

# Increasing Industrial Competitiveness in Rural Areas through Institutions Strengthening and Human Resource Development

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**Abstract:** This analysis aims to improve the competitiveness of Small and Medium Enterprises in the regions by implementing strategies for strengthening business institutions and developing human resources. This analysis is based on direct observation, especially in small businesses of palm sugar producers and etawa goat milk farmers in Kebonharjo, Samigaluh, Kulonprogo, Yogyakarta. The research method used is qualitative research method that combines of qualitative data and literature review. Data were obtained from direct observation and interviews with respondents who were considered to be able to represent information and understand the problems by Small and Medium Enterprises in Kebonharjo, namely the village head (*lurah*) and several other village officials, head and secretaries of farmer groups, etawa goat milk breeders, palm sugar producers and activists of Small and Medium Enterprises in the regions. The results of the study indicate that the two types of businesses that have been carried out in the area have not been optimal in carrying out product innovations. Various obstacles such as access to marketing, farmer motivation, level of managerial knowledge and steep mountainous geographical conditions have resulted in slow distribution processes. based on existing problems this research offers two conceptual strategies for creating product innovation and competitiveness Small and medium enterprises are strategies to strengthen business viability and empower human resources through increasing knowledge and skills.

## 1 INTRODUCTION

Entering the digital era or many people say the current era of globalization, competition between businesses is becoming more open. As a result, a strong company or organization can continue to defend itself and master and improve marketshare, while entrepreneurs who have low strength will find it difficult to maintain their business consistency and experience a faster decline until finally they cannot run their business. In advanced economies, opportunities for careers and promotions will be increasingly limited only to people who have higher education, quality people for knowledgeable work (Drucker, 2006:247).

Small and Medium Enterprises (SMEs) are part of business actors who also play a competitive role. *SME* are still the type of business that is popular and became the foundation of life for the people of Indonesia. In addition, its role in economic growth

in Indonesia in the growth of Gross Domestic Product (GNP) is very large.

The Ministry of Cooperatives and MSMEs in the 2017 achievements report states that MSMEs have contributed to the National GDP of Rp.7,005 trillion or about 62.57% of total GDP. The description of the contribution is 38.90% micro business, 9.73% small business and 13.95% medium business.

The strategic role is expected to be a momentum for economic growth in Indonesia to be stronger starting from the root (micro economic) and not only macro policies that often become practical policies in an effort to tackle the impact of the global economic. Looking at its large role, it is important for all parties to be able to see more closely what and how the problems or obstacles experienced by small entrepreneurs. The reality of SMEs that are bankrupt, low capital, products that are less varied, use of traditional tools and lack of market access still occur in many small and medium entrepreneurs in Indonesia.

The development of *SMEs* needs more attention from all parties, both the government, the business community, financial institutions and banks, universities and other parties so that the strength of *SME* becomes more resilient and able to compete in today's digital era.

The existence of the Asean Economic Community (MEA) ensures that MSMEs must be stronger in their needs to strengthen their position. SMEs need a large role from various elements, for example by strengthening partnerships with the private sector and the public sector to create an independent economy. MEA becomes a threat as well as an opportunity for MSMEs in Indonesia to be able to grow a role in regional and national economic growth. Strengthened by the concept of regional autonomy, at least the position of MSMEs in the regions can be more fully concentrated by empowering local area resources to create regional special products. For local governments, this is when strengthening regional competitiveness through the full strength of MSMEs that grow and develop in their regions.

The strategy to strengthen business institutions and the development of Human Resources is a strategy that can be implemented by regional and central government in reviving and strengthening MSMEs in Indonesia. With these strategies, it is expected that competition currently dominated by large companies does not erode the opportunities of MSMEs to develop their potential and strength to be able to compete.

## 2 THEORETICAL FRAMEWORK

The definition of rural industry is narrow, namely in small scale industries and households (*IKRT*). Sajogyo and Tambunan (Kuncoro, 2014: 293) Rural industries are a form of transition between artisan industries and modern industries. In Indonesia, rural industries tend to be connoted with or as a tool for rural development (with small-scale industries and households) and open parts of modern industrial development. White (Kuncoro, 2014: 295) classification of rural industries lies in the criteria of resource-based industry which is contrasted with foot loose industry. Resource-based industry is supportive and has a multiplier effect on the agricultural and industrial sectors based in rural areas, while foot loose industries tend to create an enclave economy, namely the lack of integration of industries concerned with other industries in the economy.

Therefore the limitations of rural industries are small industries whose resource base is in rural areas, including agro-industry and various industries. With regard to rural industries, at least rural industries can be identified as micro, small business and medium-sized businesses.

After the 2010 ASEAN Free Trade Area (ACFTA) in 2015 entered the era of the ASEAN Economic Community (AEC) or in the future in 2020 Indonesia must deal with other Free Trade Area forums such as APEC which demand the Indonesian economy, including MSMEs must strive to position themselves in the market. At present Indonesia's position in the Asean Economic Community is ranked 36th globally and 4th place among ASEAN countries (*World Economic Forum, 2018.*)

The main concept of the MEA is to create ASEAN as a single market and unity of production base where there is free flow of goods, services, factors of production, investment and capital and the elimination of tariffs for trade between ASEAN countries. Through strengthening this collaboration it is hoped that it can reduce poverty and the level of economic inequality among ASEAN countries through a number of mutually beneficial cooperation (Wilantara and Susilawati, 2016 : 16). The WEF considers that Indonesia has a competitive level in general at the top level, but it is still low in terms of technological preparedness and labor market efficiency which still ranks Indonesia as 96th in the world rankings.

Empowerment of MSMEs is a comprehensive process that is an active process between motivators, facilitators and community groups that need to be empowered through increasing knowledge, skills, providing various facilities and opportunities to achieve access to natural resource systems in improving community welfare (Sumodiningrat and Wulandari, 2015: 20) . The empowerment process should include enabling (creating a conducive atmosphere), empowering (strengthening community capacity and capability), protecting (protection from injustice), supporting (guidance and support) and foresting (maintaining a conducive condition to stay balanced).

Technological advances affect the cycle of human resource competence. Expertise in the form of skills, knowledge and work attitudes obtained at this time, is not necessarily still valid in the future or is still up to date when technology has changed procedures, forms and functions (Silitonga, 2017:68).

Dubois and Miley (Sumodiningrat and Wulandari, 2015: 19) argue that the basics of empowerment include:

- a. Empowerment is a collaborative process between client and work executant mutually beneficial.
- b. The empowerment process views the client system as a component and ability that provides a way to source of income and provide opportunities.
- c. The client must feel himself as a free money agent can influence
- d. Competence gained and improved through life experience, a strong special experience than the state that states what is being done
- e. Empowerment includes the path to sources of income and the capacity to use these sources of income effectively
- f. The empowerment process is a dynamic, synergistic, ever changing and evolutionary problem that always has many solutions
- g. Empowerment is the achievement through parallel structures of individuals and the development of society.

The concept of corporate entrepreneurship or intrapreneurship is needed to increase the growth of MSME entrepreneurs. Rosabeth Kanter (Dhewanto, 2013:7) Through the concept of corporate entrepreneurship or intrapreneurship within the company will be able to increase company revenue and be able to make the company survive in difficult economic conditions.

According to the Law in Indonesia No. 20 of 2008, article 38 paragraph 2 that, coordination and control of empowerment of Micro, Small and Medium Enterprises is carried out nationally and regionally which includes the formulation and integration of policies and programs, implementation, evaluation, and general control of the implementation of MSMEs empowerment including business partnership management and financing of MSMEs.

The Medium Term Development Plan (RPJM) in the 3rd Indonesia (2015-2019) development of MSMEs is directed to strengthen overall development by emphasizing the development of economic competitive advantage based on available human resources, quality human resources and the ability of science and technology (Bapenas, 2015).

### 3 RESEARCH METHOD

This study uses a research and development approach (R & D) of qualitative research. The method used is exploratory and evaluative method to identify various symptoms and root problems that

occur in small dan medium entrepreneurs of inovations strategies and development of products milk etawa and palm sugar in Kebonharjo, Samigaluh, Kulonprogo Yogyakarta. Research process with direct observations, interview, questionnaire and reference study.

Data be collected from our respondents who were considered to be able to represent information and understand the problems by Small and Medium Enterprises in Kebonharjo, namely the village head (lurah) and several other village officials, head and secretaries of farmer groups, etawa goat milk breeders, palm sugar producers and activists of Small and Medium Enterprises in the regions. 6 months of research implementation, starting from April to October 2018. This analysis is a development of our research that measures the level of innovation of etawa and palm sugar products in the same place.

### 4 RESULT AND DISCUSSION

Profile of Kebonharjo Rural Industry From 2017 the village report Kebonharjo Village, District Samigaluh, Kulon Progo Regency, the village revenue of Rp. 19,726,435, -, village funds Rp. 852 526 000, -, tax-sharing and regional retribution Rp. 38,453,744, village fund allocation of Rp. 709 770 189, - aid kotaRp district. 195,000,000, and other income of Rp. 15,987,854, -so that the total income of the village of Rp. 1,690,387,081, -. The fund allocation is for rural development 61.2% (Rp. 1,034,547,777, - the organization of village government, 32.7% to Rp. 553 101 398, -, fostering civic Rp. 73.53105 million, - as well as the empowerment of Rp. 29,206,856, -.

Kebonharjo Village has considerable potential to become one of the villages that gives birth to SMEs with a characteristic of local wisdom. Of the 10 hamlets in the village there are various kinds of products and concentrations of each hamlet's business.

Table 1: Business Distribution in Kebonharjo Village

No	Sub-Village	Business Category
1	Jarakan	Nature tourism, fishing, welding workshop
2	Gowok	Milk Etawa
3	Kaliduren	Palm sugar, construction, local foods
4	Dungsambuh	Coconut fiber and local food

5	Kedunggupit	goat breeders and construction Good
6	Gebang	bamboo, wood and coconut fiber craft.
7	Pelem	goat breeders
8	Jeringan	goat breeders and plant nursery
9	Kleben	plantations, vegetables and culinary
10	Pringtali	ecotourism and temple

Source : Internal Data Kebonharjo, 2018

The Kebonharjo government in 2017 has allocated a community empowerment fund of Rp. 29,206,856, -. From the total it was used for the activities of the capacity of village heads, village officials and village consultative bodies of Rp. 4,512,000, productive business and economic training activities Rp. 15,831,856, agricultural business training activities Rp. 1,910,000, entrepreneurship training activities Rp. 5,577.00, - and the capacity building activities of social institutions amount to Rp. 1,376,000.

The large potential of the industry in Kebonharjo village also has several weaknesses which until now are still a major problem developing the industry in the countryside. Some of the fundamental weaknesses faced by business people in the village of Kebonharjo are that some people have not yet managed their business in total, how to produce which are still traditionally very traditional, geographic relative steep, lacking business motivation, depending on natural superiority, low capital, access distribution and marketing, substantive economic activities and community comfort in the natural comparative zone.

### Strengthening Business Institutions

In the face of changing macroeconomic landscapes at the local, national and global levels, forcing each local government in Indonesia to begin reviewing their approaches and perspectives in managing their regions (Kertajaya dan Yuswohady, 2005:4). Strengthening business institutions in the regions is one of the important things to encourage innovation in MSMEs in enhancing regional competitiveness.

The strategy to generate product innovation and competitiveness of SMEs in Kebonharjo Village, especially etawa goat milk and palm sugar, this study offers two (pillars) strategies, namely business institutional strategies and human resource development strategies.

The business institutional strategy is based on the scope of SME business problems that range from

the level of resistance to change, the perception of capital / capital, the delay in adapting to changes in the business environment and the attachment of old patterns in conducting business. So based on this problem the strategy to deal with internal changes in etawa goat milk farmers is to find and optimize the farmers' intellectual capital, integrate with the natural environment, culture and build a network of partnerships or cooperation on the right goals or targets in developing etawa goat milk business.

In the business institutional strategy, we can see 4 (four) main dimensions, namely internal change, environmental intellectual capital and business networks. Each of these dimensions can be implemented with concentrated goals as outlined below.

#### a. Internal changes

The strategy that can be applied to internal changes is that SME businesses in Kebonharjo Village must be able to respond to false opportunities. Relevant parties are needed, for example village government or programs run by educational institutions and experts to provide understanding of business opportunities, for example involving them in various scientific meetings or marketing and business management training programs.

Through the program, the result is the motivation of SME entrepreneurs to move to carry out business activities in total so that entrepreneurs are not tempted by other types of businesses that are new to the trend or as if they have greater opportunities than the business currently being run.

The second implementation is to provide learning to the younger generation or provide training and increase knowledge or share business experience with the younger generation. While the third strategy is that SME entrepreneurs both etawa goat milk and palm sugar must be able to determine their business performance standards. This is also a form of business vision that has a clear and measurable target.

Overall, the institutional strategy on the internal change dimension aims for small businesses to focus on doing business, efficiency, creating sustainable businesses between generations, encouraging innovation, stimulating independence and stimulating increased production / productivity volumes.

#### b. Intellectual Capital

The government and the people of Kebonharjo Village must have sufficient intellectual capital,

that is, everything that is a non tangible or non-physical asset and resource of an organization or business.

The implementation of strategies that can stimulate the strengthening of intellectual capital is to increase knowledge and skills of human resources, strengthen organizational structure and organizational culture as organizational capital and accurate flow of information / communication as a form of information capital that is useful for business development. In addition, intellectual capital can also be done by adopting technology to stimulate creativity, productivity and compliance with applicable laws.

Intellectual capital strategy targets that can be implemented by the Kebonharjo Village Government or those who have interests as far as possible are able to grow business professionals, improve mental and knowledge entrepreneurs, foster business motivation, business / product innovation, inspiration and open access to business opportunities, prioritize strong business visions and able to create a good organizational / business culture.

In addition, the target of the success of the intellectual capital strategy can provide access to market expansion (marketshare), develop partnership strategies, strengthen and access capital, and encourage expertise in making appropriate business strategy decisions.

The various strategies and target targets were carried out so that goat milk and palm sugar or other products in Kebonharjo Village were regional / market-based products. It takes business intelligence that is owned by businesses and governments to create various SME strategic targets. In the end, SMEs will be able to create products that have quality and value to meet customer desires so that they form a regional brand equity.

#### c. Environment

Environmental aspects are an important factor in the growth and development of business enterprises run by small communities, especially in the Village of Kebonharjo, Samigaluh, Kulonprogo. So that a strategy for environmental analysis is needed by understanding comparative advantage and the balance of the natural environment and socio-cultural environment.

Understanding of comparative advantages reinforced by business ethics and the expected knowledge of targets in this environmental strategy can create a balance of nature / ecosystems, environmental care, sustainable

regional development, local wisdom and strong social responsibility.

#### d. Business Network

Business network strategies can be implemented by collaborating to create quality, horizontal cooperation between SME entrepreneurs and cooperatives and vertical cooperation.

The implementation of these strategies is directed to the success of SMEs to create products that have quality standards, competitiveness of regional / distinctive products, business communities, business clusters, reduce operating costs. The strategic application of SMEs in Kebonharjo Village can create the image of regional brands as a means of competitiveness, foster marketing relationships, one village one product, be able to run supply chains, ensure continuity of availability of raw materials and expand market access both nationally and globally.

### **Human Resource Development Strategy**

In enhancing the competitiveness of regional SMEs, the government and SMEs can implement the concept of human resource development strategies in 2 (two) key dimensions, namely the dimensions of continuous education and training.

#### a. Education

The education dimension is an important factor in strengthening and creating the quality of human resources (HR). The implementation of strategies that can be implemented in the education dimension is to improve the managerial capabilities of SMEs and business assistance and strengthen SME business strategies.

The target of the implementation of the strategy is to increase management / managerial knowledge and understanding, sensitivity and skills in dealing with business problems and knowledge and understanding of new business strategies. Success in implementing strategies in the right dimensions of education can stimulate and bring forth business innovation and enhance business creativity.

#### b. Training

The training dimension is interrelated with the education dimension, where training emphasizes measurable skills for SMEs in the region. It takes parties who partner with the government or business people in implementing education and training strategies. Some implementations that can be implemented in training strategies are Incubator-based training, core competencies, needs-based training, cooperation-based,

professional training and the concept of two-way or participatory training.

The target of this training is to improve competency, expertise, negotiation / communication, confidence and understanding of competency standards. Training must be carried out in a directed and continuous manner so that the implementation of the training is in accordance with the needs / on target to foster SMEs that are ready to compete with strong HR capacity.

Education and training in business strategies for SMEs must also be able to form a broader network / market and establish strong SME partnership commitments with partner parties. The openness of SME business actors to the problems faced can encourage governments, institutions or private companies to implement training programs on target or effectively so that internal weaknesses can be strengthened comprehensively. Another goal of the training strategy is to increase the expertise and understanding of SMEs in the division of tasks or areas of cooperation that will be carried out in the concept of a win-win solution partnership.

## 5 CONCLUSIONS

Based on the description of conclusions as follows:

1. The competitiveness of rural industries is enhanced through the implementation of strategies to strengthen institutions that support SME businesses and develop human resources appropriately and sustainably as needed
2. Strengthening Strategy Business institutions can be focused on the dimensions of internal change, intellectual capital, the environment and business partnership networks.
3. The HR development strategy can be carried out a strategy that focuses on the dimensions of education and training focused on the problems faced by SMEs in a sustainable manner.
4. It takes the role of the regional government, the central government, educational institutions or other parties to develop and empower communities in professional business activities as a means of competitiveness

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