# Table of Content

<table>
<thead>
<tr>
<th>No</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Accelerating Learning through Technology Use: Are Secondary School Teachers on the Right Track?</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Activity Based Management (ABM) pada Rumah Sakit: Sebuah Studi Literatur</td>
<td>7</td>
</tr>
<tr>
<td>3</td>
<td>Analisis Organisational dalam Membentuk Badan Usaha Kelas Dunia melalui Jejaring Bisnis Global: Studi Kasus pada PT. Indofood Sukses Makmur</td>
<td>17</td>
</tr>
<tr>
<td>4</td>
<td>Analisis Variabel-Variabel yang Mempengaruhi Resiko Sistematik (Beta) Pada Saham LQ-45 yang Terdaftar di BES</td>
<td>32</td>
</tr>
<tr>
<td>5</td>
<td>Analysis of the JSX Best and Bad Index Performance: A Preliminary Empirical Study of the Daily, Weekly and Monthly highest and lowest index in Jakarta Stock Exchange As A Base of Investment Decision</td>
<td>47</td>
</tr>
</tbody>
</table>

**Keynote Paper:**

- Elisa Muresan: Assistant Professor of Finance, School of Business, Long Island University, 1 University
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- Firi Novika Widjaja
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Penulis/Institusi: Amluis Uum. edn. ny.
5 Building Networking on Hair & Beauty Industry: The Effect of Continuity, Individualization, and Personalization on Consumer Commitment
Yudi Sutarso
Noer Anggari
STIE Perbanas Surabaya

7 Collaboration: The Key to Competing in The Global Era?
Andreas Alfianto
Joniarto Parung
Teknik Industri
Fakultas Teknik, Universitas Surabaya

8 Country of Origin effect: a Pilot Survey of Indonesian’ Perception towards Australian, Malaysian and Singaporean Higher Education
Lianti Raharjo
Universitas Kristen Satya Wacana
MarkPlus&Co

9 Establishing of Business Networking within Local and International Business Community Using “Norms and Values” as an Access Key.
M. Nashar
The Heritage Bogor Foundation / Hotel Salak
The Heritage

10 Identifying and Developing Business Network of Capital Markets in Indonesia: The Use of System Dynamics
Dian Masyita
Dept. of Management, FE-UNPAD (Finance & Risk Management), Staff at Research Division, LMFE UNPAD
Aldrin Herwany
Dept. of Management, FE-UNPAD (Finance & Portfolio Management), Staff at Research Division, LMFE UNPAD

11 Identifikasi Faktor-Faktor Penentu Penggunaan Internet Banking
Marcellia Susan
Fakultas Ekonomi
Universitas Kristen Maranatha

12 Impact of Shared Beliefs on Perceived Usefulness and Ease of Use of an Enterprise Resource Planning (ERP) System
T. Ramayah
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Lo May Chiu
Faculty of Economics and Business
Universiti Malaysia Sarawak
Osman Mohamad
Professor
Institute of Graduate Studies
Universiti Sains Malaysia
Amlus Ibrahim
Fakulti Pengurusan Teknologi Informasi
Universiti Utara Malaysia

13 Lembaga Keuangan Mikro: Model Organisasi dan Pemanfaatan Teknologi Informasi
Budi Hermana
Wardoyo
Teddy Oswari
GunaDarma University, Jakarta

14 Managing Error Through Internal Networking Responsibilities Modelling
Elsye Tandelilin
Jurusan Manajemen
Fakultas Ekonomi
Universitas Surabaya
16 Membangun Jejaring Bisnis dalam bentuk manajemen rantai pasok Berbasis Guanxi (hubungan antar personal) Siti Rahayu
Erna Andajani
Jurusan Manajemen
Fakultas Ekonomi
Universitas Surabaya
160

16 Pemahaman Karakteristik Small Firm Networking Marcellia Susan
Fakultas Ekonomi
Universitas Kristen Maranatha
175

17 Penerimaan Nasabah Terhadap Online Banking dan Implikasinya Terhadap Strategi Pemasaran Perbankan Tatik Suryani
STIE Perbanas Surabaya
183

18 Pengaruh Kepuasan Kerja terhadap Komitmen Pada Organisasi dan Kepuasan Kerja Auditor Internal Hamfri Djajadikerta
Universitas Katolik Parahyangan
193

19 Pengaruh Wirasusa Terhadap Pengembangan Karir Individu Pada Distributor Multilevel Marketing 'X' Di Malang M. Isa Anshori
Fakultas Ekonomi
Universitas Trunojoyo Madura
206

20 Rantai Nilai Profitabilitas dalam Menyerahkan Jasa Kepada Pelanggan Heru Suprihadi, SE,MS
Fakultas Ekonomi
Universitas Surabaya
215

21 Revitalisasi Peraturan Daerah (PERDA) bagi Pelaku Bisnis Dalam Membangun Jejaring Bisnis Johny Rusdiyanto
Fakultas Ekonomi
Universitas Surabaya
229

22 Strategic Analysis of Online Reservation System (Case Study: PT. Sriwijaya Air) Siswono
Information Systems Department,
Bina Nusantara University
Chinni Yanti
Information System and Management Department, Bina Nusantara University
239

23 Strategic Alliances between Nucleus-Plasma In Small Medium Enterprises in Indonesia Mokhamad Anwar
Dept. of Management, FE-UNPAD (Finance & Bank Management).
Staff at Applied Science Division, LMFE UNPAD
Aldrin Herwany
Dept. of Management, FE-UNPAD (Finance & Portfolio Management).
Staff at Research Division, LMFE UNPAD
253

24 Strategi Merger dalam Mempertahankan Nilai Badan Usaha pada Era Krisis di Bursa Efek Jakarta Liliana Ingrit Wijaya
Jurusan Manajemen
Fakultas Ekonomi
Universitas Surabaya
263

25 Studi Kasus implementasi Sistem Penilaian Kinerja Supplier dalam rangka penerapan supply management Fidelis Arastyo Andono, S.E., M.M., Ak.
Dra. ec. Ria Sandra Alimbudono, M.Si.
Ir. Theresia Niken Woeandari, M.T.
Fakultas Ekonomi
Universitas Surabaya
284
26 Studi Pemetaan Persepsi Konsumen Atas Operator CDMA Fixed Wireless Access
Zulganef
Fakultas Bisnis dan Manajemen Universitas Widyatama
Yuri Fatria Zumara
Manajemen Bisnis Telekomunikasi & Informatika Sekolah Tinggi Manajemen Bandung

27 Testing the International Generalisability of the Negative Binomial Distribution Model for the Online Game Product Category
Laila Refiana
Dick Mizerski
The University of Western Australia

28 The Impact of Information Technology on Information System Auditing: Process of Business Networking
Henricus Bambang Triantono
Faculty Science of Computer-Program Study Computer Accountancy
University Bina Nusantara Jakarta

29 The Influence of Managerial Ownership Structure on Organization Performance
Widanarni Pudjiastuti
Aida Ainul Mardiyah
Malangkuceqwara School of Economics Malang

30 Trading-Houses: One of answers to develop and expand Indonesian Cooperatives and Small Medium Enterprises
Idris Gautama S
Computerized Accounting Systems Study Program,
Faculty of Computer Studies Bina Nusantara University

31 Winning the Organizational Commitment with Quality of Work Life: An Empirical Analysis of Three State-owned Banks in Jakarta
Hanes Riady
Department of Management, Institut Bisnis dan Informatika Indonesia, Jakarta
Trading-Houses: One of answers to develop and expand Indonesian Cooperatives and Small Medium Enterprises

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ABSTRACT
Indonesian Cooperatives and Small and Medium Enterprises (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 paper 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 paper.

Keywords. Trading house, SMEs, Cooperatives, Global Business Network

INTRODUCTION AND PROBLEM REVIEW

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) 1) they are:

1. 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 Rp. 100 millions annually.

2. Small Business, is people economics activities with following criteria:
   a. Business with net asset of maximum Rp. 200 millions, excluding land and business building
   b. Business with maximum sales Rp. 1 billion annually
   c. 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
   d. Could be an individually owned, incorporated or a cooperative

3. Medium Business, economic activities with following criteria:
   a. Business with net assets of more than Rp. 200 millions but not exceed Rp. 100 billions, excluding land and business properties.
   b. 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
   c. 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>
<thead>
<tr>
<th>Indicator</th>
<th>2000</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Business Unit (in million)</td>
<td>38.72</td>
<td>42.40</td>
</tr>
<tr>
<td>Workforce absorbed (million)</td>
<td>70.40</td>
<td>79.03</td>
</tr>
<tr>
<td>Export Value (Rp. Trillion)</td>
<td>75.45</td>
<td>75.86</td>
</tr>
<tr>
<td>Portion to Non oil and Gas Export (%)</td>
<td>19.35</td>
<td>19.90</td>
</tr>
<tr>
<td>Portion to GDP (%)</td>
<td>54.50</td>
<td>56.70</td>
</tr>
</tbody>
</table>

Source: Statistics Center Body (BPS) 2004

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.

There are many barriers to International trade as export considered. There are three types of barriers.

1. Tariffs: A tax placed on an imported or exported good involved in international trade
   a. Ad valorem
   b. Specific
   c. Compound

2. Quantitative Restrictions: Trade barriers that impose a numerical limit on the quantity of good that may be exported or imported
   a. Quotas
   b. Numerical export controls
   c. Embargoes
   d. Voluntary export restraints

3. Other non-tariff barriers; Government Laws, regulations, policies, or procedures that impede international trade
   a. Product and testing standards
   b. Restricted access to distribution network
   c. Public sector procurement policies
   d. Local purchase requirements
   e. Regulatory controls
   f. Currency controls
   g. Investment controls

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Besides the barriers mentioned above, there are also domestic roadblocks that are common:[9]
1. Attitude
2. Information
3. 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 have their own characteristics. [10]
1. Level of independence is high compared to big enterprises; in penetrating and leaving market.
2. Very adaptive and innovative in fulfilling market needs; sometimes they imitate
3. Low in overhead cost; which means high competitive
4. Place to experiment new product
5. 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:
1. Limitation to information reach
2. Limitation to market access and production factors
3. Limitation in capital structure and access to capital sources
4. Limitation to technology access and ability
5. Weak in management and organization
6. Limitation in networking and cooperation
7. Lack of experience in fulfilling commodities standards
8. Lack of experience in bidding

A study shows that entrepreneurs in America had similarity in facing problems, based on order of importance.[10]
1. Access to people
2. Access to seed capital
3. Access to information and infrastructure
4. 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, 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.
METHODS

This paper is based on literatures study and Focus Groups Discussions (FGD). Literatures study is needed to collect information and considered as basis of thinking and paper writing. 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 discuss 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 depends 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.[9] 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:

- International trader who buy and sell products for their own account
- Export agents who act on behalf of another party and are paid on commission
- Export management companies who handle a portion of the parent company’s exports, and can be engage in counter trade, if necessary
- 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.

RESULT

From the inputs gathered, it is obvious that cooperatives and SMEs need to promote their product, 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, it existence is needed to expedite growth of cooperatives and SMEs but at the same time it must create benefits to the stock holders both in financial and non-financial aspects.

The pattern of process that help cooperatives and SMEs to international trade can be shown in figure 1.

![Figure 1: Role of Trading House in International Trade](image)

The main activities of trading house would be:

1. Strategic partners to strong cooperatives and SMEs
2. Marketing and Promotion Media
3. Consultation and Training Services to cooperatives and SMEs that need to enhance abilities.
4. 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 world wide, more over the users of internet and word wide web are increasing significantly from year to year. Using internet can also help to find resources even financial resource.

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

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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. What ever 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. What ever 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 unnecessary disadvantage.

Implementation of running trading house may have some phases.
1. Collect products and services data of cooperatives and SMEs that will be served
2. Collect activities of Cooperatives and SMEs that can be assisted
3. Determine activities of trading house that will be run
4. Budget each activity well
5. Implement activities chosen

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) [8] 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 nation wide trading houses form federation of trading house associations. This shows the roles of trading houses in the country are significant.

China’s products are now dominate 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 is a complete website and act as trading house purpose.

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 compared 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.

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