



Development and Management of SME Industries in the City of Tanjungpinang

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ABSTRACT

Small and Medium Enterprises (SMEs) serve as vehicles that unite, direct, and cultivate the creative, innovative, and entrepreneurial capabilities of the community, especially in Tanjungpinang City. However, the operation of SMEs is not without various challenges, including low productivity due to the quality of human resources, limited production tools, insufficient capital, and inadequate financial management. Small-business activities often face failure or bankruptcy due to the lack of ability to manage finances effectively. SMEs located in industrial areas need knowledge input to develop their businesses. In this regard, the role of the government is crucial in fostering and providing training for SMEs, especially in Tanjungpinang. Training activities in management and financial aspects are expected to assist businesses like "Yan Tenun" in improving the quality and quantity of production and financial management. The service program encompasses understanding business management to financial administration for business owners.

Keywords: Small, and Medium Enterprises; Industry; Development and Management

1. INTRODUCTION

The rapid growth of one or several industries drives the expansion of other industries related to the sector that grew earlier. In the production sector, the inducement mechanism created as a result of the relationship between various industries in providing goods used as raw materials for other industries is divided into two types: backward linkage effect and forward linkage effect. The backward linkage effect refers to the level of stimulation created by the development of an industry on the progress of other industries. Meanwhile, the forward linkage effect is the level of stimulation generated by the first industry for their inputs. The presence of Small and Medium Enterprises (SME) in Indonesia remains resilient and continues to grow despite economic crises (Alyas & Rakib, 2017). SME can address unemployment issues and improve the welfare of the community (Sunariani, Suryadinatha, & Mahaputra, 2017). Additionally, SME can foster creativity in line with efforts to preserve and develop local traditions and culture (Anggraeni, Hardjanto, & Hayat, 2015). However, in practice, the development of SME has not progressed as expected.

The development of locally-based industries is part of local economic development. Although not a new concept, the idea of local economic development and its implementation techniques

continue to evolve. Generally, regional or local economic development is an effort to strengthen the competitiveness of the local economy for regional economic development. The accumulation of these activities will significantly impact the development of the national economic competitiveness. Local Economic Development is fundamentally a process where actors within the community, including government, private sector, and the community, collaborate collectively to create conditions for economic development and growth for better generational outcomes (Ahmed et al., 2023; Fahlevi et al., 2023; Mushtaq et al., 2022). This process aims to create and develop a dynamic entrepreneurial culture, as well as community well-being and business, to improve the quality of life for all within the community (World Bank, 2011).

SME plays a significant role in the economic development of a region, mainly because SME in Indonesia absorbs a considerable amount of resources that, if exploited proportionally, can provide a multiplier effect that drives significant regional development (Djakasaputra et al., 2021; Shah et al., 2023). The multiplier effect from the SME sector primarily comes from the large number of business units in the economic sector and its significant contribution to job creation and income sources.

1.1 Problem Formulation

Based on the background issues above, the problem formulation in this research is as follows:

1. How to identify SME industry players in Tanjungpinang who have competitiveness when developed?
2. What are the problems faced by SME in globalization?
3. Formulating policy recommendations and strategies for the development of locally based SME in Tanjungpinang.

1.2 Research Objectives

1. To identify SME players based on local potential who have competitiveness when developed.
2. To analyze the problems faced by SME in Tanjungpinang currently, both opportunities and threats in facing globalization.
3. To formulate policy recommendations and strategic directions for the development of SME players in Tanjungpinang.

1.3 Expected Results

The expected results of the development and management of SME industries are:

- Identification of competencies in the development of SME industries in Tanjungpinang.
- Availability of strategies for SME industry players in Tanjungpinang.
- Formulation of policies for the development and management of SME industries in Tanjungpinang.

1.4 Research Benefits

Basically, those who benefit from the preparation of this research report are SME industry players, the Tanjungpinang City Government as policy makers, and the general public as well as academics.

2. LITERATURE REVIEW

1. Definition and Objectives of Local Economic Development

Local economic development provides opportunities for local governments, communities, and the private sector to collaborate in enhancing the local economy by creating innovations based on local potentials. This activity focuses on improving competitiveness and fostering sustainable economic growth. The success of the local economic development approach depends on the continuous efforts of the community to enhance the investment climate and business environment, enabling the development of competitiveness, job creation, and income improvement.

Several key principles underlie the Local Economic Development (LED) concept, including:

1. Poverty and unemployment are significant challenges faced by regions; thus, LED strategies should prioritize increasing job opportunities and alleviating poverty.
2. LED should target less privileged communities, marginalized areas, and small businesses, enabling them to actively participate in the local economy.
3. Each region needs to develop its own LED strategy tailored to its specific conditions.
4. LED supports local ownership, community involvement, local leadership, and collaborative decision-making.

5. LED requires the establishment of partnerships among communities, business sectors, private enterprises, and local governments to address shared issues.
6. LED maximizes the utilization of local resources, capabilities, skills, and opportunities to achieve various goals.
7. LED provides flexibility for regions to respond to environmental changes occurring at the local, national, and international levels.

2. Industry

The term "industry" originates from the Latin word "industria," meaning labor or workforce. The term is commonly used broadly to encompass all human activities aimed at fulfilling their needs for the purpose of achieving prosperity. According to Sukirno, the definition of industry is a company engaged in economic activities classified in the secondary sector. These activities include textile factories, assembly plants, and cigarette manufacturing plants. Industry is an economic activity that processes raw materials, raw goods, semi-finished goods, or finished goods to produce items with higher utility (Sadono Sukirno, 1995). In a narrow sense, industry is an economic activity that processes raw materials, raw goods, semi-finished goods, and finished goods into items with higher utility, including industrial design and engineering activities. In general, the concept of industry refers to an effort or activity that processes raw materials or semi-finished goods into finished goods with added value to generate profit (Habiburrahman et al., 2022; Prasetyo et al., 2022). Assembly, repair, and manufacturing are integral parts of the industry. The outcomes of the industry are not limited to goods but also include services.

Small and Medium Enterprises (SMEs) or Small and Medium Industries are terms referring to small businesses with a net worth of up to Rp 200,000,000, excluding land and building assets for business premises, and they operate independently. According to the Presidential Decree of the Republic of Indonesia No. 99 of 1998, small businesses are defined as: "Economic activities of the people that are small in scale, with the majority of them being small-scale businesses, and require protection to prevent unfair business competition".

Criteria for Small Businesses According to Law No. 9 of 1995:

- 1) Having a net worth of up to Rp. 200,000,000 (Two Hundred Million Rupiah), excluding land and building assets.
- 2) Having annual sales of up to Rp. 1,000,000,000 (One Billion Rupiah).
- 3) Owned by Indonesian citizens.
- 4) Being an independent entity, not being a subsidiary or branch of a company that is not owned, controlled, or affiliated directly or indirectly with other Medium or Large Enterprises.
- 5) Taking the form of an individual business, a business entity without legal status, or a business entity with legal status, including Small and Medium Enterprises abbreviated as IKM. It is part of a household business managed simply and still limited in its administration. Its employees are family members, involving relatives and neighbors, and its management is still regulated by one of its family members.

3. Strategy

According to David (2011), strategy is a collective means with long-term goals to be achieved. Business strategy encompasses

geographical expansion, diversification, acquisitions, product development, market penetration, tightening, divestment, liquidation, and joint ventures or joint ventures. Strategy is a potential action that requires top management decisions and significant company resources. So, strategy is an action or activity undertaken by an individual or company to achieve predetermined goals or objectives.

According to Tjiptono (2006), the term "strategy" comes from the Greek language, namely "strategia," which means the art or science of becoming a general. According to Stoner, Freeman, and Gilbert Jr. (2005), the concept of strategy can be defined based on two different perspectives: (1) from the perspective of what an organization intends to do (intends to do), and (2) from the perspective of what the organization eventually does (eventually does). From these definitions, it can be concluded that the understanding of strategy involves the things that a company wants to do to achieve predetermined goals.

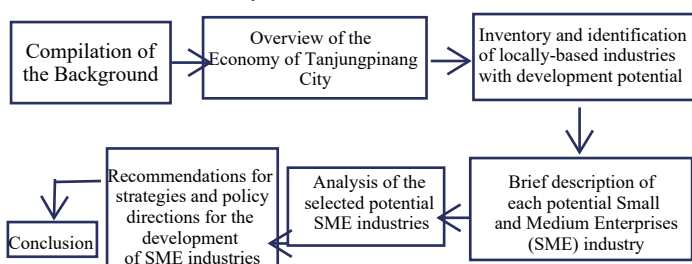
a. Small and Medium Enterprises (SME) Development Strategy

The strategies to be implemented in the effort to develop Small and Medium Enterprises (SME), according to Hetifah Sjaifudin as cited in Fanany (2008), are as follows:

- Financial Capability Strategy, the development of various financial strengthening models for small and medium entrepreneurs has recently shown the increasing commitment of the government. Government efforts materialize through assisting the development of small and medium enterprises through temporary capital participation.
- Marketing Development, in the era of a borderless world where the domestic market is integrated with the international market, there are opportunities and challenges for small and medium enterprises. There are three marketing strategy approaches: improving the access of small and medium enterprises to the market, market protection, and shifting the structure of monopoly markets to competitive ones.
- Human Resources Development, improvement in the formal education system, enhancing the linkage between the education sector and the labor market through internship programs (link and match), and providing initiatives for the growth of research and development centers are expected to contribute to human resources and technology development.

3. RESEARCH METHODOLOGY

The approach employed in the preparation of this document involves data collection in the field through both primary and secondary sources, utilizing interview methods, qualitative (yet measurable) methods, document studies, coordination meetings, and Focus Group Discussions (FGD). The operational framework of this study is as follows:



Types of Data

1. Primary Data, Qualitative and quantitative data obtained directly from its source, namely industry players in Tanjungpinang City and stakeholders related to industrial development (for more details, refer to subsection 3.8).

2. Secondary Data, obtained indirectly from the subject under study to address the research objectives. Qualitative and quantitative data obtained from research results or publications from relevant agencies or offices (OPD) aligned with the research objectives.

Data Collection Technique

This research will utilize several data collection techniques, including:

1. Observation

The observation techniques used in this research are:

a) Participatory Observation, the researcher needs to make an effort to be as close as possible to the informants. This means that the researcher must be 'accepted' and interact naturally for a continuous period (Manzilati, 2017). To avoid language, cultural, or interpretation issues due to cultural and language differences with informants, the research may involve trained local assistants.

b) Mystery Client Technique, this technique involves the observer acting covertly so as not to disturb the natural setting of the studied community (Manzilati, 2017).

2. Questionnaire

A questionnaire is a method in which researchers compile a list of written questions, which is then distributed to respondents to obtain data related to the research activities. The instrument used to collect data in this study is a questionnaire consisting of a list of written statements. Respondents are asked to answer or fill in several details related to their identity (gender, age, education, income, duration of being an industry player in Tanjungpinang City) and provide feedback on the issues they have faced based on their perceptions. The data collected includes both primary and secondary data.

3. In-Depth Interview

In-depth interviews will be conducted using a semi-structured interview technique, which includes main questions, additional questions, and investigative questions. This technique is employed to obtain data that may be challenging to acquire through questionnaires. According to Sarantakos, as cited in Manzilati (2017), interviews have specific characteristics:

1. Individual interviews, meaning one-on-one interviews.
2. Flexible question structure, allowing the addition or reduction of questions as needed.
3. Enables the researcher to ask questions in various ways and expressions while ensuring the achievement of the research objectives.
4. Closed-ended interviews with Likert scale questions to obtain quantitative data.

Population

The population in this study consists of small and medium-sized industries, totaling 174 SMEs distributed across different districts. In Bukit Bestari sub-district, there are 191 SMEs, Tanjungpinang Timur sub-district has 307 SMEs, Tanjungpinang Kota sub-district has 109 SMEs, and Tanjungpinang Barat sub-district has 150 SMEs.

Sample

The sample size will be determined using the Slovin Formula, commonly used in survey research. Given the large population size, this formula helps obtain a representative sample. The Slovin Formula is expressed as follows:

$$n = \frac{N}{1 + Ne^2}$$

Where :

- n = Sample Size
- N = Total Population
- e = Margin of Error

Applying this formula to several populations, a sample of 20 SMEs and 7 Regional Government Agencies (OPD) throughout Tanjungpinang City will be selected.

4. RESULTS AND DISCUSSION

SWOT Analysis

SWOT stands for strengths, weaknesses, opportunities, and threats to a company's internal and external environment. SWOT analysis is a matching tool that helps managers develop effective strategies to maximize strengths and opportunities while minimizing weaknesses and threats (Rangkuti, 2009). Based on the field survey data, the values for the indicators of strengths, weaknesses, opportunities, and threats in the SME industry in Tanjungpinang City were determined. These values can be seen in the table below.

Table 1 : SWOT Analysis of Local Potential-Based Industries in Tanjungpinang

No	STRENGTH	Weight	Value	Weight x Value
1	Availability of raw materials	0,07	80	5,6
2	Strategic business location	0,06	60	3,6
3	Located on main road/provincial road	0,05	60	3,0
4	Has skilled labor	0,07	80	5,6
5	Neat and quality production results	0,06	50	3,0
6	Technological support	0,06	50	3,0
7	Packaging innovation	0,06	50	3,0
8	Product innovation	0,07	50	3,5
	Total Value	0,5		30,3
No	WEAKNESS	Weight	Value	Weight x Value
1	No own product brand	0,08	60	4,8
2	Lack of self-marketing capabilities	0,06	30	1,8
3	Small roads and no parking space	0,02	60	1,2
4	No workshop and showroom	0,1	60	6,0
5	No asset guarantee	0,06	60	3,6
6	Unable to access the internet for transactions	0,06	60	3,6
7	Lack of directional signs and no billboard	0,1	50	5,0
	Total Value	0,5		26,0
	DIFFERENCE IN STRENGTH AND WEAKNESS SCORES			4,3
No	OPPORTUNITY	Weight	Value	Weight x Value

1	Opening of development assistance programs from local government & banking	0,1	40	4,0
2	High growth of local potential-based SMEs	0,08	70	5,6
3	Changes in consumer lifestyles & product trends	0,08	70	5,6
4	Stakeholder awareness	0,07	60	4,2
5	Assistance in business facilities	0,09	50	4,5
6	Can grow and develop into souvenir products	0,08	60	4,8
	Total Value	0,5		28,7
No	THREAT	Weight	Value	Weight x Value
1	Public ignorance about the location of local potential-based SMEs	0,08	70	5,6
2	Lack of government attention to infrastructure development	0,08	40	3,2
3	Consumer reluctance to buy directly from local SME locations	0,08	60	4,8
4	Presence of similar businesses in other regions	0,08	40	3,2
5	Decline in trust from financial institutions	0,08	30	2,4
6	Increase in raw material prices	0,1	70	7,0
	Total Value	0,5		26,2
	DIFFERENCE IN OPPORTUNITY AND THREAT SCORES			4,5

Sumber: Processed Data, 2022

To determine the priorities and the relationship between strategies based on the weighting of SWOT, an interaction of internal-external strategy combinations is conducted. The formulation of these strategies is based on internal factors, strengths and weaknesses, as well as external factors, opportunities, and threats, into the IFAS and EFAS SWOT interaction matrices.

Tabel 2 : IFAS and EFAS Matrix of Local Potential-Based SMEs in Tanjungpinang

	IFAS	(Strenght - S)	(Weakness - W)
EFAS			
(Opportunity - O)		Strategy S-O 30,3 + 28,7 59,	Strategy W-O 26 + 30,75 6,7
(Threat - T)		Strategy S-T 30 + 26,2 56,5	Strategy W-T 26 + 26,2 52,2

Source: Processed Data, 2020

Based on the calculations in Table 2, the result of the score for opportunities and threats (O/T) is 2.5 on the Y-axis = 2.5 > 0, and the score for strengths and weaknesses (S/W) is 2.3 on the X-axis = 2.3 > 0. Therefore, it can be concluded that the position of the development of local potential-based SMEs in Tanjungpinang is in quadrant I. This position is very advantageous, where local potential-based SMEs have opportunities and strengths, allowing them to maximize existing opportunities. In this quadrant position, local potential-based SMEs in Tanjungpinang, supported by the government and stakeholders, should implement strategies that support aggressive growth policies. Strategies are designed to achieve growth (Rangkuti, 2001:43).

Then, based on the values of the IFAS and EFAS matrices, the S-O strategy has the highest value. The S-O strategy aims to drive growth (Rapid Growth Strategy) formulated based on the consideration that Tanjungpinang's local advantage-based SMEs will use their strengths to leverage existing business opportunities by increasing the organization's growth rate faster and improving quality, which is a strength factor to maximize the utilization of all opportunities. The S-O strategy can be translated as a strategy that uses strengths to leverage existing opportunities. This condition is advantageous for the development of local potential-based SMEs in Tanjungpinang because, from the internal factor perspective, its strengths are greater than its weaknesses. Meanwhile, from the external factor perspective, the existing opportunities are much greater than the threats. Therefore, the strategy applied in this condition is to support an aggressive/rapid growth policy (Rapid Growth Strategy).

5. CONCLUSION AND RECOMMENDATIONS

Conclusion

Based on the results of in-depth interviews with SME industry players, it can be concluded that most SME industrial businesses in culinary and craft products are still in the introduction stage. This is characterized by relatively low sales, limited production levels, relatively small competition, a relatively high failure rate, and the need for many modifications to products in testing and development. In the introduction stage of an industry, managerial skills are crucial to progress to the growth stage. SME entrepreneurs need to exert hard work and high patience so that the produced products are accepted by consumers consistently. Suitable strategies for this stage for SME entrepreneurs include rapid screening strategy, slow screening strategy, and rapid penetration strategy.

Recommendations

As the central point of success for SME industrial businesses is Human Resources (entrepreneurs), continuous and sustainable mentoring is highly needed, starting from input processes to sales to consumers. Additionally, there is a need for improvement in SME products based on local potential with quality matching appropriate technology. The establishment of showrooms and workshops as product marketing centers in strategic and busy areas within the city or in districts/cities with high prospects is also necessary.

Therefore, further research related to the formation of SME industrial clusters with upstream and downstream industries in the structure of a locally-based industry is needed.

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