MICRO, SMALL AND MEDIUM ENTERPRISES EMPOWERMENT MODEL IN THE INDRAGIRI HILIR REGENCY, RIAU PROVINCE, INDONESIA

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ABSTRACT

The aim of this study is to formulate the empowerment model of MSMEs in the Indragiri Hilir Regency, Riau, Indonesia. The population in this study is all MSMEs in the Indragiri Hilir Regency, which amounts to 58,620 business units which spread to 20 sub-districts. Meanwhile, the sample is determined in 10 sub-districts which consist of Tembilahan sub-district, Tembilahan Hulu, Kempas, Tempuling, Kateman, Pelangiran, Gaung, Gaung Anak Serka, Reteh, Keriting. Based on the results of internal and external analysis of MSME in the Indragiri Hilir Regency is in a moderate or average competitive position. While the strategic position of MSME is based on business attractiveness which has a high position and the relative competitive strength is in the average position. The MSME empowerment model in the Indragiri Hilir Regency consists of three dimensions such as external factors that include the role of government, the role of State-owned Enterprises/ Private-owned Enterprises, the role of Non-Bank Financial Institutions / Cooperatives / NGO’s and the role of higher education. Besides that, it is also necessary to strengthen internal aspects such as; financial, marketing, production and human resources. Supporting factors include management information systems and natural resources. This study is original as such a study of its kind has never taken place in the Indragiri Hilir Regency, Riau Province, Indonesia.

Key words: Empowerment, MSME, SWOT.
1. INTRODUCTION

Since Indonesia was hit by the economic crisis in the middle of 1997, the number of people in poverty in Indonesia increased. The impact of the economic crisis was felt by almost all of the people of Indonesia, especially the poor economic communities located in rural areas. The existence of Micro Small Medium Enterprises (MSMEs) plays an important role in realizing the economic and industrial growth of a country. The economic growth is obtained from the contribution of MSMEs. In addition, they contribute to local revenue and they also give the contribution in job opportunities, which MSME can absorb with enough manpower. Economic conditions globally require MSMEs to make changes in a comprehensive manner in order to improve their competitiveness. MSMEs are said to have global competitiveness if they are able to operate their businesses reliably, balanced, and hold high standards. ADB (2002) explain that competitive predominance is the result of a strategy implementation which takes advantage of various resources of the company. Skills and unique assets are viewed as a source of competitive advantage. Unique expertise is the ability of the company to make the employees an important part in achieving a competitive edge.

In order to create a sustainable competitive advantage we must know how:

- To assess technological innovations.
- To design new technology in the form of a business model.
- To manage technological changes.
- To apply the appropriate technology.

Riau Province has a lot of potential to develop MSME; it can be seen from the number of MSME’s that have spread all over the Regency / City. Data from the Department of Cooperatives and SMEs in Riau state that Pekanbaru City occupies the first position of the number of SMEs, which is 68,728 MSMEs, followed by Kampar Regency 45,446 MSMEs, Indragiri Hilir Regency with as many as 58,620 MSMEs, Bengkalis Regency 42,029 MSMEs, Rokan Hilir 34,036 MSMEs, Rokan Hulu Regency 27,074 MSMEs. Indragiri Hulu 26,488 MSMEs, Siak Regency is 22,948 MSMEs. Kuantan Singingi is 21,450 MSMEs, Dumai City has 20,782 MSMEs, and Pelalawan Regency has as many as 13,824 MSMEs. Practically, all small enterprises have experienced obstacles such as lack of capital capability including access to capital resources, low human resources quality and mastery of technology, limited access to market information, lack of ability in business management, and managerial aspects including the low level of government in the formal juridical aspects in the form of business protection, limited ability in production aspects and quality produced. This limitation causes the difficulty of small enterprises to transform into healthy small enterprises. In quantity, the number of small enterprises continues to grow, but in quality it still requires various policies and strategic steps in facing an increasingly fierce market competition.

On the other hand the strengthening of small and medium industries is done through:

- Development of agro-based industries with potential commodity raw materials (dominant, superior and / or unique) which can be renewable (renewable), can be grown (intensification), they are able to be cultivated by the local people (feasible and familiar), and their potential to diversify,
• A use of appropriate technology that fulfill product quality standards in accordance with market demands and high economic value,

• Increasing capacity and capability of small and medium industry behavior through innovative and activities, effective and efficient ways which are oriented towards the growth of motivation, work ethic improvement and managerial competence

• Improvement of product quality, build the ability to fulfill the quantity, and continuity of market demand and improve packaging techniques, and

• Build and develop a marketing network through a partnership with an institution or direct marketing association (direct selling) or indirect and start utilizing information technology for marketing (internet marketing).

In general, the most obstacles faced by MSMEs are capital issues, marketing and production quality, and human resources. However, the quantity of small industries and the home industry is still growing and developing in line with the opening of the number of requests and at the same time can be a characteristic of a prominent area. Problems faced by MSMEs in the Indragiri Hillier Regency is based on the inventory of the Cooperatives and MSMEs such as a lack of capital (low income level), lack of quality human resources, insufficient business legality, business management generally is still traditional, the management system is not managed properly, limited level of production of subscribers, limited access to capital by financial institutions especially banking, weak entrepreneurial competence, uncertain business locations and high transaction costs / business and low competitiveness. To achieve success in the business, it requires competence that must be shown by every MSME. Understanding and the identification of the regional economic potential and competitiveness of MSME is not enough, because to actualize the potential of being a force must be continued with reinforcement and strategic actions with the empowerment of MSMEs in finance, marketing, production technology, and human resources. The success of SMEs business and competence requires a deeper study.

2. REVIEW OF LITERATURE

Empowerment is a concept most often used in the last five years. Often the understanding of empowerment always changes, indeed there is no absolute correct understanding of this term, but the effort to understand this concept well is the first step of a good development program. Empowerment is a "process of being", not an "instant process". The first phase; is awareness, this stage is the target to be empowered given the "enlightenment" and empowerment in order to cope with poverty and maintain a sustainable environment. The second phase; is the capacitating phase that we often call "capacity building", or in simpler terms- enabling. To be given strength or power, human beings should be enabled to capacity build both in individual and group contexts. The third phase; is the empowerment of the process of giving power or power is given in accordance with the skills of the recipient (Wrihatnolo and Rant, 2007).

The concept of "empowerment" comes from two major premises, which are failure and hope. The failure here is the failure of models of economic development in order to cope with poverty and maintain a sustainable environment. Meanwhile, expectations arise because of development alternatives that incorporate democratic values, gender equality, generational equations, and adequate economic growth. Failure and hope are not a measurable tool and a result of the work of social science, but a reflection of normative and moral values. Failures and expectations will feel very real at the individual and community level. On a wider level, perception is a symptom of failure and hope. Thus, "community empowerment" is essentially the collective value of individual empowerment (Friedman, 1992). Usman (1995) explains that in terms of terminology, empowerment can be defined as "an attempt to actualize the potential already possessed by society". In this context, implicitly empowerment contains the
element of "participation" that should be raised from within the society itself. Pearse and Stiefel (1979) themselves are more likely to give the term "participatory empowerment", which contains forms such as: respect for local peculiarities, deconcentration of power and increased independence.

Freire (1992) further explains that the empowerment process is a method that seeks to change perceptions including changing one's motivation or encouragement within the community, enabling individuals to adapt to their environment. To cultivate awareness and motivation / encouragement in a person, it is actually necessary "intervention" or "stimulation" that comes from outside, such as stimulus / stimulation of government aid funds, the environment associated with it among other things. This is because the motivation of a person can develop and it won’t be separated from the "ability" of a person determined by the level of education, work experience / job skills, work environment and culture inherent in the community. Prijono and Pranarka (1996), state that the concept and empowerment movement focuses on the fact that human beings or groups of people can experience obstacles and barriers in the process and movement of the actualization of its existence. Then, the attention of the empowerment movement, in particular, is to create conditions that give every human being the possibility to accomplish the task of actualization of its existence as far as possible and as high as possible. Therefore, the attention of the empowerment movement also focuses on the obstacles and barriers for the task of actualizing the existence.

3. METHODOLOGY

This study was conducted in the Indragiri Hilir Regency, Riau Province, Indonesia. The population in this study was all the MSMEs in Indragiri Hilir with the total number of small enterprises at 58,620 in 20 sub-districts. While the sample is determined in 10 sub-districts. The sampling technique that was used during the simple random sampling technique with the total number of samples was 100 MSME. To collect the data, this research used SWOT analysis. The data used were primary and secondary data using observations. This research also used questionnaires and interviews for their research subjects.

4. RESULTS

Based on the Department of Cooperatives and MSMEs of the Indragiri Hilir District MSME distribution is relatively evenly distributed in every sub-district except Tembilahan sub-district is relatively more than other districts. This is because the sub district of Tembilahan is the capital of the Indragiri Hilir Regency besides being the center of government, it is also a business center. Furthermore, based on data by the Department of Cooperatives and SMEs,Inhil District has seen that the number of MSMEs who received new guidance was 14.69%. In other words, most of MSMEs in the Indragiri Hilir Regency had not been touched by coaching conducted by the local government. From the total number of assistants that are mostly in the micro business it’s 76.35%, small businesses 21.59% and medium enterprises 0.02%. This means that efforts to shift from micro to small business including medium-sized businesses require breakthroughs and strategic steps. In addition, the absorption of manpower is still dominated by micro business that reach 73.93% and still encountered labor below the amount of 16.74%. This is based on the fact that micros enterprises belong to household industries are still assisted by their children and close relatives and even neighbors. While the absorption of manpower in small business amounted to 22.68% and medium enterprises by 0.03%.

According to the sector, the data of small and medium enterprises are shown that the role of micro business is relatively big, that is 76.35% which is dominated by agricultural sector and hotel restaurant. In small businesses as large as 21.59% which is still dominated by
agriculture sector? While the medium business is only 0.20%. Thus the number of micro-scale enterprises that grow but the shift from year to year to small and medium enterprises has not changed from year to year. The stagnation of micro business is very high and the movement is very slow to turn into small and medium enterprises. And based on the marketing strategy that has been described in the previous section there are several factors which take into consideration internal factors, external factors and supporting factors. These three factors become very strategic to build a model that is expected to help the problem of SMEs as economic actors that can be relied on and contribute to the economy of the region.

4.1. External Factors

A. Role of the Government

The role of the government in the development of MSMEs is very strategic because it is related to the regulations and partisanship towards the business community both in the micro, small and medium scale. This is related to legislation, government regulations, ministerial regulations and local regulations that are aimed entirely to protect and empower communities. Regulations require direct government participation and involvement in the form of programs and activities that directly touch the business community. Based on the weaknesses faced by MSME programs the following must be done by the government:

- Capital: continue to disburse People's Business Credit on an ongoing basis with low and affordable interest rates and expand credit schemes in various businesses. Besides, a coaching program is needed to channel and use efficient and effective funds.
- Human Resource Development: Coaching and training programs in various levels of finance, marketing, production and human resources are essential to enhance the skills and competencies of MSMEs in the face of competition.
- Information Technology Development: By facilitating authorized institutions to enhance promotional and marketing activities.
- Institutional: streamline institutions at the central and regional levels in synergy in assisting MSMEs who are experiencing difficulties in marketing. Including the role of local government in supporting MSME activities because the existing institutions are not existent and not effective such as Regional Companies that have not touched MSME activities.

B. Role of State-owned Enterprises/ Private-owned Enterprises

The role of State-owned Enterprises/ Private-owned Enterprises can be related to Corporate Social Responsibility (CSR) which is the obligation for the company to conduct coaching and assistance. This role is related to:

- Soft loans to MSMEs in the form of capital assistance with low interest rates. This program is operationally very helpful because it can be accessed because the burden is lower than the bank’s interest rate. Should State-Owned Enterprises/Private-Owned Enterprises operating in a source area should be distributed in the local area. The existing Partnership regulation should also be followed by a fair and comprehensive distribution so that no more funds are not channeled because of the large number of MSMEs who find it difficult to obtain additional capital.
- Guidance: in the form of the use of funds including the development of domestic and foreign market networks. It also can access MSME in various promotional events such as Bazaars, product exhibition, Expos, and more. Thus this role is more effective to lift SMEs in the competition and development of market networks.
C. The Role of Financial Institutions Banks-Non Banks / Cooperatives / NGOs
The context of this research covers various aspects:

- The Role of Non-Bank Financial Institutions: to be very strategic, moreover the obligation to channel the Bank's funds to MSMEs has not been running properly. The Micro credit program disbursed has many requirements that cannot be met because the MSME is not a bankable business actor. The existence of the Bank of Indonesia policy to bridge this difficulty by forming institutions that handle MSMEs has also not functioned effectively. Thus, the Bank's financial institution is still guided by the criteria of 5 C; of course, the MSME is unlikely to be able to enter the banking system. While non-bank financial institutions are a little easier but still bear relatively high interest expenses, however this is always an option because the requirements are much easier.

- Role of Cooperatives: basically very strategic in coaching members but cooperatives also always experience problems in capital adequacy and business management. Thus cooperatives are also difficult to develop especially in rural areas. Unlike the developed regions which are generally located on Java Island, cooperatives do have advantages in business management. Therefore, the strengthening of Village Unit Cooperative becomes very strategic if it can be done well so that cooperatives can grow and develop properly. On the other hand, the prejudices of the Laws and Regulations have not been clear and equate the cooperative with the business entity even competed with the scale of the business that has been big and advanced, so that the cooperative is increasingly unclear with almost the same effort and difficulty of the problem, it seems that there is the need for guarantees. Whereas the cooperative collection of capital, is a collection of people with all its limitations.

- Role of Non-Governmental Organizations: diminishing in the absence of financing for coaching. The era of NGO crisis emerged because it was involved with government financing, but independent NGOs need high financing sources for operations as well, especially NGOs related to MSME development are almost unknown to us, unlike environmental, political and environmental NGOs, others flourish as they are financed by foreign funds as well as for the interests of political parties.

D. Role of Higher Education
Higher Education has a Tri Dharma which consist of; education, research and community service. This third Dharma should be done with the community including MSMEs which require a touch of research and technology. Limitations of funds used to contribute thoughts carried out activities, for example once a year. Whereas MSMEs need regular and continuous guidance so that they can solve the problem.

4.2. Internal Factors
A. Financial Aspects
From the results of the research described earlier that the loans or soft loans from the State-owned Enterprises given need to be intensified because of the small contribution given to MSMEs. Most MSMEs still use their own capital in their businesses. A given loan stimulus can also increase the performance of business actors to be shift from micro to small and small to medium. This is supported by the small initial capital to build the business. Thus with the guidance of SMEs in the case of accounting computerization which is very urgent to accelerate the accounting system in accordance with the requirements by the government and banking systems. The relatively small sales volume of MSMEs can be encouraged through a wider marketing network at home and abroad. The opening of market networks can increase the profit of MSMEs. This should be the authority of the government to hold it so that the centralization of the market network is to control accurately how the contribution of MSMEs...
nationally in economic growth. From the data presented in the previous section it is clear that the program that is expected by SMEs is the addition of working capital to expand the capacity of the company in the future, in addition to technical and entrepreneurial skills.

B. Marketing Aspects
Marketing aspects are an important function in business activities, more MSMEs are always faced with relatively limited market issues. Limited market coverage both nationally and overseas markets requires a boost from the government and related institutions, especially the use of online media because MSMEs are relatively small using this media, whereas marketing this way has begun to grow in line with the development of information technology. Similarly, cooperation with third parties is still relatively limited because such cooperation is needed to expedite the product distribution channels. Another aspect that is not less important in the context of marketing is how MSME awareness to immediately create and register the brand as an important part for business sustainability. The government should also encourage this effort so that the business undertaken by MSME is no longer done traditionally and conventionally but more professionally and competitively.

C. Production Aspects
Production aspects are associated with several important things namely; production technology, quality and quantity, raw materials and supporting materials. The classic problem faced by MSMEs is the use of simple and manual technology does not even use a machine that is not able to support the expected production volume. Mechanization of at least part of the production process is to achieve a standard production process and in accordance with specified quality standards. The relatively small number of MSMEs have SNIs and only one third have permits from the Ministry of Health and Department of Industry and Commerce is an early indication of the need to rearrange the licensing and quality assurance system that can ensure the sustainability of SMEs in the economy.

D. Human Resources Aspects
The low level of skill of the workers in MSMEs causes the low quality of the product. Therefore it is necessary to have programs and activities on production technology and entrepreneurship. Governments need to encourage skill upgrades in various technical, managerial and entrepreneurial fields through various education programs and trainings, apprenticeships and insight enhancement through benchmarking.

4.3. Supporting Factors

A. Management Information System
The internal and external conditions of MSMEs are not enough to build a strong and robust system in this era of globalization. One of the most important and strategic factors today is the role of the Information Management System in the life of the organization. Information technology that plays a key and central factor must be followed and developed to support business activities in any level at this time. The irony is that without IT (Information technology) a business cannot run. Therefore the use of online media becomes an inevitable necessity again. The use of IT tools can be done easily in various forms of applications and the use of a more sophisticated devices based system.
B. Natural Resources (Raw Materials and Supporting Materials)

As an agrarian area in Riau Province, Indragiri Hilir Regency has so many natural resources. The largest area of coconut plantations in the world, the expansion is in this area but its potential has not yet been fully processed and utilized properly. The low price of copra encourages farmers to sell round coconuts. Whereas the value added if processed properly will produce 3 to 4 times the price of coconut. Efforts by the government to promote coconut as food and industrial raw materials have been done a lot, but have not shown any significant progress. Bilama coconut products can be developed as raw materials of this industry will encourage various economic strikes small, medium and large scale. Other commodities also exist such as; areca nut, palm oil, nipah but they have not been utilized properly. Similarly, rice paddies were once as famous as rice granaries, now still produce but are not developed as before because many of them are converted into oil palm plantations.

The potential of another raw material is sago. Sago is a commodity produced since a long time ago and generally sent to Java Island to be exported abroad. This potential has not been managed optimally so it has not been able to produce value for economic growth. Another big potential is in the fishery sector, both at sea and in the river, causing this area to be able to supply the fish for other areas. Fish production in this area has not been optimally processed in medium and large scale industries. However, production is only developed for the production of salted fish, “terasi / belacan” among others.

5. CONCLUSION AND IMPLICATIONS

Based on internal and external environment analysis (EFAS matrix, IFAS matrix), IE and SWOT matrix analysis at MSME in the Indragiri Hilir Regency, the company can apply a concentration strategy through horizontal integration. The strategy implemented is consolidation. The goal is relatively more defensive, i.e. avoid loss of sales and loss of profit. Companies located in these cells can expand markets, production facilities, and technology through internal and external development. Internal factors that become the company's strength in the marketing strategy of MSME are the quality of products produced, the quality and loyalty of their employees, supporting regulations and marketing networks which have a lot of manpower. While the internal factors become weaker with the biggest scores to the smallest sorted as follows- namely the low purchasing power (poverty rate is still high), the substitution of products into Indragiri Hilir and its geographic location is difficult to travel to. External factors into opportunities with a score from the largest to the smallest in the MSMEs in the Indragiri Hilir regency is sorted as the potential of MSMEs are still large, increasing the population, government policies and the development of information and communication technology.

The SWOT Matrix Model can clearly illustrate how appropriate enterprise marketing strategies are based on strengths and weaknesses held in order to respond to existing opportunities and threats. This matrix analysis will produce four main strategy types namely S-O, W-O, S-T and W-T strategy. The limitation of this research is only done in Indragiri Hilir Regency, Riau Province, Indonesia. Based on SWOT Matrix analysis and marketing strategy can be recommended several things. First, improve the quality and quantity of product production to reach a wider market, this is related to the use of adequate and standardized production technologies. Second, local governments should encourage business actors to develop information technology-based markets to reach such a vast and needed market today.

Third, the effectiveness of the use of CSR funds by conducting a partnership program both in the form of capital assistance and coaching of SMEs from the managerial and entrepreneurial aspects. Fourth, State-owned Enterprises/ Private-owned Enterprises can do
the help of modernization of production equipment in order to produce goods in standard and have high competitiveness. Fifth, the Central Government, Regional and State Owned-Enterprises / Private Owned-Enterprises should encourage and encourage SMEs to use online media in their promotional strategy in accordance with the increasingly dynamic market demands. Sixth, In order to comprehensively develop MSMEs, it is necessary to enlarge capital assistance, increase production skills, entrepreneurial and managerial skills. Eleventh, developing competitive strategy through the development of domestic and foreign market network. To ensure business continuity, a marketing intermediary institution established by the national government is required. Can be formed in the area but connected to a nationally established institution to guarantee the output produced by MSMEs in the form of Regional Enterprise. Furthermore, universities should be able to play a role in the framework of product development and innovation. Partnerships are conducted more to improve capabilities and technology in accordance with market demand. Finally, adding value added to the services offered by avoiding raw goods, but finished goods that can increase the capacity and capability of business actors. The existence of MSMEs in growth position and horizontal strategy should expand market by opening new market network, increasing production capacity to fulfill market demand including the use of the latest technology.

Model of MSME Empowerment in the Indragiri Hilir Regency, Riau Province, Indonesia

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