental
Firm size	Control
Contract support	Control

Source: researcher development

## 2. Method

All of the above theoretical constructs are used as instruments of evaluation of opportunities and challenges for supplier-MSMEs relationships in the context of the AEC. With the novelty of the research, exploratory qualitative research characters can help. This approach will help new discoveries link the factors supporting the quality of the supplier-MSMEs relationship with the context of the AEC and provide a rich basis for further development.

The researcher decides whether one factor is the opportunity or challenge in this relationship and what the reasons are for the assessment. In this case, the opportunity is seen as generally good and promising conditions to facilitate the MSMEs' business in the context of the AEC. Meanwhile, the challenge is interpreted as a generally bad condition and needs to be improved so that the MSMEs business in the context of the AEC can be smooth. To find out the current conditions, researchers reviewed the gray literature as well as previous research on MSMEs and AEC using the Google search engine, Google News, and Google Scholar. The results are then described and discussed as research findings.

## 3. Result and Discussion

### 3.1 Opportunities

#### *Opportunities in Fostering Instrumental Motives*

Three opportunities can be identified in fostering instrumental motives in supplier-MSMEs relations at the AEC level. These three opportunities are the availability of quality assurance, value-based compensation, and supplier development. Quality assurance is a great opportunity for MSMEs because ASEAN and their respective countries have developed regulations that issue quality

assurance certificates to enhance their MSMEs competitiveness. [21]. For example, in the fisheries sector, there has been a Ministerial Decree 52 of 2013 that provides fishery quality assurance requirements [22]. Just how MSMEs can encourage quality assurance does not only apply to themselves but also their suppliers [23].

Regarding the issue of value-based compensation, this is an individual MSMEs issue. Supposedly, the issue of compensation is the trade norm and any MSMEs understands the role of upfront or timely payment or discounts or overpayment as part of establishing good relations with suppliers. The existence of a reliable payment support system such as e-banking, m-banking, as well as ease of transactions provided by the AEC will support the compensation issues to be fulfilled.

Issues of supplier development such as training, evaluation, asset specificity, and joint actions are seen as opportunities because within the framework of the AEC, countries have agreed to establish a development and training system for MSMEs. ASEAN has programmed to create incentive or reward programs for large companies or MNCs to train local MSMEs, including their suppliers, to enable technology transfer to MSMEs and local suppliers. Productivity training is even promoted to suppliers and MSMEs in CLMV countries (Cambodia, Laos, Myanmar, Vietnam) so there is no gap between what is in relatively more developed countries (Thailand, Malaysia, Singapore, Brunei, Indonesia, Philippines) with CLMV. Countries also agreed to establish vocational training and counseling centers for micro, women, and youth businesses in collaboration with the private sector. Meanwhile, countries are also trying to expand MSMEs access to these training so that none is spared [6]. In this way, the problem of supplier development should no longer be a problem for the MSMEs or for the supplier itself.

#### ***Opportunities in Fostering Relational Motives***

Interdependence in MSMEs relationships with suppliers within the AEC is supported by mutual success in doing business. This in turn is related to the initial performance of MSMEs and suppliers. If both of them start from scratch, then interdependence can more easily occur because the joint effort is established, and building good relationships is the key to initial success. If MSMEs and their suppliers are born-regionals, then dependency should be the norm. This is because it is most likely that born-regionals are those who see the local market as less promising or do not find suppliers in the local scope so they must start from a wider market.

Sharing information is also a good opportunity because of the support of advances in information technology and programs prepared by ASEAN. ASEAN has committed to facilitate the process of sharing information as part of efforts to develop regional value chains so that ASEAN participates in global value chains. In addition, ASEAN is also in the process of developing a database and network of resources to facilitate information sharing between public institutions, universities, the private sector, and MSMEs. This database is expected not only to facilitate business but also to stimulate ideas and creativity to produce useful new products at the ASEAN and global levels. In fact, ASEAN already has an information-sharing platform for the products needed and produced by each country.

#### ***Opportunities in Fostering Moral Motives***

Trust is moral because it is related to good and ethical relations between two parties. This is dyadic, meaning that it depends on each party involved in the relationship. Trust, however, is supported by supportive systems such as information technology and the background of each party. In this case, the development of information technology is the key to trust among business people. ASEAN already has the ICT Masterplan 2020 which aims to one of them strengthen internet broadband penetration at low prices throughout the ASEAN region. Some countries do have a lame network compared to other countries. The internet in Indonesia is still inferior to the internet in Singapore and the internet in the Philippines is still lagging behind Indonesia. Even so, with this joint commitment, a great opportunity arises in building partnerships between MSMEs and suppliers in countries with limited internet.

Long-term orientation is an important element in the stability of supplier relations with buyers [24]. The existence of the AEC framework itself has provided opportunities for MSMEs and suppliers to build a long-term orientation that covers markets in 10 countries. The existence of a long-term orientation allows MSMEs and their suppliers to develop business strategies that can bring both of them into business development and become big companies [24]. Some opinions view that long-term

orientation is a cultural problem [25]. Even so, in the scope of ASEAN where various cultures mix into one, a long-term orientation should be more easily built, especially because of guaranteed profit and competitiveness [27] obtained from him through agreements at the inter-state level. Moreover, long-term orientation is also supported by information sharing activities [28], which in turn is related to information technology that is increasingly developing in the future in the ASEAN region.

### ***Opportunities of Control Factors***

Partner size reflects the scale and scope of the business, market power, ability to combine supply, reflect financial strength, and demonstrate bargaining power [19]. MSMEs require large suppliers or small suppliers in large quantities so that their products can flow easily to the market. The existence of AEC is an opportunity for MSMEs because AEC requires countries to establish a partnership network between large companies and MSMEs as a support for them in gaining market access and product development. Studies show that the larger the business, the more likely the company is to participate in trade within the AEC framework [29]. Therefore, MSMEs that have successfully partnered with large companies can more easily be involved in the AEC.

Contract support is the proportion of MSMEs production supported by certain suppliers to total production [19]. The greater the percentage of products obtained from the collaboration with suppliers, the stronger the relationship of MSMEs with suppliers. From the supplier's side, this means that a large percentage of the supply is supplied by the supplier to MSMEs. This problem is an individual dyad problem and is strategic. Relationships with small members make quicker decisions but run the risk of failure if one party resigns. A network with many members reduces the risk of failure but is complex in its management. Whatever is the best scheme, whether it is a single buyer/supplier or multiple buyers/suppliers, this should be easy and facilitated by the AEC system because of the support given to MSMEs to expand or narrow the network.

### **3.2 Challenges**

All moral aspects and controls in the opportunities and challenges of supplier relations with MSMEs in readiness to face AEC are aspects of the opportunity. Therefore, what remains is instrumental and relational motives. There are several challenges in this category that must be overcome so that the supplier and MSMEs networks can be successful in the AEC climate by 2025.

#### ***Challenges in Fostering Instrumental Motives***

The availability of vision and support from top management is a challenge for suppliers and MSMEs in meeting AEC. A modern vision that prioritizes diversification and enters new open markets in the AEC is not the only vision of top management in ASEAN MSMEs. Studies in Thailand show an alternative vision, namely a vision of growth based on their history and traditional heritage [26]. Such a vision will not necessarily fail within the scope of ASEAN. People might like products that have a local character from other countries. For example, maybe Indonesians would like Vietnamese coffee products more than ordinary coffee products made in Vietnam. Thai people might like *gado-gado* and other Indonesian products. This is a competitive advantage for local products with local brands. Even so, this kind of business strategy needs to utilize the networks that are already available. By relying on traditional networks without openness to produce brands, for example building factories in Thailand, costs may be more expensive and production becomes less efficient. More than that, management who rejects efforts to expand suppliers or expand markets to other countries in ASEAN can be justified if the business is sure that it cannot compete. However, aggressive competitors cannot be prevented from coming to the local market and creating tighter competition for MSMEs if MSMEs remain in the same position as in the past.

The mindset of quality and willingness to go forward is also a challenge for the development of MSMEs in the ASEAN market. Indeed, there are already available quality standards that are applied strictly by the government. But many MSMEs can succeed in local markets with modest quality, exploiting the tendency of consumers to buy cheaper goods and consumers' ignorance of low-quality risks. However, without the efforts of MSMEs and their suppliers to improve product quality to meet market safety, quality, and compliance standards, these products will also be eroded by newcomers with better quality but competitive prices.

Another challenge is the ability of MSMEs and their suppliers to solve common problems. MSMEs, in general, rely on experience, rather than education and training, to be able to survive and

thrive in their business. AEC is a new market and there are no MSMEs and suppliers who have experience in solving problems in something completely new. As a result, there will be a trial error situation that will lead to the collapse of a number of MSMEs who are determined to enter the market without the provision of good problem-solving skills. The tendency to rely solely on this experience can come from the perception that training provided by the government, for example through PLUT, is a waste of time and is not relevant to their needs. To that end, the government not only sharpens physical aspects such as building busy training centers but is only visited by experienced MSMEs but also builds awareness on other MSMEs that are smaller and completely blank regarding the issue of AEC and its effect on their business.

The degree of interest of MSMEs and their suppliers towards AEC is also a challenge. This is especially true for MSMEs in Indonesia. Indonesia is a vast country. It is even the most populous and largest in Southeast Asia. Internet penetration in Indonesia is only 65% [27]. This penetration will be even higher in the future and there will be more open markets to sell products to new regions in Indonesia. If MSMEs have such wide market opportunities in Indonesia, why should they try to penetrate the ASEAN market that they have not had experience with? Even so, as in the previous case, they could not prevent the target market or even the market being encroached on by MSMEs from other countries. As a result, it is very important for MSMEs to be aware of the big competition ahead and how to respond to market expansion.

The challenge of satisfaction is dyad specific challenges. MSMEs and their suppliers may have had bad experiences with the ASEAN market in the past and learned from this bad experience not to try to explore the AEC. For the same reason as before, the government needs to push for the awareness of MSMEs to participate in the ASEAN market.

**Challenges in Fostering Relational Motives**

Organizational compatibility is a challenge for MSMEs businesses with suppliers. Some MSMEs in the local context go through a trial error process to arrive at a supplier that matches the products offered by MSMEs. The existence of AEC does not guarantee that MSMEs will get suppliers that are suitable for their product needs, especially those suppliers in other countries that cannot be visited physically. Until now, there is no supplier database with sufficient information so that MSMEs do not need to contact the relevant suppliers to ask for product specifications. The database provided by the ASEAN MSMEs Service Center ([aseansme.org](http://aseansme.org)) is still very limited with minimal product specifications, and even then most are finished products, rather than products for industrial supply.

Other challenges will come from governance and administration. Issues of governance and business administration must still be resolved jointly between suppliers and MSMEs and this is likely to involve substantial costs due to one party's visit to the other party. In this case, MSMEs might behave like a large company that visits its suppliers to ensure that important things are met. With the financial limitations of MSMEs, this can drain costs and make it difficult for them, especially if the expected suppliers do not meet the criteria they need. For this reason, a reliable and complete supplier database is needed so that MSMEs can more easily engage with suppliers across countries.

Communication challenges may be the toughest challenge for supplier relations and MSMEs across ASEAN countries. Almost all countries in ASEAN have their languages and only English can unite them as an international language. There is nothing in the AEC action framework addressing this language problem [6]. They assume that English is the language that must be mastered in business for MSMEs, even though in reality, MSMEs are constrained by language problems. This can also be seen from the loneliness of the MSMEs forum provided at [aseansme.org](http://aseansme.org). Although China can export products in English at a minimum [28], there is a perception that Chinese products are produced half-heartedly due to the poor English used in these products. It is not expected that ASEAN-made products will have language problems like Chinese products because language problems are not a priority in the development of the AEC.

**Table 2. Opportunities and Challenges in the Quality of Supplier-MSMEs Relations in Facing AEC**

Opportunities	Challenges
Availability of MSMEs quality assurance program	The managerial vision is still traditional and focuses on existing markets

Opportunities	Challenges
Supporting information technology-based financial infrastructure	Quality mindset is difficult to develop because consumers are tolerant
Intensive MSMEs training and development program	MSMEs still rely on experience rather than structured learning
The possibility of the formation of MSMEs born-regionals	MSMEs do not consider the importance of business expansion to the scope of ASEAN
Commitment to developing ASEAN information technology networks (ICT Masterplan 2020)	Poor experience of suppliers and MSMEs in business in the ASEAN sphere
Database for sharing information	The supplier database is not yet available while the MSMEs database is still too simple
Market opportunities that allow long-term planning	A standard business governance system is not yet available
Cooperation between MSMEs and large/multinational companies	Significant language barriers
MSMEs network support system	

Source: researcher development

#### 4. Conclusion

Overall, the AEC provides opportunities and leaves challenges for supplier and MSMEs relationships. The theory and previous research adopted as an analytical framework for this article reveal a number of opportunities as well as a number of challenges that need to be overcome to achieve high-quality supplier and MSMEs relationships within the AEC framework. Available opportunities include quality assurance, compensation, supplier development, interdependence, information sharing, trust, commitment, company size, and contract support. While the challenges faced include the challenges of top management support, willingness to change, problem-solving, degrees of interest, satisfaction, organizational compatibility, governance and administration, and communication. Therefore, ASEAN countries must strive to provide more support in the form of awareness-raising, problem-solving, governance and administrative frameworks, supplier and product information databases, and the provision of a multi-lingual platform for MSMEs and suppliers database users.

As in other studies, this study has limitations. This limitation can partly be addressed by further research. First, this research uses a framework built from a number of antecedents of supplier-buyer relations but only uses that framework for descriptive purposes. Future studies can consider testing this framework statistically using hypotheses and inferential data analysis with a sample of MSMEs-supplier pairs in Indonesia. For example, hypotheses can be made to examine the influence of top management vision, quality mindset, and problem-solving teams on instrumental motives and their impact on the quality of MSMEs-supplier relationships.

Second, this research only captures the AEC policy situation in 2019 and before. The AEC target is still far away, in 2025. In the period between 2019 and 2025, various opportunities may arise, or vice versa challenges to the MSMEs-supplier relationship. Periodic studies to evaluate the progress of the factors used in this research can guarantee that MSMEs are always in readiness to build relationships with suppliers in the setting of AEC.

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