

Implementation of Sustainable Business Strategy Change and Entrepreneurial Capacity Building through SMEs Empowerment

1st Agus Haryono
University of Merdeka,
Malang, Indonesia
agus.haryono@unmer.ac.id

2nd Mujiarto
University of Merdeka,
Malang, Indonesia
mujiarto@unmer.ac.id

3rd Boge Triatmanto
University of Merdeka,
Malang, Indonesia
boge.triatmanto@unmer.ac.id

Abstract—SMEs empowerment in Indonesia faces a lot of obstacles; one of the biggest and most frequent issues is capital. As a matter of fact, reality does not support the previous statement. Education, entrepreneur motivation, business competition, business protection, and empowerment are the issues to be dealt with in the national SMEs empowerment. The purpose of the study was to carry out sustainable development of SMEs through the improvement of the entrepreneurial capacity building where empowerment and change in business strategy become the means. As an addition, the basis for the study was Dajani (2013)'s article about the entrepreneurial empowerment of female migrant workers in the Middle East. The recommendation was to explore the overall impact of entrepreneurship towards public economic growth in detail. The method of analysis was descriptive quantitative and statistical analysis to support the result of the descriptive analysis. Thus, the analysis method used was an analysis of frequency towards 110 respondents of a questionnaire distributed in Malang. The findings showed that a lot of SMEs need some sort of business protection more particularly in the form of association. The result of the quantitative analysis revealed that empowerment towards SMEs of which goal was to increase business capacity had yet shown significant outcome; business strategy became the emphasis to improve business capacity. Therefore, a sustainable business strategy for SMEs in the form of improving entrepreneurial capacity is needed so that their business will last.

I. Keywords; SMEs, Empowerment, Capacity Development, Business Strategy

I. INTRODUCTION

Competent business person with the ability to compete in the regional, national and international business competition is the key to excel in fierce economic competition. Reliable SMEs in terms of quality and quantity is the requirement to meet the target. Creating qualified SMEs should become a priority in small-and-micro entrepreneurship development both in the regional and national level. There ought to be a synergy between policy planning in the national and regional level (district and municipality). In the regional level, the target for economic development should be integrated into the Medium-Term Regional Development Plan in the form of programs, indicator, and measurable targets.

Establishment of policy and synergy between the national development actors namely academics, business person and government are the requirements to accelerate the achievement of SMEs development. The synergy between the actors should be elaborated in the form of Action Plan that meets particular condition and issues each of the actors has. It is expected that each actor has the commitment and clear understanding towards planning and implementation of the programs and activities that aim at accelerating the national development.

Recently, the growth of the economy in nearly all areas in Indonesia is relatively stagnant or even tends to decrease (Statistics Indonesia, 2018). The national industry has yet been interested in developing local economies and like the effect, the establishment of the economic zone has yet been able to result in tracking down effect that encourages the growth of local economies. It surely is related to production, market and SMEs capacity to be able to enter the mass production process chain and involve themselves with big industry.

Production and marketing network is closely related to the smooth running of the industry supply chain that will have an effect on the development of industrial zones. These aspects of the industry supply chain determine how far the relationship between the industry is established. The more extensive the relationship is, the greater the chance of a branch of industry to encourage the development of the local economy. It happens due to the link between industries that will create more entrepreneurs, employment, and utilization of local resources, as well as improve other activities. Based on the findings of the studies conducted since 2010, the development of SMEs is still relatively stagnant, and economic development is dominated by the education sector. The education and tourism sector should be able to stimulate local economies by increasing the number and quality of SMEs.

Therefore, an in-depth study with intensive research is needed to optimize economic improvement through an increase in the capacity of SMEs. The study was conducted

to find a model that increases SME capacity building through the empowerment and change in business strategy.

The result of an optimum increase in the chain of production, marketing, and development of SMEs in the development of the capacity of the main actors and associations of SMEs. The study aimed at developing to SMEs in terms of efficiency of production processes, capital, marketing network simultaneously to form an association that promotes regional economics.

The significance of the study was to develop a model/ program that empowers SMEs using change in business strategy as the basis, in order to establish a model more suitable to the characteristics of the public and local culture. The model was designed in an integrated manner by paying attention to the potentials of local resources, starting from the institutional structure with the ability to create synergy between economic actors. The model/ program was developed within a program that improved the local economies through the synergy of the three pillars of research and development, such as academics, government (urban/rural), and businesses (entrepreneurs) to create a network with stakeholders and other concerned groups.

Based on the programs and activities that have been implemented so far, there are still some weaknesses in terms of planning, implementation, monitoring, and follow-up of the evaluation results. When observed carefully, there has yet been a significant improvement, or integrated management to other development programs, as well as optimum synergy or alliances with all relevant parties or other concerned groups.

The significance of the study can chronologically be elaborated to the following research questions:

1. How to explore important elements suitable for characteristics of the locals and local culture as the bases in the development/ reformulation of SMEs empowerment program/ model more particularly in self-help groups.

2. How to determine SMEs empowerment programs from various productive sectors that meet the characteristics of the public and pay attention to the local wisdom in order to maintain sustainable development of SMEs.

3. How to determine the sustainable change in business strategy supported by the synergy between the economic actors, government, academics, business person and other concerned groups in order to establish independent and sustainable management of SMEs empowerment.

4. How to improve and decide the business atmosphere that meets demographic characteristics of the society in order to create sustainable SMEs empowerment program.

The purpose of the study is to explore important factors suitable to the characteristics of the local and local culture/wisdom as the foundation for development/

reformulation of SMEs empowerment model/ program more particularly in the self-help groups. In addition, it attempts to determining SMEs empowerment programs from various productive sectors that meet the characteristics of the public and pays attention to the local wisdom to ensure sustainable development of SMEs. The following purpose is to determine the sustainable change in business strategy supported by the synergy between the economic actors, government, academics, business person and other concerned groups in order to establish independent and sustainable management of SMEs empowerment. Finally, it aims at improving and selecting business atmosphere that meets demographic characteristics of the society in order to create sustainable SMEs empowerment program.

primary goal was to maximize company value [14]. The amount of the firm describes the investor's view of the company. If the company can provide prosperity to its shareholders, then the public will judge that the company has a high value as reflected by its share price. This study aims to test how much influence intellectual capital to the firm value in a corporate environment, especially manufacturing companies listed on the Indonesia Stock Exchange period 2014-2016 mediated by profitability variables.

II. LITERATURE REVIEW

A. *The concept of SMEs Capacity Development*

Human resource capacity is the ability of an individual or organization to carry out his/her/ its functions and authority in order to achieve his/her/ its goals in an effective and efficient manner. Capacity should be seen as the ability to achieve performance that generates outputs and outcomes. Based on [1], in order to evaluate human resource capacity and quality to carry out a certain function, one should look at an individual level of responsibility and competence. Responsibility can be seen from or is stated in the job description. The job description is a foundation to carry out a particular task well. Without a clear job description, an individual cannot perform his/her job well. On the other hand, indicators of competence are the background of knowledge, training, and skills an individual has. Competence is a characteristic of an individual who has skill, knowledge, and ability to fulfill a particular task [2]. Competence is characteristics that function as bases for an individual to achieve well in his/her job. An employee who does not have sufficient knowledge will encounter various issues resulting in a waste of resource, time and energy. The organization should strive to develop their human resource. Training and development will improve employee's capacity so that they can fulfill their duties effectively and make a plan for their future responsibility. Performance evaluation is pivotal to validate measurement tools, evaluate effects of training, decide promotion or raise in salary and determine the need for training [3].

B. *The concept of SMEs Human Resource Empowerment*

The term personal empowerment to describe correlation with a business consultant and saw it as a strong individual tool for analysis so that they can understand and

direct their personal preference, different opinion, and experience with their clients to change their efforts successfully [4]. No matter what definition used for empowerment, the end goal is to develop performance and potentials of individuals and organizations [5].

The main problems in the field of human resources empowerment is due to the association between the term empowerment and handover of power /authority; however, in business strategy, empowerment is usually seen as a form of involvement of human resources planned by the management with the purpose of commitment and to enhance the contribution of human resources organization [6]. The orientation leads to the individualist instead of collectivist, for example, empowerment is based on each worker or group of workers instead of larger groups such as labor unions. It includes direct involvement in Business Strategy [2]. Financial and representative participation is not part of the agenda, by changing the shape into other forms associated with the involvement of human resources, human resources participation, and democracy in the industrial sector. Therefore, there must be a difference between empowerment initiatives as defined above and initiatives that lead to empowerment [7].

Based on the elaboration, the empowerment of human resources has a crucial role in the performance of an individual and organization; therefore, it is necessary for an effort to improve human resources and creating a culture of empowerment. Improving the ability of human resources is done through training and development or known as human resource development. Creating a culture of empowerment is to create an environment conducive to empowerment [5]. Furthermore, explained the organization that wishes to revive the culture of empowerment should find methods to establish particular systems and processes that do not limit human resources. By concentrating on what behaviors are considered optimal for human resources and what they have done well, management can adapt, develop and change the organizational structure to produce better behavior: human resources begins to devote his/her attention to learn, grow, and thrive; human resources can take care of him/herself; leadership is not only those at the top level; high level of trust between management and human resources as well as between human resources are a must; human resource participation in decision-making is needed; communication either vertically or horizontally should be established; and human resources can overcome conflict with management and come up with effective and efficient solutions.

In Denison [8] model, human resource empowerment is an indicator in the culture of the organization model. It is corroborated with [6] that empowering other people is basically a change in culture. Empowerment will not be effective if there is not an overall change in the culture of the organization [9].

C. The concept of Change in Business Strategy

Competitive intensity is derived from three types of competitive environment namely: pure competition, pure monopoly, and imperfect competition [10]. Perfect competition market is characterized by the following

conditions namely 1) there is no product differentiation; 2) company knowledge are the same; 3) no barrier for entry exists; 4) no hurdle at the exit exists; 5) competition is atomic in nature. In the monopoly, there is no competition because there are only a single seller and unique products to sell, there is no substitution of goods and if the buyer wants to buy a product, the buyer must buy from a single seller. Fierce competition occurs both on the pure competition market, as well as the monopolistic one; in both types of markets, there are a lot of companies that may cause stiff competition, and to win the competition, strong competitive advantage and strategy are needed.

Previous literature suggests that changes in environmental factors of an organization had significant effect on the business carried out by SMEs and control [11][12][13]. The changing factors in organizations, namely competition, technology, new shareholders, new customers, and business performance [14]. Market competition and technological progress have been identified as the main drivers of the change in business strategy [13] [15]. It is based on the idea that an environmental condition is uncertain; employers require accurate management of information to support decision-making and to assist in monitoring the progress of the strategy being implemented. The implementation of change in management is expected to improve the operations of companies in the field of information technology and during the competitive rivalry. Understanding towards cost and performance measurement is the key to survival.

The government and other organizations had an unsuccessful implementation of SMEs empowerment programs such as the ones that built SMEs capacity in the form of character and competence, education, training, skills and mentoring. The reason for the failure was the fact that the program policy was top-down, partial and temporary. The policies should undergo fundamental change especially for the policies where (1) empowerment was closely related to corruption, collusion and nepotism, (2) growth of macro-economic became the focus, (3) it was centralized, (4) it was more caricature in nature, (5) SMEs were positioned as an object, (6) economic profit became orientation of poverty reduction programs, (7) it was sectoral, (8) it was less integrated, and (9) it was not sustainable or put aside environmental factor/ support.

Developing SMEs through empowerment programs of which orientation is to bring added value to the public is called participation-based empowerment. The important facts to develop the participation-based empowerment are as follows:

1. Facility to increase knowledge, skills, and information for SMEs through regular and continuous rural roundtable discussion so that SMEs entrepreneurs can obtain information and valuable experience to maintain their business.
2. Participative mapping facility by the SMEs as the foundation to predict need, problems and human resource potentials,
3. Facility for understanding and partnership between SMEs, the government and private institutions; these three should become partners and agent of change capable of designing and planning SMEs empowerment programs,
4. A facility that allows more female participation in SMEs empowerment activities,

Take advantage of the source of entrepreneurial potentials and sustainable management.

III. METHOD

The research design was descriptive quantitative combined with confirmatory exploration. The variables were adopted from the concept of empowerment (Human Resource Empowerment), improving entrepreneurial capacity, and change in business strategy that may become the foundations for developing competitive and sustainable SMEs management scheme.

The study consisted of two phases and each phase lasted for a one-year research budget. On the first phase, having observed the previous and on-going models of SMEs empowerment described previously, the first year of research was used to explore different models of SMEs empowerment. Empowerment was directed towards entrepreneurs' participation and responsibility to maintain their business.

The second year of the research was devoted to exploring implementation programs of SMEs empowerment, particularly ones that increase entrepreneurial capacity and enable change in business strategies. It was expected that on the second year the researcher developed the suitable model for SMEs empowerment particularly in increasing their capacity through a change of strategy.

A. Data Analysis

The method of analysis was the mixing method that combined descriptive qualitative and quantitative analysis. The descriptive qualitative analysis explained the correlation between the variables based on the respondents' opinions or ideas to describe the on-going SMEs. The population was the self-help public groups established by self-help public organization. The sampling technique used was purposive sampling to enable SMEs capacity building intervention in order to change their business strategies. Besides that, documentation was also used for the data analysis.

IV. RESULT AND DISCUSSION

Table 1 presented the entire means of indicators from all of the variables as follows:

| Variables | Indicators | Mean |
|---------------------------------|-------------------------|-------------|
| Human Resource Empowerment (X1) | Participation | 3.60 |
| | Ininitiative | 4.20 |
| | Commitment | 4.07 |
| | Responsibility | 4.02 |
| | Mean of Variable | 3.86 |
| Business Strategy (Y1) | Change in Product | 3.56 |
| | Change in Service | 3.57 |
| | Change in Distribution | 3.50 |
| | Mean of Variable | 3.57 |
| Capacity Development (Y2) | Entrepreneur Motivation | 3.59 |
| | Experience | 3.91 |
| | Creativity | 3.66 |
| | Intellectual Ability | 3.92 |
| | Emotional Entity | 3.73 |
| | Mean of Variable | 3.65 |

Indicator with the highest mean of the human resource empowerment variable was initiative; the mean is 4.20. The second highest mean of the variable was commitment (4.07). The mean of responsibility was 4.02 and that of participation was 3.60. Based on the analysis, it could be concluded that human resource empowerment program for the members of SMEs in Malang had been implemented well that was indicated by the mean of the variable of 3.86. However, the program still needed some improvement in the form of sustainable empowerment. Considering a more complex business challenge in the future, business actors should be more creative to empower themselves in order to have a sustainable business.

The mean of the business strategy variable was 3.57. It was a moderate score illustrating that the SMEs applied traditional business strategies and had yet thought about developing a sustainable business strategy. It was shown based on the means of each of the indicators of the variable. The mean of the first indicator, change in the product, was 3.56. In general, the indicator was related to providing qualified products, creating new products and the availability of new products to anticipate consumer's need. The mean showed that the SMEs did not take the consumer's need into account when they made a change in their products. It was due to lack of attention towards the development and sustainability of SMEs. The mean of the second indicator, change in service, was 3.57 and that of the third indicator, change in distribution, was also 3.57. It meant SMEs carried out their business solely for the continuation of the business and generating enough money to make ends meet.

The mean of the third variable, capacity building was 3.65 or above 3.5. It meant based on the respondents' perceptions the capacity building of the SMEs had run pretty well. The variable had 5 indicators and the one with the lowest mean was entrepreneur motivation (3.59). It indicated that the motivation of the business actors to have successful business was still lacking. They needed the motivation to keep growing and learning from their mistakes. Special attention should be given to the indicator. The indicator with the second-lowest mean was creativity (3.66). The mean represented that the business actors were hesitant to try something new or create innovations. It was also described in the questionnaire. The indicator with the highest mean was the intellectual ability (3.92) followed by experience (3.91). The respondents thought that experience and ability to run business were a pivotal aspect of the business. Based on the analysis, the government of Malang should encourage business actors. They should conduct training more particularly ones related to motivation and creativity. Such training would increase business actors' motivation. The government may invite academics and successful business actors to participate in the training.

V. CONCLUSION AND SUGGESTION

A. Conclusion

The participation of all parties in the SMEs empowerment programs of which aim is for the SMEs to have sustainable performance still needs some improvement. It can be seen from the perceptions of the business persons towards empowerment. The actors involved in the case are the regional government, academics, and SMEs in Malang.

Thus optimizing the empowerment of SMEs can be more effective.

The business actors' understanding of business strategy is still relatively low. It is represented in the perceptions of the business actors towards the business strategy they implemented. It means that the small businesses have yet implemented their business strategies maximumly especially one related to product distribution, service to consumers and product renewal. It is very likely for business actors to improve their business strategies based on the development of the business capacity.

Based on the respondents' perceptions towards an increase in an entrepreneurial capacity, it is found out that the on-going program that aims at improving the business actors' capacity has yet been optimum particularly one related to entrepreneurial motivation. It means that entrepreneur as a profession is the last alternative for a person to make a living; when an entrepreneur is given a choice being an entrepreneur and a professional, he/she will prefer to be a professional. The role of the third party in the empowerment of entrepreneurs is still needed, especially in terms of the development of a business strategy to achieve SMEs with sustainable performance.

Experience is an important aspect for new entrepreneurs; the respondents believe that in general, they have had sufficient experience. They are certain about their experience, although there are still in doubt about their experience in the current business world. In conclusion, the experience is the requirement to have sustainable SMEs.

B. Suggestions

During the implementation of the SMEs empowerment program, it is expected that the government of Malang is more proactive in empowering the human resources working for the SMEs. One method of the SMEs empowerment is to establish business associations. To be more effective, members of the association should be people having a similar business. Communication among business persons can be developed more effectively by the establishment of a peer group.

Database for a business person should be updated continuously to facilitate business empowerment programs as well as to detect whether a particular business can last or not. Moreover, accurate data can be used to increase the entrepreneurship capacity through training that improves business strategy. Entrepreneurship motivation can be optimized further through brainstorming with successful

entrepreneurs. The comparative study can be conducted both in and outside.

REFERENCES

- [1] T. A. Awad and S. E. Alhashemi, "Assesing the effect of interpersonal communications on employees' commitment and satisfaction," *Int. J. Islam. Middle East. Financ. Manag.*, vol. 5, no. 2, pp. 134–156, 2012.
- [2] A. Fischer and A. McKee, "A question of capacities? Community resilience and empowerment between assets, abilities and relationships," *J. Rural Stud.*, vol. 54, pp. 187–197, 2017.
- [3] G. Plimmer and S. Blumenfeld, "Trade union delegate leadership and membership commitment: A cross-sectional analysis," *Leadersh. Organ. Dev. J.*, vol. 33, no. 8, pp. 750–762, 2012.
- [4] S. Mahmud, N. M. Shah, and S. Becker, "Measurement of Women's Empowerment in Rural Bangladesh," *World Dev.*, vol. 40, no. 3, pp. 610–619, 2012.
- [5] Y. F. Jarrar and M. Zairi, "Employee empowerment – a UK survey of trends and best practices," *Manag. Audit. J.*, vol. 17, no. 5, pp. 266–271, 2002.
- [6] S. Kantabutra and P. Rungruang, "Perceived vision - based leadership effects on staff satisfaction and commitment at a Thai energy provider," *Asia-Pacific J. Bus. Adm.*, vol. 5, no. 2, pp. 157–178, 2013.
- [7] B. Triatmanto, H. Respati, and E. Rachyuningsih, "Accelerating The Achievement Of Participatory Rural Appraisal Based Mdgs Through Empowerment Of Human Resources," *IOSR J. Bus. Manag.*, vol. 16, no. 11, pp. 38–44, 2014.
- [8] U. Kanjuruhan et al., "Organizational Culture and Work Commitment Mediate the Islamic Work Ethos on," vol. 17, no. 5, pp. 1–9, 2018.
- [9] I. Polnaya, N. Nirwanto, and B. Triatmanto, "The evaluation of lecturer performance through soft skills, organizational culture and compensation on Private University of Ambon," *Acad. Strateg. Manag. J.*, vol. 17, no. 2, pp. 1–9, 2018.
- [10] R. Fontinha, M. José Chambel, and N. De Cuyper, "HR attributions and the dual commitment of outsourced IT workers," *Pers. Rev.*, vol. 41, no. 6, pp. 832–848, 2012.
- [11] A. Baines and K. Langfield-Smith, "Antecedents to management accounting change: A structural equation approach," *Accounting, Organ. Soc.*, vol. 28, no. 7–8, pp. 675–698, 2003.
- [12] Z. H. Å, "SECTION 3 . General issues in management Predicting change in management accounting systems: a contingent approach," vol. 6, no. 2, 2008.
- [13] J. Bisbe, J. M. Batista-Foguet, and R. Chenhall, "Defining management accounting constructs: A methodological note on the risks of conceptual misspecification," *Accounting, Organ. Soc.*, vol. 32, no. 7–8, pp. 789–820, 2007.
- [14] H. Chin-Fu, "A contingency theoretical model of manufacturing strategy," *Int. J. Oper. Prod. Manag.*, vol. 16, no. 5, pp. 74–98, 1996.
- [15] G. Abrahamsson and J. Gerdin, "Exploiting institutional contradictions," 2006.