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ICORE 2013**
"Enhancing The Service Sector"

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Proceedings of
**The 2nd International Conference
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**INCLUSIVE CYBER : COMMUNICATION NETWORK TO ACCELERATE
INFORMATIONS OF COCOA AGRIBUSINESS BY COCOA SUSTAINABILITY
PROGRAM**

Siti Nurjanah¹ , Vitalia Putri Asheri¹,

ABSTRACT

Cocoa is one of the commodities trading which have the opportunity to be developed in order to increase foreign exchange and cocoa farmer's earnings. Indonesian cocoa production significantly increased, but the quality and productivity are very low. They are less fermented, not quite dry, and heterogenic size side. It's also high bark content, high acidity, very varied and inconsistent taste. This is reflected in the price of cocoa beans which is relatively low and charged a discounted price compared to the price of similar products from the other producing countries. Based on these facts, the strategy should be focused on is how to improve the quality of cocoa beans that have been dried for export. In addition, cocoa productivity must be increased so that a strategic step in the creation of a superior quality cocoa was worth it considering the production is high. The knowledge and skills advance of farmers is one of the keys to success and sustainability of the cocoa plantation development in a particular region of central production region. Inclusive cyber as a communication network to accelerate the entry of the latest information in the agribusiness system cocoa farmers. The system will be organized by one of the programs of the national movement by the government's cocoa, Cocoa Sustainability Program (CSP) in order to develop a sustainable cocoa. Inclusive cyber-extension consists of agricultural extension to cocoa farmers that not only well known the technical knowledge or agronomy, but more widely supported by all part as senior high school students, professors, researchers, entrepreneurs, heads of village or the rural. Thus, the information and the coaching process will be easier delivered in accordance with the problems that are happening or needs of cocoa farmers themselves.

Keywords: dried cocoa beans, fermented, inclusive cyber, farmers

1. INTRODUCTION

Cocoa is one of the plantation commodities which is prospective in national and have big chance to improve welfare of the peoples because it is almost cultivated by smallholders (over 94.01%. In 2010, the area of cocoa has reached 1,650,621 ha with the production of it is 837,918 tons and has distributed about 32 provinces. Cocoa is one of the plantation commodities as the country foreign exchange earner, source of farmers' income, job creation of farmers, encouraging develop of agribusiness and agro-industry, regional development and environmental conservation (Dirjenbun, 2012). In addition, the position of the national cocoa agribusiness at this global period as the third country's largest cocoa producer after Pantai Gading and Ghana. In fact, the cocoa plantations in Indonesia has reached rapid development over the past 20 years ago and in 2002 area of Indonesian cocoa plantation was 914,051 hectares.

Indonesia as a largest country of cocoa producer after Pantai Gading. However, due to technical problems that made national cocoa production decreases and caused Ghana back to the second largest world largest producer of cocoa in 2003. The low production and quality is causing domestic price of cocoa beans which is a form of cocoa exports suffered substantial discounts compared to the two exporting countries (Ivory Coast and Ghana), reaching 15% (Ministry of Industry, 2007). Cutting the price of cocoa show that Indonesian cocoa still have low competitiveness on the international market. The reason for cutting the selling price is based on consumers in Europe, the quality of Indonesian cocoa undervalued because they contain high acidity, low flavor precursor compounds, and low levels of fat, and have a flavor and aroma that is less palatable. This situation causes that Indonesian cocoa exports so far only in the dry beans. High production or the presence of comparative advantage can support the Indonesian cocoa be the best and biggest production so the national capital for the industry to produce processed cocoa products like chocolate, cocoa powder, etc. Which can be sent to the international market with a higher price.

Due to the quality of the still unfermented, the world's consumers are less interested in national chocolate, which makes what they are buying cocoa Indonesia in the form of raw beans. In fact, Indonesian cocoa actually has more advantages that is not easily melted than Pantai Gading or Ghana's cocoa, making it suitable for compounding (blending), but when it is done fermenting. Fermentation of cocoa beans meant to cultivate the taste, aroma and color of a delicious and delightful that can increase the selling price. Fermented cocoa beans showed little crumb texture, color and taste of cocoa brown felt.

The problem faced by the farmers at this moment is to do the fermentation required, it need more budget. The fermentation process itself spent time about five days, which means that within five days the farmers are forced to delay the receipt of the sale of the cocoa harvest. Besides the issue of fermentation on a technical level, the outbreak of winches fruit pests Cocoa (PBK) is also a trigger low productivity and also lead to displacement Indonesia's position be the second largest producer of cocoa in the world in 2003.

In general, the development of cocoa acreage in Indonesia from 1967 until 2009 has increase, with the growth rate 13:36%. Significant increase occurred in the area of cocoa poor plantations (Agricultural Outlook, 2010). These data show that the national cocoa production can be increased along with the increase in the total area with the high motivation condition cocoa farmers to continue improve their productivity. In fact, it is opposite, according to statistics macro plantation commodities in 2010, during the period from 2003 to 2009, the development of cocoa plantation poor productivity had very volatile and has a tendency to decrease with an average of 4.31% per year.

This Circumstances indicate the lack of knowledge and skills of farmers in an effort to increase productivity. In fact, more than 90%, cocoa on farm agribusiness run by farmers, so that farmers may be considered if the position of the national cocoa agribusiness competitiveness was slow to superior cocoa producers in other countries. Low production in spite of the expansion of the land would still lead to decreased productivity, in addition, the lack of government support in access to capital for agri-business farmers will increasingly hinder cocoa has a competitive advantage and continue to have a discounted price in the international market.

Based on the above issues, it need transformation in the form of coaching on current condition of cocoa to farmers that they are the dominant actors in the Indonesian cocoa agribusiness. All information about cocoa will be included in a communications network which provided by agricultural extension workers as well as the companion of farmers in accessing information. Farmers will be assisted to improve their knowledge and skills, knowing the results of the latest research and technologies used, and will be assisted in accessing funding to produce fermented cocoa beans.

This paper aims to reveal the problems of cocoa agribusiness in competitiveness of Indonesian cocoa from upstream to downstream, reveal reason the low selling price of cocoa in the world market level, provide alternative solutions of agribusiness competitiveness which start from farm level. In addition, this study also is expected to help farmers keep abreast of the latest cacao agribusiness including knowing the strategies that have been formulated by researchers and governments. Farmers can quickly access information about the on farm of cocoa farming technically, technology should be used, as well as the selling price, and the demand of the world market. Thus, farmers know the technical shortcomings and solutions to improve productivity and quality.

2. MATERIALS AND METHOD

The research was conducted based on a review of previous studies as well as studies on cocoa experts and supported by the latest research literature. The activities include collection and processing of data. Research design uses descriptive method to search the facts with proper interpretation of a group of people, an object, a set of conditions, a system of thought, or events related to the topic. Descriptive study community issues or organizations, including the relationship of the activities, attitudes, perspectives, and processes that are applicable and the effects of the phenomenon. Purpose of this descriptive method is to create a description, picture, painting in a systematic, factual, and accurate information on the facts, attributes, and relationships among phenomena under investigation.

3. RESULTS AND DISCUSSION

CSP or Cocoa Sustainability Program is a partnership forum between the government, private sector and all the supporters of the coordinating cocoa. Cocoa development activities in the field, to exchange experiences and share information. CSP's mission is to coordinate the development and transfer of technology cocoa cultivation; empowerment and strengthening of peasant farmers; support sustainability and benefit of all parties' cocoa through the identification, prioritization, development, funding and coordinating various integrated programs for short and long term needs. CSP Forum is open to the industry and the national and international cocoa trade, regional governments, research institutions, public sector organizations, suppliers of agricultural inputs, international donors, NGOs, farmers, producer organizations, and other industry supporters. Until now active partners CSP are: ACDI / Voca Indonesia Australian Centre for International Research (ACIAR) ASKINDO BPTP South Sulawesi Department of Cooperatives and SMEs, South Sulawesi Office of Industry and Trade of South Sulawesi South Sulawesi Plantation Office Cocoa Reform Movement (GPK) West Sulawesi International Finance Corporation (IFC) PT. Mars Symbioscience Indonesia (Sulawesi / Sulbar / Sultra / Flores / Papua) PUSLITKOKA Jember LED

Swiscontact NTT (Flores), University of Hasanuddin, VECO-Indonesia (Flores / Sulawesi), Mercy Corps (Ambon), CSP tried to encourage the development of cocoa production and quality by organizing various programs to increase production and quality of cocoa to farmers and farmer groups in the CSP partnership. The Programs are Research and Technological Development activities, Farmers Assistance Activities and Technology Transfer, and Farmer Empowerment & Strengthening Activities Farmers.

Technology research and development activities are coordinated by the Research Center, Coffee and Cocoa (PUSLITKOKA), where located in Jember. This operational Committee, establishes programs that includes, pests and diseases, control integrated, Rehabilitation cocoa, cocoa breeding and selection, enhance the quality of cocoa, cocoa farmers Socioeconomic. Farmers development activities and Technology Transfer (Askindo) and Mars Symbioscience. This program designed by the Technology Transfer Committee: First, This facilitating cocoa farmers in the field, research activities, undertaken either individually or together will be informed in the regular quarterly meetings so that progress can be monitored either by another committee and management team. In order to prepare and strengthen the ability of farmers, facilitators are required to attend training whose trainers are reliable in the field. Second, Lobbying industry and donors to sponsor additional programs, Third, Transferring package of good farm management techniques to farmers.

Beside CSP provide technical guidance in addition on empowering and strengthening program technical assistance, CSP also undertake programs to empower farmers and strengthening farmers groups, aware that farmers face on-farm constraints. And off-farm constraints significantly become mayor affect the low income farmers. The lack of knowledge on post-harvest handling processes affecting the poor quality of seeds produced, and its impact to the selling price low seed. It causes the farmer have less priority to get credit lack of market information, and lack of confidence in the banks to the farmers so that cocoa farmers is not a top priority to get the credit. In response to these problems CSP design programs aimed at empowerment; Provide technical assistance on farmer empowerment and strengthening of farmer groups, improving farmers' access to markets and institutions, Improve the ability of farmers on post-harvest handling, improve monetary business skills of farmer groups. Activities or programs that run CSP requires extensive information and support each other to facilitate integrated CSP program, when described by the subsystem in agribusiness cocoa hence the need for access to complete information for support the increasing of cocoa production and quality required.

Subsystem Upstream

This inability makes 70 tree seedlings for 3 years, coupled with as many as 235 million entries for rejuvenation programs. One key of GERNAS program is the provision of planting material GERNAS healthy and high quality in a timely and procurement. Plant source procurement is enormous logistical challenges and the need to coordinate specifically between the Ministry of Agriculture with the Director General of Plantation Coffee and Cocoa Research Center (Puslitkoka), the entire Department of Plantations relevant provincial, and private parties are able to help.

Subsystem Onfarm

Engineering the culture of cocoa is good and right to produce and the quality of cocoa production so as to achieve the maximum standards of certified cocoa, both nationally and internationally. Pest control techniques, one of the problems is the commodity of cocoa pests and diseases that reduce yields. Downstream subsystem Post-harvest processing techniques needed by farmers to maintain the quality and add value to cocoa after the harvesting process. Indonesia cocoa processed more heavily marketed in the form of dry beans while adding value if done the fermentation process the sale price received will be higher. Indonesia has some of the cocoa processing industry, but cocoa processed products marketed are much less when compared to raw cocoa. low quality of cocoa also affect demand in the domestic Indonesian cocoa, if Indonesia has achieved the best quality raw cocoa demand both nationally and internationally will increase with the increasing competitiveness of comparative and competitive cocoa.

Supporting Subsystem

GERNAS program has planned to build for new research stations in Sulawesi and seven field laboratories plan the four sub-stations wake of new research in Sulawesi and seven field laboratories in east Indonesia. It's build a sustain cocoa industry. Its need best technology solution to solve practice and technically farmer's problems. This solutions should well package for increase the farmer's trust. CSP also develop integrated management information system which could receive, process, analyze and distributed data about satellite, weather chance, market information, and technical needs, geographic information system (GIS) is the component from MIS and has able to map spatial distribution of cocoa production area. It's including land use, trees ages and condition, protection trees, pest and diseases rates and also location of cocoa farmer community. GIS is kind of dynamic and continuous data.

Wijekoon et al. (2009) said that cyber extension is an agriculture information mechanism by cyber area, an imaginary room which is computer interconnected linkage by communications tool. Indonesian agriculture developer satisfied less of information technology that use optimally to increase farmer's market accessibility. It is one of the weakness of knowledge system.

Cyber extension can be implemented to bring knowledge from the research or institutes development, and assessment with disseminator innovation (extension), educators, farmers, and other stakeholders groups each have the need of type and different forms of information so it can practiced synergistically and complementary.

Inclusive cyber is a communications network made up of all stakeholders will transform the present conditions of cocoa farmers. Farmers need information relating to the strategy of increasing production, farmers need the latest information of cocoa sale price on the international market, farmers need information on how to control pests and diseases of cocoa, and various other aspects of the cultivation of cocoa, including alternative funding to finance cocoa fermentation program. Agricultural extension here as the party that will assist farmers in transform the information. Agricultural extension here made up of all segments of society who have the attention to the fate of Indonesian cocoa particularly cocoa farmers' welfare. Students, professors, businessmen, village officials, researchers, and others can provide guided directly to farmers.

Inclusive cyber is one of wistful empowerment Cacao information center (CIC) where the role and function of the CIC like CSP. The difference is that CSP is at the center, while CIC is a direct form of CSP close to cocoa farmers. Expected da no longer inequality information that farmers should

be able to access and then apply it. Application of information that would be difficult for farmers without guidance and counseling. Therefore, cyber inclusive facilitators who will nurture cocoa farmers in the acceleration of information carried by Cocoa Sustainability its central program. Transformation pricing information, weather, market demand, input prices, fertilizer, and other information in the agribusiness cocoa will help farmers know their weaknesses so far in cocoa cultivation.



Figure 2; Flow distribute JARKOM (information networks) in cocoa agribusiness cocoa farmers

4. CONCLUSION

INCLUSIVE CYBER need to be implemented to bring together research institutes, development, and study the disseminator of innovation (extension), educators, farmers, and other stakeholder groups, each of which has a need for the type and form of different information, so it can play a synergistic and complementary. The communication network system innovation through inclusive national cyber cocoa, cacao information center is the center of activity-based information access applications of information technology that bridges between the central source of information to local stakeholders as well as acting as a guide system. in addition to facilitating the users and local stakeholders performance access agricultural information, Cocoa Information Center may also serve as a collector of information (indigenous knowledge) from the locals, through CIC collect the information in sub-district level as well as information materials to facilitate an extension field (field facilitator) who located in each village.

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THE EFFECT OF EXPORT MARKET ORIENTATION ON EXPORT PERFORMANCE: EMPIRICAL EVIDENCE FROM THE MANUFACTURING SMALL AND MEDIUM ENTERPRISES

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Abstract

It is widely accepted that market orientation is associated with superior firm performance. However, studies have not adequately accounted for the effect of export market orientation on the firm's export performance. Similarly, there is limited study on export performance of small and medium enterprises (SMEs) in Malaysia. These SMEs are facing a lot of challenges in accomplishing superior growth in performance especially in the international markets. Thus, the objective of this research is to determine if there is significant relationship between export market orientation (EMO) and export performance of manufacturing small and medium enterprises (SMEs) in Malaysia. Quantitative survey method was employed and data were collected from 201 export SMEs registered with the Federation of Malaysian Manufacturers. Descriptive statistics were reported, followed by reliability analysis, factor analysis, and hypothesis testing using multiple regressions. The finding suggests that there is significant relationship between EMO and export performance of manufacturing SMEs. The finding also emphasizes the importance of developing EMO among the owner/managers of manufacturing SMEs for their success. Those owner/managers that adopt EMO activities in their firms would gain in terms of competitive advantage over their rivals and reap higher export performance. SME owner/managers could also anticipate future threats and seek out opportunities for further expansions in the international markets. The study limitations, managerial and theoretical implications are discussed as well as a number of directions for further research.

Keywords: Export market orientation, export performance, manufacturing SMEs

1. Introduction

There have been many studies that examined the relationship between market orientation and performance (eg. Jaworsky & Kohli, 1993; Narver & Slater, 1990; Pelham, 2000), and most have supported the notion that market orientation is associated with superior firm performance. However, research on the international market context is still limited, and studies have not adequately accounted for the effect of market orientation on the firm's export performance. The rapid growth of international trade have made it imperative for firms, especially for small and medium sized enterprises (SMEs), to seek expansion opportunities, and the application of market orientation in the export context has become increasingly crucial for the firms' survival and success in international markets (Diamantopoulos et al, 2000; Murray et al, 2007). Moreover, it is

critical for those firms to develop and market their goods and services that are valued by customers in export markets (Narver & Slater, 1990; Murray, Gao & Kotabe, 2011). Though those limited studies have demonstrated that market orientation in the export context (export market orientation) can be used as a key strategy to achieve higher export performance (Cadogan et al, 2009; Chung, 2012), mixed results concerning this relationship are still being reported. Some studies reveal a significant direct effect of export market orientation on export performance (Kwon & Hu, 2000; Kropp et al, 2006), while others report both significant and non-significant results in their research investigations (Cadogan et al, 2002; Akyol & Akehurst, 2003). In addition understanding of the export market orientation and export performance relationship within the SMEs has been scanty. This is surprising in view of the fact that SMEs account for the majority of the business establishment, employing huge number of working force, and contribute significantly to nations' gross domestic product (GDP) (Idar & Mahmood, 2011). These SMEs are also facing a lot of challenges in accomplishing superior growth in performance especially in the international markets (Muhammad et al, 2010; Hilmi & Ramayah, 2008). Given the importance of this sector, it is the aim of this study to investigate this research gap. Specifically, the study's objective is to determine whether significant relationship exists between export market orientation and export performance of SMEs in Malaysia.

2. Literature Review

Marketing concept has been the foundation of many studies and practices for ages. Marketing concept is defined as a corporate state of mind that insists the integration and coordination of all marketing activities, which in turn are molded with other corporate functions to produce maximum long range corporate profits (Felton, 1959). From the marketing theory, market orientation concept was introduced by Kohli and Jaworski (1990) and Narver and Slater (1990) based on the organization behavior. No matter which stream, market orientation concept has emerged as an important determinant of the organization's performance (Akyol & Akehurst, 2003; Cadogan, Diamantopoulos, & Siguaw 2002; Dodd, 2005). Kohli and Jaworski's (1990) work give strong emphasis on the ongoing behavioral elements that consist of market intelligence generation, market intelligence dissemination, and market information responsiveness. Market intelligence generation involves generation of information pertaining to the customers' needs and preferences which is inclusive of exogenous analysis that changes those needs and preferences. Market intelligence dissemination refers to sharing the market intelligence gathered about the current and future customers needs within an organization. Market information responsiveness involves action taken in response of the information generated and disseminated. However, Cadogan et al. (2002) coined the Kohli and Jaworski (1990) market orientation concept into the export settings and named it export market orientation (EMO). Cadogan et al. (2002) explained that EMO activities can be termed as firms collection of information pertaining their export operation, disseminating that information within firm especially to the decision makers, and implementing and making responses that persuade the export customers, develop competitive advantage against their competitors, taking advantage or avoiding extraneous export market factors limiting the firm's ability to provide superior value for the export customers. It is posited that SMEs that exercise export market orientation in their business settings will more likely generate information about their customer's needs and preferences. A better understanding of the customer needs and preferences for SMEs could substantiate their export performances by manipulating the information gathered and from various strategies to attract their potential customers in the international markets (Cadogan, Kuivalainen, & Sundqvist, 2009). Many studies have found

significant relationship between export market orientation and firms' export performances (Akyol & Akehurst, 2003; Cadogan, Diamantopoulos, & De Mortanges, 1999; Cadogan, et al., 2002; Cadogan, et al., 2009; Dodd, 2005; French, 2006; Miocevic & Crnjak-Karanovic, 2012).

The adoption of export market orientation behavior in their export operations would facilitate firms to attain superior export performance (Cadogan et al., 2002). Firms should put in more effort to adopt EMO behavior in order to remain competitive and perform better than their competitors. Firms could also predict the current and future needs and wants of the customers and match solutions to it thereby putting their firms in a better position against their competitors and achieve better export performances (Cadogan, et al., 2002; Dickinson, Herbst, O'Shaughnessy, 1986). Past studies have also found a positive link between the gathering of marketing information (export market orientation activity) and firms' export performances (Hart, Smith, Sparks & Tzokas, 1999; Rose & Shoham, 2000; Yeoh, 2000). Cadogan et al. (2002) suggested that export market orientation have impact on broad area of organizational performance such as return on asset (ROA), profitability, market share and sales growth. However, there are also debates that in certain situation and the types of firms, market orientation is not so important especially for the exporters (Cadogan, Cui & Li, 2003; Rose & Shoham, 2002). Market oriented behavior might not be beneficial in the domestic perspective and could result in bad performance (Appiah-Adu, 1998; Lukas & Ferell, 2000; Gray, Greenley, Matear & Matheson, 1999). Similarly, in the exporting perspective if too much emphasis is given on the EMO activities, this could lead to increase of the firms' costs and sometimes it may outweigh the benefits received by the firms (Dodd, 2005). There are also studies that found that there is no direct relationship between export market orientation and firms export performance (Kwon & Hu, 2000; Kropp, Lindsay, & Shoham, 2006).

As highlighted in the literature, export market orientation could help firms to achieve higher export performance, and therefore it is important to determine the relationship between EMO activities and export performance. This notion also coincides with the call for more research on how EMO influences firms export performance (Murray et al., 2007). According to Cadogan et al. (2009) there are many challenges and opportunities in developing and understanding the consequences EMO in the exporting firms that need further exploration. Thus more studies are needed to measure the competitiveness of Malaysian SMEs in facing the global challenges in terms of export performance (Muhammad, Char, Yasoar & Hassan 2010). Based on the arguments above the following hypothesis is proposed.

H1: There is a significant relationship between export market orientation and export performance of SMEs.

3. Theoretical Framework

Figure 1 below illustrates the proposed model that hypothesized the relationships between export market orientation and export performance.

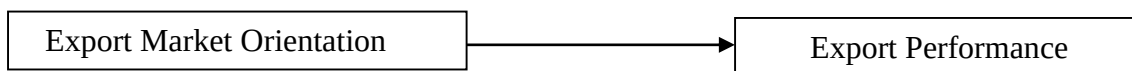


Figure 1: EMO-export performance relationship

The proposed framework is supported by the resource-based theory which provides a foundation for the exploration of export market orientation and the relative effect on export performance. The theory seeks to identify factors that explain why firms are able to gain and sustain a competitive advantage. The theory asserts that a firm's performance is mainly driven by a unique set of firm resources that are difficult to imitate, rare and valuable. As long as competitors are unable to buy or imitate or substitute the resources controlled by a firm, these resources will continue to be a source of competitive advantage (Barney, 1997). Export market orientation activities are considered as rare and inimitable marketing capabilities that are built by the firms over time and these cannot be bought or obtained easily. If these tangible and intangible resources are managed efficiently and effectively, this could result of them enjoying superior export performance. Firms that apply EMO behavior in their firms will generate more information about their surrounding, and hence deploy appropriate export market strategies to suit certain target market in contrast with their competitors. Consequently, a better implementation of the export market orientation means that firms can derive more benefits from these strategies.

3. Research Methodology

3.1 Sample and data collection

This study employed a quantitative research design using a survey method. The target population was drawn from the Federation of Malaysian Manufacturers (FMM) directory of manufacturing SMEs. From the listing, only firms which fulfilled the following criteria; (a) manufacturing firms with an annual sales turnover of between RM250,000 and less than RM25 million, or (b) manufacturing firms with fulltime employees ranging from 5 to less than 150, and (c) engaged in the exporting activity, were chosen. A total of 779 SMEs made up the target population. Based on Krejcie and Morgan (1970), a sample size of 260 was determined, and due to response rates of between 20 to 25 percent for a mail survey, the number of questionnaires sent should be four or five times than the intended sample size. A questionnaire accompanied by a cover letter and a postage-paid return envelope was mailed to the owner/manager of each firm. Owner/managers were targeted in this study because they were involved in the overall running of the businesses, and their views often represent the views of the entire firm. Of the 779 questionnaires originally mailed, a total of 233 were received, yielding a response of 29 percent. However, 11 questionnaires were removed because they were incomplete and 21 more questionnaires were deleted during the outlier detection process, giving an overall 201 usable questionnaires for further analysis. There is also an issue of non-response bias which is pertinent to a survey method of data collection. Non response bias exists when there are significant differences between the answers of those who responded and those who do not respond. To test for non response bias, the early respondents were compared with late respondents as suggested by Armstrong and Everton (1977). No significant differences were found in the mean responses for any of the constructs in the study, suggesting that the likelihood of non response bias was negligible.

3.2 Measures

The scales for export market orientation and performance measures had already been developed and tested in multiple research settings. The export market orientation consisting of thirteen items was measured using the seven-point Likert type scale proposed and tested by Cadogan et al., (1999). This measurement was selected because the unidimensional scale is short and it has been shown to possess valid psychometric measure properties. This study also measured export performance with four items; sales volume, profitability, market share, and new markets. Specifically, the owner/managers were asked to rate their export performance on a seven point Likert type rating scale. Despite its limitations, the subjective measures of export performance were employed because small firms are often unwilling to disclose objective performance measures and subjective measures of performance are correlated with the objective measures of performance (Dess & Robinson, 1984).

3.3 Reliability and validity

The instruments in this study were developed from prior research but some of the questions used were slightly modified to make them more relevant to the purpose of the study. Thus, a reliability test was conducted to determine the internal consistency of the measures used. Table 1 below shows all the variables have Cronbach Alpha values of more than 0.7 which is higher than that recommended by Nunnally and Bernstein (1994).

Table 1

Reliability scores for variables

Variable	No. of items	Alpha value
Export market orientation	13	.87
Export performance	4	.74

The variables in this study were validated through factor analysis. Before performing the analysis, the suitability of the data was assessed through two tests; Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) and Bartlett's Test of Sphericity. The KMO has to be more than 0.50 and Bartlett's Test of Sphericity has to be significant. Tables 2 and 3 show the KMO value between 0.755 and 0.856; the Bartlett's Test of Sphericity was also significant at $p < 0.001$. The results support the factorability of the data. For factor analyses, principle component analysis and Varimax rotation were performed. It was suggested that items that had factor loadings lower than 0.50 should be eliminated (Hair et al., 2011). The varimax rotated principle component factor analysis applied has resulted in single factor loading in each of the two constructs; export market orientation and export performance that explained 79.286 percent and 58.118 percent of the variance, respectively. Only factors with a loading value of 0.50 and above were considered, and therefore no items were deleted.

Table 2

Factor Analysis - Export Market Orientation

No	Item	Loadings
1.	We generate a lot of information concerning trends e.g. regulations, technological development, political economic in our export markets.	0.929
2.	We constantly monitor our level of commitment and orientation to serving export customer needs.	0.874
3.	We are slow to detect fundamental shifts in our export environment (Eg. regulation, technology, economy).	0.947
4.	We periodically review the likely effect of changes in our export environment (e.g. regulation and technology).	0.828
5.	We generate a lot of information in order to understand the forces which influence our overseas customers' needs and preferences.	0.912
6.	Too much information concerning our export competitor is discarded before it reaches decision makers.	0.919
7.	Information which can influence the way we serve our export customers takes forever to reach export personnel.	0.910
8.	Important information about our export customers is often "lost in the system.	0.887
9.	Information about our export competitors' activities often reaches relevant personnel too late to be of any use.	0.901
10.	Important information concerning export market trends (regulation. Technology) is often discarded as it makes its way along the communication chain.	0.820
11.	If a major competitor were to launch an intensive campaign targeted at our foreign customers we would implement a response immediately.	0.880
12.	We are quick to respond to competitive action that threatens us in our export markets.	0.875
13.	We rapidly respond to competitive actions that threaten us in our export markets.	0.885
<i>Eigenvalues</i>		<i>10.307</i>
<i>Percentage of variance explained</i>		<i>79.286</i>
<i>KMO</i>		<i>0.848</i>
<i>Bartlett Test of Sphericity:</i>		
<i>Approx. Chi Square</i>		<i>5024.990</i>
<i>Df</i>		<i>78.000</i>
<i>Sig.</i>		<i>0.000</i>
<i>Cronbach Alpha</i>		<i>0.978</i>

Table 3

Factor Analysis - Export Performance

No	Item	Loadings
1.	The level of our export sales volume.	0.747
2.	The profitability of our export operation.	0.709
3.	Our share of export market sales.	0.828
4.	The rate at which we are able to enter new markets.	0.759
<i>Eigenvalues</i>		2.325
<i>Percentage of variance explained</i>		58.118
<i>KMO</i>		0.755
<i>Bartlett Test of Sphericity:</i>		
	<i>Approx. Chi Square</i>	189.328
	<i>Df</i>	6.000
	<i>Sig.</i>	0.000
<i>Cronbach Alpha</i>		0.757

4. Findings and Discussions

H1 stated that there is a significant relationship between export market orientation and export performance of SMEs. Table 4 displays the result of the analysis, the t-value is 13.368 at $p < 0.000$, indicating that there is a positive and significant relationship between export market orientation and SMEs export performance. Based on this result hypothesis H1 is supported. It can be inferred that the more the SME owner/managers adopt the export market orientation in their firm, the higher the export performance is yielded. In addition, the strength of the relationship is measured by ($\beta = 0.687$), meaning that export market orientation is a crucial predictor of export performance.

Table 4

Relationship between Export Market Orientation and Export performance

Independent Variables	Standardized Beta	T	Sig. (p-value)	R ²
Export Market Orientation	0.687	13.368	0.000	0.475

The link between EMO and export performance of manufacturing SMEs was investigated in this study. It was found that positive and significant relationship exists between EMO and export performance. Thus maintaining export market orientation behaviour in the firm would result higher export performance. SME owner/managers should be aware that EMO activities must be adopted in their firms in order for them to obtain competitive advantage over their rivals. However, the firm's ability to gain positive benefits from the EMO will depend on the availability of resources, such that firms with higher availability of resources will be able to make better use of EMO for achieving superior performance. Due to advancement in the technology information, SME owner/managers could easily generate information, disseminate it within its organization and

response to information in efficient and effectively manner which could build competitive advantage for the firm. SMEs are known to lack complex form of organizational and financial resources (Miocevic & Crnjak-Karanovic, 2012). With proper training and development owner/managers of SMEs could generate market oriented behavior that could be a competitive advantage for the firm in increasing their export performance. Training is an effective tool in developing EMO behavior, which is tailored to the needs of export customers in the international market (Czinkota & Ronkainen, 1995). Moreover, advancement in the information technology enables SMEs to extract information in a latent or knowledge base resource that builds competitive advantage and leverage for the firm (Miocevic & Crnjak-Karanovic, 2012). EMO behavior are crucial international driver, thus owner/managers of SMEs could strengthen their market positions by applying EMO activities in their firm on an ongoing basis. Leveraging the information gathered from the external and internal resources could become source of competitive advantage for the SMEs in increasing their export performance. By applying export strategies (export market orientation) in their export operation firms could attain competitive position and reap higher financial outcome (Zou et al., 2003). This research has also several limitations that need to be addressed by future research. First, the relatively small sample size may not be representative of export SMEs in Malaysia, and thus generalisability of findings is limited. As the mail survey method generates low returns, future research should consider the variability of methodological approach in data collection. Second, the cross-sectional research design used can only provide a snapshot of one point in time. It does not allow the determination of cause and effect or the impact of changes over time. A longitudinal investigation would allow the firms to be studied over time and provide further insights into the dynamic nature of the EMO and performance relationship. Finally, export performance was measured by the subjective perceptions of respondents which may not always be completely truthful. Future research may use objective measures for performance to strengthen the research design.

5. Conclusion

This research adds to the existing knowledge by providing empirical evidence of the contribution of EMO to export performance of SMEs in Malaysia. This research also responds to calls for more exploration of the nature of market orientation in an international context and its impact on performance. In addition, this research provides owner/managers of SMEs with more information to develop and enhance skills, resources and strategies to achieve competitive advantage and superior export performance. EMO acts as an impetus that affects firm's market capabilities and competitive advantage which consequently have effects on export performance. Thus SME owner/managers should focus efforts on adopting EMO behaviour in order to realize the potential value of market orientation.

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PRODUCT AND BUSINESS LIFE CYCLE OF FRANCHISE FORMAT BUSINESS IN INDONESIA

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Abstract

Since monetary crisis in Indonesia, begin from the ending of year 1997 until year 2003, the number of franchise companies was fluctuating in Indonesia. Number of foreign franchise companies was decreasing from 230 to 170 up to 180 companies and number of local franchise companies was growing until 85 companies. It is estimated there are 400 local franchise companies and more than 9,000 franchisees included company-owned in the year 2006 (Sukandar, 2006a). Between period 2000 to 2004 there are significant growth of local franchise companies in Indonesia (around 60%) and 27.35% for foreign franchise companies in Indonesia which has a negative growth in the year 2003 (Rachmadi, 2007). Like other businesses, franchise industry is also having organization to keep survive and grow. Franchise development can be explored in terms of the organizational development model in which changes in organizational structure follow a predictable pattern. It has been argued that the profile of franchise development stages reflects the life cycle model of the franchise industry. By understanding the discrete stages of franchise development, franchisors may accurately predict the problems and opportunities that they may encounter in each development stage and thereby apply different strategic priorities to ensure appropriate responses.

The objective of this paper is to explore and understand the franchise business lifecycle and product lifecycle. By understanding the franchise business and product lifecycle will help the investors (potential franchisees) in making decision to buy a franchise business in Indonesia. The sampling frame was based on survey in two franchise expo in Jakarta from 107 respondents. The sample was analyzed for the descriptive analysis. The variables of franchise companies profiles analyzed are: the period of company was franchise, and royalty fee. A comparison with US franchise companies is used to discuss the Indonesia characteristics of business and product lifecycle including the mature level of using the information system. The franchise life-cycle stage in The US is mature stage, it is contrary to the stage in Indonesia which is still in introduction stage. The market (and the franchisees) is less confident in Indonesia compare to the market in The US; it is reflected in duration of contract agreement. For Indonesia franchisees, the initial investment is more give a negative impact compare to The US. The stage position of franchise life-cycle in Indonesia, a highly growth rate of the population (the highest is 164 percent) in the short-term and the late franchise was starting are expressing the innovation diffusion life-cycle in Indonesia is shifting to the left, supporting the theory of innovation diffusion in Western and Eastern markets from Bradley (2002)

Keywords: Franchise, product life cycle, business life cycle, information system.

1. Introduction

Since monetary crisis in Indonesia, begin from the ending of year 1997 until year 2003, the number of franchise companies was fluctuating in Indonesia. Number of foreign franchise companies was decreasing from 230 to 170 up to 180 companies and number of local franchise companies was growing until 85 companies. It is estimated there are 400 local franchise companies and more than 9,000 franchisees included company-owned in the year 2006 (Sukandar, 2006a). Between period 2000 to 2004 there are significant growth of local franchise companies in Indonesia (around 60%) and 27.35% for foreign franchise companies in Indonesia which has a negative growth in the year 2003 (Rachmadi, 2007). The Asian financial market crash, global economic fluctuation and highly competitive internal–external market environments have either directly or indirectly given great impacts on the success and failure of businesses. In this context, there has been a progressive focus on the strategies that may assist in building a successful business strategy, which are the franchise business (Castro Giovanni and Justis in Inma, 2002). Like other businesses, franchise industry is also having organization to keep survive and grow.

Franchise development can be explored in terms of the organizational development model in which changes in organizational structure follow a predictable pattern. It has been argued that the profile of franchise development stages reflects the life cycle model of the franchise industry. By understanding the discrete stages of franchise development, franchisors may accurately predict the problems and opportunities that they may encounter in each development stage and thereby apply different strategic priorities to ensure appropriate responses. Franchise system has been known in Indonesia since 1970s, followed by the arrival of foreign franchise companies like Kentucky Fried Chicken, Swensen, Shakey Piza, Burger King and Seven Eleven to Indonesia. The system has started to spring up since International Labor Organization (ILO) funded a franchise study in year 1991 in Indonesia (Sukandar, 2006a).

1.1. Recent update

Franchise companies population in Indonesia increase dramatically for Indonesia local companies as shown in figure 3. Contrary to franchise local companies, the foreign franchise companies are increase slightly. In the year 2012, Indonesia franchise companies have reached around 1,700 companies. From the 1,700 companies, there are only around 85 companies are categorized as franchise companies that fulfill the criteria of franchise companies, the rest are what so-called as “business opportunity” or “license” business format. Business Opportunity (BO) or License is term that used for a franchise-like format company in Indonesia. It means the company has fulfill some criteria but did not mature or not a proven successful business. For example, the company was developed in the year 2013 and was franchised in the same year. The “franchisor”, which actually is not fulfilling the criteria, did not want to sell the business as a franchise business. But on the other hand, these companies took franchise fee (but using other term, such as: operational fee, commitment fee or other) and of course royalty fee. Sukandar (2013) stated that the growth of real-franchise companies are around 2 percent. Later on. the Business Opportunity and License companies’ growth are around 8 percent. This sharply different is because the Business Opportunity and License do not has obligation to follow all criteria of franchise. Mostly all the franchise or franchise-like companies in Indonesia start from SME. The purpose of this paper is to explore the product and business life cycle of franchise format business in Indonesia. It is include the franchise-like companies such as Business Opportunity and License companies.

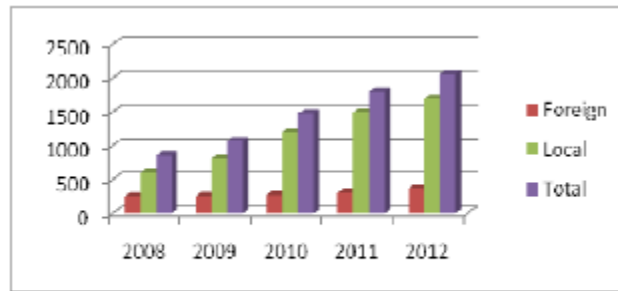


Fig 1. Franchise Companies Population in Indonesia, 2008-2012 (Sukandar, 2013)

2. Literature Review

2.1. Franchise Life Cycle

Like other business, franchise industry also has organization for keeping it survives and grows. Franchise development can be explored in terms of the organizational development model in which changes in organizational structure following a predictable pattern. It is argued that the profile of franchise development stages reflect the life cycle model of the franchise industry. By understanding the discrete stages of franchise development, franchisors may accurately predict the problems and opportunities that they may encounter in each development stage and thereby apply different strategic priorities to ensure appropriate responses.

Justis and Judd (2002) stated that the relationship between the franchisor and the franchisee is the most critical side. This relationship often follows the basic steps of a new business or a product life cycle; that is, it goes through the following stages: (1) Introduction, (2) Growth, (3) Maturity, and (4) Decline/Development.

Introduction stage. In this stage, the relationship between the franchisor and the franchisee should be one of trust, mutual interdependence, and a shared desire for success and profitability. The franchisee starts out the business and has an extreme optimism and expectation of great success. (Justis and Judd, 2004).

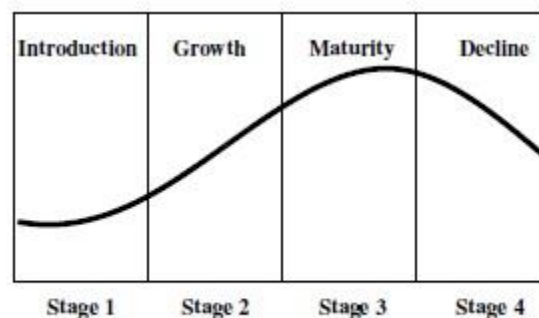


Fig 2. Franchise Life Cycle (Justis and Judd, 2004)

Growth stage. In this stage the franchisor's support system to the franchisee will help solidify the relationship. This relationship between the franchisor and franchisee may be cultivated through internet/intranet exchanges, e-mail, bi-monthly or quarterly magazines or newsletters,

telephone calls, plus local, regional, or national franchisee clubs and even birthday calls from the franchisor expressing personal regards for the franchisee. The franchisor should provide support materials, accounting aids, marketing suggestions, and promotional and advertising support on a regular basis to maintain an active franchising relationship. If the franchisor offers only a second-rate training program or fails to provide ongoing support services, the relationship will likely become strained and unproductive. When communication with the home office breaks down, the franchisor-franchisee relationship is severely threatened (Justis and Judd, 2004).

Maturity stage. In this stage, the franchisor and franchisee know what to expect from each other. If the relationship has gone well, they have developed a mutual friendship and mutual understanding. The franchisee is able to rely on the franchisor to provide useful support services, advertisements, marketing aids, and new products. In return the franchisor can expect good sales volumes, clean stores, and quality services from the franchisee. They utilize the new products or services being provided, implement new programs, and use the new computer software developed for the system. The hazard of the maturity stage exists when the franchisee feels not receiving continuing value from the franchisor. The franchisee expects ongoing support and direction as well as new products and services from the franchisor. Many new franchisees find this a difficult period because the franchisor is continuing to try to sell new franchises to prospective franchisees and so may often ignore the needs of existing franchisees. This can cause a strain in communication and in the relationship and may bring the franchisee to question the worth of the franchisor in the operation of the franchise. The franchisor needs to make an effort to provide communication and support to all its franchisees (Justis and Judd, 2004).

Decline/Development stage. The final phase of a franchisor-franchisee relationship often involves the decline of the business and may lead to the franchisee seeking termination of any contractual obligations. Alternatively, in the final phase, the franchisee may develop a stronger relationship and seal the bond with the franchisor as the business continues to grow and prosper. This generally occurs when the franchisor follows the guidelines. If a franchisor is only interested in selling more and more franchises without providing support services to existing franchisees, then most of the relationships with these franchisees will decline, business will begin to fall off, and lawsuits will commence (Justis and Judd, 2004).

2.2. The US and Indonesia Franchise Life Cycle

According to Njoto (2006), the condition of franchise industry in Indonesia is most likely the condition of franchise industry in the US in 1970s (introduction stage) while the US is in mature stage now. This both condition reflected by the US Federal Trade Commission franchise regulation applied in July 1979 in the US and Indonesia Government Regulation year 2007 about franchise regulation in Indonesia.

2.3. Innovation Diffusion in Western and Eastern Market

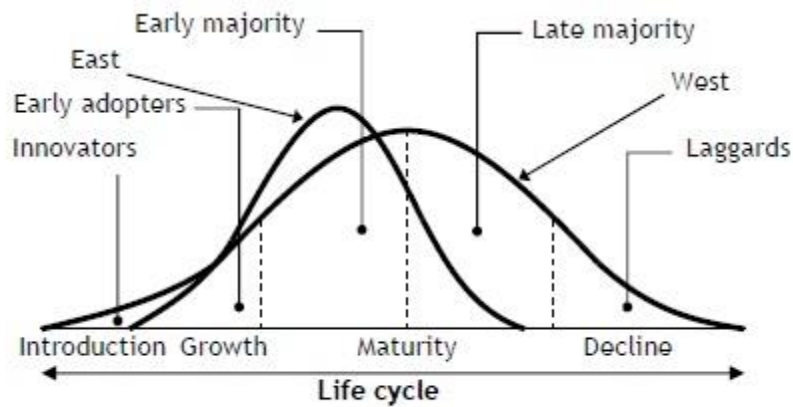


Fig3. Innovation Diffusion in Western and Eastern Market (Bradley, 2002)

The differentiation between rate of innovation in Western and Eastern market was proposed by Bradley (2002). In the West, particularly in the United States, diffusion of new product and new ideas is thought to follow the traditional normal curve, rising slowly at first, maturing and then declining in a predictable way (Figure 3). In the East, however, because of peer pressure among groups of consumers the response pattern is quite different. After a relatively cautious start groups rush to buy the innovation and later, on reaching maturity in the market, these same groups desert the product or service rapidly in the great numbers, causing pronounced changes in the shape of innovation diffusion curve thought to apply to consumers in the East. The reasons why the rate and patterns of diffusion are different in the East and the West may be attributed to:

- attempt to avoid uncertainty in Asia;
- shopping is done in groups;
- for Asians the social risk of trying a new product first is high;
- the proportion of innovators and laggards is much lower among Asians; and
- Referral is very powerful way of expanding products trials by the first wave of consumers in Asia.

3. Methodology

3.1. Research Model

Growth is one of the success factors (sales, efficiency, market share and reputation) of franchise business (Spriggs, Castrogiovanni and Justis). Franchise company growth is defined as the net change in the number of franchise units per year. The sampling frame is based on survey in two franchise expo in Jakarta on September and November 2007. From 107 respondents, there were only 25 franchisors who replied the questionnaire forms and only 17 franchisors that fulfilled the requirements. Almost all of the

respondents did not have complete data when the questionnaire forms were offered. Some of respondents simply replied by e-mails, facsimile and phone. Most of 107 respondents who agreed to reply the forms did not response after a certain period of time as their promised and most of their emails were over quotas. Almost all of respondents do not have official website. Even though they have websites, the websites contain insufficient information and aren't updated regularly. In order to examine the relation between franchise companies growth and factors that affect franchise growth, the research will use the following model (is called the first model) :

$$\text{Growth} = \beta_0 + \beta_1 \text{Esta} + \beta_2 \text{Begin} + \beta_3 \text{Io} + \beta_4 \text{FFee} + \beta_5 \text{Dur} + \beta_6 \text{RFee} + \varepsilon$$

Where:

Growth	= Growth of outlet per year (in number of outlet)
Esta	= Period of company was established (in year)
Begin	= Period of company was franchised (in year)
Io	= Initial investment (in USD)
FFee	= Franchise fee (in USD)
Dur	= Duration of contract agreement (in year)
RFee	= Royalty fee (in percentage)

Erhmann and Spranger (2005) found the correlation between growth and business experience (related to the period of company was established and period of company was franchised), average investment (related to initial investment), average franchise fee (related to franchise fee) and average royalty fee (related to royalty fee). Brickley (2003) found that the duration of franchise contract would increase as well as the franchisor more establish. Also, the duration of contract agreement was related to the business experience and the size of franchise companies.

3.2. Hypothesis

According to Ehrmann & Spranger (2005) the period of company was established, the company size, the investment volume and the franchise fee have positive impact on growth of franchise companies. On the other side, royalty fee has negative impact on the growth of franchise companies.

This research hypothesis:

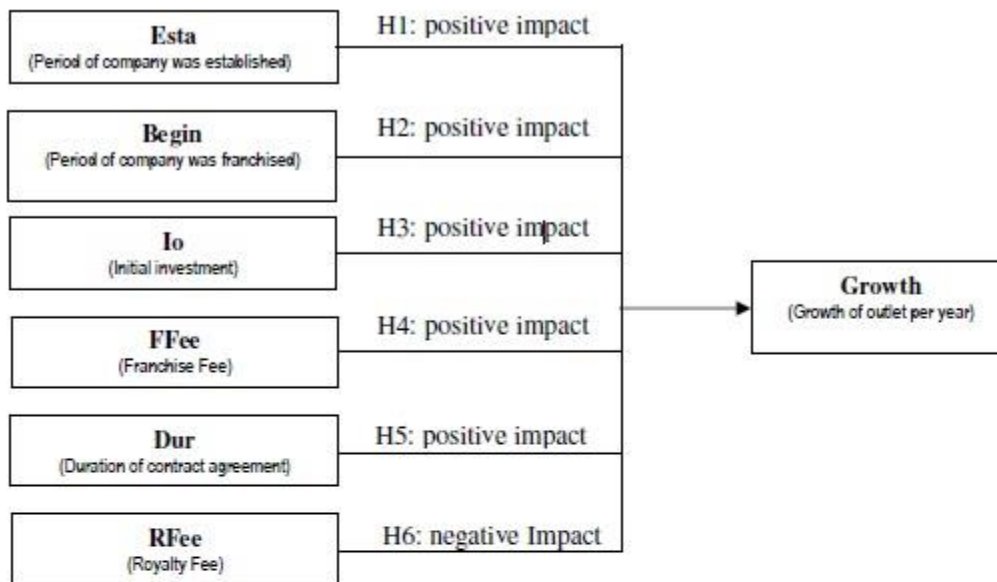


Fig 3.1 Hypothesis Diagram

	N	Minimum	Maximum	Mean	Std. Deviation
Growth	17	.00	164.00	32.00	43.01
Esta	17	2.00	38.00	8.82	10.30
Begin	17	.00	14.00	2.70	3.55
Io	17	1,636.47	109,098.01	29,202.97	29,757.01
Ffee	17	.00	26,315.79	8,125.96	7,764.71
Dur	17	5.00	20.00	6.41	3.76
Rfee	17	.00	20.00	6.19	6.03
Valid N (listwise)	17				

Table 1. Descriptive Statistics of Franchise Company in Indonesia

In Indonesia (table 1) the maximum growth is 162 percent and the average is 32 percent. The period of company was established (Esta) in Indonesia is 38 years. The mean of period of company was franchised is 8.8 years Indonesia. On the other hand, the maximum period of company was franchised (Begin) in Indonesia is 14 years and the average is 2.7 years.

It can also be seen from the table that the initial investment (Io) and the franchise fee (FFee) for opening new outlet are significantly different in average. The average of initial investment in Indonesia USD 29,202.9. The average of franchise fee in Indonesia is USD 8,125.95.

Besides that, the maximum duration of contract agreement (Dur) in Indonesia is 20 years and the average is 6.04 years. The royalty fee (RFee). in Indonesia it is 0 to 20 percent. For the average average in Indonesia it is 6.18 percent.

There are positive correlation between the period of company was established (Esta) and period of company was franchised (Begin). In Indonesia, highly positive correlations between the franchisefee (FFee) and the initial investment (Io) and between the royalty fee (RFee) and the initial investment are also found. Compare to the Ehrmann and Spranger (2005) data, the correlation is not too high and positively correlated between average investment (INVAVG), and

average franchisefee (FFAVG) but negatively correlated between average investment (INVAVG) and average royalty fee (RRAVG).

4. Discussion

4.1. Test of Normality

The first stage in the statistical process is the test of normality. Since the regression standardized residual (histogram), P-P Plot of regression standardized residual and the scatter plot diagram are found not normal, then the estimate multiple regression is changed into the new model by using the natural logarithm (Ln) of previous data model. By doing so, the data are found normal. After changing the data and passing through the test of normality, the multiple regression models are changed into the model below (Model 2):

$$\text{LnGrowth} = a + b_1 \text{LnEsta} + b_2 \text{LnBegin} + b_3 \text{LnIo} + b_4 \text{LnFFee} + b_5 \text{LnDur} + b_6 \text{LnRFee}$$

where:

- LnGrowth = the change of percentage of growth of outlet per year
- LnEsta = the percentage period of company was established
- LnBegin = the percentage period of company was franchised
- LnIo = the percentage of initial investment
- LnFFee = the percentage of franchise fee
- LnDur = the percentage of duration of contract agreement
- LnRFee = the percentage of royalty fee

After the model had been changed, the regression standardized residual (histogram), P-P Plot of regression standardized residual and the scatter plot diagram are found normal.

	(Constant)	LnEsta	LnBegin	LnIo	LnFFee	LnDur	LnRFee
B	44.490	-0.685	0.169	-2.331	0.311	-9.880	-0.789
Std Error	0.494	0.047	0.049	0.058	0.066	0.168	0.032
Sig.	0.007	0.044**	0.179	0.016**	0.134	0.011**	0.026**

*** Significant at 99% level, ** Significant at 95% level, * Significant at 90% level

Table 2. Model Summary in Indonesia

The beginners choose a rapid growth orientation. So, the relationship between the franchisor and the franchisee should be trustworthy, mutual interdependence, and a shared desire for success and profitability. The franchisee starts out the relationship as an extreme optimism and expectation of great success while the franchisor is interested in making a very positive and friendly approach to the franchisee.

There are two pairs of variables: LnEsta-LnBegin and LnFFee-LnRfee which highly correlated. The period of company was established is statistically significant but highly correlated (0.880) with the period of company was franchised. Besides that, the franchise fee is not statistically significant (sig. = 0.134) and also highly correlated with the royalty fee (0.576).

The period of company was established gives a significant negative impact to the growth. It means, the longer a company was franchised the lower the growth is. It is because the product lifecycle for some products or services of franchise companies in Indonesia is declining, the market

is already saturated and no uniqueness for new franchise's products. The fact is contrary with Ehrmann and Springer (2005) and Inma (2002) but supported by Sukandar (2006b).

The period of company was franchised also gives a positive impact to the growth, but not significant. It is because the period of company was established and the period of company was franchised is highly correlated. Since the experience of local franchise brand in Indonesia is still low, the pioneer in franchise business will certainly get more benefit compare to other new brands.

In the other hand, the initial investment gives a significant negative impact to the growth. It means the bigger initial investment is the lower the growth is. Price of franchise is not only defined by initial investment, but also from franchise fee and royalty fee in a new market like Indonesia. The franchisee feels that the price of the franchise is too high because there isn't any promising reputation (the initial investment is a cost from the side of franchisee in Indonesia). The image of the franchise success is also not too strong. So even though franchise has been already known since 1970s, but the local Indonesian brand is not significantly well known and there isn't great enthusiasm in developing franchise. That also explains why the royalty fee negatively impacts the growth significantly.

In Indonesia the duration of contract agreement negatively impacts the growth significantly. It

means that the longer the duration of contract agreement is, the less confident the franchisee of the franchise license sold by the franchisor. It is because the franchisor and the franchisee can make changes in the organization more flexible when the term is short. That's why, franchisees in Indonesia are more confident for short-term contracts.

From the life-cycle theory stage, franchisees in Indonesia make a substantial investment in the franchise and run business for at least three years to make profit. If the franchise term is only five years, there isn't enough time for a decent return. The research of Inma (2002) states that after 3 years almost all of the franchise will begin to be unstable and bankrupt. This kind of problem also happened in other business-format, but in franchise the level of failure is one third of the other business-format failure level.

The stage position of franchise life-cycle in Indonesia, a high growth rate of the population (the highest is 164 percent) in the short-term and the late starting franchise express the innovation of diffusion life-cycle in Indonesia shifting to the left, which supports the theory of innovation diffusion in Western and Eastern markets from Bradley (2002).

5. Conclusion

From all the data that has been analyzed, there are few important conclusions about franchising in Indonesia. Factors that give significant impact to the growth of franchise in Indonesia are: the period of company was established, the initial investment, the duration of contract agreement and the royalty fee. The period of company was franchised and the franchise fee are not the factors which are significant statistically.

The behavior of franchise companies in Indonesia companies in the introduction stage. It is supported the theory of innovation diffusion from Bradley (2002). It is also The franchisees in Indonesia are very concerned to the initial investment and royalty fee and prefer short-term contract duration while the long-term duration of contract agreement is more appropriate for mature franchise stage. Besides that, initial investment gives a negative impact to the growth in Indonesia. Indonesia franchise companies. Is concern to the outlet growth, contrary to the franchise companies in the US. (e.g. McDonald introduces 24-hour service but not selling new franchise outlet).

6. Acknowledgements

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DEVELOPMENT OF A TRAINING PROGRAMME CURRICULUM FOR SMALL AND MEDIUM ENTERPRISES (SMES)

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Abstract

Generally, it is well accepted in most articles that SMEs have contributed in various ways in the area of economic and social enhancement, particularly in developing countries, such as Malaysia. Since most of the SME owner-managers in these developing countries still lack the necessary education and experience, various agencies, such as the government, educational institutions and another related parties, have been providing continuous training programmes to ensure the survival and success of these SMEs. Hence, the interest in the education of SMEs and training development research continues to flourish. Thus, based on the literature, this paper will discuss the development of the training programme curriculum for SME owner-managers. In addition, this paper will discuss the development of the current training programme curriculum for SME owner-managers in Malaysia.

Keywords: Training programme, curriculum development, SME owner-managers.

Introduction

SMEs play a vital role in the economic development of nations. The advancement of some economies is due to the significant contribution of SMEs to the national economy, which constitutes over 98 per cent of the total establishments, and contributes more than 65 per cent of the country's employment, and over 50 per cent of the gross domestic product (GDP)(Portal SMEinfo, 2013). Similarly, in Malaysia, SMEs account for 99.2 per cent of the business establishments in the country. Over the years, the GDP growth of SMEs has been growing consistently at an average annual rate of 6.8 per cent, compared to 4.9 per cent for the overall economy for the period 2004-2010. According to the latest statistics, SMEs contribute 32 per cent of the GDP, 59 per cent of the employment and 19 per cent of exports (*Pelan Induk PKS 2012-2020*, 2013).

The government continuously supports the growth of SMEs in Malaysia by focussing on three (3) core strategies: (1) to increase access to financing; (2) to build capacity and capability; and (3) to enhance the enabling infrastructure (Definisi baru PKS jangka tambah bilangan firma, 2013). With regards to the focus on building the capacity and capability of SME owner-managers, the government is providing the necessary training programmes for the SME owner-managers, including entrepreneurial skills training programmes that aim to strengthen the skills of the SME owner-managers, such as in the area of quality enhancement, food technology, agricultural technology, entrepreneurial skills, business sustainability, and food preparation. As suggested by Paul Dana (2001), and Ariff & Abubakar (2000), financial assistance programmes should be

provided together with relevant short and medium-term training programmes. This is because, training programmes are an effective technique to improve the performance of the SME owner-managers who apply for financial assistance (Ariff & Abubakar, 2000; Paul Dana, 2001). SME owner-managers sometimes have minimal education, are illiterate, and have very poor arithmetic skills and financial knowledge (Datar, Epstein, & Yuthas, 2009). Therefore, training programmes can be an essential tool in helping loan takers to responsibly manage their loans (Gibb, 2006; Karlan & Valdivia, 2006; Ziaul Hoque, 2004).

Training programme

The most common issue when dealing with an entrepreneurial training programme is the question of whether entrepreneurship can be learned or whether it is inborn (Henry, Hill, & Leitch, 2005a, 2005b; Hytti & O’Gorman, 2004; Packham, Jones, Miller, Pickernell, & Thomas, 2010; Paul Dana, 2001). Related to this, various researchers start their argument on the issue with a definition of entrepreneurship. There are two (2) different paradigms in the definition of entrepreneurship: Schumpeterian (1947; 1949); and (2) Kirznerian (1935) (Paul Dana, 2001). Schumpeter (1947; 1949) introduced the economic disequilibrium theory and innovation theory of entrepreneurship that indicated that *"entrepreneurs was to revolutionise patterns of production by exploiting and invention or innovation"*. While Kirzner (1973;1982) posited that *"entrepreneurs simply identify and opportunity for profit"*. Based on these two (2) paradigms, researchers who support the Schumpeter (1947;1949) paradigm or commonly referred to as Schumpeterian, will agree that entrepreneurship is inborn rather than made because this theory posits that entrepreneurs possess three (3) major characteristics – innovation, foresight and creativity – that develop innately.

In contrast, Kirzner (1935) focused on the *opportunity* for producing and selling products and access to capital. This theory posited that entrepreneurship transforms entrepreneurs by providing them with knowledge and skills through education and training. Thus, researchers who support the Kirzner (1973;1982) paradigm, which is also referred to as Kirznerian, agree that entrepreneurs simply identify opportunities for profit without actually creating them and could benefit from any education and training without necessarily requiring the skills to be innovative (De Faottie et al., 2003; Paul Dana, 2001). Thus, this paper believes that Kirznerian, which stresses that exploiting opportunities through education and training, will develop the knowledge and skills of SME owner-managers.

SMEs are normally associated with a simple structure with little or no advanced technology support, few support employees, a loose division of labour, very minimal differentiation among its units, and small managerial hierarchy. Additionally, SMEs are also characterized by their very minimal use of planning; predominantly informal communication; flexible workflows; unspecialised, interchangeable core tasks; and centralised decision making (Jamaluddin & Dickie, 2011; Macmahon & Murphy, 1999). Thus, SME owner-managers and their small number of multiple-skilled staff must cope with the highly flexible nature of the work (Macmahon & Murphy, 1999). SME owner-managers actively participate in the decision making of all aspects of their firms including at the management and operational levels. The wide ranging responsibilities of the owner-managers require them to possess specific and transferable entrepreneurial skills that are directly related to their needs. More importantly, the personal characteristics of owner-managers are a strong predictor of the growth intentions (Jamaluddin & Dickie, 2011; Petridou & Glaveli, 2008).

SME owner-managers need to increase their potential and competencies by improving their qualities of leadership, supervision, decision making, planning, better inter-group relation and greater bargaining power for their products and services (Johnson & Loader, 2003; Ziaul Hoque, 2004). All these can be achieved by their attending entrepreneurial training programmes organized by the government and its agencies, also referred to as informal training programmes (Davies, Hides, & Powel, 2002; Johnson & Loader, 2003; Levie, Hart, & Anyadike-Danes, 2009; Oosterbeek, Van Praag, & Usselstein, 2008; Paul Dana, 2001; Smith & Perks, 2006) . Entrepreneurship is an ongoing lifelong learning experience, and, as such, the best way to learn is to combine experience with education and training activities (Henry et al., 2005a; Jennings, Banfield, & Beaver, 1996).

Based on the firm life cycle theory, the firm live cycle is divided into three (3) stages (Garavan & O'Kinneide, 1994; Hytti & O'Gorman, 2004; Stone, 1997). The three (3) stages are: starting/entry, operational/growth, and expansion/maturity. These three (3) stages of firm life cycle were matched with the training needs as follows: (1) education about enterprise-awareness, theory on setting up and running the business; (2) education for enterprise-preparation to set up and run business, such as a business plan; (3) education concerning enterprise-management training for established entrepreneurs with a focus on ensuring growth and future development, such as product development, marketing, problem solving, and entrepreneurship training. To link the firm life cycle theory with the entrepreneurial training needed, Smith and Perks (2006) explored the skills needed before starting a business, skills needed after running the business, and the skills needed as an SME owner-manager and how those entrepreneurial skills are acquired. Their research findings show that technical skills are a prerequisite for starting a business and that training intervention is needed for developing personal skills as well as business operation skills (Smith & Perks, 2006). This is further supported by Jamaluddin & Dickie (2011) who indicated that owner-managers require managerial skills relating to staff employment, decision making style and shared value at the operational/growth level.

The need for SME training programmes has been discussed in various studies conducted in Malaysia. As discussed earlier, SME owner-managers in Malaysia lack various entrepreneurial skills, especially in the area of finance, time management, marketing, human resources and production management, particularly at the beginning and growing stages of the enterprise (Mohd. Osman, 2007; Roddin, Sultan Sidi, Yusof, Mohamed, & Abdul Razzaq, 2011; Tahir, Mohamad, & Hasan Diya'uddeen, 2011). Thus, as Hassan and Olaniran (2011) concluded, continuity for the education and training of SMEs is very important for their growth, as this will enable SMEs to make a meaningful contribution to the economic development of the nation. SME training programmes contribute to the increase in the knowledge, and skills and experience of the owner-managers in business, thus, making their business more robust and competitive (Jusoh, Ziyae, Asimiran, & Abd. Kadir, 2011). However, a lack of education and training is ranked as the major failure factor among the SMEs in Malaysia (Roddin et al., 2011).

From the above discussion, it is very clear that an entrepreneurial skills training programme provided by the government and their agencies would enhance entrepreneurial skills. Entrepreneurial skills are very important, especially in this era of globalisation and internationalisation. Thus, the government and their agencies must formalise and develop a comprehensive and appropriate entrepreneurial skills training programme for the SME owner-

managers (Harris, Forbes, & Fletcher, 1999). This leads to the next discussion on what should be included in the entrepreneurial skills training programme.

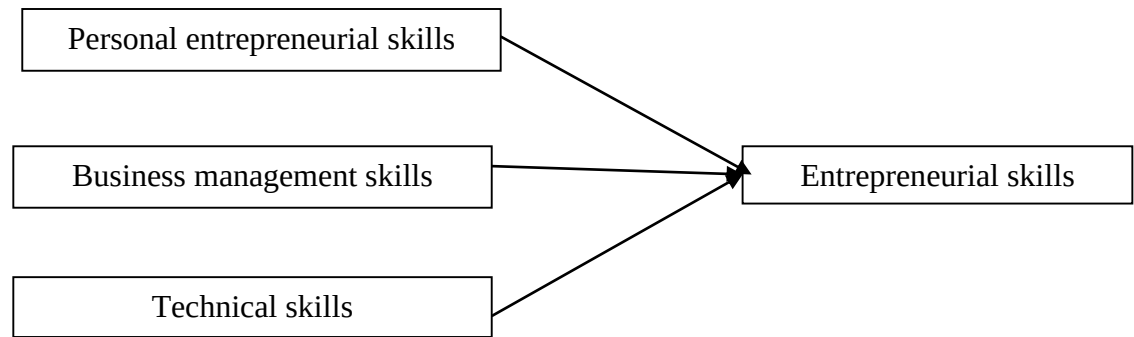
Development of the training programme

There is an ongoing debate concerning the content of any such training programme (Fiet, 2000). The best way to overcome this issue is by linking the theoretical assumption with the training course design. However, there is no overarching theoretical assumption or formula about what should be included in the SME training programme (De Faottie, Henry, Johnson, & Van der Sijde, 2003; Paul Dana, 2001; Fiet, 2000). Earlier studies also indicated that the lack of accepted paradigms or theories of entrepreneurship education and training have resulted in a variation in the content of entrepreneurship education and training from one programme to another. This is because the content of a training programme is solely dependent on the personal preference of the trainer to the definition and scope of the education and training on entrepreneurship (Garavan & O'Conneide, 1994).

Among the current theories related to the skills needed by the SME owner-managers is Lazear's theory (2004), which is also called the balance theory or jack-of-all-trades (JATs) theory (Lazear, 2004). This theory hypothesizes that entrepreneurs must be good at a variety of skills, but not necessarily excellent in each skill. The assumption of this theory is that entrepreneurs are generalists and not specialists. In addition, it indicates that entrepreneurs do not necessarily require a complete set of skills to start a business because they can learn through training and experience. The most critical areas in the jack-of-all-trades or balance theory are that: (1) entrepreneurs need a variety of skills, and (2) that these skills can be developed through training (Lazear, 2004). Kaiser (2010) further explained the balance theory or jack-of-all-trades theory, in that entrepreneurs need all the entrepreneurial skills and that the weakest ability in any of the skills will determine the income. As an entrepreneur, under the balance theory or jack-of-all-trades theory, individuals are endowed with a range of skills and can invest to learn or strengthen several skills. Basically, all tasks have to be performed by one person, as the owner of the SMEs, and supported by the workers, as specialists. This theory has been tested by Giuri, Rullani, and Torrisi (2007), Silva (2004, 2007), Stuetzer, Obschonka and Schmitt-Rodermund (2012), and Wagner (2003, 2006).

In general, according to Hoffmaister and Wickham (1998), skills constitute knowledge that can demonstrate the action and ability to perform in a specific way. Since entrepreneurship is the process of managerial behaviour, entrepreneurial skills represent the skills needed by the entrepreneurs to exploit their opportunities and succeed in their business. The question arises, what is the classification of entrepreneurial skills? Hisrich and Peters (1998), and further explained by Chegini and Khoshtinat (2011), cited various scholars who categorised entrepreneurial skills into three (3) types, as shown in Figure 1: (1) Personal entrepreneurial skills; (2) Business management skills; and (3) Technical skills. Personal skills refer to internal regulation and control, innovation, and the ability to manage risk and change, while business management or managerial skills comprise how to run a business including skills in planning, decision making, marketing, finance and accounting. The technical skills include communication skills, networking, and the use of technology (Chegini & Khoshtinat, 2011; Hisrich & Peters, 1998).

Figure 1: Entrepreneurial skills



Source: Hisrich and Peter, 1998; Chegini and Khoshtinat, 2011.

The entrepreneurial skills, as suggested by Hisrich and Peters (1998), and Chegini and Khoshtinat (2011), could be used as the basis for developing a training programme for SME owner-managers. The next topic will discuss related issues in the process of developing a training programme for SME owner-managers.

Issues relating to the development of a training programme

Again, the management of an SME is totally different compared to that of an "established" firm. SME management is affected by various key factors: (1) decision making tends to be concentrated between one or two owner-managers; and, (2) owner-managers often work at both the management and operational levels. Furthermore, most of the entrepreneurs produce homogenous products, which have a low price inelasticity in the product market. As these products progressively lose their competitive edge with the increase in supply by another competitor, their income may not be sufficient to even cover the borrowing cost from the government (Greenback, 2000; Ziaul Hoque, 2004). This unique factor necessitates that a thorough study should be done on SMEs, which focuses on the training programme needs of the SME owner managers (Greenback, 2000; Ziaul Hoque, 2004). However, research relating to the development of the curriculum, programme content, and problems and various other issues relating to the development of the programme have been largely ignored by researchers. The major challenge in entrepreneurship education and training is to develop the most appropriate curriculum and training programme design (Garavan & O'Kinneide, 1994; Rezai, Mohamed, & Shamsudin, 2011).

General studies and previous research on training and its relationship with SME owner-managers indicate the necessity for training for the establishment and success of an SME. In addition, general studies and previous research have highlighted the practices and problems of the training currently being conducted in various countries, especially in developing countries (Martin, Barbara, & Sandefur, 2007; Paul Dana, 2001). The most common criticism relating to the entrepreneurial skills training programme concerns the curriculum design of the programmes, inasmuch as the content and objective of the training intervention do not actually address the real needs of entrepreneurs, have no relation to the organisational job requirements and that the SME owner-

managers are not ready to utilise such skills effectively. (Gibb, 1987; Greenback, 2000; Honadle & Hannah, 1982; Jennings & Hawley, 1996; Paul Dana, 2001).

This is because curriculum designs were mainly developed to reflect the training providers' "expert" thoughts and beliefs concerning the knowledge and skills needs rather than the actual needs of SME owner-managers (Honadle & Hannah, 1982; Jennings & Hawley, 1996). Actually, it is not an easy process to develop a curriculum design for an entrepreneurial skills training programme for SME owner-managers (Paul Dana, 2001). The crucial missing criteria in the current process of curriculum design is the involvement of the SME owner-managers. The participation of SME owner-managers in the process of the development of curriculum design for an entrepreneurial training programme could increase the effectiveness and fill the perception gaps between the training providers and SME owner-managers. Involvement of the SME owner-managers will contribute to understanding their cultural values, historical experience and mindset (Gibb, 2006; Paul Dana, 2001; Petridou & Glaveli, 2008).

Another issue regarding training programmes, especially in developing countries, such as Indonesia, Malaysia and the Philippines, is the application of a Western training model into the local programmes for SME owner-managers. In the Western countries and Eastern Europe, training programmes have succeeded in teaching managerial skills that are useful in their business operations. However, it is highly advisable that developing countries should avoid the translocation of the education and training programmes from the Western countries and Eastern Europe into their local programmes. Among the significant reasons are that people in developing countries are still under transitional economies and usually prefer to be told precisely which procedure to follow. Furthermore, the economic, regulatory institutions and norms of the Western countries and Eastern Europe are far more advanced in nature (Gibb, 2006; Paul Dana, 2001).

The problem of entrepreneurial skills training development arises from the continuing failure of the current training programmes. For example, training programmes funded by the European Commission (EU) and the Greek government, failed to assist Greek SME owner-managers to succeed in their business, in that the owner-managers still lack the necessary knowledge in management, marketing, accounting, computing; thus, emphasizing their underdeveloped entrepreneurial, communication, decision making, team working and information technology skills. Based on these circumstances, researchers have recommended an improvement in the current training curriculum and intervention. As previously discussed, the most crucial element is the involvement of the SME owner-managers in the process of curriculum development and training intervention (Petridou & Glaveli, 2008).

To develop a training programme for the owner-managers, this paper suggests the use of the practical action research (AR). According to Carr and Kemmis (2002), practical AR can be defined as:

"Outside facilitator/s form cooperative relationships with the practitioners, helping them to articulate their own concern, plan strategic action for change, monitor the problems and effect of changes, and reflect the value and consequences of the changes actually achieved"

Practical AR is the process of understanding the problem and suggesting the solution or providing improvement techniques for the current practice. The consultant (the most appropriate term for researchers in practical AR, as indicated by Cornwall, 1996), who is involved in practical AR will collaborate with the practitioners to gain a new understanding of their practice and provide the changes, solutions or improvements to be implemented (McKernan, 1991). In practical AR, the consultant sits together with the related stakeholders to identify potential problems, their underlying causes and possible interventions or solutions. The process will develop based on a mutual understanding from the dialogue that is conducted. Next, practical AR will improve the current practice based on the personal wisdom of the participants. Thus, the communication process between the consultant and the stakeholders must occur smoothly without any disruption (Grundy, 1987; Holter & Schwartz-Barcott, 1993; McGrath & O'Toole, 2012).

Conclusion

In conclusion, SMEs make a significant contribution to the economic and social growth of our nation. The government is continuously offering various development programmes, especially training programmes for SME owner-managers. However, until today, SME owner-managers still lack various entrepreneurial skills. Thus, training programmes should be improved to make sure that they can achieve the objective to increase the entrepreneurial skills among SME owner-managers. This could be done by providing the appropriate training programmes that meet SME owner-managers' needs. Practical action research is the best method to improve the current practice training programmes. Hopefully, the current research that focuses on improving the cost management skills training programme for SME owner-managers in Malaysia will contribute to the improvement of the current practice of the training programme. Further, this current research could be used as a reference to develop other entrepreneurial skills training programmes.

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APPRAISAL OF PARTICIPATORY RURAL ENTREPRENEURSHIP DEVELOPMENT IN ORASHI REGION OF RIVERS STATE, NIGERIA.

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Abstract

The study assessed inhibiting factors to Participatory Rural Entrepreneurship Development in Orashi Region of Rivers State, Nigeria. It specifically described some selected demographic characteristics in the study area, determined the level of participation of the grass root people in rural entrepreneurship development, identified and analyzed infrastructural and institutional factors associated with entrepreneurship development, and proffer solutions to enhancing effective rural participation among grass root people in the study area. The study was conducted in four (4) Local Government Areas (Ahoada East, Ahoada West, Abua-Odua and Ogba Egbema Ndoni) that makes up the region under study using a multi-stage sampling procedure. Forty respondents were drawn from a Community in each of the local government area, using random sampling technique, this gave a total of one hundred and sixty (160) respondents that were interviewed accordingly. Data were collected using structured questionnaire and Focus Group Discussion (FGD). Secondary sources such as journals, books and other printed materials and the internets were used to elicit information necessary for the study. Descriptive Statistics such as Frequency, Percentages, Mean and Analysis of Variance (inferential) were used for data analysis. The study showed that 80% of the respondents were females while 20% were males, 95% of the respondents were engaged in farming as a major source of livelihood while 5% were engaged in farming and other entrepreneurship. The study revealed a low participation (1.64) in rural entrepreneurship development as a result of lack of credit facilities (2.97), lack of all seasoned roads (2.94), lack of electricity(2.91), inadequate experience in entrepreneurship development (2.89), difficulties in acquiring loans (2.88), lack of synergy among community members and government (2.80), lack of information (2.86). The study therefore, recommended among others; the provision of credit facilities, provision of functional and sustainable infrastructure which will help to revamp cottage industries thereby encouraging rural participation in entrepreneurship development, and increase synergy and incentives for Organized Rural Groups (ORGs).

Keywords: Rural, Participation, Entrepreneurship, Development, Appraisal.

INTRODUCTION

Literally, participation means to be involved in. Rural development experts are increasingly interested in promoting the institutionalization and spread of participation in society (Stackpool, 2006). From grass root to voluntary organization including Government and other private sectors,

participation has been embraced as a way to build greater voice, accountability and trust into strong relationship between service providers and the rural community members. Participation enables people to realize their right to participate in and access information relating to the decision-making process which affects their lives (Chambers, 2005). This is akin to the ability of the rural people to make use of the available resources and benefits from it. In line with the foregoing, it can be argued that a process cannot be labeled “participative” if the people (rural) do not have rights and access to be involved in planning and decision making process. The author went further to recommend that, Government and community people must work hand in hand to realize the goals of sustainable rural entrepreneurship development. This implies that the ruralites must participate actively in rural development programmes. This was why Ansari et al (2013) observed that one of the most important solutions to sustainable rural development is through participatory rural entrepreneurship. The authors further observed that, today, entrepreneurship as a strategy development, growth and prosperity of human societies has converted to a replacement through which all factors, resources and facilities of a community spontaneously and with exposure in an evolutionary process has been prepared order to high social ideals for being the origin of positive economic-social impact.

Explanation Of Some Important Concepts

Rural Areas

According to Khan *et al* (2012) quoting Atchoarena & Gasperini (2003) rural areas are space where human settlement and infrastructure occupy only a small share of the landscape, where natural environment is dominated by pastures, forests, mountains and deserts, settlements are of low density, about 5000-10,000 persons, where land is available at a relatively low cost so most people work on farms and where high transaction cost affects the activities, associated with long distance from cities and poor infrastructures.

Rural Entrepreneurship

Entrepreneurship is conceptualized by Kuratko (2003) as a dynamic process of vision, change and creation of ideas for economic solution of the ruralites. Kimani (2004) sees entrepreneurship as the process of creating business enterprise capable of entering new or markets by deploying resources and people in an exclusive way. The author further stated that, the common fundamentals of the definition included; business, employment, wealth, and innovation. This implies that organization cannot function without an individual who often recognizes an opportunity, assembles, necessary resources, creates an enterprise and is accountable for the performance of the enterprise. This was why Faraji *et al* (2011) stated that entrepreneurship is one of the activities which can resolve many major challenges (such as unemployment, low income, lack of economic diversity and etc.) in rural areas and also has positive impacts on other aspects of villagers’ human life. Ahmad *et al* (2011) expressed this concept as one of the foundations of rural economic development. The authors defined rural entrepreneurship as the creation of a new organization that introduces a new product, serves or creates a new market, or utilizes a new technology in a rural environment. Entrepreneurship in rural areas include widening the base of a farm business to include all the non-agricultural uses that available resources can be put to or through any major changes in land use or level of production other than those related solely to agriculture.

Rural Development

Anríquez & Stamoulis (2007) revealed that the definition of rural development has evolved through time as a result of changes in the perceived mechanisms and / or goals of development. They further reported that, since 1970's, rural development as a concept, has been highly associated with the promotion of standards of living and as a precondition for reducing rural poverty. Anríquez and Stamoulis (2007) defined Rural Development as that which brings benefits to rural populace; it is a concerted effort to bring sustained improvement of the rural population's standards of living or welfare. The authors further stated that Rural development encompasses agriculture, education, infrastructure, health, and capacity building for other than on-farm employment, rural institutions and the needs of vulnerable groups. Anríquez & Stamoulis (2007) further expressed that rural development is essentially a part of structural transformation characterized by diversification of the economy away from agriculture. Adinyira *et al* (2007) stated that the expression 'rural development' is currently used in various senses in a number of public policy programs and can be said to be a somewhat overworked expression. Simply put, rural development is about implementing a political, economic and social project attuned to a collective vision of the future of rural regions. Alleviation of rural poverty and hunger is possible by development of rural areas. Nwachukwu & Ezech (2007) sees rural development as a veritable tool for fighting poverty and achieving economic prosperity at the grassroots level. The concept of rural development embraced by most countries connotes a process through which rural poverty is alleviated by sustained increases in the productivity and incomes of low – income workers and households. Nwachukwu & Ezech (2007) further stated that 'Rural Development' simply connotes a sustained improvement in the quality of life of the rural people. It implies consistency in approach in which micro and macro economic, social, political, cultural and technological variables are engineered, combined and implemented as an organic and dynamic whole for the benefit of the people.

Despite the numerous gains in rural entrepreneurship development, the level of participation of the ruralites in entrepreneurship development in the country (Orashi region inclusive) seems to be low as most of the rural people depend solely on farming activities. Consequently, this study is on the assessment of the inhibiting factors to Participatory Rural Entrepreneurship Development in Orashi Region of Rivers State, Nigeria. To achieve this, the following research questions were considered important:

- (i) What are the social economic characteristics of the respondents in the study area?
- (ii) What is the level of participation of the grass root people in entrepreneurship development?
- (iii) What are the institutional and infrastructural factors inhibiting the effective participation of the ruralites in entrepreneurship development in the study area?
- (iv) What are the solutions to cushion the effect of the identified factors?

Objectives of the study

The broad objective of this study is to assess the inhibiting factors to participatory rural entrepreneurship development in Orashi Region of Rivers State, Nigeria. The specific objectives were to;

- (i) describe some selected social economic characteristics of the respondents;
- (ii) determine the level of participation of the grass root people in entrepreneurship development;

- (iii) identify and analyze infrastructural and institutional factors associated with entrepreneurship development in the study area, and
- (iv) proffer solutions to enhancing effective rural participation among grassroot people in entrepreneurship development.

Hypothesis

There is no significant difference on the level of participation among the grass root people in entrepreneurship development.

METHODOLOGY

Study Area

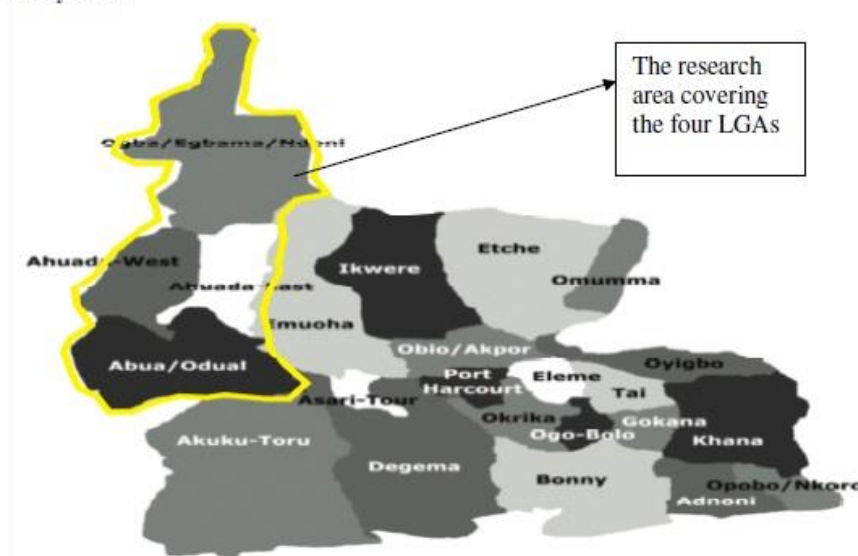


Fig. 1: Map of Rivers State showing the four Local Government Areas that makes up Orashi Region.

The Orashi region constitutes four Local Government Areas in Rivers State (i.e. Ahoada East Local Government Area, Ahoada West local Government Area, Abua-Odua Local Government Area and Ogbia-Egbema-Ndoni Local Government Area). It has its traditional features such as language and dialects, cultures, occupations, religion, etc. The people are predominantly farmers found among the rain-forest zone with good farm land, streams, lakes, rivers and other wild species. Rainfall is adequate (200-300cm) during the wet season which extends from April-November with a relative high humidity of about 80% through out the year; wind velocity is moderate and temperature is between 20OC-30OC. The region is situated within the Oil rich zone of Rivers State with a mixed vegetation of fresh water swamp and rainforest. The region comprises of seven (7) major groups inThe researcharea coveringthe four LGAs

Rivers State (Abua, Odua, Ekpeye, Ngene, Ogbia, Egbema and Ndoni which runs through Oguta in Imo State and even turns around Bayelsa and Delta States. The Orashi Region has full operation of multinational Oil Companies such as Nigeria Agip Oil Company (NAOC), Elf Petroleum Nigeria Limited (EPNL), Shell Petroleum Development Company (SPDC) and their subsidiaries.

Study Population

The population of study comprises of all the grassroot people in Orashi region of Rivers State, Nigeria. The grass root people are residents in the selected rural communities of the region.

Sampling Procedure and Sample Size

A multi-stage sampling procedure was used in selecting the sample from the population. At first, four (4) Local Government Areas (Ahoada East, Ahoada West, Abua-Odua and Ogba Egbema Ndoni) were selected. Forty respondents were drawn from a community in each of the local government area selected, using random sampling technique, this gave a total of one hundred and sixty (160) respondents that were interviewed accordingly.

Data Collection

The primary data for this study were collected using a well structured questionnaire interview schedule and Focus Group Discussion (FGD). Secondary data were obtained by review of relevant literatures in journals, books, and internets to elicit information necessary for the study.

Measurement of Variables

Age: Respondents were ask to indicate their age range in years.

Sex: This was measured by indicating the respondents' sex in terms of male or female.

Marital status: The respondents were asked if he or she was married, single, divorced, widow, or widower.

Number of children : The respondents were asked to indicate the number of children they had which were inrange.

Livelihood activities: The respondents were asked to indicate their source of livelihood i.e whether it is farming activities only or farming and other entrepreneurship.

Educational attainment: The respondents were asked to indicate their educational attainment.

Religion: Respondents were asked to indicate their religion in form of Christianity, Muslim or traditional religion.

Level of participation: The level of participation were measured using respondents' mean scores using a four point likert-type scale of Very High (4), High (3), Low (2), Very Low (1). Mean scores below 2.5 were considered to be 'low participation' while above 2.5 were considered to be 'high'.

Perceived inhibiting factors: These factors (institutional and infrastructural) were measured using mean scores of the respondents. A four point likert-type scale of 'to a very great extent' (4), 'to a great extent' (3), 'to a little extent' (2), 'to a very little extent' (1). Mean scores below 2.5 were considered as 'little extent' while above 2.5 were considered 'great extent'.

Data Analysis

Descriptive Statistics such as Frequency count, Percentages, and Mean were used to describe the data collected, while inferential statistical tool such as Analysis of Variance (ANOVA) was used to test the hypothesis of the study.

RESULTS AND DISCUSSION

Demographic Characteristics of the Respondents

Table 1 shows social economic characteristics of the respondents selected which were analyzed under the following sub-headings: age, sex, marital status, number of children, livelihood activities, educational attainment, and religion. Responding on the age, it was revealed that 3% of the respondents were within the age bracket of 21-30 while 13% were within the age bracket of 31-40. Within the age bracket of 41-50 were 21% while within the age bracket of 51-60 were 63%. This implies that most of the respondents were aged enough and were residents in the rural area and could no longer move to urban areas in search of white collar jobs. Result of the analysis in table 1 further shows that 80% of the respondents were female while 20% were male. This finding is in line with Enaikele *et al* (2010) who observed that most women love participating in income generating activities than their male counterparts. Responding on the marital status, it was revealed that 19% of the respondents were not yet married while 75% were married. 4% of the respondents were divorced while widowhood recorded 2%. The analysis of table 1 further revealed that 22% of the respondents had no children while 25% of the respondents had children within the range of 1-5, those who had within the range of 6-10 recorded 51% while 2% of the respondents had above 10 children. Responding on livelihood activities, it was revealed that 95% of the respondents engaged solely on farming activities while 5% engaged in farming and other entrepreneurship. This is corroborated with the study of Oyesola & Kadiri (2010) who observed that most grassroots are engaged in farming activities as their major source of livelihood. Responding on the educational attainment of the respondents table 1 revealed that 35% had no formal education while 18% of the respondents were involved in adult literacy programme, 13% had primary education as their highest educational qualification, 24% had secondary education while 10% had their tertiary education. Table 1 further revealed that 72% of the respondents were Christians while 28% of the respondents were traditionalist.

Table 1: Distribution of Respondents by Selected Demographic Characteristics (N=160).

Selected Personal Characteristics	Frequency	Percentage (%)
Age (Years)		
21-30	05	03
31-40	20	13
41-50	34	21
51-60	101	63
Above 60	-	-
Sex		
Male	32	20
Female	128	80
Marital Status		
Single	30	19
Married	120	75
Divorced	07	04
Widow	03	02
Widower	-	-
Number of Children		
0	35	22
1-5	40	25
6-10	82	51
Above 10	03	02
Livelihood activities		
Farming only	152	95
Farming & other entrepreneurship	08	05
Education		
Non-formal	56	35
Adult literacy	29	18
Primary	20	13
Secondary	39	24
Tertiary	16	10
Religion		
Christianity	115	72
Muslim	-	-
Traditional religion	45	28

Source: Field survey, 2013.

Level of participation on entrepreneurship development among the grassroot people

Table 2 revealed the mean scores of the respondents on the level of participation on the perceived entrepreneurship activities in the study area. It was revealed that the respondents actually participated in the identified entrepreneurship but their level of participation was low as indicated in table 2. This low participation as indicated by the respondents were as follows: The grassroot people of Ubeta in Ahoada West Local Government Area of Rivers State, had a total average mean score of (1.64), Ihu-bogo in Ahoada East had average mean of (1.70), Utu in Ogba Egbema Ndoni Local Government Area, had a total average mean score of (1.64) while Gbole-gbole of Abua-odua LGA had a total average mean score of (1.59). Studies from other rural development experts has shown that lack of participation in any development programme was a major factor that contributed to project failure (Abali et al 2010). This implies that the grassroot people should be encouraged to participate actively in entrepreneurship development in order to enhance the sector. This was why Ansari et al (2013) observed that one of the most important solutions to sustainable rural development is through participatory rural entrepreneurship.

TABLE 2: Mean Scores of the Respondents on the Level of Participation in identified Rural Entrepreneurship Development.

Perceived Entrepreneurship Activities	Ubeta (Ahoada West) (40)	Ihu-bogo (Ahoada east) (40)	Utu (Onelga) (40)	(Gbole-gbole) Abua-odua (40)	N
Soap making	1.93	1.73	1.60	1.93	4
Black smiting	1.63	1.93	1.70	1.60	4
Cane weaving	1.83	1.80	1.73	1.93	4
Petting trading	1.90	1.95	1.85	1.75	4
Juice making	1.65	1.63	1.60	1.80	4
Clothing and textiles	1.58	1.40	1.43	1.68	4
Production of body lotion	1.30	1.40	1.50	1.60	4
Wood carvings	1.60	1.93	1.73	1.70	4
Shoe making	1.70	1.60	1.93	1.40	4
Hat making	1.73	1.93	1.80	1.30	4
Tailoring	1.85	1.75	1.95	1.43	4
Production of local gin	1.60	1.80	1.63	1.30	4
Hair weaving	1.43	1.68	1.40	1.45	4
Fashion and design	1.50	1.60	1.45	1.43	4
Bead making	1.43	1.70	1.65	1.70	4
Masonry & joinery	1.60	1.40	1.30	1.43	4
Total mean	26.26	27.23	26.25	25.43	105.17
Total Mean (average)	1.64	1.70	1.64	1.59	6.57/4=1.64

Source: Field Survey 2013

*Maximum Mean Score = 4

Table 3: ANOVA result showing the level of participation in entrepreneurship development among grassroots people in the study area.

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	0.102	3	0.034	0.926	0.434
Within Groups	2.196	60	0.037		
Total	2.297	63			

P>0.05

From table 3, p-value (0.434) is greater than the alpha level (0.05). Thus, the null hypothesis which states that there is no significant difference on the level of participation among the grassroots people in entrepreneurship development. is accepted. Accepting the null hypothesis implies that the various communities under study participated at the same level. The study had already revealed a low participation among the grassroots people.

Perceived institutional and infrastructural factors inhibiting entrepreneurship development as indicated by the respondents.

Table 4 shows the mean scores of the respondents on the perceived factors (institutional and infrastructural) inhibiting effective participation in entrepreneurship development in the study area. It was revealed that lack of credit facilities (2.95), inexperienced of entrepreneurship development (2.89), lack of synergy between grassroots people with government (2.88), difficulties in securing loans (2.80) were barriers (institutional) to effective participation in entrepreneurship development which affected them to a great extent. Infrastructural barriers as indicated by the respondents included, lack of all seasoned roads (2.94), lack of electricity supply (2.91), and lack of information (2.86). These findings as indicated by the respondents corroborates with the studies

of Verheul *et al* (2001), Eftekhari and Hamdolah (2011), who in their own words suggested that, capital and investors attraction in rural areas, granting loans and low-interest credits to villagers, increasing villagers' awareness towards entrepreneurship development, creation of good roads, diversifying productions and rural activities particularly agriculture and other entrepreneurship as dominant activity, developing, processing and complementary industries in rural areas and etc., should be noticed in economic growth aspect, because an entrepreneurship activity with high effectiveness leads to economic development (including employment creation, innovation activities and competitiveness).

Table 4: Mean Scores of the Respondents on Perceived Institutional and Infrastructural Factors Inhibiting Effective Participation in Entrepreneurship Development in the Study Area.

Factors	Mean scores
Institutional	
Lack of credit facilities	2.95
Inadequate experience of entrepreneurship development	2.89
lack of synergy between the grass root People and Government	2.88
Difficulties in acquisition of loan	2.80
Infrastructural	
Lack of all seasoned roads	2.94
Lack electricity supply	2.91
Lack of information	2.86

Source: Field Survey 2013

*Maximum mean score =4

Perceived factors to effective participation in entrepreneurship development as indicated by the respondents.

Table 5 indicates percentage response of the respondents on perceived factors that can enhanced effective participation of the grassroots people in entrepreneurship development. Responding on provision of credit

facilities, it was revealed that 96% of the respondents indicated that provision of credit facilities will create propensity to participate in entrepreneurship development. This finding supports that of Agugene and Nnamdi (1988) who observed that rural producers requires loan for a variety of activities, ranging from purchase of seeds, fertilizer, items of farm equipment to livestock. They further advocated that apart

from traditional credit institutions, private lenders, merchants, friends and relations that helps in lending money to rural producers, that formal credit institutions should be established to perform a complementary role to the existing traditional organizations or even replace them altogether. This according to them would serve as a tool to enduring socio-economic prosperity of the rural people. Construction of all seasoned roads (83%), provision of electricity (75%), formation of organized groups (72%), increased synergy between Government and the ruralites (66%), adequate information on the importance of entrepreneurship development (64%), and organization of training programmes on entrepreneurship development(63%)

Table 5: Percentage response (s) of the respondents on perceived factors to effective participation in rural entrepreneurship development.

Factors	Frequency	% Response
Provision of credit facilities	154	96
Construction of all season roads	133	83
Provision of electricity supply	120	75
Formation of Organized Rural Groups	115	72
Increase synergy between the ruralites and government	105	66
Adequate information on the importance of entrepreneurship development	103	64
Organization of training programmes on entrepreneurship development	101	63

Source: Field Survey 2013

* Multiple Response

CONCLUSION AND RECOMMENDATIONS

Based on the findings of this study, it is therefore concluded that rural women were more involved in entrepreneurship development than their men counter parts. Most of the respondents were engaged in farming as a major source of livelihood while very few were engaged in farming and other entrepreneurship. It is also concluded that though the grassroot people participated in the identified entrepreneurship, their level of participation was low. This implies that the ruralites participated at the same level (low level). The low level of participation were attributed to lack of credit facilities, lack of all seasoned roads, lack of electricity supply, inadequate experience in entrepreneurship development, difficulties in acquiring loans, lack of synergy among the ruralites and Government, and lack of information. Based on these findings, the following recommendations were made:

- The provision of credit facilities to grassroot people will create room for empowerment and the propensity to participate at a very high level.
- Provision of functional and sustainable infrastructure such as construction of all seasoned roads, and electricity supply among others will help to revamp cottage industries thereby encouraging rural participation in entrepreneurship development.
- Increase synergy and incentives to grassroot people by Government and formation of Organized Rural Groups (ORGs) will pave way to enhancing the sector.

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APPENDICES



1. A sample of rural road in one of the selected Communities.



2. Production of local bar soap using palm bunch ash



3. Rural women weeding in their yam farm



4. Block molder molding blocks.



5. Tailoring



6. Shoe making



7. A Petty trader on agricultural produce.



8. Carpentering and joinery.



9. Juice making

ASSESSMENT OF SMALL ENTERPRISES' NEED FOR BUSINESS ASSISTANCE TO OPTIMIZE THE CSR OF HOLCIM INDONESIA PUBLIC LTD. CILACAP PLANT

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Abstract

Holcim Indonesia Public Ltd Cilacap Plant which has been exploiting limestone in Nusakambangan Island and clay in Tritih Kulon village concerns a lot about community development through corporate social responsibility (CSR). One of Holcim's CSR activities is providing aids to small enterprises within the plant proximity. The aids include the development of microfinance institutions, machinery and equipment grant, training, and marketing outlet. The Community Relation Manager of the plant emphasized the importance of determining the right business assistance for small enterprises under its supervision. This study was aimed to assess the needs of small enterprises for business assistance in order to optimize the CSR of Holcim Indonesia Public Ltd Cilacap Plant. There were 71 business enterprises distributed in 19 villages in Cilacap district. Apart from interview, focused group discussion (FGD) was also used to collect data. Data such as capital, human resource, marketing, innovativeness, training, social capital, partnership, income and profit, contribution of business to household income, and welfare of respondents' households were analyzed descriptively using frequency distribution. Regression analysis was employed to identify the determinants of business progress in term of profit. Tables of frequency distribution show the distribution of respondents in several aspects reflecting that every single enterprise has unique need. FGD showed the same result. However, the need of specific group of enterprises can be identified; for example, there was a group of business constrained by raw material seasonal supply and another group lacking production capacity. Regression analysis explained that length of business and capital had positive, significant association with profit. The results identify four general problems facing the small enterprises: capital, operation, marketing, and bookkeeping. These findings are the basis for recommending business assistance by Holcim Indonesia Public Ltd. Cilacap Plant to the small enterprises surrounding the plant.

Keywords: CSR, economic empowerment, small business, business assistance, need assessment.

1. Introduction

Act No. 40/2007 about Limited Company chapter V article 74 subsection 1 mentions that limited companies exploiting natural resources are obliged to implement social and environmental responsibilities. In compliance with the act, Holcim Indonesia Public Ltd Cilacap Plant which has been exploiting limestone in Nusakambangan Island and clay in Tritih Kulon village cares a lot about community development through corporate social responsibility (CSR). One of its CSR activities is providing aid to small and medium enterprises within the plant proximity.

Small and medium enterprises occupy an extremely strategic position within the Indonesian economy. For example, during 2005-2009, the number of small and medium enterprises constitutes 99.99% of national figure, and their contribution to national employment ranges from 96.85% to

97.27% (Ministry of Cooperative and Small and Medium Enterprises, 2010). However, their contribution to GDP is approximately 58% and contribution to total export is around 17%.

In order to promote small and medium enterprises, in the beginning Holcim provided capital aid directly. The Community Relations Manager of the plant explained that under this scheme, only few enterprises maintain their survival including cajuput oil refinery, ettawah goat production, milkfish farming and processing, Javanese goat production, and beef cattle production; the rest failed.

Having learned from the experience, Holcim inferred that the failure might stem from the lack of accountability. Therefore, Holcim built two microfinance institutions: Tunas Mekar Nusantara Cooperative and Baitul Mal Wattamwil (BMT) Bina Mitra Sejahtera to distribute loans. Under the new system, creditors borrow from the cooperative instead of Holcim and are responsible to pay back. The new system was more successful in terms of lower non-performing loan, so that more people can get benefit from the revolving fund. The accountability is expected not only to hold down non performing loan, but also to promote business progress.

Since Unsoed initiated the program of Pos Pemberdayaan Keluarga (Posdaya) which concerns on promoting four aspects of development (health, education, economy, and environment) in 2009, Holcim has been active in supporting the program. Up to 2011, there has been 36 Posdaya in 19 villages under Holcim supervision. In those Posdaya, there are groups of enterprises. However, those groups have problems in marketing their products. Therefore, Holcim developed Entrepreneurship Community Development Center (ECDC).

The shares of ECDC coming from Holcim CSR fund was then distributed to 3 stakeholders: Tunas Mekar Nusantara Cooperative, Baitul Mal Wattamwil (BMT) Bina Mitra Sejahtera and Posdaya. It is expected that after two years ECDC can stand on its own, independent from Holcim financial support. ECDC created a limited company which is called PT. Daya Bersama Nusantara. The limited company launched Panginyongan outlet that sells the products of Posdaya on April 24, 2012.

The Community Relations Manager says that Holcim requires need assessment in order to provide the most suitable business assistance to the small enterprises under its CSR supervision. During the Community Advisory Panel (CAP), an annual event organized by Holcim to accommodate stakeholders' aspiration to allocate CSR fund for community development, one of the suggestions from the community is that Holcim is expected to provide business assistance to small businesses, one of which is financial management.

This study aims to measure the progress of small enterprises supervised by Holcim under its CSR programs and to identify the factors that inhibit business progress. Based on these, the authors assess the enterprises' need for business assistance in order to perform better.

2. Theoretical Framework

CSR was rooted from Three Bottom Line (TBL) theory initiated by US business strategist, Elkington (1998). TBL concept, also known as “people, planet, profit” requires that business practices should benefit stakeholders instead of shareholders. Shareholders include anyone directly or indirectly affected by corporate operations. Therefore, business organizations should serve to accommodate the interests of stakeholders, and not to maximize shareholders’ profit. The reason underlying TBL paradigm is that business progress should not only be measured from financial performance, but also social, ethical, and environmental performance.

Definition and Role of Micro, Small, and Medium Enterprises

According to Act No. 20/2008 about Micro, Small, and Medium Enterprises, the criteria of each business scale are as follows.

Table 2.1. Criteria of micro, small, and medium enterprises according to Act No. 20/2008

No.	Business scale	Criteria	
		Asset (IDR)	Turnover (IDR)
1	Micro	≤50 million	≤300 million
2	Small	>50 million-500 million	>300 million-2.5 billion
3	Medium	>500 million-10 billion	>2.5 billion-50 billion

The report of the Ministry of Cooperative, Micro, Small and Medium Enterprises mentioned the share of micro, small and medium enterprises during 2009.

Table 2.2. Share of micro, small, and medium enterprises to the Indonesian economy 2009

No.	Aspects	Share (%)
1.	Number of business units	99.99
2.	Employment	97.30
3.	GDP at current prices	58.3
4.	GDP at 2000 constant prices	58.17
5.	Total export of non oil and gas	17.02

The table shows the significant contribution of micro, small, and medium enterprises to the Indonesian economy as shown by dominating number of business units and employment. However, their contribution to GDP is about 58 percent reflecting the low productivity as compared to big business. Moreover, the small share of export indicates the low competitiveness of micro, small, and medium enterprises in international markets.

The Role of Microfinance Institutions

Studies in many countries indicate that poor people are able to work hard and are self reliant. However, most of them do not have access to formal credit institutions to accumulate more wealth because they have low income and thus credit risk (Kasim and Jayasooria, 2001). Dercon (2002) argued that saving, credit, and income diversification are among the strategies to deal with risk.

Therefore, microfinance institutions (MFI) have a highly strategic role for the poor in developing countries.

MFI can be broadly defined as the provider of financial services such as saving, loan, payment services, and insurance for poor households and agricultural sector. In practice, microfinance institutions do not merely engage in financial services. Instead, they are involved in various empowerment efforts to assure that the loans they distribute will generate the highest possible benefits. For example, microfinance institutions in South Africa developed road infrastructure, health service, and school. In Mali, MFI integrates credit and education. The increase in income from agriculture do not only contribute to household income, but also improve food security, empowerment, women self reliance and children education (Mwenda and Muuka, 2004; Kumar and Newport; 2005).

The extent of MFI role in eradicating poverty depends upon its contribution to the removal of constraints that restrict individual freedom. This issue is called good corporate governance, which is among others indicated by care to members' aspiration (Labie, 2001; Elahi and Donopoulos, 2004). Allred (2001) emphasized the importance of asking consumers'/members' expectation that constantly changes overtime. When they are not satisfied, they will quit.

One of the successful stories of MFI is Grameen Bank in Bangladesh. The success was among others rooted from the fact that it concentrates to serve women (Kalyalya, 2003 in Mwenda dan Muuka, 2004) and group responsibility in repayment as collateral, instead of physical asset (Osman, 1999 in Mwenda and Muuka, 2004; Campbell, 1999).

Nienhaus and Brauksiepe (1997) argued that cooperatives, communities and other self-reliant organizations, in the right framework, have developed significantly and are more effective than other types of business. The right framework requires group monitoring or social control. This could be facilitated by homogenous population and geographic immobility.

Business Assistance for Small Enterprises

Apart from financial role by giving loan, MFI should contribute to the improvement of microenterprises through its developmental role. Hoque (2004) argues that the stagnation of small enterprises is due to the fact that MFI simply play financial role and neglect developmental role. According to the Deputy Ministry of Cooperative, Micro, Small, and Medium Enterprises for the aspect of Business Development and Restructuring, business assistance for small and medium enterprises was highly potential to reduce non performing loan (<http://umkm.bcbali.com/perdagangan/berita-usaha/pola-kredit-macet.html> accessed 27 Nov 2011). In her study about non performing loan in North Sumatera, Nanny Dewi T. (2006) recommends business assistance to solve the problem.

As part of developmental roles, motivation to clients is imperative. Fleischer (1999) argues that one of the fundamental principles of Grameen Bank is that the bank helps the poor to solve their problems. Therefore, Grameen has worked hard to remove myths constraining the poor such as the fact that they do not have skill, cannot save, cannot collaborate, etc. Fleischer further recommends that MFI should be integrated with business training to encourage business progress

and to enhance skill diversification to deal with market maturity. Skill improvement which reflects innovation is very important because business performance is the function of innovation (Najib and Kiminami, 2011).

Based on two empirical experiences in Surakarta, Central Java, Karsidi (2005) concludes that collaboration among stakeholders produce a better business performance. Therefore, technical and non technical assistance programs should be coordinated among stakeholders to get optimum results. Simply capital aid will not help business a lot. Instead, broad orientation on the need of small business should be taken into account. Furthermore, participatory and bottom up approach are proven to generate better performance.

Local Governance Support Program (2009) documented the good practices of business assistance organized by government. The following are the general conclusions:

- a. In general, the business assistance for micro, small, and medium enterprises has been administered by a separate service unit such as business clinics, small enterprise service center, multi-stakeholder forum, etc, which reflects the partnership among local government, supporting elements (association, banking industry), and small enterprises.
- b. Key success factors include strong willingness, activeness, and mutual collaboration among stakeholders, strong commitment of local government as reflected in budget, participatory approach, and sharing experiences among regions.
- c. The challenge is almost similar i.e. the change in local government personnel.

Corporate Social Responsibility (CSR)

Barnett (2007) defines CSR as the voluntary allocation of corporate resources to increase the social welfare to extend relationship with main stakeholders. CSR can also be seen as the way business have relationship with such stakeholders as employees, customers, suppliers, nongovernmental organizations, natural environment, and shareholders (Waddock et al., 2002; Snider et al., 2003).

Act No. 40/2007 about Limited Company Chapter V article 74 about Social and Environmental Responsibility says:

- 1) Limited companies doing business in or related to natural resources are obliged to implement social and environmental responsibility.
- 2) Social and environmental responsibility as mentioned in verse (1) is the obligation and is calculated as cost whose implementation should consider adequacy and fairness.
- 3) Companies which do not implement the obligation as mentioned in verse (1) will be sanctioned in accordance with regulatory laws.
- 4) Further details about social and environmental responsibility are regulated by government regulations.

According to Balasubramanian et al. (2005) and Kumar et al., (2001), there are four models of social responsibility:

1. Ethical model (corporate voluntary commitment for community welfare);

2. Static model (state proprietorship and regulation on corporate responsibility);
3. Liberal model (social responsibility is limited to private owners);
4. Stakeholder model (corporate responds to stakeholders' need – customers, employees, community, etc.).

More corporate are aware of implementing CSR programs as part of their business strategies. Global survey by The Economist Intelligence Unit shows that 85 percent of senior executives and investors selects CSR as the main consideration in making decision (Warta Ekonomi, 2006). Sayekti and Wondabio (2007) found that investors appreciate CSR information reported in the annual corporate reports. By implementing CSR, it is expected that corporate acquire social legitimating and maximize long-term financial power (Kiroyan, 2006).

From business perspective, CSR has been no more seen as cost center. Instead, it has been part of business strategies to increase profit and stabilize business growth (Hasan Asy'ari, 2009). For example Unilever has launched program on the socialization of clean water,. Another example is training on installation, maintenance, and reparation of electronic products for drop-out students. Both programs are very beneficial for communities. For the companies, such programs are expected to extend sales. Sustainable CSR programs are expected to create higher welfare for the beneficiaries (Siregar, 2007).

3. Research Method

This study is descriptive, qualitative in nature. It describes business characteristics from many aspects including operation, marketing, finance, and human resources. Furthermore, the study is associative because it seeks to identify the determinants of business progress. The aim of the research is to assess the need of small business under Holcim supervision through the following steps:

- a. to measure the progress of small business receiving aid from PT. Holcim;
- b. to identify the determinants of small business progress; and
- c. to identify the factors that constraint small business development.

The population of this study consists of small business owners who received aids from Holcim in 19 villages; all are interviewed.

The following are the measurement of variables. Business progress is measured by profit, whereas the determinants of business progress consist of type of business (individual/group), length of business (years), age (years), type of workers (family/hired worker), education level (years), household size (number of household members), capital (IDR), creativity (1 to 5 from very low to very high), training (yes/no), and social capital (number of organizations (Ogunrinola, 2011)).

Data were collected through semi-structured interview using pretested questionnaire. There are closed-ended questions and open-ended questions pertaining to the determinants of business progress. Moreover, data were collected through focused group discussion (FGD) to get deeper understanding about the factors constraining small business progress.

Descriptive data are presented in frequency distribution. The results of FGD on the factors constraining business success are presented descriptively. Determinants of business progress are identified with the following multiple regression formula:

$$\text{Lnprofit} = a + b_1 \text{btype} + b_2 \text{lnlength} + b_3 \text{age} + b_4 \text{worker} + b_5 \text{hhsiz} + b_6 \text{train} + b_7 \text{socap} + b_8 \text{lnedu} + b_9 \text{lnacap} + b_{10} \text{lncre} + e$$

where:

btype : dummy of business type; individual (0) or group (1)
length : length of business (years)
age : years
worker : dummy type of workers; family (0) or hired (1)
hhsiz : household size (persons)
train : dummy of training; not participated (0) or participated (1)
socap : social capital (number of organizations the respondent join)
edu : education (years of schooling)
acap : capital (IDR)
cre : creativity
e : error term

4. Results and Discussion

Description of Respondents

Among 71 business enterprises, 7 are owned by groups, while the rest belong to individuals. Twenty-eight has business identity, and 43 have no identity and thus produce generic products. This reflects unawareness of the importance of business identity as a promotional tool to customers.

All businesses are located in respondents' house. This shows that the business scales are relatively small. Most of them (88.73 percent) produce food and beverage. The rest (11.27 percent) are doing business in handcrafts (5 respondents), sewing service (1 respondent), composting (1 respondent) and slipper production (1 respondent).

The shortest business length is less than 1 year and the longest 37 years. Most respondents have been doing business for 1-3 years. Posdaya program was launched in 2009 (3 years ago). This shows that Posdaya program has promoted business. Since the initiation of Posdaya, there are 31 new business enterprises (43.66% from the respondents).

The oldest respondent is 62 years old and the youngest is 27 years old. All respondents are in the range of productive age, but most of them (73.24 percent) are between 31 to 50 years old. The highest education level is strata one, and the lowest is elementary school. Elementary school dominates, followed by senior high school graduates.

The biggest household size is 6, and the smallest is 1. Depending on the age of household members, household size reflects the availability of human resources or dependence. Among 71 respondents, 47 (66.20 percent) do not engage in any other livelihood other than the business being observed. The rest (24 respondents or 33.80 percent), earn income from other livelihoods such as petty trading, farm labor, pension, employee, printing offset, teacher, and carpenter. Ten respondents (14.08 percent) are single income earners in their households.

Capital

The initial capital of respondents varies between IDR20,000.00 (handcrafts from plastic recycling and miscellaneous cakes) to IDR30,000,000.00 (catering). Most respondents' (69.01 percent) initial capital lies between > IDR100,000.00 to IDR2,000,000.00. Most of them started business in food and handcraft production which require relatively small capital. The initial capital has been generally used to purchase raw materials and equipment. Respondents doing food business generally has acquired cooking appliances, stove, and gas tube.

Capital development from the beginning of business up to the event of the survey has shown an increase. The bottom three categories ($\leq$ IDR100 thousand, >IDR100 thousand - 500 thousand and >IDR500 thousand – 1 million) has shown a decreasing frequency, while two categories above the bottom three (>IDR1 million - 2 million and >IDR2 million - 5 million) increase. Similarly, the frequency of capital category of >IDR5 million - 10 million decreases, whereas that of >IDR10 million – 15 million increases. Similarly, the top capital category (>IDR25 million) also increases.

The growth of capital serves as an indicator of stagnation/progress. Based on this indicator, most respondents' business (87.32 percent) has shown progress. The sources of capital vary from equity (46.48 percent), grant, and loans from various sources including relatives, other businesspeople, CSR, and government program. No one gets loan from bank. Fifty-one respondents say that their capital is not adequate, while 20 respondents adequate.

Production process is divided into two categories: continuous (everyday, once in 2 days, or once in 3 days) and by order. Some produce only when raw material is available (salted fish). At the beginning of their business, only 4 enterprises acquire household production permit. With aid from Holcim, there have been 17 enterprises acquiring the permit, and 7 enterprises in the process of getting it. There is one respondent who possessed trade permit and registered enterprise.

Most respondents get raw material from Cilacap, except slipper producer from Tasikmalaya, West Java. Most of them (47 respondents or 66.20 percent) report that they have no problem with availability and quality of raw material. The rest (24 respondents or 33.80 percent) have problems with raw material including seasonality, scarcity, un-standardized quality, increasing price, import dependency and high transportation cost.

Human Resource

Most respondents (73.24 percent) rely on family workers. Only a small percentage of them hire workers. This reflects the small scale of their business.

Marketing

Marketing has been limited to Cilacap district. Only one respondent has sold to a broader market. Forty-two respondents report no problem in marketing. They say that their products have been well-known and their customers are loyal. Instead of marketing problem, some complain the scarcity of raw material and skilled, highly-motivated workers, and the low production capacity. The rest (29 respondents) have problem in marketing. The most frequently reported is the limited marketing area. Other reasons include unattractive packing (big bottle for ketchup), short shelf life (aloe vera drink), competitor's lower price, and transportation problem (inadequate transportation mode).

Creativity

Creativity and innovation are very important for entrepreneurs in order to deliver satisfaction to customers. Among 71 respondents, 11 have never searched for business innovation. The reasons include 1) the product is difficult to innovate (palm sugar), 2) customers like the product and 3) the business is startup. The rest (60 respondents) have searched new ideas to develop their business. The results are the creation of new products, taste, form, and packaging. They report that innovations do not always succeed. Experiments sometimes fail, even when they succeed, it is not guaranteed that customers appreciate the innovation.

Training

Forty-one respondents have participated in training, mostly pertaining to production techniques, packing, and food safety. Only one respondent took part in motivation training. The trainings were organized by many parties such as Cilacap Agency of Industry and Trade, National Program of Community Empowerment, Holcim, Pertamina, Cilacap Agency of Health, Cilacap Agency of Fishery, Unsoed and the Environmental Body of Central Java province. They mentioned the benefits of participation in training as it enhances knowledge and stimulates innovation. Furthermore, they also appreciate the grants of production equipment, working capital, and production permit following the trainings.

Social Capital

Respondents' participation in organization is used as the indicator of social capital. Number of organization the respondents join varies from 0 to 4. The following are the benefits of joining organizations as mentioned by respondents:

- getting to know the availability of raw material and price determination (association of home industry)
- selling products at the meetings of the organizations
- are encouraged to develop
- ease to get household production permit

- getting information and develop skills
- getting sales order for the organization meetings
- sharing ideas (village women association)
- getting information about trade expo
- extended marketing areas due to enhanced network
- higher possibility to receive grant.

Partnership

Only 7 out of 71 respondents do not have partners. Sixty-four are in partnership with suppliers and distributors/retailers. In general the partnership has been built since the business startup.

Income and Profit

The business turnover of respondents varies between IDR25,000.00 to IDR34,560,000.00 per month. However, there is an extremely high turnover of IDR160,000,000.00 per month. Profit is measured as revenue minus costs. The costs include raw material and supplies, fixed asset depreciation, wage, rent of business location, electricity, and water. Having included the implicit costs such as family workers and rent of business location, the respondents' profit varies between IDR –Rp211,052.38 to IDR15,449,166.67 per month.

Contribution of Business to Household Income

Business income is calculated as the sum of family workers' wage and business profit per month, and household is the total income of all household members from various livelihood sources per month. The contribution of business income to household income varies from 3.25 percent to 100 percent.

Welfare of Respondents

Welfare of respondents was measured as the ratio between household income per capita and minimum living standard of Cilacap district in 2012 (IDR884,800.00 for municipality, IDR848,400.00 for eastern areas and IDR844,000.00 for western part). Because the research is located in municipality, the effective minimum living standard is IDR884,800.00. The result shows that only 45.31 percent respondents are above the threshold.

5. Determinants of Business Progress

The respondents' business progress was measured by profit calculated as revenue minus costs. Two respondents were excluded because they experienced losses. Using regression analysis, the estimated model is as follows:

Table 1. Regression results

Variables	Coefficient	Standard error	p-value
Business type	0.979	0.846	0.252
Length of business	0.450	0.184	0.018
Age	0.018	0.017	0.305
Type of workers	0.634	0.389	0.109
	0.223	0.144	0.127

Household size	-0.013	0.339	0.970
Training	0.013	0.157	0.934
Social capital	0.090	0.299	0.765
Education	0.509	0.158	0.002
Capital	-0.108	0.778	0.890
Creativity			
R ²	0.426		
Adjusted R ²	0.314		

Among 10 independent variables, only length of business and capital have been significantly associated with profit. Both have shown positive sign which means that the longer the business and the bigger the capital, the higher the profit. Length of business reflects the resistance of business against competition and business shocks. It also indicates higher accumulation of skills and experience. The results also show that enterprises with higher capital are more likely to earn higher profit. Even though insignificant, training and creativity have shown unexpected results. The negative sign of training could be due to the fact that they mostly participate in training of production technique to initiate business. Therefore, those who are autodidactic or learn by doing by working with their parents or anyone else are neglected in the measurement of training. The unexpected sign of creativity could be explained by the fact that those who are highly creative are craft producers. However, this business is relatively new and the products are distributed in limited market.

6. Need for Business Assistance

Based on the description of respondents' business and FGD, in general there are four identifiable problems:

1. Capital

The problem does not stem from the availability of capital sources. Instead, it lies in the capacity of respondents to identify the amount of capital that they need. Some respondents simply mention that they need additional capital but are not clear why they need it.

2. Production

Problems pertaining to production take many forms such as seasonal availability (fruit and fish), inadequate quality and high price of materials, high transportation cost (slippers), and untimely delivery of material due to import dependency (soybean for fermented soybean production).

Other production problems include inadequate technology, such as manual press machine leading to low capacity, lack of adequate technology to stabilize seasonal supply of fish, lack of knowledge on natural preservatives, and lack of product diversification.

3. Marketing

Most respondents (43 out of 71) produce generic products, and therefore, cannot be differentiated from competitors'. Some reported limited distribution areas. Most of their products are promoted from mouth to mouth.

4. Bookkeeping

There are two respondents whose business units experience losses but are still operational. Furthermore, there are some respondents with very low profit. These could be due to the fact that respondents do not understand pricing technique. In general, respondents do not maintain bookkeeping.

Based on the above problems identification, the following business assistances are recommended. To deal with the problem of identifying capital need and pricing, training on financial management and bookkeeping should be organized. Individual guidance to business units is highly recommended to assure the training effectiveness. Problems in production aspect can be dealt with adequate technology, training on product diversification, and partnership. Adequate technology includes sufficient capacity and warehousing technology to solve seasonal material supply.

Marketing problems related to lack of promotion and limited distribution areas could be handled through the development of website to promote products to a much broader market. Partnership offers another solution. FGD also reveals that when businesspeople meet, they create business networking. They were committed to help marketing each other's products.

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PROOF OF DEINDUSTRIALIZATION ON MANUFACTURING SECTOR IN CENTRAL JAVA PROVINCE

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Abstract

In Indonesia, beside of the dangerous potencies of deindustrialization phenomenon, industrial sector policies were not in proper placed if it were compared to fiscal and monetary sectors. The manufacturing sector is placed to be complement side of the two sectors. Whereas in reality world, the real sector has contribute obviously more to public wealth. Related to the dangerous of deindustrialization and anticipated policy to alleviate it, the deep research to explore manufacturing deindustrialization is needful. The data will be organized to be panel data, which it includes to 35 regencies and cities in Central Java Province and covers to 2001 to 2011 time periods. This research will use some analytical tools to analysis, include to structural change and manufacturing economic base. From the analyses, this research identifies that deindustrialization process occur in Central Java Province. But it is just on several regions only. Other regions tend to keep in industrialization process. The fastest deindustrialization process can be detected in Regencies of Pekalongan, Batang, Sukoharjo, and also Semarang City, and Surakarta City. Although manufacturing sector being economic base, but the trends in theses region come to downward. Beside, the negative growth of manufacturing share in these regions area is following. Regencies of Tegal, Karanganyar, Semarang, Kendal, Kudus, and Pekalongan City are different. These regions are economic base in manufacturing that shows upward trend and the manufacturing share is growth positively. In these regions deindustrialization process tend to be undetected.

Keywords: Deindustrialization, Michaeli Index, Symmetric Location Quotient

1. Introduction

Economic geography theory has been emphasizing the important aspect of spatial location and focused on the relationship between transportation cost, agglomeration, and regional disparities (Puga, 2001). In addition to those, aspects of centripetal that shape the agglomeration and centrifugal that push to de-agglomeration process has been an important discussion on economic geography view (LaLiberte, 2009)

The importance of spatial location brings also to the condition of structural change impact in demographic activities. Any places where viewed as a place that contributed higher benefit are more likely inhabitable. Amos (1987) made a note that in United States any regions where the population occupied concentrated on city will generate higher income than other regions. The cities or metropolitan will rise financial or intermediatery service that it will reduce cost of capital and inter-trade (Kim, 2008).

The demographic mobility will have relationship with economic structural change. Modern sector that dominated by manufacturing and service sectors that take place on metropolitan area will grow more and rapidly than primary sector which ii dominate in farming sector location. The change of economical structure that it was signed initially by demographic mobility is being the proof on validity of the Chenery growth and Lewis dualism model (Blomqvist, 1990). It is in line with Helsel *et al.* (2006) who has stressed that manufacturing is economic key sector that determine

rate of economic growth. The opinion supports Kaldor Law that declares manufacturing sector will relate to higher life standard if it is developed well (Helsel *et al.* 2006: 83-98).

Some researches refer also the proof of the structural change phenomenon. Broadberry (2003) summarize that at the early of modernization era, the key outlook from development type in west European was the movement from farming sector to urban location that well-marked by high rate of urbanization intensity. Cook and Uchida (2006) research to garment industry in developed country and conclude that the labor workers had migrated to from lagged areas to advanced regions. UNCTAD (2006) had reported also the tendency of structural change in developed countries since the early of 1980's.

Many developing countries has showed the similar trend. Alvarez-Cuadrado (2009), on the case of 82 countries, showed that the advanced technological progress in manufacturing sector had been an attractive power to labor forces (labor push effect), while in developed country especially the technological progress in farming sector had pulled the movement of labor forced from farming sector to manufacturing sector. Wang (2002) on the case of China showed that structural change from primary sector to secondary sector has occurred from nineteen century or the early of twentieth century. Cour (2005) also showed that the tendency of structural change could be identified by the high mass migration or rural society to urban location in West Africa from 1930 to 1990.

On the perspective, the different result had been showed by Chatterjee (1995) that summarized structural change phenomenon in Indonesia. It is also by Frenkema (2007) that proved during Soeharto regime, inter or intra sector income have different rate especially the last of 1970 to early 1990. The structural change, the movement from primary sector to manufacturing and services sector, show the importance of the economic sectors in modern economics. The importance had taken to push every region try to endeavor on having industrial attraction.

From introduction observation, Central Java Province tends to have some signs of deindustrialization process. It was looked from the slowdown of manufacturing share to local economics. The trend of manufacturing share also decreases from 2006 to 2009. The growth of manufacturing sector had decreased from 4.64% on 2001 to 3,74 on 2009. The growth of manufacturing sector has been even lower also than totally economic sector since 2005. Table 1 shows the trend of economic share of manufacturing sector and its growth.

Tabel 1. Share and Growth of manufacturing Sector and Economic Growth in Central Java Province (2001 – 2009)

Year	Manufacturing Share (%)	Manufacturing Growth (%)	Economic Growth (%)
2001	25.44	4.64	4.12
2002	25.46	4.17	4.12
2003	25.62	4.56	3.90
2004	25.74	4.94	4.43
2005	25.72	4.32	4.42
2006	25.52	3.50	4.28
2007	25.53	4.86	4.85
2008	25.32	3.97	4.80
2009	25.09	3.74	4.72

Source: Indonesian Center of Statistic Agency, 2003 – 2011, data processed

2. Problems And Research Questions

By advanced economic consideration, deindustrialization phenomenon has negative effect seriously to economic performance. The presence of deindustrialization process will impede the positive effect of manufacturing development. The positive role of manufacturing was described by Szirmai (2009) that; manufacturing development had positive correlation to the increasing of per capita income in many developing countries; the sector had special offering on capital accumulation while it was not for farming sector; the change of economic scale of manufacturing were higher rate than farming even services selectors; and the sector had inter-sector linkage and spillover effect. From this phase, researchers try to find out the proof of industrialization and deindustrialization phenomenon in Central Java Province. Therefore, this research will examine how the phenomenon of deindustrialization in every regency in Central Java Province. The detection will use structural change primary. Economic base analyses will be added to know the mapping of manufacturing potency in the regions. Generally, to know how the importance of an economic sector uses Location Quotient Index (LQ). It was used before by Hanink, *et al.* (2008) who identified the specialized economic sectors in China, and Suharto (2002) who determined economic specialization between regions in Indonesia. LQ index is used also by Hollar (2003), Harpel (2006), Mack and Jacobson (1996), de Dominicis (2007), and Isaksen (1996). Even LQ method has widely used to detect the importance role of economic sectors, the method was flubbing methodologically. The generic LQ was characterized by non-symmetric measurement. By this research, the method will update to characterize symmetrically.

3. Theoretical Background

Deindustrialization is effect of *Dutch Disease*. The terminology is related to the the deindustrialization characteristic that manufacturing sector (import substituting industries) tend to lower to its role and the otherwise servicing sectors (*non-traded goods industries*) tend to grow up (Yokohama, 1989). The Dutch Disease process is dangerous to economics performance which it was cause manufacturing sector being uncompetitive in international trade. Early, it was related to the invention of new natural resource which that push the movement of other resources, especially labor current, to the newest economic sector. It was happen initially in Dutch that was caused by the invention of natural gas in the North Sea (Berzins, 2010).

Williamson (2008) also noted that the deindustrialization in capitalism era had been found globally from 1870 to 1913. The process was signed by the increasing of specialization on primary product. It was happen generally to poor countries.

In the post modern era, the rapidity of deindustrialization process are met on many under developing countries, in particularly to the countries which it has high rate of debt to international funding institution, like World Bank or IMF. The institutions tend to bound the countries to product and process raw material to export market. The argumentation underlying is industrial countries have comparative advantage on manufacturing machinery and finance sufficiency, so the under developing countries were suggested to focus on mineral and other primary commodities. It has the impact to country vulnerability that are the decreasing of resources price, the increasing of price of final product, and push to higher of unbalance of economic capability among countries. There are impacting to deindustrialization on the lagged countries, increasing of the debt, informalization worker, and increasing unemployment rate (Mapuva, 2010).

Generally, industrialization process was started by labor absorption economic sector which it has lower productivity, like farming sector, to higher level, it sis manufacturing sector. The

process was continuous that make share of manufacturing sector will be stagnant, and turn to downward. In the current time, share of service sectors would increase. The stage is called deindustrialization. Deindustrialization process would happen also by the movement of resources of production factors from manufacturing to economic sector that currently booming (Baky-Haskuee, 2011).

Deindustrialization would decrease employment rate relatively and furthermore was followed by the decreasing of economic output. Rowthorn dan Wells (1987), focused to OECD countries, has drawn the kinds of deindustrialization process; positive, negative, and ambiguous deindustrialization. First, positive deindustrialization will happen if the growth of labor productivity in manufacturing sector will be higher than other economic sectors. It pushes the downward of relative labor absorption in manufacturing sector. It is not the reflection of unemployment; because it will impact encouragement of unproductive sector will absorb the labor from manufacturing. This condition is suggested be a positive effect in consequences of industrial dynamic, a sign of development process. In this type, manufacturing output is still in competitive condition in global market, per capita income increase, and total unemployment reduces.

Second, negative deindustrialization is related to the decreasing of economic performance in every step of development. On the case, other sectors will not able to absorb any workers that were thrown away from manufacturing sector. Unemployment increases and the level of income will decrease. Nevertheless, when economic recession was passed through away and the level of production increase, negative deindustrialization will stop. It indicates that negative industrialization would be in temporary timing, which depends to economic cycle. Third, ambiguous deindustrialization is related to international trade structure that rise from the reasons; net export of manufacturing output share move to other economic sectors and it will push the movement of labor and other resources. In this case, total employment effect is ambiguous that is depended to specific trend in international trade (Rowthorn dan Wells, 1987). Specifically, liberalization of trade can be cause of deindustrialization process. Shafaeddin (2006) had founded that liberalization in international trade in developing countries will push to deindustrialization, specialization to primary product, and push the country to lagged nation.

Kassem (2010) has drawn the type of deindustrialization phenomenon. When deindustrialization happened, per capita income employment rate, and manufacturing output would decrease. He mentioned that the type of the deindustrialization was premature deindustrialization. UNIDO (2004) noted that the kind of deindustrialization had hampered economic structurally, that it has suffered in Africa; Botswana, Mozambique, and Mauritius. In the countries, the downward of per capita income has happened when the economic condition was not in mature (*point of maturity*). This type of deindustrialization is seriously dangerous to society welfare.

From other perspective, Rowthorn and Coutts (2004) had explained why deindustrialization pushes the downward of labor market in manufacturing sector.

1. *Specialization*. Some specific activities like design, supplier of food and transportation that it was managed by manufacturing firms move to be managed by specialist supplier.

2. *Consumption*. If society income increases in poor countries, income proportion to food consumption will decrease and consumption to manufacturing product will increase (Engel's Law). The next stage, for post industrial society, the type of society income will shift from manufacturing to servicing product (Bell's Law). It reflect to the downward relative price of manufacturing output.

3. *Productivity*. The rate of labor productivity growth is identically by economic growth minus to growth of employment. If output from two economic sectors increase in equal periods, the economic sector which it has higher productivity will have lower growth of employment rate. Share of the most dynamic economic sector will decline.

4. *International trade*. This factor will influence manufacturing employment in many ways. The productivity increasing will be stimulated by competition and it will push domestic firm to operate efficiently. The competition with imported product will increase higher productivity also if the manufacturing sector able to reduce firm that produces output with lower value added and inefficiently.

Ueno (2010) separates deindustrialization process to two kinds; direct and indirect deindustrialization. On direct deindustrialization, labor force will shift from manufacturing sector to energy sector. The impact is the change of relative price of any goods that increase the appreciation of real price. On indirect deindustrialization, the process will be impact to spending indirectly, where the increasing of real income will increase demand of servicing output.

To detect the existing of industrialization and deindustrialization process can be observed also by economic structural change. It refers to the change of economic concentration that impact to distributional income change, where income transfers among sectors (Cook and Uchida, 2006). Specifically, it is the change of share of economic sectors or labor along the time. Critical aspect 5 on determining structural change is the change of economic activity in an area over a particular period (Memedovic dan Iapadre, 2010). In modern economic, the positive structural change can refer identically of movement economic concentration from primary sectors (farming and mining) to secondary sector (manufacturing and services). Industrialization will be detected if the movement occurs from primary sector to manufacturing. Otherwise, deindustrialization will be detected from the declining proportion of manufacturing sector.

4. Research Methodology

Industrialization or deindustrialization process of a region can be detect from its structural change. It is also relate to the trend tendency of its manufacturing economic base. By Location Quotient, manufacturing sector of a region could be identified to be base or prime economic sector. If economic base of a region tends to increase along the time, it means the role of manufacturing become more important to all of regional economy. On analyzing data, this research uses panel data, for 2000 to 2009 periods of time series and include to 35 regions in Central Java Province.

4.1. Structural Change Index

The main criterion of economic structural change is declining of share of farming sector and otherwise increasing on manufacturing and servicing sectors. It is indicated from when per capita income increase, the contribution of farming sector to Regional Domestic Product decrease. In this research, the model of structural change refers to Szanyi (2006). The structural change between t and s years as distance between the two point measured by a given metrics d . The points may represent branches shares in total manufacturing or GDP. It is suggest two types of measures, the Euclidean metrics:

$$d_E(x^t, x^s) = \sqrt{\sum_i (x_i^t - x_i^s)^2} \quad \text{..... (1)}$$

and for the regional bloc metric determined by:

$$d_M(x^t, x^s) = \sum_i |x_i^t - x_i^s| \quad \text{..... (2)}$$

This later measure is sometimes altered as follows:

$$M(t, s) = 100 \times d_M(x^t, x^s)$$

The value of $M(t, s)$ is called to Michaeli index (Wziatek-Kubiak, 2002). Beside it useful to relative structural change an economic sector, it is used for determining the speed of structural change along t time periods (Aiginger, 2001).

This research will adopt the method, it is Michaeli Index, to detect the tendency of existence of structural change from primary sector (farming and mining sectors) and tertiary sector (servicing) to secondary sector (manufacturing). The index can reflect change of role of an economic sector in Central Java Province. It is useful to know about industrialization process in research area.

4.2. Dynamic Symmetric Location Quotient

On Kuncoro (2004) opinion, determination of economic base is one of important stage on regional development planning. It can be shown by index that counted from Location Quotient Index (LQ). The value of LQ reflects to the relative measurement of economic base or non-economic base of an economic sector to a region. If the variant of LQ in economic base criteria is large, it is indicate the specialization of an economic sector to the region. Value of LQ determines also to a region as locally destination, export, or import, and it depends to the value; same to, more or less than 1 (Mack and Jacobson, 1996).

Location Quotients Index in this research will use to identify if a region superior on manufacturing sector or not. The trend of series of LQ will detect of what the superiority tends to increasing, stable, or decreasing. Trend of declining LQ shows the manufacturing sector slowdown its potency to actuate whole of regional economy and it can be classified in deindustrialization process.

The formula to count LQ follows Wagner, 2000:

$$LQ = \frac{e_{si}/e_i}{e_s/e} \quad (3)$$

where:

e_{si} = product value of economic s in a region

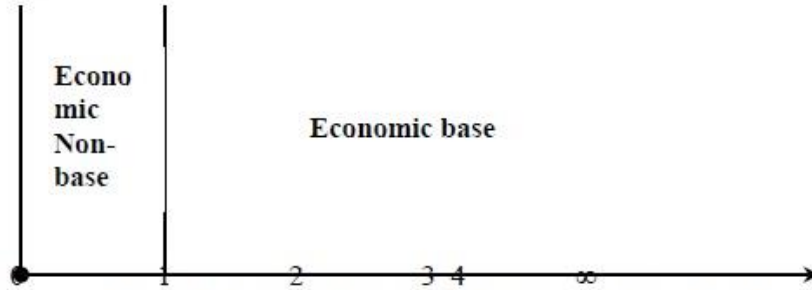
e_i = total Regional Domestic Product the region

e_s = product value of economic s in reference area (Central java Province)

e = total Regional Domestic Product in reference area (Central java Province)

If the economic sector has an LQ value more than 1, it is indicate that the sector is being leading sector, economic base value, otherwise to the LQ value less than 1.

Generally, even LQ analyses widely used to detect economic base, the indices value contains problem which is appeared from the value is not in symmetric. It can be shown from the range of the value, null to unlimited positive value (Picture 1). To solve this problem, this research try to make Symmetric LQ which it is counted from the basic LQ and convert to the limit value between -1 to 1.



Picture 1. Range of Static LQ to Base and Non-Base Economic

It is founded in international trade study that to detect any potencies of a product or an economic sector will use *Revealed Comparative Advantage Index* or (RCA). It shows specialization value of the product or economic sector. Dalum, *et al* (1998) formulates the RCA as follows:

$$RCA_{ip}^j = \frac{X_{ip} / X_p}{X_{ij} / X_j} \quad (4)$$

RCA Index for p product in i country or region is defined by share of total expor p product from i country divided by share of total of other product export (j) in i country.

In the same manner as LQ, the RCA is characterized by its symmetrical value. To solve this problems, Widodo (2008) develop the measurement to produce symmetric RCA, it is called *Revealed Symmetric Comparative Advantage* (RSCA):

$$RSCA_{ip} = (RCA_{ip} - 1) / (RCA_{ip} + 1) \dots\dots\dots (5)$$

The value will produce any value in distance of $\{-1 \leq RSCA_{ip} \leq 1\}$. If $RSCA_{ip}$ is more than 0, it shows that an i region have comparative advantage on p product or economic sector. Otherwise, if value of $RSCA_{ip}$ less than 0 the product of the region will have comparative disadvantage (Widodo, 2009). The value plot of RSCA will tend to spread between the range of $-1 \leq RSCA \leq 1$. It is different to regular RCA that tend to collect on the range of $0 \leq RCA \leq 1$, and to the range of $1 \leq RCA \leq \infty$ the value will spread.

To detect the stability of the specialization trend from comparative advantage with the RSCA value, simple regression method can be applied. Dalum, *et al* (1998) uses this formula:

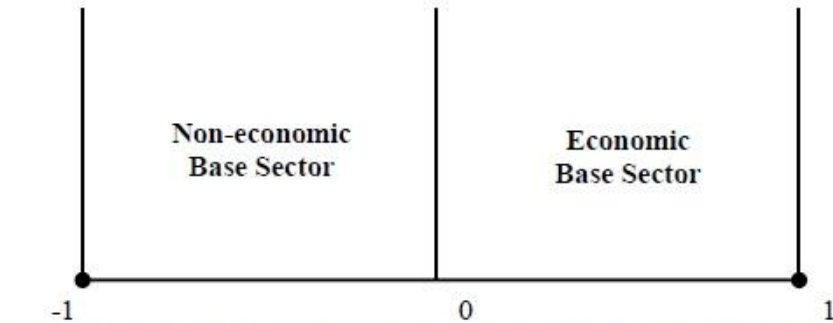
$$RSCA_{ij}^{t2} = \alpha_i + \beta_i RSCA_{ij}^{t1} + \varepsilon_{ij} \dots\dots\dots (6)$$

The value of t_2 and t_1 shows initial time and the last time. Depended variable of RSCA for i economic sector in t_2 year is examined by its independent variable for t_1 time. α and β show the coefficients of linier regression, and ε is residual factor.

Because the formula of LQ and RCA is identical basically, LQ can be extended with the RSCA model. So, standard LQ can be reformulated to be Symmetric LQ (Sym LQ) as follows:

$$SymLQ = (LQ_{si} - 1) / (LQ_{si} + 1) \dots\dots\dots (7)$$

where, s is an economic sector in region i . At this formula, the same distance of base and non-base economic can be acquired.



Picture 2. Range of Symmetric LQ for Base and Non-Base Economic

It is so to detect stability of SymLQ to tend increasing or decreasing. RSCA simple regression can be applied to SymLQ:

$$SymLQ_{si}^{t2} = \alpha_i + \beta_i SymLQ_{si}^{t1} + \varepsilon_{si} \dots\dots\dots (8)$$

To detect the dynamic form, this research needs to examine the Dynamic Symmetric Location Quotient (DLQ). Researcher use a measurement to find out the manufacturing potencies tends to growing up or declining by simple trend method;

$$Y_{jt} = a + bT + e \dots\dots\dots (9)$$

where:

Y_{jt} = Static Symmetric Location Quotient value in manufacturing sector at t year in a particular regency

T = time periods of observation

From the measurement, the b coefficient will have positive (+) or negative (-). Positive quantified indicates that the manufacture base on the region is increasing, while negative value can be summarized that the role of the sector tends to decrease.

5. Empirical Result

At recently years, Indonesian economy has threatened seriously by deindustrialization process. The manufacturing sector for all this time that has not been placed in proper portion can boost the deindustrialization process. The policy has placed monetary and fiscal side dominantly than industrial sector. Policy of industrial sector has been always considered to be complement of monetary and fiscal policy. In reality, this real sector gives more contribution to majority of societies. The industrial role can be seen from the large benefit that accumulated to economic welfare.

Government policy that applied to industrial sector is classified to macro policy and to specific policy. The macro policy emphasize to that manufacturing sector has spread linkage to other economic sector or even to intra sub sector. For specific policy, it is signed by development of manufacturing sector in specific region.

Like any other countries, the policy of industrialization in Indonesia was started from 8 imported substitution industry policy. This stage purposed to create home country production for any consumption goods which it is imported before. Strategy of the policy coincided with high level protection to (*infant industry*). The next stage was opening the protection by several deregulation act. It was hoped that industrialization process would generate manufacturing export product. The domestic product will face to globalization era and free market (Hamsar, 2010).

Since 1970's, industrialization process in Indonesia went on rapidly that followed by significant economic growth and dramatically structural transformation. The process was not only on output or employment, but also coinciding with industrial transition to capital intensive and skill labor intensive schemas, higher productivity and labor wage, and also spreading industrial base to the beyond Java Island (Hill, 1990).

From its industrial process, manufacturing sector has been convinced to have locomotion and boosted economic development, and also pushed non-oil and natural gas export. Since 1970, the manufacturing development had substituted the role of farming sector which the contribution to economic has slowed down. It can be detected at 2008 that manufacturing contributed to National Domestic Product more than 28%, while farming sector contributed 14% only.

The manufacturing sector has developed coincide with the higher level of investment (domestic and foreign). The dramatic growth was repressed by monetary crises at 1998. The weakening of industrialization process would be started by the decreasing of the demand in domestic market and export demand. It is worried that deindustrialization has emerged because the vulnerability of manufacturing sector by global effect. It is appropriate as Craft (1996) who had warned degeneration of manufacturing sector caused by deindustrialization will happen systematically on the long run. The declining will be followed also by servicing sector (Pike, Dawley and Tomaney, 2010).

Indonesian industry was estimated on deindustrialization process before attained to maturity stage. Ruky (2009) stressed that the type of Indonesian deindustrialization was negative deindustrialization. The decreasing of Indonesian economic growth coincided with the increasing of unemployment rata. Ruky (2009) detected that the deindustrialization in Indonesia was characterized by

1. The shifting of labor absorption structure. The job demand moved from manufacturing sector to farming sector, and the human resources moved from formal to informal sector. The absorption on labor in industrial sector was counted in low level if compared by other economic sectors, particularly from 1980 to 2007.

2. The trend of economic growth did not have special feature. The top of growth level was at 2004, it was 6.38%, but on the next years become less.

3. Since 2005, the manufacturing value added decreased.

4. The composition of non-oil and gas export on the 2003 to 2007 periods showed declining. Processing of industrial output to export oriented became shrinking.

Kuncoro (2009) noted also the indication of deindustrialization process in Indonesia. It was detected by lowering of manufacturing growth since economic crises 1988. On the period of 1987 to 1996, manufacturing has grown up to 12%. Since reformation era at 1998, the growth was 5.7% per years only for 2000 to 2008 periods.

5.1. Structural Change

To knowing the deindustrialization phenomena in Central Java Province, first identification is to know how the growth disparities among region in the Province. In the province, Region with the highest of manufacturing value is Kudus Regency. It contributes to total value of province manufacturing 19.91%. Semarang Regency is the next with contribution to 14.38%. Other regions with the manufacturing value more than average value are Jepara, Kendal, Semarang, Sukoharjo, Karanganyar, Cilacap Regency, and Surakarta City.

In the province, manufacturing growth tends to up and down for 2000 – 2009 periods. Annual growth the economic sector is average 4.28%. The growth is different for each region. For dispersion measurement, this table give an information that manufacturing performance in each 9 region in Central Java tends to fluctuate. It is also detected from the growth variation. The table shows an initial identification the unbalanced of the growth of manufacturing development for each region.

**Table 2. Variation and Standard Deviation of Manufacturing Growth
Regions in Central Java Province**

Year	Manufacturing Regional Domestic Product		Manufacturing Growth	
	Variation	Standard Deviation	Variation	Standard Deviation
2001	1.3449	1.1597	0.00062	0.02493
2002	1.3567	1.1648	0.00032	0.01788
2003	1.3584	1.1655	0.00048	0.02199
2004	1.3753	1.1727	0.00082	0.02866
2005	1.3720	1.1713	0.00050	0.02244
2006	1.3580	1.1653	0.00066	0.02574
2007	1.3487	1.1613	0.00050	0.02226
2008	1.3454	1.1599	0.00021	0.01443
2009	1.3526	1.1630	0.00030	0.01731

Source: Indonesian Center of Statistic Agency, 2003 – 2011, data processed

Table 3. Growth of Manufacturing Share (Average to 2001 – 2009)

No	Regions	Growth	No	Regions	Growth
1	Wonogiri	2.63%	19	Pemalang	-0.13%
2	Brebes	2.60%	20	Tegal City	-0.24%
3	Tegal	2.09%	21	Banjarnegara	-0.31%
4	Pati	1.62%	22	Wonosobo	-0.39%
5	Purworejo	1.28%	23	Batang	-0.48%
6	Blora	1.09%	24	Jepara	-0.49%
7	Sragen	0.89%	25	Sukoharjo	-0.51%
8	Karanganyar	0.67%	26	Grobogan	-0.70%
9	Purbalingga	0.59%	27	Pekalongan	-0.87%
10	Rembang	0.56%	28	Kota Magelang	-0.91%
11	Demak	0.46%	29	Klaten	-0.93%
12	Semarang	0.44%	30	Salatiga City	-1.06%
13	Pekalongan City	0.39%	31	Semarang City	-1.18%
14	Kendal	0.25%	32	Banyumas	-1.20%
15	Kudus	0.12%	33	Cilacap	-1.30%
16	Temanggung	0.05%	34	Surakarta City	-1.58%
17	Kebumen	0.04%	35	Boyolali	-1.97%
18	Magelang	0.03%			

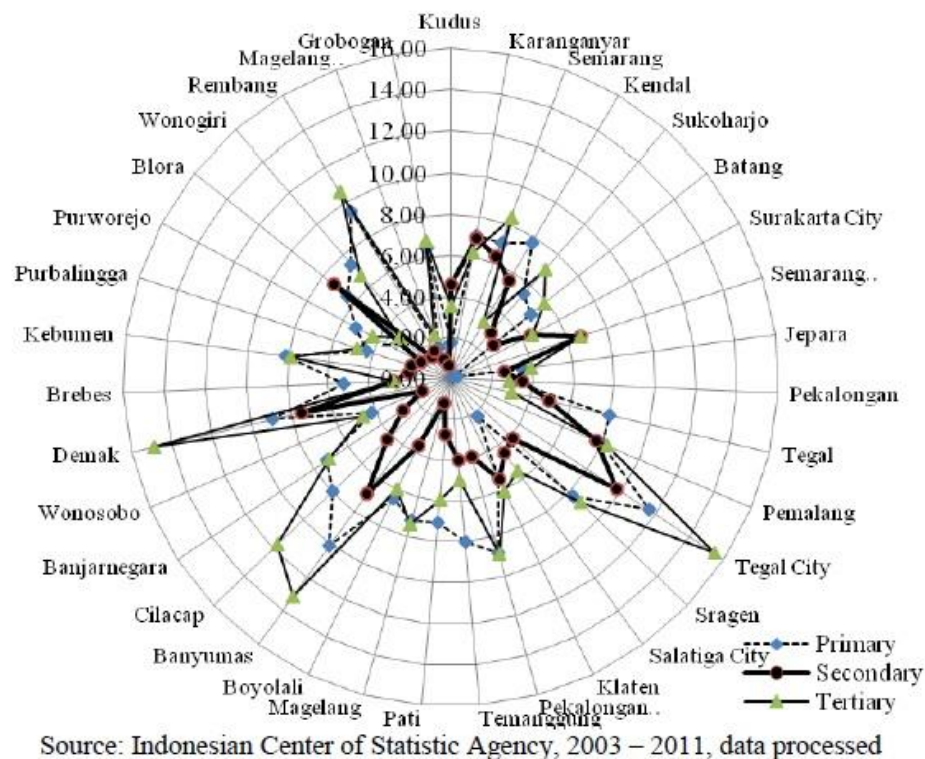
Source: Indonesian Center of Statistic Agency, 2003 – 2011, data processed

On the manufacturing developing process, the growth of manufacturing share to its local economic for each region has variation. It is counted that from 15 regions with its manufacturing share is more than Central Java manufacturing share level, 9 region show negative growth. Table 3 shows the share of manufacturing progress. The table is showing also that some regions with higher share of manufacturing tends to decrease its growth of share. Some regions with the manufacturing has little portion for its economic also tend to decrease. Banjarnegara, Wonosobo,

Grobogan, and Banyumas are the example of regions with concentration to primary sector which its manufacturing growth of share show decline. Compared to table 1 that indicates that since 2005 the manufacturing growth tends to decline, deindustrialization process shows intense. The share of 10 manufacturing sector tend to decrease, coincide with the slowly of manufacturing growth. Table 3 shows that the regions number 19 to 35 can be identified had been in deindustrialization process.

Next identification shows that the structural change occurs in many regions in Central Java Province. It can be shown by the positive value (>0) of Michaeli Index. The quantity reflects speed of structural change also. Higher index at a region shows that the region is more intense for its structural change, to its manufacture sector, than other regions.

The counted index shows that the speed of structural change for every region is different. Average index for its manufacturing sector is 4.05. From the Picture 1, the lowest is Grobogan (0.66) and the highest is Tegal City (9.75). The value of 0.66 in Grobogan indicates that it is almost no structural change in manufacturing sector at the region. Grobogan Regency is knows as a region with lagged area on manufacturing. This economic sector tends to stagnant at Grobogan. Otherwise, the value of Michaeli Index in Tegal City is 9.75 that show that the region is the most dynamic in economic structural change. However, this dynamically tends to negative for manufacturing sector. Combined to table 3, it can be declared that deindustrialization is in faster process. As the city type, economic sectors in the regency shift to servicing sector.



Picture 3. Michaeli Index to Each Region In Central Java Province

5.2. Trend of Economic Base

Star to the weakness of ordinary measurement of LQ, this research develops a Symmetric Location Quotient (SymLQ). The value shows that $\text{SymLQ} > 0$ indicates that manufacturing sector is economic base sector in a region. Otherwise, $\text{SymLQ} < 0$ shows its indicate manufacturing is not being economic base sector. For stability testing of the model, it indicates that the SymLQ has passed the statistic testing. In the stability test, SymLQ for t period will be influenced by the previous value of SymLQ, with the error probability less than 1% (Table 4). 11

For long time periods investigation, table 4 shows that Sym LQ keeps on stable. The correlation value of SymLQ on t period with SymLQ on $t-n$ period has positive value and the error probability is less than 1 for all correlation stage. For the linkage inter periods, longer time period of SymLQ will decrease the SymLQ correlation.

The counting of SymLQ shows that the value of SymLQ is positive to eleven regions in Central Java Province. It is indicated manufacturing sector is being economic base sector to the eleven regions. While other regions with negative SymLQ indicate its manufacturing is not economic base sector.

Table 4. Correlation Value Among Value of SymLQ in All Periods

	LQ _{t-1}	LQ _{t-2}	LQ _{t-3}	LQ _{t-4}	LQ _{t-5}	LQ _{t-6}	LQ _{t-7}	LQ _{t-8}	LQ _{t-9}
LQ _t	0,9997	0,9993	0,9985	0,9973	0,9960	0,9947	0,9929	0,9922	0,9909
LQ _{t-1}		0,9998	0,9994	0,9984	0,9973	0,9962	0,9944	0,9936	0,9923
LQ _{t-2}			0,9997	0,9990	0,9981	0,9970	0,9952	0,9945	0,9933
LQ _{t-3}				0,9995	0,9989	0,9978	0,9961	0,9954	0,9941
LQ _{t-4}					0,9996	0,9988	0,9974	0,9965	0,9951
LQ _{t-5}						0,9997	0,9987	0,9980	0,9967
LQ _{t-6}							0,9995	0,9989	0,9977
LQ _{t-7}								0,9996	0,9984
LQ _{t-8}									0,9992

Information: all correlation is in error probability less than 1%

Source: Indonesian Center of Statistic Agency, 2003 – 2011, data processed

Accompanying dynamic factor to detect the tendency of manufacturing to be economic base sector, it is resulted Dynamic Symmetric Location Quotient value to detect the trend Sym LQ, moving upward or downward. In some regions which its manufacturing is being economic base, positive trend of Sym LQ shows that the role of manufacturing is increasing strength, and negative trend shows the region decreases its potencies of manufacturing sector. For some regions with negative SymLQ, the upward of SymLQ shows that the potency of manufacturing sector is increasing, and the downward shows the region go to lagged manufacturing area. Picture 2 shows the mapping of SymLS on manufacturing sector.

Tabel 5. Value of Symetric Location Quotient (SymLQ) Each Region in Central Java Province (2000 – 2009)

No	Region	SymLQ	No	Region	SymLQ
1	Kudus	0,4113	19	Pati	-0,1388
2	Karanganyar	0,3376	20	Magelang	-0,1435
3	Semarang	0,2909	21	Boyolali	-0,1921
4	Kendal	0,2175	22	Banyumas	-0,1995
5	Sukoharjo	0,0897	23	Cilacap	-0,2626
6	Batang	0,0609	24	Banjarnegara	-0,2756
7	Kota Surakarta	0,0534	25	Wonosobo	-0,3915
8	Kota Semarang	0,0507	26	Demak	-0,4072
9	Jepara	0,0460	27	Brebes	-0,4244
10	Pekalongan	0,0412	28	Kebumen	-0,4447
11	Tegal	0,0324	29	Purbalingga	-0,4470
12	Pemalang	-0,0490	30	Purworejo	-0,4614
13	Kota Tegal	-0,0699	31	Blora	-0,6126
14	Sragen	-0,0851	32	Wonogiri	-0,7096
15	Kota Salatiga	-0,0968	33	Rembang	-0,7300
16	Klaten	-0,1015	34	Kota Magelang	-0,7572
17	Kota Pekalongan	-0,1107	35	Grobogan	-0,7626
18	Temanggung	-0,1219			

Source: Indonesian Center of Statistic Agency, 2003 – 2011, data processed



Information: SLQ means Static Symmetric LQ, and DLQ means Dynamic Symmetric LQ

Source: Indonesian Center of Statistic Agency, 2003 – 2011, data processed

Picture 4. Mapping of Regional Typology based on SymLQ Value

Related to deindustrialization process that is detected from structural change analyses, this Location Quotient analyses shows how seriously of deindustrialization process in all regions. The massive deindustrialization can be detected in Regencies of Pekalongan, Batang, Sukoharjo, and also Semarang City, and Surakarta City. These five regions are regions with its manufacturing sector being economic base, but it tends to downward. It is coincide with the negative growth of manufacturing share in these regions area. It is different with Regencies of Tegal, Karanganyar, Semarang, Kendal, Kudus, and Pekalongan City. These regions are economic base in manufacturing that shows upward trend and the manufacturing share is growth positively.

6. Closing

This research identifies that deindustrialization process occur in Central Java Province. But it is just on several regions only. Other regions tend to keep in industrialization process. From economic structural change, it is the movement of role of an economic sector to other, all regions in Central Java is detected to experience. This empirical works appropriate to other empirical works before that showed identically, they are (Chatterjee (1995), Wang (2002), Broadberry (2003); Cour (2005), UNCTAD (2006); Frenkema (2007), and Alvarez-Cuadrado (2009)).

In Central java province, the largest structural change is in Tegal City. This city is more attractive in servicing sector than manufacturing even farming sector. The growth of manufacturing share tends to downward that coincide with the rapid of servicing development. Otherwise, Grobogan Regency is identified to be a region where it is not attractive for manufacturing advanced and the sector also experience in deindustrialization process.

The fastest deindustrialization process can be detected in Regencies of Pekalongan, Batang, Sukoharjo, and also Semarang City, and Surakarta City. Although its manufacturing sector being economic base, but the trends in theses region come to downward. Beside, the negative growth of manufacturing share in these regions area is following. Regencies of Tegal, Karanganyar, Semarang, Kendal, Kudus, and Pekalongan City are different. These regions are economic base in manufacturing that shows upward trend and the manufacturing share is growth positively. It means in these last five regions deindustrialization process tend to be undetected.

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MODEL OF CARP FISH FARMER INCOME IMPROVEMENT THROUGH THE ESTABLISHMENT OF CARP FISH FARMERS' COOPERATIVE AT BEJI VILLAGE KEDUNGBANTENG SUB-DISTRICT BANYUMAS REGENCY

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ABSTRACT

The aim of this research is to examine the various aspects related to carp fish (*Osphronemus gouramy*) farming at Beji village, its potential to grow and ultimately formulate models in the form of Cooperatives to increase income. The method used in this research is a qualitative method with participation approach based on the object-oriented problem.

This research was located at Beji village Kedungbanteng sub-district Banyumas regency. Data used in this research consist of primary and secondary data. Primary Data were collected through various efforts such as in-depth interviews, informal discussions, observation, participation, and focus group discussion (FGD). While secondary data were obtained through content analysis technique of the books, records, documents, and other data from the relevant agencies.

The research subjects were 218 members of the carp fish farmers who are members of 16 carp fish farmer groups (*Pokdakan*). Respondent and informants were purposively selected and developed with snow-ball technique. Data analysis was done using Interactive Model of Analysis. Reliability test of the models was done through efficiency analysis using before-after approach.

Research has already produced a model of development of cooperative enterprise that doing member business in the future that provides a big opportunity to them. The models would form *Pokdakan* strengthen in the market-relationship from its original position as price taker to new position as price maker. As price maker position *Pokdakan* can obtain Rp5, - higher prices each carp eggs than as price taker for eggs are sold.

Key Words: Price taker to Price maker, Fish farmers, Cooperatives

INTRODUCTION

Carp fishing is one type of freshwater fish that has high economic value, because the market price is highest compared to that of other freshwater fish. As food, carp fish meat containing good nutrition, delicious taste and texture of the meat is not mushy (Respati and Santoso, 1993). Carp fish are very high demand not only from the surrounding area, but come also from outside the city, even from outside the province. Highest demand of carp fish comes from Jakarta. The current volume of demand transaction for consumption in Jakarta market is estimated at 10 tons to 15 tons per day. The suppliers who fulfill demand from Jakarta usually seek commodity stock from Banyumas Central Java Province (especially Beji), Parung, Subang, Indramayu West Java Province, and Kediri East Java Province to meet carp market in Jakarta. But the supply of these areas are still not entirely meet, demand is higher than supply or there is excess demand of carp fish. It means that there is still a chance for farmers to be able to increase their income carp through

increasing production. However, there are several crucial problems faced by farmers, among others, institutional, marketing, seed, feed, and medicine related carp fish.

Problem related to marketing, Peter and Stave, 1993 prescribe to improve the bargaining position of farmers is by combining small producers to come together so that production is relatively large and could affect the market. Merging the power of the farmers can be done by forming cooperatives. Theoretically cooperative can operate more efficient because it is support by many members that work together so that the production capacity connect to the level of economic of scale. Franz C, 1968 . Efficiency is the urgent aspect to competition power, because efficiency will decrease operation cost and further decrease price of output. Unfortunately carp fish farmers in Beji village do not master knowledge related to effort and cooperation in groups, and do not know how to build a business entity that rational, economical and legal. Therefore they need help from expert thinking from outside to realize the cooperative model which can help to overcome the problems faced by the farmers.

This study aims to formulate a model of development of carp fish farming in groups to increase income / welfare of farmers. Formulation of the model in this study will be designed using the concept of harmonization between *bottom-up* and *top-down*, with intense involvement of the target group. How it works is like this is expected to foster a high sense of their fish farmers, so as to implement the spirit of the result will be high, which in turn guarantees high success too.

ANALYSIS METHOD

Location and the object of research determined purposively carp fish farmer at Beji village Kedungbanteng sub-district Banyumas Regency. Beji village was chosen because it has a long experience in the field of aquaculture carp fish. Design used in this study is a qualitative design. Riant, 2002 stating that the use of qualitative research design assumptions, the nature of reality is subjective and more than one (multiple), the researcher interacts with the object of research, value-laden and not considering the issue of bias, inductive method used, reciprocally influence each other, on an ongoing basis, the design can be developed during the study, categories emerged / developed at the time in the field, tied to the context, and prioritizing critical interpretation and depth as a guide to prediction, explanation and understanding.

This research approach is more *grounded* to explore specific cases to support the model that will be developed. *Grounded* in the study, the data search process as much as possible without armed hypothesis, with the aim of describing the events and formulate an explanation about the emergence of the incident on the basis of observation. At study It also carried out a process of increasing knowledge, understanding, and awareness of the problem solving with groups on the basis of the interests and needs as well as the same goal. The process of increasing public awareness of this is done with the community empowerment approach (*community empowerment*).

Implementation of community empowerment plan was conducted using *Participatory Rural Appraisal* to find a model of increased income of gouramy fish farmers through surgery. Empowering communities conducted from early stage to late recall of public knowledge that has not been subjected to relatively deep research. If not done approach is feared can not form a suitable model, to be implemented properly.

This study also conducted a comparative study of the target group to group / other cooperatives that have been successful are relatively similar. It's important to remember as farmers usually they think pragmatically. Only existing evidence that they are willing to do, especially for the new things that have never been done before. It is very reasonable because they do not want to bear the risk even though this new potential. Reason is that the majority of farmers only mastered

the very limited resources, so that they do not want to do something that have clearly produced. In the comparative study was also carried out assessment and strategic analysis of the various aspects that can drive the success of the cooperative. The aspects that will be analyzed consist of aspects of preparation, requirements, technical management, administration .

The results of a comparative study will be disseminated to the short run participatory and persuasive. Socialization is done so that people understand the issues and provide practical learning for farmers. Model formulation is then performed jointly between the research team with members of farmer groups. Goal is the models built is really a model that suits your needs and problems being faced to improve the welfare and independence of members. The model will be built must be comprehensive and meet all the required aspects as an institution that is in accordance with the socio-economic and cultural. Systems, mechanisms, procedures and requirements should be developed on the basis of mutual interest to mutual independence.

RESULTS AND DISCUSSION

A. Characteristics of Respondents

Subjects were all members of the carp fish farmers who number around 218 people who are members of 16 groups of fish farming (Pokdakan). Number of samples was determined using the formula $n = \frac{N}{N(d)^2 + 1}$ (Hasan, 2002), where N is the number of population, n is the number of samples to be taken, and d is the error rate, the formula obtained from a sample of 69 people and rounded up to 70 people. Respondents also selected *purposively* with *snow-ball* technique. Criteria respondents are those who know in depth both the technical and organizational Pokdakan culture. Analysis performed *Interactive Data Models of Analysis*.

The time required to obtain data and information were more than 6 months, and the *focus group discussions* (FGDs) were conducted several times and the last can only be held on August 21, 2012. Number of FGD participants are not always the same, because they are busy, and the last focus group was attended by 24 people representing various parties, such as village officials, community leaders, officials and members Pokdakan, as well as the research team. The first focus group discussion was held at the secretariat office of Pokdakan 'Purwa Mina' straight in the middle of rice fields and night time because during the day they have different activities in the field from one another. Last FGDs conducted with the organization of group fish farming (GAPOKDAKAN) Beji 1 which consists of 13 Pokdakan on September 13, 2012.

B. Model Formulation

Beji village is the village that has the potential fish farm. It is by looking at the abundance of water resources. Up to 2012 there were 13 groups of Fish Farmers (Pokdakan) which utilize the water resources. Most of Pokdakan were organized embryo in 2005 to the top and just Pokdakan "Setia Maju" stand in 1989.

Overall each group meet regularly once a month. The meeting discussed the issues surrounding the preservation of fish, fish farming, they exchange knowledge and experience. The activities of the group members that they do is help each other in social matters, doing 5 their own activities either in conjunction with market inputs (seed, feed and medicines) and in selling the results in the output market.

GAPOKDAKAN activities make Pokdakan members understand fish farming properly. Since its establishment until 2012, GAPOKDAKAN was able to develop its members into 16 Pokdakan and that a new member is as much as eight Pokdakan with a total of 180 farmer members. In addition, provision of seeds by GAPOKDAKAN can meet any needs of members who made the member is no longer competing for seed. This success is in line with the ability to increase the area of land GAPOKDAKAN to utilize the pool of the village with a crooked land rents are relatively cheap.

The survey shows that h al are not nurtured well is in terms of marketing. Previous Pokdakan members are given the freedom to sell their own eggs results to traders (middlemen). This causes the member to determine the selling price of carp eggs that vary according to the conditions at the time so there are selling at a cheaper price than other members. This weakness were used by buyer to press the purchase price of the carp fish egg farmers.

Meanwhile the data reduction above from forum discussion group produces two groups of very important information that needs carp farmer groups as well as information about factors that lead to reluctance on the farmers to unite in cooperative institutions. List of farm group needs both internally and externally is as follows:

- a. Capital, especially to increase the quality carp parent, so as to produce good quality eggs.
- b. Expansion of market share. Currently demand for eggs has not fulfilled all the carp, but the tendency shows that the demand increases every year.
- c. Interesting system for all members and who have not become members interested in joining the group and make transactions through.
- d. Increased performance and productivity Pokdakan members
- e. Improved management and administrative groups.
- f. The need for cooperation with other parties to increase sales
- g. Requires good coaching of individuals or organizations who are willing to be adopted father.
- h. Increased knowledge of the importance of well-organized to improve the performance of the group.

The reasons for resentment against the establishment of cooperative farmers, which were collected by the research team are:

1. They assume that the cooperative is not flexible, not free for every individual in the act.
2. More complicated because of their view that cooperatives are legal entities, each violation will be in the process of legally
3. Levies by cooperative center
4. Handcuff paradigm in the past where a lot of failures in the cooperative.
5. Lack of knowledge about the cooperative society that makes Pokdakan reluctant to form a cooperative.

6. Lack of education about cooperatives.

Based on the information gathered, the developed model is expected to bridge the farmers in order to develop business of Pokdakan agencies in the market economy. The institute is a type of financial institutions that serve economically collect and nurture natural members of the group activities ranging from seed procurement to sales and distribution of the results to the market. The institute was formed to prepare for the establishment of cooperative institutions.

For the successful of Pokdakan it is necessary to develop and empowerment that will benefit for cooperative institutions as an integral tool business group. Coaching focused on increasing farmers' income and possible solutions facing the institution. This model is strong institutional to bridge interrelationship between member and both the out-put market and input markets.

Pre cooperative agency consisting of the members of the farmers in Pokdakan work together to raise funds for the purpose. In real terms the member is obliged to set aside some funds are handed over to be managed by organization. Model institutions that offer this kind is expected to cope with the problems of investment capital needs and working capital members. Moreover, organization of pre cooperatives formed for performing the efficiency of the procurement process needs since feed, seed, drugs and effectiveness outcomes in terms of eggs. Marketing eggs are also expected to be conducted by this agency to determine the optimal price.

Model of the relationship between farmers, Pokdakan with market research before applying the model proposed by the researchers is very different from the establishment interaction among farmers. In the initial model, farmers interact directly with individual market and there was not the role of the group. Its was happened due to the last experience that last cooperation run by bed management. Anderson, et al (2003) stated that not all cooperatives are good. They will depend on many aspects like member participation and contribution, its management, and so on. Through cooperative many opportunities can be reach such as the statement of Davis et al, 1993 that from cooperative can be reach capital accumulation to increase operation. If drawn the model proposed, the interrelationship among carp farmers and their market is as shown in Figure 1.

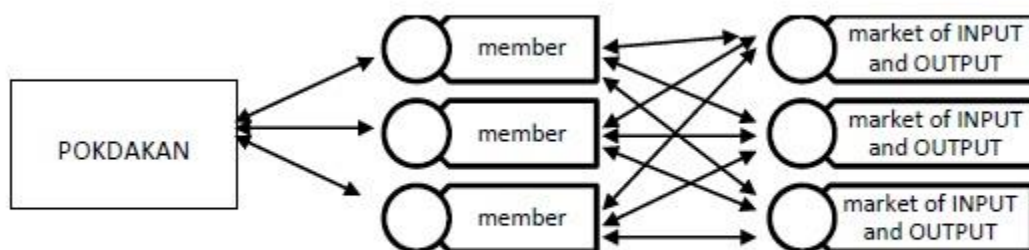


Figure 1. Relationships between members of Pokdakan and input and output markets

While the model development agencies proposed through pre-cooperative and then applied in this study is as shown in Figure 2. On the picture shows that farmers are no longer directly related to input and output markets. Member will only interact with cooperative enterprise that represent member to interact with market. This model will make stronger position in bargaining. This position will change from farmer as price taker become price maker. This is one of the benefits

of cooperative organization according to Dulfer, 1977 and Davis et al 1993. Cooperative enterprise units with a cooperative institute will bridge the relationship between the carp farmers market.

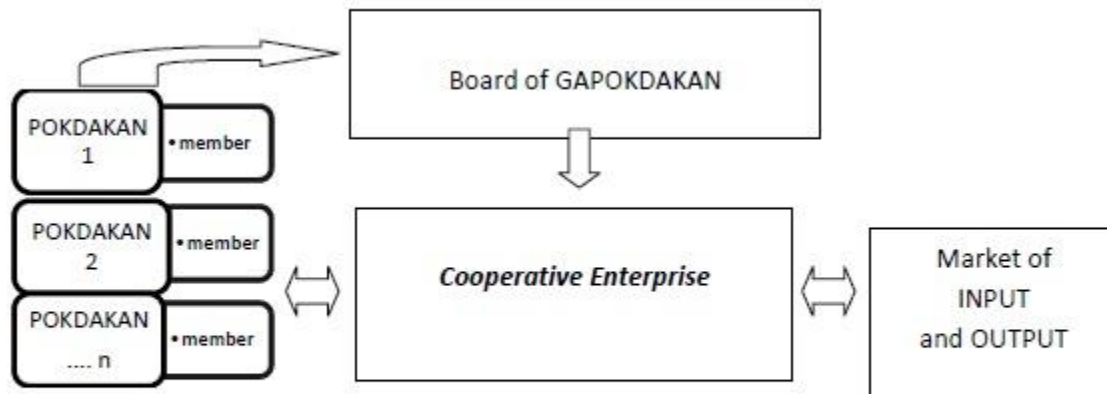


Figure 2. Model Development through Cooperative Enterprise

Formed through the models have been changes a few things:

1. Mechanism of action, with a model that formed the task group has experienced a change of only dealing with social issues to be taking care of business matters. For instance GAPOKDAKAN has helped commercialize loan pool land with a very low price of working closely with the village government.
2. There is a change in the output market Pokdakan status from being a *price taker* to *price maker*. This is achieved through the sale of group unity, so that is not competing among the members again. thus the position of the group members in touch with the buyer to be strong and able to determine the price (*price maker*). Previously as each member of the group in touch with buyers individually are that the price is very varied and the prices tend to be determined by the buyer, so producer/seller can only accept the price determined by the buyer (*price taker*).

The success of cooperative institutions pre evidenced by pushing operating costs and not dependent on buyer agencies. Operating costs can be reduced because now Pokdakan been able to mobilize members of the group formed to empower groups. Starting from the procurement of inputs, production process management to marketing products. Aside from helping the procurement of leases of land at low prices, the group also manages the procurement of feed input and fish medicines needed. Because buying in relatively large amounts it can obtain at a cheaper price. Zeuli, et al (2005).

Related to this concept Anwar (1999) reminded that the result will depend on the commitment and participation of all member. Without high commitment and participation of members the result will be very difficult to reach, but in the real fact commitment and participation of member were not be the automatically happen. It needs enough time to adjust and adopt the new habit. In other aspects Anwar et al (2009) said that in organizing many people needs special pre requisite that need time. According to Lawless et al (2004), social approach and discussion are

very important step to support the effort. In real situation social aspect is more important rather than legal aspect.

The real and high benefit that is the change in status from *price takers* become *price maker*. As a *price maker* group management has higher opportunity to increase the selling price of about Rp.4 to Rp.5 per egg. It is conceivable that if there are 180 members each have two pools each year and the results are an average of 20 nests with an average of 5,000 eggs per nest, meaning that each group can earn higher income from Rp2.000.000, - become Rp2.500.000, - or an additional income of Rp 500,000, - Thus the existence of pre-cooperative institutions can be developed further. Without the role of cooperative very difficult to get additional revenue from marketing output, because among farmer often compete each other when they sell product. It was caused many reasons like lack of money problem, the risk of output and others.

By this new model the cooperative organization can have special role either to member and to organization itself. The additional income then distribute 95 percent to members and 5 percent to organization as capital in making role to member. Member also can borrow some money when they need. One of role of cooperative organization is to increase operation of every member. By making collaboration with village government it can reserve land to make new pawn as enlarge production. Roy, Ewell Paul, 1981

CONCLUSION

1. Carp fish farming in Beji village Kedungbanteng sub district Banyumas regency is feasible to develop as perspective business. However, there are several factors that still hinder among others, lack of capital to increase production to meet increasing market demand. Unstable output prices due to seasonal factors and rivals. In addition, the rising price of feed and medicines is also an obstacle. No less important is the lack of maximum participation and involvement of members in the group.
2. For the successful of Pokdakan it is necessary to development and empowerment for member that will benefit the cooperative institutions as an integral tool business group. Coaching focused on increasing farmers' income and possible solutions facing the institution. This model is strong institutional to bridge interrelationship between member and both output market and input the market.
3. Pokdakan farmers cultivating carp fish in Beji village Kedungbanteng sub-district Banyumas regency should be developed towards cooperatives organization in order to be better in management systems and more profitable business. The reason is that the model can change the position of Pokdakan in relation with the market, from its original position as a *price taker* become *price maker*. As the *price maker* position Pokdakan could sale their output with higher price around Rp 5, - every carp eggs compare to that of as price taker.

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RESOURCE USE EFFICIENCY OF SMALL AND MEDIUM SCALE FEMALE-LED HANDICRAFT ENTREPRENEURS IN SRI LANKA: A STOCHASTIC FRONTIER PRODUCTION FUNCTION APPROACH

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ABSTRACT

Small and medium enterprises (SMEs) is said to be the backbone of the economies in developing countries. In Sri Lanka, SMEs play a strategic role in economic development process with significant percentage of the total number of industrial business establishments as in other developing countries. Having understood the positive impact of SMEs development and economic growth, successive government in Sri Lanka have taken various steps, since independence, towards the development of this vital sector. However, recent literature indicates that SMEs in the developing countries fall short of exploiting the full potential of current technological means. Thus, increasing the efficiency in production assumes greater significance in attaining potential output at the industry level. It is an undeniable fact that the majority of small scale entrepreneurs are characterized by poor economic status due to inefficient utilization of available resources in Sri Lanka. This paper investigates the economic and technical efficiency of small and medium scale handicraft entrepreneurs in Sri Lanka and suggests policy recommendations for efficient utilization of resources. The field survey carried out among 158 small and medium scale handicraft producers in western province in Sri Lanka. The stochastic translog production frontier was found to be an adequate representation of the data and censored regression model was applied to determine the socio-economic and managerial capabilities of technical efficiency. According to the results obtained from the stochastic frontier estimation, the average technical efficiency of selected producers was found to be 66.2%, which in turn indicates a scope for further improvements without increasing the level of input. The censored regression model indicated that the lack of managerial experience of existing resources and inappropriate connection with supportive agencies were main reasons of inefficiency.

Key words: Small scale Entrepreneur, Handicraft Industry, Resource use Efficiency, Frontier Production Function.

1. INTRODUCTION

The history of Sri Lanka handicrafts runs back to millenniums and its production, with the exception Jewelry, is essentially a cottage industry: products are turned out making use of natural raw materials by means of time tested age-old techniques. Sri Lanka's ancient social system having its Indo-Aryan roots has been largely instrumental in preserving traditional skills with its characteristic identity; certain arts and crafts were assigned to defined socio-occupational groups (Fernando, 2006). Sri Lanka's wide variety of very attractive handicrafts can be found throughout

the island in shops, street stalls and government-run stores. Mainly, pottery, wood carving, metal work, brassware, brass casting, metal cutwork, lacquer work, batik work, handloom textile, mat making, jewelry, lace making and wooden masks. Ivory and tortoise shell handicrafts once sold at large are no longer legal in Sri Lanka.

It is evidence that the small and medium scale handicraft industry has greater potential generate maximum socio-economic benefits to the country with low level of investment (Kalegama, 2002). This sector requires relatively less capital per unit and relatively less infrastructure. Thus, promoting this vital sector among rural areas would be supported to enhance livelihood implication of rural low income households (Ranasingha, 2010). Further, small and medium scale handicraft industry in Sri Lanka enables to generate substantial employment opportunities particularly in the informal sector. This sector is mainly financed by domestic sources, particularly from individual personal saving or informal borrowings, thus the sector contribute to broad-based capital formation throughout the country. The development of SMEs can be an aid to promote balanced regional development and this sector provides high value addition in view of its greater utilization of indigenous machinery equipment and raw materials (KPMG International, 2010).

2. LITRATURE REVIEW AND CONCEPTUALIZATION

Micro, small and medium enterprises (MSMEs) is said to be the backbone of the economies in Asian countries. In Sri Lanka, MSMEs play a strategic role in economic development process with significant percentage of the total number of industrial business establishments as in other developing countries (Buddhadasa, 2004). Having understood the positive impact of MSME development and economic growth, successive government in Sri Lanka have taken various steps, since independence, towards the development of this vital sector (Fernando, 2006). According the Department of census and Statistic in 2012, there were a total of 148, 456 registered and informal industrial unit in the country producing various type of product and employing more than 80,000 persons. Further, the individual establishment below 5 employees accounted for 84% of total establishment and 28% of total employment, but accounted only for 7.5% of the total output and 7% of the value added in industrial sector (Department of Census and Statistics, 2012).

SMEs are defined in a variety of ways by various countries using different parameters such as number of persons employed, amount of capital invested, amount of turnover or nature of the business etc. In Sri Lanka, different government agencies use different criteria to identify SMEs. Among those criteria number of employees, the size of fixed investment and the nature of the business are very common standards use for define SMEs. The Industrial Development Board (IDB) defines a small industry as an establishment whose capital investment in plant and machinery does not exceed Rs. 4 million (US\$ 33,300) and the total number of regular employees does not exceed 50 persons (Central Bank of Sri Lanka, 2012). The Department of Small Industries (DSI) classifies enterprises with capital investment of less than Rs. 5 Million (US\$ 41,600) and fewer than 50 employees as SMEs (Ponneperuma, 2000). Sri Lanka Export Development Board (SLEDB) SMEs are defined as those enterprises with a capital investment excluding lands and building of less than Rs. 8 Million (US\$ 66,600) (Hewaliyanage 2001). The World Bank defines enterprise size in Sri Lanka based on the number of employees; those with fewer than 49 employees are small; those with 50-99 employees are medium – sized; and those with more than 100 employees are large. The number of employees as the criterion for size appears reasonable because it distinguishes between enterprises regardless the line of business, and the amount of capital investment must be revised frequently due to inflation (Ponnamperuma 2000).

In Sri Lanka, although women contribute to more than half of the economically active population of the country, their active participation in the economy is only 35% (Department of Census and Statistics, 2012). According to the International Labour Organization (ILO) recommendation, to stimulate job creation in small and medium sized enterprises posits that member should encourage support for female entrepreneurship recognizing the growing importance of women in the economy through measured designed especially women who are, or wish to become entrepreneurs (International Labour Office, 2008). A substantial number of women entrepreneurs operate micro and small business in Sri Lankan informal economy. In developing world, women workers make up around 60 percent of non-agricultural employment in the informal economy – including up to 90 percent of street vendors and up to 80 percent of home based workers (International Labour Office, 2008).

Gender discrimination denies women their right and is economically unproductive. Gender-based asset inequality affects resource allocation within the household and labour productivity (Kalegama, 2002). Women entrepreneurship can make a particularly strong contribution to the economic well-being of the family and communities, poverty reduction and women's empowerment, thus contributing to the first and third Millennium Development Goals (MDGs) where women have more control over the resources of the household, the pattern of consumption tend to be more child-focused and oriented to meeting basic needs (Kodithuwakku & Perera, 2003).

3. PROBLEM STATEMENT

The lack of Sri Lankan women pursuing entrepreneurship and the shortfall of successful women in this category has directly resulted in low level of contribution to the local economy (Ranasingha, 2010). The history of Sri Lankan handicrafts runs to pre-history and its production is essentially a cottage industry: products are turned out making use of natural raw materials by means of time tested age-old techniques (Sandberg, 2003). The traditional skills have been preserved with its purity, resulting in the continues characteristic identity of Sri Lankan handicraft. Female skilled labour absorption is very high for this industry in each stage of production (Schlosser, 2001). In Sri Lanka, wide variety of handicraft: pottery, wood carving, metal works, brassware, brass casting, lacquer work, batiks, handloom textiles jeweler, lace making, and wooden masks can be found throughout the island in shops, street stalls and government run stores. Although since independence successive governments have taken several policy decisions to enhance this industry, yet, the growth of this industry has not reached expected results. Substantial amount of previous literature have concluded this is due to lack of external support (external factors) and very scan studies have viewed as internal mismanagement (internal factors). Under same business environment, some women entrepreneurs have depicted greater performance and some have still functioning at subsistence level. Thus, it is timely need to be studied that why such variation among same business category under similar business environment. Is it due to miss optimization of existing resources due to technical inefficiency? Most of small scale handicraft industries are below the frontier level and they can not gain the economies of scale due to isolation operation of those mills and inadequate skills and assests. However, very little literature has focused the technical efficiency of this industry and it's determinates. The absence of quantitative research on technical efficiency of handicraft industry is one of the main problems for policy makers in decision making. Consequently, it seems that there is a gap in the theoretical knowledge and quantitative measurements of technical efficiency of handicraft industry in Sri Lanka.

Therefore, the problem addressed in this study is to measure technical efficiency and identified the main factors behind the technical efficiency of handicraft industries in Sri Lanka. Therefore the objectives of this study in line with this problem as follows.

4. OBJECTIVES OF THE STUDY

The main objective of this study is to measure the technical efficiency of small and medium scale handicraft industry and to identify socio-economic and management practices that influence handicraft industry in Sri Lanka.

5. MATERIALS AND METHODS

5. 1 Study Area and Sampling Framework

In Sri Lanka, 11.2% of total SMEs fall under the category of handicraft industry. There are 3,482 small and medium scale female-led handicraft establishments in Sri Lanka. Out of that 22.8% establishment are located in western province. Thus, the sample was selected on the basis of the directory regarding women business owners in western province, prepared by ministry of industries and women affaires, western province, Sri Lanka. Since three districts covered in Western Province, those districts were considered as three clusters in the study. Initially the study identified total number of small and medium scale handicraft establishments in each districts on the basis of number of employees. A firm in which the number of employees is between 5-49, it has identified as a Small Scale Firm (SSF) while a firm in which between 50-99 employees has been categorized as a Medium Scale Firm (MSF). Based on the total number of SMEs in each cluster, the Morgan approach was applied to determine the sample size. The sampling framework is present in table 01.

Table 1
Population and Sampling Framework

Clusters	No of Female-led	Sample Size
Handicraft		
Establishments		
Colombo	280	57
Gampaha	298	59
Kaluthara	215	42
Total	793	158

5.2 Model Specification

The original specification involved a production function specified for cross-sectional data which had an error term composed into two components: a stochastic random error component and a technical inefficiency component (Lovell, 1993). The model expressed in the following form:

$Y = f(X_i\beta) + \varepsilon_i$ $I = 1, \dots, N$. Where Y_i is the production (or the logarithm of the production) of the i-th firm; X_i = Kx1 vector of input quantities of the i-th firm; β = vector of

unknown parameters; the essential idea behind the stochastic frontier model is that ε_i term can be written as $V_i =$ the random variable which are assumed to be independently and identically distribute and independent of U_i (Lovell, 1993).

Further, it is two sided $(-\alpha < V < \alpha)$ normally distributed and random error that captures the stochastic effects outside the farmers control (Lovell, 2006). (E.g. weather, natural disaster and lucks). U_i is non-negative random variables which are assumed to account for technical inefficiency in production and are often assumed to be independently and identically distributed and truncations (at zero) of the normal distribution or half-normal (Kumbhakar, Soumandra, & Thomas, 1991).

U_i is a one sided ($U \geq 0$) efficiency component that captures the technical efficiency of farmers. It measure the shortfall in output Y from its maximum value given by the stochastic frontier $Y = f(X_i\beta) + V_i$

5.1 Empirical model

In previous literature, different types of production functions have been adopted to discuss the frontier analysis. Among empirical literature, the most commonly applied production function is Cobb-Douglas (CD) production function and the transcendental Logarithm (TL) production functions (Baten et al., 2009, Battese & Corra, 1977, Hassan & Ahmad, 2005, Kachroo, Sharma, & Kachroo, 2010). The parameters of inefficiency model were produced with two-step approach Finally Cob-Douglas and translog production functions can be written with natural logarithms as follows:

The empirical model for Cobb-Douglas function forms is given by;

$$\ln Y_i = \beta_0 + \sum_{j=1}^6 \beta_{ij} \ln X_{ij} + V_i - U_i,$$

The empirical model for translog functional form is given by;

$$\ln Y_i = \beta_0 + \sum_{i=1}^6 \beta_i \ln X_i + \frac{1}{2} \sum_{i=1}^6 \sum_{j=1}^6 \beta_{ij} \ln X_{ij} \ln X_{ij} + \sum_{i=1}^6 \sum_{i>j}^6 \beta_{ij} \ln X_{ij} \ln X_{ij} + V_{ij} - U_{ij}$$

Where; Y = Net value of output (Rqs/Month), X_1 = value of fixed capital (Rs.)

X_2 = Skilled labour (Man-days/Month), X_3 = Unskilled labour (Man-days/Month),

X_4 = Cost of raw Materials (Rs/Month), X_5 = Recurrent Expenditure (Rs/Month)

X_6 = Amount of Credit Taken from Formal-sources within last 12 months

V_i = Random error, U_i = Technical inefficiency term (half-normal for Cobb-Douglas and truncate normal for translog production function).

Variables for Inefficiency Model

α_1 = Experiences in handicraft Industry (years)

α_2 = Education (Years), α_3 = Skill Trainings (Dummy, 1 =Yes, 0= No),

α_4 = Availability of own Marketing Outlet(s) (Dummy; 1=Yes, 0= Not)

α_5 = Other Income Sources (Dummy; 1= Yes, 0=No)

α_6 = Usage of New Equipment (1= Yes, 0 = No)

α_7 = Contact with Government Supportive Agencies (Dummy; 1= good, 0= Otherwise)

α_8 = Type of output (Dummy; Final product= 1, Semifinal= 0)

The stochastic frontier model was estimated using the FRONTIER 4.1 and the parameters of inefficiency model were estimated with TOBIT regression with the help of LIMDEP software packages.

5.3 Output – Input Elasticities

However, since first-order coefficients of traslog production functions are not very informative unlike Cobb-Douglas coefficients, it cannot use directly for as output elasticity of respective factor. Awudu and Eberlin (2001) have applied partial derivative process with the support of estimated coefficients in production function to measure input-output elasticity. In the study, researcher applied Awudu and Eberlin methods which have been established as follows;

$$\begin{aligned} \ln Output = & \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_1^2 + \beta_8 X_2^2 + \beta_9 X_3^2 + \beta_{10} X_4^2 + \beta_{11} X_5^2 + \beta_{12} X_6^2 \\ & \beta_{13} X_1 X_2 + \beta_{14} X_1 X_3 + \beta_{15} X_1 X_4 + \beta_{16} X_1 X_5 + \beta_{17} X_1 X_6 + \beta_{18} X_2 X_3 + \beta_{19} X_2 X_4 + \beta_{20} X_2 X_5 + \beta_{21} X_2 X_6 + \beta_{22} X_3 X_4 \\ & \beta_{23} X_3 X_5 + \beta_{24} X_3 X_6 + \beta_{25} X_4 X_5 + \beta_{26} X_4 X_6 + \beta_{27} X_5 X_6. \end{aligned}$$

$$\text{Elasticity for } X_1 = \frac{1}{Output} * \frac{\partial Output}{\partial X_1} = \frac{\beta_1}{X_1} + \frac{2\beta_7}{X_1} + \frac{\beta_{13}}{X_1} + \frac{\beta_{14}}{X_1} + \frac{\beta_{15}}{X_1} + \frac{\beta_{16}}{X_1} + \frac{\beta_{17}}{X_1}$$

$$\text{The slope is calculated as follows: } \frac{\partial Output}{\partial X_1} = (\beta_1 + 2\beta_7 + \beta_{13} + \beta_{14} + \beta_{15} + \beta_{16} + \beta_{17}) * \frac{Output}{X_1}$$

The equation below show the calculation of elasticities evaluated at the mean

$$(\beta_1 + 2\beta_7 + \beta_{13} + \beta_{14} + \beta_{15} + \beta_{16} + \beta_{17}) \times \frac{yield}{X_1} \times \frac{X_1}{Yield}, \text{ thus:}$$

$E_{x1} = (\beta_1 + 2\beta_7 + \beta_{13} + \beta_{14} + \beta_{15} + \beta_{16} + \beta_{17})$. Similar approach applied for measuring input elasticities of other inputs such as: family labour, hired labour, fertilizer, machinery and access to water index. Following table shows the results of the input elasticities for each input in the traslog stochastic frontier production function

5.4 Hypothesis Testing

Likelihood ratio test (LRTs) have been used to compare two nested models. Asymptotically the test statistics is distributed as a chi-squared random variable with degree of freedom equal to the

difference in the number of parameters between the models. Null hypotheses of interest are tested using the generalized likelihood ratio. The generalized likelihood-ratio statistic λ given by:

$$\lambda = -2\ln[L(H_0)/L(H_1)] = -2[\ln L(H_0) - \ln L(H_1)]$$

Where $L(H_0)$ is the value of the likelihood function for the frontier modal, in which parameters restrictions specified by the null hypotheses, H_0 is imposed; and $L(H_1)$ is the value of the likelihood function for the general frontier model. If the null hypotheses is true, then λ has approximately a chi-square (or mixed square) distribution with degree of freedom equal to the differences between the parameter estimated under H_0 and H_1 respectively.

6. FINDINGS

Table no 2 shows the descriptive statistics of main variables which have used for handicraft production functions in the study.

Table 02: Descriptive Statistics of Main Variables

Variables	Descriptions	Mean	Std. deviation
Gross Value of Output	Rs. per Month	63,250.00	35,890.00
Value of Fixed Capital(Excluding Land and Buildings)	Rs.	54,350.00	58,350.00
Skill Labour Employed	Man-days per Month	34.00	22.00
Un-Skill Labour Employed	Man-days per Month	28..00	21.60
Cost of Raw Materials	Rs. per Month	18,254.00	25,567.00
Recurrent Expenditure (Excluding man Power)	Rs. Per Month	8,354.00	6,456.00
Amount of Credit Taken from Formal-sources within last 12 months	Re.	12,768.00	28,360.00

Source: Author's computation based on Field Survey, 2013.

6.1 Hypothesis Testing

A serious of tested were done to test the specification of functional form, distributional pattern of inefficiency term and availability of technical efficiency in the data set and results are summarized in table 2. These were tested through imposing restrictions on the model and using the generalized likelihood ratio statistics. At the first step researcher hypothesized that the average Cobb-Douglas

functions adequately represents the production structure of the furniture industry. However this hypothesis ($\gamma = 0$,) was strongly rejected at 0.05 significant level. By second hypothesis researcher attempted to identify the best stochastic frontier among Cobb-Douglas and Traslog functions. According to LR test, frontier traslog function was recommended as best function to represent data set by rejecting null hypothesis at 95% probability. Finally study test the distributional pattern of technical inefficient term U_i by imposing the restriction of $\mu = 0$, indicating that the inefficient term is half-normal distribution. While, null hypothesis rejected at 5% significant level and proposed truncated normal distribution for inefficient term. Observing that entire hypothesis this study has selected traslog production stochastic frontier production function with truncated normal distribution for inefficiency term.

Table 2
Log likelihood Ratio Test

Null Hypothesis	Log likelihood	LR Statistics	Critical Value	Decision
$H_0 : \gamma = 0$, Average CD = Frontier CD	55.32 91.65	72.66	$7.05^{**} \chi^2_{(0.05)}$	Reject H_0
$H_0 : \text{Frontier CD} = \text{Frontier TL}$	95.56 142.35	93.58	$33.92 \chi^2_{(0.05)}$	Reject H_0
$H_0 : \mu = 0$	117.87 132.56	29.38	$10.83 \chi^2_{(0.001)}$	Reject H_0

Note: **The critical values are taken from table of Kodde and Palm (1986). The null hypothesis which includes the restriction that γ is zero does not have a chi-square distribution, and since the alternative hypothesis is that $0 < \gamma < 1$ the test has asymptotic distribution.

6.2 Stochastic Frontier Production Functions

The estimated parameters of the traslog production frontier and Cobb-Douglas are presented in table 3. However, since the study used only traslog coefficients for further analysis since Cobb-Douglas were rejected by previous hypothesis testing. The γ is the percentage of the variance of – firm specific technical inefficiency (U_1) to the total variance of output. Since γ is closed to 1 (0.78) suggested that the technical inefficiency is existing with handicraft industry in Sri Lanka. The value is 0.78 means that the variation of the output due to technical inefficiency and frontier output is dominated by technical inefficiency. Further λ is ratio of the variance of firm-specific technical inefficiency (U_1) to the variance of random error (V_1). Besides, the value for σ is positive indicate that the observed output deviate from frontier output and also average response functions were nor right production function for study the structure of furniture industry in Sri Lanka.

6.3 First-order Parameters of Stochastic Translog Function

The first order parameters of traslog stochastic frontier β_j have the predicted (positive) sign reflect the conventional direct relationship between inputs and output. Unless recurrent expenditure, all other variables were strongly significant at 99% probability level. The bordered Hessian Matrix of the first and second order partial derivatives is negative semi-definite reflecting that all regularity conditions such as; positive and diminishing marginal product are valid at the point of approximation (i.e., sample mean).

6.4 Input Elasticities

Table 3 shows results of the input elasticities for each input in the traslog stochastic production function. A one percent increase in the skill labour, gross value of output increase by 2.56 (t=3.0) ceteris paribus. While, as un-skilled labour increase by one percent value of output increase only by 0.32 (t=3.2) ceteris paribus. Among selected variable, highest response variable to gross output was fixed capital since its input elasticity is 2.98 (t=3.2). A one percent increase in cost of raw material and recurrent expenditure, the value of gross output increase by 2.09 (t=2.4) and 0.765 (t=1.2) respectively subject to other variable keeping constant.

Table 3
Input Elasticity

Variables	Input Elasticity
Value of Fixed Capital(X1)	2.98
Skilled Labour Employed (X2)	2.56
Un-Skilled Labour Employed (X3)	0.322
Cost of Raw Materials (X4)	2.09
Recurrent Expenditure (X5)	0.765
Formal Credit (X6)	1.765

6.5 Frequency Distribution of Technical Efficiency

The results of the frequency distribution of technical efficiency of selected furniture producers are presented in Table 5. The study reveals technical efficiency (TE) of selected firms ranging from 21.43 percent to 92.89 percent, with an average Of 61.5 percent. The results suggested that, on average the industry output can further increased by 30.5 percent without increasing the level of input. Beside it indicates that the average farmer in the sample could save 33.79 percent (i.e., 1-{61.5/92.89}) of cost and the most technically inefficiency firm can 76.9% cost saving compare with the TE level of his most efficient counterpart. In addition, around 7.8 percent firms are reflecting very poor TE and 19.2% firms are keeping excellent record in TE (more than 80%).

Table 4
Frequency Distribution of Technical Efficiency

Range of Technical Efficiency	No of Firms	Percentage (%)
Below 30	12	7.8
31-50	35	22.0
51-70	52	33.0
71-80	28	18.0
81-90	22	14.0
91-100	9	5.2
Maximum TE = 92.89%		
Minimum TE = 21.43%		
Mean TE = 61.5%		

Source: Author's Computation.

Table 5:
Translog and Cobb – Douglas Stochastic Frontier Production Functions

Variables	Parameters	Traslog		Cobb-Douglas	
		Coefficients	T-Ratio	Coefficients	T-Ratio
Constant	β_0	4.322 †	4.921	0.609	2.827 †
Value of Fixed Capital (X1)	β_1	3.268 †	3.213	0.403	9.755 †
Skill Labour (X2)	β_2	3.354 †	3.021	0.463	4.396 †
Un-Skill Labour (X3)	β_3	1.043 †	3.211	0.067	2.664 †
Cost of Raw Materials (X4)	β_4	3.001 †	2.421	0.396	8.268 †
Recurrent Expenditure (X5)	β_5	0.541	1.212	0.012	1.597
Formal Credit (X6)	β_6	2.912 †	3.201	0.406	6.540 †
Ln-(X1) ²	β_7	0.332 †	3.021		
Ln-(X2) ²	β_8	0.331 †	2.989		
Ln-(X3) ²	β_9	-0.086	-1.431		

$\text{Ln}-(X4)^2$	β_{10}	0.261	1.521		
$\text{Ln}-(X5)^2$	β_{11}	0.171 †	3.321 †		

Table 5 (Continued)

$\text{Ln}-(X6)^2$	β_{12}	-0.054	0.871		
(X1)*(X2)	β_{13}	-0.329	-2.321		
(X1)*(X3)	β_{14}	-0.131	0.213		
(X1)*(X4)	β_{15}	-0.081	-0.439		
(X1)*(X5)	β_{16}	0.122	-0.765		
(X1)*(X6)	β_{17}	0.029	0.376		
(X2)*(X3)	β_{18}	0.318 †	2.921 †		
(X2)*(X4)	β_{19}	-0.350	1.021		
(X2)*(X5)	β_{20}	-0.081	-0.668		
(X2)*(X6)	β_{21}	0.051	0.321		
(X3)*(X4)	β_{22}	0.072	0.521		
(X3)*(X5)	β_{23}	-0.271 †	-2.921 †		
(X3)*(X6)	β_{24}	-0.199	-1.213		
(X4)*(X5)	β_{25}	-0.152	-0.689		
(X4)*(X6)	β_{26}	-0.213	-1.219		
(X5)*(X6)	β_{27}	0.221	1.037		
Sigma Square	σ^2	0.452 †	5.89 †	0.087	7.245
Log Likelihood Function		142.35		95.56	
Sigma	σ	0.672		0.295	
Sigma-Squared (u)	σ_u^2	0.321		0.068	
Sigma-Squared (v)	σ_v^2	0.131		0.019	
Lamda (σ_u / σ_v)	λ	1.565		1.891	

Gamma	γ	0.710 [†]	213.12 [†]	0.782	56.326
Mu	μ	-0.916 [†]	-5.32 [†]	68.916	
LR test of the one-sided error		122.54		83.77	
Mean Efficiency		61.5%		62.43%	

Note : [†], ^{††}, Significant at 1% and 5% respectively.

6.6 Factors Effecting Technical Efficiency

The censored regression or Tobit model was applied to determine the impact of socio-economic and managerial capabilities on technical efficiency of female-led small and medium scale handicraft industry in Sri Lanka. For this model, TE of each firm considered as dependent variable and 8 explanatory variables which were reflecting the managerial capabilities and socio-economic status of producers were selected. The results of the Tobit function was performed in table 6. All selected variables are positively associated with TE and unless α_7 all other variables were significant at 0.01 level. Among education and Experiences, the experience in furniture industry have acquired the big share of Tobit function indicating that experience can more influence on TE rather than education. Since all other variables are Dummy variable, researcher measured exponentiated value of respective parameter for better interpretation. The exponentiated coefficients are the best means of interpreting the impact of the dummy variable (Joseph F, Black, Barry, & Rolph E, 2010). The exponentiated coefficient of α_3 is 1.26 means that, trained producers have 26 percent higher TE score than untrained producers ($1.26-1*100$). Similarly, those producers who have own sale outlet for their product, their level of TE is 60.8% more than the producers who haven't sales outlet. Some producers have extra income sources rather than the industry and such producers were reflected 23% greater technical efficiency of handicraft industry than the producers who don't have extra income sources. Contact with supportive agencies directing marginal impact on TE compare to other variables. Producer's attitudes on government supportive agencies were not satisfactory level and it was not much influences on TE of handicraft industry in Sri Lanka. Finally, the study found two important variables which have done greater impact on technical efficiency in handicraft industry such as: usage of new equipment and type of final output. The producers, those who have produced final product (directly purchase by consumer) in the industry were gained 66% more benefit on technical efficiency than others. Beside, any producer may use new equipment in this industry can enhance their technical efficiency by 63 percent from current level.

Table 6:
Inefficiency Model – Censored Regression

Variable	Parameter	Coefficient	T-Ratio	Exp(α)
Experiences in Handicraft Industry (Years)	α_1	0.343	4.231	1.41
Education (Years)	α_2	0.231	2.879	1.26
Attended Training Courses (Yes=1, No=0)	α_3	0.233	3.567	1.26

Availability of own Marketing Outlet(s) (1=Y,0=N)	α_4	0.392	8.921	1.48
Other Income Sources (Yes=1, No=0)	α_5	0.211	4.531	1.23
Usage of New Equipment's (Yes=1, No=0)	α_6	0.491	2.876	1.63
Contact with Supportive Agencies (Good=1, OW=0)	α_7	0.132	1.219	1.14
Type of output (Final =1, Semi-Final =0)	α_8	0.510	8.921	1.66
Log Likelihood Function		51.206		

Source: Author's computation

8. Conclusions and Recommendations

This study mainly attempted to estimate technical efficiency of small-scale female-led handicraft industry in Sri Lanka and identify its determinants. The average technical efficiency of this industry was 61.5% or 38.5% below the potential. Further it was indicated that on average, the firm's output can further increase by 38.5% or cost can reduce by 38.5% without changing existing input level and technology.

The study also examined the relationship between producer's managerial capabilities and socio-economics attributes with technical efficiency of small-scale female-led handicraft industry in Sri Lanka. The results revealed that all selected variables were significantly impact on technical efficiency except contact with supportive agencies. If producers can use new equipment and final product they would be able to upgrade their TE more than 50%. Further, by selling their product in their own outlets without middlemen's engagements may further enhanced their efficiency around 50%. Education, experiences and training were also key determinants behind the technical efficiency in female-led handicraft industry. However, contact with government supportive agencies is only the factor that has found insignificant impact on TE. Another possible interpretation is that policies are not sufficiently strong or effective in helping in produce more efficiently. Although the government has established number of supportive agencies to support small-scale handicraft industry during last decades, still they are functioning below the frontier level due to mismanagement practices of resources and technology.

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INFLUENCE OF THE CHARACTERISTICS OF INNOVATION, KNOWLEDGE AND RISK PERCEPTION ON DELAY.

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Abstract:

This study focuses on the postponement of adoption. Innovation is an idea, practice, or object perceived as new by the individual. Consumers' attitude is a direct act in obtaining, consuming, and using up a product or a service including the process that precedes and follows this act. Postponement occurs when an individual decides to postpone innovation adoption. This study examines the relationship between variables in a model that explains several attitude aspects of innovative product adoption liquid petroleum gas for poor people. This study applies positivism paradigm. The population in this research is all poor society, who postpones LPG adoption, in Daerah Istimewa Yogyakarta, Indonesia that becomes the target of conversion from gasoline to LPG. The sampling technique was non probability sampling because the researcher did not know exactly the number of population that postpones LPG adoption. At this stage, sampling based on judgment or purposive sampling is used because the researcher knows who meet the requirements to be considered as samples. This research applies structural equation modeling (SEM) technique. This study employs SEM approach in two stages: measurement and structural model. Measurement model application is aimed to confirm a dimension or factor based on empirical indicators. The structural model is a model of relationship structure that forms and explains causalities among factors. The result of this research shows that the postponement model of innovation adoption of LPG products for the poor society can be accepted. Further, it can be confirmed that the postponement attitude of innovative products is significantly influenced by relative advantage, compatibility, complexity visibility and knowledge.

Keyword: innovation characteristic, perceived risk, knowledge and delay

Introduction

In 2006 the Indonesian government has decided to gradually convert the fuel use from kerosene to LPG to achieve "zero-kerosene 2012". Referring to PP No. 9 of 2006, in late 2007 the government should be able to distribute LPG 320,000 kilo-liters, but the target can be not realized. Total converted kerosene at 31 December was 124 350 kilo liters, while the conversion target that not achieved yet was 195 650 kilo liters. The program failure in 2007 forced the government to revise of kerosene subsidy targeting and implementation. Basic problem that encountered of

implementation phase is that it is not easy for people who are used to using kerosene to switch to LPG even though they would have free LPG cylinder. People complained that LPG can be not bought at a number of quantity according to their ability to pay them, which he easily can be performed in kerosene purchases. In the field also revealed that many defective gasstove and leaking gas cylinders. In addition the behavior and culture of Indonesian people who are used to using kerosene stove was still difficult to change. Government seemed to underestimate of socialization and do not anticipate the people shock due to kerosene that has been entrenched for a long time as the main stay fuel. In this uncertainty, there are some people who sell the gasstove to another party while they were still looking for increasingly scarce kerosene (Sugandini, 2008). Studies conducted Bryan et al. (2009) on the diffusion of energy-savings to vases in Central America also identifies a similar phenomenon. Overall energy efficient stoves program always failed though the government provides subsidies to the stove ownership. Meanwhile, in the number of households in the area of Copan, energy-saving stoves found in damaged condition or misused. Bryan et al. (2009) in his research did not find enough household willingness to accept of subsidized stoves offered, because as a consequent kitchen renovation is needed.

This study focuses on the postponement of adoption, a period during which an individual makes a decision to adopt LPG as the alternative for gasoline. Previous studies on innovative product adoption confirm that a product with new technology that is able to offer better solution than the previous products with similar function is not always easily accepted by consumers with specific characteristics (Horsky, 1990; Rogers, 1995; Martin, *etal.*, 2007). Holness (2004) adds that the decision to adopt or not to adopt the product innovation will always involve attitude building on the innovation. Rogers (1995) states that, in the face of product innovation, there is always a consumer group that did resistance to the use of the product because they do not get enough information about how and benefits of product use compared to the products they usually used. This study few research gaps are found in this research. The first research gap relates with bias of innovation proponent. Research related to innovation success has always shown an innovative product that can be accepted by consumers, while the fact innovative products are not always successful in marketing because it is not always acceptable to consumers (Rogers, 1995; Hovav dan Schuff, 2005; Su *et al.*, 2007; Au dan Yung, 2007). The second research gap focuses on the importance of tacit perception of innovation characteristics on attitudes. Previous researchers (Davis, 1989; Gatignon and Robertson, 1985; Szmigin and Bourne, 1999; Wee, 2000) discussed focus on direct effects of perceived characteristics to innovation adoption behavior, but just to give a little emphasis on the process of thinking and attitudes of consumers. Innovation characteristics play an important role in shaping the attitude of innovation adoption. When perceptions of innovation characteristics described first on consumer attitudes or cognitive aspects, this will bring important practical understanding. Marketers will gain an understanding of certain aspects that can be modified to influence the consumer's decision long-term. Consumers are given the opportunity to learn in advance the most important aspect of innovation that will be sufficient information for the long run purchase decision. The third research gap relates with the importance of consumers' knowledge. Knowledge of products used in a previous study showed no significant relationship to the product innovation decision, because the measurement of the construct of knowledge products more widely used approach to measuring subjective knowledge (Brucks, 1986, and Wood and Lynch, 2002). This study uses measurements of subjective and objective knowledge as variables that predict attitudes toward delay product. The fourth research gap that will be filled relates with the issue of risk perception for innovative product use. Study the effect of risk on the adoption states that the negative effects

of risk perception unclear supported (Mitchell and Harris, 2005; Delvecchio and Smith, 2005). When the actual adoption is predicted as a function of consumer innovativeness, perceived risks not strong enough influence actual adoption. The only risk associated with information retrieval to ensure and reduce the level of risk or to manage the perceived risks (Manning et al., 1995). This study is to analyze the effect of risk perception to decision of innovation adoption.

This study shows that marketed innovative products are not guaranteed to be well accepted by consumers. This is different from the results of previous research showing that innovative products are easily accepted by consumers. There are several factors that cannot be directly accepted by a society. Therefore, the research question is: what are the factors that explain the consumers' attitude to postpone innovation product adoption?

Research Purposes

This research examines the relationship between variables in a model that explains delay adoption. This research proposes issues to analyze factors that make LPG an innovative product yet it is not easily accepted by certain society.

Research Model

Innovation is an idea, practice, or object perceived as new by the individual. Consumers' attitude is a direct act in obtaining, consuming, and using up a product or a service including the process that precedes and follows this act. The main problem in consumers' marketing and attitude is consumers' responses on new products or services. The decision made by marketers is a process of how new products can be accepted by markets, and the next process is, therefore, called as adoption process. This includes micro processes from innovation diffusion. Within this process, each consumer is encouraged to give responses to new products, whether they accept or reject the products. Diffusion is important due to the fact that not everyone can accept an innovation, or that they can eventually accept the products but they need longer time to do so. A change in products or services which is not the same as the previous product makes a society needs more time to accept and consume the new innovation (Rogers, 1995).

Related to adoption postponement, Gatignon and Robertson (1989); Szmigin and Foxall (1998) have investigated the type difference of innovation postponement. There are three types of innovation resistance: *rejection*, *postponement*, and *opposition*. The limitation among them is blurring, so test on innovation resistance has similar meaning to test on innovation adoption because both of them show innovation diffusion. Rejection occurs when an individual processes information of an innovation and decides that he/she will not use the innovation. Therefore, the individual is categorized as someone who actively rejects an innovation. Postponement occurs when an individual decides to postpone innovation adoption. One who postponed is categorized into non-adopter group. This individual is in an active condition, waiting for the right time to adopt innovation. Ram and Seth (1989) state that rejection or innovation adoption postponement is not the other side of innovation adoption, even it can be the adoption antecedent. The reason is that an individual will postpone an adoption before he/she seriously makes a decision to adopt. Product innovation is usually complicated and more sensitive, and to some extent has different factors such as characteristics, usage, and connectivity. If a company succeeds in understanding non-adopter better, it can create better strategies to change the non-adopter to adopter to increase the product value (Joseph, 2005).

This study examines several factors that underlie consumers' postponement decision related to innovative product adoption (LPG). Aspects that are discussed in detail are elaborated by (1) consumers' perception on innovation characteristic level including relative advantage, compatibility, complexity, trialability, and visibility/observability; (2) consumers' knowledge and perceived risks as a direct concept elaborating the intention to postpone product adoption.

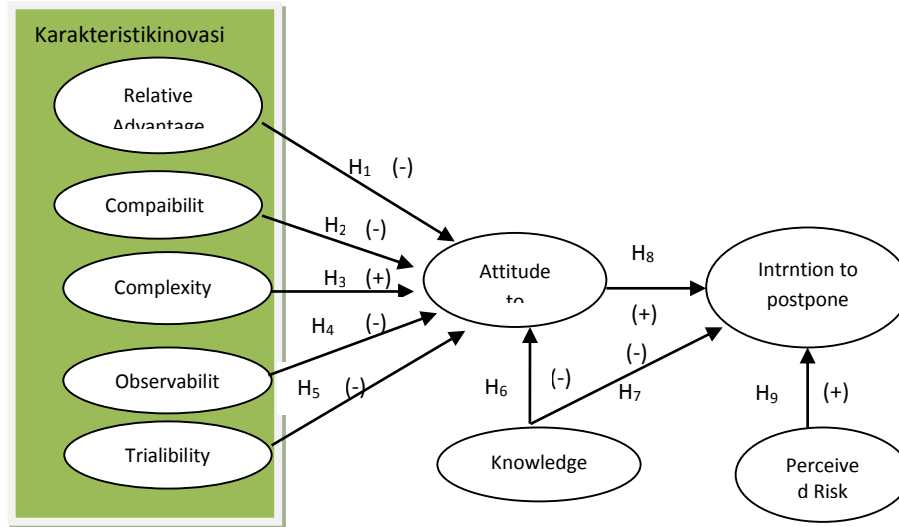


Figure1: Research Model

- Hypothesis 1: Relative advantage influences negatively on attitude to postpone.
- Hypothesis 2: Compatibility influences negatively on attitude to postpone.
- Hypothesis 3: Complexity influences positively on attitude to postpone.
- Hypothesis 4: Visibility influences negatively on attitude to postpone.
- Hypothesis 5: Trialability influences negatively on attitude to postpone.
- Hypothesis 6: Knowledge influences negatively on attitude to postpone.
- Hypothesis 7: Knowledge influences negatively on intention to postpone.
- Hypothesis 8: Attitude to postpone influences positively on intention to postpone.
- Hypothesis 9: Risk perception influences positively on intention to postpone.

Research Methodology

Sampling Technique

The population in this research is all poor society, who postpones LPG adoption, in Daerah Istimewa Yogyakarta, Indonesia, that becomes the target of conversion from gasoline to LPG. The sampling technique was *non probability sampling* because the researcher did not know exactly the number of population that postpones LPG adoption. At this stage, sampling based on *judgment* or *purposive sampling* is used because the researcher knows who meet the requirements to be considered as samples. After the questionnaires were distributed, there were only 280 respondents

that met the requirements to be analyzed further. In short, it has met the requirement's sampling sufficiency

Research Result

Steps taken in *two step approach to SEM* are: estimations on *measurement model* and *structural model*. The coefficient used to measure structural model is composite value calculation that is aimed to obtain excellent measurement coefficient before it is used in structural model to test the hypothesized construct relation. The process is two-stage approach.

Table 1. Goodness of fit index

Types of fit model	Goodness of fit model	Recommended value	Result	Information
<i>Absolute fit measures</i>	Chi-Square Statistic (χ^2 atau CMIN)	Small	6,741	Good
	P	$\geq 0,05$	0.000	Good
	GFI	$\geq 0,995$	0.985	Good
	RMSEA	$\leq 0,021$	0.080	Good
<i>Incremental fit measures</i>	AGFI	$\geq 0,960$	0.960	Good
	CFI	$\geq 0,993$	0.993	Good
<i>Parsimonious fit measures</i>	Normed χ^2 (CMIN/DF)	$1 \leq \text{Normed } \chi^2 \leq 5$	1,123	Good

Source: The primary data

Table 1 illustrates the research model of *goodness of fit* index. The low *chi-square* with significance level less than 0,05 or 0,01 shows that the real matrix input is different from the predicted matrix input (Hair *et al.*, 1998). The *chi-square* in this research is 6,741 and the significance level is 0,04. The high *goodness of fit* value indicates the model ability to extract variants of high empirical data.

The result shows that the model developed to explain the postponement intention confirms the expected result. The result of the structural model test also shows that trialability variables does not show significant effect on the variable of postponement attitude.

Result of Hypothesis Test

The next stage is hypothesis test conducted by evaluating the direction and level of significance of causality relationship among variables in the research model. This research tests the causality relationship by using one-way test on the significance of 10%. This is supported by the statement of Hair *et al* (1998) that the critical value determination depends on the proposed theoretical relationship. If the positive or negative relationship has been hypothesized, the one-way significance test can be carried out.

Based on the research model, there is an alternative relationship that needs to be tested: the relationship between innovation characteristics and product knowledge on postponement attitude, the relationship between knowledge and risk perception on the postponement intention.

Table 2. Summary of results of testing the direction and significance of the hypothesized relationships among variables.

	Relationship	Expected Direction	Actualy the direction	path coefficients	CR	inforation
H1	Attitude to postpone<----- Relative advantage	-	-	-0,217	- 2,165	Significa nt
H2	Attitude to postpone<----- Compatibility	-	-	-0,353	- 3,608	Significa nt
H3	Attitude to postpone<----- Complexity	+	+	0,185	4,214	Significa nt
H4	Attitude to postpone<----- Observability	-	-	-0,388	- 4,392	Significa nt
H5	Attitude to postpone <----- Trialibility	-	-	-0.079	- 0,937	No Significa nt
H6	Attitude to postpone <----- knowledge	-	-	-0,282	- 4,392	Significa nt
H7	Postponement intention<----- knowledge	+	+	-0,271	- 3,818	Significa nt
H8	Postponement intention<----- Attitude to postpone	+	+	0,146	2,578	Significa nt
H9	Postponement intention<----- perceived Risk	+	+	0,155	2,325	Significa nt

Source: The primary data

Table 2 describes the relationship of relative advantage, compatibility, complexity, visibility, and knowledge of LPG with postponement attitude which has positive significance. Trialibility have no significant relationship with postponement attitude. The perception of risk, and postponement attitude has significantly positive relationship with postponement intention. knowledge has significantly negative relationship with postponement intention

Conclusion, Research Contribution, Limitation and Suggestion for Future Research

Conclusion

This research proposes a model of innovation adoption postponement that is called as consumers' active rejection on innovative products. The setting of this research is poor society that becomes the target of LPG adoption. The result of this research shows that the postponement model of innovation adoption of LPG products for the poor society can be accepted. Further, it can be confirmed that the postponement attitude of innovative products is significantly influenced by relative advantage, compatibility, complexity, visibility and knowledge. Trialibility as one of the factors that influences postponement attitude, does not show good result. Trialibility does not have significant influence on postponement attitude. In relation with information availability, this research states that in diffusing innovation, communication strength can be taken from four aspects including advertisement mechanism, that is agent of change (society leader), mass media (newspaper, radio), and government.

The intention to postpone is influenced by perceived risk. This research result, stating that consumers will consider the benefits obtained from the activities (*benefit*) and the expense that needs to be spent for the processes (*cost*). In other words, it is aimed to minimize loss that may be experienced before adopting innovative products. In short, they confirm that there is relationship of perception of risk and postponement.

Contribution of Theory

- 1) The first contribution of the theory relates with *pro-innovation bias*. Earlier research conducted by the researcher regarding LPG product as an innovative product for poor society shows that there is a group of people rejecting the innovative products although the products are given for free. The phenomenon analyzed in this research is expected to minimize *pro-innovation bias* in the previous innovation adoption research.
- 2) The second contribution of the theory relates with the definition of innovation adoption postponement and non-adopter category. The definition of postponement is a condition where one has not intended to adopt a product/innovation. Postponement is an active process where users postpone the innovation adoption process. One who postpones adoption is in the category of *non adopter*. During this postponement period, a consumer will search for information related with the innovative products. People who postpones innovation will wait for the right time to adopt an innovation. This research finding that classify non-adopter into two: someone who rejects the adoption (rejecter) and someone who postpones the adoption (postponer). Real adoption rejection is an active process in which an individual decides to avoid or reject innovation. Postponement is also an active process in which users postpone the innovation adoption process. The non-adopters are found in the population target that never uses technology or never tries innovation at the first place. Non-adopters are divided into three. The first category is those who are explicitly against the use of technology. They make decisions based on information availability of innovative products that is similar to their personal beliefs. The second category is an individual group that intentionally postpones technology innovation adoption and will probably wait until there are changes on important variables such as prices, or they may use the products gradually while applying the “*wait and see*” strategy. The third category is an individual that is unresponsive with technology innovation or they are probably not concerned with its existence. The definition of postponement that can be proposed as the research result contribution is that postponement is a condition in which someone has not had willingness to adopt products/innovation. Postponement is an active process in which users postpone their innovation adoption process. Postponer is someone who is in the group of non-adopter. During the postponement period, a consumer will find information related with innovative product.

Managerial Contribution

From the point of view of macro economics, this research finding gives benefits for the continuity of the government’s program related with innovative products. The government should realize that the innovative product that it launches has not entirely accepted by the society although it is given for free. From this research, it is found that among the poor society, the attitude to actively reject innovative products is greatly influenced by compatibility perception. Many poor people state that they need to change everything they have if they want to use the innovative product (LPG). New experience for the society to use the innovative product (LPG) has similarly great influence on the attitude to postpone. More importantly, the poor society considers that the innovative product (LPG) is not appropriate at all with their environment condition. The result of

interviews and field observation shows that most of the poor people do not have specific kitchen because they are used to cook outside. The kitchen in their house does not stand alone, there are many items kept together instead. Therefore, it is very difficult for them to use and keep the innovative product (LPG). That is why, those categorized into poor society have not had willingness to adopt the innovative product (LPG). Consequently, it will be better if the government concerns several factors that can cause the postponement intention to become greater so that the innovative diffusion program can be accepted by the society.

The intention to postpone the conversion program of LPG product adoption is relatively high. This intention is significantly influenced by the attitude of postponement. The government, therefore, should realize that it is necessary to lessen the postponement attitude that is the postponement attitude proxy that actually can be minimized. The risk perception also makes the postponement intention high. Most of the society that postpones states that the use of the innovative product (LPG) is relatively costly and cannot be bought in retail. To succeed the energy conversion program, the government should be able to reduce the risks that are perceived by this poor society. The less risk perception will eventually reduce the intention to postpone and the innovative products will be much easily adopted. Therefore, the success of this energy conversion program can be advantageous for all parties, both the government and the society.

The understanding of the innovative product postponement from the point of view of marketing communication aspects. If this program succeeds, the benefits of this program are not only for the government but also for all Indonesian people. Thus, this research has the strength to understand a phenomenon that is understood from not only the internal side of consumers but also the external.

The understanding of aspects that influences the postponement should be conducted earlier because the gasoline conversion program cannot be done in a short period. Rogers (1995) argues that the adoption speed level of an individual is different one another. An individual that has high innovation can accept the innovative products rapidly compared to the individuals that have apathy tendency toward innovative product. In relation with this study, the research subjects are the low class society that tends to have weak economic level, low education, and high risk perception. The gasoline to LPG conversion program is perceived by the society as a program that offers uncertainty because the society tends to have suspicion before they understand this gas product. Therefore, both the government and related institutions such as Pertamina (state-owned gas company) and gas product distributors need to understand factors causing the society to postpone the conversion since the very beginning. This is important because the success of this conversion program can benefit all parties including the country's economics, society, and industries.

Limitation of Research

The limitation of this research can be shown by the scope research in a particular setting. This research can only be generalized in the research setting that has particular research subject and object criteria. The research subjects are the poor society that postpone adoption and has maximum income of IDR 1.500.000 per month. The research object is also limited to the product category that has benefits or utilitarian products that can give good benefits for consumers.

This research only analyzes factors influencing the adoption postponement from the point of view of innovation characteristics aspect, knowledge, risk perception and attitude. There are other innovation characteristic factors that can be used to predict innovation adoption attitude such as image and voluntary act (Venkatesh and Brown, 2001). User perception factors including information relevance, awareness, and trust (Agrawal and Prasad, 1991) and psychological factors

owned by an individual in an innovation adoption such as innovation and involvement (Tabakand Bar, 1998) are not analyzed in this research.

Suggestion for Future Research

Trialability variables and objective knowledge have no significant influence on the attitude to postpone. For future research, the use of these variables should be considered and re-tested to obtain expected relationship. The research object should not only take one object so that stronger *external validity* can be obtained. The research methodology has limitation in which it is the adoption group only that is observed. For future research, the research setting should not only be poor society that postpone the adoption but also the poor society that has adopted the innovation. As a result, a comparison result can be obtained

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Solidarity Factor in Cultivating Entrepreneurial Culture Among the Minangkabau's Sub-Ethnic Group, West Sumatera Indonesia

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Abstract. Traditional ceremonies and customs that are tied up in a culture of solidarity are estimated to affect efficiency and entrepreneurial career in Minangkabau society of Indonesia. The objective of this study is firstly to review the role of the culture of solidarity in explaining the creation of successful entrepreneurial career. Secondly is to identify the role of the culture of solidarity in explaining entrepreneurial competencies. Thirdly is to measure the relationship between entrepreneurial competencies and career success in determining to what extent entrepreneurial competencies can explain the relationship between the culture of solidarity and entrepreneurial career success in the Minangkabau society of Indonesia. The theory of Cultural Capital and Entrepreneurial Behaviour Theory is applied to build the framework of the research work. Questionnaire prefixes descriptive exploration and followed by regression analysis to test four hypotheses. Data was collected from 359 small and medium enterprises (SMES) engaged in the business of clothes and food in Elegant District, West Sumatra, Indonesia. The results of this study explained that a culture of solidarity give significant effect to the success of the entrepreneurial career. Meanwhile, an entrepreneurial competency also affects the success of entrepreneurial career that explained the factors in the relationship between the culture of solidarity and entrepreneurial career success. This research contributed significantly to the knowledge of entrepreneurship, which suggests that the spirit of solidarity in the community culture plays an important role in shaping and promoting competency of the community towards entrepreneurship development in Minangkabau community.

Keywords: *Solidarity Culture, Entrepreneurial Competencies, Career Success, Entrepreneurship Minangkabau.*

8. Introduction

Entrepreneurship has a strong influence on economic growth and competitiveness which creates an employment and development to the community (Linan, Rodriguez-Cohard, (Linan, Rodriguez-Cohard, & Rueda-Cantuche, 2005; Schragger, 2010). United Kingdom and United States become industrialised nation quickly because their community allows technopreneurship skills to grow rapidly (Casson, 1990; Storey, 1994), while a revival of entrepreneurship in the economy in the people's Republic of China has provided for the smooth economic growth in that country (Chow & Fung, 1996; Dirlik, 2000). Therefore, scholars and economists in Asia Pacific Economic Cooperation (APEC) supported and agreed to diminish various obstacles in entrepreneurship development as well as empowering existing potential to restructure its intrapreneur development programme (Sanjaya, 1997). In Indonesia, the growth of entrepreneurs has its ups and downs and inconsistent from year to year. The year 1999, 2001 and 2007 showed the declining rate

of 3.02 percent, 1.15 percent and 0.37 percent respectively. This symptom indicates the frequency of the shift of jobs with high rates in the community who ventured into entrepreneurship.

McClelland (1961) pointed out that at least the required two percent of moral entrepreneurs from the population of developing countries can bring it to be developed. In Indonesia, percentage of entrepreneurs involved in small company in 2010 reached 1.04 per cent only (see table 1).

Table 1

Structure of the Company in Indonesia By Size Years 2006-2010 (in thousands)

Company Sizes		2006	2008	2010
Micro Company	Units	48,031,931	50,695,302	52,176,795
	%	98.80	98.75	98.88
Small Company	Units	472,602	520,221	546,675
	%	0.97	1.01	1.04
Medium Company	Units	1,067,000	115,092	41,113
	%	0.22	0.22	0.08
Larger Company	Units	4,577	4,372	4,677
	%	0.01	0.01	0.01
Number of Company	Units	48,615,810	51,334,987	52,769,280
	%	100	100	100

Source : Biro Perangkaan Statistik (BPS) Indonesia (2010)

According to Manning et al. (2002) there are two types of instances where someone decided to become entrepreneur. First, the entrepreneur is based on the opportunity, being entrepreneurs see business opportunities effectively, so the entrepreneurial career is they always be struggling. Second, is the entrepreneur who based the needs, which of become entrepreneurs because they do not have other career options for living life. Some literature has already shown that entrepreneurial career success is not only influenced by the income obtained, the form of remuneration received, and satisfaction on the job (Greenhaus, 2003; Hall, 1996b; Hilton & Dill, 1962; Thorndike, 1963), but also it is also influenced by the environment, such as family conflict (Parasuraman, Purohit, Godshalk & Beutell, 1996), community attitudes towards entrepreneurship (Hall, 1996a, 2002), the existence of successful entrepreneurs (Hall & Chandler, 2005), as well as cultural values in society (Lau, Shaffer, & Au, 2007; Lau & Wong, 2009).

The role of culture in career development is a much debated theme (Dries, Pepermans, & Carlier, 2008; Granrose & Chua, 1996; Kim, 1993), but still shows a lot of serious limitations (Coetzee, Bergh, &

Schreuder, 2010; Dries, 2011; Wu & Li, 2011). Most of the previous studies more focused on discussion of the community agent and the way of institutional contribute to the collective achievement as the social capital elements (Heslin, 2000) and human capital (Ballout, 2007; Judge, Cable, Boudreau, & Bretz, 1995). From the point of view of culture, work is construction culture because working is one aspect of life function where someone contributes job skills to their culture and society and also taking care of their family (Carter & Cook, 1992). From the previous of studies there is importance of culture for successful careers in the social and economic structure. Fukuyama (1995), Landes (1998), Lynn (1991), North (1994), and Olson (1982) have analyzed the culture at the macro level. Meanwhile, Casson (1991), Hofstede (1991), and Whitley (1992) have done research on the micro-level culture. However, the study of the influence of culture on entrepreneurial career success in eastern society often overlooked in career literatures (Lau & Shaffer, 1999, 2002; Lau et al., 2007; Nakhata, 2007; Spokane, Fouad, & Swanson, 2003) . The reason of the basic for the implementation of this study, with the purpose learning how Minangkabau society doing in business.

9. Literature Review

2.1. Entrepreneurial Career Success

Entrepreneurial career success is a concept that is filled with values but difficult to universally accepted (Aryee, Chay & Tan, 1994). Value for eastern communities thus giving emphasis on immaterial values. However become society who have a morality, spiritual and altruistic behavior are essential the ideology achievement (Hunt & Meindl, 1991). Stead (2004), found that sub- community culture also plays an important role in the way people build their career success. Changing business conditions make employees become skeptical (Arthur, Khapova, & Wilderom, 2005; Hall, 2002). This notion of uncertainty mentioned by Hall (1996a), Hall and Chandler (2005) and Granrose and Baccili (2006) that employees have built careers infinity (boundaryless Career) in the organization, or that protean career as a mean of self-building. Most of the entrepreneurs taking family members as employees although sometimes can create a variety of conflict of interest that could lead to conflict in the family (Ballout, 2008; Boyar, Maertz-Jr.-Mosley Jr., & Carr, 2008; Parasuraman, et al., 1996). That is why career success in the form of entrepreneur perspective is very different from a clerical officer career success (Lau & Shaffer, 2002). Dimensions of career success only a clerical officer in the form of promotions and job title only (Heslin, 2005a), while the entrepreneur is felt not enough dimensions to measure career success because of the cultural point of view it is believed that career success can be important when they are received in their community life (Lau, et al., 2007).

2.2. Solidarity Factor

In the sociology perspective, culture is social order (Turner & Roject, 2001), but the definition of culture has changed from time to time. Initial definition states that culture consists of patterns of ways of thinking, feeling and responded, especially acquired and communicated through symbols as a special performance by people who make up the institution, including manifests into the arts (Kluckhohn, 1951). Completed the definition of social culture social system is of units on the meaning system to manifest itself through the medium of the equipment and human action (Spengler, 1950; & Sorokin, 1957). Berger (1995) also defined culture as a complex unity that includes speech, knowledge, beliefs, customs, art, morality, technology, ambition and regulations or legislation, whether they have learned from other people or from people who are more old and sort added to it. The simple definition of culture is the values and attitudes which guiding actions of individuals and the interaction between people in a community (Harrison, 1998). Definition (familism) as a concept has been assumed that the activities and family interactions can be considered as

capital activities, and is defined by the Spengler (1950) as the organization and form of interaction unique. Sorokin (1957) defines family as kin group solidarity maintenance through the use of a set of rights and obligations given and linked to the network of kin.

2.3. Solidarity Factor and Entrepreneurial Career Success

Specifically solidarity factor studies associated with entrepreneurial career success are limited. Study Goffee and Jones (1996) found that solidarity can generate high strategic focus, quick response assistance on a competitive threat, intolerance to poor performance and the standards are not the same, until eventually develop a strong sense of trust in the community. In addition, the frequency mixing in factor solidarity factor can lead to creativity and openness to new ideas, a commitment to community partners, and performance (Goffee & Jones, 1996). In general, the study of solidarity can find on ethnic entrepreneurial activity, in which social capital theory explains that as a result of the bonds of a relationship can be the sources of such information is, influence and solidarity that supports the achievement of career success (Adler & Kwon, 2002). Bates (1997) argued on the basis of social capital theory, that the ethnic cultural resources can support the success of the business to be able to make responsible financial capital and human capital become stronger. Sense of solidarity with the closest culture in terminology in entrepreneurial studies is an element of Chinese culture Guanxi. Guanxi refers to the network of informal relationships in a social group, or informal alliances with other individuals in a social group (Bozionelos & Wang, 2006; Chow & Ng, 2004). In environmental of the Anglo Saxon community is found that network resources influence career success, whereas instrumental network resources is stronger than expressive network resources is associated with extrinsic career success (Bozionelos, 2006).

2.4. Solidarity Factor and Entrepreneurial Competencies

Competency is a context sensitive behavior thus much appreciated behavioral competency in a particular culture will not necessarily be judged similar in other cultures (Choueke & Armstrong, 2000; Pearson & Chatterjee, 2001). The matter in line with the findings by Marino, Strandholm, Steensma, and Weaver (2002) concluded that there is a difference entrepreneurial behavior characteristic between individualism society and collectivism society. According to Pearson and Chatterjee (2001) values associated with individualism has become the key to developing the concept of entrepreneurship in the Western countries, and career success entrepreneurs for the Asian countries thus lies in the values associated with collectivism, such as family support and networking. These values and characters in the context of resource-based theory is seen as the characteristics of the entrepreneur and the business has a competitive advantage and sustainable in the long term (Barney et al., 2011; Barney, 1991). While Tolciu (2011) also conducted a study on the characteristics of the entrepreneur Turkish ethnic in Hamburg, Germany. According to Deakins, Ram and Smallbone (2003), explained that the close social networks can help to progress business based on the belief. Guanxi networks for Chinese ethnic and Wasta networks for Arabic ethnic were found effective to develop relationships competencies and network competencies to entrepreneur who expand the international market (Hutchings & Weir, 2006). Guanxi and Wasta is defined as a variety of networks, relationships, contacts and even nepotism (Buttery & Wang, 1999) and it is considered significant in the business and social activities (Michailova & Worm, 2003).

2.5. Competency Entrepreneurship and Entrepreneurial Career Success

Entrepreneurial competencies are antecedent for entrepreneurial career success. One process can become a successful entrepreneur is explained by Entrepreneurial Behavior Theory (Shapero and Sokol 1982), which involved entrepreneurial role in activities such as: 1) the development of the challenging

vision but achievable; 2) formulate strategic; 3) observe the unmet customers' needs; 4) scanning the environment; 5) patch of high quality opportunities, and 6) in the production of superior products or services (Ahmad & Halim, 2010; Chandler & Hanks, 1994). This role requires vigilance, innovation and creativity of entrepreneurs (Thompson, 1999), strong commitment (Man & Lau, 2000) and conceptual ability to locate, identify, evaluate, and seize the opportunity and turn it into a profitable outcome (Thompson, Stuart, & Lindsay, 1997). Man and Lau (2000) have tested the influence of entrepreneurial competencies to employee performance in a small company in Hong Kong. There are seven things that are important competencies for entrepreneurs, such as: (i) the competence of opportunities, (ii) the relationship competence, (iii) conceptual competence, (iv) organizational competence, (v) strategic competence, (vi) the commitment competence (vii) learning competence and (viii) the competency of personal strength. Entrepreneurial competence is a positive relationship to career success entrepreneurs (Nakhata, 2007). The concepts of entrepreneurial competencies are always associated with the performance of entrepreneurs (Draganidis & Mentzas, 2006).

2.6. Role of Entrepreneurial Competency as mediating variables between Solidarity factor and Entrepreneurship Career Success

In line with market competition, there is an increasing emphasis on the active role of entrepreneurs in conducting continuous improvement and involvement with his career can be measured in the concepts of personal initiative (Frese, 2001), the ability to work (Van-Dam, 2004), or the willingness to change (Schyns, 2004)

Cultural values serve to organize and strengthen action and human behavior (Alisjahbana, 1986). Litzku, Purohit and Weer (2008) found that the normative nature contains something desired by the people, so it must be created in the behavior. Therefore, the value play an important role when one determines the intent and purpose of the actions (Schwartz, 1997). Scott (2001) argued that the learning process is done through the institutions of the culture that built the urge solidarity. That view is supported by Kostova (1997) and Busenitz, Gomez and Spencer (2000) explains that according to the theory of institutions, an entrepreneurial take action after learning and adapting environmental mind with social consensus in the form of customs systems, norms, and rules that occur. Despite the many cultural solidarity not specifically described in the study of entrepreneurship, but have found a lot of cultural relations arrangements that have profound impact on all aspects of management behavior (Adler, 1997; Bartlett & Ghoshal, 1997). Even Bergevoet research, Giesen, Saatkamp, Woerkum and Van-and-Huirne (2005), Izquierdo and Buyens (2007) and-Greet and Van Gils (2007), found that the significance of the role of a proper education, training conducted and experience in creating competency entrepreneurship.

10. Research Methods

3.1. Research Design

Design causal research is a research efforts to study the relationship of cause and effect from many variables either directly or indirectly always questioned the study hypothesis (Irawan, 2002). The purpose of this study to test the effectiveness of solidarity factor as successful entrepreneurial career in located limited Agam district in West Sumatra because the community in this area has been known as industrial entrepreneurs that produce goods, such as clothing and food (Herri, Yuskar, & Chatib, 1998). Unit analysis of this research is that individual entrepreneurs to develop SMEs.

3.2. Data

Population in this study is specifically categorized entrepreneurs as owners of SMEs and run the company for at least 5 years. Sampling frame is the whole SMEs registered in the directory at the Department of Cooperatives, Industry and Trade in 2004, which lists a total of 3,819 SME entrepreneurs population residing in 82 villages (NAGARI).

Table 2.

Population and Number of Survey Distributed

No	Name of District (The Parish)	Population PKS*		Number of distributed
1	Tanjung Mutiara	114	2.99%	15
2	Lubuk Basung	235	6.15%	31
3	Ampek Nagari	59	1.54%	8
4	Tanjung Raya	101	2.64%	13
5	Matur	122	3.19%	16
6	Ampek Koto	601	15.74%	79
7	Malakak	57	1.49%	7
8	Banuhampu	99	2.59%	13
9	Sungai Puar	673	17.62%	88
10	Ampek Angkek Candung	578	15.13%	76
11	Candung	207	5.42%	27
12	Baso	81	2.12%	11
13	Tilatang Kamang	157	4.11%	21
14	Kamang Magek	309	8.09%	40
15	Palembayan	156	4.08%	20
16	Palupuh	270	7.07%	35
Total		3819	100%	500

Sources: * Department of Industry and Trade in Agam Regency (2004)

To obtain the necessary authority to carry out the analysis, then determine the appropriate sample size should be conducted. For the convenience of determining the number of samples, Krejcie and Morgan (1970) compiled a table that lists the number of samples with a population of 3819 obtained a sample size of 349.

3.3. Analysis and Findings

Measuring the impact of solidarity factor on building entrepreneurial career success, and was followed by measuring the effect solidarity factor to existence entrepreneurial competencies. Analyzes the influence of entrepreneurial competency to entrepreneurial career success, and also look at how the role of entrepreneurial competencies as mediating between solidarity factor and entrepreneurial career success.

Testing Hypothesis 1: Cultural Solidarity significantly influential to explain Entrepreneurial Career Success

Simple linear regression is used to test the first hypothesis in this study, which tested the effect of the creation of Solidarity Culture Entrepreneurial Career Success. Regression testing results are shown in Table 3. Based on the available schedule-F ratio is significant at the level of 1564.34 probability of 0.000 ($p < 0.05$)

Table 3

The relationship of Solidarity factor and Entrepreneur Career Success

Variables	Without coefficients	standardized standard error	standardized coefficients	Ratio-t	Sig.	Result
	Beta		Beta			
(Konstan)	-0.18	0.12		-1.43	0.151	
Solidarity	1.047	0.026	0.902	39.552	0.000	Sig.
<i>R- squared</i>	0.814					
<i>Nisbah-F</i>	1564.3					
<i>Sig. F</i>	0.000					

Description: - The amount of data (observations) = 359

Determining the ratio of the coefficients (R^2) worth 0.814 implies that 81.4 percent of the Minangkabau entrepreneurial career success can be explained by Solidarity factor practiced. T-ratio on the Solidarity factor is high enough 39,552 and significant at 0.000 probability level ($p < 0.05$), indicating Solidarity factor regression coefficient in the model used to explain the Entrepreneurial Career Success.

Regression coefficient indicates the Solidarity factor 1.047. These findings prove that the Solidarity factor positive relationship to support of Entrepreneurial Career Success Career on the strength of the

Minangkabau Solidarity factor coefficient 1.047. These things prove that the Solidarity significantly influential to explain Entrepreneurial Career Success.

Testing Hypothesis 2: Solidarity factor significant role in explaining the existence of Entrepreneurial Competencies.

Hypothesis 2 of the study was to determine the effect of variable to variable factors Solidarity factor to Entrepreneurial Competencies. Findings of this hypothesis testing are shown in Table 4, which depicts Solidarity factor influence a positive and significant impact on Entrepreneurship Competencies. This is known from the F-ratio of 195.92 is significant at 0.000 probability level ($p < 0.05$), and the positive direction on the standardized coefficient of 0.595. While determining the coefficients (R^2) indicates that the size of 0.354 Solidarity Culture can explain around 35.4 percent of the variance in Entrepreneurial Competency, while the remaining 65.6 percent can be explained by many other factors.

Table 4.

Solidarity Cultural Competency relationship and Entrepreneurship

Variables	Without standardized coefficients		Standardized coefficients	Without standardized coefficients	Sig.	Result
	Beta	Standard Error	Beta			
(Konstan)	3.631	0.124		29.325	0.000	
Solidarity	0.356	0.025	0.595	13.997	0.000	Sig
R- squared	0.354					
Ratio-F	195.923					
Sig. F	0.000					

Description: - The amount of data (observations) = 359

Solidarity Culture regression coefficients show the 0.356 with a t-ratio is significant at 13.997 and 0.000 probability levels ($p < 0.05$). This coefficient indicates that the strength of the Solidarity factor positive contributions as large as 35.6 per cent of the existence of entrepreneurial competencies Minangkabau society.

Testing Hypothesis 3: Entrepreneurial Competence significantly influential on Entrepreneurship Career Success

Hypothesis 3 in research aimed to determine the effect of variables on the entrepreneurial competencies to entrepreneurial career success as shown in Table 5. Based on the derived table that overload statement is 279.157-F ratio is significant at 0.000 probability level ($p < 0.05$). That is, this model has been validated to describe the actual population. Regression coefficient of entrepreneurial competencies showed figures

was 1.287 with a standard error of 0.077, and the t-ratio is 16.70 significant at 0.000 probability level ($p < 0.05$). While determining the coefficients (R^2) are produced as large as 0.439. These findings also provide an understanding that entrepreneurial competence has very strong positive contribution to the existence of entrepreneurial career success Minangkabau society, which is as large as 128.7 percent. Meanwhile, 43.9 percent change in variable entrepreneurial career success is due to changes in entrepreneurial competencies.

Table 5.

Entrepreneurship Competency relationship and Entrepreneurial Career Success

Variables	Without standardized coefficients		Standardized coefficients	Without standardized coefficients	Sig.	Result
	Beta	Standard Error	Beta			
(Konstan)	-2.022	0.413		-4.897	0.000	
Entrepreneurial competencies	1.287	0.077	0.662	16.708	0.000	Sig
R- squared	0.439					
Ratio-F	279.157					
Sig. F	0.000					

Description: - The amount of data (observations) = 359

Testing Hypothesis 4: Entrepreneurial Competence significant role in the relationship Solidarity Culture and Entrepreneurial Career Success

Hypothesis 4 was built to test the entrepreneurial competencies can mediate on the relationship between solidarity factor, on entrepreneurial career success.

Table 6

Relationship Solidarit Culture, Competence and Entrepreneurship Entrepreneurial Career Success

Variables	Without standardized coefficients		Standardized coefficients	Without standardized coefficients	Sig.	Result
	Beta	Standard Error	Beta			
(Constant)	-1.555	0.222		-6.993	0.000	
Solidarity	0.913	0.031	0.787	29.690	0.000	Sig
Entrepreneurial competencies	0.377	0.051	0.194	7.327	0.000	Sig
R- squared	0.839					

Ratio-F 924.762

Sig. F 0.000

Description: - The amount of data (observations) = 359

Hypothesis 4 using the regression shown in Table 6. Based on the table, the relationship of the independent variables and the variables mediate Solidarity factor to Competence Entrepreneurship shows a positive and significant influence on entrepreneurial career success. Determinant coefficient (R2) and the F-ratio in each model showed 0.839 and 924 251 (p <0.05). This means that as big as 83.9 percent of Entrepreneurial Career Success can be explained by the entrepreneurs competency and Solidarity factor with significant influence. Solidarity factor regression coefficients and their entrepreneurial competencies showed 0.787 and 0194 respectively are significant at the probability level is 0.05.

According to Baron and Kenny method (1986), the findings of the regression analysis reported in Table 3, Table 4, Table 5 and Table 6 can be organized into a path diagram Figure 1.

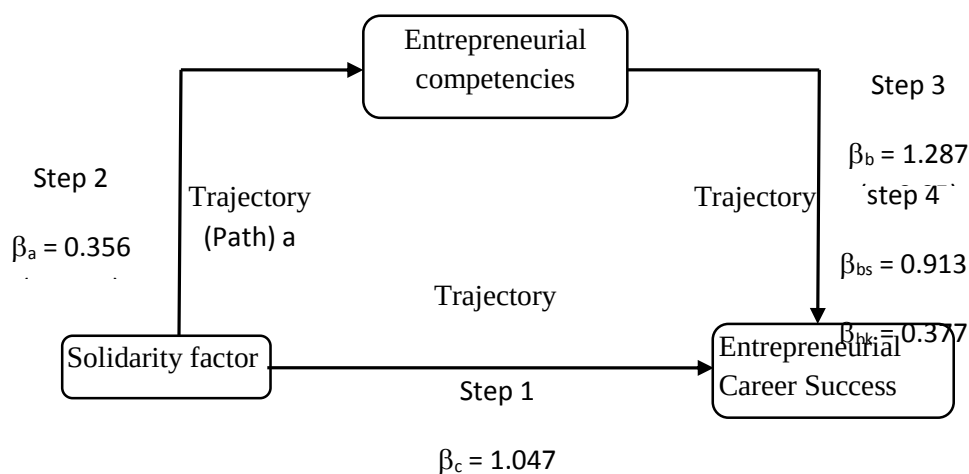


Figure 1. Path diagram Solidarity Culture, Entrepreneurship Competency Entrepreneurship and Career Success

Table 7 and Figure 1 shows that the positive and significant influence occurs in three steps proposed by Baron and Kenny (1986) above. Table 7 finds that the coefficient of determination Solidarity factor relations and Entrepreneurial Career Success after controlled by the level of probability values decreased significantly at p <0.05. Thus according to Baron and Kenny (1986) to study the relationship between these variables in hypothesis 4 can be concluded that the role of entrepreneurial competency as mediating variable is partial mediation.

Table 7.

Entrepreneurship Competency Test Results as Solicitor factor relationswith Career Success

Entrepreneurship

Independent Variable	Dependent Variable

	Entrepreneurial competencies		Entrepreneurial Success (direct)	Career	Entrepreneurial Success (indirect)	Career
Solidarity Factor	1.287		1.047		0.913	
Standard Error	0.077		0.026		0.031	
R- squared	0.439		0.814		0.839	
Ratio-F	279.157	**	1564.3	**	924.762	**
Ratio-t	16.708	**	39.552	**	29.69	**

Description: ** significant at p <0.01

. * Significant at p <0.05

Regression test results in Table 6, Figure 1 and Table 7 less accurate then the regression model shown below is used to see the exact significance:

Model 1: $KKK = -1.555 + \mathbf{0.913} BS + 0.377 KK + e$

se (0.222) (0.031) (0.051)

Model 2: $KKK = -0.186 + \mathbf{1.047} BS + e$

se (0.129) (0.026)

KKK = Entrepreneurial Career Success

BS = Solidarity factor

KK = Entrepreneurial competencies

e = error

se = standard error

Indirect effects (indirect effect) and total effect (total effect) is as follows:

$$\begin{aligned}
 B_{indirect} &= \beta - \beta_1 \\
 &= 1.047 - 0.913 \\
 &= \mathbf{0.134}
 \end{aligned}$$

$$\begin{aligned}
\text{Total effect} &= \beta_{\text{direct}} + \beta_{\text{indirect}} \\
&= 1.047 + 0.134 \\
&= \mathbf{1.181}
\end{aligned}$$

Based on the results of a calculation indirect effects, to determine whether the indirect effect of a significant effect, using the Sobel test (1982) with the following formula:

$$Sobel's Z = \frac{a * b}{\sqrt{((b^2 * s_a^2) + (a^2 * s_b^2))}}$$

a , s_a respectively unstandardized regression coefficients and standard errors in the model correlation

factors mediate Solidarity factor and entrepreneurial competencies, and

b , s_b are unstandardized regression coefficients and standard errors on the model of the relationship

between entrepreneurial competencies mediate and entrepreneurial career success.

Result of the calculation gives is Z stat value is 10.8394938, standard error 0.04226876, and the p-value 0.000. Based on the calculation results can be summarized that the intervening variables have significant impacts on the relationship between Solidarity factors and entrepreneurial career success.⁴

4. Discussion and Recommendations

The first objective of this study is to identify the influence of solidarity factor in explaining entrepreneurial career success. Social capital theory can provide a broader explanation of the culture and spirit of solidarity and support entrepreneurial behavior in Minangkabau society. This study use Solidarity factor as the basis of element association to provides a network, afeksi elements as emotional ties to the community members, the elements consensus that make up the agreement of the rule, elements of the pattern functions share resources and instrumental support for the strength to share, Normative elements as the basis for a sense of familism, and structural elements that refer to the structure of opportunities for family interaction; availability interaction as a member to be influenced by factors such as closeness and mortality, thus providing distributive facilities in Minangkabau society. Results of the study, stated that Solidarity factor identified positive and significant role in the success of his entrepreneurial career for entrepreneurs Minangkabau in West Sumatra, Indonesia. Spirit of unity created by the cluster rule Minangkabau culture has formed a joint feeling in fact often termed the "urang awak juo" which means "still a racial family" which contains the spirit of "togetherness". Further, the detailed description of the relationship between cultural factors and successful entrepreneurial career can be divided into three parts below.

4.1. Relationship Solidarity Factor and Entrepreneurial Career Success

Results of regression analysis proved a significant Solidarity factor has a positive role to the success of his entrepreneurial career to entrepreneurship Agam District Minangkabau, West Sumatra. Dimension of consensus is the dimension that has very close and significant relationship with cultural factors. It means, the unanimous consensus by the group in relation to the strength of family entrepreneurs solidarity among them. Frequency of family members interact in meetings has a pretty important role in career success is indicated by the high correlation coefficient between the association and successful entrepreneurial career. Afeksi dimensions are expression evaluation sentiment and affection among family members. Bonds of affection among family members give impetus Minangkabau motivate entrepreneurs to lift the status and prestige of the social and economic family as "baralek datuak" (selection of race leader), "halal bil halal" (family meeting after Eid ul-Fitr), "social gathering "and others.

Functional solidarity can still be a way out to individuals with critical business problems. Understanding of cultural values is a moral bond arrangements put his father role (mother's brother) as the party responsible to the future success of every "kemenakannya" (his niece), as a new generation of leaders who uphold the dignity and reputation of people (clan) . Understanding the impact of cultural values is perceived fading parallel with modernization influence family formation, referring to a large collective family (extended family) to keluarga core concept (nuclear family). Strength solidarity consensus in mutual cooperation, collaboration and consensus and help each other that belief, is the contract still done by most people in the business entrepreneur Minangkabau.

4.2. The Relationship solidarity factor and entrepreneurial competencies

Solidarity factor has a positive and significant influence on entrepreneurial competencies among Minangkabau's entrepreneurs. It shows that the interaction on meeting the activities among members and the wider kin family in various gathering have trained the ability and improve their competencies, namely among these are: (1) continuous learning motivation by exploring the information is from the other members of the more advanced (2) to build a relationship so that it can further expand the business, (3) develop the ability to commit the keeping of trust that could eventually create social reputation, (4) create a custom build and evaluate opportunities, (5) also their strategic capability, (6) and skill concepts, (7), which in turn develop an efficient personal strength and respect, (8) and set the organization through work assignments and powers, and build a business concept and strategic arrangements and ability committed. Cultural capital theory explains these activities form the knowledge and skills of the community.

However, these forms of solidarity in financial or material assistance and intervention families in solving problems not directly and significantly influential to the development of entrepreneurial competencies. Solidarity factor between group members and their families has led each individual Minangkabau chase reputation by developing trust and reputation grows so if commercial transaction can occur without conditions. Exchanges and bonded goods without certain conditions, or transactions without cash payment in advance is very common place. This phenomenon is similar to the process of building guanxi in Chinese culture.

4.3. Competency relationship between Entrepreneurship and Entrepreneurial Career Success

The third objective of this study is to determine the relationship between entrepreneurial competence variables and entrepreneurial career success. Dimensions of entrepreneurial competencies variables consists of eight dimensions, namely the dimension of opportunities, relationships, concepts, organization, strategy,

commitment, learning, and personal strength. The findings using regression methods (Table 6) have found that entrepreneurial competencies showed influence on entrepreneurial career success.

For many entrepreneurs, clothing design favored by the market most frequently imitated and made repeated, until market demand declined in the life cycle of the season or fashion design. The structure of the clothing market also showed relatively homogeneous (homogeneous), without its innovation efforts to create new markets through the Internet. However, some entrepreneurs are found to be very innovative in developing new designs and highly effective garments to high growth, so it has always been the leader in the market environment. High values in organizational competencies, relationships, learning and personal strength in particular is closely related to business practices that are influenced by the Minangkabau culture. Competence is not only growing talent within only entrepreneurs, but also because of the influence of cultural factors. Learning competence is a matter of policy to develop entrepreneurship since the acceleration of technology and market dynamics make the traditional sources of competitive advantage are obsolete and replaced by innovation (Ireland & Hitt, 1999).

4.4. Entrepreneurial Competency as mediating variables between Solidarity factor and Entrepreneurship Career Success

Solidarity factors have a significant influence on the success of entrepreneurial career when controlled by the mediator entrepreneurial competencies. This means that entrepreneurial competencies have become mediator convincing relationship between Solidarity factor and entrepreneurial career success. Someone who grew up in family fast entrepreneurs understands the importance of networking. Culture with a network that involves a lot of information is the way to get business opportunities and skilled workers. Thus, the building solidarity networks based on a culture of trust can be advantage when entrepreneurs are able to develop trust through open to others feedback and honest with ourselves in terms of identifying competencies in his profession. Competency evaluation may lead to a deeper self-reflection, and further performance improvements lead to career success. It should also be noted that independent entrepreneurs talk about their mistakes. They use their experience and learning to build their entrepreneurial competencies. Experience inclined to be stiff if the importance of higher profit and loss, so that capital can be successful career solidarity through an adequate level of competence.

4.5. Implications Of Study

The findings in this study empirically support the theoretical relationship shown in the framework of the study (Figure 1). In particular it confirms the influence of entrepreneurial competencies entrepreneurial career success. Furthermore, this study also provides additional knowledge about the importance of cultural factors, especially the Solidarity factor to predict entrepreneurial career success. This study also provides empirical support for the theoretical framework proposed by Man, Lau, and Chan (2002) and Man, Lau, and Snape (2008) that connects entrepreneurial competencies and entrepreneurial success. Entrepreneurial competencies define as the characteristics of a person, including personality, talent, knowledge, skills entrepreneurial drive to high performance and effective (Man, 2001). In particular, Nathaka (2007) also use this model to test the relationship between entrepreneurial competencies and entrepreneurial career success.

Crawford, Dabney, Filner and Maida (2003) have built a competency framework as mediator relationship between performance and something to supporting it. In this study also found that the role of entrepreneurial competencies as partial mediation between relationship cultural factors and entrepreneurial career success. Things this means that there are elements within the cultural factors have always been facilitate to learning for every people by providing the values, the terms tradition, knowledge, technology

and information that can support the development of human capital in the form of competency, which covering the talent, personality, skills, knowledge, and ability.

Entrepreneurial behavior theory explains that the competencies it has, then an entrepreneur acting start, improve, create visually steps starting from the idea up to the real existence, become thinkers once the perpetrator, as well as planners and employees can receive "ambiguity" with understand and manage risk to create career success he had hoped.

4.6. Practical implications

Results of the analysis using regression methods to look at the cultural impact of solidarity on entrepreneurial career success in Minangkabau society, particularly in Agam District found that the culture of solidarity significant effect on entrepreneurial career success. This shows that the spirit of solidarity that is in the Minangkabau can lead traders to SMEs to leading entrepreneurial career success. Furthermore, the effect of career success can lead to the success of SMEs. Entrepreneurial competencies used in this study provide support for the development of entrepreneurial career success Minangkabau society. Therefore, ongoing efforts to increase awareness about the importance of competence and improve competency should continue to do. Intended efforts on providing training, implementation of competency programs, open access to information and networks can be increased focus on improving the quality.

The correlation between cultural factors with entrepreneurial career success has shown that entrepreneurial competencies as mediate that relationship. This means that efforts to improve the quality of competence will provide to existence entrepreneurial career success. Increase the quality of competency can bring understanding and awareness how important to take care culture of Minangkabau. Culture of solidarity and competence are two important things in developing creating entrepreneurial career success Minangkabau society.

4.7. Research Limitations and Further Research Directions

Limitation of this study just looking at the impact of solidarity factor, entrepreneurial competence and entrepreneurial career success in a short period of observation. Research design using a longer time frame may provide new findings. In addition, these study only involve a small sample of small medium enterprises (SMEs) listed in local government databases. This study can be extended in the by incorporating more samples, as well as the various types of enterprises that can distinguish the factors that influence the success of entrepreneurial careers in the Minangkabau society.

The findings of the study focused on the analysis results using quantitative techniques showed weakness of the response form and translation answers the feeling of being a number. For that, the design analysis should be conducted using qualitative techniques because it can provide insight and understanding of the problem. Entrepreneurial career success can be seen not only from cultural factors as well as entrepreneurial competence.

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LIFELONG LEARNING FOR RURAL COMMUNITY DEVELOPMENT

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Abstract

In the Malaysian context, lifelong learning plays a key role in pursue for equality of opportunity in remedying school failures and contributing to cultural, economic, rural community and social development. Past and current education programmes are designed at developing human capital and to provide skills that meet the manpower need of the nation. There is evidence that indicates advantages gained from participation in learning in the form of adult education for rural community, who has been disadvantaged in their early life education due to physical, social and economic reasons. The government has acknowledged the importance of continuous learning, subsequently developed a national blue print for lifelong learning that drive to meet the human capital requirements in the era of globalization and digital economy. Against the background of lofty statements by the government such as lifelong learning for all, developing human capital, producing knowledge workers, and creating learning and inclusive society, the reality in terms of Malaysian government's effort to promote LLL among rural citizens remains succinct. Hence, the aim of this study is to identify lifelong learning policies, practices, and issues in order to generate knowledge in this subject area. Other than to provide an understanding of current scenario of LLL in rural regions in Malaysia, this study also aims to provide input to policy-makers, LL learners and LL education providers that can help to transform Malaysia into a learning society.

Keywords: Lifelong learning, social capital, human capital, rural development

1. Introduction

Community development reflects any effort designed to improve the economic, environmental and social well-being of the community. In the past, education and learning focusing on economic issues may have been all needed to keep the rural communities viable. However, the rapid globalization and urbanization of rural regions have resulted in the breakdown of rural community solidarity. Agriculture based activities and businesses have dwindled or closed due to modernization, urban migration and rapid urbanization of rural regions. Young and well-educated individuals have migrated to metropolitan areas, leaving behind old generations and/or low and unskilled manpower. These trends have led to high level of unemployment and the deterioration of rural communities' economic, environmental as well as their social well-being.

The Institute of Gerontology, Universiti Putra Malaysia, had highlighted that aging population post serious challenges to the Malaysian society. Malaysia will not be excluded to face challenges as a result

of aging population who mainly resided in the rural regions. According to government census in year 2000, by year 2020, almost 9.5 percent of Malaysian's population will be aged 60 and above. In other words, more than 3 million of Malaysian population will be categorized as elderly citizens (Gavrilov and Heuveline, 2003). Ying-Fah et al. (2010) also revealed that majority of elder working adults in Malaysia stopped their jobs at the age of 55 (Current mandatory retirement age 60 years old) and they are not looking for new jobs due to health reasons or unable to find other jobs. Move towards accommodating this group of citizens to ensure that activities and opportunities are available to fulfill their needs. Hence, it is imperative that measures to be taken to ensure elderly citizens especially in the rural area will lead a quality and productive lives either through formal, non-formal or informal lifelong education. Research has suggested that if rural community development efforts are to succeed, the development of social capital, apart from human capital via adult education and continuous learning are needed in order to maintain long-term change effort on the well-being of the rural communities.

This paper aims to examine the contemporary lifelong learning issues that arise, current lifelong learning initiatives undertaken by authority and implications on Malaysian rural community development.

2. Literature Review

The notion of human as capital was introduced by Adam Smith in his work *The Wealth of Nations*. Human capital in the form of labour is acknowledged as a major production input. The concept human capital as labour has evolved and defined more broadly. Bullock, Stallybrass and Trombley(1988) defined human capital as the ability, skills and knowledge of individuals which is used to produce goods and services. OECD (2001) defines human capital as the knowledge, skills, competencies and attributes of individuals that facilitate the creation of personal, social and economic well-being. Human capital development allows individuals to acquired knowledge, skills and capabilities which enable to act in a new way (Coleman, 1988).

Social capital is a more recent phenomenon of the late 20th century. The origin of the term was traced back to Hanifan's (1916). Social capital theory proposed that networks of relationships are a resource that can facilitate access to other resources of value to individuals or groups. Portes (1998) and, Wall, Ferrazzi and Schryer, (1998) highlighted the usefulness of social capital in current times. They lament the various aspects of social structure and also the quality of networks that can determine economic or social gains for groups or individuals. To provide the meanings of economic, human and social capital, Portes (1998), describes economic capital is in people's bank account, human capital is inside their heads and, social capital inheres in the structure of their relationships.

Social capital is also being viewed as private asset owned by individual and public or owned by a group and beneficial to members of the group (Leana & Van Buren, 1999). More importantly, the notion of social capital has been used to explain the process and outcome of learning due to the deficiencies of the concept of human capital to explain those outcomes (Miller, 1995; Balatti and Falk, 2002).

The relationship between social capital and human capital has attracted the interest of researchers. The connections among social capital, human capital and learning have been highlighted by Coleman (1998) and, Falk and Kilpatrick (2000). OECD (2001) reported that lack of social capital impedes learning and economic success. Social capital treats learning not as matter of acquiring skills and knowledge, but as function identifiable to social relationships that are dependent of norms and values in motivating the willingness to learn, acquiring new skills and deployment of new knowledge (Field and Schuller, 1997). In other words, social capital motivates individual to learn, enculturise learning for individual's well-being at large and the development of rural communities. According to OECD (2001), lack of social capital impedes learning and economic success. It suggests that social capital and human capital coevolved (Balatti and Falk, 2002).

Many rural advocates believe that social capital can be developed by building strong sustainable linkages between community and learning institutions via rural education programmes. Balatti and Falk (2002); Chang (2010) findings have identified attributes of learning programmes that could promote social capital development. The programme attributes contribute to the social capital of the communities within which they operate.

- a) Help to strengthen existing community networks and creating new networks.
- b) Learning is situated in the social and cultural context of the community.
- c) Embracing the local social resources, cultural and historical heritage of the community.
- d) Developing trust within the community.
- e) Fulfilling local needs of social cohesion, regeneration and economic development.
- f) Fostering the development of common community goals for common good.
- g) Providing transformational experience for learners and the community.

Among some of the category of programmes that fulfill the above requirements are learning programmes related to health, time management and leisure, employment and quality of working life, protecting the physical environment, enhancing social environment, education such learning new skills and acquiring new credentials.

3. Lifelong Learning and Human Capital Development in Rural Region

Generally LLL activates in Malaysia is geared towards development of human capital to meet the nation's aspiration to become a high-income developed nation by year 2020. This can be identified from the various formal, non-formal and informal lifelong activities currently being implemented. The Ministry of Higher Education (currently known as Ministry of Education) blueprint for the implementation of LLL in Malaysia from 2011 to year 2020, has stressed LLL is a mainstream agenda to enhance skills, competencies and academic qualifications of existing Malaysia workforce via formal, non-formal and informal LLL (MoHe 2011).

In the Malaysia context, formal lifelong learning is to obtain some form of qualification that include certificate, diploma, degree or post graduate degree and is the preference of lifelong learners (Khairuddin, 2004). The learning programmes are structured with clear learning outcomes and objectives to meet working adults from businesses and industries which are conducted in institutions such as universities, polytechnics, colleges, institute or community colleges. Some of the programmes being offered by public universities are as followed. Majority of the above LLL providers are located in urban or semi-urban regions and, programmes/courses offered are aim at upgrading academic qualifications (Table 1). Adult learners are required to attend lectures and a few LLL providers have taken into account adult learner related prior learning/experience for admission to these programmes as normally practiced by open universities which offer distance learning programmes.

Table 1: Some Programmes for Adult Learners Organised by Private and Public Universities

UNIVERSITY	INSTITUTE/CENTRE	PROGRAMME	LEVEL
UM	Centre for Continuing Education (UMCCed)	Executive & Professional Diploma Programmes	Executive Diploma
			Professional Diploma
		Certificates Programmes	Certificate
		Certified Business and Executive Coach (CBEC) Programmes	Certificate
		Short Courses & Specialised Trainings	Certificate
USM	School of Distance Education (SDE/PPPJJ)	PJJ - Undergraduate Programmes	Degree
	<i>Pusat Pengajian Pendidikan Jarak Jauh</i>	PJJ - Postgraduate Programmes by Research	Ph D
			Master
		Short Courses	Certificate
UKM	Centre of Education Extension	PJJ - Postgraduate Courses	Ph D
	<i>Pusat Kembangan Pendidikan (PKP UKM)</i>		Master
		PJJ – Undergraduate Courses	Degree
			Post-graduate Diploma
			Graduate Diploma
UPM	UPM Education & Training Sdn. Bhd. (UPMET)	PJJ - Master Programmes	Master

	<i>Centre for External Education</i>	PJJ - Bachelor Programmes	Master
	<i>Pusat Pendidikan Luar (PPL)</i>	PJJ - Collaboration Programmes	Degree
			Diploma
		Programmes and Training	Certificate
UTM	School of Professional and Continuing Education	Franchise Diploma Programmes	Diploma
	(UTM-SPACE)	Part-time Diploma Programmes	Diploma
		Part-time Degree Programmes	Degree
		Professional Programmes - Executive Programmes	Executive Diploma / Specialist Diploma
		Professional Programmes - English Programmes	Certificate / Specialist Diploma
		Professional Programmes - Short Courses	Certificate
		Professional Programmes - UTM Professional Skill Certificates	Certificate
		Summer School Program	Certificate
IIUM	Centre for Professional Development (CPD)	Training Programmes	Certificate
	IIUM Centre for Continuing Education Sdn Bhd	Executive Bachelor Degree	Degree
	(ICCE)	Bachelor degree	Degree
		Summer Camp, Short Courses	Certificate
UUM	Executive Development Centre (EDC)	Master of Business Administration	Master

		Executive Diploma	Executive Diploma
		Executive Certificate	Executive Certificate
		KAAK under the Royal Customs Department Malaysia	Certificate
		Intensive English Programmes	Certificate/Diploma
		Other customised Training Programmes	Certificate/Diploma
	Centre for Professional & Continuing Education (PACE)	Off Campus Programmes - Bachelor	Degree
	<i>Pusat Pendidikan Profesional & Lanjutan</i>	Executive Programmes - Bachelor	Degree
		Collaboration Programmes - Bachelor	Degree
		Supervision & Executive Programmes -Diploma	Diploma
	Centre for University-Industry Collaboration (CUIC)	Industrial PHD	Doctor of Management
UMS	Centre for External Education	Undergraduates - Bachelor	Degree
	<i>Pusat Luar Universiti Malaysia Sabah (PLUMS)</i>	Postgraduates - Master	Master
		Postgraduates - Postgraduate Diploma	Post-graduate Diploma
UPSI	Pusat Program Luar (PLL)	PJJ - Program Pengsiswazahan Guru	Degree
USIM	Pusat Hubungan Industri dan Pengkomersialan (PHIP)	Program Sijil Pembelajaran Sepanjang Hayat	Certificate

	<i>Industrial Relation and Commercialization Centre</i>	Program Kerjasama IPTA/IPTS	Degree
			Diploma
		Program Pendidikan Jarak Jauh	Degree
	<i>Pusat Akses Pembelajaran Terbuka Global(GOAL Centre)</i>	Program Pendidikan Jarak Jauh	Degree
			Master
			Ph D
		Program Kerjasama IPTS	Diploma
			Degree
			Master
			Ph D
		Program Sijil dan Kursus Pendek	Certificate
UiTM	Institut Perkembangan Pendidikan (InED)	Pusat Pengajian Jarak Jauh (e-PJJ)	Pra-Diploma
			Diploma
			Degree
		Pusat Pengajian Luar Kampus (PPLK)	Pra Diploma
			Diploma
			Degree
		Pusat Pendidikan Usahasama (PPU)	Pra Diploma
			Diploma
			Degree

UTHM	Continuing Education Centre (CEC)	Executive Programmes	Executive Diploma
	<i>Pusat Pendidikan Berterusan</i>		Advanced Executive Diploma
		INSEP (Industrial Skills Enhancement Programmes)	Certificate
		Short Courses	Certificate
		Pesisir / off campus	Master
UTeM	UTeM Centre for Continuous Learning (UTeMCCL)	Short Courses	Certificate
		Executive Diploma	Executive Diploma
		SME Corp Programmes	Certificate
UMP	CENTRE FOR CONTINUING EDUCATION & PROFESSIONAL DEVELOPMENT	Short Courses	Certificate
	(CENFED)	Executive Diploma	Executive Diploma
		Funded Programmes	Certificate
		Degree	Degree
		Executive Masters	Executive Master
UNITAR	The College for Open Learning (COL)	Distance-learning / E-learning	Diploma
			Degree
	Centre for Executive Education	Short Courses	Certificate
UTAR	Centre for Extension Education	Academic Programmes - Part-time Honours Degree Programmes	Degree

		Training / Short Courses	Certificate
		English Programme -MUET	
		Talks/Seminar	
		Professional Qualifications	Certificate
MMU	Distance Education	Distance Learning	Degree

Source: Thi, L. S. et al., (2012). *Lifelong Learning Policies and Practices in Malaysia*.

Open University Malaysia (OUM) was the first private institution of higher learning to offer distant learning programmes to Malaysian. However, distance learning is not uncommon because such mode is already being offered by Universiti Sains Malaysia through its Centre for Distant Learning (Pusat Pengajian Jarak Jauh) and University of London distant learning programmes in the 70s. MoE has also granted Open Distance Learning status to Wawasan Open University (WOU), Asian e-University (AeU), Al-Madinah International University (MEDIU), International Centre for Education in Islamic Finance (INCEIF) and University Tun Abdul Razak (UNIRAZAK). Except for WOU which has learning centres located at towns and accessible to nearby rural communities, other institutions that do not have learning centres have attempted to overcome this limitation by providing e-learning platform to facilitate distant learning.

Although, community colleges are considered potential lifelong learning hubs for rural community in Malaysia, however, these colleges mainly offer vocational and technical short courses ranging from several days to a year mainly to school leavers. The community colleges are mainly providing courses for school leavers especially those students who failed to gain entry into polytechnics and matriculation colleges. Training programmes are directed towards meeting the manpower needs of the nation. Currently, there are 27 polytechnics and 64 community colleges located at various parts of the country (MoHE 2010). However, not all community colleges are offering LLL programmes that gear to develop social capital to adult learners in local community. Overall, the formal learning programmes conducted by institutions of higher learning mainly aimed at enhancing skills and upgrading academic qualifications. These programmes focused mainly on human capital need of the nation. Programmes that cater for developing social capital of adult learners are limited.

In Malaysia, non-formal lifelong learning programmes do not lead to the conferment of formal qualifications (Khairuddin, 2004). These non-formal programmes are mainly carried out by various government ministries and agencies and appear predominately in the context of community learning. According to Anuwar (2005), prevailing development success of Malaysia today is also attributed to the concerted effort in implementing non-formal learning programmes. LLL was regarded as a strategy for correcting socio-economical imbalance and eradicating poverty especially among urban poor and rural dwellers.

One of the most successful non-formal programmes was those undertaken by the Community Development Division (KEMAS) set up in 1961 by the Ministry for Rural Development. Together with Institute for Rural Advancement (INFRA), both agencies play an important role in addressing the needs of target groups and empower the rural community to take full responsibility for the planning and operation of non-formal LLL and community learning centres. Besides, the Ministry of Rural and Regional Development via Majlis Amanah Rakyat (MARA) has played a key role in implementing vocational and skills-based training to rural youths. Mara Vocational Centre (Pusat Giat Mara) and MARA Skills Development Institute (Institute Kemahiran Mara) again mainly aimed at providing vocational or technical skills to rural youth.

Besides, National Skills Development Council (NSDC) was set up to promote skills development among Malaysians via its 877 training centres and 534 private training institutions. Other ministries such as Ministry of rural Development, Ministry of Youth and sports, Ministry of Agriculture and Agro-based Industry, Ministry of Education and Majlis Amanah Rakyat (MARA) also conducted LLL programmes for government employees and general public who work in semi urban or rural areas.

Table 2: Adult Learning Courses/ Programmes Offered by Ministries/ Agencies

Ministry/Agency	Name / Type of Institution	Programme(s)	Outcomes
MORRD	Directly under the Ministry	Basic courses / workshop in business, commerce and motivation	Open for all interested parties
MOYS	National Youth Training Institutes	Skills training in industrial related field	Certificate level for SPM holders
		National Youth Apprenticeship Scheme	Short-term modular training courses mainly cater for Lower Secondary Assessment (PMR), SPM holders, unskilled and unemployed youth.
MARA	MARA Skills Training Institutes	Skills training in technical fields	Certificate and diploma levels for SPM holders
	MARA Business Institutes	Business related courses	Certificate, diploma and higher diploma for SPM holders

	MARA Advanced Skills Training Institutes		Diploma level for graduates of MARA Skills Training Institutes and SPM holders
	GiatMARA Centres	Training courses in the field of building technology, craftsmanship, automotive, welding etc.	Short term single skill specialist training courses targeting school leavers and unemployed
MOAAI	Agricultural institutes	Skills training in agricultural related fields	Certificate level for SPM holders

Source: MoHE (2011). *Blueprint on Enculturation of Lifelong Learning for Malaysia 2011-2020*. Putrajaya: MoHE

Informal learning is not well documented in Malaysia as many of the informal learning occur at the initiatives of individuals, guilds and associations, village development committee (JKKK) and RUKUNTETANGGA committee.

Informal education does not have fixed structure, objectives and outcomes, hence, does not usually lead to formal recognition. According to Gan (2004), informal LLL are community based programmes that meet the needs of community in terms of career training, community interest, self improvement, basic educations and literacy. These programmes are mainly aimed to improving quality of life, involve all age groups and across all levels of the society. Generally, informal learning appears as community based programmes that address the diverse social issues and meet the universal needs of the community and, serves to build community cohesion, building networks, enhancing social and, cultural heritage of local community (Gan, 2004).

The Ministry of Rural and Regional Development through its agencies such as RISDA training colleges, IKBN, KEMAS also promote LLL among rural communities to be knowledgeable and self-reliance. Malaysia Chinese Association (MCA) is also actively promoting informal LLL among rural and urban communities. Similarly, Ministry of Energy, Water and Communication had initiated Rural Internet Centre and E-Community Centres for rural folks to gain access to information, for the purpose of e-learning, socializing and as a advertising platform to promote LLL among rural community (Norizan Abdul Razak, 2005).

Among other major and active informal LLL providers in Malaysia is the Ministry of Education's Malaysian Grid for Learning (MyGfL) which is a one stop centre for country's LLL agenda

that cater for rural communities. Besides, MyGfL aims to promote and support the lifelong learning agenda in Malaysia. It is a platform that enables anyone to learn, unlearn and relearn from anywhere at anytime using the web. The critical components of MyGfL framework are addressed in terms of content, standard and technology. The content of MyGfL has targeted a wide range of learners from all ages ranging from children, teenagers and adults. The platform consists of a portal, learning support system and various tools to support learning activities. MyGfL provides guidelines for content development. The standards adopted are to enable interoperability, reusability, manageability, accessibility and discoverability of MyGfL content and systems (Zailan and Azmi, 2006).

It is expected through MyGfL, lifelong learning can be promoted to rural community and to all levels of society in Malaysia including physically disadvantaged community such as hearing impaired learners. Unfortunately there is a significant shortage of content in Malay language and the issues of the multi racial and multi-lingual audience of learners in the Malaysian society. Furthermore, the e-readiness of Malaysians namely; the ability to make use e-learning resources and multimedia technologies effectively among various learner groups differ based on geographical regions. Also digital divide in terms of broadband penetration that is the key to enable multimedia rich content that demand for high speed infrastructure for e-learning to be effective is yet to be put in place. However, the government has pledged to boost the country broadband penetration rate provide promises for promoting LLL via e-learning.

The focus on social capital seemed to be the objective of LLL initiated by the Malaysian Chinese Association (MCA). MCA had taken the initiative to launch a nation-wide campaign in promoting Lifelong Learning. The objectives of the campaign are to nurture a progressive Malaysian citizen and instill a learning culture in the community. MCA has been vigorously encouraging local communities and the nation to embrace lifelong learning with various strategies including inculcating a positive learning mindset, promoting the reading habit and encouraging adults to attend short courses. Lifelong Learning Centres (LCCs) at community level were set up and focusing on the short courses and non-formal programmes. The LCCs are operating under a standard model that can be replicated to develop more learning opportunities for local community. Among the programmes conducted include public talks, leisure activities, voluntary and charitable activities and reading clubs. However, the number of activities has been reduced due to the lack of fund.

4. Conclusion

The importance of developing LLL programmes that aimed at developing social capital in helping the development of rural community has attracted limited attention from policy planners. There is little focus on developing social capital among Malaysian in general and rural community in particular when policy planners initiated the national framework to promote LLL in the *Blueprint on Enculturation of Lifelong Learning for Malaysia 2011-2020*.

Developing social capital is prelude to realising socio-economic outcomes for lifelong learners. Malaysian authorities and policy planners had emphasized that LLL must be the mainstream agenda in human capital development. Lifelong education targeting elderly citizen in urban and rural area of Malaysia also seems to be overlooked. The United Nations Population Division highlighted that by

2050, the estimated global elderly population will be more than doubled from current 10 percent to 20 percent. In addition the number of persons aged 60 years or over will be tripled. Developing the social capital rather than human capital ought to be the priority for these senior citizens.

The blanket approach adopted by the authority in promoting LLL that emphasized on human capital development have been adopted by the authorities, agencies and other LLL providers need to be readdress. Similarly, the government Blueprint on Enculturation of Lifelong Learning 2011-2020 skewed towards human capital development has to take into account the social capital needs of adult learners who come from rural and urban communities, different age groups and different levels of the society. Zeelan, Rampedi and Linden (2013) lament that failure to take account on these issues can result in social exclusion and marginalization of adult learners to lifelong learning.

More emphasis for lifelong learning programmes that aimed at nurturing trust, norms and relationships that help individuals to developed the building blocks required for social capital to grow. Lifelong learning programmes that can trigger or facilitate the development of new network or connections, regenerate rural community, enhancing environmental, social, cultural heritage of the community need to be encouraged especially for rural communities. Government need to develop and support learning programmes that can help rural citizens to gain access the appropriate networks, building trusts, sharing common norms and values among individuals or group members in the community. The LLL initiative by the MCA was among the limited and sporadic effort by one of LLL providers towards developing social capital in Malaysia. Unfortunately, the initiative has ceased due to lack of fund and awareness among the public.

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ENHANCING THE EFFECTIVENESS OF THE ISLAMIC MICROFINANCE PROGRAMME: EXPERIENCE OF LEMBAGA ZAKAT SELANGOR

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Abstract

Many experiences round the globe showed that Islamic microfinance programs (IMP), based on Syariah and Islamic finance concept, have become more significant in creating new job opportunities and generating income for the purpose of increasing social and economic status of the poor and alleviating poverty. The integration of entrepreneurial concept, training and microenterprise into IMP also contributes in increasing the effectiveness of the program. 'Asnaf Entrepreneurs Development Program' (AEDP) conducted by Lembaga Zakat Selangor (LZS) is among the pioneers and most established IMP in Malaysia. The implementation of IMP, which was preceded by selection process of asnaf participant and also accompanied by training and good monitoring, is effective in developing asnaf entrepreneur and improving poor asnaf income. Asnaf entrepreneurs' development requires not only the provision of financing in an interest free-based system but it also needs the provision of other services. The purpose of this paper is to suggest a way to improve the effectiveness of IMP in Selangor. The approach used to measure and evaluate the effectiveness of the IMP in Selangor is based on changes in revenue levels shown by the participants of the program among the poor asnaf and then develop a concept based on the literature review, research findings and comparison with the most successful microfinance programs in Malaysia, namely Amanah Ikhtiar Malaysia (AIM). This paper shows how in the Islamic perspective, spiritual development is necessary in improving the effectiveness of IMP in Selangor.

Keywords: Islamic microfinance, asnaf entrepreneur, Islamic perspective, poverty alleviation

1. Introduction

Although poverty is a phenomenon that still exists in any society, Islam strongly encourages Muslims to strive to overcome it. Ismail (2000) referred poverty in Islamic perspective as a phenomenon that must be overcome in order to avoid the slow development in Muslim communities. Huge income gaps are not recommended because Islam emphasizes social justice and equality (Patmawati, 2007). Basically, the factors affecting poverty, such as low levels of education, poor general health, and low income levels caused them to be unable to meet the basic needs such as food, clothing and shelter. As a result, the poor are always excluded from the formal financial system hence making it difficult for them to get financial assistance and funding to carry out productive activities such as running a small business to improve their household income (Sadeq, 2002).

Asyraf (2008) concluded that most of microenterprise entrepreneurs in Malaysia faced problems in starting and running the business due to the difficulty in obtaining financing from banks or financial resources from any other financial institutions. Basically they have no collateral or guarantor, business plans and perfect business track records for supporting their loan application.

Reluctance of formal financial institutions such as banks to finance the establishment and expansion of microenterprise business carried on by the poor is due to the traditional barrier known as 'asymmetric information' between financial institutions and customers (Hartarska & Holtman, 2006). Physical constraints caused by a lack of rural infrastructure such as the absence of perfect markets, roads and communication systems also exacerbate the problem of 'asymmetric information'.

The micro entrepreneur development programs among the poor in Malaysia focused more on microfinance programs in the form of micro-credit and micro capital assistance (Rahmah, 2001). Records showed that 77 per cent of SMEs in Malaysia are in the form of microenterprises (Malaysia, 2012). Hence the development of micro-finance program in Malaysia, such as AIM, is very important (Bank Negara Malaysia, 2007) in order to alleviate poverty and create more micro entrepreneurs among the poor. The role of microfinance programs as a tool for poverty alleviation is becoming increasingly important in many developing countries, through microenterprise business conducted (Choudhury et al., 2008).

However, the micro-credit program has its own weaknesses where sustainability of the program in the future has always been the question. The micro-credit program is said to be highly dependent on donations from corporations and the government to allow the program to be implemented. Administration and management costs of the micro-credit program are also high as the program involves not only funding but also includes other forms of services such as the provision of training, assistance, business advice and monitoring. To meet the rising costs of administration and management, the usual service charges and certain interest rate will be imposed on participants. For example, TEKUN micro-credit program is highly dependent on the allocation obtained from the Malaysian government from the Seventh Malaysian Plan (7MP) through the Ninth Malaysian Plan (9MP) where only 44.2 per cent of total credit facilities that have been issued were recovered (Hamdino, 2011). Unsatisfactory total proceeds of repayment may affect the sustainability of TEKUN microfinance programs implementation in the future. In this case, the concept of welfare and prohibition of interest (*riba*) which is practiced by Islam is seen as a good approach to overcome the drawbacks of conventional microfinance programs.

Prohibition of interest (*riba*) in Islam is the best approach to avoid over exploitation of the weak (the poor people) and at the same time to promote social justice. Furthermore, Sheikh Ghazali et al. (2005) reveal that interest uproots the very foundation of humanity, mutual help and sympathy and creates selfishness in men. The rationale for the prohibition of *riba* is also based on fixed rate guarantees to lenders than borrowers who have to bear the entire risk of the business. In reality, Islam highly emphasizes justice and fairness in business activities. Justice demands that the financier shares risk with the borrower if he/she wishes to earn profit. Elimination of *riba* will also contribute to social justice. Thus, it is obligatory upon every human being to eliminate the element of *riba* from any kind of transaction as Islam establishes the spirit of brotherhood as the primary objective of transacting parties. Hence, the establishment of Islamic Microfinance Institutions (IMFI) is not only useful in liberating the society from *riba* system and establishing justice, but also be expected to become a bridging agent for asnaf entrepreneur development and poverty alleviation. As an effort to bring into reality the teaching of Islam, many Muslim countries now try to introduce IMFI in interest-free based system to provide capital for asnaf entrepreneur development.

Although various poverty alleviation strategies have been implemented in the form of preventative action until recovery, however, the concept of 'welfare' in Islam is considered to be a comprehensive multi-dimensional approach and effective way to alleviate poverty and to overcome the poverty problems especially extreme poor (Nasrin, 2009). The concept of welfare can be classified into several forms, namely 'compulsory welfare' such as *zakat* and *fitrah*, 'optional welfare' such as *sadaqah*, and 'periodicals welfare' such as *waqaf* (Sadeq, 1997).

Sources of *zakat* and *sadaqah* in Islam are a vital tool for the distribution of income and wealth through economic growth to the poor (Choudhury & Harahap, 2009). Furthermore, the source of *zakat* fund can also be used for integration of microfinance program in various ways, based on the concept of Shariah and Islamic finance. This approach aims to increase the income and poor people's involvement in productive activities such as microenterprise business (Hisyam & Zulkifli, 2006). Empirical evidence shows that Women Sewing Project (WSP) conducted in Bangladesh, used zakat funds to enable poor people running microenterprise business, thus managed to increase their income (Choudhury et al., 2008). While in Indonesia, zakat fund is used to finance the business carried on by the poor at morning and night markets and this approach was successful in increasing the income of the poor (Choudhury & Harahap, 2009). Similarly, the IMP in Bangladesh that is Al-Fallah, Noble and Rescue (Habib, 2002), also emphasized the importance of using zakat fund to finance the sustainability of microfinance programs offered to the poor to enable them to do microenterprise businesses.

In Malaysia, zakat centers and Baitulmal have been entrusted to receive, collect and distribute zakat funds to the poor asnaf. Hence, assistance and distribution of zakat funds are channeled in various forms, both for productive and unproductive activities.

In this case, LZS is the most innovative zakat institutions and a pioneer in Malaysia in the distribution of zakat fund to the poor asnaf and needy, who are eligible, in a highly productive form, through business capital assistance program (interest free based system) based on the concept of micro-finance, Islamic finance and Shariah compliant. This approach is able to remove them from poverty to meet their daily needs such as health care, shelter and education for their children (Hisham & Zulkifli, 2006). Empirical evidence also shows that the AEDP program conducted by the LZS in the form of business capital assistance has managed to increase its income participants and release them from poverty (Hamdino, 2011). Based on Table 1, LZS has zakat funding sources are highly capable in improving access to IMP for productive activities (such as microenterprise business) to more of the poor asnafs in Selangor compared to other states in Malaysia. In 2011 the collection of Zakat in Selangor continued to increase to RM394.1 million (LZS, 2012a). AEDP program's success through zakat fund for microenterprise business depends on proper monitoring system, training and business assistance and sufficient capital assistance to start a business. Therefore the objective of this paper is to develop the concept of improving the effectiveness of Islamic microfinancing learned from LZS experience, through the implementation of AEDP.

Table 1 here.

2. LZS capital assistance and asnaf entrepreneur performance.

This research was conducted on 80 participants of the AEDP in Asnaf Market, located in Section 3 Wisma MAIS and TTDI Jaya Shah Alam, Selangor. The respondents' list is based on the participants' list provided by LZS, who are still actively doing small business in Asnaf Market, Shah Alam, Selangor. Basically, 80 administered questionnaires were distributed to the respondents but only 50 respondents answered the questionnaires. The survey session was conducted beginning 21st September through 20th November 2012.

2.1 Background of capital assistance program

To further streamline the implementation of AEDP, the LZS formed Asnaf Development Department (ADD) in 2005 for the purpose of coordinating, strengthening the management and implementation of business capital assistance to the poor and needy asnaf to run their own business as well as business projects that have been identified by the LZS management. In 2009, this function was given to the Mais Zakat Sdn. Bhd., a subsidiary of the Majlis Agama Islam Selangor (MAIS) (LZS, 2013).

Through the unproductive assistance, the poor asnaf and less fortunate people were assisted with emphasis on improving the unproductive aspects such as health, education and other basic factors. The next step is providing assistance for the purpose of increasing access to physical facilities and infrastructure, basic resources and employment opportunities (Patmawati, 2007). The last step accounts to providing assistance for the purpose of increasing income generation (Asyraf, 2008) to enable the poor to empower themselves and out of poverty without having to wait for the sympathy and subsidies in the future. Based on Table 2, most of the zakat was distributed by the LZS for unproductive assistance in the form of social assistance, courtesy, education and religion. Zakat-funded projects are in the areas of education, health, and social welfare, aimed at enhancing the productivity of the poor asnaf to meet their basic needs before being exposed to productive activities such as business. LZS productive assistance involved only RM5,014,859 in 2006 but increased to RM6,185,531 in 2011, accounting for an increase of 23.34 percent (LZS, 2012a).

Table 2 here.

Table 3 shows the total distribution of capital assistance for economic activities among the poor and needy asnafs based on the Annual Report of LZS. It also shows that the amount of business capital assistance is the most important and most widely distributed capital assistance to the poor and needy asnafs for productive economic activities. As recorded, the total funds of business capital assistance allocated increased every year from just RM54,198 in 2000 to RM2.3 million in 2011. This situation reflects the high confidence of LZS on the ability of the AEDP program (through business capital assistance) in helping the poor asnafs to increase their income and relieve themselves from poverty.

Table 3 here.

2.2 Business classification of AEDP participants

Table 4 shows 49 AEDP participants involved with the ‘business capital assistance program’ (Hamdino, 2011). The study population consists of participants who are also poor asnafs involved with EADP microfinance program in rural areas of Selangor namely Sabak Bernam District, District of Kuala Selangor, Kuala Langat District, District of Hulu Langat and the District of Hulu Selangor. AEDP participants who received business capital assistance, involved with different business sectors, namely home-base industries (food and beverages), mobile and night market, permanent stall, services, and agriculture. However, the majority of participants involved with simple business activities in the form of permanent stall, mobile and night market and home-base food and beverages production.

Table 4 here.

2.3 The effectiveness of AEDP

MAIS Audit Report 2007 shows that the percentage of participants who successfully maintained and grew their business was quite small, only 9 percent compared to those who failed to continue their business at 11 percent (Mais, 2007). The percentage of participants who are still in business but made no change in terms of business generated total income compared to the period before they do business is as much as 48 percent. For participants who have a high potential to successfully maintain and grow their business is about 32 percent.

However, based on the 2011 Audit Report, the percentage of AEDP participants who received business capital assistance and manage to maintain and grow their business continued to increase to 27.6 percent, or 96 people out of 348 people who are poor asnafs in 2011 (LZS, 2012b). Table 5 also shows that AEDP access to poor asnafs increases with the number 356 and 348 poor asnaf in 2010 and 2011, where the average number of poor asnafs who receive capital assistance each year is of 350 poor

asnafs (LZS, 2012b). In the year 2009 the cumulative number of poor asnafs involved with AEDP and have received capital assistance since 2002 is 1,600 poor asnafs (Hamdino, 2011). This indicates that the effectiveness of AEDP coincides with increased distribution of zakat to the business capital assistance program. This report has also shown that poor asnafs also are able to succeed in business by their own efforts through assistance and support from the LZS. If the IMP such as AEDP is conducted with proper management, training and monitoring, it will definitely give the expected results.

Table 5 and Table 6 here.

Results of a study on Asnaf Market program participants through matched sample t-test (Table 6) shows that mean difference between both set of data are negative valued, big and significant that is -1028.571, where the p values are less than 0.05. The negative value means that total income prior to the program is less than the total income after the involvement with LZS program. LZS program t value is also big and negative that is -8.249, because of the mean score value after involvement with LZS program is bigger compared to prior involvement. This means that LZS Islamic microfinance program in the form of business capital assistance have successfully increased the participants' income over the poverty line. The results of this study are consistent with studies of Hamdino (2011) and Patmawati (2007) that proved the support and AEDP assistance are able to meet the needs of poor asnafs to free themselves from poverty by their own efforts through microenterprise business conducted. Results of the study conducted by Hamdino (2011) and on Asnaf Market participants also prove that good method of participant selection, appropriate training and effective continuous monitoring can improve the effectiveness of the IMP, such as AEDP.

3. What can be learned from the implementation of AEDP.

The findings show that the implementation of IMP such as AEDP integrated with the proper method of participant selection, appropriate training and continuous monitoring before and after the participants received capital assistance is important in helping to improve the income of asnafs and freeing them from poverty.

3.1 The importance of a proper selection process.

LZS has conducted the selection process of asnaf participants before they obtain the capital assistance (refer Figure 1). Poor asnafs who have been identified with the potential to be involved in productive activities such as business, will be called to follow a selection process that been done in the form of courses. LZS requires mandatory participation in basic training of management and entrepreneurship in order to qualify them to be involved with the IMP. In determining the course to be followed, the poor asnafs will be divided into two groups. The first group consists of poor asnafs who have never run a business. This group is given a course in the form of building self-esteem of the asnafs known as 'Kursus Hijrahku Bina Insan'. A personality test was designed to assess characteristics of credibility (honesty / morality); capability in running a business (skills) and other forms of working experience and management experience in the asnafs themselves that can help them run and grow their businesses later. This step is important because Islam demands specific codes of behavior to be followed.

Those who are interested will be assimilated into the next course of entrepreneurship courses known as 'Kursus Hijrah Niaga (Business Migration Course)'. The course is divided into two parts, Suq al-Majinah and Suq al-Ukaz. The objective and brief information on both courses are specified in Table 7. The flow of required courses given to the poor asnafs for the purpose of selection of AEDP is shown in Figure 1.

While for those who are not interested in doing business will be incorporated into courses such as cookery skills, sewing skills, and craft skills. This step aims to provide knowledge and skills to the asnaf in order to increase their income through employment or self-employment opportunities in the future. Next through an Islamic entrepreneurial training program, filling with Islamic entrepreneurial approach will be able to create awareness among the participants that zakat money allocated to them for the purpose of business is a ‘trust and responsibility’ to be used as much as possible to liberate themselves from the poverty. If the participant is able to increase their income and out of the poverty line, eventually they would be able to become zakat (tithe) payers and can refund the money previously received indirectly in the form of income zakat and wealth zakat payment.

Table 7 and Figure 1 here.

According to *mudharabah* financing contract principles, *rabb-ul mal* (capital owners) have the right to select the best business partners (*mudharib*) who are desirable (profitable and believable). Sheikh Ghazali et al. (2005), suggest that in the context of partnership, choosing the right partners is needed, based on their piety as well as high morality and good behavior. In the case of *mudharabah* financing, the partners must have legal capacity to enter into contract (Mansuri, 2006). Capacity is a quality which makes a person qualified for acquiring rights and undertaking duties and responsibilities (Kharofa, 2004). Its include competence to develop a principal-agent relationship. Therefore in *mudharabah* contracts, the personal qualities and the characteristics of entrepreneur are vital criteria in relation to the decision by the provider of funds to accept or reject the project (Khalil et al., 2002). It is part of the Islamic system to select the believable business partner (*amanah*) hence, principles of justice. For this purpose the selection (screening) of the business partner (agent) is needed to ensure the success of the business.

After being granted with business capital assistance, LZS requires that these asnaf attend courses on how to conduct business. They were exposed to courses relating to accounting, marketing, communications, operations management, production and others to ensure that the business carried on will remain viable. In addition, LZS, they are also exposed to advanced entrepreneurial courses run by outside agencies such as MARDI, MARA, and EPU. Training is the process of transfer of knowledge, skills or attitudes to gear up individuals for productive activities or changes the method of work of individuals (Amha & Ageba, 2006). Providing training as a condition of receiving grant funding can help lenders and capital assistance providers filter the participants that really fit and have the potential to do microenterprise business (Brau et al., 2009).

3.2 Effective Monitoring.

Effective monitoring means the comprehensive monitoring before the participants involved with microfinance programs and after participants were engaged in micro-financing program until they successfully graduate (out of poverty) from the program (AIM, 2009). Hamdino (2011) and Sow (2006) suggest that group lending programs such as AIM have an effective monitoring technique in which monitoring is done in-house by members of their own group and also externally by MFI officers through the weekly program meeting. Even through weekly meetings, participants will indirectly be given guidance and entrepreneurship training. Thus help resolve any doubts and problems related to participant’s microenterprise business.

Through continuous and effective monitoring cross check among the participants of IMP can also be conducted. In the case of *mudharabah* financing, the business control of asnaf participants can be conducted via periodical control of the business record and also direct visitation. It is useful to facilitate the process of continuous monitoring to check the progress and development of asnaf microenterprise.

The study by Hamdino (2011) and another study on the Asnaf Market participants indicate that effective and continuous monitoring influence AEDP effectiveness in increasing income and liberate their participants from poverty. Hence to improve the effectiveness of monitoring on the AEDP participants, monitoring in the form of weekly group meetings as was done by AIM is an effective long-term approach. Such monitoring frequency will allow the participants to communicate, collaborate and exchange information and experience in conducting business microenterprise among themselves. Through this continuous monitoring, social contracts approach will be applied to the participants in a wider context and also covers the relationship between the principal (MFI) and agents (participants) for the purpose of economic development of Muslims as a whole.

3.3 Construct good relationship

LZS must establish good relationship to the asnaf entrepreneur through visitation (friendship) on wedding parties, personal approach, advice or assistance, religious activities and building up of character (akhlaq). This approach has actually been practiced widely by AIM through their weekly meeting activity monitoring concept. Through these meetings the participants not only share problem relate to their business but also their personal problems that may affect their business. The ability of LZS in constructing good relationship with their participants is very necessary so that LZS is able to easily and accurately access the business information of the participants.

Business advice helps asnaf entrepreneurs in solving their business problems as well as developing their business. In addition, religious activities contribute to increasing self-reliance which encourages asnaf entrepreneurs to improve their business performance. Building up of the character (akhlaq) of asnaf entrepreneurs – which they are able to change their bad to good behavior such as use capital assistance provided (with trust) for the purpose of asnaf development and not for any other purpose. The change of individual behavior to a better condition enables the asnaf entrepreneur to improve their quality of business performance.

4. Improving the effectiveness of IMP for asnaf entrepreneur development and poverty alleviation.

Asnafs entrepreneurial development through IMP such as AEDP is to increase the number of asnafs involvement in business activities, and most importantly, to increase the rate and degree of success of asnafs early business establishment. There are several activities which may be useful for this purpose, among others are, giving financing and training to poor asnaf to help them to start or to strengthen their business (Schreiner and Woller, 2003), building self-esteem and self-reliance, encouraging autonomy and creating community atmosphere. Services that directly target the business owners' activities may include training, technology access, marketing assistance, business advice, monitoring and information. While Nichter and Goldmark (2009) focus on the entrepreneur development on the assets, talents and skills of individuals and channel them into small business ownership.

For an Islamic perspective, the spiritual development through the enhancement of moral values in entrepreneur's consciousness (akhlaq) is also necessary enhancing the effectiveness of IMP. It aims to strengthen the standards of honesty, trust, discipline, spirit, enthusiasm, diligence, patience, piety, social responsibility or to change attitudes from bad to good behaviour. Thus, asnaf entrepreneur development and poverty alleviation through IMP requires an integrated program covering both financial and non-financial (including spiritual development via internalizing Islamic moral value).

IMP implementation after the provision of business capital funding also covers the integration of non-financial services such as training, coaching, and continuous monitoring. In addition, continuous support from the government is also needed to strengthen the IMP through the establishment of rules and policies that promote the development of IMP. In this case the government always gives serious

attention to the development of the IMP through disclosures in the 9MP and 10MP. Therefore, the process of improving the effectiveness of IMP in Selangor (as a means of asnaf entrepreneur development and poverty alleviation) can be summarized in Figure 2.

Figure 2 here.

5. Conclusion

IMP implementation in Selangor through AEDP with the provision of business capital assistance enables the poor asnafs to start and develop microenterprise businesses to increase their income and liberate themselves from poverty. Generally, the poor asnafs have difficulty in getting financing from conventional banks formally because they do not have collateral or a business plan, low education levels and lack of business experience. The provision of financing with high interest rates such as micro-credit does not help to solve the problem of capital financing but instead increases the burden of poor asnafs to start a microenterprise business. More importantly, the basic spirit of brotherhood is critical to asnaf entrepreneur development and poverty alleviation through IMP because the function of zakat and *sadaqah* is to help the poor people free from poverty.

Studies on Asnaf Market participants also showed that AEDP was able to increase the income of poor asnafs through these activities. It means that IMP is potential for poverty alleviation in Selangor and Malaysia as a whole. The findings indicate that the selection process of asnaf participant for AEDP, continuous monitoring and good relationship constitute the important factors which cannot be ignored in achieving the effectiveness of AEDP. Proper selection method can ensure that only trusted asnafs can be selected to be involved with AEDP so that business capital assistance funds are not misused for purposes other than to extricate themselves from poverty.

Continuous monitoring allows LZS to know about asnaf business development and can reduce the deviation of fund by asnaf entrepreneurs for other purposes. In similar context, constructing good relationship with asnaf participants is indeed very necessary. This can help to improve the effectiveness of IMP such as AEDP. Developing good relationship in the form of business advice or assistance, religious activities and building up the character (*akhlaq*) to the asnaf entrepreneurs is beneficial in increasing asnaf business performance.

Asnaf entrepreneur developments (for eradication of poverty) are not only confined to the business capital grant only but also include non-financial service offerings for the purpose of increasing the effectiveness of IMP. Other non-financial services can be integrated into the IMP which can give benefit to asnafs entrepreneur development, poverty alleviation, also reduce the risk of business failure and sustainability of IMP. Offering non-financial services through IMP also includes spiritual development via internalizing Islamic moral value.

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Table 1: Malaysia: Zakat and Fitrah Collection by State, 1999 - 2008

State	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
	RM' milli on	RM' milli on	RM' milli on	RM' milli on	RM' milli on	RM' milli on	RM' Mill ion	RM' milli on	RM' ' mill ion	RM' milli on
W. Persekutuan	211. 3	173. 8	147. 6	130. 1	110. 6	96.4	84.5	72.9	59.0	36.0
Selangor	244. 4	202. 2	159. 9	133. 1	108. 8	86.2	78.7	61.4	46.3	37.8
Johor	100. 7	73.3	54.7	49.4	38.1	34.0	29.7	31.5	20.8	12.5
Terengganu	66.2	51.4	42.9	40.4	36.1	40.1	33.0	28.2	28.0	28.6
Perak	57.0	41.3	33.8	27.5	25.7	21.7	20.8	20.5	16.4	15.7
Pulau Pinang	41.7	37.1	30.6	28.0	23.3	21.3	20.1	17.5	14.8	10.4
Pahang	58.0	41.5	36.0	31.0	22.9	20.6	18.4	16.6	14.4	9.4
Kelantan	58.0	40.2	35.6	29.4	22.4	18.1	16.9	16.6	10.6	8.8
N. Sembilan	37.4	29.4	25.8	23.1	19.0	16.5	15.1	13.2	11.9	8.4
Kedah	53.2	36.7	35.2	30.2	22.2	18.6	18.3	12.5	15.7	9.5
Melaka	26.9	22.1	19.5	17.7	14.2	13.0	12.3	12.0	8.4	7.7
Sarawak	36.0	23.1	20.5	15.3	15.6	10.3	13.8	8.3	5.0	4.6
Sabah	23.8	17.5	16.6	11.3	7.8	5.1	6.2	5.3	3.3	2.5
Perlis	23.2	16.7	11.9	6.6	6.4	6.6	6.2	3.7	4.3	3.7
Jumlah	1,03 8.0	806. 3	670. 6	573. 1	473. 3	408. 4	373. 9	320. 4	258. 7	195. 5

Source : MAIWP (2008 and 2004)

Table 2 : Zakat Distribution by Program, 2002 - 2011

Development Programme	2002 RM	2003 RM	2005 RM	2006 RM	2011 RM
Social	25,700,975	41,575,596	55,734,837	42,927,138	131,034,613
Human	2,366,457	1,437,018	2,848,632	393,541	18,056,948
Economy	200,461	1,874,408	5,790,978	5,014,859	6,185,531
Education	9,921,392	14,009,349	14,708,618	36,326,936	110,995,862
Religious Institutions	12,815,390	14,451,528	18,133,584	42,503,987	57,917,8942

Source : LZS (2003 until 2011)

Table 3: Total Distribution of Capital Assistance Programme, 2000 - 2011

Type of Assistance	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM	2006 RM	2007 RM	2008 RM	2011 RM'm illion
Business	54,198	247,549	148,640	318,650	509,816	818,890	878,623	1,424,130	2.3
Fishery	32,350	32,644	6,000	0	74,100	251,800	140,238	61,663	0.5
Agriculture	28,540	16,970	5,380	5,845	8,500	34,200	52,298	52,066	0.008
Livestock	0	2,000	7,800	8,500	19,994	13,000	26,900	51,601	0.2
Total	115,088	299,163	167,820	332,995	612,410	1,117,890	1,098,059	1,589,460	3.008

Source: LZS (2001 until 2011).

Table 4: Microenterprise Profile

Business Classification	LZS (N=50)	
	Total	%
Business Classification	50	100
Food and beverages production	11	22.4
Permanent stall	16	30.6
Mobile Stall and night market	13	26.5
Services	5	10.2
Agriculture	5	10.2

Source: Hamdino Hamdan (2011)

Table 5: Number of Poor Asnafs Who Receive Capital Assistance and Managed to Get Out of Poverty

Type of Assistance	2010	2011	
	Assistance Recipients	Assistance Recipients	Managed to Get Out of Poverty
Business	356	348	96
Fishery	50	49	7
Agriculture	18	6	2
Livestock	11	17	5
Total			

Source: LZS (2011)

Table 6: Changes in Level of Income Before and After Program

Program	n	M	SD	df	t	sig. p
LZS (before-after)	50	-1028.571	872.783	48	-8.249	.000*
Before (allincome)	50	486.73	186.630			
After (income/profit)	50	1515.31	895.138			

Table 7: Selection of Participants through LZS Business Migration Training Course

	Suq Al-Majinah course	Suq Al-Ukaz course
course information	- Basic courses that provide exposure to the concept of entrepreneurship and how to become entrepreneurs - Throughout the program, participants will practice the cognitive skills, interactive and teamwork, creative thinking, problem solving and communication. - Suq al-majinah is the name of the market place at Mecca where entrepreneurs doing business on a small scale since the days of jahilliyah.	- Provide exposure to the recipients on how to operate the business in terms of management, accounting, marketing and so on. - This course consists of lectures and training sessions in the group. - Advanced course of 'Suq al-majinah'.
Course objective	Help shape the nature of a successful entrepreneur, creative, solve problems wisely and communicate well.	Help participants to develop business plan to practice in the business.

Figure 1: Flow of Required Courses for Asnaf Entrepreneurs.

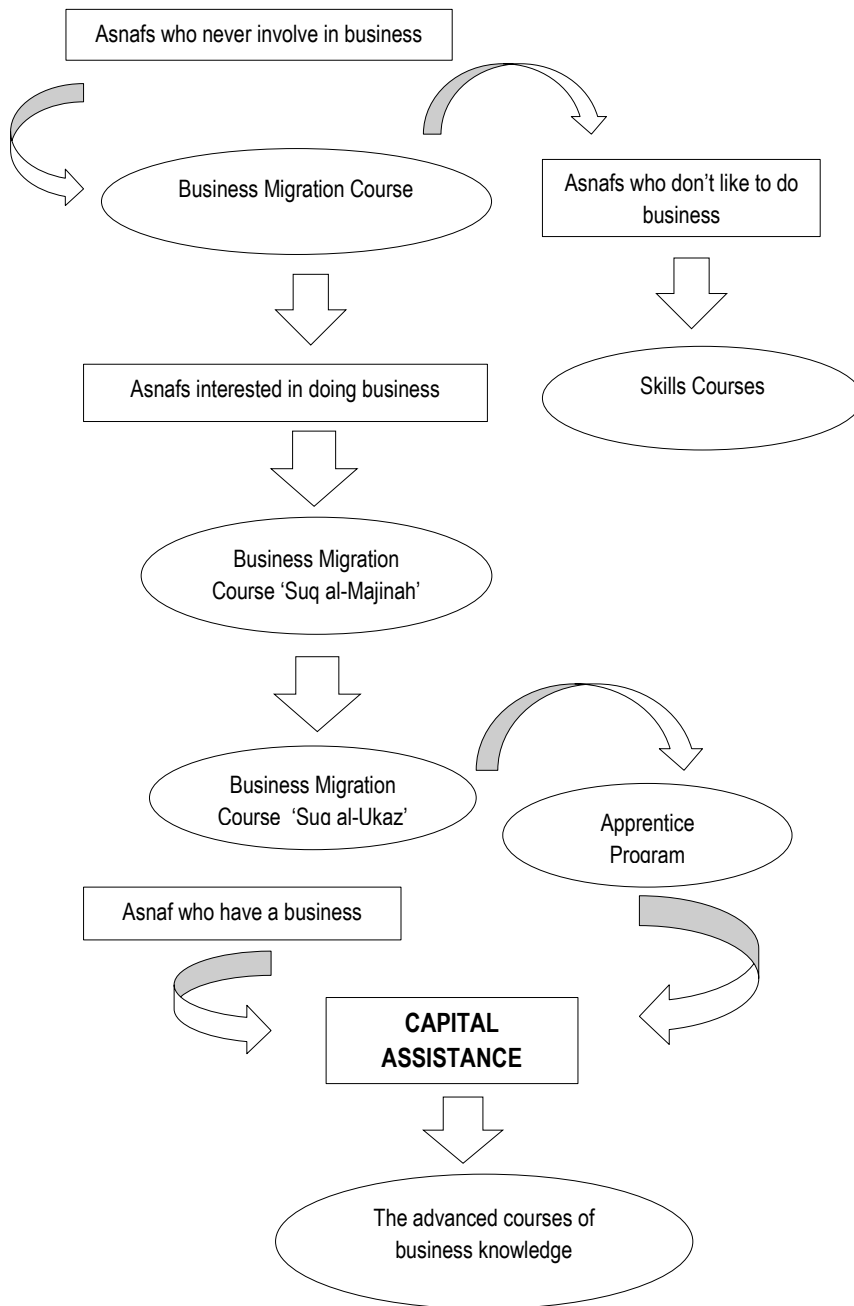
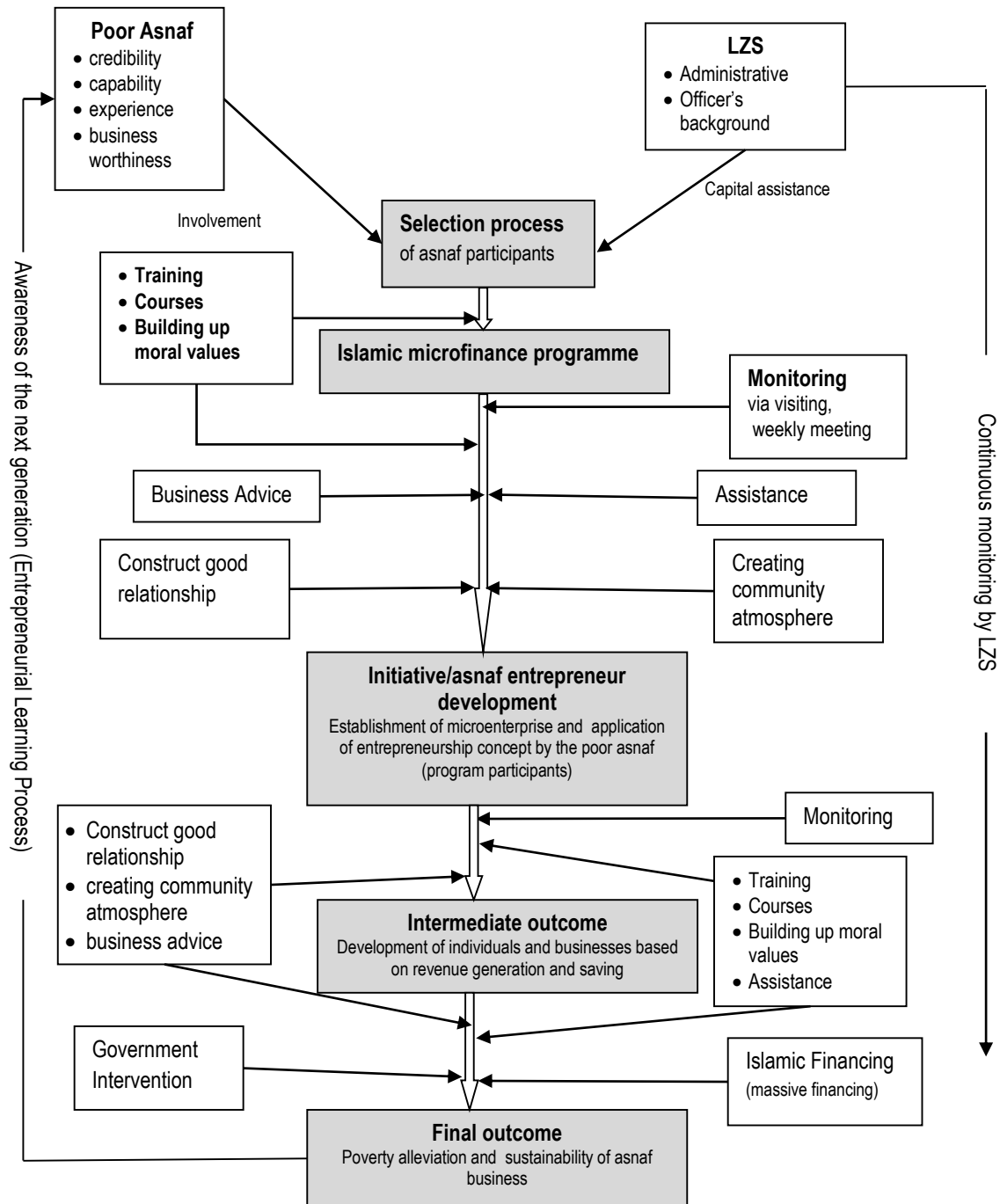


Figure2: The process of improving the effectiveness of IMP as means of asnaf entrepreneur development and poverty alleviation.



Malaysian SMEs Performance and the Government Business Support Service: The Moderating Effects of Absorptive Capacity

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Abstract

The purpose of this study is to test and develop absorptive capacity as a moderator of the relationship between Government Business Support Service (GBSS) and Small and Medium Enterprises (SMEs) Performance in Malaysia. A random sampling technique was used on 150 usable questionnaires and data was analyzed by SPSS 19. Statistically, the results confirmed that financial and non-financial support by government positively related to SMEs Performance and there is an interaction of absorptive capacity as a moderator on GBSS and SMEs Performance.

Key words: GBSS, SMEs, Absorptive Capacity

1. Introduction

Globally, the contribution of SMEs to the national economy is acknowledged (Tahir et al., 2011) and the development of SMEs sector is widely seen as a key element of a nation's economy (Man, 2009). Nowadays, SMEs is one of the main engines on contemporary economy, which bring along development and growth (Grilo and Thurik, 2006). Similarly, the development of Small Medium-Sized Enterprises (SMEs) has been recognized in Malaysia as an integral component in achieving sustainable economic growth (Hashim, 2007). SMEs have always retained prime position on the government's financial radar screen by virtue of their sizeable contribution to the nation's gross domestic product (GDP) and their employment of over half the population's workforce (SME Corp., 2011).

In fact, currently, there were 645,136 SMEs operating in Malaysia which represent 97.3% of total business community (SME Corp., 2011). Department of Statistic Malaysia (2011) suggested that, 90.49% of SMEs are dealing with services (580,356 SMEs), 5.90% with manufacturing (37,861 SMEs), 3.00% with construction (19,283 SMEs), 0.59% in agriculture sector (3,775 SMEs) and 0.02% (57 SMEs) in mining and quarrying. In addition, majority of SMEs are categorized as micro-enterprise (77.00% or 496,458 SMEs), small enterprise (20.00% or 128,787 SMEs), and medium enterprise (3.00% or 19,891 SMEs). The SMEs remained resilient to record a relatively strong GDP growth of 6.80%, underpinned by domestic demand and supportive policies by the Government (SME Corp., 2011) in 2011.

In 2009, 99.2% of total business establishments SMEs in Malaysia representing the significant in terms of numbers, and at the same time have contributed significantly to the country's economy in terms of employment, GDP and export figures, as referred to the speech by Y.B. Dato' Mustapa Mohamed, Minister of International Trade and Industry at The Official Launching of SME Corporation Malaysia (SME Corp. Malaysia), Hilton Hotel, Kuala Lumpur on 21 August 2009 (MITI, 2009). SMEs have been identified as an engine of growth (Baharun et al., 2003) as fulfilling to become a developed and industrialized country by the year 2020 (Abdul Hamid et al., 1993). The "*Vision 2020*" of the country recognized the importance to rapidly industrialize by capitalizing on the country's strengths and forcefully tackling the weaknesses (Baharun et al., 2003).

Considering the significant roles of SMEs to the country's economic development, the government has to provide a number of business support programs to ensure SMEs competitiveness (Yusoff and Yaacob, 2010). Hence, the Malaysian government has launched several initiatives to facilitate and promote expansion of the SMEs locally and internationally (SME Corp. 2011) with the aimed to create the institutional and systematic conditions to support upgrading of firm level capabilities, diversification and creation of new firm (Yusoff and Yaacob, 2010). This is a sign on how great deals that the Malaysian Government has put on the development for the SMEs in Malaysia.

In enhancing SMEs development in Malaysia, the current Prime Minister, Datuk Seri Najib Tun Razak had announced an allocation of RM 1 billion in 2013 budget in order to help Malaysian SMEs (New Straits Time, 2012). However, only RM 500 million was established specifically for the year 2012 to enable SMEs to commercialize their research products which is known as Commercialization Innovation Fund (The Star Online, 2011).

Started a few years back before the independence (August 1957), The Malaysian government continuously put an effort to support Malaysian SMEs activities by considering the significant roles of SMEs to the nations (Yusoff and Yaacob, 2010). Previously, SME policies were based on the Third Industrial Master Plan (3MP) and the Ninth Malaysia Plan (9MP). However, the introduction of new policies by the Malaysian Government, namely the New Economic Model (NEM) and Tenth Malaysia Plan (10MP) will require some re-alignment and adjustment of SME development policies and initiatives in order to achieve a high income nation. (SME Annual Report, 2009).

SMEs are expected to play a significant role in building the nation's economy under the NEM, particularly in spurring innovation and new growth areas. Two key issues have become relevant to SME development:

1. Focus on creating a number of strong homegrown companies that can compete in the international market to become regional and finally become global champions in certain products/services.
2. Support and assistance will be provided to micro enterprises that represent a major share of the bottom 40% of income earners.

The NEM strategies embodied in the 10MP focuses a great deal on fostering an enabling environment, development of entrepreneurship, inter-firm linkages with large establishments as well as information technology (IT) adoption and innovation. The main aim is to promote development of SMEs as the engine of growth and innovation specifically for Malaysian economic growth (MITI, 2010).

NEM could bring the country towards high income economy in the next ten years towards government business support service via main player of Malaysian government's agencies namely Majlis Amanah Rakyat (MARA), SME Bank, SME Corporation and National SME Development Council, just to name a few (Yusoff and Yaacob, 2010). Billions of Ringgit have been spent under those government agencies' programs with the aim to support the business growth of SMEs and could act as a stepping stone to the Malaysian SMEs' glorious achievement and better performance (Yusoff, 2011).

However, the usage of the business assistance services provided by the government is considered poor especially among micro-sized SMEs (Yusoff, 2011). In order to boost up the Malaysian economic growth and rapid development towards achieving National Economic Policy (NEP) and "*Vision 2020*", an attractive as well as conducive business environment should be provided to increase business opportunities in the provision of SMEs performance.

Consequently, this paper offers several new contributions to the relationship between government business support services and SMEs performance. This paper will try to investigate an issue faced by SMEs regarding their performance towards support services received through the government's agencies. Researcher will try to identify the most beneficial services provided by the government's agencies either based on financial or non-financial support. Although government business support services have been researched extensively in previous studies internationally, however, locally, there are limited studies have been conducted to examine on how was government business support services influences the SMEs performance. Therefore, this exploratory study attempts to fill a gap by investigating the relationship between government business support services and SMEs performance among SME's perspectives in Malaysia.

2. Literature Review

As we all know that small businesses are the backbone of the country's economies growth across the globe (Mbonyane, 2006). However, the major challenge is how to overcome the high failure rates among these small businesses all over the world (Buckley, 1998; Kinunda-Rutashobya and Olomi, 1999) specifically in Malaysia. There are several development strategies have been implemented in order to reduce the failure rates among small businesses which might include among others, traditional tax and financial incentive programs, special research and development (R&D) programs, seed and venture capital financing, training programs for entrepreneurs, regulatory relief for small businesses, customized assistance programs, and business networks development, just to mention a few.

Most SMEs are restricted in accessing the capital that they require to grow and expand business operations, whereby nearly half of SMEs in developing countries have difficulty in accessing their financing problems and considered this as a major constraint for their business development. Malaysian SMEs face many other challenges (Saleh and Ndubisi, 2006) that have been highlighted through APEC survey (1994); SMI development Plan 2001–2005 (SMIDEC, 2002); Ting (2004); and UPS (2005). Meanwhile, Saleh and Ndubisi (2006) have identified a number of key challenges facing Malaysian SMEs. Among others are as below:

1. High levels of bureaucracy in government agencies hindering efficient business development.
2. Difficulty in obtaining funds from financial institutions as well as from the government.
3. Lack, and cost, of professional and skilled workers.
4. Stiff international competition due to the fast pace of globalization among nations and regional economic blocs such as competition from ASEAN Free Trade Agreement (AFTA) member countries. In addition, the emerging of new MNCs (e.g. enterprises from China and India). This will eventually develops new competitors
5. Limited access in acquiring to better technology software and information communication technology (ICT).

The Malaysian Government's commitment to, and concern for, the development of SMEs has been clearly given priorities since the early 1970s through the establishment of the 'New Economic Policy' that was finally introduced in 1971, which aimed to improve people's welfare and restructure ethnic economic imbalances (Saleh and Ndubisi, 2006). The government's commitment to the development of SMEs has been emphasize more details in the Second Industrial Master Plan (IMP2), which ended in 2005, and then, continued with some modifications and further suggestions in the Third Industrial Mater Plan (IMP3) 2006-2020 (which is currently implemented) in order to achieve the country's *vision 2020* (Saleh and Ndubisi, 2006; MITI, 2005).

The Malaysian Government has implemented various policies and strategies under these plans. For example, the IMPs were formulated to enhance the growth of the manufacturing sector across the entire value chain system and cluster-based industrial developments. Hence, this plan provides an integrated approach to the development of industrial areas and opportunities for SMEs growth (Saleh and Ndubisi, 2006; MITI, 2005).

Performance is the life blood of organizations, since without them; no decisions can be made (Mosalakae, 2007). Performance evaluation theories and models begin with an understanding of how the firm can elevate and improve its efficiency. In addition, it relates that analysis to the theory of the firm (Penrose, 1959) more than classical accountancy and financial reporting. This thinking stems from strategic management theory in relation to competitiveness (Porter 1980, 1991) in combination with organization theory (Scott, 2003) as well as networking issues (Wincent and Westerberg, 2005, Wincent et al., 2009).

Performance was assessed in two dimensions: the non-financial method and profit efficiency using the stochastic efficiency frontier model (John, 2009). The non-financial method is achieve where most of the objectives achieve their mention target (subjective). Meanwhile, the financial performance measurement can be one of the biggest challenges faced by businesses in the SME sector. The financial performance will determine their survival of continuing their daily operations. If company's management do not train their respective employees on how to manage their financing system effectively as well as efficiently in order to determine their measure performance meet or over their targeting performance.

Meanwhile, firm performance refers to the level of success of the firm (Chelliah et al., 2010). The ability of an organization to survive and succeed is influenced by various factors which some can and cannot be controlled (Man, 2009) that can be measured by many criteria (Montari et al., 1990).

On the other hand, absorptive capacity has been recently identified as a crucial dynamic capability in knowledge-based competition (Fosfuri and Tribo, 2008) and gradually become a key driver of a firm's competitive advantage (Cockburn and Henderson, 1998). A firm's absorptive capacity depends on its existing stock of knowledge, much of which is embedded in its products, processes and people. Thus, a firm's knowledge base plays both the roles and levels of innovation and absorption (Cohen and Levinthal, 1989).

Entrepreneurs create new ventures in order to exploit opportunities and create wealth by offering innovative products, goods and services. These ventures need to be build and maintain novelty in their products life cycle (Zhang and Haiyang, 2010). Absorptive capacity helps the firm to identify more available knowledge flows. In other words, the amount of external knowledge that the firm perceives is an increasing function of its absorptive capacity (Escribano et al., 2009).

Therefore in this study the hypotheses are developed after considering the literature that had been done as follow:

- H1 : There is a relationship between financial support provided by GBSS and SMEs performance.
- H2 : There is a relationship between non-financial support provided by GBSS and SMEs performance.
- H3 : There is a moderating effect of organizational absorptive capacity on the relationship between financial and non-financial support provided by GBSS and SMEs performance.

3. Methodology

The populations in this research were owner manager / manager from manufacturing and related services SMEs in Northern Peninsular Malaysia. A total sample of 150 completed set of questionnaires were collected using a random sampling technique. The analysis tools used was Statistical Package for Social Science version 19 (SPSS 19).

4. Analysis and Discussion

The results of construct reliability for financial support by the government = 0.763, non-financial support by the government = 0.768, SMEs Performance = 0.895 and Absorptive Capacity = 0.857. The construct reliability values for all constructs are greater than the table value of 0.70. So it can be concluded that all latent constructs used in this research are really reliable.

4.1 Correlation Analysis

The value of r between financial support and SMEs performance is 0.169 with correlation coefficient equal to 1 and significant at 0.020 (lower than 0.05). Therefore, there is a relationship between both variables. The finding shows that financial support directly affected SMEs performance. To make choices between actions within the company; there is a need on take some consideration that might certainly deliver the predicted benefit. Financial assistance should be maximizing accordingly with usage of the money for certain matter, or else, the company will remain at the same point, before and after received assistant. Therefore, it is possible to argue that financial support provided by the

government also reflects SMEs performance. As a result, there is a statistically significant correlation between financial support provided by the government and SMEs performance. That means, increases or decreases in financial support by the government do significantly relate to increases or decreases in SMEs performance. Thus, the hypothesis (H1) is supported where there is a relationship between financial support provided by GBSS and SMEs performance. Refer to Table 1

In addition, the value of r between non-financial support and SMEs performance is 0.454 with correlation coefficient equal to 1 and significant at 0.000. Therefore, there is a positive relationship between both variables. In general, there is some kind of link between non-financial support by the government and SMEs performance. Among those who have received non-financial assistance, researcher notices that respondent actually benefited once received this kind of assistance. It helps SMEs to go further, perform better with predicted benefit and different approach. Therefore, we can conclude that there is a statistically significant correlation between non-financial support provided by the government and SMEs performance. That means, increases or decreases in non-financial support by the government do significantly relate to increases or decreases in SMEs performance. Thus, the hypothesis (H2) is supported. Refer to Table 1.

4.2 Regression Analysis

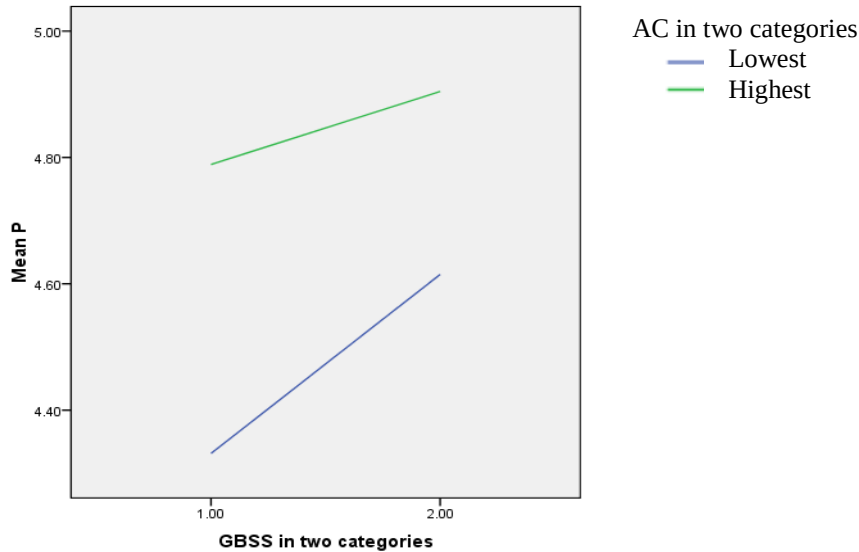
Upon the completion of correlation analysis, the regression analysis using the SPSS Version 19 were performed to find any influence between the independent variables (financial and non-financial support by the government), moderating variable (absorptive capacity), and the dependent variable (SMEs Performance). The steps in analysing the relationships of the variables were based on Hierarchical Regression Analysis and the recommendation by Baron and Kenny (1986).

Based on Hierarchical Analysis, R^2 change is sufficient where the p value is less than 0.05. Here, the p -value $0.004 < 0.05$. Moreover, there is a moderation effect when t -value = -2.937, p -value < 0.05 . As the p -value less than 0.05, we can conclude that there is a moderation effect.

Hence, the graphs are plotted to see the moderating effects. The standard value used to re-categorize into the levels based on 2 level (1 = Lowest, 2 = Highest) and using median of the variables (GBSS = 4.5455, AC = 4.7143). Refer to Figure 1 for better understanding.

Figure 1:

Graph: The Moderating Effect of Absorptive Capacity on the Relationship between GBSS and SME Performance



From Figure 1, the rate change is greater for the highest group whereas for the lowest group is very low. In conclusion, we could suggest that, the absorptive capacity changes the relationship between GBSS and SMEs performance. The interaction did specify the appropriate conditions for its operation and there is an impact on the level of SMEs performance. Table 1 shows the Hypotheses summarization.

Table 1:

Summary of Hypothesis Testing

	Hypotheses	Result
H1	There is a relationship between financial support provided by GBSS and SMEs performance.	Accepted
H2	There is a relationship between non-financial support provided by GBSS and SMEs performance.	Accepted
H3	There is a moderating effect of organizational absorptive capacity on the relationship between financial and non-financial support provided by GBSS and SMEs performance.	Accepted

5. Conclusion and Recommendations

The results show that financial and non-financial support by government or government agencies in Malaysia positively influences the Malaysian SMEs performance directly. In addition, there is an interaction between moderating effect by absorptive capacity towards GBSS and SMEs performance. For future research, it is hope that the future researcher would add more intensive variables under non-financial support as well as for financial support. The findings might help in expanding the existing

body of knowledge, not only for Malaysian SMEs but also would indirectly beneficial for the policy makers, researchers, and government future planning. In spite of that, it is suggested to conduct a narrow scope for SMEs (specific SMEs sector) that have been established for more than five years (longitudinal study/time based) from all over Malaysia. Therefore, the study might indicate the real situation (assistance needed) in order to help and facilitate Malaysian SMEs to be more aggressively and eventually become a world champion.

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ADDRESSING FELT NEEDS AND GINGERING COMMUNITY PARTICIPATION: PUTTING RURAL DEVELOPMENT IN PERSPECTIVE.

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Abstract

The gloomy and pathetic picture of the rural areas in many of the third world nations, especially the sub-Saharan Africa has largely remained unchanged despite massive investments in the rural sector development in these countries. This is clearly a picture of abject poverty, hunger and starvation, absence of basic social amenities, denial and alienation, deprivation and vulnerability. This appears to be an endless list. In other words, the spending in the rural sector development in these countries, have not significantly impacted on the lives of the ordinary rural men and women. This unfortunate trend, this paper posits, is not unconnected with the inability of policy makers to focus on felt needs of the rural poor while designing rural intervention and hence the failure to elicit their (the rural poor) active participation in rural development programs. And this is despite the demonstrable benefits of community participation which, among others, include its strength in tradition, belief and values of a given community; its ability to empower community by allowing them to identify, define and seek solutions to their problems and its encouragement of cost sharing among community members, etc. This paper therefore concludes that for any rural development intervention to have any meaningful impact and translate into the improvement of the lives of the ordinary rural poor there must be a change of attitudes on the part of the policymakers. The ordinary rural poor must be central to any intervention, his felt needs must dictate the tune of any development efforts whether from within or without. It is only then his full participation and active involvement can be guaranteed.

Keywords: Felt needs, Community participation, Rural development.

1. Introduction

The rural sector the world over appears to attract so much attention: proclamations and pronouncements by international institutions and governments; researches, case studies and seminal works by academics, field workers and professionals; agitations and advocacies by civil societies and grassroots organizations; interventionist activities in forms of grants and aids by donor agencies, governmental and nongovernmental organizations; and above all the cries of the rural poor themselves. However, so little change has been witnessed in the sector over the years. The gloomy picture of the rural areas largely remains the same in most of the third world nations, especially in Sub-Saharan Africa. Campbell, et al, (2003) citing (Berry 1993) posit that “Despite decades of investment in rural development initiatives poverty is widespread in sub-Saharan Africa, with no sign of significant reduction.” Rural Poverty Report, (2011) corroborates the above position, in which it indicates 55% of the world population lives in the rural areas (3.1 billion). It further reveals that of the 1.4 billion people

living in extreme poverty (living on less than US\$ 1.25 per day) 70% lives in rural areas. Furthermore 80% of the rural population in South Asia lives below poverty line of US\$2 per day while it is 90% in Sub-Saharan Africa. This is certainly not a significant improvement, especially for Sub-Saharan Africa over the testimony of Jazairy (1992) in a forward to *The State of the World Rural Poverty* by the International Fund for Agricultural Development (IFAD):

The total population below the poverty line is now estimated to be more than one billion, of which about 933million are in rural areas. Asia has the highest share of these, some 633 million, followed by 204 in Sub-Saharan Africa, about 96 million in Latin America and the Caribbean and the balance in the near East and North Africa.

Similarly, Genfors and Anderson (2004) making a case for investment in rural development, argue that a large majority of the population lives in the rural areas, depends on natural resources for livelihood, with limited interaction outside the local economy and suffers from weak supply of public services such as health, education and infrastructure.

Perhaps it no exaggerations after all when Maude, (2010) laments that rural sector is a sector where lip service is often paid, where colossal amounts of money are spent, where laudable programs are always initiated and at the end everything goes down the drain.

2. Rural Development

Chambers (1983) cited in Hulme and Turner (1990) defines rural development as “a strategy to enable a specific group of people, poor rural women and men, to gain for themselves and their children more of what they want and need. It involves helping the poorest among these, seek a livelihood in the rural areas to demand and control more of benefits of development.” Africa Leadership Forum (1991) believes rural development must entail a program of activities directed at increasing the efficiency of rural population such that rural energy is released, output, quality of life and productivity are enhanced, education and sanitation are promoted and resources are optimally exploited.

It is so tempting to wonder if any efforts were made at all in tackling the menace of rural poverty in the Third World today. Nair and White (1993) confirmed of well intentioned development efforts at addressing the phenomenon but however added that these problems remained unresolved.

At the global level, the World Bank came up with a comprehensive Rural Development Strategy tagged *From Vision to Action* (1997). The strategy identified rural poverty reduction, improvement of rural well-being of rural people, and the elimination of hunger as the main strategic objective in the bank’s rural activities of which failure was later confirmed by the Bank itself (the World Bank, 2003).

In India, Nair and White (1993) report of articulated rural development strategy beginning with the Community Development Programme of the 1950`s to the Integrated Rural Development of the 1980`s with relative successes. However they further attest, citing Ostman, (1989):

There are formidable problems facing India’s future, given a burgeoning population, widespread illiteracy, government corruption and inefficiency, a growing sense of fatalism and acceptance of poverty by millions, disease and poor health, inadequate nutrition and child care, shelter and clothing, transportation and communication difficulties, lack of proper sanitation impure water supply and so on. (pp.20)

Similarly, Nigeria has had a number of programs, short and long term plans all in the name of rural development strategies, since independence. These include National Accelerated Food Production (NDFPP), Integrated Agricultural Development Program (ADP), Operation Feed the Nation (OFN), River Basin Development Authorities (RBDA's), Green Revolution, Directorate of Foods, Roads and Rural Infrastructures' e.tc. These programs, despite the laud- able objectives, yielded very little results. Africa Leadership Forum (1991) observes, "The impact of these various activities on condition in the rural areas has been very much less than can be expected from the resources expended on them." This assertion can be said to be proven by the UNDP Human Development Indices of 2011 that rank Nigeria number 157 out of the 182 countries with the lowest performance in the region (UNDP, HDI Report, 2011).

The failure of past attempts at addressing the problems of the rural sector in most of the developing nations has been attributed to many factors. Many blame the rural development approach that was largely informed by the dominant development paradigm, which was pro-innovative, pro-urban bias in development messages which created false expectation, marginalized the non literate rural population and entrenched elitism (Imoh, 2007; Metalopalous, 2008). Other factors include full scale corruption, non involvement of beneficiary communities in project conceptualization, planning and implementation and lack of consistency (Rahmena, 1992; Omotayo, 2002). Of the several factors advanced for the bane of rural development in Nigeria, the failure to focus development efforts on addressing the actual felt needs of the rural people, and lack of involvement are the most notable. No development efforts can be sustainable as long as it is not people centered and participatory.

2.1. *The felt need factor*

Addressing the felt needs of the rural people is a critical factor to the success of any rural intervention. Its singnificance largely lies in the fact it is the only factor that truly stimulates meaningful participation of the rural people. By the time programs are based on the people's needs you are involving them at the initial stage since the design of the programs will be based on their needs. According to Nwosu and Megwa (1993) in Mojaye (2008), this approach to development operates on the fundamental principle that development programs must be based on needs of the people and that the people must in turn be involved in deciding what those needs are right from the design stage. An integral component of this development model, according to Mojaye (2008) is the needs-assessment, the goal of which according to Sharma, Lanum and Suarez-Balcazar (2000) is to identify the assets of a community and determine potential concerns that it faces by asking residents their opinions about development of services, their satisfaction with services and what particular services are needed. This process of needs-assessment in itself is participatory since different segments of the community will be involved and diverse interests expressed with possible solutions.

Unfortunately our political leaders and policy makers often ignore this crucial factor. This is despite recorded successes of pilot programs using similar approaches by development partners and donor agencies in several rural communities. More often than not policy makers remain in the comfort of their air-conditioned offices and decide which community gets what. Sometimes it is a blanket approach with the notion that what is applicable to one community is applicable to all.

In Katsina State, for example, three development programs suffice to point to aforementioned attitudes of policy makers. Katsina State is located in North Western Region of Nigeria, with the land area of 24, 000 square kilometers. It is a rural populated state with high incidence of poverty. The state is rated the second poorest in Nigeria with 74.5% poverty rate by National Bureau of Statistics. According to 2006 census figures, the state has the population of more than 6million people, over 60% of the population living in the rural areas where mainstay is farming and animal husbandry.

One of the development programs was a housing scheme initiated by the State Government that compelled all the 34 local government councils to use their meager resources to construct 30 nos 2 and 3 bedroom bungalows in their respective local government headquarters. This is irrespective of whether such houses were the needs of the people or not. For the few urban local government headquarters, it was a welcome development; but for most of the local government areas, it was a misplaced priority and a waste of resources. This is because almost a decade after commissioning, many of the houses are still unoccupied but inhabited by rodents.

A similar program is Katsina Local Governments Fishery Program (KALFIDEP) in which all the local governments were mandated to establish modern fishery centers in the local government headquarters. This is on the surface a good idea. But because the people were not involved, their consents were not sought, their interests and priorities were not considered, none of these 34 fishery centers is functional today. The resources expended have gone down the drain!

And lately there is the ongoing project of road dualization in all the 34 local government headquarters. Some of these local government headquarters are small communities where you can count the number of car owners. What the people certainly need is clean drinking water, access roads for the remotest communities to the urban centers to market their farm produce and to access health and other social facilities non-existent in the rural areas.

These unwholesome attitudes of our policy makers continue to translate into wasteful spending, further alienation of the rural people and ultimately dragging the overall national development as no nation can advance with bulk of its populace in utter neglect.

2.2. *Community participation*

Participation has been variously defined. FAO, (1980) says people's participation is essentially to do with economic and political relationship within the wider society. It is not just a matter of involvement in project activities but rather the process by which rural people are able to organize themselves and, through their own organization, are able to identify their own needs, share in design, implement and evaluate participatory action. Paul (1987) defines community participation as an active process by which beneficiary/client groups influence the direction and execution of a development project with a view to enhancing their well being in terms of income, personal growth, self reliance or other values they cherish.

The centrality of people's participation to the success and sustainability of development projects has been established in various studies and research evidences. Mody, (1992); Rahnema, (1992); Kumar, (2002) quite explicitly stress the importance of popular participation in development projects. Rahnema (1993: 113) indicates that "A number of major international aid organizations agreed that development projects had often floundered because people were left out. It was found that, whenever people were locally involved, and actively participating in projects, much more was achieved with much less, even in sheer financial terms" Quoting the World Bank (1994), Metalopulos (2008) reports that internationally emphasis is being placed on the challenge of sustainable development, and participation is increasingly recognized as a necessary part suitable for development strategies.

Soola, (1995) has justified community participation for its strength in tradition, belief and values of a given community; its ability to empower community by allowing them to identify, define and seek solution to their problems; its motivational capacity; its encouragement of cost sharing among community members; its capacity to ensure equitable distribution of net benefits; its micro incremental approach which can help break down the myth of massiveness and capital intensiveness of national development planning which often uses high technical register beyond the linguistic reach of non experts.

These demonstrable benefits derivable from the involvement of the rural people in matters that are of concern to them have not significantly impacted on the attitudes of our policy makers towards rural development intervention. Our policy makers have failed to harness the enormous potentials of the rural people. The most notable are the community values that are often predicated on social networks, kinship relations, neighborliness, communality, mutual understanding and trust, caring and sharing with one another and dignity for labor. These cherished values make the rural people more predisposed for easy mobilization towards meaningful participation and ultimately a sustained rural development.

Dlakwa (2006) might after all be right when he observes that often development eludes society not because no efforts were made by policy makers but because policy makers commit one of the following errors:

The first error, *Type I Error* or false-positive error is the situation in which the correct problem has been diagnosed for community but in deciding on the strategy to adopt the policy makers decide to pursue strategies that are not viable assuming that they would be viable. In other words the development problems identified are relevant to the needs of the community in question but the strategy selected by policymakers is ineffective in solving them. The second error in the *Type II Error* or false-negative error in which the correct problem has been diagnosed but the policy makers decide to reject the strategies that are potentially viable. The third error is the *Type III Error* which is the situation where the development problem identified for solution is not even the real problem of society. "Policymakers tend to chase shadows rather than real pressing problem, as such no matter how much drastic institutional and legalistic reform are undertaken, as well as how much financial resources are committed to such projects, no visible changes will be recorded" (Dlakwa, 2006).

3. Conclusion

This paper has explored at the theoretical level the concerns for rural development in the third world, especially in Nigeria. It has traced the failure of many past attempts at addressing rural development problems and largely blaming these failures on multitudes of factors. Two most important factors as underscored in this paper are failure to focus development efforts on the felt needs of the people and lack of involvement of target beneficiaries by policy makers as demonstrated with living examples in Katsina State. This clearly betrays the huge gap between the government and the citizenry. This paper therefore concludes that democratic and political institutions must be strengthened to empower the citizenry to task their leaders to account on how the business of governance is run; to empower them to actively partake in the political process which is the basis for any effective and meaningful participation in development efforts. And this can only be possible when credible elections are conducted and political leaders truly represent the people's mandate.

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IDENTIFICATION OF POOR PEOPLE BASED ON BEHAVIOR, LIFE QUALITY, AND SOCIAL CAPITAL AT COASTAL AND MOUNTAINOUS AREAS

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Abstract

Poverty becomes a complex phenomenon with strongly local attributes and various experiences. It is multidimensional so that it requires detailed understanding based on behavior, life quality, and utilization of social capital that is currently less attended. Efforts to overcome poverty which has been carried out are still focused on the physical and material, so the management has less solved problems and has not optimally taken place.

The aim of this research was to identify behavior pattern, life quality, and elements of social capital on poor people at coastal and mountainous areas. The research method used was by both qualitative and quantitative approaches. Primary and secondary data were obtained through survey, literature, literature study, participant observation, indepth interview, and group discussion focus. A number of 150 respondents dispersed in the Regencies of Banyumas, Purbalingga, and Banjarnegara were used to represent mountainous areas and 100 respondents dispersed in the Regencies of Cilacap and Kebumen were used to represent coastal areas. Analyses tools used were descriptive and interactive model analyses.

Results of the research performed that the behavior of poor people at the coastal areas relatively owned superiority and they more bravely took action relevant to the use of natural, physical, and monetary capitals. However, the behavior of mountainous people at mountainous areas owned superiority in doing action by considering aspects of human and social capitals.

Poor people at the coastal area more desired the ideal life quality with the main priority at satisfying individual and material needs serially namely in the fulfillment of work, health, housing, religiousness, and education. The life quality of the poor people at the mountainous area more desired the ideal one with the main priority in the fulfillment of communal and material needs serially i.e. in the fulfillment of family, work, health, religiousness, education, housing, conditions of environment about, and environmental security.

The element of the social capital for the coastal people at the coastal area could be only found and attach strongly in the matter of trust. Whereas the element of the social capital for the coastal people at the mountainous area could be found and attach in the matter of trust, network, and facility of co-operation.

Keywords: poverty, behavior, life quality, social capital, coast, and mountain.

1. Introduction

Poverty is actually a nationally classical problem, because since the early five years of development, even since the colonial government, this matter has been present, but until currently there has not been found yet accurate formula and prescription to formulate a policy to eliminate poverty.

Many efforts to overcome poverty and gap problems have become the major priority of programs run by the government. However, some governmental projects related to poverty controls especially on grass-root scale, have not been capable to cope this poverty problems. Changes in social, economic, and political conditions, have currently made poverty problems not to be sufficient ones, even this phenomena have become urgent and valid studies and analyses. By remembering of amount of cases occurred in our country, so currently poverty phenomena are increasing qualitatively and quantitatively.

When the number of economic growth increased approximately up to 1.5 percent in 2011, compared with 2010 (the year 2010 the economic growth reached 5.7 percent and 2011 reached 6.5 percent) the reduction of poor resident numbers was only around 0.84 percent. This performed that the Indonesian economic growth was not qualified, because of not able to give prosperity to the inhabitants. Most of poor inhabitants were at rural areas (the year 2011 the number of poor inhabitants at rural areas reached 19.93 millions people and 11.05 millions people at urban areas) (BPS, 2010, 2011).

Various programs have been launched by the government to trigger the rate of economic growth and to decrease the number of poor people, but the results were improper. Until now the number of poor people is reaching 11.37 percent (Pidato Presiden, 2013). the central government makes a target of reducing the poverty number up to 9-11.3 percent in 2014 (Tempo, 2013), because the poverty reduction is relevant to the increase of the social welfare.

Economic growth is important to eliminate poverty but it is not the only factor. World Development Indicator (WDI) sees behind the factors of economic growth and poverty line, how about income distribution, health and education services, and business environments, also become other ones influencing behavior and life quality.

Differences in ethnics and background, causing difference in the access on position and opportunity, contain certain consequences such as prevalence, communal disagreement, individual freedom and politics, and chances in getting benefits from the government facilities.

Poverty is multidimensional, so it requires deep understanding based on behavior, life quality, and uses of social capital on poverty areas particularly at rural ones like coastal and hilly regions that this time is less attended.

This research is expected to be capable to identify poverty characteristics through behavior, life quality, and social capital by entering elements of trust, network, and easiness in co-operation. Particular question of the research that will be discussed is how are behavior, life quality, and the element of social capital for the poor people at coastal and hilly areas.

Aims of this research were to identify behavior pattern, life quality, and the element of social capital for poor people at at coastal and hilly areas.

2. Library Study

Relationship Between Economic Growth and Poverty

Kakwani and Pernia (2001) conducted research in a number of East Asia and South east Asia countries defined that growth index of pro-poverty occurs due to the consequence of economic growth

without affected by income distribution. Subsequently Kakwani and Pernia found that in the period of 1990s the rural economic growth in South Korea was more pro poverty than the urban economic growth. The result of estimate study by Dollar and Kraay (2000) performed that the relationship between PDB growth and people's income was elastic. Timmer (2004) by using econometric technique showed similar estimation result with Dollar and Kraay, but the elasticity was only 8 percent. This means that for poor groups, the benefit gained from the economic growth is less proportional.

Definition and Indicator of Poverty

Relative poverty is a measure of gap in the income distribution, defined in relevance to the average level of the income distribution. Therefore, relative poverty is measured by a proportion of the average income level per capita.

Absolute poverty is a degree of poverty where the income locates under minimal needs to be able to defend not to be fulfilled. This measure stays in the form of a minimal calorie need plus non-food components that is absolutely required to stay for living.

Generally the poverty indicator used in Indonesia is poverty line criteria to measure absolute poverty. BPS (2006) used the limit of poverty line of the amount of rupiah expended per capita a month to furnish the minimum need of food and non-food. Food need used a measurement of 2,100 calorie per day, whereas the need expense of non-food comprised expenses for housing, clothes, education, and health.

Behavior

Classification of social action in the person's behavior are : (Narwoko, 2007).

- a. Instrumental rationality. Here the social actions of a person are based on the consideration and conscious choices related to that action goals and the availability of tools used to achieve it.
- b. Value-oriented rationality. On this type of action, the existing tools only a conscious consideration and calculation, while the goals already in relation to the individual values that are absolute.
- c. Traditional measures. Someone showed certain behaviors out of habit derived from ancestors, without conscious reflection or planning (hereditary habit).
- d. Affective action. This action is dominated by a feeling or emotion without reflection intellectual or conscious planning. Action is spontaneous, irrational, and an emotional expression of the individual.

Life Quality

Measurement of poor social skills can be focused on a few indicators that include : livelihood capabilities, basic need fulfillment, asset management, access to resources, access to social capital, capable with shocks and stress. Gandhi (1998).

Social Capital

Social capital adalah institution, relationships, attitude, and value that govern interaction among people and contribute to economic and social development. As for Putnam (1993) social capital has three (3) forms of trust, norm, and network.

3. Method of research

a. Research Design

This research was initiated from various sources. The investigated regions were Banyumas, Purbalingga, Cilacap, Banjarnegara, and Kebumen Regencies by focusing on poor sub districts and villages at coastal and hilly areas.

b. Sources of Data

Data were obtained from various sources such as poor people, coordinators of PNPM Mandiri at five regencies, BPS, Bappeda, and related offices.

c. Types of Data

Collected types of data consisted of primary and secondary data. Primary data were taken randomly originated from respondents comprising poor people and related parties, civil servants, volunteers, and filed officers. Collection of primary data was conducted by interviews structurally using questionnaires supported with direct observations to poor people. Collection of secondary data was gained from Bappeda, BPS, and related offices. Collected data comprised geographical conditions and administration of areas, inhabitant conditions, and infrastructure conditions.

d. Technique of Data Collection

Data were collected by means:

1. Investigation of secondary data.
2. Direct interview to poor people and relevant parties to civil servants, volunteers, and field workers.

e. Techniques of Data Processing and Analyses

Populations and Samples

Populations in this research comprised poor people in Banyumas, Purbalingga, Banjarnegara, and Kebumen Regencies, based on poverty indicators used by BPS. determination of samples according to Sekaran (2003) might be done suitable with the confident level desired by researchers. Sampling technique was conducted by *quoted sampling* using 250 respondents.

Data Analysis

Data analysis used was descriptive analysis.

4. Discussion

Conditions of poor person can be illustrated by Kasinah, a widow with responding 4 people from Kebumen, with deep inadequacy. They feel cold due to limitation of cloth for their blankets of bodies. Everyday they stay in a bad hut, plaited bamboos as the walls, clay base, and gunny-sacks as pillows. These outlooks can also be found at several villages of southern coastal areas in Kebumen and Cilacap Regencies, and hilly areas in Banjarnegara, Purbalingga, and Banyumas Regencies in Central Java Province. Daily meals of those poor people are cassava and they sometimes consume low quality rice with insufficient quantity until the end of month. There are people at some villages have difficulty getting clean water for drinking. When they want to drink clean water, they have to go for long walk until two kilometers at neighbor villages having wells.

Behavior of poor people at both coastal and hilly areas when faced on option of capital element as seen in Table 1 in determining action taken of capital uses has different priority.

Table 1. Capital element and Option

Capital element	Element option of every owned and done capital				
Nature	Soil	Forest	Water	Air quality	Biological diversity
Physics	Infrastruckture of street base	Light fixture (electricity)	Irrigation canal	Fixture and access on communication	Sanitation and water stock
Monetary	Cash money	Stock	Money circulation		
Human	Formal education	Non-formal education	Scientific inheritance of ancestor	Experience and attitude toward life and work	
Social	Solidarity and trust one to each other	Social network to family, neighbor, community, and country	Exchange and Co-operation	Positive attitude and participation	Sense of possessing

Results of the research indicated that the behavior of the poor people at coastal areas relatively had superiority and more dared to take actions related to uses of natural capital (37 percent), physical capital (30 percent), and financial capital (19 percent), the rests were human capital (9 percent) and social capital (5 percent).

However, the behaviors of poor people at hilly areas had superiority in acting by considering on aspects of human capital (33 percent) and social capital (33 percent), the rests were natural capital (12 percent), physical capital (11 percent), and financial capital (11 percent).

Poor people at coastal areas more desired the ideal living quality with the major priority on satisfaction of individual and material needs serially comprising in getting job, health, housing, religiousness, and education that can be seen completely in Table 2. The living quality of poor people at hilly areas more desired ideally living quality with the major priority on fulfillment for satisfaction of communal and material needs serially comprising in social completion, family life, job, health, religiousness, and education that can be seen completely in Table 3.

Table 2. Response of respondents on conditions of living quality at coastal areas

Variables of living quality	Number of indicator to measure living quality	Total value of indicator					Values of respondent response on indicators to measure living quality
		SS	S	N	TS	STS	
Job	4	30	25	25	15	5	17
Health	5	30	24	26	15	5	16
Housing	5	30	23	27	15	5	15
Education	4	20	26	30	14	10	12
Religiousness	3	20	25	30	15	10	9
Social fulfillment	3	10	15	20	30	25	6
Family Life	5	10	15	20	29	26	6
Conditions of surroundings environment	4	10	15	20	28	27	6
Environmental safety	3	10	15	20	27	28	6

Source: Result of analyses, 2013

Table 3. Response of respondents on conditions of living quality at hilly areas

Variables of living quality	Number of indicator to measure living quality	Total value of indicator					Values of respondent response on indicators to measure living quality
		SS	S	N	TS	STS	
Social fulfillment	3	50	43	37	15	5	15
Family life	5	50	42	38	15	5	17
Job	4	50	42	38	15	5	17
Health	5	50	41	39	15	5	16
Religiousness	4	50	40	40	15	5	12
Housing	5	50	41	39	15	5	15
Education	4	50	40	40	15	5	12
Conditions of surroundings environment	4	20	10	40	40	40	6
Environmental safety	3	10	10	40	40	50	5

Source: Result of analyses, 2013

Notes:

I. Job measured by indicators:

1. Exciting executed job
2. easiness of access at worshipping place, eating
3. Income assuring future
4. Income sufficient for living expenses

II. Health measured by indicators:

1. Conditions of good health
2. Time enough for having rest
3. Conditions of fixture and infrastructure for health provided by government at the environment with good condition
4. Living happiness
5. No living pressure

III. Housing measured by indicators:

1. Feel pleasant with condition/stay at home
2. Has been able to buy a house for family
3. Availability of fluently clean water
4. Electricity current in good condition at home
5. Good relationship with around neighbors

IV. Religiousness activity measured by indicators:

1. Easiness to pray at worshipping place
2. Freedom of people to conduct activities of religiousness suitable with their owned religion
3. Activity of religiousness is running well

V. Education measured by indicators:

1. Closeness of distance between school and house
2. Good quality of school
3. Capable to finance child education
4. Availability of sufficiently formal education

VI. Natural condition/around environment measured by indicators:

1. Air/environmental quality at surroundings is sufficiently good
2. Environmental condition sufficiently cared
3. Good water condition
4. Condition of rubbish discharge is sufficiently available

VII. Family life

1. Relationship of family among house hold members is sufficiently good
2. Relationship of relatives with family members is sufficiently good
3. All family members feel glad
4. Enough financial problem
5. Job suitability

VIII. Social fulfillment

1. Rights as society member is fully appreciated
2. Always participating freely with activities at neighborhood
3. Neighbor harmony at vicinity is very active

IX. Environmental safety

1. Environmental safety is sufficiently good
2. Available assurance at vicinity
3. Criminal level at vicinity is relatively low currently

The element of social capital for poor people at coastal areas was only found and attached strongly in term of trust, comprising:

1. Careful to people around environment
2. People around environment were ready to help when needed
3. People around environment were mostly believable
4. People around environment believed one to each other in borrowing loan

5. Ready to help government program to assist other people, although it did not impact directly for him/her self
6. Believe to people having various characteristics.

Elements of social capitals for poor people at hilly areas might be found and attached strongly in trust, network, and easiness in co-operation, which were proved that:

- a) Co-operation system on poor people at hilly areas supported the form of collaboration among people and to make easy for them in either doing jobs or in daily life.
- b) System of relationship between familiarity and relatives on poor people at hilly areas strengthens the relationship among relatives and enables to help solving problems in daily life.
- c) System of trust present on poor people at hilly areas becomes a manual in working and trying not to do prohibited things by religion lessons and other trusts that have been convinced.

5. Conclusion

Characteristics of poor people through identification based on behavior, living quality, and utilization of social capital on coastal and hilly people have some matters that are sufficiently different. Through these differences it should be becoming attention by government in relation to determine a right program and activities of utilization specifically based on strongly local characteristics to enable reducing poverty for societies at coastal and hilly areas.

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ENHANCING STUDENT'S ENTREPRENEURIAL SKILLS

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Abstract.

One effort to overcome unemployment and poverty is through entrepreneurship. Shifting student mindset of their profession after graduation, that was being employee to entrepreneur, should be coupled with efforts to cultivate their spirit and entrepreneurial skills. The efforts formalized in Entrepreneurship courses. This study aims to identify the entrepreneurial skills of college students participating in entrepreneurship course and so entrepreneurs, so that models and appropriate learning modules can be developed. The method used is qualitative approach. The data was collected through questionnaires and focus group discussions (FGD) and in-depth review, the samples were taken purposively. The results support previous research that there are at least six characteristics of the entrepreneur, they are confidence, end task-result orientation, risk taking, leadership, originality, and future orientation. There are differences in the skills possessed by students and entrepreneurs, to align the skills, need to be applied teaching methods that give students the opportunity to experience the entrepreneurial situation, with entrepreneurs as mentor

Keywords: Entrepreneurial skills, Entrepreneur, Characteristics

1. Introduction

Unemployment is a major problem facing Indonesia today. So far the data shows that the unemployment rate to undergraduate and diploma is still high at 7.5 percent for diploma and 6.95 percent for bachelor, the national unemployment rate reach 7.6 million people (BPS, 2012). The main factor causing unemployment is limited employment opportunities for job seekers, it means that the number of jobs is limited. Meanwhile, college graduates still have the mindset of looking for a job, not a job creator, it is encouraged by a thought that an employee is a safe choice, not risky as entrepreneurship. The government has a program to tackle unemployment by encouraging the creation of economic activities through entrepreneurship spirit, because of the importance of entrepreneurship as the engine of the economy. Therefore entrepreneurial learning is done by all educational institutions under the government agencies, the general public and students to develop a model of the development of entrepreneurship education that will provide skills for students. The college has been developing an entrepreneurial spirit, one of them through the entrepreneurship curriculum. According to Charney and Libercap (2000), students who passed entrepreneurship program has the ability to three times likely to be able to start a new business. This suggests that entrepreneurship is an essential knowledge for college graduates.

Several methodological approaches in entrepreneurship have been donated by some previous researchers from various disciplines. Charney and Libercap (2000) states that the significance of entrepreneurship education in general is driving the risk-taking and the creation of new businesses, that will provide a significant positive impact for graduates to become entrepreneurs as increase their income, so it will creates some new small businesses. This might be the media in the transfer of knowledge from universities to the corporate world. Investing in entrepreneurship may create jobs and stimulate productivity. Therefore entrepreneurship education requires the allocation of sufficient time and capital. Integrated entrepreneurship education is a collaboration between the development of an entrepreneurial mindset, entrepreneurship skills as well as being success shown by transmission of the entrepreneurial spirit into entrepreneurial behavior. However, it is still unclear whether the presence of higher education as a transmission mechanism to

successful entrepreneurship promotion (Greene and Saridakis, 2008). In this transmission mechanism students need a stage of innovation and creating business (start-up business). This transmission process requires support academics in the development of entrepreneurial knowledge and assistance of the business community by establishing synergies in experience-based learning. According to Kirby (2002) entrepreneurship education differs from traditional management, which still hamper entrepreneurial qualities and skills. Skills education requires different teaching methods. To develop appropriate methods of teaching entrepreneurship, entrepreneurial skills required identification of students and employers. This research identified the entrepreneurial skills of students and entrepreneurs in order to improve the entrepreneurial skills of students, so it can be used as the basis for preparing models and modules of entrepreneurship in the future.

2. Theoretical Framework

2.1 Entrepreneurial

Until now the concept of entrepreneurship is still growing. Entrepreneurship originated from French word —Entrepreneur. Entrepreneurs are also known as self-employed people. There is no fix definition for entrepreneurs since people from different field of study perceived and defined it differently. An economist defines an entrepreneur as the one who makes the combination of resources to make them valuable. While to a psychologist, entrepreneur is typically driven by certain forces such as needs to obtain or attain something, to experiment and to accomplish targeted goal. To businessmen, an entrepreneur may be a threat, an aggressive competitor but may also be an ally, a source of supply, a customer, or someone who creates wealth for others as well as finds better ways to utilize resources, reduce waste, and provide jobs to others (Hisrich, Peters & Shepherd, 2010). Entrepreneur is someone who is independent and has the ability to live independently in the course of his business or his life. He is free to design, define, manage, control of all his efforts. Entrepreneurs can be found throughout an organization—from top-level managers to those working to produce a firm's goods or services. Evidence suggests that successful entrepreneurs have an entrepreneurial mind-set. The person with an entrepreneurial mind-set values uncertainty in the marketplace and seeks to continuously identify opportunities with the potential to lead to important innovations (W. Stam & T. Elfring, 2008).

Entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks and uncertainties and receiving the resulting rewards of monetary and personal satisfaction. (Hisrich, 2010) Entrepreneurship is the process by which individuals, teams, or organizations identify and pursue entrepreneurial opportunities without being immediately constrained by the resources they currently control. (Zahra and J. Sapienza, & P. Davidsson, 2006). Entrepreneurial opportunities come in many forms such as the chance to develop and sell a new product and the chance to sell an existing product in a new market. (Klein, 2008). Entrepreneur need motivation to do their activity. The motivations influence the transition of individual from one stage of entrepreneurial process to other. Motivations are not only things that influence these transitions, cognitive factors, including knowledge, skill and abilities. Entrepreneurial activity depends on the decisions that people make, suggesting that the attributes of the decision makers should influence the entrepreneurial process (Shane, 2003). Entrepreneur is a decision-maker person who helps the formation of a free economic firms system. Entrepreneurial career can support social welfare, generate real financial rewards. Entrepreneurs in various industries help the economy by providing jobs and producing goods and services for consumers in the country and abroad. Although the giant corporate attract public attention but many small businesses and entrepreneur activities at least contribute significantly to the social and economic life of the world.

2.2 Entrepreneurial characteristics

Being a high – achieving entrepreneur is not that easy. An entrepreneur should have several special characteristics that help them to become a successful businessman. Characteristics of successful entrepreneurs have also been well documented. While there is no agreement among the scholars as to the number and labels of these characteristics, they in general include desire for confidence, task-oriented and result, risk-taking, leadership, originality and oriented to the future. In an on Entrepreneurship conducted at the east-west center, Honolulu, in 1977 a list of characteristics and traits of the entrepreneurs was prepared (Meredith, Nelson, and Neck, 1982). This list says an entrepreneur should have characteristics like self-confidence, task-result orientation, and risk taking, leadership, and originality and future orientation. It is not necessary that an entrepreneur should have all these characteristics at a very high rate. But the more a person has these qualities, the greater chance there is for him/her to become an entrepreneur (Meredith, Nelson, and Neck, 1982) because he/she will be able to perform the ‘_entrepreneurial functions’ properly because of these traits.

2.3 Functions Of An Entrepreneur

An Entrepreneur has to perform a number of functions right from the generation of idea up to the establishment of an enterprise. He also has to perform functions for successful running of his enterprise. Entrepreneur has to perceive business opportunities and mobilize resources like man, money, machines, materials and methods. The following are the main functions of an Entrepreneur. (Havinal, 2009)

a **Idea generation:** The first and the most important function of an Entrepreneur is idea generation. Idea generation implies product selection and project identification. Idea generation is possible through vision, insight, keen observation, education, experience and exposure. This needs scanning of business environment and market survey.

b **Determination of business objectives:** Entrepreneur has to state and lay down the business objectives. Objectives should be spelt out in clear terms. The Entrepreneur must be clear about the nature and type of business, i.e. whether manufacturing concern or service oriented unit or a trading business so that he can very well carry on the venture in accordance with the objectives determined by him.

c **Rising of funds:** All the activities of the business depend upon the finance and hence fund rising is an important function of an Entrepreneur. An Entrepreneur can raise the fund from internal source as well as external source. He should be aware of different sources of funds. He should also have complete knowledge of government sponsored in which he can get government assistance in the form of seed capital, fixed and working capital for his business.

d **Procurement of machines and materials:** Another important function of an Entrepreneur is to procure raw materials and machines. Entrepreneur has to identify cheap and regular sources of raw materials which will help him to reduce the cost of production and face competition boldly. While procuring machineries he should specify the technical details and the capacity. He should consider the warranty, after sales service facilities etc before procuring machineries.

e **Market research:** Market research is the systematic collection of data regarding the product which the Entrepreneur wants to manufacture. Entrepreneur has to undertake market research persistently to know the details of the intending product, i.e. the demand for the product, size of the market/customers, the supply of the product, competition, the price of the product etc.

f **Determining form of enterprise:** Entrepreneur has to determine form of enterprise depending upon the nature of the product, volume of investment etc. The forms of ownership are sole proprietorship, partnership, Joint Stock Company, co-operative society etc. Determination of ownership right is essential on the part of the entrepreneur to acquire legal title to assets.

g **Recruitment of manpower:** To carry out this function an Entrepreneur has to perform the following activities.

1) Estimating man power requirement for short term and long term.

- 2) Laying down the selection procedure.
- 3) Designing scheme of compensation.
- 4) Laying down the service rules.
- 5) Designing mechanism for training and development.

h *Implementation of the project:* Entrepreneur has to develop schedule and action plan for the implementation of the project. The project must be implemented in a time bound manner. All the activities from the conception stage to the commissioning stage are to be accomplished by him in accordance with the implementation schedule to avoid cost and time overrun. He has to organize various resources and coordinate various activities. This implementation of the project is an important function of the Entrepreneur. All the above functions of the Entrepreneur can precisely be put into three categories of innovation, risk bearing, and organizing and managing functions.

Therefore, the main objective of the study is to identification between entrepreneurial characteristic between student and success entrepreneur. Based on the analysis, entrepreneurial characteristic will be determined.

3. Research Method

This study employed a qualitative research design to identify students' entrepreneurial skills compare to the skills that entrepreneurs commonly have. The data was collected through questionnaires and Focus Group Discussions (FGDs) and in-depth review from February until July 2013. The participants are samples of students and entrepreneurs taken purposively. Students should meet these criteria: students of 6th semester, join entrepreneurship class. They are student of accounting major of Jenderal Soedirman University Purwokerto. And criteria for entrepreneurs are young entrepreneurs who join in a local group of entrepreneurs. They are members of the association Banyumas entrepreneur (B' Master) and other entrepreneur organization in Banyumas such as HIPMI (Himpunan Pengusaha Muda Indonesia). These young entrepreneurs considered as success businessman from several fields of business, because it has existing business more than 3 years with a turnover quite high. This study compare the data from student and entrepreneur base on in depth-interview and Focus Group Discussion (FGD) that were recorded by MP4.

4. Finding

This study involved 26 participants consist of students and entrepreneurs. FGDs were conducted at the beginning of the semester when students have yet received the material on entrepreneurship course. Preliminary data obtained from students through questionnaires showed the following statistics: mostly participants are female students as much as 81%, with an average age of 21 years. Eighty eight percent of students interested in the field of trading businesses, but only 38% who already have working experience or entrepreneur for more or a year. These students are considered active as a board and committee of students' activity unit. Some students have parents who work as entrepreneurs partly worked as a civil servant / military / police / state-owned enterprises. The entrepreneurs who attend the FGD are businessman engaged in the field of culinary, property and phone accessories and car rental. FGD results found that entrepreneur meet the six characteristics, are confidence, end results and tasks oriented, risk-taking, leadership, originality, and oriented to the future. These characteristics revealed from the successful entrepreneurs based on the results of FGD as follows:

a. Confidence

Confidence in question is willing to start business activities that like to do, because dared to start is the key to success. Dare to start is a half of success, do not dare to start certainly will not succeed. To become entrepreneurs in their opinion firstly need to be brave, then will have the necessary skills as a businessman. A wrong assumption is if you would be brave after being a skilled entrepreneur, because from the discussion

known that with starting a business will be able to take advantage of others who are skilled in specific areas as business partners

b. End results and tasks oriented

Entrepreneurs interpret task-result orientation as a spirit to excel in achieving its business objectives. It takes persistence and a strong motivation. Motivation, a strong belief and encouragement to carry out business activities is necessary for an entrepreneur. Generally, they saw that the fast-paced changes and uncertainty in all aspects. As an entrepreneur these changes should be motivated to be able to cope with and through, not just as an obstacle.

c. Oriented to the future

Future orientation for entrepreneur is a form of optimism. A successful businessman depends on how high is his optimism. In any economic difficult situation, it is needed of strong determination to keep his business life. For with a strong determination will be motivated to take advantage of any business opportunities that exist to achieve successful business.

d. Risk Taking

Risk-taking to entrepreneurs is the same as bravely failed. The courageous expression to bear failure is the beginning of success is not just a slogan. This expression is a lot of truth. As entrepreneurs are required to not give up easily, but be brave and downs in building his business. Most successful entrepreneurs are those who dare to bear the failure. It is widely experienced by entrepreneurs who participate in the FGD, many of them have experienced from failed miserably. They did not despair, but remains committed to running their business.

e. Originality.

Originality according to the entrepreneurs associated with creative and innovative ideas. The experience of the entrepreneur in the early stages of doing business they observe existing business types, but once they understand the business, innovation will be run. But in fact some entrepreneurs start a business by copying and modifying the type of business they have observed. Imitate a business at the early efforts of the entrepreneur is not a taboo. In an effort to imitate the business world it is very common and creative. For those entrepreneurs who are just starting into a business world, not least the beginning is imitating. Then with additional skills, they will strive to develop the business that could eventually succeed.

f. Leadership

Leadership for entrepreneurs is the behavior as a leader in the operation. In this case the entrepreneur is the owner of the business and they have the personnel to run its business, so that more entrepreneurs focus on the activities of a concept than technical. As the leader of the business, entrepreneurs responsible for developing their business by adding interaction with the various parties concerned. It is necessary to add or wider the network so will strengthen the business being operated. The business world is a dynamic world that in the run there might be many suggestions and criticisms that come to the entrepreneur, and the soul of leadership will be able to anticipate the existing suggestions and criticisms. Leaving these traits then there are at least two ways to start up as entrepreneurs namely: (1) Innovating Entrepreneurship, the entrepreneurs who are aggressive and skilled practice transformations attractive. They generally make innovations or breakthroughs in starting their business. Example of entrepreneur who done this is the owner of Lumpia Boom from Kedai Extrapedas. (2) Imitative Entrepreneurship, the entrepreneur who imitate successful innovations of the Innovating entrepreneurs. This example is done by the car rental businesses, accessories, and tutoring. The factors that support them as entrepreneurs, among others:

a. Individual/personal factors, the influence of experience or life goals from childhood to adulthood.

- b. Working atmosphere, ambience providing opportunities for entrepreneurship because of the needs of co-workers for goods or services.
- c. Education, educational background might have support someone to be entrepreneurs. Entrepreneurial spirit is formed due to the influence of the field of science for the education.
- d. Family environment, generally from entrepreneurs family tend to born some new entrepreneurs.
- e. Environmental and socially, someone who lives in the business environment will generally be keen to cultivate their familiar field.
- f. Necessity and circumstances that required them to be an entrepreneur, commonly faced by those who received abundance of business from parents or family. They were forced to carry on the business of hereditary family.

Based on the experience of entrepreneurs, it can be argued that entrepreneurs needed to be self-formation process that includes:

- a. Recognize and understand entrepreneurship, this process usually will motivate someone to become entrepreneurs.
- b. Prepare and plan for the business to be conducted. This process includes understanding, and designing business activities accordance with opportunities and capabilities.
- c. Start, run, manage and grow the business.

Thus to become entrepreneurs at least basic knowledge required include: (1) The ability to read market opportunities, (2) The ability of the business plan, (3) Ability to empower human resource, (4) Organizational skills, (5) Ability to find sources of capital, and (6) Leadership ability. Entrepreneurship in practice, generally through the following stages:

- a. Preparation. This stage is when someone who will do business prepared everything needed. Activities at this stage begin by looking at the opportunities that exist, choose the appropriate business activities, and determine whether to work alone or join.
- b. Implementation. This stage of a prospective entrepreneur trying to manage various aspects of resources, such as financing, ownership, human resource, and organizational leadership.
- c. Evaluation and Analysis. This phase covers the activities of evaluation and analysis of progress made follow-ups to be decided in accordance with the conditions encountered.
- d. Business Development. Based on the evaluation results and analysis will be decided to maintain, pulled, or expand the business.

Besides the six characteristics of successful entrepreneurs mentioned above, below are requirement to reach success revealed from the discussions with students and entrepreneurs, among others: (1) capabilities and skills, (2) creativity, (3) constancy, (4) luck, (5) honesty, (6) responsibility, and (7) pray continually. Some students have their basic skills and other characteristics of entrepreneur. They likely have environment that encourage them to be an entrepreneur. Some other students don't have the resource at all but they wish to be an entrepreneur. Students need to increase their knowledge of entrepreneurship accompanied by practice in every stage to be a successful entrepreneur. Trough experience they will have the ability for sure.

5. Conclusion, Implication and Limitation

There are at least six characteristics of entrepreneurs, they are confidence, end task-result orientation, risk taking, leadership, originality, and future orientation. There are differences in the skills possessed by students and entrepreneurs, to align the skills, need to be applied teaching methods that give students the opportunity to experience the entrepreneurial situation, with entrepreneurs as mentor.

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PERCEIVED COMPETITIVENESS AND INNOVATIVENESS OF SMALL AND MEDIUM ENTERPRISES PRODUCTS AGAINST CHINESE CREATIVE GOODS: CASE OF INDONESIA

by

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ABSTRACT

This study attempted to assess the perception of small medium enterprises (SMEs) regarding the competitiveness and innovativeness of their products against the Chinese creative goods sold in Indonesia. The study was conducted in Banyumas regency Central Java Indonesia. The population of the study was SMEs producing creative goods. There were 10 cluster of SMEs producing creative goods based on the kind of raw materials used. The inquiry was exploratory in nature because it attempted to explore the perception of SMEs using questionnaires and interview . Descriptive statistics was used to analysed SMEs perception towards the competitiveness of their products as well as identifying the characteristics of the Chinese creative goods that were considered threatening in terms of prices, product design, packaging, technology, marketing channels. Perceived innovativeness of SMEs Products and factors hindering SMEs creativity and innovativeness in product development were also evaluated. SMEs were asked to provide thoughtful solution as desired in order to increase their inovative ability in product development. The result of the study indicated that majority of employees believed that their product competitiveness against the Chinese creative goods are low up to medium.

Keywords: creative industry, small and medium enterprises, Indonesia

1. INTRODUCTION

Creative industries provide new opportunities for developing countries to cultivate into growing sectors in the world economy through participation in the field of international trade. The creative industry is the industry that is derived from the utilization of creativity, skills and talents of individuals, to creating prosperity and employment, through the creation and utilization of resource creations, and creativity of an individual (DMCS, taskforce, 1998). This concept was firstly developed in the United Kingdom during the Government of Tony Blair, and developing towards different meaning in various countries such as America, Australia and some Asian countries (Flew and Cunningham, 2010)

In Indonesia, creative industry has contributing significantly to the national GDP with an average contribution of 6,28 % or equivalent to 56.48 104,637 trillion rupiah in the year 2002-2006. This contribution is dominated by fashion (43,71 %); craft (25,51 %) and advertising (7,93 %). But the average growth of creative industries are just 0,74 % far below the national economic growth which has reached a figure of 5,24 % (Ministry of Trade, 2008). One factor that slows down the growth of these industries is the presence of competition from creative goods from China. Massive inflow of creative

goods from China with its low prices has threatened creative industries in various countries including Indonesia (Park, 1993). Small and Medium Enterprises (SMEs) in Indonesia have difficulties in competing with the Chinese products with its efficient market whereby production costs is minimum (Adiningsih, 2008). This condition shall give significant impact to the development of creative industries in Indonesia.

Debate arose over a massive inflow of creative industries in urban areas as compared to rural one (Florida, 2002). This sector has the potential of creating high-quality and sustainable SME which can create jobs in the rural economy (Wojan and McGranahan, 2007; Experian, 2006). The existence of the creative individual and enterprise in rural areas can attract other knowledgeable workers, entrepreneurs, as well as domestic investors. The role of creative industries in stimulating development in rural areas is often overlooked by Government (Waitt and Gibbons, 2009). The magnitude of the benefits obtained by the local authorities in the field of economy over the existence of creative industries in Banyumas Regencies must be accomplished with better coaching so that the original creative product of Banyumas has prime quality in order to compete in domestic and international markets

Massive inflows of creative goods from china- with its lower price- in the domestic market has derived people in the region to purchase it. Adawiyah et al (2011) alleges that lower prices, attractive packaging are among the factors that triggers consumer preference on products of China. Lack of government support to compulse the society in consuming local goods has further deprive the local goods competitiveness.

The success of Chinese goods to penetrate the international market is due to the support of various parties towards the development of creative industry in China. High labor productivity in China occur as a result of strong unions support in the form of work discipline training and employees development through optimization of the unions (Nyaw, 1990). The study also indicated that workers China are passionate over their job. The Chinese Government also encourages its people to saving up to get a source of venture capital. The Chinese people save up 40% of their income (Heap, 2006). Those factors play important roles towards the development of creative industries in China. This study attempts to discover the perception of SMEs on their competitiveness and innovativeness of the local goods against that of China.

2. LITERATURE REVIEW

A. The Concept of Creative Industries

The creative industry is the industry that is derived from the utilization of creativity, skills and talents of individuals to create prosperity and employment, through the creation and utilization of individuals creativity and innovative behavior. According to UK DMCS, *taskforce*, (1998) creativite industries is defined as :

” creative industries as those industries which have their origin in indivdual creativity, skill and talent, and which have a potential for wealth and job creation through the generation and exploitation of intellectual property and content”

Creative industries subsector include: advertising, architecture, crafts, design, fashion, video, interactive games, music, performing arts, publishing and printing, software and computer services, television and radio.

An inquiry on creative industries mapping by Ministry of Trade Indonesia in 2007 concluded that creative industries' contribution towards the Indonesia economy can be distinguished on 5 main indicator i.e. the gross domestic product; employment; the number of growing firms companies; export; and finally its impacts on other sectors.

B. Opportunity for Creative Industries in Rural Areas

Creative industry is often regarded as an icon of urban areas even though rural areas are large enough thus able to create individual creative (Florida, 2002). Along with the development of the local Government's attention towards creative industries, this industry shall bring strategic advantage for rural areas. Research in the US concluded that employment opportunities in creative fields have positive relationships with a growing number of workers in rural areas (Wojan and McGranahan, 2007). Report by a team of creative industries in the United Kingdom also discovered the existence of a creative and cultural sectors in the countryside (Experian, 2007). Similar opportunities are also found in Indonesia. Along with the improvement of the quality of life of human resources in Indonesia, people in the countryside do not only require physical needs and security but the need has reached a higher level such as the need to socialize, self-confidence and self-actualization, according to Maslow's hierarchy of needs. This reality is forcing the industry to pay more attention to the tastes of the consumer (customer driven) that result in the emergence of special edition products which focus on individual tastes and emotions on products and services. The creative industry is loaded with emotional can encourage the evolution of technological developments and increasingly flexible manufacturing industry as one of the advantages in supplying the products Indonesia's cultural diversity can be used as a source of aspiration that never dried up as a source of inspiration for the creative industries in the Banyumas Regency. Utilization of local wisdom needs Government attention, academics as well as the business world attention

C. Challenge for Creative Industries in Indonesia

The development of creative industries in Indonesia face a wide range of challenges such as: the existence of creative people in the region, availability of educational institutions that are able to produce Indonesia's creative people. To generate human creative, the government should make a breakthrough early education curriculum that sparked children creative thinking. College graduates with a high GPA need to be provided with soft skills which enable them to solve problems creatively. Education institution is supposed to lead to a system of education that create: competitive competencies and multi dimension intelligence which includes intellectual question, emotional intelligence and spiritual question. To face free trade flow of imported products there is a need for creative industries in utilizing abundant natural resources and local wisdom to control foreign players to presides over the resources. Support by financial institutions to the human creative is among the factor that determine the future of creative industry in Indonesia

D. SMEs Innovative Behaviors

Innovative ideas and products are turn out to be crucial in countering the price oriented competition from low-cost producers from emerging economies, domestically and abroad (Tiwari et al., 2007). Despite of this fact, SMEs frequently encountered with a number of barriers to innovation, e.g. resource constraints, which slow down their ability to invent and successfully commercialize new products,

services or processes (Tiwari and Buse, 2007) Innovation, according to Rogers (2003), is “an idea, practice, or object that is perceived as new by an individual or other unit of adoption”. This “newness” need not necessarily involve “new” knowledge thereby effectively implying that the “newness” may also concern advancement or modification of existing knowledge. In this paper, innovation shall be considered as invention and commercialization of new products, processes and/or services (Tiwari, 2007)

The idea of globalization create stiff competition in the local market as the traditional stronghold of many SMEs (Tiwari and Buse, 2007). In Indonesia as well as in many ASEAN member countries, SMEs usually operate under high overhead costs, such as labour costs, and find themselves faced with tough price-oriented competition from low-cost producers from emerging economies in China. Strong market competition is certainly in favour of consumer in the form of cheaper and/or better goods and services.

“Consumption is the ultimate aim of all production and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer” (Smith, 1994). Moreover, blocking Chinese firms from conducting business in the domestic market may lead to trade retaliations that could severally affect the international trade flow of Indonesia. In addition, globalization does not only create challenges for SMEs but also presents an opportunity to internationalize sales in new, rapidly growing markets and thereby to generate additional revenues (Tiwari and Buse, 2007). Entering global markets implies the requirement to produce goods in services which have been adapted to the taste and needs of the people in the new markets thus the need of innovative product emerge. Producing innovative goods with improved utility shall strengthen SMEs competitive position in the local and international markets. This indispensable innovation efforts to release new and/or better goods and services into the market while developing organizational and production processes which yield in more efficient and cost-effective production, distribution and after-sales services; see e.g. Dangayach et al. (2005)

Huge number of population in Indonesia create a potential market for foreign business followed by slow progress in science and technological development has weaken SMEs competitiveness in the domestic market. While other countries such as China are producing a large number low cost products with attractive design. This situation becomes a serious concern for many “emerging” countries around the globe, especially Indonesia.

3. METHODOLOGY

The method used in this research is a survey method whereby data was collected using questionnaires. The location of this research covers several rural areas in Banyumas, Central Java province. The population in this research is the creative industries located in Banyumas Regency. The sample of this research was more focused on creative industries using local resources as its raw materials in production. The data were analysed using descriptive statistics to provide an overview about SMEs perception on their competitiveness and innovativeness against Chinese goods which are currently penetrating and yet dominating sales in the domestic market in Indonesia.

4. FINDINGS AND DISCUSSION

4.1 Based on the type of business

There were ten kinds of creative industries involving in this research as stated in table 1. The number of sample for each category is proportional ranging from 7.9 percent to 13.2 percent. It appears that the highest participant comes from creative printing and the lowest comes from fashion.

Tabel 1 Sample descriptions based on the business types

No	Type of Business	frequency	Percent (%)
1	Design graphics	20	10.5
2	Creative bamboo	15	7.9
3	Batik	20	10.5
4	Creative clay	20	10.5
5	Creative aluminium	20	10.5
6	Creative rubber	20	10.5
7	Creative wood	15	7.9
8	Creative printing	25	13.2
9	Fashion	15	7.9
10	Creative steel	20	10.5
Total			

Based on the research location 26.2 percent of the sample was located in the North area of Banyumas Regency while the remaining were located at the East (31.6 %); South (21.1 %) and the West (21.1 %). The highest number of participants was located in the East of Banyumas.

Tabel 2 Sample description based on location

Business location	frequency	Percent (%)
North	50	26.2
East	60	31.6
South	40	21.1
West	40	21.1
Total	190	100

It is indicated in tabel 3 that the number of employees varies from less than 25 up to 78 employees. Since the sample was small and medium enterprises, majority of the sample possess between 1 to 25 employees. Based on the observation during data collection the employees involved in the industries come from the people live in the surrounding area such as relatives and neighbours.

Tabel 3 Sample description based on number of employees

Number of Employees	frequency	Percent (%)
1-25	181	95.2
26-51	6	3.2
52-77	2	1.1
>=78	1	0.5
Total	190	100

The amount of gross sales range from 1 million rupiah up to more than 5 million rupiah. Majority of the business earns more than 5 million rupiah per month. Some of them can reached a figure of 200 million per month for their gross sales with around 15 employees. This phenomena indicated that SMEs contribution towards the local economic development is quite high and determinant.

Tabel 4 Description of gross sales

Gross Sales	frequency	Percent (%)
< Rp 1.000.000	10	5.3
Rp 1.000.000- Rp 3.000.000	50	26.3
Rp 3.000.000- Rp 5.000.000	52	27.4
>= Rp 5.000.000	78	41.1
Total	190	100

The local goods are competing with the Chinese goods – with its cheaper price- in the local market therefore SMEs were asked about their perception towards the existence of the Chinese goods whether they consider it as a threat or not. Around 64.2 percent consider Chinese goods as threatening their existence in the market while the rest did not consider so. Those who do not consider it as a threat believe that they only capture small portion of the market share therefore less affected by the Chinese goods.

Tabel 5 Consideration on Chinese goods as a threat

SMEs Perception	frequency	Percent (%)
Yes	122	64.2
No	68	35.8
Total	190	100

SMEs were asked to further specify the forms of threats given by the Chinese goods. Around 85 percent of the respondent agree that low prices is among the highest threat. There were several characteristics of Chinese goods that were considered threatening namely: low prices, attractive design, packaging, technology used in the production which result in a better product and finally its wide marketing channel. The fact of tough price-oriented competition offered by Chinese products occur because of the ability of firms in China to produce goods efficiently with minimum waste.

Investment in advance technology has further stimulate the ability of the Chinese firms to produce better products.

Tabel 6 Perceived Chinese Goods' Forms of threats

No	SMEs Perception	Frequency		Percent	
		Yes	No	Yes	No
1	Low prices	105	85	55.3	44.7
2	Attractive Design	55	135	28.9	71.1
3	Good Packaging	27	163	14.2	85.8
4	Technology advancement	41	149	21.6	78.4
5	Vast Marketing network	43	147	22.6	77.4
6	Others	9	181	4.7	95.3

It is indicated in table 6 that there are eight kinds of innovativion barriers for SMEs encompasses: lack of training on product design, organizational climate, low technology adoption, the need for continuous coacing from the government, lack of marketing knowledge, lack of access on information on product design, lack of working capital and illegal levies. Most respondents consider that illegal levies and lack of working capital were the two highest factors hindering their innovative behaviors.

Tabel 6 Perceived SMEs' Innovation Barriers

No	SMEs Perception	Frequency		Percent	
		Yes	No	Yes	No
1	Lack of training on product design	135	55	71.1	28.9
2	Organizational climate	158	32	83.2	16.8
3	Low technology adoption	139	51	73.2	26.8
4	Need continuous coaching from the government	158	32	83.2	16.8
5	Lack of marketing knowledge	158	132	21.6	78.4
6	Lack of access on information on product design	43	147	22.6	77.4
7	Lack of working capital	181	9	95.3	4.7
8	Unlegal levies	180	10	94.7	5.3

The lack of financial resources was found to be one of the major barriers to SMEs development. Majority of the responding firms reported problems in financing their development program. The negative impact of this barrier can be gauged from the fact that the financial constraints were cited 177 SMEs raised up the issue as a major barrier. SMEs have problems to acquire loans because financial institutions are often reluctant to (co-)finance their projects moreover another financial constraint refers to problem of getting access to public funding offered by the State Authority. Another major hurdle faced by the survey respondents related to the difficulty in finding suitable, qualified personnel. Around 126 firms agreed that lack of skilled labour is a factor hindering SMEs development program. Nearly all respondents who cited such a problem reported the shortage of experienced workers especially in the field of technology. Other issues raised up were low investment in technology, lack of government

support on creative industry, lack of market access and weak institution. Shortage of suitable and qualified personnel though present in both the sectors to a significant extent reflecting the declining interest of the youth work for SMEs in rural areas.

Tabel 7 Perceived SMEs Development Barriers

No	SMEs Perception	Frequency		Percent	
		Yes	No	Yes	No
1	Lack of focus on human resources development	126	64	66.3	33.7
2	Lack of investment on technology	106	84	55.8	44.2
3	Lack of government development scheme on creative industries	150	40	78.9	21.2
4	Lack of financial resources	177	13	93.2	6.8
5	Lack of market access	116	74	61.1	38.9
6	Institutionally creative industry is still weak	158	132	21.6	78.4

Respondents' perception on the extent to which their market possession domestically was hit by Chinese goods existence various quite varies. Most SMEs agreed that their level of competition in the market is low to medium. Around 25.8 percent respondents believe that their products can encounter the existence of Chinese goods in the Market while 70 percent consider their competition as low to medium only.

Tabel 8 Perceived degree of Local Goods' Competitiveness against Chinese goods

SMEs' Perceptions	frequency	Percent (%)
High	49	25.8
Medium	74	38.9
Low	59	31.1
No idea	8	4.2
Total	190	100

Product design, prices, market access and packaging were reported as Chinese goods characteristics considered threatening wer. Those factors were several issues in the field of marketing, while the information technology sector , can be implied from product design and packaging, had relatively less trouble market competition.

Tabel 9 Chinese Goods' Characteristics Consider Threatening

SMEs' Perceptions	frequency	Percent (%)
Product Design	68	35.8
Prices	72	40.0
Market Access	32	17.7
Packaging	18	9.5
Total	190	100

Towards the end, SMEs were asked to proposed solution to their problems hindering their competitiveness and innovative behavior. Around 62 respondents raised up the needs for training on products quality while 58 respondents raise the needs for training in product design. Other issues considered important is marketing intelligence (23.2%) and marketing strategy (13.7%).

Tabel 10 Perceived Solutions to Increase SMEs' Competitiveness

SMEs' Perceptions	frequency	Percent (%)
Innovative product design	58	30.5
Product quality	62	32.6
Market Intelligence	44	23.2
Pricing Strategy	26	13.7
Total	190	100

5. CONCLUSION

Globalization opens up new arenas for firms, especially SMEs, to strengthen their innovation capabilities and thereby to increase their competitiveness in the market. In this respect there is a need to apply several forms of training as an instrument to mitigate the effects of barriers to innovation often faced by SMEs in Indonesia. The existence of Chinese products in the domestic market has create challenges for SMEs products in Indonesia. SMEs identify some characteristics of the Chinese creative goods that were considered threatening were prices, product design, packaging, technology, marketing channels. Perceived innovativeness of SMEs Products and factors hindering SMEs creativity and innovativeness in product development were also identified as stated in table 7 to 9. The result of the study indicated that majority of employees believed that their product competitiveness against the Chinese creative goods are low up to medium. SMEs identified their training needs as training on inovative ability in product development; training in product design; marketing intelligence and marketing strategy.

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Community to Address Waste Problem Through Organic Waste Consensus Building on Local Processing Into Biomethagreen and Biogas

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Abstract.

Law issued by the government of the Republic of Indonesia and Banyumas Regency has not quite become the foundation to build a participatory model of waste management. Although the Law of Republic of Indonesia, Article 28 regulate the role of society, but that role is limited only associated with the provision of the proposal, consideration, and advice to the government and / or local government waste management policy and / or the provision of advice and opinion in the dispute resolution waste. The success of waste management depends on the role of the macro and micro level, ie people who are members of the community of the smallest government element, namely village. Current waste management is open dumping, in addition to high transportation costs also led to environmental pollution in the transportation of waste source (TPS) to landfill and how it can not reduce the volume of waste because it is sanitary landfill. Mersi village in Banyumas regency, Central Java, has a population of 6,524 people, based on past research, assuming the volume of waste generated per person on average about 0.5 kg / capita / day, the volume of waste generated approximately 3,262 tons / day.

Waste problem has close links with the aim of MDG, namely the achievement of environmental sustainability. Although the Indonesian government has issued the Law No. 18/2008 on Waste Management, and Regulation No. 19 of Local Government of Banyumas Regency in 2011, the old pattern of waste management is still dominated by collection techniques-transportation-disposal. Although the paradigm shift to the sorting-processing-disposal-utilization of residues already started to happen, but the adoption rate is still very slow.

This research project is intended to raise public awareness through dissemination, education and training. Stages project begins with a focus group discussion sessions between the community and the local government and village authority. Activities include need assessment therein, the search of alternative solutions, identifying change agents, and consensus development. The next is training at the community level, empowerment based interventions, monitoring and evaluation program. The output of this project is community-based waste management model that can be replicated and policy recommendations for The Ministry of Environment, Local government of Banyumas Regency, and village authority which will be implemented through a series of dialogues.

Keywords: Consensus Building, Waste Processing, Organic

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A. Background

In the rural areas there are no authorities to provide such services for waste management. As a result uncollected or unused waste lies on roadsides, open drains, courtyard of house which contributes to the deteriorating quality of life and environment hazard in the affected areas. The local government's responsibility to manage the waste is overburdened; they cannot provide satisfactory services with their conventional system. In Waste management is now considered as one of the most serious environmental concerns for the people of both urban and rural areas in Banyumas.

In fact, waste is an essential by-product, or the necessary evil, of everyday human living. Thus, the idea of eliminating waste all together is an impractical proposition-what is realistic is the *management* of it in an effective manner. Human well-being depends on such effective management involving the collection, transfer, recycling, resource recovery and ultimate disposal of waste.

To avoid and minimize the harmful effects of waste, one of the ways is to raise awareness/understanding and motivate all concerned (those who are contributing in generating waste & victim of improper waste management). We should also need to raise awareness and understanding of those concern institutions and individuals who are responsible for proper waste management both in urban and rural areas. These awareness will be helpful to take collective actions for proper management of waste both rural and urban settings.

B. Objective & Expected Outcomes of the Project

a. Objectives:

1. To raise awareness on importance of proper waste management for a better environment and sustainable development;
2. To raise awareness on basic knowledge/information on waste management
3. To motivate all concerned to take collective actions for proper waste management.

b. Outcomes:

1. Adapt & publish a booklet, a poster, a video-CD and a facilitators guide on waste management
2. Distribution of adapted materials to government & non-government organizations in Banyumas
3. Training of at least 40 community people for implementation of waste management pilot project
4. Formation of Project Implementation & Monitoring Team at the community level
5. Formation of at least 20 Action Groups at the community level & develop their skills on waste management
6. Aware at least 3000 community people in 20 villages in the 2 pilot project areas

C. Research Methods

This report is based on an evaluation research approach based mainly on important cases and issues and secondary analysis of archival data and information. The data collection was effected through:

1. Discussions with local government, NGO, Community, local university. Community based Organisations (CBOs).
2. Discussions with waste recycling entities, individuals and community groups;
3. Participatory observation based on sites visits to Mersi Village
4. Review of published and un-published documents and reports
5. Review of conference material and SWMP project Files.

The approach has been largely qualitative, based on an assessment of public participation experiences throughout the Project Cycle of SWMPs. This required the research of official country files and bank documents and project reports.

D. Theoretical Concept and Implementation

a. Theoretical Concept

Janis Berstein designed a *Tool kit* to provide guidance in the conduct of social assessments on SWMs to ensure appropriate levels of public participation in the planning and implementation of such investments (Berstein 2004). Berstein highlighted that this took the form of an approach to SIA which placed a high premium not only on identifying negative impacts on stakeholders but on the way how the public may be included in the project design and operation to the mutual benefit of the government and the population. She cited nine examples of the roles community might play. These include:

- a. Management of waste in the household and removing it from the premises;
- b. Reducing waste production and facilitating recovery for purposes of recycling;
- c. Keeping public areas clean;
- d. Participating in the design of SWMPs;
- e. Supplying “watchdogs”;
- f. Providing input in SW facility siting decisions; participating in SWM plans;
- g. Participating in preparing strategic SWM plans;
- h. Providing public education for raising public awareness; and
- i. Sponsoring or participating in special campaigns and competitions to raise the profile of SWM.

(Berstein 2004) Berstein did not specifically mention particular groups within the community but based on the roles outlined and her attention to conflict resolution, one may deduce that she did not think that the stakeholders were a homogenous group.

In her identification of relevant stakeholders, “community” is redistributed among the following:

1. **National level:** Ministries of Public Works, Local Government, Public Health, Finance and the Environment.
2. **Local Level:** municipal authorities, SWM agency, local politicians.
3. **User groups:** residential, commercial, institutional, industrial and medical facilities.
4. **Waste workers:** employees of SW services, waste pickers, sweepers, domestic workers and janitors.
5. **Vulnerable groups:** residents living near SWM facilities, persons responsible for the disposal of household waste and waste pickers.

6. **NGOs:** local environmental organisations, church groups, youth groups, etc.
7. **Community based Organisations (CBOs):** local groups that may be responsible for the management of neighbourhood services.
8. **Private sector;** private enterprises that use recyclables, waste collection firms, chamber of commerce.
9. **Trade Unions**
10. **Other Stakeholders:** media, education institutions, etc. (Berstein 2004).

b. Implementation

The Village of Mersi is a small, relatively affluent residential community bordering Purwokerto and Jendral Soedirman University in Jawa Tengah, Indonesia. Like many suburban communities in the Indonesia, Mersi is experiencing increases in its local deer population. Commensurate with these increases has been a rise in public concern about deer-related problems and controversy over how deer should be managed. In response, the Village Trustees appointed a citizens' Deer Advisory Committee in the summer of 1998 to study the deer situation (Chase et al. 1999).

This included a survey aimed at identifying residents' attitudes about the deer situation. Results of this survey, conducted by the Human Dimensions Research Unit at Research Center Faculty of Economics, indicated overwhelming (98%) support for community involvement in deer management decisions (Curtis et al. 2000). This desire on the part of the community to be involved and the professional facilitation provided by Research Center Faculty of Economics Cooperative Extension staff were key factors contributing to co-management in Mersi Village. Specifically, the Cooperative Extension facilitator contributed to a more effective working relationship among the concerned parties.

Figure 1 illustrates three points at which the facilitator had impact, as identified by evaluation of the process (Siemer et al. 2000). The facilitator also helped ensure that more stakeholders were represented in the process. As a result, *community* capacities increased because new relationships were built and a sense of common purpose developed. Finally, helping with fact-finding contributed to the development of *individual* capacities by providing technical knowledge to inform the participants' deliberations and analytical skills in debating the merits of proposed deer management strategies.

The facilitator did not motivate the initial community action, but instead helped the community to build capacity as the process developed. For instance, she facilitated development of process protocols, including protocols for dealing with the media, and protocols for the public meetings. This necessitated improving three *institutional* capacities: management structure, communication, and partnerships.

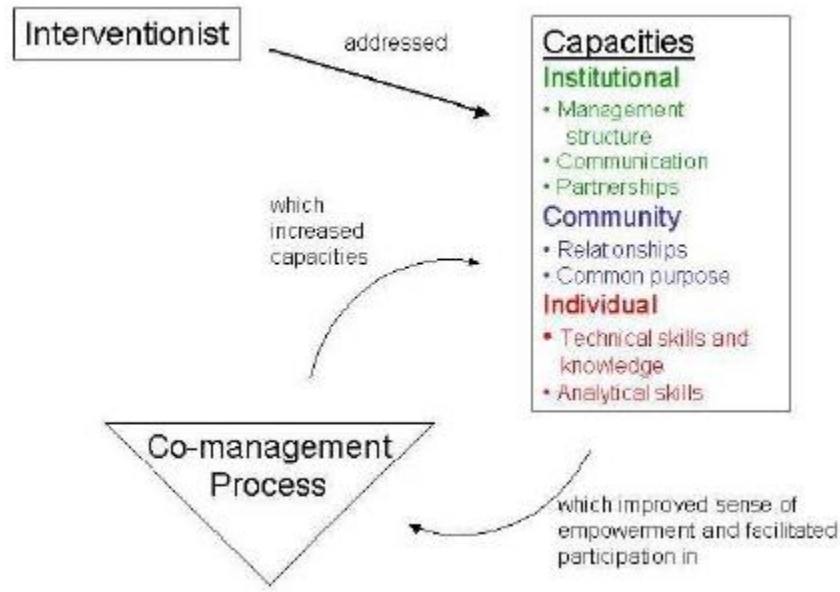


Figure 1. Building Consensus Framework

According to the participants in the process, the work that the facilitator did to increase institutional, community, and individual capacities contributed to empowerment of the local community and sustained participation (*action*) in the process.

E. Conclusion

Co-management presents an opportunity for waste-management agencies to work collaboratively with communities to manage waste effectively. Community involvement also presents a challenge to waste-management agencies, as it often requires an investment of time and energy to build the capacities of individuals, communities, and institutions to understand and respond to a given waste problem.

This review revealed the relevance of the process of capacity building, empowerment, and participation for waste managers in planning and evaluating co-management programs for waste. The success of community-based co-management will require that all stakeholders understand that investments in capacity likely are necessary to ensure sustained community participation in waste management over time.

F. Literature

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PRICE RISK AND EFFICIENCY OF THE USE OF INPUT AT SOYBEAN FARMING IN BANYUMAS REGENCY CENTRAL JAVA PROVINCE

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ABSTRACT

The objective of this research is to analyze the price risk and the efficiency level of the use of input at the central of soybean production in Banyumas Regency Central Java Province. This research was conducted in central of soybean production especially at Kebasen Village Kebasen District and Somakaton Village Somagede District Banyumas Regency Central Java Province. The research method used in this research is survey method by collecting samples accounted for 60 farmers using cluster random sampling method. The analysis method used is Coefficient of Variation to know the level of price risk. While to analyze efficiency the use of input was analyzed by comparing Marginal Product Value (MPV) and input price (Px) continued by t test. The bigger the percentage of the number of coefficient of variation the riskier got by soybean farmer, meanwhile if MPV ratio and input price is equal to one so the use of input is efficient. The result of this research showed that coefficient of variation was 42.71 percent. It meant that the farming of soybean had high risk. Meanwhile, the use of input such as seeds, human resources, fertilizer, and pesticide has not been efficient for farming soybean, thus the use of input need to be increased. Keywords: Price risk, Coefficient of Variation, and Efficiency the use of input

A. Background .

Dillon (1993) dan Iksan Semaoen (1992) states that business in agriculture field often faces full of uncertainty resulting in the result is not certain as well. Lot of factors causing uncertainty in agriculture sector namely is climate and the quality of inputs. In addition to price of agricultural products tends to vary overtimes. It brings about the income of farmers are volatile. In managing risk, farmers are faced at social economic condition of farmers such as the size of land, age, education, family burden, and income. Banyumas Regency Central Java is a production center of soybean in Central Java producing 132.197 ton or 41,74 % of Central Java production. (*Central Java Tengah in Number*, 2011) having a potential area for developing soybean farming. Based on productivity data shows that soybean production during the last five years tends to decrease. According to Agriculture Office Banyumas Regency that the low of soybean productivity was caused by both quality and quantity the use of input was not in line with the doses recommended by Agriculture Office Banyumas Regency. In addition, soybean farm was run by small farmers with limited capital, knowledge and technology. As a result, the farmer's behavior can affect on allocating the use of production factors that lead to production that will be achieved. The problem is what the extent to the level of price risk and the efficiency of the the usage of production factors on soybean farming?

B. Research Objectives

Based on problem statement above, the objectives of research are to:

1. Analyze the level of price risk of soybean farming
2. Analyze the efficiency level of the use of production factors on soybean farming.

C. Theoretical Concept

Generally the price of agricultural products including soybean is various. At harvest season the price tends to decrease, whereas the price tends to increase when the demand of product is high. This condition causes the farmers are reluctant to conduct soybean farming because of the big variability of price. This condition indicates that soybean farming is very risky.

Farmers as well as rational producers know the form of farming production function showing the maximum product number being able to be reached in using certain input. The increase of productivity can be obtained by using a given input but higher cost. By knowing the form of production function and price input, the farmers as decision makers will be able to determine the number and combination of the use of inputs to achieve the goal which is the maximum profit. To be able to analyze the efficiency of the usage of production factors, Cobb-Douglas production function model must be made earlier and from Cobb-Douglas model is made profit function and finally the first derivative function can be formed.

When the maximum profit takes place, efficiency of the usage of production factors was achieved simultaneously. The maximum profit occurs when Marginal Product Value is equal to Factor price or $MPV = P_x$.

D. Hypotheses

1. The level of price risk of soybean farming is high.
2. The allocation of the use of production factors on soybean farming has not been efficient.

E. Research Method

a. Sampling Method

Purposive sampling was used to choose research location. Kebasen Village Kebasen District and Somakaton Village Somagede District were chosen as research location as central soybean production in Banyumas Region Central Java. The number of population is 162 people consisting of 84 farmers in Kebasen and 78 in Somagede District Banyumas Regency. Because the variation of land ownership is so small 0,045 so the number of minimum sample was used Parel Formula (1983) farmers which is 59,84 or 60 respondents. Then, the sample determination in this research used Cluster Random Sampling.

b. Data Analysis Method and Hypotheses Test

1. Price Risk

To know the level of price risk on soybean farming was analyzed by determining Variation Coefficient Value. Kimbal (Chen, et al, 1999) showed that price risk can be measured by variance value of Standard Deviation. Variation Coefficient (VC) mathematically as follows as:

$$\times 100\%$$

Notes :

VC = Variation Coefficient

σ = Standard Deviation of income

$\bar{x}$ = the average of income on soybean farming

Harwood et al, 1999 stated that the measurement of price risk using Variation Coefficient was converted in Likert scale:

The score of Likert scale 1 = very low, if price variability occurring between 0% to less than 20%. This showed that the price variability is less than 20% was categorized as no risk (Harwood et al, 1999).

The score of Likert scale 2 = low risk, if price variability occurring between 20% to less than 40%.

The score of Likert scale 3 showed that the price variability is 40%. to less than 60%.categorized as high risk

The score of Likert scale 4 showed that the price variability is 60%. to less than 80%.categorized as high risk

The score of Likert scale 5 categorized as very high risk if price variability occurring between 80% to 100%.

The value of small variation coefficient showed that the variability of average price distribution was low. This described price risk that will be faced the average price value is low and vice versa.

2. Efficiency of The Usage Production Factor

Before examining the use of production factor we have to estimate of Cobb Douglas production function Model using Multiple Regression Model as follows :

$$Y = \beta_0 X_1^{\beta_1} X_2^{\beta_2} X_3^{\beta_3} X_4^{\beta_4} e^u$$

where :

Y = production (kg), X_1 = seed (ka); X_2 = Employees (HKO); X_3 = Fertilizer (kg); X_4 = Pesticide (kg);; β_0 = Intercept; β_i = Elasticity production factor ($i=1,2,\dots,8$), e = natural number (2,718), u = disturbance.

Efficiency the used of production factor (price) a farming can be determined through its production function and based on assumption that farmers use similar technology. Price efficiency takes place if Marginal Product Valu (MPV) is equal to opportunity cost (market price) of input (P_x) or index the relative marginal product value and input opportunity cost is equal to one

If $MPV/P_x > 1$ means the use of input X_i has been efficient

If $MPV/P_x = 1$ means the use of input X_i efficient

If $MPV/P_x < 1$ means the use of input X_i is not efficient

To know whether the allocation of the use of production factor has been efficient, it needs testing statistically using steps as follows:

$$H_0 : \theta = 1$$

$$H_a : \theta \neq 1$$

$$T \text{ stat} = [\theta - 1] / (SE(\theta))$$

If $t \text{ stat} > t \text{ tab}$ means that the use of production factor has not been efficient

F. The result

1. Price Risk Soybean Farming

By looking at the fluctuation of the price risk level on soybean farming used Coefficient variation (CV) from soybean price during four planting season. At the analysis of coefficient variation was calculated the value of coefficient variation of soybean farming price. The result of analysis can be seen at Table 1.

Table 1. Average, Standard Deviation Coefficient Variation of soybean farming price in Banyumas Regency Central Java

Price	Banyumas	Kebasen	Somagede
Average (Rp)	4.655	4.635	4.745
Stand Deviation	1.990	1.995	1.965
Coef Variation%	42,71	43,04	41,41

The result of this research showed that of soybean farming price in Banyumas Regency has lowest price variation Rp 4.540. and the highest Rp 4.945. with average Rp 4.705,- and standard deviation Rp 1.985, thus was obtained the value of coefficient variation account for 42.19%. for price variation of soybean in Kebasen the average Rp 4.635 and dan standard deviation Rp 1.995 with coefficient variation 43,04%. Furthermore, for price variation of soybean in Somagede, the average Rp 4.745 dan standard deviation Rp 1.965 with coefficient variation 41,41%. Soybean farming in Somagede he price variation is smaller than Soybean farming in Kebasen because of productivity difference. The more productivity with stable price results in smaller price risk.

2. Efficiency Analysis of The use of Production Factor

The result of calculation the use of production factors and statistical test can be seen at Table2

Tabel 2. The test of The use of Soybean Production Factors

N o	Input	Koef (bi)	MPV	Px	MPV/P x	t stat
1	Seed	0,323	29.827	7.000	4,26	3,80
2	Employee	0,242	54.988	25.000	2,19	2,63
3	Fertiliser	0,256	11.563	3.000	3,85	3,55
4	Pesticide	0,118	56.677	25.000	2,27	2,42

The analysis shown at Table 2 showed that production factors such as seeds, employees, fertilizer, pesticide has efficiency (MPV/Px) less than one, means the use of production factors has not achieved optimum level. However, it does not all the allocation of the use of production factors inefficient and need to be tested statistically. The result of t test showed that production factors such as seeds, employees, fertilizer, pesticide is different from one (significant) means

production factors. Finally, the use of production factors must be increased to get maximum profit.

G. Conclusion

Based on the result of this research and discussion can be concluded as follows:

1. Soybean farming has high risk level accounted for 42,19%
2. The use of production factors such as seeds, employees, fertilizer, and pesticide has not been efficient. Thus, all production factors still need to be increased to get maximum profit.

H. Recommendation

Because soybean farming needs lot of capital especially cost spent for seeds, employees, fertilizer, pesticide so the government should provide capital aid with easy procedure to motivate farmers to use more production factors to increase production as well as the income of soybean farmers. Another problem is obtaining excellent soybean seeds, the government should coordinate with expert had by Unsoed to encourage farmers in managing soybean farming

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FINANCIAL PERFORMANCE OF FARMER WOMEN GROUPS IN BANJARNEGARA REGENCY

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Abstract

Poverty has become strategic issue in the economic development. The aim of every economic activity relates to poverty alleviation effort. One of the society empowering models for poverty alleviation is social grant for food diversity acceleration program. This program has been done by food security office in Banjarnegara regency. Farmer women groups (FWG) as recipient social grant. Member of FWG consist of housewives that can manage their landscape more productive. Moreover, it is possible for them to run agro business based on their daily activities to increase their income.

This research aims to evaluate visibility of FWG economic activity. So, the study of financial performance like operating efficiency, asset management and return on equity investment is important. The analysis shows agribusiness prospect of FWG economic activities in the future. Based on questionnaires distributed to 58 FWG in 20 districts of Banjarnegara Regency, 42 groups have complete financial data. 42 FWG classified as micro enterprises. According to these financial data, can be analyzed financial performance indicators for each of FWG.

The finding shows that operating efficiency is about 71% in average. Beside, asset management is in idle capacity because FWG run business based on job order only. By using total asset turn over proxy, asset management is about 64%. It means asset turn over still small while most of FWG do not use financial leverage. These three components of financial performance give high return on equity (about 37%). Therefore, it can be concluded that FWG economic activity enable to be continued by intensive management because of business prospective. This conclusion is vulnerable of bias because respondent answering based on their memorizing which there are not sufficient document of financial data. It implies, in the future, FWG need advisory, training, consulting and supervisory especially for entrepreneurship, accounting and financial management.

Keywords: farmer woman groups, agribusiness, SME, operating efficiency, assets management, financial leverage, return on equity.

INTRODUCTION

The aim of empowering program for farmer groups is to support poverty alleviation effort. This institution integrate all farmer groups that can be formatted based on commodity, farming area, gender and it can be formed as several unit in one village. The background of develop farming group is to cope with weaknesses of farmers such as financial access, marketing and farming equipment institution and information resources (Saptana et al, 2004).

Farming groups existences usually formed as a part of government project, have not become real farming groups empowering organization yet (Syahyuti, 2003; Kedi Suradisastra, 2008). In order to role as participative farming groups, institutional development has to be designed as effort of increasing capability farming groups in order to be self-sufficient.

In 2010, Agriculture Ministry gave social grand for FWG empowering program through optimally land beneficiary. This empowering program support food consumption diversity accelerating program (P2KP).

Agriculture Ministry social grant distributed by food security office Banjarnegara Regency via 60 FWG on 20 districts. Each FWG consists of 9 to 39 housewives. The amount of social grants is IDR 16.000.000 for each group. The grant breakdown as land development, groups seed field development and farmer equipment.

Concern with Women Groups advisory by Food Security Office is only for 4 years so it is important to explore business sustainability. So, analysis of financial performance and its determinants which are support farmer women groups business growth has been done.

RESEARCH OBJECTIVES

1. To collect empirical facts of FWG business financial performance.
2. To obtain empirical evidence financial performance relates to Farmer Woman Group business.
3. To contribute on knowledge the relation between equity return, cost efficiency, assets management and financial leverage FWG business.

METHODOLOGY

This research designed to identify financial performance characteristics of FWG business and investigating its determinant. A survey method has chosen as a research technique for investigating FWG business financial performance in Banjarnegara. Questionnaires designed and submitted directly to respondent those are FWG entrepreneurs for collecting financial performance data.

Business objective is to increase business value itself. The best company value measurement in the form of equity market value. However, in this research will be used equity book value by considering the business is small scale.

Management determine successful company value with watching financial statement. Balance sheet and Income statement show comprehensive financial performance. Financial statement gives business success indicator with financial ratio.

Financial performance variable derived from operating efficiency, assets management and financial leverage. Collected data consists of operating efficiency, assets management and financial leverage, it examines hypothesis. Research design used to test FWG business feasibility and factors that influence on financial performance. In this research, business identified profitable if rate of return investment exceed interest rate, in contrary, if rate of return investment less than rate of interest it is called not profitable.

Research Method

There two approaches for assessing financial performance. Firstly is direct approach towards equity performance and followed by determine factors influence business financial performance. As the first model is return on equity (ROE). ROE for each business unit is calculated based in raw data according interview during survey. ROE is profitability variable and equity operational performance measurement.

Financial performance indicators correlate directly with value of the business. According to the concept, ROE as a performance measurement correlate with rising of business value. It means there is opportunity to retained net profit after interest and tax as retained earnings and reinvest to profitable investment. ROE is measured by net profit after tax divided by total equity.

$$ROE = \frac{\text{Earning After Taxes}}{\text{Equity}} \times 100\% \dots\dots\dots (1)$$

Earning after taxes calculated by deducted sales with cost of goods sold + marketing expenses + administrative and general expenses + depreciation.

Hence, ROE shows how a company is able to provide profit only based on their equity. It is the difference of measurement with ROE and Return on Assets, ROA use combination both of resources of fund, equity and liability.

In a company which has liability as financing strategy, measuring ROA is important to assess financial performance. But, for the company which only rely on equity result of ROE and ROA will be equal. The focus of this study is equity power to provide profit concern with difficulties of small scale enterprise obtain liability. However there are so many financial performance, ROE provide well information reflect ability of the owner to rise up assets through business investment.

The second model applies Du Pont System concept. According to this concept factors which have influence to ROE should be estimated by cross sectional multiple regression. Significant test should be done for the estimators of Du Pont model components such as cost efficiency, asset management and liability usefulness. All of these components are able to explain behaviour of ROE changes. Proxies for each component Du Pont System are Net Profit Margin (NPM), Total Assets Turnover (TATO) and Leverage (LEV). Du Pont formula can be stated as follow:

$$ROE = \frac{Net\ Profit}{Sales} \times \frac{Sales}{Total\ Assets} \times \frac{Total\ Assets}{Equity} \dots\dots\dots (2)$$

Multiple regression models are used for measuring changes of ROE caused by changes independent variable;

$$ROE_i = \beta_0 + \beta_1 NPM_i + \beta_2 TATO_i + \beta_3 LEV_i + \epsilon_i \dots\dots\dots (3)$$

i as individual FWG business which observe in amount of N. Left equation variable, ROE_i shows financial performance i company thus proxy NPM from cost efficiency, proxy TATO by assets management and Lev is independent variable as financial leverage which influence company ROE. ϵ_i as error measurement caused by other variable excluded from the analysis.

β statistical test has to be done to obtain information level of significant influence each of independent variable partially or simultaneously which is different from 0. F test used to evaluate significance level of independent variables simultaneously. Thus, significance level of variable partially has analyzed by t-test. If β significant, ROE correlate with financial performance characteristics of FWG business. It means company financial performance is depend on operational efficiency, asset management and company liabilities. Hopefully independent variable has a positive effect on ROE

RESULTS

Descriptive Statistics

The amount of Farmer Woman Groups under Food Security Office advisory on April 2013 about 60 groups but the data collected during survey with questionnaires only consist of 57 groups. After sorting to select valid data, only 42 groups are able to be analyzed with measurement of financial performance. The data collection relates to business operation which disclose on financial report like statement of financial position and comprehensive income.

Refer to the real condition, respondents are not able to show documents and accounting information, so the cross sectional data are obtained through some items of question in a questionnaire. During interview, response among respondents are different, it caused only 42 of observations can be used for analysing financial performance. Complete descriptive statistics can be seen on table 1.

Based on table 1 deviation standard of TATO is higher than mean. It means assets fluctuation of assets turnover is high. Otherwise, ROE deviation standards lower than mean, it is indicates NPM is able to neutralized TATO fluctuation

Table 1: Descriptive Statistics.

Mean, Median, Maximum-Minimum values, Deviation Standard of ROE, NPM, TATO, TATE variables for 42 observations. Research conducts on April 2013 Farmer Woman Group business in Banjarnegara regency.

	ROE	NPM	TATO	TATE
Mean	0.394274	0.686326	0.672426	1.000000
Median	0.229300	0.748000	0.411150	1.000000
Maximum	1.425400	0.991700	3.162200	1.000000
Minimum	0.009400	0.201200	0.012500	1.000000
Std. Dev.	0.378531	0.236472	0.768856	0.000000
Observations	42	42	42	42

Financial Performance

To evaluate financial performance of FWG business, ROE can be used as a tool to make a conclusion that return is sufficient to continue and develop business or not. As higher as ROE makes financial performance better. The analyze focus on ROE and the results can seen on table 2.

Table 2 provide ROE of 42 FWG respondents. During period of research on April 2013, among 42 FWG, respondents with ROE less than 6% interest rate are 10 FWG and the rest have performance more than 6%. The results indicate FWG roles success to increase family income. About 76% of FWG business is possible to be supported to develop and the rest still needs to be motivated with sufficient advisory.

On Table 2 it can be seen component of financial performance which are consists of Net profit Margin (NPN/return on sales), total assets turnover (TATO/asset operation) and total assets to total equity (TATE/financial leverage). Theoretically financial leverage would have positive influence toward ROE, as higher as financial risk as higher as return on equity and vice versa. However, all of FWG businesses have financial leverage null. It is meant that all of food processing small industries in Banjarnegara Regency do not use debt. Real condition can be interpreted small industry avoid liabilities. This implicates that they do not have financial risk. Another possibility is the banks do not have willingness to distribute their credit on micro enterprises.

Table 2: Financial Performance of FWG business.

ROE measures a Financial performance, ROE derived from Du Pont Model. Du Pont components consist of NPM, TATO, TATE. Financial performance information is on April 2013

FWG	NPM	TATO	TATE	ROE
A	0.4508	3.1622	1	1.4254
B	0.3806	1.9571	1	0.7449
C	0.8849	0.7357	1	0.6510
D	0.6570	0.2800	1	0.1840
E	0.8100	0.2941	1	0.2382
F	0.3377	0.5066	1	0.1711
G	0.6391	1.5625	1	0.9985
H	0.3922	2.8736	1	1.1271
I	0.3011	1.8707	1	0.5633
J	0.2464	1.5025	1	0.3702
K	0.7063	1.9753	1	1.3951
L	0.2012	0.1373	1	0.0276
M	0.3636	0.6061	1	0.2204
N	0.7933	0.5396	1	0.4281
O	0.4303	1.5499	1	0.6670
P	0.2622	0.0756	1	0.0198
Q	0.6171	0.1090	1	0.0673
R	0.7420	0.8824	1	0.6547
S	0.7596	0.1234	1	0.0937
T	0.8940	0.5463	1	0.4883
U	0.8831	0.4495	1	0.3970
V	0.6678	0.2757	1	0.1841
W	0.8003	0.2248	1	0.1799
X	0.8494	0.7291	1	0.6193
Y	0.5644	0.3733	1	0.2107
Z	0.6309	0.1004	1	0.0634
AA	0.7976	0.0808	1	0.0645
BB	0.5750	0.0846	1	0.0486
CC	0.7460	0.2472	1	0.1844
DD	0.9192	0.4490	1	0.4127
EE	0.9847	0.4798	1	0.4725
FF	0.8846	0.0406	1	0.0359
GG	0.4533	0.1281	1	0.0581
HH	0.9699	0.4913	1	0.4765
II	0.9490	0.1613	1	0.1531
JJ	0.9484	0.9780	1	0.9276
KK	0.7800	0.3298	1	0.2572
LL	0.8633	0.2056	1	0.1775
MM	0.9655	0.0227	1	0.0219
NN	0.9822	0.9832	1	0.9657
OO	0.7500	0.0125	1	0.0094
PP	0.9917	0.1047	1	0.1038
AVG	0.6863	0.6724	1	0.3943

Determinant of Financial Performance

Table 3: Coefficient of Regression
Coefficient of independent variables NPM, TATO, TATE, t test and adjusted R squared.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
NPM	0.586205	0.093452	6.272799	0.0000
TATO	0.500672	0.028742	17.41931	0.0000
TATE	-0.344719	0.076385	-4.512895	0.0001
Adjusted R-squared	0.880312			

Dependent variable: ROE

We can see from table 3, t test shows that NPM, TATO and TATE partially affect ROE in significant. Independent variables contribute simultaneously on ROE value about 88%. This can be explained that ROE movement of 88% is a contribution from NPM, TATE and TATE.

Cost efficiency increases 1, it will cause increasing return on equity about 0.59 so does total assets turnover of 0.5. However financial leverage affects negatively on ROE that meant financial leverage increases, it will ROE goes down.

DISCUSSION

In descriptive statistics, we found that FWG business do not use debt, all of funding come from capital equity. There are two possibilities those causes FWG businesses do not invoke debt funding. Firstly, entrepreneurs do not have willingness to borrow because of their culture that debt is an embarrassment. Secondly, there is no financial institution that gives their fund because of micro business risk. Business risk is repaying debt principle and interest entrepreneur difficulties.

Findings of this study show cost efficiency and asset turn over have a positive correlation. This result in a line with concepts thus supports Jedrzejczak-Gas (2013) finding. On the other hand, financial leverage has a negative influence which is different with theory. This condition make businessmen do not to add equity because it makes return on investment will decrease. According to the fact, FWG business does not have financial leverage so to support its growth, needs source of external financing which comes from grants or bank.

External financing from credits requires continuous business profitability to repay debt principal and interest. It is possible additional fund comes from social grants embedded with sufficient advisory.

Based on the results which business FWG has a high profitability with ROE 34%, it makes sense if banks or investors consider opportunity to involve in micro food processing business. This business only needs supervisory and advisory about cost efficiency, asset operation, ability in accounting and financial management.

CONCLUSION

Equity profitability is a part of financial performance measurement in a business. According to analysis of ROE it can be concluded:

1. FWG food processing business increase family income. It means there is possibility to reduce poor family. It is strengthen with research evidence that in average return on equity

- investment is 34%. Food processing business of FWG feasible to develop as a business which is able to rise up income and alleviate poverty.
2. Based on Du Pont model analysis, cost efficiency and asset turn over have positive influence, but financial leverage shows negative influence toward ROE.
 3. Micro food processing of FWG in Banjarnegara regency does not have any of liabilities.

LIMITATION

1. The problems of FWG micro business are management do not have sufficient knowledge and entrepreneurship soft skill, they have multiple and overlap function, less of technology, lack of ability in accounting, financial planning and difficult to access financial institution.
2. The other problem is the business women do not have formal education but rely on informal trainings. So, they do not understand about business administration, financial management, investment and efficient financing decision. Their business environment requires for availability of sufficient equity as well as asset.

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AN EXPLORATORY STUDY OF ACCOUNTING AND FINANCIAL PLANNING ON AGRIBUSINESS FARMER WOMEN GROUPS IN BANJARNEGARA REGENCY, CENTRAL JAVA, INDONESIA

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Abstract

The aim of this study is to evaluate the using of accounting for financial planning to support agribusiness development owned by Farmer Women Groups which have received fund from Government under acceleration of food diversity program handled by Food Security Office of Banjarnegara Regency. Some groups of farmer women was established to accommodate activities relates cultivation, landscape utilization and food processing to support target of desirable dietary pattern (PPH or *Pola Pangan Harapan*) as the national indicator of balance diet. Previously there is no evaluation about these groups operation relates their business activities after obtaining fund and equipment from government budget. The Food Security Office only handles training for plant seeding techniques, cultivation and food processing with local raw materials. In 2013 a survey with questionnaires for Farmer Women Groups management was conducted in all of districts in Banjarnegara through Rapid Rural Appraisal (RRA) method. With SWOT analysis, the results shows there are some difficulties in managing agribusiness. The management do not have enough knowledge about entrepreneurship and business administration. Especially relates to accounting and financial planning, there are no recording activities for transactions and sufficient documents to maintain data. So it is difficult to calculate real cost and make a good financial planning. They are not ready to ask for some fund from financial institution. Their business operate under lack of sufficient infrastructure, insufficient training and advisory, unskilled workers, traditionally technology, inefficient marketing facilities and information. Although their business have a good prospect according to return on equity analysis, the constrains make the operation of their business stagnant and possibly difficult for growing up nor sustain. These are important problems that should be considered by government, academic, research institutions and non government organization to take a part for surviving the existence of these business activities. They need sufficient advisory, intermediary and consultancy to develop their business. Through integration of society empowering program among all of related parties hopefully the mission of Indonesian government to alleviate poverty would be accomplished.

Keywords: agro business; government budget; farmer woman; cost; empowering program.

Introduction

As an agriculture country, Indonesia has a lot of potential and diversity of crops which is ready to fulfil the needs of food. Nowadays the issue of food scarcity still faced by several countries, but Indonesia has an opportunity to diversify and develop a lot of crop variant as replacement of main basic food like rice. The government has already supported and concerned with food scarcity problem then made some policies and programs relates to activities to anticipate this condition. One of the program called as Food Diversity Acceleration Program which handled by Agriculture Ministry.

The program consist of several activities, one of this activities is giving social grant to woman farmer groups to support field utilization. So the programs consist of :

- (1) Empowering woman farmer group to utilize field and campaigned of food and nutrition;

- (2) Education and campaign of food diversity with balance nutrition for elementary school students;
- (3) Empowering micro business for developing local food in form of flour as main raw material;
- (4) Collaboration with Higher Education in developing food processing technology and food agribusiness.

Banjarnegara as one of regency in Central Java region has developed with agropolitan concept (Suara Merdeka 13/10/2012). Agropolitan, is agriculture-based economic development in the area of agribusiness, which designed and implemented by synergizing the potential that exists to encourage the development of agribusiness systems and competitive, based on democracy, sustainable and decentralized, community-driven and facilitated by the Government.

Strategic planning of this region has stated agriculture as the basic of development, which are:

- 1) Food sufficiency
- 2) Commodities diversity
- 3) Growth of agro business and agrotourism
- 4) Increase farmer income
- 5) Empowering poor farmer

Geographical and topographical site along this regency suitable for a lot of variety of crops and animal husbandry to be grew up. Hence, there are so many opportunity to develop variety of corps and culinary culture like corn and cassava. But, according to desirable dietary pattern score, this regency still has a problem with food consumption quality. In 2010 the score only 82.3%, then increase to 82.7% in 2011, 83.2% in 2012 and become 86.5% in 2013 (Food Security Office, 2013). It is below minimum service standard target 95% in 2015.

Since 2010 social grant as a part of Food Diversity Acceleration Program has been distributed among farmer woman group by Banjarnegara Food Security Office. There are 60 groups consist of at least 10 farmer women, located in 20 districts. Advisory to support this program is handled during 3 years. The nominal of grants in the form of money, seeds, farmer equipment and food processor equipment for each group consists of Rp2.000.000 in first year, Rp16.000.000. in second year and in the last year Rp2.000.000. Activities relates to the usage of this grant are utilization of land farm and development of seed area to fulfill the needs of family nutrition as well as increase family income. The aims of this advisory are to rise up desirable dietary pattern score and to make society realize with the importance of food consumption which is diversify, healthy, balance and secure

Before receiving social grants, the member of farmer woman groups has a role as housewives and depend on their husbands activities as farmer. There is no economic activities relates to field cultivation to be more productive. Some of individuals have tried home industry which traditionally based and difficult to reach economical scale. The outputs are sold in local market with simple packaging, less marketable just create a few value added. According to Nasution (2003) the limited role of Small Medium Enterprises toward local economy caused by some difficulties to access financial support, obtaining raw materials, locally market area, not ready with global competition, limited access for source of information (market, technology and design) and unable to apply technology.

The importance of this research to support effort food diversity and security through empowering community program furthermore advisory activities for farmer woman groups would be more effective to increase economic scale of their agribusiness. With the suitable model of advisory hopefully continuity of agro business done by woman farmer groups would be exist and able to rise up wealth of all member of these groups. It implies farmer woman group agro business would be operate professionally and able to give more contribution toward local economy.

The results of this study contribute to Agriculture Ministry reaching out strategic planning such as increasing farmer income and food diversity through sustainability of farmer woman groups activities as recipients of social grants which comes from food diversity acceleration program. For government of Banjarnegara regency, the findings as an alternative solution through community empowering program to grow up local revenue.

Empowering rural community and strengthen small business faced some serious problems and constraints caused by global economy crisis. So, it is important to solve those troubles with strategic model. One of the ideas is empowering community program through farmer groups. Farmer group as a unit that grouping farmers horizontally in a village based on commodities, field area or gender. Developing farmer group based on fact farmer's weaknesses to access financial institution, marketing institution, provider of farming technology and source of information (Saptana, Saktyanu, Sri Wahyuni, Ening dan Valeriana Darwis, 2004).

On the other hand, most of those groups exist to fulfill the objective of distributing grants and make control easier according to the person in charge. This *top-down planning* approach caused some difficulties to rise up farmer group participation (Kedi Suradisastara, 2008; Syahyuti, 2007). Most of the group established as project supplementary not as a real media of empowering farmers (Syahyuti, 2003; Kedi Suradisastara, 2008). To make farmer groups to be more participative the development of group should be redesign as a part of effort to increase farmer group ability to be more productive and self-sufficient to support developing of agropolitan region.

The purpose of this study is to explore accounting application and knowledge which is important to create financial planning and make sure that the business will be sustained. After farmer woman groups obtained social grants, advisory done by food security office faces several troubles. Limited in distribution and marketing method of their products. Their operations tend to manage traditionally. There is no collaboration among groups as well as with local government and other businessmen. Available human resources have low motivation and innovation Low motivation and innovation. Ability and sensitivity to gather business opportunity based on local potential relates to agriculture product still weak.

Research Method

Management of farmer woman groups involve with this research to participate in survey and simulation relates to the activities in accounting area. Questionnaires for primary data has discussed with 57 respondents at 20 districts in Banjarnegara Regency. To obtain accurate information, the study used Rapid Rural Appraisal (RRA) as participative approach to gather general assessment about the subject in short term and relatively quick. The questionnaires consist of several question relates to demographic of farmer woman group and its management, type of industry, items of product, age of the group, accounting data, production process, marketing method, social capital, training and experience of human resources and constrains during the business operation.

SWOT analysis has done based on in depth interview and focus group discussion then followed by feasibility study to calculate the prospect of business. Simulation has done through a modules focus on accounting and financial planning to obtain information about ability and knowledge in accounting.

Result and Discussion

There are 60 elements of population according to data from food security office but only 57 of respondents can be interviewed. Demographics for farmer woman group can be seen as follow:

- Amount of member: 9-39 persons
- Age of member: 17-63 year
- Education of Management: elementary-bachelors degree
- Age of group: 2-15 years
- Income: Rp300000-Rp3000000

According to this data, can be seen that the range of educational background relatively wide as well as the range of members age and income for each groups.

Based on these data, the analysis is continued by several steps. The first is SWOT analysis to obtain general information about the position of business done by woman farmer groups, followed by financial performance analysis to obtain information about the future prospect. The last is analysis of ability in accounting and financial planning to evaluate how deep they understand accounting principle for making financial planning.

Table:1 SWOT MATRIX

STRENGTH	WEAKNESS
• Availability of local raw material to maximize local potential and avoid import needs • Availability of raw material in all seasons • Sufficient of human resources	• Undermine of infrastructure especially in high hills area • Some of raw materials depend on season in example cassava and potatoes. • Limited availability raw material with high quality, like potatoes, because some

• High spirit in collective action prove with grouping in woman association of snack producer • High interest from local government through a lot of social grant schemes as a part of local budget and make several collaboration with higher education • Supporting advisory by field supervisor. • More easily to motivate through empowering woman program because woman has more sensitivity and responsibility about family wealth • There are some creative young entrepreneur who used their own budget to do activities for increasing knowledge and skill.	of farmer bounded with long contract with big company. • Limited skill of food processing so only 10 % as raw material absorbed by local industry and the most of crops sold as fresh vegetables and fruits. • Limited ability in marketing method some of product sold to other regency and resold in Banjarnegara after packaging and labeling • Minimum of branding, so difficult for the customers to identify producer, content, ingredients and nutrition. • Less of entrepreneurship so only a few person with high motivation doing agribusiness. • Food processing technology and spare parts provided by outer supplier, so it may caused some troubles if the machine break down • Lack of standardized of products production capacity. • Lack of business administration skill.
OPPORTUNITY	THREAT
• The trend of back to nature life style so healthy snack has an opportunity in the market • Cassava as one of potential crops with a huge production (75 ton per ha) and can be used for replacing flour or rice consumption • It is possible to campaign one day without rice and should be replace with traditional culinary which made from cassava, corn, banana or potato. • Collaborate with tourism center such as Dieng plateau and Surya Yudha Park • Developing sustainability with CSR schemes from big company which operates in Banjarnegara.	• Tight competition with snack produced big industry • To compete with private companies which a huge equity. • Unsynchronized local government policy among their division and sectors. • Scarcity of unique and specific variety crops as raw material that originally grow up in Banjarnegara such as banana • There is no continuity research and development toward scarcity of specific variety crops • Field supervisor only understand plantation technique without food processing technique and entrepreneurship. • Most of them use traditional production process and do not care about hygiene aspect.

Refer to SWOT analysis it can be seen that generally the profile of agribusiness done by farmer woman groups reflects a good prospect in the future. Some of handicaps also should be solved with strategic solution to make them still exist and develop well. Of course they need support and attention from all parties such regulator, NGO, academics and big company.

Table 2: Financial Performance of Farmer Woman Groups

Farmer Woman Groups	ROE
1	1,4254**
2	0,7449
3	0,6510
4	0,1840
5	0,2382
6	0,1711
7	0,9985
8	1,1271
9	0,5633
10	0,3702
11	1,3951
12	0,0276
13	0,2204
14	0,4281
15	0,6670
16	0,0198
17	0,0673
18	0,6547
19	0,0937
20	0,4883
21	0,3970

22	0,1841
23	0,1799
24	0,6193
25	0,2107
26	0,0634
27	0,0645
28	0,0486
29	0,1844
30	0,4127
31	0,4725
32	0,0359
33	0,0581
34	0,4765
35	0,1531
36	0,9276
37	0,2572
38	0,1775
39	0,0219
40	0,9657
41	0,0094*
42	0,1038

After discussion with management of each group, only 42 groups are able to provide complete data for accounting information. The rest of groups are difficult to provide complete financial data and could not be managed well because some troubles like less of motivation, knowledge and awareness to develop groups based on the aim of social grants, some difficulties to access market caused by outlier location also as another reason. Moreover, some of them do not operate the business continuously, means their product based on job order only

According to data on table 2, the results of financial performance analysis shows the least of Return on Equity is 0.0094 and the biggest is 1.4254. It means business owned by farmer woman group is feasible and there is a big opportunity to develop. Up to now, their business supported by some sources of economic such as cash, finished inventory, raw material and food processing equipment. None of business has liabilities because it is difficult for them to set up sufficient financial report for lenders or creditors. Furthermore if groups like to manage document for accounting data well, it possible to make their business growth and obtain more profit.

After calculating financial performance only based on interview, then followed by training and simulation relates to activities of accounting and financial planning. It is important to do this method because during interview, the management shows problems relates to give accurate financial data, more over they are not able to make sufficient documents for all of the transactions.

The participants are selected based on feasibility study and their operations are sustainable. After selection process, only 31 of farmer woman groups are invited to join training and simulation steps. During this phase, participants as representatives of farmer woman groups are asked to learn accounting principles and doing simulation based on a case.

The case consist of some approach, firstly they have to learn transactions based on imaginary situation but similar to their daily operations and transactions. Then they have to practice such as recording until making a complete financial report. After they have learnt how to make a good report based on a case then they asked for preparing data based on their real daily transactions. This phase of simulation is to prove whether they are really understood about accounting principles or not.

All participants submit the accounting record then to be analyzed to make evaluation. The results of simulation based on their real transaction shows some participants still have troubles with accounting process, principles and method. Firstly, they are not able to identify which of transactions that should be recorded based on accrual basis. It means accrual basis as a common principle in accounting is a difficult concept to apply. Secondly, double entry system confused them to record correctly each of transactions. Furthermore, they reluctant to apply accounting process because they thought it is complicated and needs a lot time to prepare it. These barriers make difficulties to calculate real cost of production and set up financial report which is useful to make a good financial planning.

These findings support similar studies of Hossain and Udin (2006) that SME in rural areas in Bangladesh are not able to manage their data and document as required by financial institution to obtained loan or credit. The other previous studies from Nasution (2003) and Saptana, Saktyanu, Sri Wahyuni, Ening dan Valeriana Darwis, (2004) show similar results with this study. There are weaknesses of agribusiness in rural areas relates to access financial support, obtaining raw materials, locally market area, not ready with global competition, limited access for source of information (market, technology and design) and unable to apply technology.

Implication

After analyze through interview and simulation, it can be concluded that farmer woman groups faces some difficulties in managing agribusiness. The management do not have enough knowledge about entrepreneurship and business administration. For accounting information, there are no recording activities for transactions and sufficient documents to maintain data. So it is difficult to calculate real cost and make a good financial planning. Furthermore it is difficult to obtain supporting funds if there is no information about the prospect of their business in a good business plan.

The other finding shows their business have a good prospect according to return on equity analysis, but some constraints make the operation of their business stagnant and possibly difficult for growing up nor sustain. They operate under lack of sufficient infrastructure, insufficient training and advisory, unskilled workers, traditionally technology, inefficient marketing facilities, limited of production capacity and information.

These important barriers should be solved by government, academic, research institutions and non government organization. They have to set up a suitable model for synchronized programs and budget to support, survive and develop agribusiness activities because impact of continuance and growth of agribusiness by farmer woman groups supposed to contribute some benefits such as increase family income, reduce unemployment especially women and boost rural community wealth. With sufficient advisory, intermediary and consultancy, hopefully the mission of Indonesian government to alleviate poverty would be accomplished.

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THE ECONOMIC DEVELOPMENT MODEL OF SUB-DISTRICT SUMPIUH

BANYUMAS REGENCY

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Abstract

This research is aimed to 1) profiling sub-district Sumpiuh from various components; 2) find a model of economic development of sub-districts Sumpiuh; and 3), identify the strength, weaknesses, opportunities and threats faced by the region in terms of economic development. The research type is applied research and employed qualitative approach. Three methods employed in collecting data are a) documentation study; b) field surveys; and c) observation. The population consists of all stakeholders in economic development and businesses in sub-district Sumpiuh. Determination of research informant using purposive Sampling and then snowball sampling. Data analysis techniques using qualitative descriptive data analysis and SWOT analysis. The result shows that the proper model of territory economic development is based on cluster with categorization of characteristic similarity of a region. There are three cluster to be developed namely a cluster of urban areas, highland cluster, and lowland cluster. In highland cluster, there are plantations and tourism potential. Urban cluster has potency of furniture village, go green batik and Kebokura batik, rest area, transit place, various duck culinary, mushroom, night tourism. Lowland cluster has potency of duck husbandry, duck culinary, ginger bread, and unique tourism. The major implication of this research is the need to give special attention to strategic planning which accommodate environmental dynamics. Development of sub district Sumpiuh supposed to be conducted in holistic manner since the interdependence of those potentials. The strategic plan not only describing the role of local government, but also determining the role of various stakeholders. This research is also implicitly stressing the role of sub-district government of Sumpiuh to build their capacity in order to contribute more significantly as organizer of formal and informal institutions.

Keywords: model, economic, development, cluster, strategic planning

1. Introduction

Sub-district Sumpiuh has many potentials to be developed, namely: 1) as the path national transportation; 2) potential tourist mountains/plantation; 3) education center (54 schools from elementary up to senior school, 2 colleges); 4) center of trade and souvenirs; 5) agriculture plant food potential; 6) ducks husbandry; 6) rest area potential. To elevate the degree of sub-district sumpiuh from growing up to advanced region, the local development must be implemented with balanced good of physical and economy. Hence the government of sub-district sumpiuh is trying to promote economic development through the slogan “Sumpiuh the Splendor (spirit for moving ahead collectively) to motivate people.

Based on information from the head of sub-district Sumpiuh, a variety of components in sub-district sumpiuh either the government, the private sector and community, jointly contribute to develop this region. But the programs have not yet been put together so the result is not maximum yet. This condition is mirrored in the amount of its Gross Regional Domestic Product which is lower than the Gross Regional Domestic Product of Banyumas Regency (Suroso et al, 2011). Based on the data also known that the unemployment rate in march of 2012 for male is 3.496 people and female is 3.317 person, or around 11% of its total population

are unemployment (<http://bappeda-banyumaskab.net>). This fact shows that the public welfare has not been evenly distributed.

Based on above description, it is known that while sub-district Sumpiuh has very great potential of resources but the evidence showed that businesses have not yet to bring the maximal result. The appropriate strategic planning is needed to organize several developmental programs.

2. Literature Review

Developmental practice before the era of regional autonomy suggests that a policy that has sort of top-down and uniformly less effective because neglect of regional specificity and the limited resources of the central government in designing and implementing the strategy. A policy that has sort of top-down is a tradition based on the model of neoclassical regional economic development. The development from that assumption suggests that the development is occurring when stimulated by the outside forces, investment from the outside, and migration (Arifin, 2001).

Engstrand and Ahlander (2008) describe that the occurrence of advanced regional polarization and the less developed show significant differences. This situation is implied to the development of regional development. Regional government is required to develop a concept of superior products based on local potential to optimize regional potential. From strategy context, this effort having strategic value for the sustainability of regional economy, independent and tough, and becoming as an important base in the formation of industry cluster.

3. Research Method

3.1. Research Approach: qualitative

3.2. Location: Sub-District Sumpiuh, Banyumas Regency

3.3. Participant: Regional Planning Agency of Banyumas Regency, **Department of Industry, Trade, and Cooperatives, Animal Husbandry and Fisheries Department, Youth Services, Sport and Tourism, Department of Agriculture, Forestry, and Plantation, The Head of UPK PNPM, the Village Chief from 14 villages in Sumpiuh, merchants of duck culinaries.** The determination of an informer originally is chosen by using the method purposive sampling, to someone who is considered the most knowing and perceiving about the development issues of sub-districts Sumpiuh. Furthermore, the next informer will emerge following the principle of snowball of sampling. The data collection stage will be stopped when an informer no longer providing new kind of information.

3.4. Data Processing Method: data reduction, display and data categorization.

3.5. Analysis: SWOT analysis and descriptive exploratory.

4. Finding

The identification of potential of products that can be developed as the superior product. Superior products that may be developed in sub-district sumpiuh divided into 3 cluster as follows:

a. Mountain cluster:

1. Rubber plantations, kalba, and acacia in the Bogangin village and Ketanda for supplying the needs of furniture kampong which are located in Lebeng and Selanegara village.
2. cassava plant; tubers for supplying processed food production in Sumpiuh.

3. Fruit plants
 4. Potential tourist villages at Banjarpanepen and Ketanda village
- b. Central cluster:
1. Development of Lebeng and Selanegara village as furniture kampong.
 2. Supporting Tata green batik as typical product of Sumpiuh.
 3. Development of Kebokura as batik kampong.
 4. Development of mushroom business and mushroom culinary at Kradenan village.
 5. Development of muscovy duck culinary.
 6. Rest area development.
 7. Night tourism development.
 8. Development of uniqueness-based tourism.
 9. Development of taman mini as a miniature villages and as a place of information local products
- c. Lowland cluster:
1. Development of muscovy duck husbandry at Selandaka and Kuntili village.
 2. Development of shuttlecock home industry.
 3. Development of famus ginger bread.
 4. Development of all muscovy duck culinaries.
 5. Development of seashells as handycraft
 6. Development of Kali Ijo and Kali Gatel as a local-unique tourism

The Analysis of Strategic Plan and Policies of Sub-District Sumpiuh

The construction of ring roads will create some opportunities and encourage local development as well, so the benefit is not only seen from the aspect of transportation, but also able to increase public welfare through the creation of the existing economic opportunities.

In line with the environmental dynamics of the sub-district Sumpiuh, a vision is formulated to make Sumpiuh as a transit city. This vision is considered quite realistic and achievable. During the process of extracting data to the entire village, through interview with various speakers, seems that vision is already socialized well. Viewed from the geographical side, sub-district Sumpiuh also has a strategic position as the path connecting Banyumas district, Cilacap regency, Brebes regency, Tegal regency to the Eastern as Yogyakarta and Surakarta. There is not any representative rest area on the lane, the only place to take a rest are gas stations.

Sumpiuh's vision as a transit city stop over is not the highest goal, since the meaning of transit in this context is not only taking a rest for a while at gas station. The vision enrich and enlarge the meaning so then its multiplier effect is large as well. Based on focus group discussion and interview with various stakeholders, the common awareness of transit is not just to stop, but also enjoy any typical products of Sumpiuh as muscovy duck culinaries, batik souvenir, and other typical products supplied by surrounding villages. Thus, rest area also serve as showrooms designed to attracting people especially those was travelling to consume.

To realize this vision, commitment from all parties are needed and integrated toward ideals development. In focusing organizational strategy in order to accomplish the vision effectively, we need to formulate a mission statement. The mission of sub-district Sumpiuh is as follows:

1) foster a safe area, peace, order, green environment and appropriate infrastructure. 2) build local government officials that are productive, creative, and innovative based on religious values. 3) foster economic society by pushing superior and typical products from three clusters.

Based on SWOT analysis, the priority of regional development can be classified into three cluster as follows:

a. Mountain cluster

Table 1. Sector, Sub-Sector, Policies and Economic Development of Mountain Cluster

Potential Sector	Sub-sector	Policy	Program
Agriculture	Plantation	The utilization of land for productive crop	- Cultivation of rubber plants, kalba, and acacia at Bogangin and Ketanda village to supply furniture kampong of Lebeng and Selanegara village - Cultivation of cassava plan to supply processed food industry at Sumpiuh
	Fruit plants	The utilization of land	- socializing planting fruit trees in every home - Fruitplant cultivation training
Industry	Home industry	Home industry development based on local resource	- Typical product promotion of Sumpiuh - Business coaching for handicraft groups - Management coaching for small businesses
	Home industry	Home industry development	- Cooperation development in the form of partnership - Improved product promotion activities. - The establishment of cooperative for same businesses
	Tourism	Development of rural tourism	- Development of Banjarpanepen village as rural tourism - Development of rural infrastructure and access to Curug Lanang Ketanda village

b. Urban cluster

Table 2. sector, Sub-Sector, Policies and Economic Development of Urban Cluster

Potensial Sector	Subsector	Policies	Program
Agriculture	Fruits, tubbers, and banana	The utilization of land	- Socializing planting fruit trees (durians) in every home - Socialization planting tubers and bananas
Industry	Small industry	Home industry development based on local resource	- Encourage Lebeng and Selanegara village as furniture kampong - Product promotion for typical products - Business coaching for handicraft groups - Management coaching for small businesses
	Home industry	Home industry development	- Fostering Go Green Batik as Sumpiuh's typical product - Development of batik kampong at Kebokura - Business coaching for handicraft groups - business coaching for mushroom businesses at Kradenan village - Cooperation development in the form of partnership - Increased promotion of local products. - The establishment of cooperative for same businesses
Trade	Restaurant	Development of muscovy duck culinary businesses Development of mushroom culinary businesses	- Development of restaurant entrepreneurs to develop muscovy duck culinary - Entrepreneur coaching to develop mushroom culinary - Food quality coaching
	Tourism	Rest area development	- Structuring the integrated rest area (gas station, culinary center and local souvenir) - Building west and east gate to create consumer awareness
		Development of night tourism	Development of local attraction

		Uniqueness based tourism development	Hair museum development as a unique tourist attraction
		Structuring the local government office area	Development of mini parks as villages miniature and as a center of local information
	Retail trading	Development of trade in accordance with Sumpiuh as transit city	- Merchant structuring around the train station - Provide trading location for small businesses

c. Lowland cluster

Table 3. Sector, Sub-Sector, Policies and Economic Development of Lowland Cluster

Potensial Sector	Subsector	Policy	Program
Agriculture	husbandry	Development of regional potential based on superior product	Development of farm area for muscovy duck at Selandaka and Kuntili village Pioneering shuttlecock industry
		Development of institutional farming	Establish a pilot project group at Selandaka village Livestock coaching for muscovy duck stockbreeder through synergy of Badan Penyuluh, local government, and university
		Development of azolla as an alternative animal feed	Socialization and cultivation training of azolla as alternative animal feed
Industry	Small Industry	Development of small industry based on local resources	Branding of Famus ginger bread Culinary coaching of Petis and Muscovy duck culinaries Local product promotion Business coaching for handicraft groups
	Home Industry	Development of home industry	Cooperation development in the form of partnership Increased promotion of local products.

			The establishment of cooperative for same businesses
	Tourism	Utilization potential of Kali Ijo and Kali Gatel (Nusadadi)	Conducting research and arrange activities package to support tourism village at Nusadadi

Mapping the model of economic development of sub district Sumpiuh is pictured in Figure 1.

5. Conclusion and Recommendation

Sumpiuh development area is divided into three clusters. The basis of the classification is the characteristic in common areas. The three clusters are the Urban Cluster, Mountains Cluster (North), and Lowland Cluster (south). The process of sub-districts development should be done in a holistic perspective, not partial, considering the close relationship between these potentials. This must be accommodated in a planning that is not only the role of the local government, but also the role of various stakeholders.

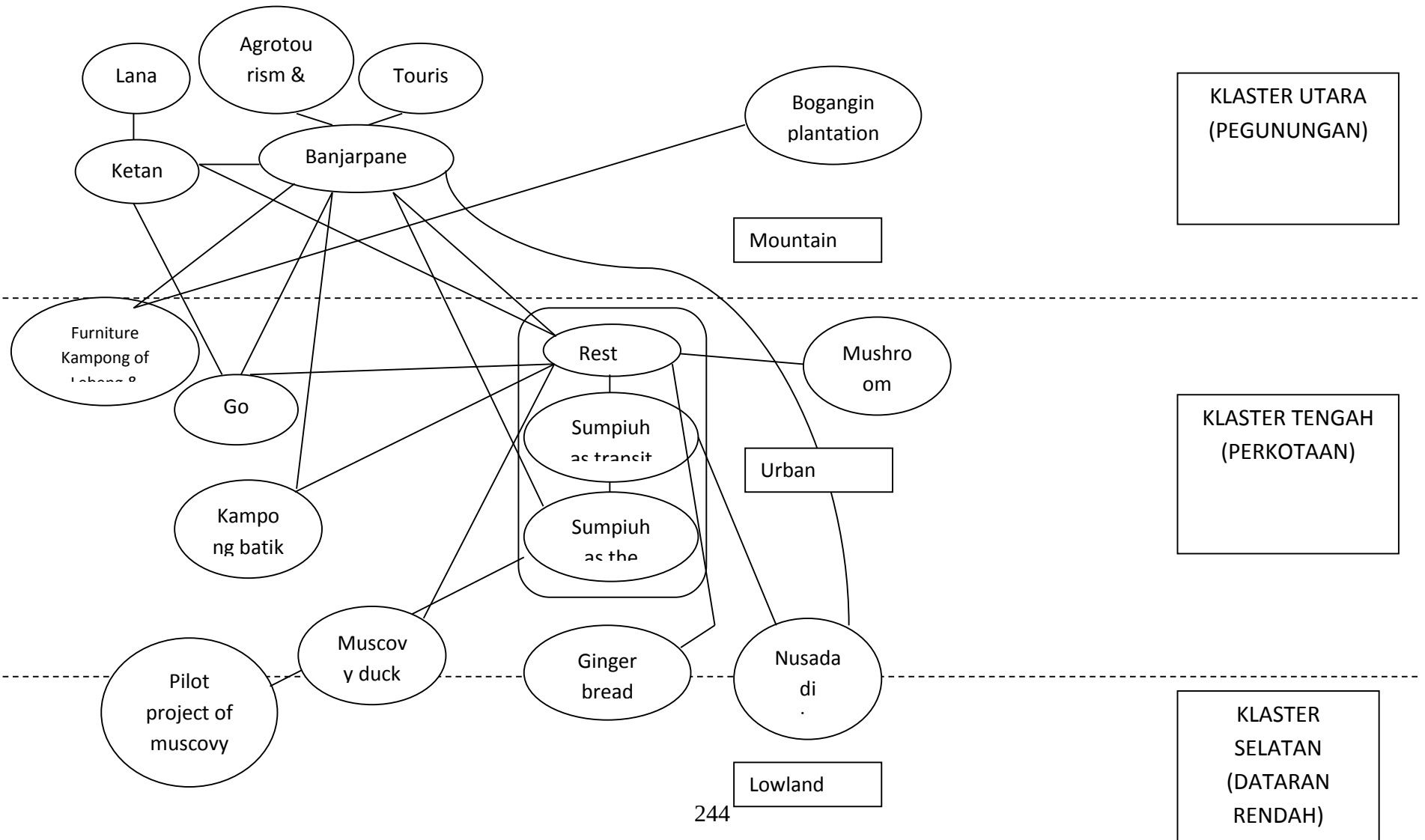
6. Acknowledgements

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Fig.1. Model of Villages Interrelationship



THE EFFECT OF FINANCING AND INVESTMENT POLICIES TOWARD SMEs COMPETITIVENESS

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Abstract

Financial management related to financial decision made by an entrepreneur is a crucial decision. On SMEs, entrepreneurs are ordered to consider financial decision by financial planning. Financial planning will lead an entrepreneur to make a policy in financial. It is good to control financial in daily operation, but to be greather is consider investment and financing policies also. The purpose of bussiness is the wealth. This wealth come to them who can survive in operating the bussiness. By that, the survive bussiness need competitiveness. This competitiveness make bussiness survive in fierce competition.

This paper aims to know how financing and investement policies are affecting toward the SMEs competitiveness. Using survey method, data was collected from a hundred SMEs spread in Banyumas region of Indonesia. The result generally showed that financing and investment policies are implemented, but then it is had to be optimized in order to incrase the competitive of SMEs.

Keywords: Financial Planning, Funding Policy, Investment Policy, Competitiveness, SMEs.

1. Introduction

Small and medium enterprise still keep going on its strenght by their independence of creativity. The one which has the competitvness will lead to the survive in fierce competition of bussiness industry. Nowadays, there are lots of support for the owner of small and medium enterprise (SMEs) to be the greather entrepreneur. From Robinson (2004) entrepreneurship development in social environtment can be woorked as poverty covered.

Entrepreneurs are challenged to create a fight competitiveness. Researchs toward bussiness both in a large company and in a small bussiness were informed that there are a success and failure. Small business tend to have higher failure rates in volatile industry, but comparison with large company, smll business survive well and grow faster (Cole, 1993). The failure of a bussiness not only because lack of capital but also the weakness of financial management. On the other side, the success of a bussiness not only because the great product quality or marketing ability, but also the ability of managing their finance. That is financial planning should be concerned by an entrepreneur.

Financial planning for capital structure of a SMEs is not as complex as a large company. It should be a simple one, but in the other hand, a lot of obstacles around that sometimes could not be solved easily. The lack of knowladge about financial and its strategy make the owner of SMEs do nothing about planning. By the financial planning, an entrepreneur will have some decisions in manage the finance. Decisions are made because the planning said so. Thus, financial decision

including financing and investment are made to be a policy to handle the financial sector of SMEs.

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From Ross, Westerfield, & Jordan (2000) financial decisions related to investment, funding, and working capital decision. Investment decision include allocating capital at investment opportunity which is benefit toward company. Funding decision consider about the cohesiveness of long term financing and capital used for daily operation. From Anshori (2010) funding is financial management policy to get fund and to be invested in a company. Working capital decision include manage short term assets and short term liabilities for daily operation. The decision will be a company's policy within the bussiness. Running the SMEs was not as complex as a big company, because of its limitation. The boundaries somewhat include human resources, marketing, operational, and of course finance.

The number of worker as human resources still definite in SMEs, and the capability in some case is still lack of knowladge of entrepreneurship. Not all but there are still rare who understand how to run a bussiness with the management skill. Whereas, the management of finance is so much important on doing bussiness. The good skill of financial management will provide a good quality of decision and greather policy.

In financial sector, SMEs need fund allocation because the daily activity need to run well, and the owner need to manage the finance. Financial planning helps the entrepreneur by giving the policy of fund allocation. Some SMEs using financing as their financial perform, whereas the other using the own equity. They are helped on running the bussiness with financing comes from many sources, include financial institution like bank and from inside the member of family or relation. And for the investment, there are investment assets, investment market, innovation investment.

Indonesian citizen, here, were helped by the SMEs during hardtime of global economic crisis. When citizen could stay strong and survive in small and medium entreprise sector, indicate that this sector were alive well. That made some others tried to make spur on entrepreneurship as a good future chance, because the one who survive was the one who had the competitiveness. From Porter in Snowdown (2000) the competitiveness of a firm and competitiveness of an economy, there are no obvious differentiation. That means competitiveness of a company would bulid a strong economic of a country. So, its a need to support local potential of SMEs for a better national economic.

From Gill (2012) the purpose of bussiness is the wealth. This wealth come to them who can survive in operating the bussiness. By that, the survive bussiness need competitiveness. This competitiveness make bussiness survive in fierce competition. And for SMEs, the competition is hard enough, because they have to independent in financing and operating daily bussiness, while facing the competition of big company in regional market and not impossible global market also. So the need is the high quality entrepreneur that had intention to make decision in finance by financial planning.

Financial planning considers about funding policy and investment policy. The two policies are working together with the aims to harmonize the finance of a bussiness. SMEs are the small bussiness that need capital a lot. More than that they

need a financial planning to allocate their fund. The fund needs the appropriate place in order to get the good effect on business. Some could be placed in investment, and some in the financing.

The research related to SMEs still going on resembling innovation in order to make creative entrepreneur. That can develop the rural area with creativity. But rather than that, SMEs have internal aspect should be considered. Financial structure, would be the strongest must be managed.

In this research, focus on financial sector of SMEs, and tried to deliver the result as contributive information. So, the boundaries were came in this research at place and time and of course definition of each variables.

2. Literature Review

2.1 Competitive Advantages and Small Business

There are three level of competitiveness according Salazar (2012) : a) Enterprise Competitiveness is the ability to design, produce and market the products which can be goods or services that are more attractive than the benefit from competitors ; b) Sector Competitiveness, which implies that a sector offers high returns on investment and is in a strong growth stage; and, c) National Competitiveness, defined as the ability of a nation to provide an economic, political, social and labor environment favorable to organizational development. It means for increased competitive advantage need to be viewed from internal and external environment of the company, options of corporate strategy, and business structure entered by company. Therefore selected strategy the company will affect the company's competitiveness, and they have to be careful in choosing strategies that can provide competitive advantages for company.

Small businesses are usually owned by private with minimal resources, which make difficulties to manage the information in its possession to advance the performance of the company. The small business has inherent competitive disadvantages because of its comparative inability to access and use business information (Caldarola, Richard A L, 1997). Managing information is the key to small business to survive, make planning and have a competitive advantage. One thing that can be done to improve the competitive advantage is to look at the financial condition of the company and the investment will be done. So for increasing competitive advantage companies can use financial strategies and investment strategies.

2.2 Financial Decision

Ross, Westerfield, & Jordan (2000) financial decisions related to investment, funding, and working capital decision. Investment decision include allocating capital at investment opportunity which was benefit toward company. Funding decision is the selection of the various form financial resources available for investment. Working capital decision include manage short term assets and short term liabilities for daily operation. The decision will be a company's policy within the business.

Investment decisions is about selection of a group of desirable investment opportunities set, choose one or more alternatives are considered the most profitable investments. Basically investment are consists of assets investment and financial investment, but in the case improving the competitive advantage

investment decisions, should be consider company strategies, risk and funding policy. Company strategy purpose is to survive, earn profit and grow the company or innovate. But for small business those three things done gradually, because small business has limited resources especially on funding. Therefore can be formulated that investment is accordance with the small business are investment assets, investment market, innovation investment.

Funding policy consider about the cohesiveness of long term financing and capital used for daily operation. Funding policy is a key to determine value of the company. Funding policy in determining the capital structure aims to optimize value of the company. The capital structure has significant role in increasing company's value. Company capital structure is derived from internal and external funds; capital structure consists from equity and debt. Appropriate managing capital structure will be able to help small business to increase competitive advantage.

Small businesses in enhancing their competitive advantage need to make right financial planning, selected strategies in order to make investments, for increase firm value. By implement the functions of management decisions finances properly, carefully, and optimally will maximize firm value. The firm value increased in line with company's efficiency in managing its capital, and then investment choices make a profit, so that investor confidence in the ability of the company, the company can survive and growing, so firm value will increase.

3. Method

This research were took palce at Purwokerto area Banyumas region from Central Java Province of Indonesia. Using survey method and questionnaire as tools of information source, a hundred questionairs were spread to the entrepreneur as SMEs owner for collecting the data. The information about sample were from Dinkop Banyumas.

The data were processed using AMOS SEM. The figure to explain as follow:

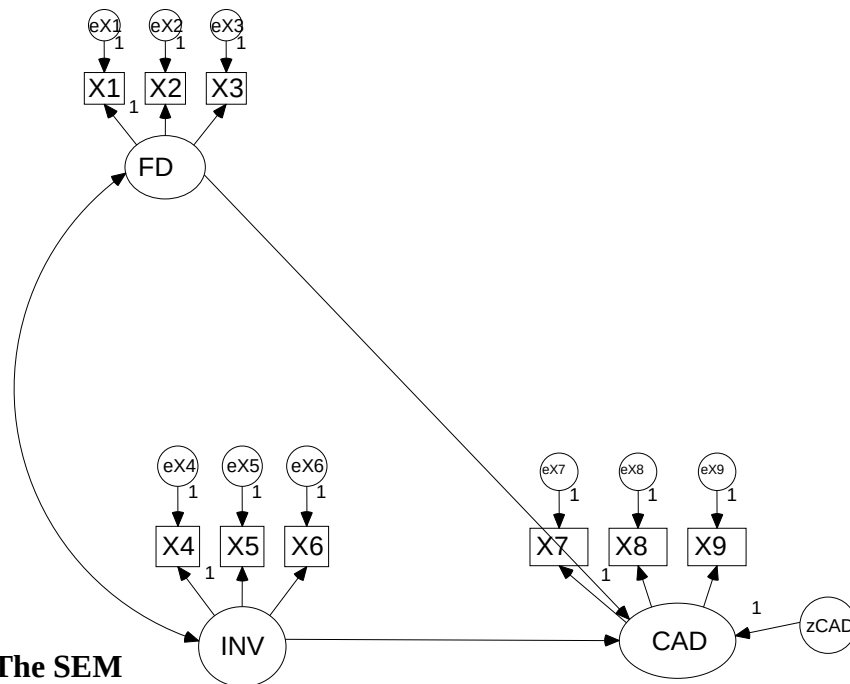


Figure 1. The SEM Structure

Funding Decision (FD)	Investment (INV)	Competitive Advantage (CAD)
X1 = equity	X4 = investment market	X7 = sale
X2 = short-term debt	X5 = asset investment	X8 = size
X3 = long-term debt	X6 = innovation investment	X9 = company age

Hypothesis 1: Between funding and investment policies, funding policy are mostly used by SMEs.

Hypothesis 2: Funding policy influence toward competitive advantage of SMEs.

Hypothesis 3: Investment policy influence toward competitive advantage of SMEs.

Hypothesis 4: Investment and financing policies are correlated.

4. Empirical Analysis Result

4.1 Funding Policy and Investment Policy

			Estimate
CAD	<---	FD	0,425
CAD	<---	INV	0,32
x1	<---	FD	0,708
x2	<---	FD	0,749
x3	<---	FD	0,73
x6	<---	INV	0,729
x5	<---	INV	0,771
x4	<---	INV	0,808
x7	<---	CAD	0,721
x8	<---	CAD	0,856
x9	<---	CAD	0,754

Tabel 1. Standardized Regression Weights

Most funding decision taken by the SMEs is short-term debt in which the SMEs indicated by X2 value at 0.749. The most preferable of investment decision is market investment where it is done to preserve company's position in the market. This market investment X4 is 0.08.

Table 1 above data it can be seen that small companies have been doing financial planning. It is done to improve their company. The use of debt in order to finance their businesses and make investments to survive in the market. By using debt, small entrepreneur has thinking about balancing capital structure as well as the use of capital for business development.

			Estimate	S.E.	Std Est	C.R.	P
CAD	<---	FD	0.527	0.165	0.425	3.200	0.001
CAD	<---	INV	0.359	0.137	0.320	2.624	0.009

Tabel 2. Regression Weight Structural Equational

Structural equation model based on these results is as follows:

$$\text{CAD} = 0.527 \text{ FD} + 0.359 \text{ INV} + z$$

4.2. The Effect of Funding Policy (FD) to Competitive Advantage (CAD)

Parameter estimation of FD to CAD points out to assess coefficient with positive direction. Significance testing of the effect obtained CR value = 3.200 with probability = 0.001 < 0.05. Significance value less than 0.05 indicates that Funding Policy (FD) has a significant positive effect on Competitive Advantage (CAD). Thus tests this statistic is successful accept hypothesis 1.

From the data, can be seen that the effect on funding policy to competitive advantage. It can be interpreted that SMEs has planned the capital to be used. Debt will increase the capital SMEs. The capital helps SMEs in improving the business and operations of the company. Mostly SMEs are at the medium level enterprises, where the business is still in the development stage. In this stage, capital can be a main element in the company's operations. Others, will increase the ability to survive in the market and improve the company's competitive advantage.

4.3 The Effect of Investment (INV) to Competitive Advantage (CAD)

Parameter estimation of INV to CAD coefficient value with positive direction. From Ghazali (2008) for significance value, significance testing of the effect obtained CR value = 2,624 with probability = 0.009 < 0.05. Significance value less than 0.05 indicates that Investment (INV) has a significant positive effect on Competitive Advantage (CAD). Thus tests this statistic is successful accept hypothesis 2.

SMEs in order to increase competitive advantage had been doing financial planning, and beside taking funding policy to raise capital, SMEs also undertaking the investment. Higher capital in investment to develop the business. The average, SME's investment was in the market, this was to preserve their position. The results of this study indicate that the investment affect the competitive advantage at 0.359 which means that SMEs invest will have a competitive advantage better than that does not do financial planning specifically for investment.

4.4 Correlation Between Funding Policy (FD) and Investment Policy (INV)

			Estimate
FD	<-->	INV	0,297

Tabel 3. Correlations: (Group number 1 - Default model)

Financing and investment policies had its correlation 0.297, thus investment and financing decisions are correlated one to another. Any funding policy which is taken by SMEs will affect the investment options that will be taken by the company. Capital of the company will determine the investment company, as well as investment opportunities there will affect the company's capital. Thus the funding and investment policies affect each other and correlated.

5. Conclusion

Challenges in the globalization and decentralization has demanded the economic community to stimulate extra effort in order to have a competitive advantage. Competitiveness especially for economic community at the micro, small, and medium enterprises becomes a important capability if they want to survive in the business world. Dealing with business challenges and created competitive advantage, SMEs need to do financial planning. The financial plan includes funding policy, investment policy, and working capital. This research intended to see how much the financial planning effect on competitive advantage of SMEs. Financial planning used in this study consists of funding and investment policy.

The results of this research are funding policy the most widely used by SMEs is short-term debt. The most investment often chosen by SMEs is investment market. Then funding policy has an influence on competitive advantage. Investment has an influence on competitive advantage. Funding and investment policy correlated each other. It means that SMEs do financial planning in order to increase competitive advantage. SMEs take funding policy to raise capital. With an increase in capital the company's expected operational going well and can improve competitive advantage. With high capital, the company has the funds to develop the business and investing. Good financial planning will help SMEs to increase competitive advantage.

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**THE PROSPECT FOR STARTING ENTREPRENEURSHIP IN
PRINTING BUSINESS BASED ON SMALL MEDIUM ENTERPRISE
FOR ECONOMIC STUDENT AND ALUMNI IN BANYUMAS DISTRICT
REGION-CENTRAL JAVA**

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Abstract

The increase of economic growth and enhancement of public welfare has been increasing the opportunity to access higher education in Indonesia. The number of under graduate student from higher education institution in Indonesia increases rapidly every year. But, the number of job opportunity in formal sector is not balance with the number of fresh graduate student. Job opportunity in formal sector absorbed only 40% of employee every year. The higher education institution should be responsible to design creative program to recognize the student and alumni to be a beginner of entrepreneur. This paper discuss about market prospect for starting entrepreneurship in printing business for economic student and alumni. We analyzed the funding, skill, tool, challenge, market share, and profit for beginner of entrepreneur in printing business. Collecting Data was conducted by deep interview with five owners of small medium enterprise based on printing business who have been successful in their business less than ten years in Banyumas District Region (Banyumas DR) in Central Java, Indonesia. Based on deep interview with all printing company owners, the prospect of entrepreneurship in printing business in Banyumas DR was very profitable. The market share in printing business was local government office, corporate and business, school and campus, personal and political party. More than 50% of printing business service was used for product advertisement of government office, corporation and business, political campaign and public announcement. The investment of money for starting printing business for beginner was less than IDR 10 million. The biggest allocation of money was used to purchase machines, tools and supporting equipments. Intention, motivation and skill for running machines, tools and supporting equipments were very important for beginner to join in this business. The net income for beginners who have been successful in this business in the first year was more than IDR five million in a month. It is more profitable for student and alumni to be a young successful entrepreneur than to be employer in formal sector.

Keywords: Entrepreneurship, Printing Business, Economic Students, Banyumas District Region.

1. Introduction.

Indonesia within 30 years has been able to achieve significant economic growth. The significant economic growth in Indonesia has been impacting on improvement of social welfare, accessing higher education, and reducing of poverty number. The number of Indonesian people who has been able to access higher education increased rapidly over the last 30 years. Based on the Statistics Indonesian Data, the Gross Enrolment Ratio (GER) of Higher Education in Indonesia (the ratio of students to total population aged 19-24 years) has reached around 15%. In other word, 15% of Indonesia's population aged 19-24 years have been able to access higher education.

The education process on higher education institution in Indonesia aimed to strengthen life skills to students for winning in future competition. Life skills are expected to create Indonesian people who have the competitiveness, adaptability, and high working power in the era of globalization. But, the facts showed that the quality of education in Indonesia has not yet achieved the results desired by all parties. Output of higher education sometime releases a burden for society. The number of graduate student is not balance with job opportunity. The number of fresh graduate student from all universities in Indonesia is higher than total job opportunities which are provided by government office, private sector, and national enterprises.

Data of Statistics Indonesia on-August 2012 showed that the number of unemployed people based on level education from primary school until universities reached approximately 8.3 million people. The number of educated unemployed from universities student reached approximately 1.2 million people. The number of fresh graduate from all universities in Indonesia reaches approximately 850 thousand each year. Meanwhile, the government sector, national enterprise and private sector only provide about 500 thousand new job opportunities for all fresh graduate students. It can be predicted that government sectors, national enterprises and private sectors absorbed only five hundred thousand new worker or 25% of the total fresh graduates student each year. Meanwhile around 1.2 million fresh graduates must be hard-working in their life by finding a job in non- formal sector or entrepreneur. Some potential segments for developing entrepreneurship by fresh graduate student from economic faculty in Indonesia are trading, agriculture, and small medium enterprise.

A new potential entrepreneurship segment in Banyumas District Region (Banyumas DR)-Central Java for fresh graduate student from economic faculty especially for secretary department is starting entrepreneurship on traditional and digital printing business. The market share on traditional and digital printing business in Banyumas DR has been increasing rapidly due to increasing of product demand of printing business. The increasing demand on advertisement, public announcement, banner, office stationery, school and campus, and political campaign media prospects a new market share for starting printing business.

This paper aims to analyze comprehensively the market prospect for starting entrepreneurship in traditional and digital printing business for economic student and alumni in Banyumas DR-Central Java. The analyses include the funding, skill,

tool, challenge, market share, and profit for beginner of entrepreneur in printing business.

2. Theoretical Background

2.1. Student Entrepreneurship

Starting of entrepreneurship for fresh graduates from universities need skills, encouragement, and mentoring. A successful entrepreneur requires knowledge, behaviour, and strong motivation that create success in his work. Meanwhile, universities and schools as formal higher education in Indonesia have a central role to improve the knowledge, intention, motivation and entrepreneurial spirit of students. Knowledge, intention, motivation and entrepreneurial spirit should be embedded in the curriculum in higher education. This policy is expected to bridge the fresh graduates who are not accommodated in the formal job sector in government office, national enterprise and private sector to switch their professions to be a young entrepreneur.

Indonesian higher education institutions have important role in providing education and teaching to boost-up entrepreneurial intention, motivation and interest among students and academicians. Entrepreneurial education is needed by students and all academicians in order to face the global competition and limited formal sector employment. Drucker (2005) defined entrepreneurship as the spirit, skill, attitude and behaviour of individual in handling the business / activities leading search, creating ways of working, technologies, and new products to improve efficiency in order to provide better service and or search for greater profits. Entrepreneurship is innovation, which is a novel way to connect existing resources with profit, a coincidence of a profit opportunity and an economic community willing to exploit this opportunity (Carey and Naudin, 2006). The main idea of entrepreneurship is the ability to create something new and different through creative thinking and innovation.

A young entrepreneur requires some true mental attitude. Meredith (1986) suggested some mental attitude needed by entrepreneurs to be successful in managing entrepreneurial businesses. The mental attitudes which are required by a young entrepreneur are confident, task-oriented and results, risk-taking, entrepreneurial oriented, future oriented, and creative on original ideas. In addition, education background, the need for achievement, self-confidence, capital and social networking are the main factors that determine student interest in developing entrepreneurship. In order to boost-up the entrepreneurial intention, the internship, training and personality development is needed. Entrepreneurial education has important factors to develop the intention, motivation, spirit and entrepreneurial behaviour among students and academician.

Associated with the influence of entrepreneurial education, it is necessary a knowledge of how to develop and encourage the creating of young entrepreneurs in campus. Some previous studies mentioned that intention was the main point in student entrepreneurship for emerging successful entrepreneurs of the future (Gorman *et al.*, 1997; Kourilsky and Walstad, 1998). Intention, attitude, behaviour and knowledge on entrepreneurship will create student's tendency to start new business. Some reviews of related research stated that universities have been important role for improving entrepreneurial intention of students through the implementation of the higher education curriculum that supports the easy creation

of entrepreneurs, development of training and mentoring young entrepreneurs (Shinnar *et al.*, 2009; Zain *et al.*, 2010; Hosseini and Ahmadi, 2010; Saskia and Schout, 2008).

3. The research method

The study followed a number of stages involving the use of both qualitative and quantitative Data collection techniques and approaches. For the purposes of this paper the main emphasis is on the quantitative aspects. The research study was conducted in Banyumas DR, Central Java Province, Indonesia. The main data collection technique was mined by depth interviews of five respondents. Interviews were carried out with five owners of traditional and digital printing company based on small medium enterprise who have been successful in their business less than ten years. The main purpose of interviews was to get information about funding, skill, tool, challenge, obstacle, market share, and profit for beginner of entrepreneur in traditional and digital printing business.

4. Analysis

4.1. The education background of entrepreneurs.

Educational background of respondents was different each other. Only two of five respondents were the alumni from university, while the rest were alumni of high schools and vocational schools. The first respondent was the alumni of the faculty of economics while the second respondent was the alumni of the faculty of agriculture. There was no significant relationship between educational backgrounds and entrepreneurial skills of respondents. The respondents have been running on for 3-8 years. Most respondents started in traditional printing business without adequate experience. Managerial experience and skills in printing business were not carried out from formal education. Managerial experience and entrepreneurial skills were carried out by managing the family business, joining as a part-time job and an internship at entrepreneurs who have a business printing business. Education curricula in high schools, vocational schools and universities in Indonesia did not facilitate students to develop skills in entrepreneurship.

Only one in four respondents had experience of managing family business in traditional printing business. Four of five respondents have got entrepreneurial experience and skill by joining as part-time job or internship in small printing company around Banyumas DR for more than a year. By joining part time job or internship, they carried out work experience and managerial skill on printing business. By using their work experience and skill, they started their own printing business. Description of the education backgrounds and work experiences of five respondents are shown in Table 1.

Table1 Description of the education background and work experience of five respondents

ID	Age	Education background	Business experience	Starting business
Respondent A	33	Alumnus of university from faculty of economics	Managed family business on printing	2005
Respondent B	35	Alumnus of university from faculty of agriculture	Joined as Internship on printing for 6 months	2010
Respondent C	38	Alumnus of vocational high school	Joined as Internship on printing for 3 months	2004
Respondent D	40	Alumnus of senior high school	Joined as part time job in printing for 2 years	2007
Respondent E	35	Alumnus of senior high student	Joined as part time job in printing for 18 months	2004

4.2. Intention of entrepreneurship

In the beginning, starting own printing business was not a dream job of all respondents. Generally, they were dreaming employees in the formal sector such as civil servants, national enterprise and private company. However, the trend of labour demand in the formal sector Banyumas DR and surrounding areas showed that the unbalance trends of the number of job opportunities and the number of fresh graduate of Senior High School, Vocational School, and University. So, they must be more hard-working by creating a job for them. The economic growth in Southern Central Java especially in Banyumas DR has been increase rapidly for 10 years.

The economic growth in Banyumas DR is always more than 5% during the last 10 years. Gross Domestic Product in Banyumas DR since 2003 increased rapidly from 2.5% in 2003 to 6.5% in 2013.

The main factors which increase economic growth in Banyumas DR are trading, agriculture, entrepreneurial sector and small medium enterprise (SME) business. The number of entrepreneur and SMEs business increased significantly during 10 years. The number of new entrepreneur and SME increases 15% each year. One kind of SME which increase rapidly in Banyumas DR is printing business. The higher trend of this business is supported by the growing of market demand for printing product such as office stationery, banner, art shop, etc.

The main share market targeted by this type of business included local government office, corporate and business sector, school and campus sector, personal sector, and political party sector. These opportunities became a stimulus for all respondents to start printing business since years ago. Summaries of respondents' intention and motivation on printing business were shown in Table 2.

Table 2 Summaries of respondents' intention and motivation when started printing business

ID	Main intention and motivation when started printing business
Respondent A	Continuing of family business. Entrepreneurship promised a flexible work, income, and relation. Product demand of traditional and digital printing increase rapidly
Respondent B	Developing skill and hobby in graphical design using PC More comfortable by working in the entrepreneurial sector rather than employee in the civil servant, National enterprise and private sector.
Respondent C	Seeing a trend that the printing business is a service business that helpful for people and very profitable in Banyumas DR.
Respondent D	Seeing a trend that the printing business is a service business that helpful for people and very profitable in Banyumas DR. Giving flexible working time
Respondent E	In 2007, printing business was still rare. But, product demand from printing product was high. Majority supplied from outside of Banyumas DR. So, the prospect for starting printing business was very profitable.

4.3. Funding and investment

All respondents prepared some money for the main funding. It was largely invested to purchase machine, tool, and supporting equipment to support printing business. The scale of business and the specification of machine, tools and supporting equipment depend on the investment number. The higher business scale needs the higher funding and investment. Description of the scale of business, product, supporting equipments, and the number of first investments that must be prepared by the respondents are shown in Table 3.

Table 3 Description of the scale of business, products, support equipment and specification of the equipments that must be prepared by all respondents

ID	Scale of business	Products	Equipment	First Investment
Respondent A.	Traditional and digital printing.	Office stationery, wedding invitation letter, folder, t-shirt, banner, art gallery.	Computer, printer, screen, press machine, harter machine and plotter.	IDR 500 millions
Respondent B.	Traditional printing.	Office stationery, wedding invitation letter, folder, t-shirt, banner, art gallery.	Computer, printer, screen, press machine, harter machine, etc.	IDR 9 millions
Respondent C.	Traditional printing.	Wedding invitation, folder, t-shirt, banner.	Computer, printer, plotter, screen, press machine, harter machine, etc.	IDR 5 millions
Respondent D.	Traditional printing.	Wedding invitation letter, folder, t-shirt, banner, art gallery.	Computer, printer, plotter, screen, harter machine.etc.	IDR 10 millions
Respondent E.	Traditional printing.	Wedding invitation letter, folder, t-shirt, banner.	Computer, printer, plotter, screen, press machine, harter machine, etc.	IDR 8 millions

Traditional printing is the scheme of business that is possibly started by a young entrepreneur. It is needed small funding for purchasing of machines, tools, and supporting equipments. By using approximately IDR 5 million, young entrepreneur can start business. Experience and skill to run the business are also very simple. The experience and skill to run the traditional business are skill for operating personal computer, creative skill for designing screen, and experience for product marketing. The products from traditional printing business such as office stationery, t-shirt, wedding letter are needed by government office, corporation, and common people. The price of traditional printing business is also cheap. Meanwhile, it is nearly impossible for a beginner to starting business by shooting digital printing scheme business. The young entrepreneur must be allocated more than IDR 500 million to purchase digital printer. Digital printer is needed to print out digital banner, poster and billboard. The market segment for digital printing comes from government office, company, political party, campus and school. Although the product demands always increase, the investment cost is very high. The digital printing business is ordinarily conducted by expert entrepreneur who has been successful in previous traditional printing business.

4.4. Share market and income

The demand of traditional and digital printing products in Banyumas DR increased significantly since 2005. The share markets of printing products on Banyumas DR are grouped into several segments. Those are local government office, corporate and business segment, school and campus segment, personal segment, and political party segment.

4.4.1. Local government office, corporate and business segment

The increasing demand for printing products in the segment of local government office, corporate and business caused by the increasing economic and business growth in Purwokerto city. Purwokerto, the capital city of Banyumas District Region has been becoming a transit point for goods and services. Goods and services flow into the region of West Java, Southern Central Java and Yogyakarta Province. Many shopping centres, local government office buildings, and banks have been built around Purwokerto. The need for the use of traditional and digital printing products increase rapidly. The products of printing company that are needed by local government office, corporate and business segments are form letters, office applications forms, calendar, memo, letter of agreement, envelopes, banners, banner, billboard and so on. Majority of office stationery products are supplied by the local printing company around Purwokerto city. Based on Data from respondents, the average income of each printing products from local government office, corporate and business segments reached IDR 10-15 million per month (Table 4).

4.4.2. School and Campus Segment

Schools and universities are one of the most potential segments for printing share market. There are hundreds of schools (elementary school, junior high school and senior high school) around Banyumas DR. Every schools and campus

need the product of printing services for producing of books, student worksheets, folder, copy of exam questions, banners, billboard and school or campus application forms. Furthermore, there are 11 universities and state collages around Purwokerto city. All campus need for the product of printing products such as folder, application form for universities, banners, billboard t-shirts, and so on. The needs of printing products are supplied by private printing company in Banyumas DR. Based on the results of interviews to respondents, they can reach income average IDR 1-3 million rupiah per month (Table 4).

4.4.3. Individual Segment

Individual segment is also one potential segment for traditional printing company. Demand of wedding and party invitations letter gives the largest income from individual segment. The respondents earn the income approximately 2-3 million per month (Table 4). However, demand for wedding and party invitation letter is clustered in certain months. It clustered on several beautiful months according to Javanese and Moslem culture and tradition. This phenomenon becomes a trend for the Javanese and Moslem society as in Banyumas DR.

4.4.4. Political Party Segment.

Indonesia has been adopting democratic in political system since 1998. The effect of adopting democratic system in Indonesia is running direct elections for electing candidates of District Region headmaster / mayor, governor, president and legislators. The implementation of democratic system needs the political campaigns media as a tool for political parties and candidates. By using political campaign media, all candidates and political parties want to increase popularity and electability ratings. 2014, regarded as a political year, the effort of political parties and candidates to increase the electability and popularity of massively done. Along the ways in Banyumas DR are filled with billboards, posters, and banners of the political parties or candidates which are running for the legislature and executive. Products of traditional and digital printing products are needed to supply the campaign media such as banners, posters, billboards, and so on. The supply of political campaign media are majority supplied by traditional and digital printing company in Banyumas DR. The incomes from political campaign media reach IDR 5-10 million rupiah per month (Table 4).

Table 4. Description of segment market and income of business segment in Banyumas District Region

ID	Segment Market				Omzet / month (IDR)	Nett Profit / months (IDR)
	LGO, C and B	S and C	I	PP		
Respondent A	Yes	Yes	Yes	Yes	120 millions	15 Millions
Respondent B	Yes	Yes	Yes	No	75 millions	10 Millions
Respondent C	Yes	Yes	Yes	Yes	50 millions	6 Millions
Respondent D	No	No	Yes	Yes	30millions	5 Millions
Respondent E	No	No	Yes	Yes	25 millions	4 Millions

Remarks:

LGO, C and B : Local Government Office, Corporate and Business

S and C : School and Campus

I : Individual

PP : Political party

4.5. Challenge and obstacle for running printing business

Developing printing business is not simple. Challenge and obstacle must be solved by a young entrepreneur. The ability to overcome challenge and obstacles is the key factor for an entrepreneur for running successful on printing business. Based on respondent's statement, the main challenge and obstacle on printing business were grouped into: the intentions and motivations, skill and knowledge for operating supported tools, financial problem, and marketing.

4.5.1.Intention and motivation empowerment

Intention and motivation are the first challenge and obstacle for a fresh graduate from vocational school and universities for deciding entrepreneurship. The majority of respondents stated that being an entrepreneur was not a dream job while studying in school or in university. Generally, majority of respondents dreamed to be employees at government office, state enterprise, and private company. Intention and motivation begin to grow after gaining inspiration that became a successful entrepreneur will promise a much larger income than being a formal worker, flexible job, and wide relation. Inspiration and motivation for improving intentions were obtained by attending seminar, workshop, and internship. Vocational high school and university have a significant role to stimulate entrepreneurial intention and motivation of students through seminars, workshops and entrepreneurship training. Respondents admitted that while they were studying in school and university, seminars, workshops and training for entrepreneurship is rarely held by vocational schools and university. At the beginning of the development of enterprises, the respondents admitted that they did not have a strong intention and motivation to start own printing business. Without full Intention and motivation, the planning steps for developing entrepreneurship will not be directed.

4.5.2.Skill and knowledge problem for operating equipments.

Starting on printing business requires machines, tools and equipments. Almost all supporting equipments were operated manually. To produce satisfied printing products for all customers, the skills for operating supporting equipments was absolutely needed by entrepreneur. Respondents stated that they need a long time to be able to master the tool through an internship in printing companies. They got skill and knowledge by joining internship and part time job in small traditional and digital printing company. The role of higher education institution is very important to give soft skill for student and alumni to increase skill and knowledge for starting entrepreneurship.

4.5.3.Financial Problem

Financial problem is a classical challenge and obstacle for starting entrepreneurship. A beginner entrepreneur who wants to begin printing business requires at least IDR 10 millions for purchasing machines, tools and supporting equipments. Many ways can be done to overcome the funding obstacle. Based on the interviews with the respondents, the majority of respondents solved the financing problem by making a business proposal to a friend to start a joint venture with a certain profit sharing agreements. In addition, some respondents took the business loans from banks in Indonesia that provides small and medium enterprises scheme. Some banks in Indonesia such as Bank Rakyat Indonesia and Bank Bukopin provide loans scheme range from IDR 10-50 million for new entrepreneurs to open small and medium businesses. The second way was considered more risky than the first because an entrepreneur must be able to sell the product in a year for paying off the loan from the bank.

4.6. Conclusion

Starting on printing business is profitable for beginner entrepreneur from economic student and alumni. The market shares in printing business are local government office, corporate and business, school and campus, personal and political party and candidates. The economic student and alumni who wants to be entrepreneur of printing business need approximately IDR 10 million for purchasing supporting equipment. The main supporting equipments are PC, screen, harter machine and printer. The successful business promise net income more than IDR 10 million after running business more than 5 years.

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COLLECTIVIST VALUE-BASED ENTREPRENEURIAL MANAGEMENT MODEL IN INDONESIA

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Abstract

Positive values of Western management such as efficiency, discipline and respect for the role of the individual to influence the performance of the organization. American corporate management practices cannot be separated from values and rationality embraced by the community. Efforts to achieve organizational effectiveness depends on environmental factors, one of which cultural factors. Culture is the value system embraced by the environment, including the work environment. Based on Hofstede's cultural dimensions, the collectivist, Indonesia entrepreneurial management model has the potential to develop the business goals that have value and uniqueness.

In a collectivist society, the relationship between the individual and the organization is a moral relationship. Collective culture that Indonesia could also be a distinct advantage as it allows to build teamwork in the spirit of solidarity and harmony. Basic principle unscrupulous business as a whole needs to change and are aligned with the various aspects included in the performance assessment of the wise. The principle should be based on the beliefs, consciousness awareness and willingness to work together to form governance and unscrupulous business purposes. In terms of human resource management, Indonesia has a uniqueness of its own value. Regardless of theory X and theory Y, the ideas of Hofstede concluded that Indonesia has its own value system in which the work of the belief that work is a good thing for humans and what is desired by the harmony of God that man should use his capacity as much as possible. It can color the organizational goals to be aligned with individual goals regarding the values of goodness in a harmonious atmosphere.

The concept of dignified leadership also needs to be a top priority, defeat any leadership orientation. Values of virtue and wisdom that exists in every nation Indonesian cultural values need to be placed as a management philosophy and business organizations. Insights need to be ethical footing. Indonesia also has a model of entrepreneurial management embryos particular aspect of leadership that could be one of the factors that motivate employees. Indonesia has its own definition of a leader is sensed as a master. This term is different from the boss, which is based on the tradition of the master power and charisma, rather than the formal position. This paper seeks to provide a different perspective on the management of the organization and business culture of entrepreneurship in the context of Indonesia with a unique collectivist individual value system that can be

used as a basis of competitive advantage. The analytical method used is descriptive qualitative and triangulation technique.

Keywords: entrepreneurial management model, culture, collectivist

INTRODUCTION

Entrepreneurship is often associated with a country's economic growth. For example, the collapse of many large companies due to the economic turmoil in the United States behind the development of small businesses as a form of new jobs (Zimmerman, 2009). This phenomenon is relevant to the type of change agents in the economic system by Cantillon (1734) referred to as entrepreneurs (arbitrators) that the parties can make a profit under conditions of uncertainty. Say (1803) expanded the concept by adding functionality Cantillon entrepreneur an entrepreneur (owner of the company) as a coordinator, leader and manager. Entrepreneurs believed to be an agent that is able to identify market opportunities and seek to create new combinations of knowledge, resources, and existing facilities to address these opportunities (Schumpeter, 1934).

Various literature in Western countries describe as a successful entrepreneur figure -oriented businessman rivalry and the courage to take risks (Hatcher et.al, 2007). It is not independent of cultural values that lie behind them. Hofstede (1980) explains that there is a relationship between the courage to take risks individualism - collectivism. Individuals who come from countries with individualistic cultural values tend to be more independent and want autonomy in decision-making processes (Morris et.al, 1993) People in individualist cultures see failure as a natural thing that people more willing to take risk. It is also consistent with the need for achievement motivation theory McClelland (1960) that legitimizes individuals with individualism cultural background are more likely to become entrepreneurs than individuals with collectivist cultural background (Mueller and Thomas, 2000) .

But in its development, entrepreneurship phenomenon does not only occur in countries with cultural value of individualism. In some countries with backgrounds collectivism orientation, entrepreneurial practice is growing rapidly. China and Korea represent a picture of the success of the practice of entrepreneurship in countries with collectivist cultural values . This phenomenon began to occur but Indonesian entrepreneurial management practices can't be separated from the influence of the various models of successful entrepreneurship in western countries. While Indonesia as a collectivist country has its own value in the business behaves. Networking capabilities to be one important factor that determines the success of a business in Indonesia. Additionally, togetherness becomes very respected people of Indonesia and a major concern in running a business. This study aims to understand the meaning of togetherness in the practice of entrepreneurship and how the consequences of the management of the business with collectivist cultural background.

CHARACTERISTICS OF ENTREPRENEURSHIP

Hisrich (1990) believes that entrepreneurship is the creator of value through the sacrifice of time and are willing to bear the financial risk, psychological and social in order to obtain rewards and personal satisfaction . Drucker (1985) defines entrepreneurship as the spirit , skills , attitudes and behavior of individuals in managing business directed to find , create , implement ways of working , new technology and products efficiently for better service or achieving greater profit . Drucker describes further aspects of entrepreneurship. First, the ability to identify opportunities and exploit it by taking a series of activities changes. Second, self-confidence and a positive attitude. Third, leadership in directing behavior and is responsible for developing the business. Fourth, the initiative so as to foster creativity and innovation so as to produce a new product or method. Fifth, have a willingness to work hard are supported with perseverance and fortitude to achieve the goal. Sixth, have good vision and future-oriented. Seventh, the courage to take risk, even in conditions of uncertainty are supported by good analysis.

COLLECTIVIST CULTURAL VALUES

Values are the principles that determine a person's behavior. Value is the essence of a culture. Skinner (1981) defines culture as a set of behavioral reinforcement. Culture is a pattern of shared assumptions believed and studied by a group when solving a problem by adapting external and internal integration where the truth has been sufficiently taken into account so that it can be taught to new members of the group so that the individual is able to see, feel and think the working out their relations with existing problems. Culture is a collective phenomenon that is believed by the individuals who live in a place. Hofstede (1997) defines culture as the collective mental programming that distinguishes one group of people and another. Cultural values consists of two aspects, namely how one should behave and the attitudes a person's expectations of society (Hofstede, 2005). Collectivist cultural values characterized by the harmony, interdependence and contention avoidance (2005). Collectivist values potentially improve the effectiveness of the group and the ability to achieve a common goal (Zammuto, 1991). Harmonization is a binder in the strength of a group. Collectivist cultures also looked at the relationship between the leader and the follower as a relationship that is based on moral which acts as a protective leader and subordinates showed loyalty. In the management of a business or organization, collectivist societies interact emotionally. In an organization, individuals with collectivist values have a close relationship. Individuals in collectivist cultures are sensitive to social influence and importance of the development of related social skills (Hui and Triandis, 1986) . Collectivist society puts the interests of the group above the individual interests (Hofstede, 1997) .Group member identity for a person whose name is so well known concept of "we ". Group is a resting-place for its members. Collectivist societies legitimize the integration of individuals in a group with a

strong social cohesion and a sense of loyalty. Collective activities reigned supreme and promote harmony and cooperation to achieve group goals.

COLLECTIVIST CULTURAL VALUES AND ENTREPRENEURSHIP

Individuals in collectivist cultural values have a tendency to behave actively in building social relationships. This is in line with the theory that describes the networking that successful entrepreneurs have a positive pattern of relationship characterized by extended family and friends who was instrumental in the formation of social capital (Hommans, 1950) and has the potential to be a unique resource that can form a competitive advantage (Luczak et.al, 2010) . Types of relationships in collectivist cultures allows to access capital in the establishment of a business, the process of obtaining business ideas, ease in relationships with suppliers and distributors as well as advice for business development (Davidson and Honig, 2003).

The value of individualism - collectivism also associated with leadership and conflict resolution (Early, 1998). In collectivist cultures, being a leader is more paternalistic in as the father figure (Hofstede, 1991) . In the management of the business, an entrepreneur in countries with collectivist cultural values can assist and provide guidance to employees in achieving business goals. While individuals with collectivist cultural background in direct competition-oriented employees (Cundiff, 2010). .

ENTREPRENEURSHIP IN INDONESIA

Economic development in a country can't be separated from the support of qualified human resources. A large number of the population of Indonesia will be more appropriate when directed at improving entrepreneurship. This is due to the availability of labor conditions that are not comparable to the jobs available. Entrepreneurship became one chance in solving problems of economic development. The increasing number of businesses developed by entrepreneurship can create jobs and address the major issues facing Indonesia is important today is unemployment. Important role of entrepreneurship for a country composed of four terms. First strengthen economic growth by creating new jobs for the community. Second, increasing productivity by improving the ability to produce more goods and services, as well as the creation of new products. Third, the technology creates new products and services by utilizing the latest technology changes to enable the creation of new product innovations. Fourth, transform and rejuvenate the market by actively improving the quality of products that are ready and have the added value and competitive in price in order to increase competitiveness in the global market.

Indonesia is the world's largest economy's GDP at No. 16 with 45 million middle class . A total of 53 % of the population in the city contributed 71 % to the total GDP of 55 million skilled workforce of 118 million workers. Indonesia's

current market opportunities to reach 0.5 trillion U.S. dollars per / year. In terms of micro, small and medium enterprises (SMEs) , Indonesia proved to be more resilient to the economic crisis . As many as 50 % contribution of economic growth contributed by small and medium scale enterprises and 90 % of employers Indonesia is an actor in the business scale . The existence of small and medium scale enterprises showed entrepreneurial spirit of Indonesian society. Light of reason to build a business, the business actors in Indonesia is still driven by the family's financial situation is not good that the management of the business has not performed optimally.

METHOD

This study used qualitative methods grounded research approach in an effort to find a substantive aspects based on the fact that occur in the field. Stages of this research includes the step of sampling and data analysis. At this stage, open sampling covering business owners in two business areas in Purwokerto. In this stage also performed labeling, naming and preparation for the next category was open coding. In the second stage of relational and variational sampling done by taking samples in each area based on the behavior that is considered quite prominent in applying shared values in the business. Then performed case studies of businesses. The data obtained were then analyzed using axial coding. In the third stage of sampling differentiator through mechanisms benchmarking information against data obtained from expert informants. The data obtained were then analyzed using the selective coding.

RESULTS

This study suggests that the meaning of togetherness role in running a business. Entrepreneurs who are able to translate the meaning of togetherness in their business activities are better able to develop its business. Meaning of togetherness manifests itself in the form of efforts to build business networks. The process of sharing ideas, information and even advice gained from this activity. Willingness to share the build ties among the businesses. Some of them formed a community called community. Various agreements can be generated through a meeting between members of the association. Cooperation opportunities also arise from this activity. Circle of Friends is not only made up of similar business, but can also form from different businesses.

In terms of managing the employee, the more businesses to position themselves as the protector. Employees are directed to cooperate with each other. Business owners also have a sensitivity and awareness to the problems that arise between employees either work-related or personal. Not infrequently, business owners act as mediator and facilitates to reconcile. Therefore, the relationship between business owners and employees are not only limited to labor relations but

more like family. Form a relationship like this is able to foster a sense of loyalty and have on the employee.

CONCLUSION

Entrepreneurship growing trend in western countries with individualist cultural values influence the practice of entrepreneurship in eastern countries which tend to be patterned collectivist. Independence and courage to take risks that are based on the need to perform a major factor driving the success of an entrepreneur. In collectivist cultures such as Indonesia, developing entrepreneurship in different ways. Develop a business with a unique spirit that is able to deliver success for the business. Building a network is a necessity for businesses in Indonesia. Identity as well as the support can be obtained from this activity. In terms of managing employees, is able to direct the spirit of loyalty and feelings have on the employee.

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The Impact of Content Based Information on Entities without Public Accountability's Financial Accounting Standards (SAK ETAP) for Investment Decision Making in SMEs: A Case of BPRs in Banyumas Residency, Indonesia

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Abstract.

This study aims to provide preliminary evidence on the effect of risk based on the information content of Financial Accounting Standards Entities without Public Accountability (SAK ETAP) in the decision-making process of investment in SMEs by rural banks (BPR) in the former residency of Banyumas. SAK ETAP implementation impact for SMEs as a publisher of information because it can provide a better value in the assessment process of investment or credit by banks. For banks will facilitate the process of investment and credit analysis.

The method of this research is survey. There are 38 respondents' investment analysts at rural banks in Banyumas Residency, Indonesia. Object of study is the rural banks in the form of investment funds and credit on SMEs. Determination SAK ETAP encourages SMEs to develop good financial statements, thereby increasing the ability to attract investment in the entity. Research results indicate that environmental factors SMEs business and information relating to the financial condition of the SMEs is a major concern of rural banks as creditor or investor. The results also show that SMEs are presenting financial statements in accordance with SAK ETAP will gain a better appreciation by the rural banks. Market-related risk information presented in the financial statements as well is one of the considerations for rural banks in the lending process or through investment funds.

Keywords: SAK ETAP, SMEs financial statements, market-related risk information, rural banks

1. Introduction

Rural banks have special characters that have various forms of financial services as well as the savings and loan investments primarily aimed at serving small businesses and rural communities with simple systems and procedures and in accordance with the requirements (Sutopo, 2005). The implication is that a solid partnership and mutuality are the hallmark of rural bank compared with commercial banks.

The existences of rural banks for people in rural areas are expected to be the vanguard in financing the SME sector. However, commercial bank lending to SMEs is still low. This is caused by several things including the limited information regarding SMEs, SMEs high risk, and high interest due to inefficient banks, profit targets to be achieved and the price mechanism and price leader follower in lower interest rates (Baas and Schrooten, 2005).

In 2009, the Indonesian Accounting Institute (IAI) set Financial Accounting Standards for Entity without Public Accountability (SAK ETAP) for entities without public accountability. Entities without public accountability is an entity which has two criteria for determining whether an entity belonging to entities without public accountability, which does not have a significant public accountability and not publish general purpose financial statements for external users.

SAK ETAP effective per January 1, 2011 with earlier application permitted per January 1, 2010. Entity whose financial statements comply with IFRSs ETAP should make an explicit and unreserved statement of such compliance in the notes to the financial statements. The financial statements comply with IFRSs should not be declared unless ETAP comply with all requirements of the SAK ETAP.

SAK ETAP requires ETAP to prepare Balance Sheet, Statement of Income and Retained Earnings, Statement of Cash Flows, and Notes to Financial Statements. The SAK ETAP implicitly suggests to formulate the content of financial statements consider reporting associated with risk information. It is stated in Chapter 8. Notes to the Financial Statements paragraphs 25-38 of the Main Source of Information about Uncertainty Estimation, and Chapter 10. Investments in Certain Securities on the Recognition and Measurement (SAK ETAP, 2009).

Risk information plays an important role in the decision-making process, including investment decisions. Format the risk of revealing information relating to the historical data of risk, taken from the Balance Sheet ETAP is concerned.

This study aims to provide preliminary evidence on the effect of risk based on the information content of Financial Accounting Standards Entities without Public Accountability (SAK ETAP) for making investment decisions in SMEs by rural banks in the former residency of Banyumas, Indonesia. The research using survey methods, which investment analyst/credit in rural banks in Banyumas residency as the respondents.

Rural banks became the object of this study because the entity in the form of investment funds or credit, one of them partnering with SMEs as customers or debtors. Determinations of SAK ETAP encourage SMEs to develop good financial statements, thereby increasing the ability to attract investment in the entity (Rudiantoro and Siregar, 2012).

2. Theoritical Framework

Small and Medium Enterprises in Indonesia

Small and Medium Enterprises (SMES) is a term that refers to a type of small business that has a net worth of more than 200 million Rupiah, excluding land and buildings, and a stand-alone business. According to the Presidential Decree no. 99/1998, Small Business understands people's economic activities are small-scale business sectors that constitute the majority of small business and need to be protected to prevent unfair competition. Small business criteria according to Indonesian Law No. 9/1995 is as follows: it has a net worth of at most two hundred million Rupiah excluding land and buildings; has annual sales of one billion Rupiah; and owned by Indonesian citizen. Meanwhile, the characteristics of small and medium enterprises in Indonesia, in general are: management stands alone, in other words there is no distinct separation between the owner and manager of the

company; capital provided by an owner or a small group of capitalists; the operations is generally the local area, although there are also SMEs have overseas orientation, in the form of exports to trading partner countries; the size of the company , both in terms of total assets , number of employees , and a small infrastructure; standing alone, is not a subsidiary or branch company which is not owned, controlled by, or affiliated directly or indirectly with Medium or Large Business Enterprises; and shaped the efforts of individuals, business entities are not incorporated, or incorporated entity, including cooperatives.

SAK ETAP implementation for SMEs in Indonesia

IAI establish and publish SAK ETAP in order to answer the phenomenon that not all business entities carrying out public accountability. SMEs are one of the dilemmas facing entity related to public accountability, particularly on the entity's financial statements. SAK ETAP formation and ratification is expected to help SMEs accounting system for the provision of a better yet simple (Setiady , 2012) .

SMEs and the informal sector, social economy - which are often referred to as Micro, Small and Medium Enterprises (SMEs) - have viability in Indonesia. SMEs in Indonesia proved to still be able to survive when the monetary crisis hit Indonesia.

Based on the data of 2008, SMEs accounted for contributing to the GDP of Rp 2.121 trillion or 53.6% of the total GDP of Indonesia. Number of SMEs in Indonesia grow up to 99.98 % of the business units that are available.

Nevertheless, the development of SMEs in Indonesia often encounters obstacles in the form of capital. Therefore, the government through the Ministry of Cooperatives and SMEs provide capital assistance program through People's Business Loans (KUR), which is channelled through the banks in Indonesia.

In addition to the problem of capital, SMEs also face constraints related to the application of professional management. SMEs do not understand yet and need to be given about the importance of financial statements of a business. Accounting system for SMEs is generally very simple and tend to ignore the rules of the financial administration of the standard (default). In fact, the financial statements are accurate and the standard will help them in their business development efforts in quantitative and qualitative. Therefore the IAI has prepared a Statement of Financial Accounting Standards for SMEs in the form of SAK ETAP that have been enacted effective January 1, 2011.

GAAP principles important to note that the management of the SME business more effectively, efficiently and accurately, so that SMEs can manage their business in a professional and become a larger scale. The SAK ETAP is a principle, procedures, methods or rules of preparation of financial statements in Entity without Public Accounting (ETAP). The ETAP is a business entity that is not listed yet on the stock market or not in the process of filing in the capital market, and not a financial institution. Business entity in question here is for business units of small and medium scale economies (SAK ETAP, 2009).

When SAK ETAP applied by SMEs, the banks would respond positively, making it easier for banks to assess the business feasibility of SMEs to obtain credit support business development. In addition, SMEs will certainly have the financial data accurately useful for SMEs in an effort to further increase productivity, effectiveness and efficiency of the business. These financial

statements are the accounting process that is used as a means of establishment of the communication process between the financial data and information activities of the company. Financial statements are the raw materials in the chain of reasoning or decision-making process that is needed SMEs businesses, and can serve as a manifestation of accountability of management in professionally business.

Consideration Factors in the Process of Investment and Credit in Indonesia.

Many factors that investors consider investing in are neutral information, accounting information, and demographic aspects that influence investment decisions of investors (Christanti and Mahastanti, 2011). Meanwhile, according to Indonesian Law No. 7/1992 as amended by Law No. 10/1998 (the Banking Act) defines the supply of money or credit as equivalent claims based on a borrowing agreement or contract between the bank and other parties that requires the borrower to repay the debt after a certain period of time with interest.

Besides understanding the loan referred above, the Banking Act also recognized the existence of Financing based on syariah principles which constitute the provision of funds by a bank conducting business based on syariah principles, in the form of investment. Financing based on syariah principles to provide cash or the equivalent claims that, based on an agreement between the bank and other parties who require parties to repay the money or the bill after a certain period of time in exchange or for the results.

In the distribution of investment and credit, several factors into consideration by the banks. Assessment of business prospects include assessment of the following components: potential for business growth; market conditions and the competitive position of the debtor; quality of management and labour problems; support group or affiliation; and the efforts made by the debtor to preserve the environment. Meanwhile, the assessments of the borrower's financial performance include assessment of the following components: profit; capital structure; cash flow and sensitivity to market risk. Then an assessment of the ability to pay includes assessment of the following components: the timely payment of principal and interest; availability and accuracy of the debtor's financial information; completeness of loan documentation; compliance with the credit agreement; suitability of the use of funds; and the reasonableness of the source of payment obligations.

The Role of Banks in Financing SMEs to Strengthen Risk Management

Rural bank is one of the micro-finance institutions that have a potential role. Rural bank has been much in demand by SMEs to finance their business activities. Rural bank role in financing SMEs can spur economic growth and reduce people's dependence on government assistance.

In providing financing to the SMEs sector, the bank must undertake steps "prudential banking" and perform risk management as outlined in the standard operational procedures. Banks also have to monitor the course of the debtor's business, as well as implementing early warning system (EWS). EWS is a mechanism/system detection/recognition of the symptoms/signs of the beginning of which can influence/lead to the possibility of failure of the debtor to meet its obligations. EWS objective is to provide a sign/early warning of conditions that

borrowers are expected to have a negative impact on the smooth fulfilment of the obligations under the credit has been given. The bank also must conduct training and supervision of credit extended. Principles of coaching and supervision are: each stage of the credit granting process should be based on the principles of healthy credit, each loan must be an element of double supervision and oversight inherent continuously, every credit must monitored progress the debtor in question in order to achieve credit targets and prevent a possible reduction in credit quality, and every credit growth is not only monitored by credit officers, but also by the work unit formed by supervision function or the internal audit. In addition to coaching and supervision, the bank also had to presentable the credit documents, so that at any time can be monitored. Loan documentation is an integral part of the loan package, is one important aspect that can guarantee repayment, and loan documentation must be carried out properly, orderly and complete.

In the end, any officer/staff of the bank analyzes the role of a business debtor has to have a device that can be used, so that the risk management, as well as an early warning system can run well. And most of all, if all the standard procedures have been met, then the credit culture healthy will play an active role in making the bank can play a role in growing the economy and business debtors to SMEs.

3. Methodology

This research is a type of survey research, using a questionnaire containing questions on matters considered by the rural banking and investment in the process of channelling credit to the institution or category of SMEs. In addition, more specific questionnaire asking questions about the form and the content of financial statements of SMEs that become the focus of attention of investment analysts on rural banking and is about to give investment or credit.

Object of this study is on the rural banks and SMEs in residency of Banyumas. Subject of the research are investment analysts at rural banking in the former residency of Banyumas. The SMEs in the residency of Banyumas also be the subject of this research. The research location is the residency of Banyumas district, which covers an area of Banyumas, Cilacap, Purbalingga and Banjarnegara. The study was conducted on rural banking and SMEs in the area of the residency Banyumas.

This research consists of two kinds of data, primary data and secondary data. Primary data were collected using questionnaires, observations and field surveys through direct interviews with the subject and object of research. The secondary data obtained through documentation and literature on the rural bank and the SMEs.

The collected data will be processed using the method of tabulation of data, display data and category data. The data have been processed are also presented in the form of narrative text, the description of the systematic logical and rational in the order and position of the data of interest. Before the data were analyzed, the data quality tested by: source triangulation, for example by comparing and checking the degree of confidence in the information obtained through time and different tools; and triangulation method, which checks the degree of confidence in the results of the research findings with multiple data sources with the same method.

4. Result

Respondents' demographic data

In the course of questionnaires that have been performed, resulting in as many as 38 respondents that willing to complete and return the questionnaires. The average respondent has functions of a credit analyst for 8.087 years. Respondents of the longest working in this field for 23.5 years and have worked for at least 6 months.

It is known that the level of education of the analysts were 3 people graduate from high school, 8 people have passed from the Diploma III programme, 25 respondents passed from the S1 programme, 1 people passed from the S2 programme and 1 respondent is not willing to mention the level of education. It can be concluded that the majority of respondents analysts educated scholar of S1 programme (Table 1).

Table 1. Respondents' Demographic Data

Total respondents	38
Respondents educational background:	
• High school	3
• Diploma III	8
• S1 Programme	25
• S2 Programme	1
• NA	1
Respondents area of competence:	
• Accounting	3
• Financial management	6
• Legal	2
• Other	8
• NA	19
Respondents years of working experience:	
• Less than 1 year	4
• 1 – 3 years	6
• 3 – 5 years	7
• More than 5 years	16
• NA	5

Based on the area of competence, the respondent with accounting competence as many as 3 people. Respondents with financial management competencies as many as 6 people. Other competency areas mentioned were is legal competency (2), the management company as much as 2 people, and marketing management, agriculture, social, computer informatics, socio-political and credit analysts. A total of 19 respondents did not mention their specific competencies.

Judging from the experience of working as a credit analyst, most of the respondents have had experience working as a credit analyst for more than 5 years (by 16 respondents). A total of 7 respondents have experience of 3 to 5 years. A total of 6 respondents had worked as a credit analyst/investment for 1 to 3 years. Respondents who experienced a new credit analyst about a year by 4 respondents,

and 5 respondents did not mention the exact experience of working as a credit analyst.

Demographic data information related to credit analysis/investment

1. Previous work experience

Prior to working at the institution were 13 respondents stated rural bank has worked on similar financial institutions. A total of 25 respondents said that they had never worked at another institution. It can be concluded that most of the credit analyst/investment institutions have been working on in addition to the rural bank.

2. The need for information financial condition of borrowers/effort invested for credit analysis/investment

To complete the analysis of the requirements of the credit/investment, all of the respondents agreed credit analysts need information on the financial condition of borrowers/business to be analyzed. This was done to determine how the performance of the business of the debtor in the past and will be supported/helped increase business by credit/investment will be provided by the rural bank. Analyzes were conducted to determine the worth/not worth the effort given the debtor credit/investment.

3. Completeness of the financial statements required

The financial condition of borrowers' information required in the form of financial statements. Most respondents (19 people) stated require a complete financial statement to determine the financial condition of borrowers and 12 respondents said that knowing the financial statements fairly simple. A total of 3 respondents require full financial statements and simple to perform credit analysis/investment. There are also several respondents who require simple financial statements and other reports such as credit risk analysis, sales turnover, inventory, accounts receivable and personal data or company.

4. The establishment of borrowers/business to be invested

Based on the experience of the credit analyst/investment, the establishment borrowers most often analyzed financial statements are SMEs (answers from 16 respondents) and the individual debtor (answers from 14 respondents). A total of 5 respondents answered that prospective debtors balanced between individuals and SMEs.

5. Knowledge about SAK ETAP

Almost all respondents of credit analyst/investment know about SAK ETAP. A total of 25 respondents said that knowing SAK ETAP and 4 respondents did not know the SAK ETAP. SAK ETAP prepared to guide the preparation of the financial statements of public entities without accountability, and SMEs is one of the entities in question.

Result and discussion about the information business conditions

The first part will discuss the 6 respondents answer 38 statements in the questionnaire related to information business conditions companies/institutions SMEs, with an answer using a Likert scale (strongly agree, agree, disagree, and strongly disagree).

The first statement of the factors related to the use of capital, character, capacity, condition and collateral as consideration on acceptance or rejection of the submission of the investment/credit by SMEs institutions. Most respondents (35 people or 92.11%) stated strongly agree with the statement, while 3 respondents (7.89 %) agreed with it.

In the second statement, the respondents stated that the growth potential of the business to be considered in the decision of acceptance or rejection by the filing of an investment or loan SMEs institution in rural banks. Twenty one respondents (55.26%) strongly agreed and declared the rest (44.74%) agreed with the statement.

In the third statement, 20 respondents (52.63%) agreed that the market conditions and the competitive position of the debtor into consideration in the decision is accepted/rejected the submission of investment/credit by SMEs institutions. While, 15 others agree with this statement (39.47%) and the rest (7.89%) disagreed with the statement.

In the fourth statement, most respondents agreed (52.63%) that the quality of management and labour issues into consideration in the decision is accepted/rejected submissions investment/credit by SMEs institutions. While the other 13 states could not agree more with the statement (34.21%) and the rest of the 13.16% did not agree with the statement.

The fifth statement of this study stated that the support of a group or an affiliate of SMEs (if available) into consideration in the decision is accepted/rejected submissions investment/credit by SMEs institutions. Most of the respondents (65.79%) agreed and 13.16% said strongly agree with that. However, there were 7 respondents who disagreed with the statement (18.42%) and 1 person who strongly disagree (2.63%) with the statement.

Six questions relating to information agency business conditions of SMEs stated that the efforts made by the debtor to preserve the environment into consideration in the decision is accepted/rejected submissions investment/credit by SMEs institutions. For this statement, 5 people (13.16%) stated strongly agree, 16 people (42.11%) agreed, 13 (34.21%) disagree, and 4 people (10.53%) stated strongly disagree. Although the respondents' answers on this statement is spread evenly throughout the answer choices, but the majority of respondents have a tendency to agree with this statement (55.26%).

Results of this section in this study indicate that the information relating to the condition of the company's business/SME institutions will be considered for the lender or investor in deciding the acceptance or rejection of the submission of investment/loan. Therefore, companies or institutions SMEs should start to notice things related to the business condition information. Support from relevant institutions, governments and the environment where SMEs operate will give a positive value for the company/institution SMEs in the assessment process by the lender or investor. With the support and attention to the condition of information related to the condition of the company's business/SMSs institutions, creditors and parties expected or investors will invest and it is expected to overcome the difficulties of capital that is often faced by companies/institutions SMEs. Moreover, taking into account the factors and improving business conditions companies/institutions, SMEs are expected to improve the quality of products and or services, so as to expand or at least maintain their existing market. Production

management, management, labour, environmental preservation, as well as support groups or affiliates of SMEs into the main contributing factor in improving marketing capabilities of SMEs products and or services.

Result and discussion about the revelation of information relating to the financial statements

The second part of the questionnaire in this study discusses the statement - revelation of information relating to the financial statements. This section consists of 10 questions, with answers using a Likert scale (strongly agree, agree, disagree, and strongly disagree).

Seven statements relating to the profit will be considered in the decision is accepted/rejected submissions investment/credit by SMEs institutions. Most respondents answered strongly agree (63.16% or 24 people), while 11 people (28.95%) answer agree to the statement. Two or 5.26% respondents disagreed and one respondent or 2.63% strongly disagreed with this statement.

Eighth statement relating to the consideration of the capital structure of SMEs in the process of filing the investment/loan. Twenty four (63.16%) and 14 people (36.84%) stated strongly agree and agree that in consideration of the capital structure to be given credit or investment, both new and advanced. While, each 1 people (2.63%) disagree and strongly disagree when the capital structure used as one basis for consideration whether or not the loan application is approved or investments in SMEs.

Ninth statement states that the cash flow will be one consideration in the decision of acceptance or rejection of credit application tau fund investments by SMEs to the rural bank. Twenty five people, or 65.79% said strongly agree with this and 12 people or 31.58% agree. While, 1 people (2.63%) stated strongly disagree if the cash flow to be one consideration in the process of determining the credit or investment.

Tenth statement stating that sensitivity to market risk or the impact of changes in the market price of raw materials or products on the financial condition of SMEs into consideration in the process of obtaining loans and investments. The majority of respondents stated that they strongly agreed (36.84%) and agree (52.63%) to the statement. They are more likely to agree if the debtor or the debtor has a quantitative statements relating to the market risk, although the report was prepared in the form of a simple table (tabular format). There are only 3 people (7.89%) and 1 people (2.63%) who disagree and strongly disagree with the existence of market risk information.

Eleventh statement relating to the timely payment of principal and interest, in particular for the debtor or the debtor, who has been a customer at the rural bank that will or have become creditors. Twenty seven (71.05%) and 9 (23.68%) agreed with the statement. In addition to internal checks, the lender or investor, in this case of the rural bank, also will check through BI checking mechanism to find out the track record of the debtor or the debtor relating to the financing they have done.

Twelve questions relating to the availability and accuracy of the financial information of the debtor, in which 22 respondents strongly agree (57.89%) and 16 respondents (42.11%) agreed with it. Availability of information evidenced by the presence of simple financial statements by the SMEs agency/company. While the accuracy of the financial statements verified by reviewing the location of

SMEs are concerned, as well as efforts to obtain information from third parties, such as the surrounding environment as well as the track record of the institution/company in terms of SMEs financing.

Thirteen questions related to the completeness of documentation in the process of obtaining loans or investments. Most of the respondents (57.89%) strongly agree that states complete documentation, relation to the financial statements, will be a consideration in the selection of investments by credit or rural bank. While, 14 respondents (36.84%) agreed with it. Of the 38 respondents, each only 1 person (2.63%) who disagree and strongly disagree with the completeness of the documentation in the credit decision process and or investment.

Fourteenth statement relating to compliance with the loan agreement or investment. It turned out to be taken into consideration in the process of lending or investment by the rural bank. Proven with 25 people (68.42%) and 10 people (26.32%) respondents strongly agree and agree with the statement, and each only 1 respondent (2.63%) who do not agree and strongly not agree with that.

Fifteen questions relating to the suitability of the use of funds that will be given consideration in the process of acceptance or rejection of the submission of investment or credit to rural banks by SMEs. Twenty four respondents (63.16%) expressed strongly agreed with it and 11 respondents (28.95%) agreed. While, there are two people (5.26%) and one people (2.63%) which states disagree and strongly disagree with the statement.

The sixteenth statements relating to the reasonableness of the source of financing payments. It was responded by 17 respondents (44.74%) and 20 people (52.63%) who strongly agree and agree that the reasonableness of financing sources, which can be viewed through the company's financial statements of SMEs will be one of the basic considerations in the determination of credit or investment. Only one respondent (2.63%) who strongly disagree with the statement.

It can be concluded that the respondents in this case is the investment analyst stated that the information derived from the financial statements will be used as a basis for decision making loans or investments. The financial statements are arranged in a simple, and able to describe the overall condition of the company and outline. Respondents noted that most of the company's financial statements are classified as SMEs or ETAP has not been in accordance with GAAP – SAK ETAP. Rural bank party as creditor or investor will give a better appreciation of where SMEs are able to provide financial statements in accordance with SAK ETAP. In addition to the internal interests of SMEs, with the financial statements in accordance with GAAP ETAP will facilitate the rural bank in preparing credit and or investment decisions, and further reduces the possibility of bad loans or investments that do not function properly.

5. Conclusion

SAK ETAP defined by IAI and effective as of 1st January 2011 requires ETAP to prepare Balance Sheet, Statement of Income and Retained Earnings, Statement of Cash Flows, and Notes to Financial Statements. The SAK ETAP implicitly suggests to formulate the content of financial statements consider reporting associated with risk information. This survey involved 38 research analysts and investment in rural credit bank in residency in Banyumas, Indonesia.

The results showed that the information relating to the condition of the company's business/SME institutions will be considered for the lender or investor in deciding the acceptance or rejection of the submission of investment/loan. Therefore, companies or institutions SMEs should start to notice things related to the business condition information. Support from relevant institutions, governments and the environment where SMEs operate will give a positive value for the company/institution SMEs in the assessment process by the lender or investor. Moreover, taking into account the factors and improving business conditions companies/institutions, SMEs are expected to improve the quality of products and or services, so as to expand or at least maintain their existing market. Production management, management, labor, environmental preservation, as well as support groups or affiliates of SMEs into the main contributing factor in improving marketing capabilities of SMEs products and or services.

The result also can be concluded that the respondents in this case is the investment analyst stated that the information derived from the financial statements will be used as a basis for decision making loans or investments. The financial statements are arranged in a simple, and able to describe the overall condition of the company and outline. Respondents noted that most of the company's financial statements are classified as SMEs or ETAP has not been in accordance with GAAP – SAK ETAP.

The survey results of this study indicate that the SAK ETAP has not been comprehensively implemented in SMEs residency in Banyumas. While, the rural banks as providers of credit and investment funds assume that the preparation of financial statements in accordance with GAAP ETAP by SMEs - including the preparation of the risk as a condition of voluntary SAK ETAP - will give a positive value and increase appreciation of the process analysis analyst credit and investment. The results also showed that the components of the SAK ETAP is a major consideration in the determination of the rural bank or credit investment analysis and consists of the things pertaining to the capital, sources of credit and payment of funds investment management, as well as the provision of financial information that is relevant and reliable.

For that, it needs further socialization relates to the preparation of financial information in accordance with GAAP ETAP to the SMEs in the region of Banyumas residency. With the increased understanding of the preparation and implementation SAK ETAP, is expected to improve the competitiveness of SMEs and should not have a hard time to raise capital or funding through collaboration with the rural bank. In addition to the internal interests of SMEs, with the financial statements in accordance with SAK ETAP will facilitate the rural bank in preparing credit and or investment decisions, and further reduces the possibility of bad loans or investments that do not function properly.

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The Financial Performances Of Indonesian Chinese Merchandising SMEs

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Abstract.

Chinese ethnic plays important role in Indonesian economic development. Previous study usually examines social and political phenomenon of this role rather than analyze their economic fundamental through financial performance. Based on that gap, this research aims to find out the influence of managerial ownership, working capital, firm age and firm size on financial performance of Chinese Merchandising SMEs in Purwokerto. The location of the research is Chinatown Area in Purwokerto. The purposive sampling criteria used are non-gold merchandising SMEs, owns or manages by Chinese people. Final sample consists of thirty five SMEs. Hypothesis testing was done by the multiple regression analysis.

The result shows that working capital, firm age and firm size have influence on financial performance. In contrast to the expectations of stewardship perspective of family firm, there is no influence of managerial ownership on financial performance. The stewards in a business believe their interests are aligned with that of the corporation and its owner. It implied that Chinese is prefer to run their business using their experience and connection than technical system or business training. Other side, most of them are not prepared and not make any real calculation about their assets, revenue and cost. This practices making the owner or manager difficult to realize how much exactly their profit and loss from doing business. Eventhough traditional chinese business already dominated Indonesian economic for long time, bad accounting system will exposed them on going concern risks by Indonesian Government ratification of Free Trade Area.

Keywords: Chinese Merchandising SMEs, Managerial Ownership, Working Capital, Firm Age, Firm Size, Financial Performance

1. Introduction

Small and medium businesses have important role in Indonesian economy. Until 2010, data from State Minister for Cooperatives Small and Medium Enterprises, there are almost 54 million of SMEs and contribute 60% of GDP and accommodate 97% of workforce. The power of SMEs also showed when financial crisis in 1997, SMEs survived far better than larger companies. It makes government pay more attention in developing SMEs in case for economy growth and power facing the current financial crisis.

Related to Indonesia's economy, Chinese also had an important role in economic development. In Southeast Asia, people of Chinese origin have a remarkably strong

presence in trade and industry. The dominance of ethnic Chinese in the business start from Small Medium Enterprises to the large companies. Beside of the dominance of Chinese entrepreneur in Indonesia, there is some uniqueness about their culture and characteristic applied in their business.

In Indonesia, the Chinese are as ethnic minority. Because they were only about 3.5% of all Indonesia total population. Though minority in quantity, but in fact they controls 73 % of Indonesian economy (Permadi, 2007).

Some estimates about the Chinese business ownership in Indonesia, report that ethnic Chinese control up to 80% of Indonesia's corporate assets (and running 160 of the 200 largest businesses), 40-50% of Malaysia's corporate assets, 90% of Thailand's manufacturing and 50% of Thailand's services (Wu and Duk, 1995a; Weidenbaum and Hughes, 1996; in Wai and Yeung,1999).

Most of Chinese are entrepreneurs, especially in merchandising business. They learnt the business from their parents, then, if their parents going old, it is their turn to run their parents business. Some of them can expand their business while some others choose to close their parents business and build a new one. We can see that the Chinese businesses, generally are the family business. Other characteristic about Chinese business is in their areas. Here, we called it Chinatown or pecinan. Chinatown means the area where the most of the people in there are Chinese. This shows the exclusiveness of Chinese ethnic.

In the area of Chinatown generally consists of ruko, an abbreviation of house and store, and Pagoda, formerly called the Temple, is a place to worship the Goddess of Chinese citizens trust. The ruko along Chinatown is used to trade activity as well as the dwelling place of the Chinese people. This research chooses the business which the owners or managers are Chinese, and most of them are in the Chinatown, and in along the main street of Purwokerto.

Related to Chinese business characteristic, this research tries to analyze the effect of managerial ownership, working capital, firm age, and firm size to financial performance of Chinese Merchandising in Purwokerto. Most researches about family business in Indonesia focus on large family business. This research focuses on Small Medium Enterprises special Chinese SMEs on merchandising. Then the research about Chinese business in Indonesia is still rare, whereas, the dominant business owners in some big area are Chinese.

Previous research, Chu (2009), found that the association between managerial ownership and firm performance is stronger in small and medium-sized enterprises (SMEs) than in large companies. Andreyani (2012) analyzed factors affecting capital structure of SMEs in Purwokerto found that firm age, firm size, asset structure, profitability and firm growth have simultaneously given significant influence on capital structure in SMEs. Type of ownerships divided into family ownership, corporate ownership and corporate blockholder (Roida and Nekhasius, 2011: 913). In this case, researcher would not include the two of type of ownerships which are corporation and blockholder in this analysis because of based on preliminary research found that there is no one SMEs has kind of these ownerships. Ownership and management succession is becoming an increasingly important business development issue in the owner-managed SME sector. Some owner-managers do not recognise succession as an issue and make no succession plans (Martin, 2000). Managerial ownership is used in this research as differ with family ownership who just own their business and choose other person out of family members to run their business. Other side, there are business owned and managed within same family members. In this research, the study follow the stewardship perspective of family firm. In stewardship theory, the model of man is based on a steward whose

behavior is ordered such that pro-organizational, collectivistic behaviors have higher utility than individualistic, self-serving behaviors. Stewards believe their interests are aligned with that of the corporation and its owners. Thus, the steward's interest and utility motivations are directed to organizational rather than personal objectives (Davis et al.; 1997: 24-25).

2. Theoretical Framework and Hypothesis Development

There are 4 hypotheses in this research using the stewardship perspective of family firm. The stewards in a business believe their interests are aligned with that of the corporation and its owner. Generally the relationship between managerial ownership and general performance is still unclear. Several researches argue a positive relationship between managerial ownership and performance, other authors establish the opposite. This leads to first hypothesis:

H1: Managerial ownership has influence on financial performance

Working capital management is important because of its effects on the firm's profitability and risk, and consequently its value (Smith, 1980; in Banos-Caballero et al., 2006). Most SMEs do not manage their short-term fund effectively. This leads to second hypothesis:

H2: Working Capital has influence on financial performance

Loderer (2010; in Andreyani, 2012) finds a highly significant negative relation between firm age and profitability. Stinchcombe (1965; in Majumdar; 1997: 233) argues that older firms are more experienced, have enjoyed the benefits of learning, are not prone to the liabilities of newness (and can, therefore, enjoy superior performance) but most theory about firm age and performance are equivocal.

H3: Firm age has influence to financial performance

Larger firms, because of their superior resource stock (e.g. finance, technology, human capital, etc.), are expected to be more successful in international markets than smaller firms (Aaby and Slater 1989; Katsikeas and Piercy 1993; Philip 1998; in William, 2011: 156). SMEs that have more employee can give more service to customer, this leads to the fourth hypothesis: H4: Firm size has influence to financial performance.

3. Research Method

a. Type of Research

This research is a quantitative. Primary data are used in this research.

b. Population and Sample

For this research, population is the merchandising business in Purwokerto owned / managed by Chinese. The sampling method using purposive with the criteria as follows:

1. Merchandising SMEs in Chinatown areas in Purwokerto
2. The owners or managers are Chinese people

3. Non-gold merchant SMEs

c. Data Collection Method

The method in collecting data used in this research is by questionnaires, by inserting a list of questions relating to research distributed to the respondents and collected it directly.

d. Types and data collection

The type of data that will be used in this research is primary data. Data are obtained by questionnaires. Questionnaires are distributed to managers or owners of SMEs.

e. Methods of analysis

Variables identification and operational definitions:

1) Dependent Variable

Measuring financial performance (Y) uses revenue per year. It is assume that SMEs not make any financial statements.

2) Independent Variable

a) Managerial Ownership (X1)

b) The measurement is represented with the percentage of equity or ownership owned by family members.

c) Working Capital (X2)

d) The working capital is the basic capital of the firm to run their business exclude land and building. These data are available from SMEs database in Department of Industry, Trade and Cooperation Banyumas.

e) Firm Age (X3)

f) Number of years since the starting year of SMEs's operation until the year of the observation. It follows the method of Villalonga and Amit (2006), that firm age is measured as the number of years since the founding of the firm or the oldest of its predecessor companies.

g) Firm Size (X4)

h) According to Lijun and Hongan (2011; in Andreyani, 2012) firm size is owned and operated business, characterized by the number of employees and turnover obtained. The size was measured using number of employees.

Multiple Linear Regression Analysis is to determining the relationship between independent variable and dependent variable. Multiple linear regression analysis is used in this study because more than two independent variables exist. The multiple linear regression analysis model is:

$$\text{Ln } Y = a + b_1 \text{Ln} X_1 + b_2 \text{Ln} X_2 + b_3 \text{Ln} X_3 + b_4 \text{Ln} X_4 + u_t$$

Description:

Y = Revenue per year

x₁ = Managerial ownership

x₂ = working capital

x₃ = firm age

x₄ = firm size

b_{1,2,3,4} = regression coefficient of each variable α = Constanta

4. Results

a. Classical Assumptions Test

Classical assumption test in this study consists of normality test, heteroscedasticity using glajser test between the predicted value of the dependent variable (ZPRED) with the residual (SRESID), as well as multicollinearity test using Variance Inflation Factors (VIF) and tolerance value.

1) Normality Test

Normality test method used is Kolmogorov-Smirnov. Standardized normal curve residual value is spreading. If the Kolmogorov-Smirnov Z < Z tables, or value Asymp. Sig. (2-tailed) > α , then the distribution of data is spreading normally and vice versa. The result shows that the sign is 0,842. It means that the test results show normal distribution of all variables and significance values are greater than 0.05. Thus it can be concluded that all the variables are normally distributed.

2) Multicollinearity Test

Based on the test results, it can be seen that the values of VIF for each variable is less than 10 and Tolerance values are less than 1. So, all variables are free from multicollinearity symptom.

3) Heteroscedasticity test

Symptoms of heteroscedasticity are indicated by the regression coefficient of each independent variable to the absolute value of residuals (e). If the value of the probability > alpha value (0.05). It is certainly that it does not contain elements of heteroscedasticity symptoms. The test results show that the firm age variable has sig. 0.008 < alpha 0.005. Thus there is a symptom of heteroscedasticity is detected in the model.

b. Multiple Regression Analysis

Determining the relationship of variable managerial ownership, working capital, firm age and firm size to the financial performance using multiple linear regression analysis:

$$\text{LnY} = 12.701 + 0.957\text{LnX1} + 0.434\text{LnX2} - 0.662\text{LnX3} + 0.524\text{LnX4}$$

Constant value of 12.701 means variable financial performance is 12.701 percent under the assumption that the variable managerial ownership, working capital, firm age, and firm size are constant. The coefficient of 0.957 LnX1, means the variable managerial ownership has a positive relationship to financial performance. It suggests that the increase in variable managerial ownership will increase financial performance. The coefficient of 0.434 LnX2, means the variable working capital has a positive relationship to financial performance. It suggests that the increase in variable managerial ownership will increase financial performance. The coefficient of -0.662 LnX3 means the firm age has a negative relationship with financial performance. It suggests that the increase of firm age will lower the financial performance. The coefficient of 0.524X4 means that the firm size has a positive relationship with financial performance. It suggests that the increase of firm size, the financial performance will rise.

1) Coefficients Determination

The coefficients determination (R square) is 0.567 means that managerial ownership, working capital, firm age and firm size can affect the financial performance for 56.7%. The financial performance is affected by others variables outside this regression model for 43.3%.

2) T test

Understanding the influence of managerial ownership, working capital, firm age, firm size, toward financial performance variables uses t test. By using 95% ($\alpha = 0,05$) level of confidence and (n-k) degree of freedom, the result of ttable is 2.037.

a) Managerial Ownership

The tstatistic for managerial ownership (X1) is 1.677 and there is $t_{\text{statistic}} \leq t_{\text{table}}$. Thus it can be concluded that managerial ownership variable as partially has no influence on financial performance. So, the hypothesis that managerial ownership influence the financial performance is rejected.

b) Working Capital

The tstatistic for working capital (X2) is 2.798 and there is $t_{\text{statistic}} > t_{\text{table}}$, Thus, it can be conclude that working capital variable as partially has influence on financial performance. So, the hypothesis that working capital influence the financial performance is accepted.

c) Firm Age

The tstatistic for firm age (X3) is -3.790 and there is $t_{\text{statistic}} > t_{\text{table}}$, Thus, it can be concluded that firm age variable as partially has influence on financial performance. So, the hypothesis that firm age influence the financial performance is accepted.

d) Firm Size

The tstatistic for firm size (X4) is 2.664 and there is $t_{\text{statistic}} > t_{\text{table}}$, Thus, it can be concluded that firm size variable as partially has influence on financial performance. So, the hypothesis that firm size influence the financial performance is accepted.

3) F Test

F test is used to test the goodness of fit, also called simultaneous test. (Suliyanto, 2011). We must compare the F statistic with F table with degree of freedom : df: α , (k-1),(n-k) by using 95% level of confidence, and k is 3, and n is 35. F table is 3.295, from df: 0.05, (3-1),(35-3). Because F statistic (9.828) > F table (3.295), it can be concluded that the multiple regression model is fit. It means that there is simultaneous effect of managerial ownership, working capital, firm age and firm size on financial performance.

c. Discussion

The first hypothesis is managerial ownership variable has no influence on financial performance. This result contradicts with Chu (2011), who explained that managerial ownership is positively associated with performance in SMEs in Taiwan. It is because the managerial members tend to treat the business as a private bank, as explained by Shleifer & Vishny (1997; in Chu 2011). The general causes, the lower financial performance it because low quality of management, for example, they do not make any calculation for revenue and cost each day or month, so they do not realize how much the real net income for the day or month.

The second hypothesis, working capital has influence on financial performance. This result is similar to the argument of Smith (1980; in Banos-Caballero et al., 2006) that suggested working capital management is important because of its effects on a firm's profitability and risk, and consequently its value.

The third hypothesis, firm age has influence on financial performance. This research is similar to Andreyani (2012) who found that the firm age has no influence to capital structure. As noted by Aldrich and Auster (1986; in Thornhill and Amit, 2003), "The major problem facing smaller and younger organizations is survival, whereas larger and older organizations face the problem of strategic transformation". Younger business are searching for strategy being exist in tight competitive.

The fourth hypothesis, firm size has influence on financial performance. This result is similar to Symeou who analyzed the firm size to firm growth, and found that higher growth potential is more important for firms operating in small than in large economies. From the observation done, the bigger firm size measured by number of employee means the firm can serve more customers, so it is can be part of a quality of serving.

From the interview with the owner and manager of SMEs, they have sigh about the competition in current business environment. Tight competitions among the same business, increasing number of new competitor with competitive price, oftentimes affect their revenue. Then, more minimarts in some area, with additional facilities and better service also reduce their customers, indirectly.

Low competitiveness and business innovation can be one of the causes of the decline of the business. Actually for some businesses which had run for more than 15 years, and still run by the first owner, they complain about the current business environment but they did not make some innovations or try to diversify their skill or products or services. It can be seen that the good business, although they had been running for more than 15 years, but still being a priority choice by customer to shop, they can make a good strategy facing the competition. So, for several years, they can expand their business.

May the basic skill or the characteristic of Chinese entrepreneurship is not only the basic skill of Chinese entrepreneurial character that become the main capital, but it is accompanied by an increase in the ability to analyze market developments and competition. So the improvement of SMEs performance can be reached.

5. Conclusion, Implication, Limitation

5.1 Conclusion

Based on the research and discussion, the conclusion can be summarized as follows:

1. Managerial ownership has not influence on financial performance
2. Working capital has influence on financial performance
3. Firm age has influence on financial performance.
4. Firm size has influence on financial performance.

5.2 Implication

1. The owners or managers of SMEs should make a simple notes or calculation about their revenue and cost so they can know how much their net income for each day or month. They may use the Chinese culture of business so that they can differ the business need and their privat needs.
2. The government should give more attention to all of SMEs to help them build more performance and protect them from the global and tight competition in current time.
3. This research can be a reference to arrange other researches about the uniqueness of one ethnic culture that applied to the business activity. Next researches can analyze the behavior of owners or managers of SMEs in running their business or adding other variables.

5.3 Limitations

1. There is heterosdasticity symptom in the model of variable firm age. Whether the model has been transformed into Ln, but there is still heterosdasticity symptom.
2. When collecting the data, specially for primer data, many sample respondents are rejected to be used as sample. Especially when they asked about their revenue or capital.
3. In this research, the population of Chinese in Purwokerto, and other data related the Chinese community of Purwokerto or Banyumas are not available. And the sample is only 35 Chinese Merchandising SMEs. In future research, it is expected to add more sample with different criteria.
4. This research is done only in Chinatown in Purwokerto. Future researches may expand the area of research.

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7. APPENDIX

Table 1. Description of sample

Data from The Ministry of Cooperation and SMEs	999
SMEs in Purwokerto	494
SMEs in Chinatown	48
Gold merchant in Chinatown	5
Rejected	8
Respondents	35

Table 2. Description of managerial ownership

No	Percentage of managerial ownership	Amount (SMEs)	Percentages
1	0%	1	2.86
2	50%	2	5.71
3	60%	1	2.86
4	70%	1	2.86
5	80%	1	2.86
6	90%	1	2.86
7	100%	28	80.00
8	Sum	35	100,00

Table 3. Description of working capital

No	Working capital (Rp)	Amount (SMEs)	Percentages (%)
1	≤50.000.000	8	22.86
2	50.000.001 – 500.000.000	26	74.29
3	>500.000.000	1	2.86
	Sum	35	100%

Table 4. Desription of firm age

No	Age (years)	Amount (SMEs)	Percentages
1	≤10	4	11.43
2	11 - 20	13	37.14
3	≥ 21	18	51.43
	Sum	35	100.00

Table 5. Description of number of employee

No	Business Size (number of employee)	Amount (SMEs)	Percentages
1	≤ 4	12	34.29
2	5 – 19	23	65.71
3	>20	0	0
	Sum	35	100.00

Table 6. Multicollinearity test result

No	Variable	Collinearity Statistics	
		Tolerance	VIF
1	Fam Ownership	0.760	1.315
2	WorkingCapital	0.793	1.261
3	Firm age	0.811	1.233
4	Firm size	0.778	1.286

Table 7. Multiple regression analysis

Variable	Coefficient	Tstatistic	Probability
Constant	12.701	4.770	0.000
Managerial ownership	0.957	1.677	0.104
Workingcapital	0.434	2.798	0.009
Firm age	-0.662	-3.790	0.001
Firm size	0.524	2.664	0.012
	R ₂ = 0.567	F statistic = 9.828	

FACTORS AFFECTING TAXPAYER'S WILLINGNESS TO PAY SME'S TAX IN "KELOM GEULIES" SME'S IN TASIKMALAYA,INDONESIA

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Abstract.

Small Medium Enterprises (SMEs) are dominant forms for organisations in most countries including Indonesia. SMEs play an important role in the economy, as at least 99% of activities in Indonesia has been dominated by SMEs. Indonesian Government begins to collect one percent of sales tax from Small Medium Enterprises (SME) by September 15, 2013. The matter is stipulated in the Governmental Decree 46/2013. The regulation is effective on SMEs with gross revenue of no more than 4.8 billion IDR per year with permanent establishment. Thus SMEs have very high stream of revenue for government's developent projects. Nevertheless, willingness to pay tax (tax compliance) among SME's taxpayers is still poor. The aim of this study was to identify the factors that affecting taxpayer's willingness to pay SME's Tax (i.e tax knowledge, managerial benefit, SME's tax socialization). The population of this study was the whole of 115 "Kelom Geulies" Owners who has business license and registered in The Department of Cooperatives and SMEs (Small and Medium Enterprises) Tasikmalaya Trade and Industry in 2012. Sampling method conducted in this study was judgement sampling, which consisted of 47 SME's owners. Using multivariate regression, the result of the study shows that tax knowledge, managerial benefit of tax, SME's tax socialization, have positive effect toward willingness to pay SME's tax.

Keywords: SME's Tax, Willingness to Pay SME's Tax, Tax Knowledge, Managerial Benefit, Tax Socialization, Kelom Geulies SME

1. Introduction

The fundamental objective of any governmental tax system is to reach its genuine expected revenue to finance the state's expenditure. This can only be accomplished if all taxpayers willingly obey with the tax laws. Nowadays, the Indonesian government revenue from taxation sector has reached more than 800 trillion IDR. However when compared to the existing potential tax, it is necessary to take measures in the fields of breakthrough expansion and intensification of tax collection. The evidence suggests, the level of taxpayers compliance in meeting their tax obligations is low. For individual taxpayers, as reported via tax return (SPT) only amounted to 8.5 million while the number of people actively working in Indonesia amounted to 110 million (BPS, 2012). That is, the ratio of individual taxpayers to active workers only reached 7.73%. In other words, the level of taxpayer compliance is still low. For enterprises, the reported tax payments through the submission of tax returns only 466.000 while the number of business entities that remained active was about 12.9 million. Therefore, the ratio of enterprises taxpayers to active entities only reaches 3.6%. This figure represents the level of corporate compliance is also low (The Directorate General of Taxes, 2011). Indonesian government sees that SMEs are a potential source of tax revenues as SMEs contribute to the Indonesian GDP was of 61.9%.

SMEs in Indonesia were initially only be seen as an important source of job opportunities and became the main driving force in economic development in rural areas. But lately along with

intensifying globalization, emphasizing the importance of the SMEs in Indonesia is also experiencing a change that is expected to serve as one important source of such an increase in non-oil exports in developed countries (Tambunan, 2002).

According to the Government, small and medium enterprises being profit generating establishments are also expected to pay their dues. Hence, Indonesian government passed a Government Regulation No. 46 of 2013, which entrepreneurs of small and medium enterprises (SMEs) with income less than 4.8 billion IDR in a year must pay one percent of income tax starts in September 15, 2013. The new regulation will enable the state to gain 30 percent of gross domestic product (GDP). Thus, economic potential can increase up to 30 percent of GDP or 2,500 trillion IDR. This regulation doesn't apply to SMEs using knock and down system on their facilities or tax payers who use public facilities for their business like street vendors. Tax base used to calculate the final income tax is monthly turnover. Every month, the taxpayer will pay the final income tax based on final one percent of the monthly turnover.

As well as the development of SMEs can also be seen in Tasikmalaya. Tasikmalaya is one of the cities in West Java which has a special feature, having Small Industrial City Crafts. Potential of Small Industry is growing every year. Until the end of 2011, 3779 units was spread over 130 business centers. The investment reached a value of 276,607,782,300 IDR with a production value of 1,344,791,876,000 IDR. Such SMEs are able to absorb of around 36 472 people (Disperindakop, 2012). Commodities produced reached 23 small industrial commodities such as border, clogs geulis, furniture, batik, sandals, woven rushes, woven pandanus, bamboo crafts, umbrella Geulis, convection and various types of food. A large number of SMEs that have the potential for increasing the tax.

2. Conceptual Framework and Hypotheses

2.1. SMEs Income Tax

Small and medium sized enterprises (SMEs) play a significant role in the Indonesian economy. SMEs account for over 99 percent of all firms in all economic sectors and employ over 95 percent of the population. In Indonesia there are three definitions of SMEs from the Ministry of Cooperatives and Small and Medium Enterprises, Ministry of Finance Decree. 316/KMK.016/1994 dated June 27, 1994, and Law No. 20 year 2008. This study follows the last definition from the law of Republic of Indonesia Number 20 year 2008. According to Law No.20 year 2008, micro business are the business that have net assets up to 50 million IDR; or have annual revenue from sales up to 300 million IDR, small businesses are the businesses that have net assets over 50 million IDR to 500 million IDR or have an annual revenue from sales over 300 million IDR to 2.5 billion IDR. While medium-sized enterprises are businesses that have have net assets over 500 million IDR to 10 billion IDR or have annual revenue from sales more than 2.5 billion IDR to 50 billion IDR. To increase the country's revenue, the government has issued government regulation No.46/2013 on Income Tax on Income Derived from Business or Received or Obtained by Taxpayer Who Has a Certain Gross Turnover. Based on the regulation, SMEs who are subject to 1% income tax are individual or corporate taxpayers who receive income not exceeding 4.8 billion IDR a year.

Despite of the reality that SMEs' increasing the importance on policies and economies of countries, their low performance with accomplishing their tax obligations is identified as a problem (Ahmed and Braithwaite, 2005). Moreover, SMEs are commonly non-professional companies. Therefore, they are more likely to be run by an individual. As a result, their behaviours are closer to individuals. In order to improve tax compliance and bring SME back into the formal sector initiate an awareness campaign among SME to provide information on the taxation system.

2.2. Willingness to Pay SME Taxes

Willingness to pay SME tax can be interpreted as a value contributed by a person who willingly defined by regulation that are used to finance public expenditures by the state does not receive reciprocal services (contra) directly (Monica Dian, 2011). Several factors are likely to affect the willingness to pay the tax, i.e understanding of the taxpayer's tax laws (Hardiningsih and Yulianawati, 2011; Widiyanti & Nurlis, 2010), a good perception on the effectiveness of the tax system (Rantung and Adi, 2009), perceived quality services (Hardiningsih and Yulianawati, 2011), awareness of tax (Hardiningsih and Yulianawati, 2011; Suryadi, 2006)) and managerial benefits (Lignier, 2009).

2.3. Relationship between Tax Knowledge and Willingness to pay SME taxes

Knowledge is influenced by many things, among other factors formal education . One's knowledge about an object contains two aspects: positive and negative . Both of these aspects will determine the attitude of a person. The more positive of the knowledge the more positive aspects of the particular object (Fidel, 2004 cited in Ghoni, 2011). According to Nugroho (2012), higher knowledge and understanding of the taxpayer leads to a better conformance with the tax regulations. Taxpayers who do not understand the tax laws are not likely to obey the tax. Thus a better understanding of the taxpayer's tax rules, the tax payers will be more aware of the sanctions that will be accepted when shirking its tax obligations. Thus, taxpayers who have to understand the rules properly, will usually do the tax rules in accordance with what is stated in the tax laws (Hardiningsih and Yulianawati, 2011). Moreover, research conducted by Widayanti and Nurlis (2010) suggests that understanding and knowledge of taxes have a significant effect on the willingness to pay SME taxes. Thus it can be hypothesized that:

H1: Tax knowledge has positively influence on the willingness to pay SME taxes

2.4. Relationship between Managerial Benefit and Willingness to pay SME taxes

Managerial benefits are the benefits that may rise due to a condition in relation to tax regulation to retain records, such as better record-keeping, the use of technology, enriched knowledge of financial activities of the business specifically in the form of increased knowledge of their complex accounting information systems and improved business or managerial decisions (Smulders *et al.*, 2012). Managerial benefits can be of better financial information that leads to a faster managerial decision-making. The impact of compliance with the tax system forces business owners to introduce management and financial records in a more efficient way. Managerial benefits resulting from tax compliance activities are more likely to arise in small organizations where accounting information systems are relatively undeveloped (Lignier, 2009). Research on the benefits of tax-related managerial investigated by Lignier (2009), research conducted in 2006-2007 to investigate the perception of managerial benefits of tax compliance on small businesses that pay taxes. Sample survey of 300 small business taxpayers in Australia , using semi-structured interview to the owner of the company. The results showed that the majority of small business taxpayers recognize that tax compliance has led to a better record and a good knowledge of their financial activities. Another research was conduct by Rametse, N (2010), a survey of 868 small businesses in Western Australia showed that small businesses claimed the burden of preparing for the implementation of the GST to be an onerous task, with high gross costs incurred, estimated at \$7,888 per small business and \$5,667 million for the whole Australian

economy. Conversely, notwithstanding their high GST start-up compliance costs, three years after the application of the GST, particular small businesses informed managerial benefits resulting from better record-keeping and the usage of technology. Thus it can be hypothesized that,

H2: Managerial Benefit has positively influence on the willingness to pay SME taxes

2.5. Relationship between Tax Socialization and Willingness to pay SME taxes

Socialization is a process by which people learn the system of values, norms and patterns of behavior expected by the group as a form of transformation of the person as an outsider to be an effective organization (Basalamah, 2004:196). Tax socialization is the process of delivering information about all things related to taxation to the public in general and taxpayers in particular. In a study conducted by Adiyati (2009), who conducted a study on the effect of taxes on the level of socialization of tax compliance on Jakarta area, suggests that tax socialization has a significant and positive impact on tax compliance. Tax compliance is the individual willingness of a person to pay taxes that is influenced by the person's idea of the principles and the values of morale, of the fairness of the tax, of his or her trust in for the country, of the awareness of how the tax revenues are used, of the tax system of the country, of the tax policy, of the administrative policy, of the individual and the cultural characteristics of the person (Lillemets,2009). Thus it can be hypothesized that,

H3: Tax socialization has positively influence on the willingness to pay SME taxes

3. Methodology

The object of this research was the factors that effect the willingness to pay SME taxes of the SME owner's. This research use primary data and secondary data. Primary data is obtained from the result of questionnaires to SME's owners. The population of this research is Kelom Geulis SMEs in Tasikmalaya. The population consists of 115 SMEs and the samples are from 42 SMEs. This research uses a judgment sampling method. This research uses multiple regression analysis, and the data was analyzed using SPSS 21 software.

3.1 Data Collection Instruments

Self-administered questionnaire was used for data collection. The questionnaire was designed according to the objectives of the research with mostly close-ended questions using a 5 point scale ranging from 1- Strongly disagree to 5- Strongly agree.

3.2. Measurement of Variables

Willingness to pay SME taxes was measured based on an instrument developed by Widayati and Nurlis (2010), and was measured with 5 items. Respondents were asked to indicate: consulting before making tax payments, the documents required to pay taxes, information on how and where tax payments, information regarding the tax payment deadline, giving up some value to pay taxes. The dependent variable was measured with a 5-point Likert scale. Tax knowledge was measured used Widayati and Nurlis (2010) instruments with 6 items. Respondents were asked to indicate: TIN registration for any taxpayer who has income, knowledge and understanding of the rights and obligations of the taxpayer, knowledge and understanding of tax penalties if violated, knowledge and understanding of non-taxable income, and tax rates, knowledge and understanding of tax laws through the dissemination, and knowledge and understanding of tax laws through training. Managerial benefit was measured using Lignier (2009) instrument that consisted of 6 items, namely the benefits that can be

derived from corporate taxpayers (SMEs), the taxpayer will have a neat bookkeeping, easy to know the financial position of their business, easy to determine the level of benefits it has, can monitor cash flow, and can monitor debtors and creditors. Tax Socialization was measured by using a 5-point Likert scale for 4 items, i.e. the contents of the message in the socialization taxes sufficient to provide information on the importance of taxes. Socialization background made the respondents realize the importance of the tax to the state tax. Moreover, the higher frequency of taxes socialization can arouse willingness to pay SME taxes

4. Results

4.1. Respondents Characteristics

The respondents of this research are 42 the owners of Kelom Geulis SMEs in Tamansari Sub District, Tasikmalaya. Questionnaires were distributed to all 42 respondents, and all questionnaires were returned. The respondents obtained the following characteristics: By Gender, of the 42 respondents, as many as 36 respondents or 85.714 percent are male and 6 respondents or 14.286 percent are female. For more detail, it can be seen in table 4.1 below.

Table 4.1. Respondent Characteristic by gender

Gender	Frequency
Male	36
Female	6
Total	42

Respondent characteristic based on age, of the 42 respondents, as many as 10 respondents or 23.81 percent are aged less than 30 years old, 21 respondents or 50.00 percent are aged 30-45 years old and 11 respondents or 26.19 percent are aged over 45 years old. For more detail, it can be seen in table 4.2 below.

Table 4.2. Respondent Characteristic by age

Age	Frequency
<30	10
30-45	21
>45	11
Total	42

Based on the period of running the business, of the 42 respondents, as many as 22 respondents or 52.381 percent have been running the business 1-10 years, 13 respondents or 30.95 percent have been running the business for 11-20 years and 7 respondents or 16.67 percent have been running the business over 20 years. For more details, it can be seen in table 4.3 below.

Table 4.3. Respondent Characteristic based on period of running the business

Period	Frequency
1-10	22
11-20	13
>20	7
Total	42

Based on education background, of the 42 respondents, 11 respondents or 24.53 percent have level of elementary school, 4 respondents or 9.43 percent have level of a junior high school, 21 respondents or 52.83 percent have

level of high school education or equivalent and 6 respondents or 13.21 percent have level of Bachelor Degree of education. For more details, it can be seen in table 4.4 below.

Table 4.4. Respondent Characteristic based on Education background

Period	Frequency
Elementary School	11
Junior High School	4
High School	21
Bachelor Degree	6
Total	42

4.2.Descriptive Statistics

Table 4.5. reveals that mean value of willingness to pay SME taxes (wtp) is 3.9246. It shows that the most respondents answer point 4 (agree) for each question related to willingness to pay SME taxes. The minimum value of tax compliance is 3. It means there are some respondents answering neutral, while the maximum value is 5. It means there are some respondents answering strongly agree for each question related to willingness to pay SME taxes. Moreover, mean value of tax socialization is 4.750 and it tend to 5 (strongly agree). The mean value of tax knowledge is 4.2183, and the mean value of managerial benefit is 4.0873, thus both of mean shows that the most respondents answer point 4 (agree) for each question related to managerial benefit.

Table.4.5. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error
wtp	42	3.00	5.00	3.9246	.02676
ts	42	3.00	5.00	4.7500	.05455
tk	42	3.00	5.00	4.2183	.09237
mb	42	3.00	5.00	4.0873	.07626
Valid N (listwise)	42				

4.3. Test of Normality

Based on table 4.6, it can be seen on table that the asymptotic significant value of significant (2-tailed) for each variable are grater than the value of alpha ($\alpha= 0.05$), so that the data reveals a normal distribution.

Table.4.6.One-Sample Kolmogorov-Smirnov Test

	wtp	ts	tk	mb
N	42	42	42	42
Kolmogorov-Smirnov Z	1.184	.937	1.555	1.007
Asymp. Sig. (2-tailed)	.121	.344	.016	.263

4.5. Regression Analysis

Testing the effect of independent variables (tax knowledge, managerial benefit, taxsocialization) on the dependent variables (willingness to pay SME taxes) in this research used multiple regression analysis. Based on regression result, it can be summarized as shown in table 4.7.below:

From the table of the multiple regression test results, can be formed regression equation as follows:
 $Y = 9.152 + 0.172X_1 + 0.190 X_2 + 0.462 X_3 + 2.911$

Based on statistical regression equation, it can be described as follows: Constanta value of 9.152 means that the willingness to pay SME taxes would be worth if the tax knowledge, managerial benefit, and tax socialization was constant. Tax knowledge coefficient (X₁) is 0.172. It means the tax knowledge has positive effect on the willingness to pay SME taxes. If the value of the regression coefficient of the other two variables retains (no change) then the variables change tax knowledge of 1% will lead to increase willingness to pay SME taxes by 0.172. Managerial benefit coefficient (X₂) is 0.190. It means that managerial benefit has positive effect on the willingness to pay SME taxes. If the value of the regression coefficient of the other two variables retains (no change) then the variables change managerial benefit of 1% may lead to increase willingness to pay SME taxes by 0.190. Tax socialization coefficient (X₃) is 0.462. It means that the socialization has positive effect on the willingness to pay SME taxes. If the value of the regression coefficient of the other two variables retains (no change) then the variables change tax socialization of 1% will lead to increase willingness to pay SME taxes by 0.462

Table 4.7. Regression Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	9.152	2.911		3.144	.003
ts	.462	.097	.550	4.775	.000
tk	.172	.057	.519	3.001	.005
mb	.190	.067	.475	2.851	.007

Table 4.8. Coefficient Determination

Model	R	R Square	Adjusted R Square	F	Sig.
1	.748 ^a	.559	.524	16.053	.000

Based on Table 4.8, the independent variables were observed to explain 52.4% of the variance in the Willingness to pay SME tax (Adjusted R Square = .524). Furthermore, based on table 4.7, among the independent, tax socialization (Beta =-.462, Sig.<.001) was observed to be a better determinant of the Willingness to pay SME taxes than the tax knowledge (Beta .172, Sig.<.005) or managerial benefit (Beta .190, Sig<005). Moreover, based on table 4.9, the regression model was significant as observed from the level of significance (sig. <.001).

4.6. Discussion

The first hypothesis test results (H1) shows a positive coefficient, indicates the direction with a t value of 3.001, is greater than t table with significant value of 0.005 thus it was shown that at $\alpha = 5\%$ tax knowledge has a significant positive effect on the willingness to pay SME taxes. An essential factor influencing tax compliance is the knowledge of taxation. Tax law is multipart due to high intensities of Abstraction and technical terms (McKerchar, 2001). Empirical evidence displays that poor knowledge on the tax system raises disbelief (Niemirowski, Wearing, Baldwin, Leonard & Mobbs, 2002). People not only have difficulties to understand tax law, they also show poor knowledge about tax rates and basic concepts of taxation. The results of this research showed significant positive direction. This means that the higher the tax knowledge, the higher the willingness of taxpayers to pay SME taxes. This result also support the reseach conducted by (Hardiningsih and Yulianawati, 2011), Nugroho (2012), and also research conducted by Widayanti and Nurlis (2010) they suggest that understanding and knowledge of taxes have a significant effect on the willingness to pay SME taxes. The second hypothesis test results (H2) shows a positive coefficient, indicates the direction with a t value of 2.851, is greater than t table with significant value of 0.007 thus it was shown that at $\alpha = 5\%$ managerial benefit has a significant positive effect on the willingness to pay SME taxes. Managerial benefits are the benefits that may rise due to a condition in relations of tax regulation to retain records, such as better recordkeeping, the usage of technology, enriched knowledge of the financial activities of the business in specific in the form of increased knowledge of their complex accounting information systems and improved business or managerial decisions (Smulders *et al.*, 2012). Hence, this result supports the previous research on managerial benefit conducted by Lignier (2009) and Rametse (2010). The third hypothesis test results (H3) shows a positive coefficient, indicates the direction with a t value of 4.775, is greater than t table with significant value of 0.000 thus it was shown that at $\alpha = 5\%$ tax socialization has a significant positive effect on the willingness to pay SME taxes. Tax socialization have an important role in efforts to improve tax compliance. Through intensive tax socialization could increase taxpayer understanding on all matters relating to taxation, including tax function, regulation, mechanisms, and sanctions that will be earned by the taxpayer if it does not meet their tax obligations. This result supports previous research on tax socialization conducted by Adiyati (2009), Restiani (2011), Setianto (2010).

5. Conclusion and Recommendation

The major outcome of this research tax knowledge, managerial benefit and tax socialization have a positive significant influence on willingness to pay taxes. The most significant influence was tax socialization variable with significant <0.01 . This result shows that beside tax knowledge and managerial benefit, tax socialization has a very important role to increase the willingness to pay SME taxes. This result is in-line with the real condition that only few businesses know the rules. In fact the government does not disseminate the SME tax by 1% in extended to the businesses thus the majority of SMEs do not understand the tax shelter in Presidential Decree (Decree) No. 46/2013 and it was because of the lack of tax socialization. In addition, there are many obstacles in the implementation of the regulation in example collection and data collection SMEs taxpayer is not easy, especially for businesses with turnover below 4 billion dollars per year. Thus, the government should intensify dissemination SME tax, primarily related to the administration of the recording, like what kind of books and records what is needed.

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RELATIONSHIP AMONG TOUR RESOURCE ATTRIBUTES AND TOURISTS EXPECTATION TOWARD SERVICE SATISFACTION IN CULTURE AND ECOTOURISM RESOURCE VISITS

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Abstract

The purpose of this research was to survey tour resource attributes and tourists expectation which had effect toward service satisfaction in culture and ecotourism resource visits. The sampling group was 578 visiting tourists of both Thai and foreigners in 13 districts of Lampang province. It was survey research to analyze data with descriptive statistics to find percentage, average, standard deviation and inferential statistics to analyze structural equation model with SMART-PLS.

The structural equation model analysis revealed that tour resource attributes had the most direct effect toward the tourists demand and expectation and followed by the tourists demand and expectation had direct effect toward service satisfaction of users and tour resource attributes had direct effect toward service satisfaction. Furthermore, tour resource attributes had the most indirect effect toward service satisfaction of visited tourists.

Keywords: Tour Resource Attributes / Tourists Expectation / Service Satisfaction

1. Introduction

Tourism industry played a key important role toward social and economic system of the country in generating investment, work employment, income distribution throughout various groups of population of both urban and rural communities (Andereck and Other, 2005). It was also the appropriate channel in publicizing and exchanging culture with favourable physical outcomes in improving public utility, convenient facility and landscape of such tourism sites. It yielded the following benefits to all relevant stakeholders, i.e. (1) sentiment aspect of pleasant tour resource for relaxation which as one of the key aspect of travel site selection, social aspect of generating community revenues from the tourism which in turn would yielded better way of life and improved quality of life. Community also had affection and passion toward their natural resources and forming conservative groups to upkeep such tour resource, (3) economic aspect of generating revenues, various professions, e.g. accommodation business, tour guide, restaurant, souvenir shop and transportation business which were the source of revenues of government sector in collecting business taxes and duties from entrepreneurs, (4) environment aspect of creating community conscious and awareness on conservation and preservation in handling tour resources with care and with professional and efficient managerial system and (5) culture aspect of maintaining community identity, e.g. dress, traditional folk dance that exhibited local wisdoms, for instance on the building architecture, temple, dwelling, etc .

Thailand confronted with severe impacts on tourism on numerous occasions, for instance in year 2005, the number of tourists was declined by 1.15% from the southern 3 provinces incident and the central plain flood had effect the confidence of the East Asia tourists group who were very sensitive on the safety and security news and had effected on the tourist travelling behaviour, e.g. terminating the trip or changing the visiting plan to other nearby locations instead.

Hence, Ministry of Tourism and Sports had developed the National Tourism Development Plan 2012-2016 to support tourism industry since it was the top revenue generator of service section of the country. Furthermore, it was also the generator of many related business, e.g. hotel accommodations, restaurants, cafeterias, souvenir shops and transportation which in turn would generating investment, work employment and revenue distribution throughout community.

The data on inbound tourists, incomes, spending and average stays of tourists had increased during the past decade. Even though, Thailand was impacted from the problems and tourism crises, however it revealed aftermath that the growth rate of tourism was recovered shortly back to the same level. The trend on the number of tourists was increased with number of inbound tourists to approximately 9 million persons with the accumulated growth rate of 5% annually. The average growth rate of tourists was ranked 7th in Asia with Malaysia and Vietnam were ranked 1st and 2nd in 2010. Within the same time period, Thailand had the highest number of tourists at 15.8 million persons as per below figure 1.

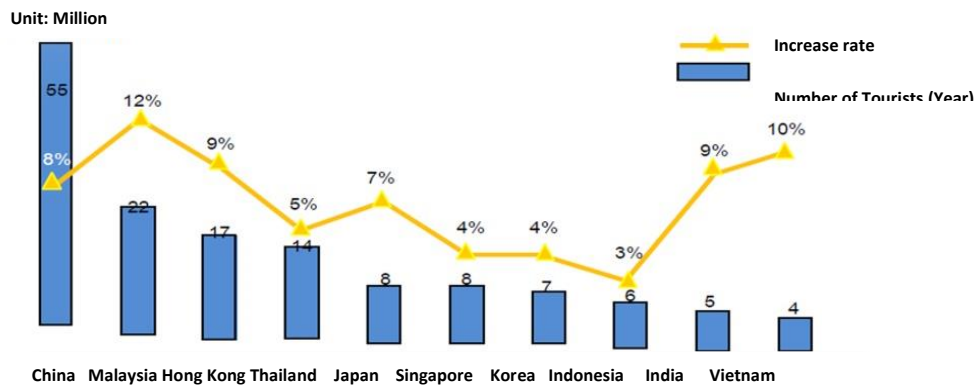


Fig. 1: Illustration on Number of Tourists by Country during the Past 10 Years
 Sources: Tourists Statistics, Tourism Department (2011)

Figure 1 illustrated the number of tourists by country during the past 10 years. It revealed that Thailand had the international renowned identity as “Land of Smile” and as the city of civilization with historical monuments, architecture, traditional cultures, way of life and the well preserved geographical environment. It stimulated the needs of both domestic and international tourists to visit Thailand or in other words, the urge to visit numerous sites throughout Thailand and fulfilled experiences which did not have at own place. It yielded the continue increase of revenues or spending in tourism industry as it could be observed from the increasing of revenue trend and revenue statistics from tourism in year 2010 with the revenue of 585.9 thousand million Baht during year 2005-2010. It revealed that revenue from tourism in Thailand had continued to increase at the annual growth rate of 11.90% per annum (National Tourism Development Plan 2012-2016, p. 11).

Lampang province was a location with abandon tourism resources with geographic prominent point of 7 parks and one national park. It push Lampang province as the outstanding natural environment and Lampang province had continued to promote the ecotourism in many provincial parks (Department of National Park Wildlife and Plant Conservation, 2011).

Further to the natural resources, Lampang province also had the diversity of ethical groups, way of life and cultural dwelling. The study of Angoor (2006) had concluded that the culture tourism and the local wisdom were received well popularity among Thai and international tourists, in particular the tourist

group who wanted to know about the way of life and the beauty of cultural tradition, e.g. dressing, tradition and traditional living, for instance, the location uniqueness of each district. Even though there were expansions and growth on many places in Lampang province, there were still certain problems arisen on the internal environment of each tour resource with deteriorate or damage of the architecture, abandon wastes, water pollution, including the occurred social problems. Certain tour resources were deteriorated and damaged due to the lack of appropriate care from relevant parties, the short of coverage on informative data of travelling routes, or the lack of awareness and attention from the villagers, village chiefs and the consumers toward the tour resources (Sangkakorn, 2008) resulting in the failure in meeting tourist expectation.

From the site survey and small group seminar with relevant stakeholders and related literature review on tourism revealed that the tourist expectation, the varied community requirements of each location, history or legend of culture and eco tourism resources were sometimes pulled the strength of each site attraction in Lampang province to drive activities, exhibition or other cultural events for the awareness of Thai and international tourists but was not fulfilled a complete coverage. Hence, it led to this research study.

2. Research Objectives

2.1 To study the opinion level of attributes, tourist expectation and service satisfaction toward the cultural and ecotourism

2.2 To study the correlation of attributes, tourist expectation and service satisfaction toward the cultural and

3. Scope of Research

This research covered 13 districts of Lampang province, i.e. (1) Muang Lampang district, (2) Hangchat district, (3) Kokkha district, (4) Sobprab district, (5) Thern district, (6) Jhahom district, (7) Sermngam district, (8) Ngao district, (9) Maemok district, (10) Phan district, (11) Maetha district, (12) Maepruk district and (13) Wangnua district, with the purpose to study culture and ecotourism through the analysis of specific attributes, tourist expectation and tourist satisfaction. The population was 1,878 visiting Thai and foreign tourists of tourist sites.

4. Relevant Literature reviews

4.1 Resource Based View Theory

Managing resource for the competitive capability (Romanelli, 1987) was the attempt to source or to utilize existing limited resources for most benefits in business operation, to align with opportunity of each situation. Industry would have competitive advantage from the variety of resources (Wernerfelt, 1984, p. 172) which were the resources that organization owned and led to competitive advantage for business sustainability by focus on resource value, rareness, difficulty to substitute and difficulty to imitate (Barney, 1991, p. 99).

The existing resources could be either tangibles, e.g. capital investment, raw materials, tooling equipments and technology or intangibles, e.g. personnel relationship, trade mark, innovation, knowledge, experience skills, wisdom, networking, voice of organization and information data (Wingwon, 2012). Another bundling with resource was the capability which was hard to analyze and view as intangible resource. The key element of capability was the skill of each individual, group or industry that related to each another (Grant, 1991, pp. 114-135) which would yielded success in the long term.

4.2 Specific Attributes

Specific attributes of effective tour resources or organized tourism location events the key important impact element toward tourists or atmosphere of the organized tourism events. It had impact toward tourist satisfaction (Hede, et al, 2004) but not included the distance (Chi and Qu, 2008; Swarbrooke and Horner, 1999), context or other related attributes, e.g. cultural art, dancing art, folk play, legend and unique local wisdom which attracted tourist interests and generated enjoyment among audiences or tourists who used services, e.g. convenience seating, clean, fresh air and comfortable temperature, including the safety and security of the such tour resource. This research study aligned with the tourism study of Chi and Qu (2008) which revealed that safety and security had priority over the satisfaction on location and participation. Furthermore, tourists confirmed that specific attributes of tour resource was the effect element toward customer satisfaction in various type of tourism context (Swarbrooke and Horner, 1999).

4.3 Consumer expectation

Kitlertphiroj (2004, pp. 64-67) stated on the expectation of consumers that consumers purchased the products or services to meet their own needs. Consumers would appraise outcomes of purchasing in comparison with their expectation (Kotler, 1980). If the outcomes met their expectation, then consumer would build satisfaction. The needs had fundamentally base from sub-conscious of individual consumer. When consumers had needs or sometime called needs awareness, consumers would try to find way to meet their own needs.

Saengsuwan, et al (2004, p. 7) quoted on consumer expectation that customer expectation and the received experiences from the product purchase and product usage were customer expectation building from one knowledge, experience, product opinion, benefits on the product mix, product trial, recommendation and experience from past customers (Lam and Zhang, 1999). Business must delivered products with value to meet customer expectation, since customer received value as expectation would generate satisfaction. But if such received value was lower than expectation, it would generate dissatisfaction (Zeithaml, Berry and Parasuraman, 1993).

4.4 Tourist Satisfaction

Tourist satisfaction is defined as post-consumption evaluation on a specific product or service (Westbrook and Oliver, 1991), and was one of the key judgments which tourist would make regarding the tourism service. Hence, it was a well-established, long-standing focus marketer attention (Yuksel and Yuksel, 2002).

There were many tourism and hospitality studies on factors affecting the level of tourist satisfaction. In the tourism research on destinations, Chi and Qu (2008) in assessing Taiwanese tourist satisfaction in South East Queensland by selecting 33 destinations to measure tourist satisfaction, and distinguished seven key factors: lodging, dining, shopping, attractions, activities. Heung and Qu (2000) examined the satisfaction levels of Japanese tourists to Hong Kong with 31 travel attributes. Mazanec (2006) studied tourist satisfaction with ski resorts using six satisfaction indicators: ease of access, situation at ticket selling points, level and variety of prices, cableways and ski lifts, skiing area, skiing runs, services, and restaurants. In the hospitality research, Yuksel and Yuksel (2002) investigated restaurant selection and foodservice evaluation by measuring the level of tourist satisfaction with dining based on 10 factors: service quality, product quality, menu diversity, hygiene, convenience and location, noise, service speed, price and value, facilities, and atmosphere.

From the literature reviews, the researcher had specified research hypothesis as below,

H₁: Specific Attributes had effect toward Expectation

H₂: Specific Attributes had effect toward Consumer Satisfaction

H₃: Expectation had effect toward Consumer Satisfaction

5. Research Methodology

5.1 Population and Sampling Group

Population of this research was 1,878 Thai and foreign tourists who utilized tourism services from 13 districts. The sampling group was tabulated to 578 persons under sampling formula of Taro Yamane (1970).

5.2 Collection Data Tool

Researchers applied questionnaire as the tool for this research by constructing from the modifying of concepts, theories and relevant research outcomes. It was divided into 3 sections with section 1 for individual basis profile data, section 2 for measuring on attributes of tour resources, tourist expectation and satisfaction of tourism consumers, and section 3 for open end questions. The tool was checked and verified by specialists, including the questionnaire reliability test by applying available statistics program in finding reliability on Cronbach’s alpha coefficient and with 5 measureable levels of Likert (1970).

5.3 Data Collection

Researchers had compiled primary data with questionnaire as the research survey tool by coordinating with Lampang tour entrepreneurs, chief of local government officers, representatives of Lampang Tourism Association in collecting data from sampling units of each culture and eco-tourism sites. Thereafter, research team had jointly transcribed data by program package and analyzed content data.

5.4 Data Analysis

Analysis data from the survey questionnaires was applied with descriptive statistics to find average, frequency, standard deviation and inferential statistics to analyze structural equation model with Smart PLS program and analyzed content data.

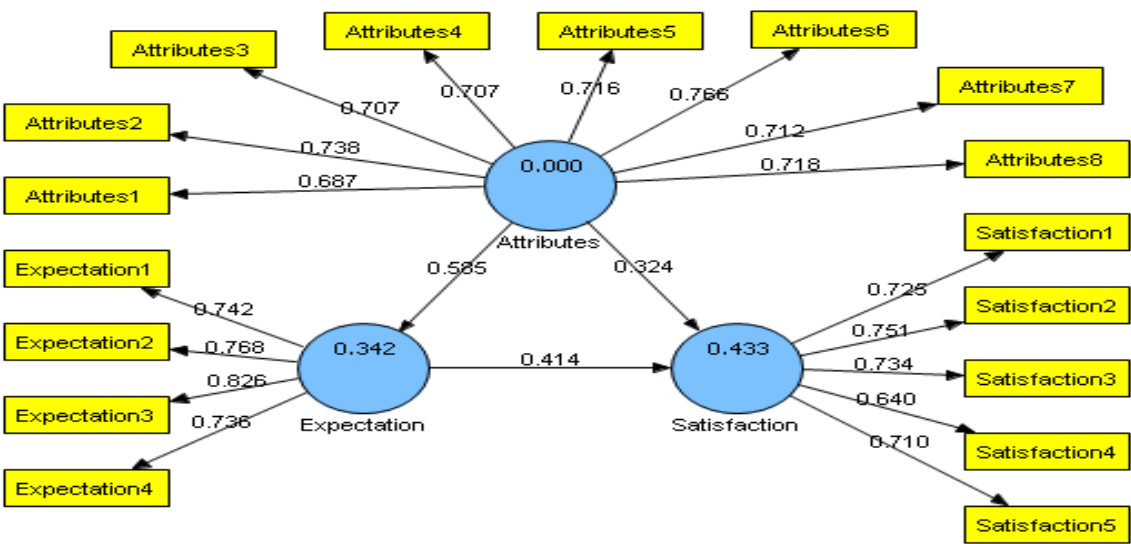


Fig. 2: Analysis Outcomes of Structural Equation Model Variables

Figure 2 revealed that specific attributes of tour resources had highest direct effect toward the expectation of tourism consumers with correlation path value equal to 0.585, R² value equal to 0.342; and followed with expectation of tourism consumers had direct effect toward satisfaction of tour resources with correlation path value equal to 0.414, R² value equal to 0.433. The specific attributes of tour resources had direct effect toward satisfaction of tour resources with correlation path value equal to 0.324, R² value equal to 0.433. Furthermore, the specific attributes had indirect effect toward the satisfaction of tour resources with correlation path value equal to 0.242, R² value equal to 0.433.

5.5 Hypothesis Test

From hypothesis test on relationship among tour resource attributes and tourists expectation toward service satisfaction in culture and ecotourism visits could be concluded as followed:

Table 1: The analysis of Direct Effects, Indirect Effects and Total Effects

Antecedent	R ²	Effect	Dependent Variable	
			Satisfaction	Expectation
Attributes	-	DE	0.324	0.585
		IE	0.242	0.000
		TE	0.566	0.585
Expectation	0.342	DE	0.414	N/A
		IE	0.000	N/A
		TE	0.414	N/A
Satisfaction	0.433	DE	N/A	N/A
		IE	N/A	N/A
		TE	N/A	N/A

Note: TE = Total Effect, DE = Direct Effect, IE = Indirect Effect, N/A = Not Applicable

Attributes = Specific Attributes of Tourism Sites, Satisfaction = Satisfaction of Tourism Sites,
Expectation = Expectation of Tour Resources Consumers

Table 2: Loading, Composite Reliability and Average Variance Extracted

Construct/Item	loading	t-stat	CR	AVE
Specific Attributes of Tour Resources			0.895	0.517
1. Having conservation on culture tour resources	0.687	9.739		
2. Renowned culture tour resources	0.738	13.825		
3. Variety of art exhibition, performance and way of life	0.707	11.611		
4. Organizing culture tourism events on yearly basis	0.707	10.730		
5. Having unique products and souvenirs	0.716	10.026		
6. Having unique history and cultures from other provinces	0.766	12.398		
7. Production and distribution sources of quality products in international markets	0.712	10.790		
8. Province located at the strategic center of Northern region with capability to be developed to economic center	0.718	10.049		
Expectation of service consumers			0.852	0.591
1. Gain experience and impression on new tour resources	0.742	11.299		
2. Safety / security and convenience of tour resources	0.768	11.542		
3. Hospitality from villagers and service providers	0.826	20.563		
4. Standard and cleanness of tour resources	0.736	12.685		
Satisfaction of Service Consumers			0.837	0.508
1. Natural plentiful and beautiful of tour resource	0.725	11.195		

2. Clear communication signs / logos / information	0.75 1	13.72 5
3. Quality of basic public utility (electricity / water / mobile phone network)	0.73 4	12.52 5
4. Convenience of community atmosphere and environment	0.63 9	6.363
5. Friendliness of staff or service related personnel	0.71 0	10.39 7

Table 2 revealed that all indicators had high positive loading value between 0.639-0.826 and with statistical significance level of 0.05 on all indicators, with high CR value between 0.837-0.895 and with AVE value between 0.508-0.591 which indicated that each indicator was able to effectively indicate it own latent variables and with high reliability.

Table 3: Outcomes of Composite Reliability Analysis

Construct	CR	AVE	R ²	Construct		
				Attributes	Expectation	Satisfaction
Attributes	0.895	0.517	-	0.719		
Expectation	0.852	0.591	0.342	0.585	0.769	
Satisfaction	0.837	0.508	0.433	0.566	0.603	0.712

Table 3 revealed that composite reliability value and AVE value of every variable had higher value than 0.50 which indicated that all questions of each indicator were able to measure the value with reliability and correlation value of each individual indicator within the same variable had higher correlation value than correlation of the different variable. It indicated that measurement of each construct was able to effectively measure own context which confirmed its composite reliability.

6. Outcomes Discussion

6.1 Section 1: Basic Data of Respondents

It revealed that majority of respondents were female in gender with average age of 50-59 at the most and followed with average age of 29-39 years old, with domicile at Northern region, with married marital status, with undergraduate educational level, with profession in government and private enterprises, with income revenue between 15,001-25,000 Baht, with tour travel of 1-3 time per annum, with own tour planning, with travelling objective of relaxation and with the travelling duration of 1-3 days per trip.

The tourism target was to tour in Lampang province and then stopped over other places. Majority would travel during weekend, by private vehicles, search for information on tour resources before commencing journey and were not stay over in Lampang province. The attraction of tour resources in Lampang province was culture events, e.g. Saloon Luang / Horse Carts Festival and the traditional pay homage to Wat Phra That Lampang Luang. The area for improvement was the cleanness of tourism sites.

6.2 Section 2: Opinions on specific attributes, expectation and satisfaction of tourism consumers

The majority of opinions toward specific attributes of tour resources were rated high with the total average of 3.96 and the review on individual item revealed that the conservation of culture tour resource was with the highest average value and followed by the renowned culture tour resources, having unique history and cultures over other provinces, organizing culture tourism events on yearly basis, production and distribution sources of high quality ceramics in international markets, province located at the strategic center of Northern region with capability to be developed to economic center, variety of art exhibition, performance and way of life and lastly was having unique products and souvenirs.

The majority of opinions toward expectation toward tour resources of Lampang province were rated high with the average total value of 4.13 and the review on individual item revealed that the gain experience and impression on new tour resources was rated the highest and followed by the safety / security and convenience of tour resource, standard and cleanness of tour resources and lastly was hospitality from villagers and service providers.

The majority of opinions toward satisfaction toward tour resources of Lampang province were rated high with the average total value of 4.02 and the review on individual item revealed that the community context and environment supported tourism was rated the highest and followed by the natural plentiful and beautiful of tour resource, quality of basic public utility (electricity / water / mobile phone network, clear communication signs / logos / information and lastly was friendliness of staff or service related personnel.

6.3 Section 3: Outcomes of correlation analysis of specific attributes, expectation of service consumers and satisfaction of service consumers of cultural and ecotourism.

The outcomes of structural equation model analysis revealed that specific attributes of tour resources had direct effect toward the expectation of service consumer of tour resources at the most level which in line with concept of Kotler (1980) which stated that consumer would evaluated the outcomes from the purchase of products or services by comparing with own expectation and if the outcomes matched with expectation then customers would generate satisfaction.

The following was the expectation of service consumers of tour resources had direct effect toward the satisfaction of tour resources which aligned with the concept of Saengsuwan, et al. (2004, p. 7) which quoted that expectation of service consumer was the expectation of customer on the thing received from the purchase an use of such products. The expectation of customers was created from the knowledge, perception, opinion on the product, benefits of product mix, product trial, recommendation and experience from past customers (Lam and Zhang, 1999). Business must delivered products with value and aligned with customer expectation, since once customer received value as own expectation, it would generate satisfaction and if received value was lower than expectation would generated dissatisfaction (Master and Prideaux, 2000).

Specific attributes of tour resources had direct effect toward the satisfaction of service consumer of tour resources covering from safety, cleanliness, community hospitality, convenience communication, tasty foods and availability of accommodation, organized activities aligned with tourist requirement, location of tour resources and attractive elements in pulling tourists to the tour resources was conformed with

research of Hede, et al (2004) which presented that the attributes of efficient tour resources or organized locations were the important effect factor toward tourists. In addition, tourists confirmed that specific attributes of tour resources was the effect factor toward the satisfaction of customers in the tourism context of various types (Swarbrooke and Horner, 1999).

Furthermore, specific attributes of tour resources had indirect effect toward satisfaction of service consumer of tour resources as per research of Chi and Qu (2008) which revealed that safety and security factors had priority over satisfaction of service consumers and organized location and stakeholder participation by having indirect effect toward satisfaction of service consumers of tour resources as well.

7. Research Recommendations

7.1 There should be further research on adventure tourism as demand by tourists which would yield benefits to entrepreneurs of tourism industry.

7.2 There should be concrete integrating of relevant stakeholders of tourism industry in align with the Thai government policy.

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Determinants of Interest of People to Choose Islamic Banks

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ABSTRACT

As the country with the largest Muslim population, Indonesia should be a pioneer and a mecca development of Islamic finance in the world. Islamic banking portion 2012 in the national banking system has reached 4.0%., When the growth of the Islamic banking industry can be maintained, then the growth of Islamic banking is expected to reach 15% -20% within the next 10 years. Interest of the community to choose Islamic banking is generally supported by the behavior, religion and other.

The purpose of this study was to determine the interest in Islamic Banking customers choose either *partially* or *simultaneously*, and to determine which factors are the most dominant influence on customers through a customer in Bank Syariah.

The sample used in this study were 30 respondents from three (3) Islamic bank in the city of Bandung. The number of samples taken by the minimum sampling. The results using a multiple linear regression model is $Y = 1.330 + 0.402 X_1 - 0.078 X_2 + 0.144 X_3 + 0.299 X_4 - 0.111 X_5$ F-test results for 37.526 which implies that there is positive between attitude variables, social influences , *religious stimuli*, *profit sharing*, and government support for customers through select, while the t-test showed that the behavioral variables, *religious stimuli*, and *profit sharing* positive and significant impact on customer interest in selecting Islamic banks but not so with the variables of social influence and support of the government.

While the coefficient of determination is known that the variation of 88.7% interest in customers choosing Islamic banks (Bank Muamalat, Bank Syariah Mandiri, Bank Mega Syariah Bandung branch) can be explained by behavioral factors, social influence, *religious stimuli*, *profit sharing*, and support the government while the rest of 11.3% influenced by other factors in this case is not the subject of the study authors. And from the regression model, it is known that behavioral factors behavioral is the most dominant factor affecting the interest of customers choose Islamic bank (Bank Muamalat, Bank Syariah Mandiri, Bank Mega Syariah branches of Bandung). Known from the classical assumption that the regression model is consistent with the classical assumptions.

Keywords: behavior, *religious stimuli*, *profit sharing*, government support and interest.

I. INTRODUCTION

1.1 Background Research

Islamic banks as a new industry actually has a competitive advantage with conventional banks, both comparative advantage and competitive advantage. In the early development of Islamic banking in Indonesia sharia banks comparative advantage is more pronounced than that of conventional banks as a new financial product has a strong appeal for consumers.

Subsequent development of Islamic banks seek to build kompetitifnya excellence in order to attract more consumers. When a target *market share* of 5% was announced in 2008, Islamic banks seek to build competitive advantage, though in the end Islamic banks have not been able to reach a target *market share* of 5% until the year 2010 (Suprayogi, 2013). As the country with the largest Muslim population, Indonesia should be a pioneer and a mecca development of Islamic finance in the world. Islamic banking portion 2012 in the national banking system has reached 4.0%., When the growth of the Islamic banking industry can be maintained, then the growth of Islamic banking is expected to reach 15% -20% within the next 10 years.

Customer interest in choosing Islamic banks can not be separated from the support of the government. Advance whether Islamic banking is determined by several things, including government support in the form of regulatory and community support as well as objects in the subject of Islamic banking. Islamic economic success into the new world economic power, so it can not be released from government intervention in countries where growing development of banking institutions and other financial Shari'ah. In this case, the government with the authority of its role in making the regulatory instruments that govern and protect the existence of such institutions (Didim, 2008).

Structures and public perception of Bandung which has been built with the majority of the Muslim community is very possible presence of various perception that influence people's behavior in deciding or choosing a bank. Religious factors are based on Islamic grounds could run in the field muamalah still seems to be the dominant clients in deciding to choose Islamic banks, but the results of several studies terkait customer preferences choose suspected Islamic banks not only for religious reasons but a lot of factors.

Research conducted by Bank Indonesia and the UB 2000 divided the factors affecting *bank customer's decisions process* ie) (1) *Marketing Stimuli (Product, Price, Promotion, place)*, (2) *Other Stimuli (Economy)*, and (3) *Bank Customer's Characteristics (Cultural, Social, Personal, Psychological)*. those respondents who had a Sharia Bank customers, most of them already understand shariah bank, either full (58.3%) and the majority (25%). Factors factors affecting individual communities to choose Sharia Bank, among others: (1) Information and Assessment, (2) and Dynamic Humanism, (3) The size and flexibility of service, (4) needs, (5) Location, (6) Confidence and Attitudes, (7) Materialism, (8) Family, (9) Role and Status, (10) Practicality in Saving

Therefore, the factors that influence the decision of customers to use banking services shariah, highly regarded by the banks for the sake of continuity and management remain eksisnya institutions. Demand or failure of a financial institution is influenced by factors that are related to the psychological aspects of behavior, attitudes and tastes. Not only psychological factors alone, there are many factors that influence people to use the services of financial institutions Shari'ah. Factors affecting the public interest in the use of banking services is consumption, income, product, or type of savings, location, service, public awareness and promotion (Sinungan, 1990:88). Included therein is also a factor *stimuli religious* knowledge and practice of diversity that drives a person to commit an act of economic (Rahmawaty, 2008:48).

Mechanism of financial institutions using the system Shari'ah *profit sharing* (profit sharing), seems to be an alternative for the business community. One of the characteristics of Shariah banks are *profit sharing* (profit sharing). If the mechanism of conventional economics using instrumental interest, then the mechanism of Islamic economics by using the instrument *profit sharing* (profit sharing). For the results according to foreign terminology is known as *profit sharing*. *Profit sharing* is defined in the dictionary of economic profits. *Profit sharing* definitively interpreted: "the distribution of a portion of the earnings on the employees of a firm" (Muhammad, 2002:101).

Previous research revealed Amin et al (2011) examined the 2 banks located in Malaysia. The study found that there are three significant factors that affect the interest of the customer to choose Islamic banks, namely behavior, social influence, and one Islamic values. Factors religious law and government support was found as a factor that is not significant.

Furthermore Kamarni (2012) examined after discriminant analysis it can be concluded that the variables that can distinguish, categorize and identify an object, and then analyze the group differences is religion, occupation, income level, spending levels, knowledge of the existence of Islamic banks, the Bank's preference Sharia, knowledge of Islamic Banking products and mechanisms.

Results of these studies concluded that the variable employment, income, and expenditure levels significantly influence people's interest in choosing Islamic banking, while variable product knowledge and mechanism of Islamic banks, knowledge of the existence of Islamic banks and religion does not significantly affect the public interest in choosing a bank sharia.

Therefore, based on the background of the study authors are interested in studying "Analysis of Factors Affecting Customer Interests Choosing Islamic Bank (Case Study on Bank Muamalat, Bank Syariah Mandiri, and Bank Mega Syariah Bandung Branch)".

The paper is organized as follows: Section 2 presents the literature review, describes the working of Islamic banks, the TRA and development of hypotheses. Section 3 presents the proposed research model, followed by discussion of the research method and the results in Sections 4. Section 5 provides the conclusions and discusses limitations of the study and avenues for further research.

II. Literature review

In Islamic banks mobilize funds from the public do not distinguish the name of the product, but look at the principle and the principle of *mudaraba wadiah*. Whatever the name of the product, which is considered is the principle used on the product, it is strongly associated with a portion of the division of profits that would be made between the owner of the funds / depositors (*shahibul maal*) with Islamic banks as *mudharib*. According to Muhammad (2004: 50), Based on the above principle of Islamic banks can raise funds from third parties in the form of:

- 1) Deposits (*Wadiah*) security deposit and guaranteed returns but without obtaining a return or profit.
- 2) Participation of share capital and share the results of the risk to public investments in which the bank will pay a proportional profit sharing.
- 3) Special Investment / *mudharabah muqayyadah* where the bank acts as investment manager to earn a fee. So banks do not participate fully invested while investors take the risk on an investment.

2.1. TRA and development of hypotheses

2.2 Theory of reasoned action

TRA was introduced by Fishbein and Ajzen (1975) in order to establish relationships between beliefs, attitudes, intentions and behaviors (Taib et al., 2008). The theory has been applied in different contexts. For instance, the study by Taib et al. (2008) used TRA in order to examine bank customers' perception over *Musharakah Mutanaqisah* home financing in the Malaysian context. *Musharakah Mutanaqisah* is also known as "Musharakah diminishing to ownership" where capital is not permanent and every repayment of capital by the bank customer will diminish the total capital ratio for the bank. This will increase the total capital ratio for the customer until the customer becomes the sole proprietor for the bought house (Abdul Rahman, 2007). In a similar vein, Amin et al. (2009) used TRA to examine undergraduate students' acceptance of Islamic accounting. The present study extends the theory to an Islamic personal financing context. Two unique determinants of TRA, namely, attitude and subjective norm are applied in the present study since previous studies indicated that acceptance of Islamic financing could be explained by the determinants of TRA (Amin et al., 2009; Taib et al., 2008). As such, the determinants are included to help explain the reasons public interest use Islamic bank financing.

2.3 Development of hypotheses

Determinant 1: Attitude Emergent behavior of the values espoused. Ideally, Muslims know very well the clauses *sharia* as the basis for the formation of the concept to the legal awareness and familiarize themselves Islamic actualize in everyday life. So the emergent behavior of the values espoused. Ideally, Muslims know very well the clauses *sharia* as the basis for the formation of the concept to the legal awareness and familiarize themselves Islamic actualize in everyday life that shape the behavior of *sharia* principles and normative-empirical, historical idealist, so that Islamic values can serve as a guide for Muslims to realize the values of diversity in the context of worship and *muamalah* and elaborate socio-cultural elements in accordance with the norms of the divine (Anwar: 2002, Judge: 1999, in Nur: 2007). Attitude avoiding usury, confidence to interact *sharia*, operational basis in accordance with Islamic principles would be an alias for the customers in choosing Islamic banking.. Hence, the following hypothesis is proposed:

H1. Attitude will influence the interest of people choose Islamic banks

Determinant 2: social influence. The term social influence as used in this study refers to subjective norm or normative pressure. It can be defined as one's perception that those who are important to her or him should or should not perform the behavior in question (Fishbein and Ajzen, 1975). Taib et al. (2008) found subjective norm be associated with the level of acceptance of diminishing partnership and in fact, the subjective norm was

found to be a more influential predictor of intention to use Islamic banking than attitude. However, results of previous studies have been mixed. Chau and Hu (2001) and Lewis et al. (2003) found subjective norm to have no direct impact on intention to use information technology. In contrast, Venkatesh and Davis (2000) and Teo and Pok (2003) reported a significant relationship between subjective norm and behavioral intention. In view of the above studies, the following hypothesis is proposed:

H2. Social influence will the Interest of People to Choose Islamic banks

Determinant 3: Religious Obligation. By definition, religious obligation refers to the role of religion in affecting one's choices and activities. According to Sulaiman (2003), Islamic society is affected by a distinct Islamic worldview based on Shariah. This argument is consistent with previous studies in the area of Islamic banking. Omer (1992) surveyed 300 Muslims residing in the UK and found that religious reasons were the principle motivations for Muslims in the UK to deal with Islamic financial institutions. Metwally (1996) found that the most important factor in determining attitudes of Muslims towards Islamic banks was "religion", followed by "convenience" and "traditional services". In addition, Metawa and Almossawi (1998) asserted that the most important factor for the use of Islamic bank services was "religion", followed by "profitability". These studies have documented the importance of religious factors in affecting bank customers' banking preferences. On the other hand, Erol and El-Bdour (1989) and Haron et al. (1994) claimed otherwise. They found that religion was not the primary motivation for customers dealing with Islamic banks. On the basis of those studies, the following hypothesis is proposed

H3. Religious obligation will influence the interest of people to choose of Islamic banks

Determinant 4: government support. Government support refers to the governmental actions and agenda that affect the behavior and decisions of households, local companies and international businesses. Support the government and Bank Indonesia has also played a role in the movement of Islamic financial institutions. Law. About 10 of 1998 on Amendment to Law no. 7 of 1992 concerning Banking brings the world of banking reform to better support the activities in the field of sharia. In addition, Law no. 21 Year 2008 on Islamic Banking and Law. 19 Year 2008 on Sharia Securities is a real support to the development of banking, money market and Islamic capital market in Indonesia. This was to enable the bank to fully focus on the development of Islamic banking. Without the government's support, it is difficult for a new concept of banking to emerge and become sustainable due to intense market competition. Expected to support the government is able to increase public interest in Islamic banking savings and the following hypothesis is then proposed:

H4. Government support will influence the interest of people to choose of Islamic banks

Determinant 5: Profit sharing . Profit sharing is a reward for the results offered by banks to customers. Which is measured in profit sharing profit sharing ratio, and the profits earned by the bank (Siswantoro, 2008). According to banking analysts and investment Masasya G. Masassya method of profit sharing (profit sharing) imposed an opportunity to get a greater return on investment than in conventional banks. Therefore the profit sharing will affect the interest of the customer in selecting Islamic banks.

H5. Profit sharing will influence the interest of people to choose of Islamic banks

III. RESEARCH METHODOLOGY

3.1. Research Methods Used

Research methods used in this research is descriptive method with a quantitative approach. Based on the type of research, the method of this study using survey methods. Survey methods used to obtain

the data from a specific place that is not naturally made, but the researchers to collect the data, for example by distributing questionnaires, tests, structured interviews, and so on (Sugiyono, 2010:11).

3.1.1 Variable Categories

Cooper in Sujoko Efferin et.al., (2008:57) says that "*variable is used for constructs or the property being Studied. In this context, a variable is a symbol to roomates numerals or values are assigned*". So basically is something different or distinguish between a case with other things to be learned in order to obtain the information and the conclusions drawn. Jogiyanto (2007:142) defines a variable as "a symbol that contains a value". Based on these explanations, the variables included in this study are as follows:

Independent or independent variable (X) In this study, the independent variables are used, there are five variables, namely Attitude/behavior, social influence, *religious stimuli*, *profit sharing*, and government support. Customers' attitudes and beliefs in accordance with sharia behave in bermuamalah (Anwar: 2002 Judge: 1999, in Nur: 2007, Rockeach in Kurnia, 2001:35), social influence (Safitriana 2012), the religious factor stimuli (Rahmawaty, 2008 and Wibowo , 2005), *ratio* of profit sharing (profit sharing) (Siswantoro, 2004 and Mustaqim, 2006), the support function of government regulation or policy makers (**Hamida, 2012**). dependent variable or bound (Y) dependent variable used in this study is of interest customers. Of the individuals themselves, which information is conveyed friends / relatives (and Wahab Salih, 2004)

3.1.2 Population and Research Sample

Sujoko Efferin et.al. (2008:73) states that "the population is the boundary of an object of research and is a limit to the indukasi (generalizability) of the results of the study in question". Meanwhile, according to Sugiyono (2010:115) "the population is made up of generalization regions: objects / subjects that have certain qualities and characteristics defined by the researchers studied untu and then ditari conclusions". The population in this study are all customers who become customers of Bank Muamalat, Bank Syariah Mandiri, and Bank Mega Syariah located in Bandung. Determination of the type of population is based on the grounds that that will be tested, customers who became customers in Bank Muamalat, Bank Syariah Mandiri, and Bank Mega Syariah.

The sample is part of the number and characteristics possessed by the population (Sugiyono, 2008:16). Sampling is to use techniques *Non-Probability Sampling* by *purposive sampling*. Technique is *non-probability sampling* sampling techniques did not give equal chance or opportunity for any element or selected members of the population to be sampled. *Purposive sampling* sampling technique with specific considerations (Sugiono , 2008:120-122). Sampling method aims to obtain a *representative* sample in accordance with the specified criteria. These criteria are customers who became customers in Islamic banks, and the respondents have enough information to be researched. Researchers determined the number of respondents to be sampled in the study based on 30 respondents with the minimum number of samples in a study.

3.2.4 Data Collection Techniques

Sources of data used in this study is the data through interviews, distribution of questionnaires. To obtain the necessary information and data is done multiple data collection techniques. Data collection techniques in this study, as follows: **Method Questionnaire (Questionnaire)** measurement using a Likert scale, the scale containing five levels of preference reply with the following response options: (Ghozali, 2005:45) 1. SS: Strongly Agree, S: Agree, 3. N: Neutral, 4. TS: Disagree, 5. STS: Strongly Disagree.

3.2.5 Data Analysis Techniques and Testing Hypotheses

Based on analysis of the data include: Test Validity, Reliability Test, Test and Test Deviation Assumptions Classical Linear Regression Analysis.

IV. RESULTS

4.1. Gender, age, education and employment

The data and the percentage of the respondents' gender customers are as follow

Table 4-1

General of Respondents by Gender Sex	F	%
Male	17	56.67
Female	13	43.33
Total	30	100.00

Sources: 2013 results

Table 4.2

Characteristics of Respondents by Age Range Age Range	F	%
17-30	9	30.00
31-40	10	33.33
41-50	8	26.67
> 50	3	10:00
Total	30	100.00

Education levels of respondents referred to the overview presented as follows:

Table 4-3

Characteristics of Respondents by Education Education	F	%
SMA	10	33.33
D3	5	16.67
S1	11	36.67
S2	3	10:00
S3	1	3:33
Total	30	100.00

Sources: 2013 results

The data on employment levels and the percentage of respondents

Table 4-4

Characteristics of Respondents by Occupation Education	F	%
PNS	9	30.0
Private	10	33.3
Entrepreneurial	9	30.0
Others	2	6.7
Total	30	100.00

Sources: 2013 results

To the attitude or behavior of respondents to variables can be seen in table 4.5 below:

Table 4.5
Respondents Linked to Attitude/Behavior

No.	Item Questions	SS	S	N	TS	STS
		Qty (%)	Qty (%)	Qty (%)	Qty (%)	Qty (%)
1	Choosing Islamic banks as avoid usury	33.3	53.3	3.3	3.3	6.7
2	Choosing Islamic banks because Islamic belief to interact	33.3	33.3	23.3	3.3	6.7
3	Choosing the Islamic bank as an operational basis according to Islamic principles	23.3	43.3	23.3	0	10.0

To the attitude or response of respondents to variables of Social Influence can be seen in table 4.6 below:

Table 4.6
Respondents Relating to Social Influence

No.	Item Questions	SS	S	N	TS	STS
		Qty (%)	Qty (%)	Qty (%)	Qty (%)	Qty (%)
1	Choosing Islamic banks because pengaruh from others	20.0	23.3	36.7	20.0	0
2	Choosing Islamic banks as information from others	10.0	53.3	23.3	10.0	3.3

To attitudes or *religious* respondents to variable *stimuli* can be seen in table 4.7 below:

Table 4.7
Respondents Relating to Religious Stimuli

No.	Item Questions	SS	S	N	TS	STS
		Qty (%)	Qty (%)	Qty (%)	Qty (%)	Qty (%)
1	Existing products on the Bank Syariah €^{TM} ah are in accordance with Wishes you	20.0	46.7	20.0	10.0	3.3
2	Brother uses Bank Syariah €^{TM} ah obedience to Religion	26.7	50.0	10.0	6.7	6.7
3	Performance Bank Syariah €^{TM} ah already accordance with the principles of religion (syariah €^{TM} ah) existing	30.0	40.0	20.0	6.7	3.3

Respondents to the Profit Sharing

For respondents in the Profit Sharing variables can be explained in table 4.8 below.

Table 4.8
Respondents Relating to Profit Sharing

No.	Item Questions	SS	S	N	TS	STS
		Qty (%)	Qty (%)	Qty (%)	Qty (%)	Qty (%)
1	Ratio / Profit Sharing Agreement has been established by the Bank Syariah advance in accordance with the wishes customer	33.3	46.7	10.0	3.3	6.7
2	Bank profits earned Syariah influence distribution for the results to be received by the customer	33.3	46.7	10.0	3.3	6.7

Respondents Against Government Support

To the attitude or response of respondents to government support variable can be seen in table 4.9 below:

Table 4.9
Respondents Relating to Religious Stimuli

No.	Item Questions	SS	S	N	TS	STS
		Qty (%)	Qty (%)	Qty (%)	Qty (%)	Qty (%)
1	Government increased socialization of communication between Islamic banks and Islamic banks and Islamic financial institutions	0	66.7	23.3	10.0	0
2	The government guarantees the stability of the Islamic financial industry begun to develop and refine financial institutions	3.3	20.0	73.3	3.3	0
3	Government is always steeped in Islamic banking operational measures	0	50.0	43.3	6.7	0
4	Government encourages new innovation in Islamic banking operations	6.7	33.3	43.3	13.3	3.3

For responses or attitudes toward items in this variable can be seen in Table 4.10 below:

Table 4.10
Respondents Related to Interests

No.	Item Questions	SS	S	N	TS	STS
		Qty (%)	Qty (%)	Qty (%)	Qty (%)	Qty (%)
1	By considering the behavior variables, social influences, <i>religious stimuli</i> , <i>profit sharing</i> and support for the government, you wish to become bank customers syariah €™ ah	33.3	53.3	3.3	3.3	6.7
2	Bank profits earned Syariah €™ ah influence distribution for the results to be received by the customer	20.0	66.7	3.3	3.3	6.7

4.2 Analysis of Results

4.2.1 Test Validity

Pengujian done by correlating the item score each item with a statement of the total score, further interpretation of the resulting correlation coefficient, when the correlation of each factor is positive and the magnitude is greater than or equal to 0.3, it can be concluded that the instrument has good validity construction . Based on calculations using SPSS *for Windows* version 16.0 to test the validity of the results obtained by each of the questions used to measure behavioral variables, social influences, *religious stimuli*, *profit sharing*, government support and interest.

Table 4.11
Validity Test Results Variable Behaviour

No.	Item Questions	Correlation values	r table n = 30; df = 5%	Information
1	P1	0937	0.3	Valid
2	P2	0959	0.3	Valid
3	P3	0978	0.3	Valid

Sources: Primary data were processed in 2013

4:12

Validity of Test Results Variable Social Influence

No.	Item Questions	Correlation values	r table n = 30; df = 5%	Information
1	P4	0903	0.3	Valid
2	P5	0879	0.3	Valid

Sources: Primary data were processed in 2009

Table 4.13
Religious Validity Test Results Variable Stimuli

No.	Item Questions	Correlation values	r table n = 30; df = 5%	Information
1	P6	0935	0.3	Valid
2	P7	0913	0.3	Valid
3	P8	0929	0.3	Valid

Sources: Primary data were processed in 2013

Table 4:14
Validity of Test Results Variable Profit Sharing

No.	Item Questions	Correlation values	r table n = 30; df = 5%	Information
1	P9	0968	0.3	Valid
2	P10	0954	0.3	Valid

Sources: Primary data were processed in 2013

Table 4:15
Validity of Test Results Variable Government Support

No.	Item Questions	Correlation values	r table n = 30; df = 5%	Information
1	P11	0816	0.3	Valid
2	P12	0.618	0.3	Valid
3	P13	0835	0.3	Valid
4	P14	0.860	0.3	Valid

Table 4:16
Validity Test Results Variable Interests

No.	Item Questions	Correlation values	r table n = 30; df = 5%	Information
1	P15	0574	0.3	Valid
2	P16	0648	0.3	Valid

Test Reliability

. The reliability test using *Alpha* calculation *Cronbach's* α by using statistical software *SPSS 16.0 for Windows*. Where the result if a variable is said to be reliable if the value of *Alpha Cronbach's* α is more than 0.60 (Imam Ghazali, 2011:42).

Table 4:17
Test Reliability

No.	Variables	Cronbach's alpha	Information
1	Attitude/Behavior	0955	Reliable
2	Social Influence	0739	Reliable
3	Religious stimuli	0915	Reliable
4	Profit sharing	0.91	Reliable
5	Government Support	0787	Reliable
6	Interest	0.917	Reliable

Source: Results of Treatment SPSS

4.2.2 Assumptions Classical Test
1. Normality Test

Kolmogorov-Smirnov test results

Tests of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Residual	.059	30	.200*	.979	30	.804

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

Because the value of p greater than 0.05, then H0 is accepted, so it can be taken kesimpulan that the residuals follow a normal distribution function.

2. Autocorrelation

Autocorrelation test results

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.942 ^a	.887	.863	.73352	1.650

a. Predictors: (Constant), Dukungan Pemerintah (X5), Sosial (X2), Religius Stimuli (X3), Profit Sharing (X4), Perilaku (X1)

b. Dependent Variable: Minat (Y)

Source: Results of Treatment SPSS

Durbin-Watson test results can be seen in Table 4:19. From the table it can be seen that the *Durbin-Watson* value of 1.650 which is included in the range of 1.55 â € "2.46, which according to Suharyadi and Purwanto (2009:232) There is no autocorrelation. So it can be concluded that the regression model is free from the problem of autocorrelation.

3. Multicollinearity

Multicollinearity testing done by looking at the value of VIF (*Varian Inflated Factor*) and the value of *tolerance*.

Table 4:20
Testing results multicollinearity

Coefficients^a

Model		Collinearity Statistics	
		Tolerance	VIF
1	Perilaku (X1)	.329	3.044
	Sosial (X2)	.556	1.799
	Religius Stimuli (X3)	.761	1.314
	Profit Sharing (X4)	.345	2.900
	Dukungan		
	Pemerintah (X5)	.831	1.204

a. Dependent Variable: Minat (Y)

Source: Results of Treatment SPSS

The table it can be seen that the VIF value is smaller than 10 and tolerance values greater than 0.1 so it can be concluded that there is no multicollinearity or high correlation between the independent variables.

4.2.3. Regression Analysis

With multiple regression can be seen there is influence between behavior, social influence, *religious stimuli*, *profit sharing*, and government support for customers through select bank syariah (Studies in Bank Muamalat, Bank Mandiri Sharia, Islamic Mega Bank London Branch).

Table 4:21
Regression Analysis Results

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.330	1.145		1.161	.257		
	Perilaku (X1)	.402	.074	.654	5.451	.000	.329	3.044
	Sosial (X2)	-.078	.104	-.069	-.751	.460	.556	1.799
	Religius Stimuli (X3)	.144	.053	.213	2.707	.012	.761	1.314
	Profit Sharing (X4)	.299	.119	.294	2.508	.019	.345	2.900
	Dukungan Pemerintah (X5)	-.111	.068	-.123	-1.634	.115	.831	1.204

a. Dependent Variable: Minat (Y)

Dependent Variable: Minat (Y)

$$Y = 1.330 + 0.402X_1 - 0.078X_2 + 0.144X_3 + 0.299X_4 - 0.111X_5$$

Where:

Y = interest

Attitude/Behavioral variables X1

X4 = Variable *Profit Sharing*

Social Influence Variables X2

X5 = Variable Government Support

X3 = variable *stimuli Religious*

From the regression equations can be interpreted and conclusions drawn as follows:

1. Constant of 1.330 states that if the independent variable value is 0, then the decision of Bank Syariah customers through select value is equal to 1.330.
2. Regression coefficient of X1 (Variable Attitude/Behavior) of 0.402 (40.2) of all factors studied can be concluded that the variable has a positive influence behavior and the factors that most greatly affect the interest of bank customers memilih syari natural. So the better this person's behavior related to avoid usury attitude, confidence to interact sharia, operational basis in accordance with Islamic principles more it will affect customers in choosing Islamic banking.
3. Regression coefficient of X2 (Social Influence Variables) of 0.078 (-7.8), stated that the Social Influence variables have negative influence on the interest of customers choose Bank Syariah So although the smaller or the less social influence in that environment will not affect a person to choose a bank sharia.
4. X3 regression coefficient (Variable *Religious stimuli*) of 0.144 (14.4) states that the *religious* variable *stimuli* mempunyai positive influence on customer interest into Islamic bank customers. Greater understanding of the product so that the Islamic banks and the religious observance of a person to influence someone to choose a bank sharia.
5. X4 regression coefficient (variable *profit sharing*) of 0.299 (29.9) states that the variable *profit sharing* has an effect on customer interest in choosing a bank syar h. It states the better the *bank's profit sharing* interest in customers to become customers of Islamic banks will increase customers choose Islamic banks.
6. Regression coefficient X 5 (Variable Support Government) of -0.111 (11.1) states that government support variable has a negative influence on the interest n asabah choose Islamic Bank. So despite the government's actions against Islamic banking does not look or a bit of

action by the government against the Islamic banking will not affect someone to choose Islamic banks.

4.2.4. Coefficient of Determination

Coefficient of determination test done to measure how far the ability of regression models explaining variation in the dependent variable. R Square scale used to measure the goodness of the regression line fits (Ghozali 2009, 15). Table 4:24 is the result of testing the coefficient of determination. From the table it can be seen that the value of *R Square* is 0.887. So it can be concluded that 88.70% variable interest can be explained by the variable Customer Behavior, Social, Religious Stimuli, Profit Sharing and Government Support. While the remaining 11.30% is explained by other variables not examined in this study.

Table 4:24
Coefficient of Determination Test Results

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.942 ^a	.887	.863	.73352	1.650

a. Predictors: (Constant), Dukungan Pemerintah (X5), Sosial (X2), Religius Stimuli (X3), Profit Sharing (X4), Perilaku (X1)

b. Dependent Variable: Minat (Y)

4.3. Hypotheses testing and discussion of results

F test results influence jointly (*simultaneously*) each independent variable has a positive effect on customer interest in selecting Islamic banks, calculated F value of 37.526 is greater than the amount of 2,620 F table. Calculate the Significance F value of 0.000 is obtained which is smaller than $\hat{I} \pm$ level was set at 0.05. Significant value of the variable t Attitude, Religious Stimuli and Profit Sharing each also smaller than the value specified α level of 0.05. So there is significant influence between variables simultaneously Behavioral, Social, *Religious Stimuli*, *Profit Sharing* and Government Support for Customer Interest in Islamic Banking. The amount of influence is 88.70%.

T test on SPSS output table can be seen in the table as the author Coefficientsa show *Religious Stimuli* (14.4), *profit sharing* (29.9). So it can be concluded that there is significant influence between behavior partially, Religious Stimuli and Profit Sharing to Customer Interest in Islamic Banking, whereas not so in Social Influence Variables and Government Support.

1. Interests Influence Customer Attitudes/behavior to Choosing Islamic Bank

The most dominant influences behavior is *variable*. This indicates that among the five independent variables tested Attitude (*attitudes*) consumers are important factors that will influence the decisions of consumers towards a product information. The concept of attitudes related to the concept of belief (*belief*). To avoid usury that attitude, confidence to interact sharia, operational basis in accordance with Islamic principles would be an alias for the customers in choosing Islamic banking. This result is supported by Gopi and Ramayah (2007) identified attitude as a key predictor of the use of online trading system. In a similar vein, Ramayah and Suki (2006) examined Master of Business Administration students' intention to use mobile personal computers and found it to be significantly related to attitude

2. Social Effects Of The People Interests Choosing Islamic Bank

Social influence variables does not affect the customer in selecting Islamic banks in the city of Bandung. So there is a significant difference in partial Social Effects of the interests of customers choosing Islamic banks. So although the smaller or the less social influence in that environment will not affect a person for choosing Islamic banks. This is because people choose Islamic banks is not encouragement or inducement of others rather than his own beliefs. This result is supported by Chau and Hu (2001) and Lewis et al. (2003) found subjective norm to have no direct impact on intention to use information technology

3. Stimuli Against Religious Influence Customer Interests Choosing Islamic Bank

Variables that influence is quite variable *Religious Stimuli*. *Stimuli religious* variables have an influence of 14.4 in aroused the interest of customers choosing Islamic banks in the city of Bandung.

Given Adherence to a religious observance of a person's level of consciousness and do what is believed to carry out what has been taught in the religion they profess. the religious impulse that affect the interests of the bank's customers *syariah* products include understanding and adherence to religion. So that the greater understanding of the Islamic banking products and adherence to religion is increasingly affecting a person's a person to choose Islamic banks. This result is supported by Omer (1992) surveyed 300 Muslims residing in the UK and found that religious reasons were the principle motivations for Muslims in the UK to deal with Islamic financial institutions

4. Effect of Profit Sharing Interests Against Islamic Bank Customers Choose

Variables that have the greatest influence was second after *Pofit Sharing* Behavior. Variable influence of *Profit Sharing* 29.9 in aroused the interest of customers choosing Islamic banks in the city of Bandung. The higher *profit sharing* given by the bank to the customer in the interest of the higher Islamic banks. This result is possible because the *profit sharing* provided by Bank Muamalat, Islamic Bank, and Bank Mega Syariah London Branch to its customers to provide high enough to result or has a high level of profit to be distributed to customers. The fact is also reinforced by Masasya G. Masasya as observers and investment banking, he said: methods of *profit sharing* (profit sharing) imposed by the bank an opportunity to get a greater return on investment than conventional bank interest.

5. Effect of Government Support on Customer Interests Choosing Islamic Bank

In addition to the variable influence of social support variables are variables that the government is not against the interest of customers choosing *bepengaruh* Islamic bank in the city of Bandung. So despite the government's actions against Islamic banking does not look or a bit of action by the government against the Islamic banking will not affect a person for choosing Islamic banks. In this case because the public does not care or do not see a real government action towards the development of Islamic banking. This result is somehow not consistent with the assertions by Rosly (2005) and Haron (2005) that the government has a strong influence people interest choosing *islamic* banks.

V. CONCLUSION

Developing competitive advantage for Islamic banks via product innovation can be a complex issue. The results have managerial implications for bank managers and theoretical implications for prospective researchers. As the findings imply, the Islamic banks need to work on improving bank customers' attitudes which may vary and need to be observed over time. Skinner in Notoatmodjo (2010), a psychologist, theorized that the behavior of a person's response or reaction to the stimulus (external stimuli). Skinner theory is known as the theory of SOR (Stimulus-Organism-Response). But in reality, the stimulus received by the organism is not always able to produce behavior, there are several other factors that play a role in the emergence of behaviors, one of which is an intention to behave in certain of an individual. Intention itself will not appear in the absence of determinants that influence. This theory is described by the theory Atzen known as Theory Of Reasoned Action) / Theory of Planned Behavior (Theory of Planned Behaviour). In this study surveyed three Islamic banks in the city Banadung (BMI, and Mega Syariah BRI Syariah) shows the attitude / behavior and religion influence people to choose Islamic Bank. This study also has contributed to the existing knowledge related to the theory and practice of Islamic banking. It is expected that similar studies can be done by adding other variables such as trust. This study has limitations only three Bank in the city of Bandung, which affects the interest of choosing only three Islamic banks, namely attitudes, religion and profit sharing.

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EQUITY BASED SYARIAH FINANCING ISSUES FOR SMALL AND MEDIUM ENTERPRISES (SMES) IN SERVICE SECTOR

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ABSTRACT

The Indonesian Labor Agency (PJTKI) is one form of Small and Medium Enterprises in service sector. They actively involve in the business of sending workers abroad. This form of SMEs are increasing in numbers due to high demand of labor to work abroad. This phenomenon has certainly brought positive value to the country through foreign currency inflow. Despite of this fact, a number of potential workers were unable to work abroad due to limited access to funds. Financial institutions are reluctant to finance the workers due to high perceived risks associated with the project. In addition the government regulation on assets' liquidation does not nurturing the islamic financial institution financing program. Restriction imposed on banks' asset liquidation has reduce the flexibility of the banks to implement the equity based financing scheme. This study therefore attempted to identify the types of risks associated with equity financing in Indonesia. The study used open questionnaire to identify the types of risks considered by Islamic banks' management, the indonesian migrant workers' agencies and the government in this case represented by the Department of Manpower and Transmigration. There are three kinds of risks identified during the study namely financial risk, business risks and operational risks. Financial risks are clasified into financing risks; risks of return and liquidity risks. Financing risks consist of non performing loan, and market risks such as price fluctuation; while risks of returns refer to unexpected return as a result of several unpredictable factors such exchange rate fluctuation; finally liquidity risks refer to the liquidity of equity and assets as well as cash management liquidity. To minimize the financial risks, Islamic financial institutions are suggested to form internal rating system which can be used as a database of risks assessment on banks' assets based on the loss given default (LGD) of the facility or probability of default of customers.

Keywords: Risk Management Issues, Equity Based Financing, SMEs in Service Sector, Islamic Financial Institutions

1. INTRODUCTION

Strong religious commitment of the Indonesian Moslems' on Islamic economic system is the driving force for the growing popularity of Islamic banks in the nation. Vast majority of Moslem in Indonesia is a potential market that should be grab by Islamic bankers. In fact Islamic banks (IB) act as an intermediary and trustee of other people's money, similar its counterpart conventional banks, with a special feature that IB shares profit and loss with

investors (Dar and Presely, 2001). In addition, Islamic banks use Islam jurisprudence at its main reference in running the business operation, as a consequence the activities are far from unlawful acts such as usury, the collection and payment of interest, also known as *riba* in Islamic discourse, gambling, being unjust to others (El-Qorchi, 2005; Lewis and Algaoud, 2007; Rice and Mahmoud, 2001). Thus Islamic legal system forbids Moslem from unlawful business ownership such as trading alcohol or ham, or any kinds of involvement in media businesses which are against Islamic law or virtues (Pramuka and Adawiyah, 2012).

Islamic banks in Indonesia has undergone significant trends growth although the current value assets of syariah banks has only reached a figure of 1,3 percent of the total national banking assets. According to a statistical syariah banking issued by the Central bank of Indonesia in 2005 the number of Islamic commercial banks reaches the total number of 304 branch offices. By October 2011 the number of Islamic commercial bank was amounted to 11 with the number of branch offices as many as 1,365 units. Similarly Islamic banking units and Islamic rural banks have also increased in number even faster than the full fledged banks. One of a contributing factor was the government policy that has been constantly providing support to syariah banks in Indonesia (Pramuka, 2013). The interdiction against interest rate in Islam is mainly due to the purity of the Islamic economic system. Islamic economic system is fair and free from any exploitation forms which shall disadvantage others. This principle is the guidelines for Islamic banking operations (Chapra, 1985). Islamic law has been purifying the operational system of Islamic bank and hence becoming the strongest defense against conventional bank, and the only path to sustained profit and growth.

Despite of its increasing popularity Islamic Banks are still facing serious challenge in its development especially in gaining trust from the potential customers. On the one hand, Islamic banks has to expand their market, on the other hand there is a need to carefully assist the risks associated with the financing schemes. Islamic financing scheme offered by Islamic banks are distinct from that of conventional banks. Islamic banks do not just consider the business feasibility, before financing them, but also the Islamic rule as the main consideration (Pramuka and Adawiyah, 2012:3). There are two main forms of financing in Islamic banks: first, Equity based financing such as *mudharabah* and *musyarakah*; second, debt financing, also known as *murabaha*. The profit sharing/ equity based financing is endeavored as compared to the debt one (Pramuka and Adawiyah, 2012). The first form of financing can be instrumental in lifting up the small medium enterprises such as PJTKI, improve productivity, which in turn stimulate the growth of the national economy.

Devaluation of Indonesian Rupiah against US dollars recently brings certain effects towards the service of sending migrant workers abroad. Moreover, high perceived risks associated with the business has made banks reluctant to finance PJTKI (Pramuka and Adawiyah, 2012). In particular, high uncertainty in credit terms, periods and the amount of installment to be paid as a result of the financing are among crucial issues that need to be addressed not just by the banks but also academicians. This phenomena has raised up opportunity for Islamic banks to provide funds to PJTKI. Islamic finance is performed based on profit and loss sharing (PLS) and non-PLS models. Such models have certainly provide win-win solution to both fund suppliers and entrepreneurs. This paper attempts to address the issue of supervision and risk management which emerge a result of the use of financial services accordance with Islamic jurisprudence.

3. LITERATURE REVIEW

2.1 Overview of Islamic Banks

Dubai Islamic Bank, established in 1975, is the first *Syariah* banks in the world with widespread operation. Thus the development of Islamic banks was initially concentrated in the Middle East (especially Bahrain) and South East Asia (particularly Malaysia). Nowadays, Islamic banks are continuously increasing in number, more than three hundred, and currently operating in seventy-five countries with total property value more than US\$ 400 billion (El-Qorchi, 2005).

IB can be found in developing countries, where the monetary system is nearly totally Islamic (Iran and Sudan), or in countries where Islamic and 'conventional monetary system concurrent such as Indonesia (El-Qorchi, 2005). Moreover, Islamic banks existence is also evidenced in developed economies, such as Europe and the United States, with only few number of Islamic banks and substantial number of conventional banks with their Islamic financing windows (Gait and Worthington, 2007).

The establishment of IBs in Indonesia takes place because of strong public demands on the existence of alternative banking system. Islamic banks are expected to deliver sound financial services in accordance with Islamic (*Syariah*) rules. Actually, Islamic banks has been in operation long before IB formal legal declaration in 1992, where some non-bank financial institutions with share base contract existed.

2.2 PJTKI as SMEs in Service Sector

Since the economic crisis in 1997 the number of PJTKI/ licensed migrant brokers in Indonesia has increased significantly. Market deregulation imposed by the government at that time had created an access for those agencies to send workers abroad. By 2007, more than 500,000 of Indonesians officially travelled abroad as migrants due to stiff competition in the job market nationally. People started to seek for job opportunity abroad with better compensation. Nowadays, more than 600 PJTKI, with multiple branches, operating all over Indonesia.

Those migrant workers are doing heroic actions every time they send money to Indonesia. Increasing inflow of foreign exchange to Indonesia shall strengthen the Rupiah exchange rate against other currencies. Thus this business sector is very potential to be funded through Sharia financing because it provides an advantage in the form of service fees (international remittance) However Islamic financial institutions are still loath to finance this venture because of the uncertainty of the collateral financing (risk of nonperforming loans).

3. METHODOLOGY

This research was exploratory in nature whereby data was collected using several forms namely questionnaire, observation, and focus group discussion. In addition in-depth interviews was also carried out. The interview was conducted using open questiones to further confirm the issues being observed. Note taking and tape recorder were used as the main tools in data collection during field observation and interview. Moreover, data triangulation techniques was used to check the validity andr reliabillity of the data collected. The population of the study was Islamic banks, and PJTKI located in Banyumas regency Central Java. The data was analysed using descriptive statistics. In addition, the data was also analyzed using the interactive model of analysis which includes: (1) data collection, (2) data reduction, (3) data display (4) and finally conclusion.

4. FINDINGS AND DISCUSSION

4.1. Financing Methods

There are two possible ways of financing this service sector. The fund can be given directly to workers who intend to work abroad otherwise can be given to the labour agencies (PJTKI). To date, there are three kinds of financing schemes offered by Islamic banks i.e. trading form (*bai*), rental form (*ijarah*), as well as profit and loss sharing form (*syirkah*). Provided the bank choose to financing the workers, it is actually acting as a labour agency themselves which requires the bank to handle all administrative matters. Service rendered starting from pre-departure preparation, finding job location for the potential workers abroad as well as handling the arrangement when the workers return home. For these services, Islamic bank reserves the right to charge a certain amount of fees to the workers. Payment of the fee by the TKI to Islamic banking can be done in installments over several months.

Alternatively, bank syariah could finance the labour agencies (PJTKI) instead, through *mudharabah* or *musyarakah* financing modes. The financing value should cover all expenditures incurred as a result of services rendered when sending migrant workers abroad. Technical dipotongkan can instantly payout of salary the TKI. To that end, PJTKI has to cooperate with various parties including the overseas destination agents. Earnings in the form of fee must be shared between PJTKI and Islamic banks, based on the agreed ratio

4.2 Islamic Banks Perspectives on Financing PJTKI

A number of Islamic banks refused to finance this sector despite of its significant contribution toward the nation's economic growth. Some of the reasons are: first, most of the labor agencies operating in Banyumas Regency are merely branch offices with restrictions in decision making. Therefore the possibility of fund abuse is higher if handled by branch offices instead of the central offices; second, there are some cases of misconduct which goes against the Islamic jurisprudence for example the use of false documents. Islamic banks therefore refuse to finance this sector; third, despite of promising profit, it is difficult to control the performance of PJTKI. Lack of controllership is among the challenge faced by Islamic banks when financing this sector.

To overcome those problems the following solutions are offered (Pramuka and Adawiyah, 2012): first, the project is financing using musyarakah, whereby the amount funds injected should be equal in number between PJTKI and Islamic banks and every time payments paid by the partner abroad should go straight to PJTKI's account in the partner bank; second, placing banks' account officer to supervise the activities of PJTKI to prevent fraud; third, the establishment of joint bank account to pool the project funds carried out by both PJTKI and Islamic banks; fourth, Islamic banks can act as office channel to distribute government funds to small medium enterprises.

4.3 Financing Mechanism

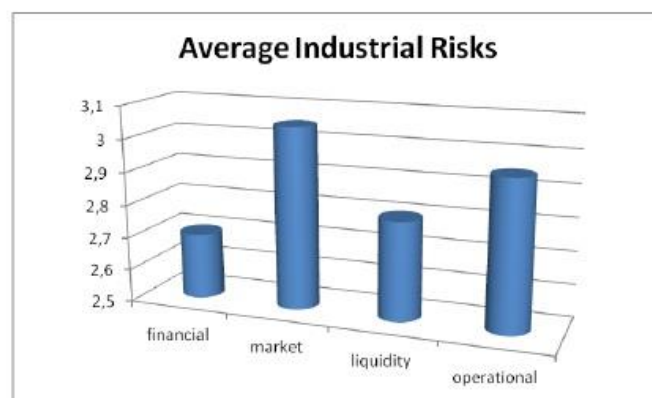
The government in this case the Ministry of Labour and Transmigration should actively promote PJTKI as one form of business opportunity in service sector. An attempt to place the accounts officer (AO) is an excellent alternative to anticipate any conflict of interest between the bank as the provider of Shariah-compliant funds with PJTKI ushered received financing. Things to anticipate with this mechanism is when the account officers do not function as intended – weak supervision, use secondary data during monitoring the project and some other possible misconducts

4.4 Risk Management

One of the factors that cause small amount of equity-based financing by Islamic banks is due to high risk associated with it. Conflict of interest fund users, in this case PJTKI, and fund owners, the banks. There are three kinds of financing risks faced by Islamic banks: namely financial risks, business risks and operational risks. Financial risks can be classified into three categories: (1) Financial risks such as non performing loan, market risks such as price fluctuation; (2) the risk associated with investment return which is not in accordance with the initial agreement, exchange rate fluctuation; (3) liquidity risks encompasses capital liquidity risks and cash management risks (Khan, 2001).

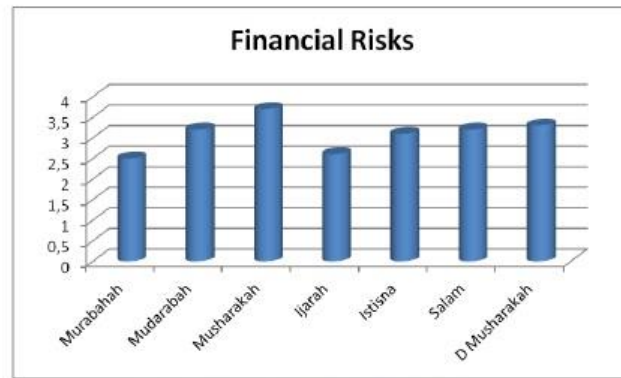
Business risks include risk management and risk strategies. While operational risk factors consist of human risk, legal risk, risk systems, external risks and equity based investment risks. To anticipate the operational risks, there is a need to design surveillance system. Islamic financing involves the risks that are unique which comes from liquidity, there is a possibility of transforming financing risks to market risks or otherwise risk possibility at different levels of partnership contracts

Equity-based financing in particular will face the risk of non performing financing, related issues of moral lapses in financing, collateral and insurance related issues which should be accepted by the customer and the owners of capital. As a result the percentage of equity based financing is less than twenty percent due to high risk associated with financing. Meanwhile this mode of financing is the most suitable for small and medium enterprises because it is profit and loss sharing base.



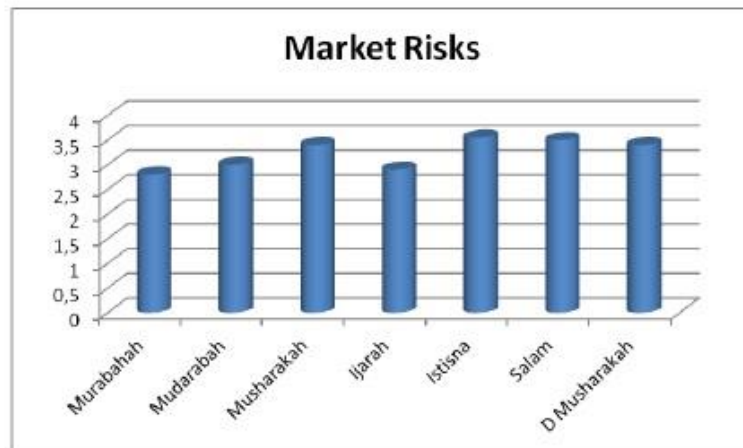
Picture 1 The average industrial risks of Islamic banks

On average Islamic banks faces four kind of risks namely financial, market, liquidity, and operational risks. Market risks appear to be the most threatening risk with an index of 3.02.

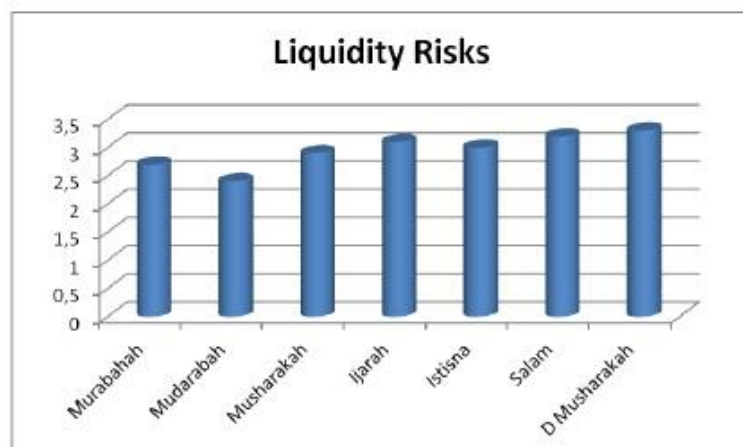


Picture 2 The financial risks of Islamic banks

Financial risks in this case refers to the risks associated with distributing the funds to PJTKI as small and medium enterprises in service sector. Financial risks include the risk of non performing loan. It is indicated in picture 2 that equity based financing such as mudarabah and musharakah possess the highest score 3.0 dan 3.5 consecutively. This phenomena causes banks to choose debt financing as the most popular way of distributing funds to PJTKI.



Picture 3 Market risks of Islamic banks financing



Picture 4 Liquidity risks of Islamic banks

Overall the amount of liquidity risks for each possible financing risks are similar. This implies that a consideration on capital liquidity risks and cash management risks should be seriously considered by the management of PJTKI in managing the funds invested by Islamic banks. The

placement of qualified account officer by Islamic banks will help control the attitude of the borrower (*mudharib*) to ensure that the *mudharib* comply with the terms of the contract they have signed earlier. Islamic banks as fund owner (Shohibul mal) are concerned with earning maximum profit while there is a possibility of misconduct by the *mudharib*. Cash management risks is also another issue which determine the liquidity of PJTKI in running their business. Time span can be imposed on their labour agent partner abroad regarding cash inflow, as a consequence of sending workers abroad, to ensure the sufficiency of their cash.

5 Internal Rating System to Minimize Risks

Internal Rating System (IRS) can be used as a database to assess risk for every banks' assets which is intended as the loss given default (LGD) of the facility or probability of default (PD) for customers. IRS is subjective in nature and it is not statistics. IRS is important for the following reasons: (1) IRS is unique for each bank; (2) IRS can be used as a guideline while processing customer financing request; (3) IRS can function as monitoring portfolio and reporting management; (4) IRS can be used as a tool to assess the allowance for doubtful debt as well as capital adequacy of customers; (5) to determine the amount of funds to be approved as well as the level of profit desired.

Other advantages of using internal rating systems are

- To obtain general description on various aspect of financing.
- Internal ratings are based on the profile of individual assets, not on a bucket of assets
- Internal rating is made based on the growth of companies' assets
- Internal ratings can act as a complementary data for external financing assessment. .
- Internal ratings shall increase the rating level of Islamic banks externally
- Internal ratings increase information system quality.
- Internal rating formal is usually applied by big companies alone since Islamic rural banks are not classified as a big firms, therefore there are some limitation imposed on the adoption of IRS by Islamic banks. Initiation of IRS adoption shall develop the culture of risk management suitable with Islamic banks financing schemes.

5.1 Sources of data for Internal Rating System.

There are several sources of data for IRS systems namely:

- ☐ Customer oriented system whereby the value is based on probability of default (PD)
- ☐ Facility oriented systems based on the amount of loss given a default: LGD)
- Considering the amount of total assets in balance sheet, Exposure-at- Default (EAD)
- Estimating the expected useful life of facilities
- Focus on financing certain client as part of risk diversification.

5.2 Analysis on Risks of Non Performing Financing.

Financial statement analysis is used to predict future cashflows and to assess the ability of client to comply with the contract agreed upon by both parties. Some of those factors are clients ability to fulfill their liabilities, the liquidity of the firms, past revenues, access towards funds, the leverage ratio, peer group analysis, audit report and viability of the financing by external parties.

Below is the example of IRS calculation. Islamic banks perceive the risks of their financing modes as follows (scale 1 to 5)

• <i>Musharakah</i>	3.69
• <i>Diminishing Musharakah</i>	3.33
• <i>Mudarabah</i>	3.25
• <i>Salam</i>	3.20
• <i>Istisna</i> ‘	3.13
• <i>Ijarah</i>	2.64
• <i>Murabahah</i>	2.56

Financing modes	Perceived risks		Weight (w), Index Murabahah=100	Amount of capital \$
	1 to 5	% of 5		
Musharakah	3.69	73.8	144; w=1.44	288
D. Musharakah	3.33	66.6	130; w=1.30	260
Mudharabah	3.25	65	127; w=1.27	254
Salam	3.2	64	125; w=1.25	250
Istisna	3.13	62.6	122; w=1.22	244
Ijara	2.64	52.8	102; w=1.02	204
Murabahah	2.56	51.2	100; w=1	200

Assumption: (C) = \$10,000; EAD = 50% (of C); LGD = 50% (of EAD); minimal capital= 8%; basis of scoring = 100; The amount of actual capital = $C \cdot EAD \cdot LGD \cdot W \cdot 8\%$ C= comitment, EAD = exposure at default, LGD= loss given default

6 CONCLUSION

There are three kinds of risks identified during the study namely financial risk, business risks and operational risks. Financial risks are clasified into financing risks; risks of return and liquidity risks. Financing risks consist of non performing loan, and market risks such as price fluctuation; while risks of returns refer to unexpected return as a result of several unpredictable factors such exchange rate fluctuation; finally liquidity risks refer to the liquidity of equity and assets as well as cash management liquidity. To minimize the financial risks, Islamic financial institutions are suggested to form internal rating system which can be used as a database of risks assessment on banks' assets based on the loss given default (LGD) of the facility or probability of default of customers.

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Entrepreneurial Characteristics and the Success of Rural Women Entrepreneurs in Business

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Abstract.

Entrepreneurial activities have proven successful in improving the quality of the economy and the level of life of the local residents as well as contributing to the development and transformation of the national economy. The increase in the women who dabbled in the field is also overwhelming. This study is aimed at identifying the entrepreneurial characteristics which are the impetus to the success of the rural women entrepreneurs in the business. The questionnaire is used as a data collection method that involves a total of 80 rural women entrepreneurs in the northern region of Peninsular Malaysia. The respondent was selected from the list obtained from agencies such as Amanah Ikhtiar Malaysia (AIM), Kedah Regional Development Authority (KEDA), and Penang Regional Development Authority (PERDA) who in charge of rural entrepreneur development programmes in Malaysia. The analysis showed that the entrepreneurial characteristics of the rural women entrepreneurs including risk taking, willingness and initiative, confidence or determination, strategic thinking, creativity and innovation, social networking and vision. The majority of rural women entrepreneurs involved in this study can be categorized as successful entrepreneurs based on their company's financial strength as it increases day by day, customer satisfaction and the satisfaction of entrepreneurs in their career. The study also found the key entrepreneurial characteristics that influence the success of the business are the confidence or determination, vision and the willingness to take risks. In this regard, it is hoped that the findings of this study can help the parties concerned in the design and implementation of the agenda to stimulate the performance of these entrepreneurs to a higher level. It turns out this effort can contribute towards the development and transformation of the economy to achieve developed nation status and a high incomes by 2020.

Keywords: Entrepreneur, rural area, women entrepreneurs, rural women entrepreneurs, entrepreneurial characteristics

1. Introduction

Entrepreneurial activity is not only able to improve the economy and the quality of life of the local people, but also in the long term contribute to the development and transformation of the national economy. This is because this sector is a significant source of the economic growth and employment creation (Abdullah, 1999). Recognizing this, many developing countries make entrepreneurship strategies as a new paradigm. Previous studies have shown that entrepreneurial activities increase the gross domestic product (GDP), employment opportunities, increase income and wealth of local residents, and engage the local population to the global economy (Reynolds et al., 1999; Henderson, 2002).

Previous literature has provided some definitions to entrepreneurship. Schumpeter (1934) defines entrepreneurship as a "carrying out a new arrangement to produce new products and services". Brockhaus (1980) defines entrepreneurship as events related to the ownership and

management of a company. Entrepreneurship also refers to activities that require an individual to "sacrifice their time, show their commitment, and bear the risks relating to the financial, social and physiological, in order to obtain benefits in terms of personal satisfaction and finance" (Hisrich, 2004). Individuals who are involved in entrepreneurial activity are known as entrepreneurs. The entrepreneur is derived from the French word "entreprendre", which means "to assume duties or try". The entrepreneur is "an inventor of new ventures facing uncertainties through various ways" (Kuratko, 2009). They also have the ability to anticipate challenges and opportunities, gather all required resources, such as time, energy, and money as well as to take appropriate action to achieve success (Meredith et.al., 1982).

The involvement of women in entrepreneurial activities is no longer a new phenomenon, but the world has witnessed women-owned firms growing from time to time (Davidson & Burke, 2004). For example, McKay (2001) reported that, in 1999 almost half of the small businesses in the United States were owned by women. In the meantime, Still and Timms (2000) stated that women played a major role in the growth of small businesses in Australia. In addition, the UK Government also estimates that nearly a quarter and a third of business firms in the country were owned by women (Fielden et al., 2003). Orhan and Scott (2001) report that 26 percent of the total entrepreneurs in France are women. Mei Fun (2009) on the other hand reported that 16 percent of the small and medium size enterprises that were involved in the service sector, manufacturing and agriculture in Malaysia are owned by women.

Entrepreneurship also becomes the main focus and priority in the formulation of the Malaysian Government's policies and agendas. Starting from the sixth Malaysia Plan (RMK-6) until the tenth Malaysia Plan (RMK-10), the focus on entrepreneurship is increased through the incentives given to existing operators to double the efforts to penetrate the global market as well as encourage and attract a new generation to enter into this field. A lot of general actions plans have been implemented by the Malaysian Government on several key sectors such as industry, privatization and entrepreneurship. Besides, there are also many entrepreneurial development programs undertaken by the Government in conjunction with private agencies and non-governmental organisations (NGOs). All of these efforts have beckoned and attracted more women to actively participate in entrepreneurship activities (Maimunah, 2001). Today, entrepreneurship is no longer dominated by the men; in fact women increasingly take place standing up together with the men.

Nevertheless, not all of the businesses or enterprises carried out are successful. The success of a business or enterprise is measured from a variety of angles and styles. For example, Perren (1999) and Amit et al. (2000) measure business success through income, growth, wealth and profit as well as the ability of the business to remain longer in the industry. Watson et al. (1998) and Dafna (2008) evaluated the success of the business through its ability to continue to carry out its trading activities. In addition, there are some researchers who measure the success of the business based on its ability to operate more than three years (Vesper, 1990; Watson et al., 1998; Taormina and Lao, 2007). In addition, business success is also measured by the profitability of the acquired business and the average level of profit compared to the industry, whether lower, equal to or higher than the average level of industry profits (Abdul Manaf, Omar & Yee, 2012). Ashraf and Qureshi (2010) measure business success based on the company's financial strength, customer satisfaction and satisfaction of the entrepreneurs in their career.

The success of a business or enterprise also depends on the owners. For example, Raffele (2011) said in order to succeed, entrepreneurs must have key features such as creativity, perseverance, courage, confidence, humility, willingness to learn, strategic thinking, focus, strong determination and the ability to celebrate or appreciate success. Elenurm and Alas (2009) found that the key features to success are the courage to take risks, openness to new

information, flexibility, creativity and determination. Other features that drive an entrepreneur to succeed include energy level, confidence, setting challenging but realistic goals, long-term involvement, using money as a performance measurement, problem solving on an on-going basis, willingness to take risks, learn from failure, use criticism toward the positive, take initiative and responsibility, using the best resources and seek to avoid or resist the standards created themselves (Dingee et al., 2001). In addition, McClelland (1987) pointed out the success of an entrepreneur is driven by key features, such as the initiatives offered, speed of acting on available opportunities, perseverance, find information, high quality-conscious work, commitment, efficiency, proper planning, problem solving, self-confidence and the ability to persuade and use the pressing influence strategy.

Ashraf and Qureshi (2010) developed a model by listing eight main features of which are drawn to the success of entrepreneurs in a business, including risk taking, willingness and initiative, confidence/determination, the ability to explore, strategic thinking, creativity and innovation, social networking, as well as vision. The main features listed are focused to individual factors that are drawn towards the success of the entrepreneur. Thus, this study was developed to explore the entrepreneurial characteristics of rural women entrepreneurs in Malaysia that affect their success in business by using the model recommended by Ashraf and Qureshi (2010). Figure 1 show a conceptual framework derived from the study on the previous literature. However, in this study the focus is given to the individual factors.

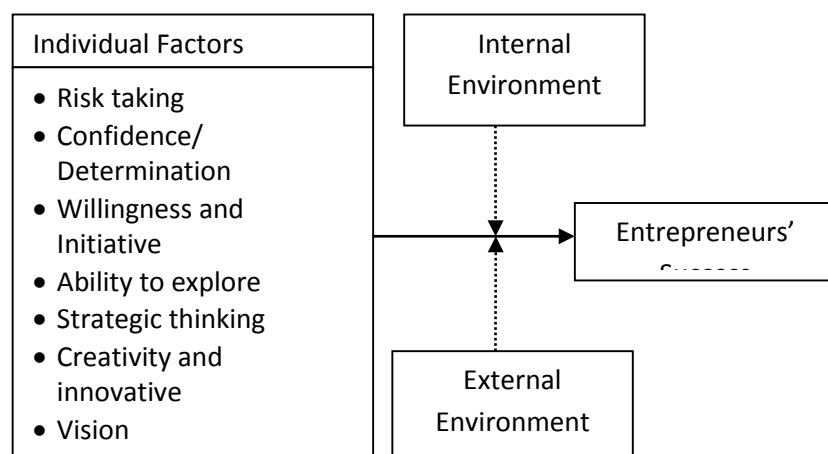


Fig. 1: Conceptual Framework

d. Methodology

This study involves a total of 80 women entrepreneurs in the Northern Region of Peninsular Malaysia (Kedah, Perlis and Penang). These entrepreneurs have been selected from a list provided by several agencies such as Amanah Ikhtiar Malaysia (AIM), The Kedah Regional Development Authority (KEDA) and The Penang Regional Development Authority (PERDA) who are in charge of rural entrepreneur development programmes in Malaysia. A breakdown of the respondents involved in accordance with the list is provided by the agencies in Table 1.

Table 1: Breakdown of the Respondents

AGENCIES	TOTAL RESPONDENTS	STATES
Amanah Ikhtiar Malaysia	30	Kedah and Perlis
Kedah Regional Development Authority	20	Kedah
Penang Regional Development Authority	30	Penang

The selection of the sample is based on the availability and willingness of the women entrepreneurs to be the respondents in this study. The researchers have contact them via phone in order to obtain approval to participate in the survey conducted. From the 90 entrepreneurs being called, only 80 of them expressed consent to participate in this survey. Data collection was carried out from December until February 2013. A set of questionnaires had been developed as an instrument and distributed through three methods; through telephone conversations, emails and face-to-face survey sessions. The majority of respondents are more comfortable answering this survey through telephone conversations and emails as compared to face-to-face methods due to time constraints and the situational factor.

The survey instrument is divided into 4 parts which was adapted from previous research (Suaibah et al. 2005; Siti Norliza, 2005; Ashraf and Qureshi, 2010). Part A contains questions pertaining to the respondent's personal information such as age, marital status, academics, business, employment reasons to engage on before dealing, the age when starting a business as well as confirmation of whether or not they have attended any training, courses or entrepreneurial workshops. Part B also asks about the background of the business, such as the type of business, number of employees, the amount of initial capital, the capital resources and business performance over the previous year. Part C contains the questions aimed at identifying entrepreneurial characteristics owned by entrepreneurs while part D contains questions that identify the level of success of the entrepreneurs in the business. Both section C and D are measured using the Likert Scale 7 levels (1 = strongly disagree, 7 = strongly agree). The breakdown of the instrument is provided in Table 2.

Table 2: Breakdown of the Instruments

PARTS	CONTENTS	TOTAL QUESTIONS
Part A	Personal Information	11
Part B	- Source: Suaibah et al. (2005) Business Information	9
Part C	- Source: Siti Norliza (2005) Entrepreneurial Characteristics	20
Part D	- Source: Ashraf dan Qureshi (2010) Entrepreneurs' Success	4

- Source: Ashraf dan Qureshi
(2010)

The data obtained was analyzed by using the Statistical Package for Social Science (SPSS) version 20.0. The reliability test of the instrument used is made through procedures of Cronbach's alpha (α). Analysis results is provided in table 3.

Table 3: The Alpha Value

ELEMENTS	NUMBER OF ITEMS	ALPHA VALUE
Risk taking	3	0.809
Willingness and Initiative	2	0.704
Confidence / Determination	2	0.922
Strategic thinking	2	0.789
Creativity and innovative	2	0.750
Social Networking	2	0.602
Vision	2	0.504
Business Success	3	0.706

e. Results and discussion

Profile of Rural Women Entrepreneurs

This study involved a total of 80 women entrepreneurs. Referring to table 4, most of the respondents are from the age group of 31 to 40 years (42.5%) and 41 to 50 years (41.3%). The majority of them are married (88.8%). The women entrepreneurs are made up of a variety of educational backgrounds, where the majority of them have the Malaysian Certificate of Education (SPM/MCE) (56.3%), followed by the Lower Secondary Assessment (PMR/SRP) (12.5%), the Malaysian Higher School Certificate (STPM) (11.3%), diplomas (8.8%) and the rest have only attended primary school or have no formal education. The majority of respondents have a family member who is an entrepreneur (51.4%), whether it is a parent, children or siblings. Most of the respondents had never worked before they engaged in the entrepreneurial world (50%), and they make a career as an entrepreneur as a source of income (48.8%). The study also found a large number of women entrepreneurs starting a business as early as the age of 21 to 30 years (56.3%). Before being an entrepreneur, a total of 45.0% of them did not have a monthly income or even if they did made only RM1000 or below. A total of 22.5% of them earn a monthly income between RM1001 to RM2000 while the rest (5%) earn between RM2001 to RM3000 per month. Once involved in entrepreneurship, all of them have managed to increase their monthly income, the majority of earn more than RM4000 per month.

Table 4: Profile of Women Entrepreneurs

Item	Description	Frequency	Percentage
Age	21 – 30 years old	1	1.3
	31 – 40 years old	34	42.5
	41 – 50 years old	33	41.3
	51 years old and above	12	15.0
Academic Qualification	No formal education	3	3.8
	Primary School	6	7.5
	PMR / SRP	10	12.5
	SPM / MCE	45	56.3
	STPM / Certificate	9	11.3
	Diploma	7	8.8
Family members who become entrepreneurs	None	39	48.8
	Parent	7	8.8
	Children	19	23.8
	Siblings	15	18.8
Reasons for venturing into a business	Less satisfied with previous employment	2	2.5
	As a source of income	39	48.8
	Government's support	1	1.3
	Family's support	1	1.3
	Interest in business	31	38.8
	Business inherited by family	6	7.5
Previous jobs before venturing into business	Does not work/housewife	50	62.5
	Public servants	1	1.3

	Working in the private sector	29	36.3
Age when starting a business	20 years old and below	8	10.0
	21 - 30 years old	45	56.3
	31 - 40 years old	20	25.0
	41 - 50 years old	7	8.8
Monthly income prior to becoming an entrepreneur	RM1000 and below	58	72.5
	RM1001 - RM2000	18	22.5
	RM2001 - RM3000	4	5.0
Monthly income after becoming entrepreneurs	RM2001 - RM3000	12	15.0
	RM3001 - RM4000	20	25.0
	RM4001 - RM5000	27	33.8
	RM5001 and above	21	26.3

Business Profile

According to Table 5, majority of the entrepreneurs run their business alone (77%). This industry is made up of a wide range of industries, such as food and drink, including frozen and dry foods, processed foods and canned foods as well as restaurants and catering (66.3%), agriculture and animal husbandry (8.8%), retail (6.3%), beauty, make-up and grooming (3.8%), contracting and construction (1.3%), pharmacy and traditional medicines (2.5%), sewing and clothing (6.3%), printing services (2.5%), hospitality and tourism (1.3%) and chemicals such as bleach and detergent (1.3%). The majority of respondents have been doing business for more than 10 years (62.5%). Most of them don't have experience in their related field prior to starting a business (45.0%). With respect to the number of employees, the majority of the entrepreneurs only have 1 to 2 people (37.5%). Most of them start a business with a capital of RM3000 and below (55.1%) and most of them receive capital resources from loans with institutions/associations (45%) and their own savings (40.0%). The majority of these entrepreneurs stated that the Government provided advice or assistance in maintaining and handling their businesses (53.8%). With respect to business performance over the previous year, most of the women entrepreneurs stated that their business performance increased (97.5%), only a small amount of them are unchanged (1.3%) and very few businesses have decreased (1.3%).

Table 5: Business Profile

Item	Description	Frequency	Percentage
The status of business organization	Sole proprietor-ship	62	77.5
	Partnership	10	12.5
	Private limited company	8	10.0
Type of business/industry	Food and drink/ frozen and dry food/ Restaurant	53	66.3
	Agriculture and animal husbandry	7	8.8
	Retailing	5	6.3
	Beauty, make-up and grooming	3	3.8
	Contractors and Construc-tion	1	1.3
	Pharmacy/ Traditional medications	2	2.5
	Sewing and clothing	5	6.3
	Printing services	2	2.5
	Hospitality and tourism	1	1.3
	Chemicals/ bleach/ detergent	1	1.3
Period of doing business	4 - 5 years	3	3.8
	6 - 7 years	7	8.8
	8 - 9 years	20	25.0
	10 years and above	50	62.5
The period of experience in the business field	None	58	72.5
	1 year and below	8	10.0
	2 - 3 years	7	8.8
	4 - 5 years	2	2.5

	8 - 9 years	2	2.5
	10 years and above	3	3.8
Number of employees	No employee	24	30.0
	1 – 2 person	30	37.5
	3 – 4 person	16	20.0
	5 – 6 person	2	2.5
	7 – 8 person	4	5.0
	9 person and below	4	5.0
Capital when starting a business	RM1,000 and below	19	23.8
	RM1,001 - RM3,000	25	31.3
	RM3,001 - RM5,000	8	10.0
	RM5001 - RM7000	8	10.0
	RM7001 - RM9000	3	3.8
	RM9001 and above	17	21.3
Sources of capital	Own savings	32	40.0
	Loans from family	8	10.0
	Inheritance	4	5.0
	Loans from institutions / associations	36	45.0
Get advice/help maintenance	Family members	37	46.3
	Government agencies	43	53.8
Business performance compared to last year	Increase	78	97.5
	Decrease	1	1.3
	No change	1	1.3

3 Entrepreneurial Characteristics

To identify the characteristics of entrepreneurship that exist among women entrepreneurs involved in this study, the data obtained was analysed through descriptive statistics. Results of the analysis are shown in Table 6. Based on Table 6, the average score shows key entrepreneurial characteristics possessed by the respondent include willingness and initiative (6.76), followed by confidence/determination (6.74), strategic thinking (6.66), creativity and innovation (6.58) as well as vision (6.57). The aspects of risk-taking and social networking showed the lowest average score, which are 5.57 and 4.88 respectively. Willingness and initiative refers to their openness to new ideas and products as well as their willingness to be the first to offer these product and services to the customer. Confidence/determination described the conviction and belief of the entrepreneurs against their business design that has been established, as well as their courage in facing challenges and failure. Strategic thinking refers to the process of making a decision effectively by using the resources and opportunities that exist for their business development. Creativity and innovation refers to the ability of entrepreneurs to introduce as well as bring out new ideas in their business. Mean while, vision is the entrepreneur's ability to make long-term plans and consider the possibilities of future impacts on their business expansion. The aspects of risk-taking described the willingness of entrepreneurs to engage in the risky work or unpredictable situation. In another sense, it refers to the ability to confront possible loss or turned over decisions or improper projects carried out in their business. Social networking refers to the friendliness and the desire to interweave their relationship with other entrepreneurs

Table 6: Entrepreneurial Characteristics

Elements	Min	Max	Average	Std. Deviation
Willingness and Initiative	6	7	6.76	0.413
Confidence/ Determination	6	7	6.74	0.436
Strategic thinking	5	7	6.66	0.455
Creativity and innovative	5	7	6.58	0.497
Vision	6	7	6.57	0.544
Risk taking	4	7	5.57	0.668
Social Networking	3	7	4.88	0.805

Women Entrepreneurs' Success in Business

To determine the level of success of the women entrepreneurs involved in this study, data was analysed through descriptive statistics. Results of the analysis are shown in Table 7. Average scores indicate that respondents can be categorized as successful entrepreneurs as customer satisfaction, financial strength and career satisfaction is high. The majority of the

entrepreneurs admitted that their customers are usually satisfied, their company's financial strength is always stronger from day to day and they are satisfied with their career endeavours.

Table 7: Women Entrepreneurs' Success in Business

Elements	Min	Max	Average	Std. Deviation
Customer satisfaction	6	7	6.91	0.284
Financial strength	5	7	6.71	0.482
Career satisfaction	6	7	6.78	0.420

The Relationship between Entrepreneurial Characteristics and Women Entrepreneurs' Success

To determine the relationship between the entrepreneurial characteristics and women entrepreneurs' success in business, data were analysed through Pearson correlation. Table 8 shows the results of the test. Based on Table 8, only three of the entrepreneurial characteristics were significantly correlated with the success of entrepreneurs in business, which are confidence/determination ($r=0.957$, $k<0.01$), vision ($r=0.527$, $k<0.01$) and risk taking ($r=0.278$, $k<0.05$).

Table 8: The Relationship between Entrepreneurial Characteristics and Women Entrepreneurs' Success

Entrepreneurial Characteristics	Entrepreneurs' Success	
	Correlation (<i>r</i>)	Significant
Willingness and Initiative	-0.013	0.911
Confidence/Determination	0.957	0.000**
Strategic thinking	0.092	0.415
Creativity and innovative	-0.143	0.207
Vision	0.527	0.000**
Risk taking	0.278	0.012*
Social Networking	-0.155	0.170

****. Correlation is significant at the 0.01 level (2-tailed).

**. Correlation is significant at the 0.05 level (2-tailed).*

The results showed that to be successful in the underlying business, an entrepreneur should always be confident in the decisions they do while maintaining the effort to achieve what has been planned. Entrepreneurs also have to keep trying and not give up when forced to deal with challenges and difficulties in the business. In addition, the results also showed that every entrepreneur who wants to succeed in business should have a long-term mission and vision. Therefore, entrepreneurs must have a business plan for at least the next three years and consider the possibilities of future developments affecting their business. In addition, it is necessary for entrepreneurs to always identify their main competitors and learn from the marketing strategy used by the competitors. The study also gives the impression that to be successful, entrepreneurs must be prepared to take risks in the work and decisions made in their business.

f. Conclusion

Overall, this study has identified the characteristics of entrepreneurship that exist among rural women entrepreneurs in the Northern region of Peninsular Malaysia, which are willingness and initiative, confidence/determination, strategic thinking, creativity and innovation, vision, risk taking and social networking. From all of these traits, the main characteristic that most affects the success of entrepreneurs in business is confidence/determination, vision as well as risk taking. The results of this study has similarities and differences with its previous reviewer. For example, Ashraf and Qureshi (2010) found two main characteristics that become the catalyst to the success of entrepreneurs, which are willingness and initiative, and confidence/determination. However, their study found no visible aspects of risk-taking and is not significantly correlated with entrepreneurial success in business.

Based on these findings, the researchers propose that to increase the number of successful women entrepreneurs in Malaysia, other entrepreneurs should emulate entrepreneurs who have been successful. Key entrepreneurial traits possessed by successful entrepreneurs should be instilled in every other entrepreneur if they want to succeed in their business. Responsible parties in development programs such as the Council of Trust for the People (MARA), Amanah Ikhtiar Malaysia (AIM), Kedah Regional Development Authority (KEDA) and Penang Regional Development Authority (PERDA) are also recommended to help not only in terms of capital but also provide programs that can help entrepreneurs increase their confidence, courage and their openness to challenge in business. This can be accomplished through workshops, training and motivational courses that are related to business and entrepreneurship. In addition, the entrepreneurs could also be given more encouragement and support in terms of morale, finance and infrastructure so that their achievements can be upgraded to a higher level. These are in line with the national objective of National Key Result Areas (NKRA), the Economic Transformation Program (ETP) and the New Economic Models (NEM), which strive to produce innovative and brilliant entrepreneurial activities. This is because it has been proven that the activity was indeed able to improve the economy and better the life of the local residents as well as contribute towards the development and the economic transformation of the country.

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ISLAMIC MODE OF FINANCING: A PANACEA TO THE NIGERIA'S EXTERNAL DEBT BURDEN

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Abstract

From Paris to London Club, Nigeria looms into debt crisis as a result of inefficiencies in the current borrowing policies. Interest based borrowing policies put the country in the mess of debt crisis with very unbearable repercussions. For Nigeria to be free from this turmoil there is the need to change these policies to more appropriate and acceptable ones. The paper attempts to present an alternative way of financing, i.e. Islamic interest-free financing. The paper highlighted successful and failed effort made by government in tackling the debt crisis. Nigerian Debt statistics and the debt servicing for the period of 1999-2011 are presented in this paper and simple percentages have been adopted to show how debt servicing has claimed a share of the gross domestic product and gross national income each year. In addition, the paper presents scenarios of a number of countries that adopt Islamic Mode of Financing and its consequences on their national development. The paper concludes that in as long as Nigeria wants to be out of this debt problem, it must resort to Islamic Interest free financing. It has finally recommended the appropriate way of tackling the debt crisis through various instruments of interest free financing.

Keywords:

Islamic Financing, Interest free financing, External Debt, Nigeria

Introduction

The 'debt' of world's poorest countries is estimated to currently stand at \$2.7 trillion. Since 1996, the world's poorest 66 countries have paid a total of more than \$230 billion between them to service their foreign debt - this amount far exceeds any aid they have received in return. Indeed, indebted countries are paying approximately \$118 million every day in interest and principal payments to rich countries - although payments far greater than the original loan amount have already been made. Ahmed Khan and Mould (2008)

The current situation where Nigeria is made to pay billions of dollars and pounds in servicing her debts but has no way of providing the citizens with basic services is clearly morally and ethically wrong. Frequently Nigeria is spending more on debt repayments and servicing than on providing for her citizens' most basic needs. The fact that these unjust debts have not been changed in full by fair and transparent methods means that the Nigeria is trapped in a cycle of poverty unable to invest in education, healthcare, provision of safe drinking water and the preservation of precious environmental resources etc. Hence, Debt is one of the root causes of poverty in the country.

Islamic Finance is an alternative form of financial intermediation that is based on the profit motive. It is market driven but with a moral dimension based on the Islamic value system. It is the type of profit and loss sharing financing based on non-interest principles and it is one

of the most developed form that has international acceptance and appeal. Although based on a religious law, it is nevertheless, not a religious product or service that is the exclusive preserve of people of a particular faith or religion. It is universally accessible to and enjoyed by people of diverse religious persuasions or ethical beliefs across the globe. (Sanusi 2011)

Fostering serious economic development is a key objective of Islamic Finance as they seek to maximise social benefit. Islamic Finance therefore work hard to overcome shortages and difficulties to help the economy to progress to a higher stage of self-sustained development, resulting in a favourable effect on socio economic harmony due to equal income distribution.

In its efforts to tackle the country's external debt problem, the government embarked on so many strategies such as Structural Adjustment Programme and employed amongst others, like debt buy back scheme, rescheduling and refinancing negotiations, debt restructuring, debt cancellation, debt relief, debt conversion and debt equity swap. These strategies are by no means a panacea to Nigeria's debt problems. They may provide a temporary respite or contribute in lightening debt service difficulties, but cannot offer a permanent solution to the country's debt problem, neither will they be sufficient to restore Nigeria's creditworthiness and attract foreign capital. Nigeria as well as many developing economies are seriously indebted. Nigeria for instance is ranked as the highest global indebted country and has gone back to the highly indebted poor country status (HIPC) after 2006 debt cancellation. The question is that, what is the missing link?. Therefore, the paper attempts to present a mode of financing which is free from interest to provide succour to Nigerian debt crisis. Nigeria, as well as other developing nations, need to make use of the opportunities provided by Islamic financing to fund growth and development.

Review of related literature

According to Boboye and Ojo 2012, Nigeria has been classified by the World Bank among the severely indebted low income country since 1992. The nation inability to meet all its debt service payment constitute one of the serious obstacles to the inflow of external resources into the economy. The accumulation of debt service arrears which is being compounded with penalty interest has not permitted reduction in the debt stock, despite the fact that government has been servicing its external debt annually. This section therefore, dwells on reviewing related literature on the topic, theoretical underpinnings, empirical investigation and the conceptual framework.

Theoretical Framework

This paper, attempts to employ and apply the dependency theory to demonstrate how it helps in the accurate analysis and explanations of the debt crisis in the developing countries, particularly Africa and especially Nigeria. The theory seeks to establish the factors that have propelled or contributed to the development of the underdeveloped countries. It states that the poverty of the countries in the periphery is not because they are not integrated or fully integrated into the world system as is often argued by free market economists, but because of how they are integrated into the system. (Todaro, 2003; Amin, 1976).

The paper also employs other related theories to explain the debt crisis in Nigeria, these include Threshold School of Thought (Debt - Laffer Curve) and Profligacy Theory.

Dependency theory and Africa's debt crisis

According to Ikejiaku (2008), Proponents of the dependency theory contend that the debt crisis in Africa could be perceived from the extreme dependence of Africa's economies on international competitive economic conditions over which they had little control. Dependency theory is predicated on the notion that there is a 'centre' of wealthy states and a 'periphery' of poor, underdeveloped states. Resources are extracted from the periphery (developing nations) and flow towards the states at the centre (developed nations) in order to sustain their economic growth and wealth. The major contention here is that the economic development of the developing countries (the Global South) was rendered impossible by the domination of the global economy by the already industrialized capitalist powers ('the Global North') (Offiong, 1980). The implication is that poverty, including indebtedness of the countries is the result of the manner of their integration of the world system. The historical incorporation of dependent territories into global division of labour entailed a tendency toward economic stagnation in the colonies and neo colonies (Sandbrook, 1982).

The developing countries go for loans from developed countries hoping that this will help improve their situation, but the conditions tied to these loans always spell trouble and doom for these less developed countries (LDCs). Thus dependency tightens its grip; as the LDCs go for more loans from the financial institutions and donor countries. This is the phenomenon which Cheryl (1974) called 'debt trap'. At this point, dependency becomes inescapable.

Threshold School of Thought (Debt - Growth Curvethesis)

The burden of external debt is the concern of threshold school of thought which emphasizes the non-linear relationship between debt and growth (Calvo, 1998). It links debt and growth to problem of capital flight where at high debt levels growth falls. According to the threshold theory, the fall in growth is due to the higher distortionary tax burden on capital required to service the debt. It leads to lower rate of return on capital, lower investment and, hence, lower growth. It maintains that low debt regimes have higher growth rate and lower strand of thought in the debt - growth nexus sees external debt as capital inflow with positive effect on domestic savings and investment and thus on growth which leads to poverty reduction via appropriate targeting of domestic savings and investment (Calvo, 1998). Such foreign capital inflows help to finance a chronic shortfall of domestic savings over investment, the gap in the current account. There should be no problem with the theory as the funds are channeled into production investment which allows the country to grow and generate future export earnings to repay the loan.

Profligacy Theory

The profligacy thesis attempts to correct the weakness of growth - cum debt theory by focusing on the institutional arrangement under which a loan was contracted. The profligacy thesis, a component of the system stability theory, recognizes that the debt crisis arose from weak institutions and policies that have wasted resources through unbridled official corruption and damaged living standards and development. These policies led to distortions in relative prices and encouraged capital flights - as seen in substantial external liquid funds of private citizens of debtor countries in foreign banks. (Nyong, 2005)

Empirical literature

A number of studies have examined the relationship between external debt and development, as well as debt servicing and economic growth. For instance, Clements et al, (2003) examined the channels through which external debt affects growth in low-income countries. Their results suggest that the substantial reduction in the stock of external debt projected for highly indebted poor countries (HIPCs) would directly increase per capita income growth by about 1 percentage point per annum. They noted that reductions in external debt service could also provide an indirect boost to growth through their effects on public investment. They argued that If half of all debt-service relief were channeled for such purposes without increasing the budget deficit, then growth could accelerate in some HIPCs by an additional 0.5 percentage point per annum. Ajayi and Oke (2012) investigation of the effect of external debt burden on economic growth and development of Nigeria using regression analysis of OLS showed that external debt burden had an adverse effect on the nation income and per capital income of the nation. Also, Ezeabasili et al (2011) investigate the relationship between Nigeria's external debt and economic growth between 1975 and 2006 applying econometric analyses. The result of the error correction estimates revealed that external debt has negative relationship with economic growth in Nigeria.

Muhtar (2004) also stated that, the service of these debts have direct negative impact on economic development. He says —a debt service encroaches on resources needed for socio economic development and poverty reduction. It also contributed to negative net resources flow. Empirical results by Ezeabasili, Isu and Mojekwu (2011) indicates that there is a negative short-run relationship between economic growth and the present level of external debt in Nigeria. In addition, there exists a negative short run relationship between two lag levels of external debt service payment and economic growth. The empirical result of external debt and debt service payment and economic growth is in agreement with the findings of Iyoha (1999), Essien and Onwuoduokit (1998), which confirms that large stocks of external debt tend to lower the rate of economic growth in the Nigerian economy.

Uma, Eboh, and Obidike (2013) Study the influence of total domestic debt, total external debt cum servicing of external debt from 1970-2010 on the economic development of Nigeria. Their results show that total domestic and total external debts are inversely related to real gross domestic product, a proxy for economic development, but at an insignificant level. Chowdrg (1994) argued that, external debt burden leads to bad management in highly indebted countries such as exchange rate mismanagement. The expectation of currency devaluation leads to speculative capital flight. Devaluation also causes the currency cost of debt service obligations, deteriorates budget deficit and affect money supply and inflation. Umaru, Hamidu and Musa (2013) investigate the impact of external debt, and domestic debt on economic growth in Nigeria between 1970-2010 through the application of Ordinary least square method. The results of OLS also revealed that external debt possessed a negative impact on economic growth. Also, Fosu (2007) explores the impact of a binding external debt-servicing constraint on the sectoral composition of government expenditures in the economies of Africa, where this constraint has traditionally been most prevalent. He finds that the implied debt service burden adversely affects the share of public spending in the social sector, with similar impacts on education and health. Despite evidence that such a burden might also negatively influence public investment, the deleterious implications of debt servicing appear to be primarily a social-sector phenomenon.

Conceptual Framework

Islamic Interest-Free Financing

Interest is considered an unjust and exploitative instrument of financing since the lender is assured a return without doing any work or sharing in the risk, while the borrower in spite of hard work, is not assured of a positive return. Furthermore, if the borrower's investment is unsuccessful through no fault of his or her own, it is unfair for the lender to demand repayment. The prohibition of interest is therefore a mechanism to establish justice between the lender and borrower (Khan and Mould 2008). Islamic finance rests on the general idea of extending the tenets of Islamic religious beliefs to economic activity in a way that enhances social welfare. As one of the key features of Islamic finance, Islamic contracts are asset-based and transactions have to comply with *shari'ah* law, which prohibits (i) the trading of debt contracts to earn a profit (*riba*), (ii) profit taking without a real underlying economic activity, and (iii) activities that are not considered *halal* (*shari'ah* compliant). Moreover, the contractual relationships between financiers and borrowers are governed not by capital-based investment gains arising from the time value of money but by shared business risk (and returns) from entrepreneurial investment in lawful activities.

Islamic finance is a financial system, the fundamental aim of which is to fulfill the teaching of the Holy Quran, as opposed to reaping maximum returns on financial assets. The basic principle in the Sharia (Islamic Common Law) is that exploitative contracts based on *Riba* (interest or usury) or unfair contracts that involve risk or speculation (*Gharar*) are unenforceable. However the Holy Quran contains no condemnation of morally acceptable investments that yield fair/legitimate profits and economic/social —added-value (Siddiqi 1999). Two principles are fundamental to understanding Islamic finance. First, the Islamic law reflects the totality of Allah's (God's) commands that regulate all aspects of the life of a Muslim. Second, Islamic finance is directly involved with spiritual values and social justice. (Nicolas 1994).

The Islamic banking and financial system is based on three main ingredients; Replacement of the interest mechanism with a system of real asset-based finance, putting controls on gambling like transactions and on financing of unethical goods and services, and having a greater reliance on risk sharing types of contractual relations wherever possible.

Islamic finance was practiced predominantly in the Muslim world throughout the middle ages. European financiers and businessmen later adopted many concepts, techniques, and instruments of Islamic finance. In contrast, the term —Islamic financial system is relatively new, appearing only in the mid-1980s. In fact, all earlier references to commercial or mercantile activities conforming to Islamic principles were made under the umbrella of either —interest free or —Islamic banking. This, no doubt, prohibits the receipt or payment of interest as the nucleus of the system, but is supported by other principles of Islamic doctrine advocating risk sharing, individuals' rights and duties, property rights, and the sanctity of contracts. Similarly, the Islamic financial system is not limited to banking, but covers financial instruments, financial markets, and all types of financial intermediation. (Zaher and Hassan 2009)

According to Khan and Mould 2008, the core belief in Islamic finance is that money should not in itself be an earning asset; therefore Islam prohibits any and all forms of interest. There are several passages in the Qur'an which clearly condemn the practice of interest (referred to in Arabic as *riba*):

“Those who devour interest will not stand except as he stands who has been driven to madness by the touch of Satan ... Allah has permitted trade and forbidden interest ... Allah will deprive interest of all blessing” (2:275-6)

“O ye who believe! Fear Allah, and give up what remains of your demand for interest, if you are indeed believers. If you do not, take notice of war from Allah and his Messenger. But if ye turn back, ye shall have your capital sums: deal not unjustly and ye shall not be dealt with unjustly” (2:278-279)

Debt in Islam

The taking of a Debt is not something that a respectable individual would do without necessity, to create a burden upon themselves. When it is a necessity, then people should seek to assist their relatives and brothers, according to ones capability. (Yaqoob 2010) Debt has its strict rules and regulations in Islam. For one, interest is completely forbidden. Additionally, while debt is discouraged, for cases where a person must borrow money, the debtor and lender must enter into a contract, the rules of which are clearly stipulated in the Quran, and should be paid back without involving injustice between the debtor and creditor. Islam encourages Muslims to help each other. In Islam to give loan is better than to give charity. If the debtor is unable to repay, the creditor is encourage to forgive it by way of charity. (Yaqoob 2010)

“If the debtor is in difficulty, grant him time till it is easy for him to repay. But if ye remit it by way of charity, that is best for you if ye only knew” (Qur'an 2:280)

Islamic Modes of Finance

Islamic financial system is based on *Shari'a* (Islamic law) whereby interest charging in a loan transaction is *Haram* (unlawful). In order to adhere to this Shari'a constraint Islamic Financial Institutions (IFIs) do not provide finance in cash for a charge rather transect business by using trading, rental and equity based modes of financing. Trading and rental modes of financing are used excessively by IFIs in provision of financing as compared to equity financing due to lesser/zero uncertainty about the outcome of investment, however deposit collection is fully based on equity modes of financing. Generally Islamic banks provide financing through *Murabaha* (deferred sale of a commodity on profit), *Salam* (spot payment with deferred delivery of subject matter), *Istisna'a* (order to manufacture a product, payment may or may not made on spot), *Ijara* (leasing or renting an asset for use ending in transfer of ownership), *Musharaka* (participation in profit and loss of a project or a business for a particular period), *Diminishing Musharaka* (a mortgage transaction whereby stake of bank decreases and that of customer increases over the period ending in transfer of ownership to customer) and *Mudaraba* (partnership of skill and capital)¹. Three of the modes are based on sale/purchase of an asset, one on renting an asset, two on partnership and one is mixture of partnership and leasing. Any customer who needs bank loan for any of its need can opt one or other mode of financing to transect business with Islamic banks. (Hanif, 2011)

Islamic modes of finance according to Al-Jarhi 2004 can be grouped into three categories: (i) equity and profit sharing, (ii) credit purchase, and (iii) leasing. Equity finance as popularly known implies that savers would provide funds to enterprises in return for a share in its prospective net returns as well as a share in its management. Meanwhile, profit sharing finance

implies that finance providers would provide finance, not for the whole life of the financed enterprise, as in case of equity, but for shorter period, as in the case of providing working capital finance. Credit purchase implies that the financing institution provides goods and services for spot delivery in return for a debt instrument that promises payment of their value at a specified future date. That value differs from spot prices by a certain margin called *mark-up*. Leasing (operational lease) finance implies that the financing institution purchases a durable asset and leases it to a customer in return for regular payments reflecting the cost of holding, maintaining the asset in addition to transferring the property of the asset from the financing institution to finance recipients.

Nigerian Debt Profile

Nigeria, is ranked as the highest global indebted country and has gone back to the highly indebted poor country status (HIPC) which she exited via —Iweala Magic in 2006; that the country's current total public debts are approximated at \$100 billion or N15.5 trillion; that by the end of the 2013 fiscal year, the country's federal civilian governments would have made total budgets of N37.665 trillion or \$240 billion from 1999, a period of fourteen years, out of which N21.7 trillion would have gone for recurrent, N4.5 trillion or \$28 billion for domestic and foreign debts servicing (excluding \$12 billion paid to liquidate \$18 billion foreign debts in 2006) and N11.3 trillion for capital development. (<http://nigeriamasterweb.com> 2012)

The origin of Nigeria's external debts dates back to 1958 when a sum of US \$28 million was contracted for railway construction. Between 1958 and 1977, the level of foreign debt was minimal, as debt contracted during the period were the concessional debts from bilateral and multilateral sources with longer repayment periods and lower interest rates constituting about 78.5 percent of the total debt stock. From 1978, following the collapse of oil prices, which exerted considerable pressure on government finances, it became necessary to borrow for balance of payments support and project financing. This led to the promulgation of Degree No 30 of 1978 limiting the external loans the federal government could raise to 5 billion Naira. The first major borrowing of US \$1 billion referred to as jumbo loan was contracted from the international capital market (ICM) in 1978 increasing the total debt to US \$2.2 billion.

Thereafter, the spate of borrowing increased with the entry of state governments into external loan contractual obligations. While the share of loans from bilateral and multilateral sources decline substantially borrowing from private sources also increased considerably. Thus by 1982, the total external debt stock was US \$13.1 billion.

Nigeria's inability to settle her import bills resulted in the accumulation of trade arrears amounting to US \$9.8 billion, between 1983 and 1988. The insured and uninsured components were US \$2.4 and US \$7.4 billion respectively. A reconciliation exercise which took place between 1983 and 1988 with London and Paris club reduced amount to US \$3.8 billion with an accrued interest of US \$1.0 billion bringing the total to US \$4.8 in 1998. The external debts rose further to US \$33.1 billion in 1990 but decreased to US \$27.5 billion in 1991 and increased steadily to US \$32.6 billion at end of Dec. 1995.

The total debt outstanding at the end of 1999 was US \$29.0 billion with Paris club constituting the highest source with a share of 73.2 percent in 1999 prior to the canvass made for debt cancellation. Contrary to the illusory- image of —oil-rich country, Nigeria is a heartily indebted poor country. Its total external debt stock, as at December 2000, is estimated by the

Nigerian government at about \$28.3 billion, it includes arrears amounting to \$14.7 billion and late interest of over \$5 billion.

In spite of lifting of the embargo on foreign loans, no new loans were contracted. However, some categories of debt were not serviced; particularly those owed to the Paris club Creditor Country as well as arrears on post cutoff date debt. In spite of the resources constraints, the sum of US\$1.5 billion was set apart to service external debt in year 2000 while arrangement continues on debt reduction negotiation with creditors.

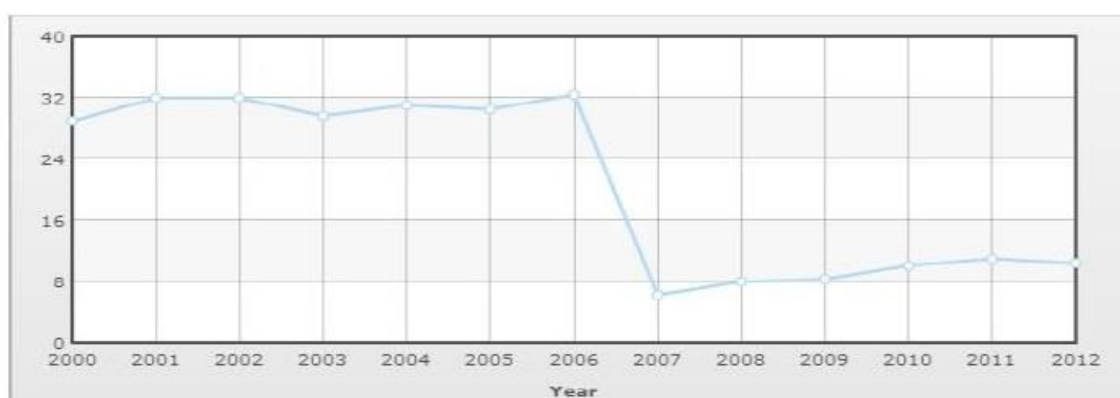
In 2004, prior to the Paris Club debt relief, Nigeria's overall debt stock was very high. External debt stood at US\$31 billion while the stock of the domestic debt amounted to US\$10.3 billion resulting in a total of about US\$46.2 billion or 64.3% of GDP excluding contractor and pensionarrears. After the successful debt relief initiative, Nigeria's stock of foreign debt declined dramatically. Indeed, in August 2006, Nigeria's foreign and domestic debts amounted to US\$3.5 billion and US\$13.8 billion respectively – a total of US\$17.3 billion or 11.8% of GDP. By August 2011, the domestic debt stock had grown substantially to US\$42.23 billion, while the external debt was still a modest US\$5.67 billion. This implied a total debt stock of US\$47.9 billion or 21% of GDP.

EXTERNAL DEBT

S/N	Year	AMOUNT OF DEBT	S/N	Year	AMOUNT OF DEBT
1	1999	\$29,368,030,000.00	8	2006	\$7,955,416,000.00
2	2000	\$29,581,800,000.00	9	2007	\$6,286,817,000.00
3	2001	\$32,259,360,000.00	10	2008	\$8,019,910,000.00
4	2002	\$32,712,910,000.00	11	2009	\$8,321,790,000.00
5	2003	\$29,778,660,000.00	12	2010	\$10,119,140,000.00
6	2004	\$31,070,100,000.00	13	2011	\$11,027,620,000.00
7	2005	\$30,558,930,000.00			

Source: CIA World Fact Book 2012 and World Bank Fact book 2012

External Debt (Billion US\$)



Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Nigeria	29	32	32	29.7	31.07	30.55	32.45	6.28	8.01	8.32	10.11	11.02	10.43

Source: CIA World Fact Book 2012 (<http://www.indexmundi.com/nigeria>)

Debt Management Strategies Adopted by Nigerian Government

The issue of debt burden in Nigeria cannot be overemphasized. Debt burden is in fact a complex interrelated problem. Despite the government continuous effort on managing debt, by embarking on several measures such as debt rescheduling, debt conversion, debt equity, debt forgiveness or cancellation, etc, Nigerian debt crisis is still lingering which means therefore, there is the need for other initiatives and effort to tackle the crisis. (Boboye and Ojo 2012)

The aim of any debt management strategy is to reduce the debt stock, restructure the outstanding debt, minimize its burden and its adverse effects on the economy. Any debt management strategy which therefore, cannot contribute to the attainment of any or most of these goals is unlikely to be an effective strategy. Since the debt crisis which has engulfed the global economy in the 1980s and especially the developing countries, various threads of thoughts have emerged to deal with the situation. Some of these are country-specific while others are global in nature. The paper will examine some of these debt management strategies with particular focus on Nigeria.

Rescheduling and Refinancing

Rescheduling entails the restructuring of an outstanding problem loan with resultant stretching out of repayment period. Bird (1989) stated that "the main idea with rescheduling is to allow debtor countries more time to service and repay their debt by spreading out their existing obligations. With a relatively high discount rate in debtor countries, rescheduling serves to reduce the present value of a given stock of debt obligations

Nigeria has had quite a lot of its credits rescheduled. The major categories of credits rescheduled are the *trade* arrears which were securitized into a 22-year tenured promissory notes with a portion of principal repaid alongside quarterly interest payments. This class of debts totaled about \$5 billion (Ibid 1992). Other categories of debts rescheduled are some of the London and Paris Clubs debts for which some forms of agreements were reached on some maturities. Walker (1992 p.3) retorted, "the international community represented by the London and Paris Clubs have rescheduled much of the debt service due. This provides Nigeria with a temporary respite, but it does not solve the problem". In 1986, debt rescheduling forestalled a default on the country's debt service obligations owed mainly to the Paris Club of Creditors which were due in 1987. In the same year, the country negotiated for rescheduling of US \$1.7 billion debts owed to London Club of Commercial Bank Creditors. In March 1989, another rescheduling agreement was reached with 17 Creditors countries totaling US \$6.4 billion. The agreement with the London Club involves rescheduling of MLT Loans over a 20 year period with 3 years of grace. The LCs were rescheduled over a 15 year period. Trade arrears were securitized and insured with promissory notes with a maturity of 22 years in 1988 and amortized principal over the same period.

Refinancing involves taking on fresh loans in order to repay existing ones. In 1992, Nigeria made an agreement to restructure and refinance a portion of the London Club debt and allow for a debt buy back. Eligible debts were converted into registered par bonds with a 30 year maturity period

Debt Buy Back

Debt buy back is characterised by sale of claims for cash by creditor banks. The operation of a secondary market for LDC debts provided a single most important opportunity of valuing the debts within the context of demand and supply.

Nigeria employed this strategy as part of a package which involved refinancing/restructuring of commercial bank debts with an option to buy back part of this class of debts. According to CBN annual report of 1991, about \$3.3 billion face value of this class of debt was bought at 40% of its value thus the country enjoyed a 60% discount.

Debt Relief and debt Forgiveness

Debt relief is intrinsically provided to the debtor economy in a form that could permit growth which otherwise would have been stranded were repayment to be made conventionally.

Nigeria sought for consideration under the Toronto declaration by the Group of 7 industrialized nations for a debt relief. The Toronto Summit had provided for three categories of concessional treatment of debtor countries. Option 'A' provided for partial write-offs (about one third) and rescheduling of the balance with a long period of grace. Option 'B' gives a longer maturity period (25 years) but not write-offs and debts are to attract market interest rates although with longer grace period. While under Option 'C', debtors were to be granted with concessional interest rates (3.5% below or one-half of market rates whichever that is lower) over a medium term period with a short period of grace. Unfortunately, while a number of countries (notably Britain and Canada) supported Nigeria's bid for a debt relief under the Toronto Scheme, no debt relief was allowed for Nigeria under any of these options as several conditions attached to consideration for relief are yet to be met by the country, hence the adoption of other means of managing the debt problems such as the Debt Equity Swap (DES) through the Debt Conversion Programme.

Debt Equity Swap (DES) through the Debt Conversion

The limitations and/or in adequacy of rescheduling and refinancing as well as 'buy-back' gave rise to the introduction of Debt Conversion or Debt Equity Swap — as it is popularly called. By 1987, it became obvious that even the traditional approach to debt relief through rescheduling was inadequate.

The idea behind the introduction of the Debt Equity Swap scheme is basically to attract the much needed foreign investment while at the same time the country's external indebtedness is being reduced simultaneously. Cohen (1989) noted: "It is widely acknowledged by scholars and practitioners alike that the LDC debt dilemma will not be truly resolved until the severe cash flow strains on debtors can be durably eased in a context of renewed economic development".

Nigeria followed the footsteps of other LDCs, such as Brazil, Mexico, Argentina, Peru to mention but a few, to initiate a Debt Equity Swap Programme. The Programme in Nigeria started in 1988 and since then foreign debts with estimated face value of about \$1.2 billion have been extinguished under the scheme.

Methodology

The objective of this study is to examine the devastating effect of debt on the growth and development of Nigeria with the view to propose the interest free financing to gauge against the inconsistencies and inefficiencies in the current borrowing policies of the conventional financial institutions.

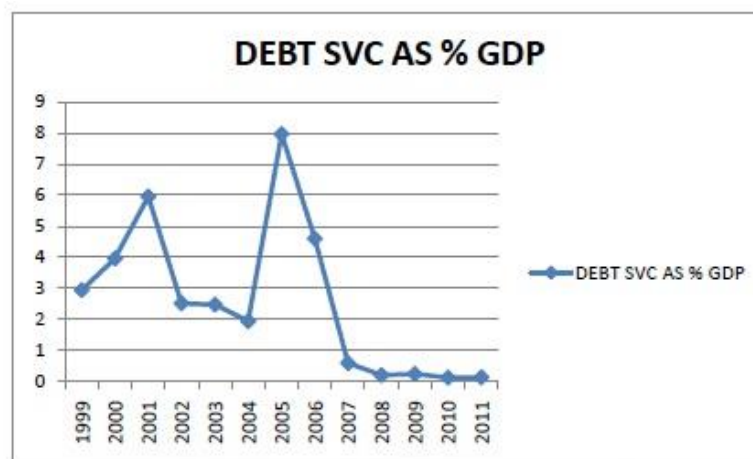
The paper used the debt servicing data obtained from CIA world fact book and world bank fact book to show how it has seriously affected the Gross Domestic Product (GDP) and Gross National Income (GNI). The study covers the period of 1999 -2011.

EXTERNAL DEBT SERVICING

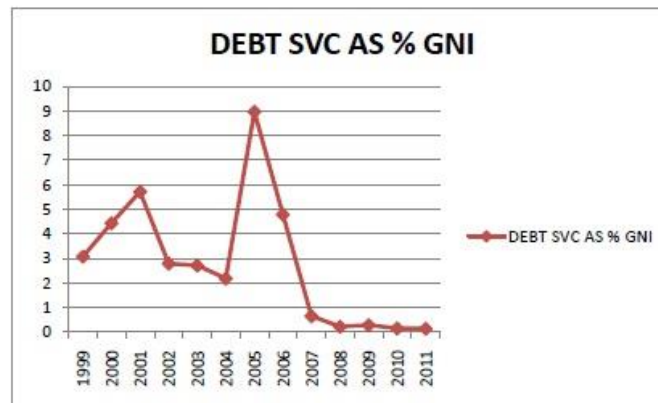
S/N	Year	DEBT SERVICING	S/N	Year	DEBT SERVICING
1	1999	\$1,023,115,000	8	2006	\$6,700,516,000
2	2000	\$1,781,769,000	9	2007	\$1,002,005,000
3	2001	\$2,519,845,000	10	2008	\$427,512,000
4	2002	\$1,472,799,000	11	2009	\$426,304,000
5	2003	\$1,627,893,000	12	2010	\$306,841,000
6	2004	\$1,705,136,000	13	2011	\$370,226,000
7	2005	\$8,800,310,000		Total	\$35,304,388,829 N5,684,006,601,543

Source: CIA World Fact Book 2012 and World Bank Fact book 2012

The table above shows that in fifteen years, Nigeria paid \$35,304,388,829 or N5,684,006,601,543 to her creditors as debt servicing each year. Therefore, should Nigeria Borrowed from Islamic Financial Institutions, or any country that adopt Islamic Finance, the huge debt servicing figure would have been used for other developmental project.



The figures above show the percentage of GDP that the debt servicing has claimed between the period of 1999 to 2011



The figures above show the percentage of GNI that the debt servicing has claimed between the period of 1999 to 2011.

Countries that Adopt Islamic Mode of Financing

Over the past three decades, the Islamic finance industry has emerged as one component of a competitive and comprehensive market, consistent with the conventional financial system in contributing to economic development. Although in early development the Islamic financial system is concentrated just in the country, but its growth internationally has seen a positive trend with the creation of growth in the number of Islamic financial institutions, with shareholders from various countries. First decade of twenty first century witnessed an unprecedented growth and expansion of Islamic financial system world over in spite of crisis in world leading economies. Global Volume of assets under Islamic financial system has cross the figure of one trillion- US \$ 1,041 Billion by the end of December 2009 (IFSL-2011). Middle East is the centre of Islamic finance with global share of about 80% followed by South and Far East Asia 15%. (Hanif, 2011). Today Islamic finance has evolved into a complete and competitive form of financial intermediation that serves both Muslim and non-Muslim consumers and businesses. The Islamic finance industry is currently worth more than \$1 trillion and growing at a rate of 15-20 percent annually, with projected growth to reach \$2 trillion in the next 3 to 5 years, as more countries around the world seek to further develop Islamic finance within their jurisdictions. The appeal of Islamic finance has led a number of established conventional players to enter the industry, thus widening the diversity of Islamic financial institutions and its product range. The impressive growth however is not confined to the Muslim world, but spans across the West and the Asia Pacific region where the growth is driven by commercial and business considerations. (Zeti Akhtar Aziz, 2008) Islamic finance is one of the most exciting areas of the global financial sector at the dawn of the 21st century, and today, beside the Gulf Cooperation Council (GCC) and Malaysia, other financial centers like London, Luxembourg and Hong Kong are positioning themselves to play a vital part in the industry's development in the new century. (Lallmahamood 2011) There are many countries that adopt Islamic interest free finance especially after the 2008 financial crisis. Some of these countries are discussed below.

Islamic Finance In Asia

Although the continent is home to more than 60% of the world's Muslim population, Islamic financial assets are largely confined to a single country, Malaysia, which has a smaller Muslim population than Indonesia but accounts for more than 60% of global Sukuk (Islamic Bond) issuance. However, interest in Islamic financing is spreading across Southeast Asia, and it is not confined just to countries with large Muslim populations. Secular countries like Singapore,

HongKong and Australia are modifying local laws and tax regulations to permit shariah-compliant investments (Hawser 2011)

Islamic Finance In GCC

Islamic Banking and Finance (IBF) has enjoyed unprecedented growth in recent years in the world, while the GCC remains a main hub of IBF activities. This is mainly due to the large wealth and capital accumulated in the region, which has provided the required liquidity for the IBF industry to enjoy double-digit growth in recent years, at least until the impact of the global financial crisis hit the region. According to Zaqout 2012:1, —Gulf States and Asia are leading the growth in Islamic finance, which is being considered most credible alternative to conventional banking in the wake of global financial crisis. Standard & Poor's expects the \$1 trillion global Islamic finance industry is set to double in size between 2011 and 2015, recording an annual 20 per cent growth driven by increasing demand for this —credible alternative to conventional banking in the GCC and Asia. Young, fast-growing Muslim populations, robust macroeconomic environments, and large infrastructure projects that require financing are the main drivers of this increasing growth |

Islamic Finance In Malaysia

Malaysia's commitment to developing a complete Islamic banking system began in 1983, when the first Islamic bank commenced operations (Ahmad and Haroun 2000). The early history of Islamic finance in Malaysia has been affected by external and internal factors. External factors began with the establishment of the Mit Ghamr Local Savings Bank of Egypt in 1963 that sparked the development of modern Islamic banking system, followed by the establishment of the first Islamic Bank of Dubai UAE and the Islamic Development Bank (IDB) in Saudi Arabia in 1975. Internal factors played an important role in promoting Islamic banking system is the mission, the strengthening and consolidation of religious knowledge among the Muslims through the institutions of formal and informal education. In addition, awareness among the Muslims is also influenced by the success of the Tabung Haji as a respected financial institution. (Zin, Ishak, AbdulKadir and Abdul Latif 2011)

The Islamic financial system in Malaysia comprises of banking institutions and companies offering discount schemes takaful, leasing companies, leasing, institutional development costs, savings institutions, cooperatives, mortgage institutions, the Pilgrims Fund Board, the management of the institution of zakat, the national endowment institution, agency credit, rating agencies and fund management companies. The system also includes financial markets, accounting for offshore financial markets, money markets and foreign exchange, Islamic government securities, Islamic private debt securities, shares, unit trusts, insurance agencies and financial security. Malaysia is the largest Islamic banking and financial market which valued RM113.5 billion (US\$30.9 billion) in Islamic banking assets, RM6.2 billion (US\$1.7 billion) in Takaful assets and the largest Islamic Private Debt Securities (IPDS) market attained RM125 billion or US\$34 billion (45.5%) of domestic corporate bonds. Active Islamic money market channelling about RM30 billion - RM40 billion monthly. (Central Bank of Malaysia, 2008)

Islamic Finance In Africa

Modern Islamic finance was born in Egypt when a commercial bank opened its Cairo branch to process the financial transactions relating to the construction of the Suez Canal in 1890 and the notion of interest or riba was criticized by the then Islamic scholars. Consequently, the

Muslimworld witnessed the establishment of its first Islamic commercial bank. Islamic finance extended quickly to other parts of the world, most of which during the past thirty years or so. Other Maghreb countries, Morocco and Tunisia began the experience of Islamic finance by allowing conventional banks to offer certain Islamic products but these institutions are faced with strong competition from the region's conventional banks. Remarkably, Sudan only established its first Sharia-compliant bank in 1977 and the country's Islamic economic system has since then been continuously developing. Sudan is the only country in this part of the world to have a wholly Islamic financial sector. Belath (2012) Within Sub-Saharan Africa, South Africa led the way, with one of the largest international Islamic banking conglomerates namely Al-Baraka Banking Group having been present there for the last 20 years alongside other institutions conducting Islamic finance in the country. More recently, other countries have joined the league namely Kenya, Tanzania, Botswana and Nigeria. Governments of Ghana, Uganda, Ivory Coast, Somalia, Malawi and Zambia are working towards introducing Islamic banking in their respective countries. Belath (2012) Presently, the African continent hosts over 250 Islamic financial institutions that offer Islamic financial services including Islamic banks, Takaful companies, Islamic funds, Mudarabah and Islamic microfinance. Noteworthy also is that over the last two years, the African continent has demonstrated interest in creating an Islamic capital market via initiatives for issuance of Sovereign Sukuks in a few countries including Nigeria, Kenya, South Africa and Senegal. As of date, two countries have successfully issued their Sovereign Sukuks namely Sudan and Gambia. Belath (2012)

Islamic Finance In Australia

The Muslims are considered as the largest religious minority in the highly diversified multicultural Australia (ABS, 2007). Naturally, the Muslims in Australia like Muslims in any other countries wish to conduct their financial activities in accordance with the tenets of their Islamic belief. Given this, there is a necessity for the establishment of Islamic financial institutions (IFIs) that would cater for the needs of its observant Muslims. The establishment of these institutions would enhance competition in the financial market by offering an alternative to the traditional interest based banking which ultimately would benefit the consumers. Consequently, this would help the Australian economy through creating an opportunity to bring in significant foreign direct investments into Australia and also help expand its existing trade and economic ties with other Muslim countries. (Ahmad, Osmani and Karim 2010) Despite the remarkable growth and development of Islamic banks (IBs) and financial institutions over the last few decades in other comparable developed countries with minority Muslim population, their expansion in Australia is very slow though steady (Al-Salem, 2008). Currently there are two IFIs, the Muslim Community Cooperative Australia Limited (MCCA) and Islamic Cooperative Finance Australia Ltd (ICFA), which operate on the principles of co-operative. The Iskan Finance Pty Ltd. has also been providing Islamic financial services in the country. Although another financial institute namely Kuwait Finance House (Australia) Pty Ltd. which is recently licensed to provide financial services in the country it did not commence its operation yet (NST, 2009). Neither of the above mentioned IFIs has a banking licence to operate as a bank. (Ahmad, Osmani and Karim 2010)

Islamic Finance In Europe

Islam all too often resonates negatively in Europe, with a great part of non-Muslim public opinion uncomfortable with Islamic culture and values. Secular and Christian opinion is at best suspicious of *shariah*, Islamic law, and indeed often antagonistic. The notion of wanting to apply *shariah* principles to banking and finance is treated with scepticism if not outright

hostility, especially as there is no concept of Christian or Jewish banking, even if there are some parallels between *shariah* financial principles and the teaching of the Old Testament. Yet Islamic finance is thriving in Europe, and many major European banks perceive it as a profitable opportunity to generate new business rather than as a threat to existing business. Although Islam is sometimes viewed as prescriptive and concerned with restricting choice, Islamic finance is about widening choice, and in particular about providing alternatives to interest based finance. Wilson R. (2007)

Conclusion

Debt is in one of the principal causes of poverty; it has hampered the economic development of

Nigeria and has prevented the country from investing in essential services such as healthcare and

education. The reality is, therefore, that Nigeria and many poor countries are spending more on debt

repayments and servicing than on providing the most basic needs for their own people.

Therefore,

there is the need for these countries to explore other options as per as debt is concern, thus, Islamic

Interest Free Financing

Top 10 Global Banks into Islamic Finance– Actively involved

UBS	Switzerland
Citigroup	USA
Mizuho Financial Group	Japan
HSBC Holdings	UK
Credit Agricole Groupe	France
BNP Pariba	France
JP Morgan Chase & Co	USA
Deutsche Bank	Germany
Royal Bank of Scotland	UK
Bank of America	USA

Source : <http://www.learnislamicfinance.com>

Recommendations

The huge debt that currently burdens poor countries like Nigeria, has arisen from loans that have charged interest and have not shared risk between the lender and the borrower and have, therefore, contravened the two most fundamental principles of Islamic finance. Islamic commands to refrain from charging interest and to share financial risk seek to avoid the concentration of wealth and the economic exploitation of the weak and thereby prevent situations such as the current debt crisis from arising. The study therefore on the basis of the foregoing discussion recommends that:

1. The interest charge on loans given to poor countries like Nigeria, has clearly had negative effects, keeping countries locked into debt. Therefore, study supports that any loans that are provided in the future should be done on the basis of equitable risk-sharing in order to prevent a replication of the current debt crisis. To achieve this therefore, the Nigerian Government should Borrow from Interest free financial institutions both bilaterally or multilaterally.

2. Being the most religious country on earth, people should respect the rules and regulations governing the two state dominant religions by allowing their followers to employ what is good in their religion for the economic development of the country. They should understand that development is the priority in Nigeria and it does not matter who brings it. If religion brings development so be it.

3. There should be integrity and justification in the government borrowing process. Thus there should be no odious debt by any government

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Effect of Entrepreneurial, Marketing Capabilities, Innovation and Business Strategy toward Competitive Advantage of Small and Medium Enterprises in Northern Region of Thailand.

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Abstract.

The purpose of research was to study the casual relationship among entrepreneurial, marketing capabilities, innovation and business strategy which had effect toward competitive advantage of small and medium enterprises in Northern region of Thailand. It was survey research with stratified sampling group of 465 small and medium enterprises from 8 provinces, i.e. Chiangrai, Chiangmai, Nan, Phayao, Phrae, Mai Hong Son, Lampang and Lamphun. The data analysis was conducted with descriptive statistics to find percentage, average, standard deviation and inferential statistics analysis with structural equation model.

The outcomes of structural equation model analysis revealed that entrepreneurial had the most direct effect toward marketing capabilities and followed by entrepreneurial had direct effect toward business strategy. Lastly, the entrepreneurial had direct effect toward innovation. The research study also revealed that entrepreneurial had indirect effect toward competitive advantage through marketing capabilities, innovation business strategy.

Keywords: Entrepreneurial / Marketing capabilities / Innovation / Business Strategy / Competitive Advantage / Small and Medium Enterprises

1. Introduction

The complexity of current business destined entrepreneurs to promptly adjust their organization structure to cope with both internal and external environment which had effect toward the SMEs business operations (Kuratko and Hodgetts, 2004). In order for the business to gain the competitive advantage, they must continue organization development (Porter, 1990). It was essential for entrepreneurs to have operational excellence over their competitive rivals or to rely on the agility in coping with the arisen competitive arena with their long term strategy (Wingwon, 2007, p. 74)

Small and medium entrepreneurs had dispersed throughout the country and contributed value-added resources in economic system through the production or processing products and service, including the revenue generating from exporting cargoes that in turn yielded

substantial foreign currency each year. It was also enhancing experience of entrepreneurs (Boone and Kurtz, 2010) in producing numerous products and in preventing monopoly in such industry since competition would integrating among enterprises of all sizes within domestic and international marketing which in turn would generated economic flow at macro level (Sertvanich, 2005, p. 2)

By year 2010, the number of enterprises in Thailand had climbed to 2,924,910 representing 99.60 percents of total enterprises of all types, creating the work employment of 10,507,500 representing 77.86 percents of total work employments and generated gross domestic products of 40 percents of total gross domestic products (Office of Small and Medium Enterprises, 2010, pp. 1-4).

Even though at present there were many enterprises, but the majority of entrepreneurs still had limitation on the managing business system from the lack of experiences (Casey, 1996, p.5), lack of business planning, lack of production knowledge and lack of financial management and the minimal knowledge on marketing capability (Bougheas, Mizen, and Yalcin, 2004; Saito and Villanueva, 1981, pp. 631-640), lack of adaptability to external environment, lack of applying innovation in business (Saengtienchom, 2012, pp. 1-5) including the limitation in competing with large business. Hence, the outcomes of enterprises were not at good level. At the end, the entrepreneurs had to close down their businesses after a short operation (Office of Small and Medium Enterprises, 2010, p. 8).

The establishment of SMEs in Thailand was at average of over 50,000 cases per year and was with continued increasing trend. But it was also with alarm concern over the report of Business Development Department that there were at the average of 22,000 registered SMEs dissolved their businesses per year (Office of Small and Medium Enterprises, 2010, p. 10) which did not yield so good outcomes toward the economic and social status of the country. The result revealed that a number of SMEs were with a good business performance with future growth and sustainability, but there were also a substantial number of failure SMEs even within the similar industry (Jiamjitrong, 2010, p.3). Hence, it was the primary motive for researcher to conduct this research study on the effect factors toward the competitive advantage of SMEs.

2. Research Objectives

2.1 Study the opinion level of entrepreneurial, marketing capabilities, innovation and business strategy, competitive advantage of SMEs in Northern region of Thailand.

2.2 Study the casual relationship among entrepreneurial, marketing capabilities, innovation and business strategy toward competitive advantage of SMEs in Northern region of Thailand.

3. Scope of Research

Conceptual Framework and Research Hypothesis

The review of relevant literatures under the conceptual framework of Covin and Slevin (1991) on entrepreneurial, conceptual framework of Vorhies (1988); Weerawardena (2003)

on marketing capabilities, conceptual framework of Drucker (1985); Hall (1994); Gibbons (1997) on innovation, conceptual framework of McKinsey's 7S Framework Peters and Waterman (1982) on business strategy and conceptual framework of Porter (1980) on competitive advantage. The overall conceptual framework with summarized hypothesis as follows:

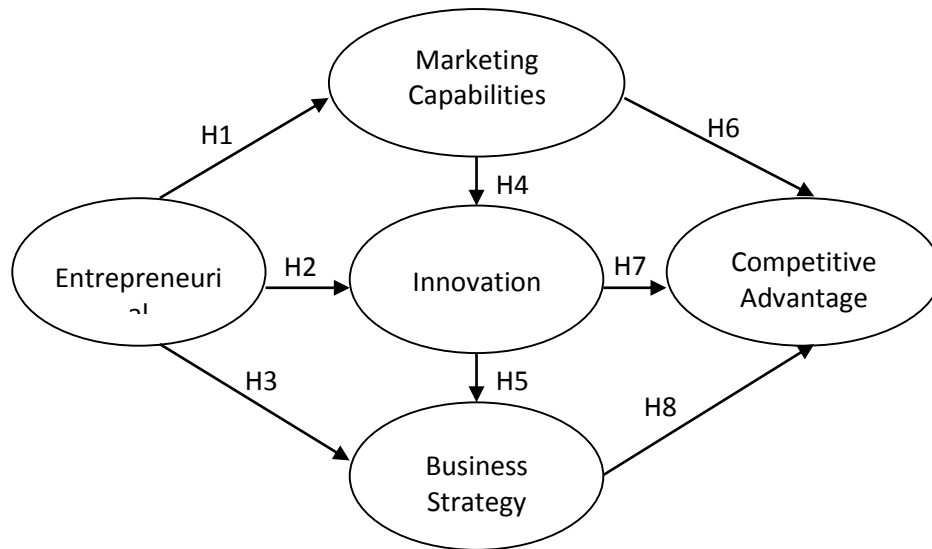


Fig. 1: Research Conceptual Framework

4. Relevant Literature reviews

From the review of conceptual frameworks, theories and relevant researches on entrepreneurial, researcher was able to summarize as follows:

4.1 Entrepreneurial Concept

Entrepreneurial had deeper meaning than entrepreneurs, it covered not only the characteristics of entrepreneurs but it extended to include the process of activities arisen from the feeling or responsibility of entrepreneurs (Druckert, 1985, pp. 67-72). The concept of Bygrave and Hofer (1991) stated the relationship with duty and all related activities on the generating of opportunities and creativities of organization in achieving such opportunities. It covered the work process through the risk taking for higher benefits, the proactive works, creating innovation over competitors (Covin and Slevin, 1991, p. 277).

Weerawardena and O'Cass (2004, pp. 419– 428) quoted that entrepreneurial played important role in marketing capabilities by entrepreneurs was the mechanism driving or supporting organization to search for the new market or marketing capabilities and introducing new products. As the owner of business or senior management had the role in initiating creativities and risk taking in new business operation which aligned with the concept of Shahid Qureshi (2010) who studied on the relationship and outcomes of entrepreneurial, business strategy and marketing capabilities effect toward the competitive advantage of SMEs as per the below hypothesis

H1: Entrepreneurial had direct effect toward marketing capabilities.

Schumpeter (1994) cited the importance of entrepreneurs toward the innovation development by pointing out that innovation supported the economic growth when entrepreneurs had created innovation. Entrepreneurs had important role toward the success of innovation development which matched the view of Wingwon (2012, pp.1-14) who mentioned that entrepreneurial, strategic decision making and innovation had positive indirect effect toward the competitive advantage of enterprises through innovation. Furthermore, Nelson Jorge Ribeiro Duarte (2010, pp. 1-16) concluded the antecedent of entrepreneurial and business strategy were important toward the competitive advantage and the sustainable success of organization which in line with the research of Moreno and Jose casillas (2008, pp.507-527) who concluded that entrepreneurial had direct effect toward business strategy and both factors had relationship toward business success and competitive advantage of organization at significant level as per the below hypothesis

H2: Entrepreneurial had direct effect toward innovation

H3: Entrepreneurial had direct effect toward business strategy

4.2 Marketing Capabilities Concept

Marketing Capability was the mixed process format of knowledge skills with organizational internal resources which was able to respond to the market demands, focus on the value-added products and services for the organization competitive capability in the market (Vorhies, 1988, pp. 3-23; Day, 1994, pp. 37-52). Business was able to be self-development in order to cope with the customer requirements and competitors, including various relevant environments to solve commercial issues (Tsai and Shih, 2004, pp. 524-530; Weerawardena, 2003, pp. 15-36). Business was able to equally share data among all departments in respond to the marketing demand, customer expectation and satisfaction over competitors (Slater and Narver, 1994, pp. 46-55). The marketing capabilities supported the competitive advantage of the organization which leading to larger customers base, higher profits (Guenzi and Troilo, 2006, pp. 974-988; Slater and Narver, 2000, pp. 120-127; Vorhies, 2005, pp. 80-94).

In addition, the concept of Wingwon (2011, pp. 1-10) concluded that innovation management and shared value had positive effect toward business strategy. Morgan, Vorhies, and Mason (2009, pp. 909-92) studied the relationship between marketing capabilities and competitive advantage of successful enterprises revealed that marketing capabilities had direct effect toward the competitive advantage of successful enterprises as per below hypotheses:

H4: Marketing capabilities had direct effect toward innovation

H5: Innovation had effect toward business strategy

H6: Marketing capabilities had effect toward competitive advantage

4.3 Innovation Concept

Gibbons (1997, p.13) stated that innovation was any new concept or idea in the organization, it could be either on product, process or service, including the new management approach and new organizational marketing events which in line with the concept of Hall (1994, pp. 19-22) who elaborated that innovation was more than the changing in technology. Innovation consisted of all activities that led to the change and interacted with the developing or modifying of new technology. The common adopted innovation by entrepreneurs in business competition could be classified into 4 types, (Johns, 1999, pp. 6-11) i.e. 1) product and service innovation, 2) process innovation, 3) marketing innovation and 4) managing innovation (Urabe, Child and Kagono, 1988, pp. 4-5).

Schumpeter (1950) described innovation as the importance resources in building competitive advantage had direct effect toward the organization (Damanpour, Szabat and Evan, 1989; Han, et al., 1998). The organization with innovation would have adapted own self to comply with the changing environment and led to the success with innovation as one of the important key elements in developing and maintaining competitive capabilities (Damanpour et al. 1989; Han et al., 1998) as per the below hypothesis.

H7: Innovation had effect toward the competitive advantage

4.4 Business Strategy Concept

Strategy was plan with specified path or approach for organization to operate in achieving objectives and targets (Davies, 2000; Mintzberg, 1996, pp. 25-30) with focused on the integrating and coordinating of the various business environments for the competitive advantage (Porter, 1980, 1996, 1998; Thompson and Strickland, 2003). It was the critical elements that entrepreneurs would have to review in developing business policy, strategic plan, core value, targets and objectives to enhance organizational capability (Lertpachin, 2011, p. 5). The concept of McKinsey's 7S Framework had fundamental concept on efficiency of business derived from the correlation of internal relevant elements within business, i.e. 1) strategy, 2) structure, 3) system, 4) style, 5) staff, 6) skill and 7) shared value (Peters and Waterman, 1980).

Duarte (2010) presented that entrepreneurial and business strategy had effect toward competitive advantage and sustainable success or organization at significant level which aligned with the concept of Alzal, Sawat (2010, pp. 87-102). It concluded that marketing capabilities had effect toward business strategy and both variables had effect toward competitive advantage and sustainable success or organization as per the below hypothesis:

H8: Business strategy had effect toward competitive advantage

4.5 Competitive Advantage Concept

Porter (1985) described the competitive advantage as the differentiated business value from competitors created for customers for their satisfactory. The generating of competitive

advantage consisted of 3 strategic dimensions, i.e. 1) cost leadership strategy was the competitive strategy which focused on the lowest costs in attracting majority market and in generating high profits. Senior leader applied this strategy in controlling operating costs for lower than competitors, in expanding market shares and in earning higher profits, 2) differentiation strategy was the competitive strategy which focused on the creating of differences in products in attracting customers to appreciate the outstanding differences from competitors and 3) focus strategy was the competitive strategy which focused on the meeting of demands on specific group or area of customers that were often overlooked by other entrepreneurs. It mainly focused on the limited market, products or geographic areas.

5. Research Methodology

This quantitative research applied survey research concept with 4 scope dimensions, i.e. 1) Content dimension to study the conceptual framework of entrepreneurial, marketing capabilities, innovation, business strategy and competitive advantage, 2) Population dimension was the SMEs entrepreneurs from industry, commercial and service sectors, 3) Area dimension covered 8 provinces in Lanna group, i.e. Chiangrai, Chiangmai, Lampang, Nan, Prayao, Phrae. Lamphun and Maehongsong, 4) Duration dimension covered 8 months period from October 2012 till July 2012. The research tools were questionnaire developed from the literature reviews on 1) Entrepreneurial was developed from the research works of Miller and Toulouse (1986) and Wingwon (2011), (2) Marketing capabilities was developed from the research works of Qureshi (2010) and Merriless, Thiele, Lye (2011), 3) Innovation was developed from the research works of Drucker (1985) and Wingwon (2011), 4) Business strategy developed from the research works of McKinsey's 7'S Framework Peters and Waterman, (1982) and 5) Competitive advantage was developed from the research works of Day and Wensley's (1988); Porter (1980) and Lee, Itsieh (2010). Researcher applied the 7 levels opinion measurement of Likert scale. Population was total 278,495 SME's entrepreneurs in Lanna group (Department of Business Development, 2011), applying stratified random sampling method and proportional selected 500 representative of entrepreneurs from each province (Office of Small and Medium Enterprises, 2010) and received 465 responded questionnaire representing 93 percent which had been screened for completeness and coded for research analysis.

6. Data Analysis

The research applied descriptive statistics in analysis data to find the percentage, means and standard deviation and inferential statistics to analyze the correlation path in testing of variables for direct, indirect or total effect with SmartPLS program (Ringle, Wende and Will, 2004). The research tools were measured with Cronbach's Alpha (Lee, 1951), e.g. the value on entrepreneurial factor was equal to .973, on marketing capabilities factor was .973, on

innovation factor was .973, on business strategy was .973 and on competitive advantage was .973.

5. Research Summary

Section 1: General profile information of SMEs entrepreneurs

The research outcomes revealed that the majority of total SMEs entrepreneurs from 8 provinces were female in gender, with average age between 31-40 years old, with undergraduate educational level and followed by below undergraduate level, with business operation in service sector and followed by in sale distribution representative or commercial sector, with business operation tenure of 1-5 years and followed by 6-10 years, with source of investment from owner finance representing 51.40 percents and followed by financial institution loans representing 41.50 percents, with majority of business operation at profitable level representing 55.10 percents.

Section 2: SMEs entrepreneurs had favorable opinions on all 5 factors at rather high level, i.e. on entrepreneurial factor with value equal to 5.19, on marketing capabilities factor with value equal to 5.19, on innovation factor with value equal to 4.85, on business strategy factor with value equal to 5.12 and on competitive advantage factor with value equal to 5.12

Section 3: Outcomes of structural equation model analysis

The outcomes of structural equation model analysis revealed that entrepreneurial factor had effect toward marketing capabilities with highest coefficient path value equal to 0.703 and with R^2 value equal to 0.494 and followed by entrepreneurial factor had effect toward business strategy with coefficient path value equal to 0.600 and with R^2 value equal to 0.479 and lastly, entrepreneurial factor had effect toward innovation with coefficient path value equal to 0.477 and with R^2 value equal to 0.249. The entrepreneurial factor had effect toward competitive advantage with coefficient path value equal to 0.181 and with R^2 value equal to 0.594.

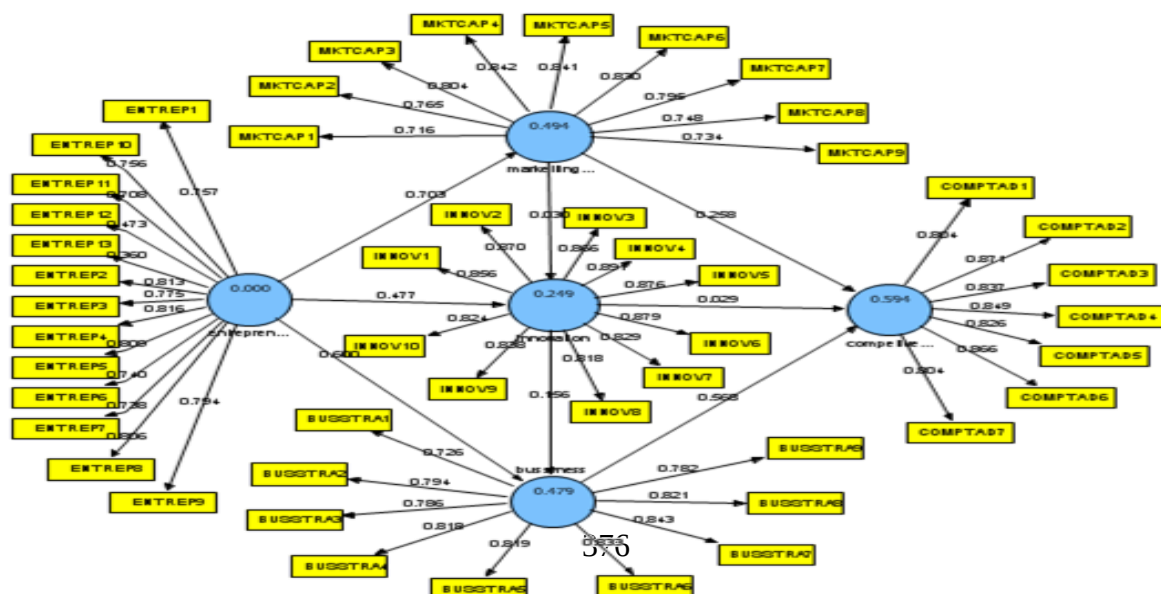


Fig. 2: Analysis with SmartPLS Program (Ringle, Wende and Will, 2004)

The marketing capabilities factor had effect toward the competitive advantage with coefficient path value equal to 0.258 and with R^2 value equal to 0.594 and marketing capabilities factor had effect toward innovation with coefficient path value equal to 0.030 and with R^2 value equal to 0.249. The innovation factor had effect toward competitive advantage with coefficient path value equal to 0.029 and with R^2 value equal to 0.594 and innovation factor had effect toward business strategy with coefficient path value equal to 0.156 and with R^2 value equal to 0.479. The business strategy facto had effect toward competitive advantage with coefficient path value equal to 0.568 and with R^2 value equal to 0.59.

8. Hypothesis Test

The outcomes of hypothesis test of entrepreneurial, marketing capabilities, innovation and business strategy had effect toward competitive advantage of SMEs entrepreneurs at Lanna group of Thailand could be summarized as follows

Table 2: Outcomes of Direct, Indirect and Total Effects

Dependent Variable	R^2	Effect	Antecedent			
			Entrep	Mkt Cap	Inno	Bus Stra
Compt Ad	0.594	DE	0.000	0.258	0.029	0.568
		IE	0.579	0.004	0.088	0.000
		TE	0.579	0.262	0.117	0.568
Bus Stra	0.479	DE	0.600	0.000	0.156	N/A
		IE	0.077	0.005	0.000	N/A
		TE	0.677	0.005	0.000	N/A
Inno	0.249	DE	0.477	0.030	N/A	N/A
		IE	0.021	0.000	N/A	N/A
		TE	0.498	0.030	N/A	N/A
Mkt Cap	0.494	DE	0.703	N/A	N/A	N/A

IE	0.000	N/A	N/A	N/A
TE	0.703	N/A	N/A	N/A

Note. TE = Total Effect, DE = Direct Effect, IE = Indirect Effect, N/A = Not Applicable

Entrep = Entrepreneurial, Mkt Cap =Marketing Capabilities, Innov =Innovation, Bus Stra = Business Strategy, Compt Ad = Competitive Advantage

Table 2 revealed the effect factors had effect on all 4 variables for both direct and indirect effect toward variables with full details as follows:

1. Entrepreneurial had direct effect toward marketing capabilities with correlation path value equal to 0.703 and R^2 value equal to 0.494, with direct effect toward innovation with coefficient path value equal to 0.477 and with R^2 value equal to 0.249, with direct effect toward business strategy with coefficient path value equal to 0.600 and with R^2 value equal to 0.479 and with indirect effect toward competitive advantage with coefficient path value equal to 0.579 and with R^2 value equal to 0.594.

2. Marketing capabilities had direct effect toward innovation with coefficient path value equal to 0.030 with R^2 value equal to 0.249, with indirect effect toward business strategy with coefficient path value equal to 0.005 with R^2 value equal to 0.479, with direct effect toward competitive advantage with coefficient path value equal to 0.258 and with indirect effect toward competitive advantage with coefficient path value equal to 0.004 and with R^2 value equal to 0.594.

3. Innovation had direct effect toward business strategy with coefficient path value equal to 0.156 with R^2 value equal to 0.479, with direct effect toward competitive advantage with coefficient path value equal to 0.029 and with R^2 value equal to 0.594, with indirect effect toward competitive advantage with coefficient path value equal to 0.088 and with R^2 value equal to 0.594.

4. Business strategy had direct effect toward competitive advantage with coefficient path value equal to 0.568 and with R^2 value equal to 0.594.

Table 3: Outcomes of Hypothesis Test

Research Hypothesis	Coef.	t-stat	Outcomes
H1: Entrepreneurial had direct effect toward Marketing Capabilities	0.702	8.48	Supported
H2: Entrepreneurial had direct effect toward Innovation	0.477	4.42	Supported
H3: Entrepreneurial had direct effect toward Business Strategy	0.600	11.47	Supported

H4: Marketing Capabilities had direct effect toward Innovation	0.029	0.24	Not Supported
H5: Innovation had effect toward Business Strategy	0.156	1.96	Supported
H6: Marketing Capability had effect toward Competitive Advantage	0.257	2.26	Supported
H7: Innovation had effect toward Competitive Advantage	0.028	1.05	Not Supported
H8: Business Strategy had effect toward Competitive Advantage	0.568	5.82	Supported

Remark: t-stat ≥ 1.96 indicated that hypothesis with statistical significance at 0.05 level**

Table 3 revealed outcomes of hypothesis test which could be summarized as follows:

Hypothesis 1: Entrepreneurial had direct effect toward Marketing Capabilities

Outcomes of hypothesis test revealed that entrepreneurial had direct effect toward marketing capabilities with coefficient path value equal to 0.702 and with t-stat value equal to 8.48 which supported hypothesis at statistical significance level of 0.05.

Hypothesis 2: Entrepreneurial had direct effect toward Innovation

Outcomes of hypothesis test revealed that entrepreneurial had direct effect toward innovation with coefficient path value equal to 0.477 and with t-state value equal to 4.42 which supported hypothesis at statistical significance level of 0.05.

Hypothesis 3: Entrepreneurial had direct effect toward Business Strategy

Outcomes of hypothesis test revealed that entrepreneurial had direct effect toward business strategy at coefficient path value equal to 0.600 and with t-state value equal to 11.47 which supported hypothesis at statistical significance level of 0.05.

Hypothesis 4: Marketing Capabilities had direct effect toward Innovation

Outcomes of hypothesis test revealed that marketing capabilities had direct effect toward innovation with coefficient path value equal to 0.029 and t-stat value equal to 0.24 which not supported by hypothesis.

Hypothesis 5: Innovation had direct effect toward Business Strategy

Outcomes of hypothesis test revealed that innovation had direct effect toward business strategy at coefficient path value equal to 0.156 and with t-state value equal to 1.96 which supported hypothesis at statistical significance level of 0.05.

Hypothesis 6: Marketing Capabilities had effect toward Competitive Advantage

Outcomes of hypothesis test revealed that marketing capabilities had direct effect toward competitive advantage at coefficient path value equal to 0.257 and with t-state value equal to 2.26 which supported hypothesis at statistical significance level of 0.05.

Hypothesis 7: Innovation had effect toward Competitive Advantage

Outcomes of hypothesis test revealed that innovation had direct effect toward competitive advantage with coefficient path value equal to 0.028 and t-stat value equal to 1.05 which not supported by hypothesis.

Hypothesis 8: Business Strategy had effect toward Competitive Advantage

Outcomes of hypothesis test revealed that business strategy had direct effect toward competitive advantage at coefficient path value equal to 0.568 and with t-state value equal to 5.82 which supported hypothesis at statistical significance level of 0.05.

Table 4: Outcomes of Composite Reliability Analysis

Construct	CR	AVE	R ²	Construct				
				Entrep	Mkt Cap	Inno	Bus Stra	Compt Ad
Entrep	0.935	0.534	-	0.730				
Mkt Cap	0.936	0.620	0.494	0.743	0.790			
Inno	0.964	0.731	0.248	0.678	0.614	0.855		
Bus Stra	0.942	0.645	0.478	0.455	0.381	0.498	0.803	
Compt Ad	0.942	0.700	0.594	0.626	0.624	0.702	0.365	0.837

Note. CR = composite reliability, AVE = Average Variance Extracted

Entrep = Entrepreneurial, Mkt Cap = Marketing Capabilities, Innov = Innovation, Bus Stra =Business Strategy,

Compt Ad = Competitive Advantage

Table 4 revealed the composite reliability value of every variable and with AVE value higher than 0.50 which indicated that all questions of each indicator were able to measure the value with reliability and coefficient value of each individual indicator within the same variable had higher coefficient value than coefficient of the different variable. It indicated that measurement of each construct was able to effectively measure own context which confirmed its composite reliability.

9. Research Outcomes Discussion

The majority of SMEs entrepreneurs in Lanna group of Thailand were female in gender, with average age between 31-40 years old which in line with the study of Silverstein and Sayre (2009, pp. 48-90) who stated that female entrepreneurs were more delicate, tolerate and determine in managing business than male in certain situation, with particular on the task which had to deal with relationship with others of both internal and external organization. It could be quoted that lady would be the driver of modern economy which aligned with the concept of Zimmerer and Scarborough (2002, pp. 15-19) who described the element of entrepreneurs as working group of 30 years old and over, with undergraduate educational level, with well living standard, with determination in managing business risks, with vision and determination in learning and managing business, with business operation in service sector, and followed with the sale distribution representative or commercial sector, with duration in business operation of 1-5 years and followed with 6-10 years, with majority of capital investment from owner private fund, with business operation at profitable level and followed with continued business growth.

The majority of SME's entrepreneurs had rather high entrepreneurial, marketing capabilities, innovation, business strategy which aligned with the concept of Shahid Qureshi (2010) who discovered that entrepreneurial, business strategy and marketing capability had effect toward the success of enterprises. The research outcomes of Wingwon (2012, pp. 1-14) summarized that entrepreneurial, strategic decision making and innovation had positive effect toward competitive advantage of small and medium enterprises, by entrepreneurial had indirect effect toward the competitive advantage of SMEs through innovation. Lastly, the competitive advantage had rather high importance as it consisted of the creating of differentiation, cost leadership and focus on core business which matched with the concept of Barney (1991, pp. 99-120) which stated that competitive advantage as perceived by customers was the higher value of products or services over competitors which could not be substituted or compared against other offers and with higher switching costs. When comparing the performance outcomes with competitive advantage, it revealed the marketing advantage, price competitiveness, lower discount than competitors, high quality of products or services, durability and innovation.

The outcomes of structural equation model revealed that entrepreneurial had direct effect toward marketing capability which demonstrated that entrepreneurial was the supporting mechanism for organization in searching for new market and in introducing new products in market and generated the marketing capability (Liu, Luo and Shi, 2002, pp. 367-382). It also played the critical role in product and service development (Kerin, 1992, pp. 331-334) by applying entrepreneurial as the owner role in creative thinking and risk taking in operating new business. Therefore, entrepreneurial had important role for leading the organization toward marketing capabilities.

Furthermore, entrepreneurial had direct effect toward business strategy which confirmed with the study of Wingwon (2007) which summarized that entrepreneurship, risk management, inspiration and determination of staff and relevant stakeholders. It included the business capacity in operating future business (Wingwon, 2007, p. 49) with flexibility in modifying target, strategy and proactive operation in order to cope with the evolved changing environment. The research study pointed out the importance of business strategy of SMEs that supported the SME's sustainability and competitive advantage (Chen and Hambrick, 1995; Hitt et al. 1991; Storey, 1994).

In addition, entrepreneurial had direct effect toward innovation with aligned with the concept of Schumpeter (1994) who quoted the importance of entrepreneurs in innovation development. He pointed out that innovation would assist the economic growth. Hence, entrepreneurs had important role in developing innovation and it would in turn assisted entrepreneurs in achieving business success.

Lastly, entrepreneurial had indirect effect toward competitive advantage through marketing capabilities, innovation and business strategy which conformed with research work of Jia – Sheng Lee, Chia-Jung Hsich (2010). It revealed that entrepreneurial had direct effect toward marketing capabilities, ability in creating innovation, sustainable competitive advantage and entrepreneurial had indirect effect toward sustainable competitive advantage through marketing capabilities and innovation capability. Shahid Qureshi (2010) had also concluded that entrepreneurial, business strategy, marketing capability had effect toward the success of SMEs.

10. Research Recommendations

1. The study of entrepreneurial by applying different sampling groups with larger sampling size. The study should cover the large enterprises for comparison on the perception of entrepreneurial of SMEs against the large enterprises.

2. Government sector ought to fully aware and support the knowledge learning on innovation development on continuous basis for entrepreneurs to applying such knowledge in supporting competitive advantage and leading the economic development of the country as a whole.

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Structural Effect of Business Environment Entrepreneurship and Determinant toward the Family Business Performance in Upper Northern Region of Thailand

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Abstract.

The purpose of this research were (1) to study the structural effect of business environment, entrepreneurship and determinant toward the family business performance in upper Northern region of Thailand, (2) to study business performance classified by duration, type and heir generation of family business in 8 provinces of upper Northern region of Thailand. It was mixed methodology research with sampling group of 500 family business entrepreneurs and received 412 responded questionnaires representing 82.40 percents. The research tools were questionnaire and in-depth interview. The descriptive statistics was applied to analyze percentage, average, standard deviation, skewness, kurtosis, reliability, deviation and inferential statistics to analyze the effect of structural relationship with AMOS 7.0 program.

The confirmatory factor analysis revealed that the applied variable measurement model was conformed to the theory by observed variables had solution values between .506-.975, with average variance value between .600-.841 and reliability value between .880-.955. The structural casual relationship model conformed with empirical data $\chi^2=36.36$, $\chi^2/df=1.28$, $df=28.47$, $GFI=.973$, $CFI=.977$, $RMR=.043$, $RMSEA=.034$ by entrepreneurship had most effect toward family constitution, and followed by family constitution had direct effect toward business performance and business environment had direct positive effect toward entrepreneurship and indirect effect toward hypothesis factors, i.e. innovation, family constitution and business network. Furthermore, it also revealed that determinant had direct effect toward family business performance.

Keywords: Business Environment / Entrepreneurship / Determinant and Business Performance

1. Introduction

Globalization had directly and swiftly effected the changing of modern organization in a complicated fashion and resulted in the severe competitive environment under the free trade and investment, especially among the developed countries. In turn, it also had impacted toward readiness of those developing countries in entering Asian Economic Community: AEC. Both positive and negative impacts (The Federation of Thai Industries, 2012) had forced entrepreneurs of each member country to improve

their capability and quality of either their products or services to be more standardized than before (Habbershon and William, 1999; Salvato, 2002; Covin and Slevin, 1989).

Family business was viewed as the fundamental of business throughout the world. It was the micro business that generated economic value-added on every country worldwide (Beckhard and Dyer, 1986). It was one of the small enterprises which operated and driven by the business owner with the key objectives in achieving success through the strategic planning on the business performance of their family (Anderson and Reeb, 2003; Carney, 2005; Chua, Chrisman and Sharma, 1999). Currently, the family business represented over 80 percents of overall business, generating gross domestic product: GDP of 49 percents for the country (Commerce Academy, 2012). It was the supporting source of large employment and scattered throughout the country, since family business was grown and groomed in every populated community and it was easy to establish, convenience and with small capital investment (Wingworn, 2007).

This global transformation had yielded direct effect toward the traditional family business entrepreneurs to adjust their conceptual mindset, process or to continuous adjust against the fluctuation of external environment (Zahra, 1991). It required strategic management, driving organization with innovation, building competitive capability through the pooling of both internal and external organizational resources. These factors had relevant linkage with majority of member of the organization. It was not relied only on management or any leader in particular. The organization success could not be achieved by any individual person only (Casey, 1996, p. 5).

Family business had to rely on both “science and art” in managing their business operation to achieve success from generation to generation leading to the sustainable business growth. Hence, the objectives of family business was not covered only the sale volume, profit increase or cost coverage, but in turn it relied on two key important factors of business growth and business sustainability (Navavongsathian, 2008) through the balance of “business” and “family” which must be seamlessly blended with love and relationship, participation, harmony and perceived ownership of the management or member of family at all times or called as entrepreneurship spirit.

Nevertheless, there were still problems in general with family business in Thailand, i.e. inability to compete in term of pricing since certain businesses were not the producers (Tialprasertkul, 2007), inability to compete in knowhow due to the lack of transferring successful knowledge or own experience of entrepreneurs, in comparing business performance development against large, medium and small enterprises (The Stock Exchange of Thailand, 2011) due to the difference of capability or readiness on various aspects of family business, e.g. human resources, capital investment, equipment and tools, knowledge knowhow, direct experience of entrepreneurs and technology including the supporting of research study either from central government and academic institutions (Rohitrattana, 2006; Aharoni (1994); Baumbach (1988), pp. 19-24). It was due to the difference in thinking process among family members (Short, Payne, Brigham, Lumpkin and Broberg, 2009, pp. 9-12), problem of generation gap in work (first, second and third generation) specially on the work structure which in the past focused on production but at present was modified by applying technology or innovation to increase capability of the business. But, the first generation refused to accept any new modern ideas. It also due to the lack of variety of business network and lack of capable human resources to inherit the business (Maneeapun, 2010) and no adopting of family governance in managing business.

All these problems and obstacles caused difficulty for current family business in Thailand to survive and to maintain sustainable growth. The larger of family members, it would be more prone to larger number of problems (Longenecker, Moore, Petty and Palich, 2006, pp. 95-97) and hence it led to closing down of many large family business at third generation. There were only a handful of remainders who were able to develop and extend their continue business growth (Poutziouris, 2000; Wang and Poutziouris, 2000; Ibrahim, 2001)

Therefore, from the above described problems of family business, researchers were keen to conduct research on business family in order to apply such business research process in searching for answers.

2. Research Objectives

The objectives of this research were to study the structural effect of business environment, entrepreneurship and determinant toward the family business performance in upper Northern region of Thailand as follows:

1. To study the structural effect of business environment, entrepreneurship and determinant toward the family business performance in upper Northern region of Thailand
2. To analyze problems and obstacles of family business performance in upper Northern region of Thailand

3. Scope of Research

This research was classified into 3 dimensions, i.e. **Content:** was focused on the importance of structural effect of business environment, entrepreneurship and determinant toward the family business performance in upper Northern region of Thailand, **Population:** were family business entrepreneurs from 8 provinces in upper Northern region of Thailand which consisted of Chiangrai, Chiangmai, Nan, Prayao, Phrae, Uttaradit, Lampang and Lamphun, with the exception of Maehongsong. **Duration:** was 2 years from June 2011 till June 2013

4. Relevant Theories

The review of relevant concepts, theories and literatures on performance of family business could be summarized as follows:

4.1 Performance Theory

The review of relevant literatures related to business performance was based on the study of organization and strategic management theories (Murphy, Trailer and Hill, 1996). The performance of family business had numerous complex variables and could be measured in various dimensions (multi-dimensions). Hence, there were several ways in appraised these performances and depended on the application objectives which could be classified into 3 aspects (Ford and Schellenberg, 1982).

First aspect was on the performance appraisal with focusing on the goal approach. Organization was set up with the main purpose in achieving particular goal. Organization would apply their utmost attempt in achieving such goal (Etzioni, 1964).

Second aspect was on the performance appraisal on systems resource approach. This approach utilized systematic approach in explaining the working process of the entity whether the integrating was clear in sourcing, transforming, but with limitation on resources and the dependency in the needed exchanging resources with external environment, appraisal on administration, sourcing resources, i.e. appraising the organization capability in sourcing rare and with value resources (Yuchtman and Seashore Stanley, 1967). Nevertheless, both perceived aspects relied on only single performance appraisal. It depended on the joint agreement even with the multi-dimensional measurement.

Third aspect was based on the fundamental concept that organization was established to cope with the demands from multiple constituencies and with different requirements. The business performance must consist of numerous dimensional criteria. The performance outcomes must have variety of appraisal criteria. The outcome of each dimension might have differences in direction (Connolly, Conlon and Deutsch, 1980). In practice, when applying all three aspects might have to face with the weakness problems of the assigning goals might be effect by individual group within organization with different opinions (Connolly, et al., 1980; Yuchtman and Seashore Stanley, 1967), with internal organizational conflicts and all these goals could not be applied in comparison between organization (Murphy, et al., 1996). Even the performance appraisal of resources management was able to solve problem from the first aspect on goal approach by assigning general goals to cover various dimensions but was the assignment from only single stakeholder group which might not conform with the organization with open system that each stakeholder group had difference requirements (Connolly, et al., 1980). The performance outcomes responded to all stakeholder requirements and with better option than other aspects would have broader objectives and with full coverage.

4.2 Resource-Based View Theory

Entrepreneurship was the behavior which needed to manage resources in order to take the utmost benefits in creating business competitive advantage (Romanelli, 1987). It was an attempt to obtain or utilize such limited resources to suit or align with the available opportunity under each individual circumstance. Business would earn competitive advantage from the available variety of posse resources (Wernerfelt, 1984, p.172) that would enhance business sustainability. Business must ensured such resources were with value, rare, difficulty to substitute and difficult to imitate (Barney, 1991, p. 99).

The available organizational resources could be both tangible e.g. capital investment, raw materials, machinery, technology and intangible e.g. personal relationship, trade mark, innovation, knowledge, skills and experiences, business networks, business reputation, data base, including organization charter (Wingwon, 2007). Another compatible with resources was capability as it was rare. It would be analyzed and viewed as intangible resource. The core importance of capability was skills of individual, group or organization which integrated among each other (Grant, 1991, pp.114-135) which would yield long term success toward the organization.

5. Relevant Literatures

This research had reviewed the following relevant literatures

5.1 Business Environment

Wingwon, (2007); Bovee, Thill, Wood and Dovel (1992, p. 72) stated that the business environment was both internal and external factors which had effect and impacted toward the organization performance. Concept of Robbins and Barnwell (1998, p. 241) concluded that business environment was the objects surrounding the organization or any work unit while Johns (1995, pp.23-60) perceived business environment as the group of resources around the organization. Therefore, the modern entrepreneurs ought to analyze both internal and external environment in making decision and in strategic planning (Shane and Venkataraman, 2000) which were key primary tasks in managing small business and family business. The research of Cruz and Nordqvist (2012) also summarized that the perception of competitive environment and entrepreneurship had different relationship in family business.

Entrepreneurs of modern business had to closely follow environment in order to have up-to-date information and data for decision making (Cruz and Nordqvist, 2012) since the analysis or diagnosis would enhance understanding of internal and external environment which would in turn resulted in the effectiveness and efficiency of business performance. Business environment could be classified into 3 portions (Day and Fahey, 1988), i.e. (1) dynamic environment, (2) opponent environment, and (3) uncertain environment. All the described factors had both positive and negative effect toward entrepreneurship (Antonic and Hisrish, 2000; Hornsby, Kuratko and Montagno, 1999) as per following hypothesis

H1: Business environment had effect toward entrepreneurship

5.2 Entrepreneurship

Miller (1983, pp. 770-791) pointed out that entrepreneurship had 3 key important roles of 1) introducing new innovation on regular basis of both product and process innovation, 2) managing risks and 3) proactive management by rely on the ability to analyze on current environment that would lead to the applying numerous strategies in building competitive advantage. There were developing of new knowledge by integrating of relevant elements in linkage with the original knowledge which was accumulated through experience, business alliance at local, national and international level.

Entrepreneurship focused on the behavior process from the entrepreneurs feeling or accountability (Drucker, 1985, pp. 67-72) which in line with the concept of Bygrave and Hofer (1991) which concluded that entrepreneurship involved with related tasks and activities in gaining business opportunity, including the generating organization to operate business according to opportunities. Furthermore, Shane and Venkataraman (2000, p. 217) summarized that entrepreneurship was the situation or event occurred from the blending of 2 phenomenon, i.e. 1) discovering profitable business opportunity and 2) readiness in operating entrepreneurship. Hence entrepreneurship must rely on innovation in building competitive advantage and in achieving goal and success for the satisfaction of stakeholders (Amit and Schoemaker, 1993, pp. 91-106; Dierickx and Cool, 1989, pp. 1504-1511). It also included the concept of Porter (1985) which stated that competitive advantage was the value in business performance which could be developed for customers with new products or innovation in meeting customer satisfaction prior to business success as per hypothesis 2 and hypothesis 5 as follows:

H2: Entrepreneurship had effect toward innovation

H5: Innovation had effect performance

5.3 Innovation

Modern business had modified and rectified their operation process to align with external environment with an attempt to create differentiation with innovation (McKeown, 2008) and to create beneficial diversity (McKeown, 2008). In addition, Laundry (2006) summarized that innovation was the action to do something different from existing status or behavior. Innovation was applied in various forms starting from the improving of production process, operation, transporting logistics to consumers (OECD, 2005) and concept of Gibbons (1997) had supported by stated that innovation was the activities applied by organization in transforming organization in achieving success in the form of disseminating procedure and process to all staff.

Innovation classified by scope and objectives of deployment into 3 characteristics, i.e. 1) objective of innovation was split into 2 types of product innovation and process innovation, 2) scope level of innovation was split into 2 types of radical innovation and incremental innovation, and 3) impact of innovation was split into 2 types of technology innovation and administrative innovation (Gopalakrishnan and Damanpour, 1997, pp. 15-20; Bessant and Tidd, 2007, pp. 69-72; Schilling, 2008). On business competitive innovation for achieving goals and success could be classified into 4 types (Johne, 1999, pp. 6-11) i.e. 1) products and services innovation, 2) process innovation, 3) marketing innovation, and 4) administrative innovation. Since innovation was one of the key performance indicators of family business by entrepreneurship linked with business network in strengthening business capability (Stree and Cameron, 2007) as per following hypothesis:

H4: Entrepreneurship had effect business network

5.4 Business Network

Business network was an important intangible resource since it was the cooperation between entrepreneurs with government sector, private entity or internal and external community, including all stakeholders; (Stree and Cameron, 2007) for connection and linkage for new joint business opportunity. The stated network or cooperation might generate costs reduction (Chetty, Blankenburg, 2000), supported with marketing opportunity, trading or investment, business potential development, skills, competency or business capacity (Zhou, Wu and Luo, 2007). It would lead to shared learning, trustworthiness and harmony in expanding and strengthening the business foundation of family business entrepreneurs in the future (Franco and Haase, 2009) that would yield business success, relationship, trustworthy, attending, interest, value and respecting business partners which importance for competition at global level.

Business network supported entrepreneurs in earning various benefits, e.g. business expansion, important business data, customer recommendation, customer friendship, problem solving, business development, acquaintance with business leaders, privilege costs procurement, obtaining lowest bidding price for next round bidding process (Gao and Kotey, 2010; Lee and Anderson, 2007). However, the concept of Lee and Anderson (2007) summarized that the level of relationship of each network was more or less depending on whether it was friends, buddies, relatives, business partnership, friends of friends, old teammates or old bosses which contradicted with concept of Moy and Luk (2005) which prioritized from broader in, for instance old teammates, relatives, school mates, same family. Furthermore,

Wingwon and Piriyaikul (2010) concluded that the building of network with relative relationship with customers or business partners had effect as mediator in linking entrepreneurship and leadership toward satisfied business performance and business network had effect toward competitive advantage performance (Ambler, Styles and Xiucun, (1999); Lianxi Zhou, Wei-ping Wu and Xueming Luo, 2007) as per the following hypothesis:

H3: Entrepreneurship had effect toward family constitution

H7: Business network had effect toward performance

5.5 Family Constitution

Family constitution was importance for family business entrepreneurs in planning their business succession plan as it was precious heritage in operating family business through belief system (Schein, 1985), solid relationship (Goffee and Jones, 1998) in building the appropriate family business system (Denison, Lief and Ward, 2004) for the business sustainability and minimizing the problems of later generation in taking over business by relying on the secret success formula that head of family business ought to upfront plan and deploy family constitution as a readiness preparation. It was the key family capital and foundation in building competitive advantage for the family business (Deal and Kennedy, 1982). In addition, Dyer (1986, p. 21) had classified family constitution into 3 patterns, i.e. 1) business format, 2) family format, and 3) administration format.

Furthermore, founder must be recognized by the leader without any disputes and other senior leaders automatically supported the founder (Ward, 2005). The application of family constitution was the base in managing family business for the third generation to be able to carrying on the business through this constitution with full supports from non family members of the business (Mallikamas, 2011) as per the following hypothesis:

H6: Business constitution had effect toward performance

5.6 Performance

Burke and Litwin (1992, pp. 28-46) presented that performance was the outcomes or results that indicated business success consisting of productivity, profit, service quality and customer or employee satisfaction. It also indicated other factors like work safety, fair rewards and remuneration, quality of works, suitable working environment and quality of work life in order to retain, motivate and build employee engagement toward family business (Beer and Walton, 1990).

Family business performance preferred to measure return of assets: ROA, sale growth, new product success (Narver and Slater, 1990; Slater and Narver, 1995), market share, overall total performance (Jaworski and Kohli, 1993), wastage reduction and working process standard for cost reduction and improving working efficiency (Majchrzak, 1988). The success of family business, for instance on the success of new product launch would reflect the adaptability of family business in respond to the changing of environment in time (Baker and Sinkula, 1999, pp. 411-427)

6. Research Methodology

6.1 Population and Sampling Group

Population was entrepreneurs from 8 provinces, i.e. Chiangrai, Chiangmai, Nan, Prayao, Phrae, Uttaradit, Lampang and Lamphun with the exception of Maehongsong (Department of Business Development, 2012). It was proportional stratified random sampling (Comrey and Lee, 1992) by mailing 500 questionnaires and receipt through mailing box number 3, with 412 respondents representing 82.40 percents. The research applied descriptive statistics to find percentage, means, standard deviation and inferential statistics to analyze variable correlations of both direct and indirect toward the performance of family business with AMOS program.

6.2 Data Compilation Tools

This research was survey research with questionnaire which was developed through the literature review of 6 factors as research tool, i.e. 1) business environment was modified from Barney (1991); Covin and Slevin (1991); Pitts and Lei (1996); Löfsten and Lindelöf (2005); Perez-Luno et al. (2011); Brewer and Selden (2000); Voordeckers, Gils and Jeroen Van den Heuvel. (2004); Yusuf (2002); Scheepers (2007); 2) Entrepreneurship was modified from Miller (1983); Barney (1991); Murphy, et al. (1996); Shane (2000); 3) Assigned factors were then classified into 3 issues, i.e. 3.1) Innovation was modified from Laundry (2006); McKeown (2008); O'Sullivan and Dooley (2009); 3.2) Business network was modified from Gao and Kotey (2010); Lee and Anderson (2007); 3.3) Family constitution was modified from Barnes (1969); Dyer (1986); Mark and Eric (2003); Longenecker, Moore, and Petty (2006) and 4) Performance was modified from Christian, et al. (2002); In won, et al. (2005); Wheelen and Hunger (2002).

Questionnaire had 3 portions with portion 1 on profile data of family business entrepreneurs, portion 2 on factors effect toward the performance of family business with 6 relevant variable dimensions, i.e. 1) business environment, 2) entrepreneurship, 3) assigned factors were classified into 3 issues, i.e. 3.1) business network, 3.2) family constitution, 3.3) innovation and 4) family business performance. Research tool was tested for reliability and alpha coefficient with Cronbach's alpha method, with entrepreneurship value equal to 0.975, business environment value equal to 0.975, business network value equal to 0.975, family constitution value equal to 0.975, business network value equal to 0.975 and family business performance value equal to 0.975. The questions applied 7-point Likert scale with 1 represented the least and 7 represented the most (Likert, 1970).

7. Research Summary

Section1. Profile of Family Business

Outcomes of research revealed that majority of entrepreneurs were male over female in gender, with average age between 52-60 years old and followed by between 41-50 years old and the least was age below 30 years old, with married marital status, with bachelor educational background and followed by below bachelor degree and master degree consecutively, with sole proprietor business and followed by company limited, with business establishment duration of over ten years and followed by between 7-10 years while 4-6 years and 1-3 years were within nearly the same proportion, with within services sector and followed by industrial and commercial sectors, within 1st generation (pioneer / senior)

and followed by 2nd generation (younger / offspring) and 3rd generation (in law / relative), with number of operational workers between 1-10 persons and followed by 11-50 person.

Outcomes of basis statistical analysis revealed that family constitution variable had the highest value at 6.23 and followed by performance variable at high value at 5.92, with entrepreneurship variable also at high value of 5.72 while innovation variable had the lowest value at 4.84. The overall illustrated outcomes on average, skewness and kurtosis revealed the observable variables of family business in family constitution group had the highest level at 6.23 and followed by performance variable at high level at 5.92 and entrepreneurship variable also had high level at 5.72 while innovation variable had rather high value at 4.84.

Section2. Joint Variation Analysis

2.1 This research had 6 relevant variables, i.e. 1) business environment, 2) entrepreneurship, 3) assigned factors with 3 issues, i.e. 3.1) innovation, 3.2) family constitution, 3.3) business network and 4) performance and it revealed that the coefficient between each pair of variables had coefficient value between 0.071-0.6979 which below the standard value of 0.7. Hence, it could be concluded that all variables for this analysis had no problem of too high co-efficient value or had no multicollinearity.

2.2 Discrimination and reliability value of each question within observable variables revealed that observable variables of business environment and variables within innovation and variables within element had discrimination value between 0.506-0.578 and coefficient value of variables at 0.975, observable variables of business constitution and variables within element had discrimination value between 0.453-0.711 and coefficient value of variables at 0.975, observable variables of entrepreneurship and variables within element had discrimination value between 0.620-0.711 and coefficient value of variables at 0.975, observable variables of business network and variables within element had discrimination value between 0.515-0.705 and coefficient value of variables at 0.975 while observable variables of performance and variables within element had discrimination value between 0.503-0.666 and coefficient value of variables at 0.975.

2.3 Outcomes of Exploratory Factor Analysis: EFA revealed that business environment had AVE value or p_v of 0.600 and CR value or p_c of 0.880, entrepreneurship had AVE value or p_v of 0.726 and CR value or p_c of 0.913, innovation had AVE value or p_v of 0.705 and CR value or p_c of 0.905, family constitution had AVE value or p_v of 0.787 and CR value or p_c of 0.948, business network had AVE value or p_v of 0.841 and CR value or p_c of 0.955 and performance had AVE value or p_v of 0.698 and CR value or p_c of 0.902.

In conclusion, variables of each variable group had reliability with value weight of majority element over 0.700 AVE value or p_v between 0.6000–0.841 and high CR value or p_c between 0.880-0.995. Therefore, variable of each variable group had high reliability.

2.4 Outcomes of Confirm Factor Analysis: CFA

Table 1: Statistical Value of Confirm Factor Analysis (Optimization Model)

Op. Model	χ^2	χ^2/df	df	P-Value	GFI	CFI	RMR	RMSEA	Remark
Envi	0.054	1.267	1.000	0.060	0.991	0.994	0.030	0.035	Accept
Entre	0.736	0.736	1.000	0.391	0.999	1.000	0.003	0.000	Accept
Invtn	1.205	1.205	1.000	0.057	0.991	0.994	0.010	0.023	Accept
Fconst	0.641	0.321	1.000	0.057	0.999	1.000	0.002	0.000	Accept
Busnet	0.225	0.225	1.000	0.635	1.000	1.000	0.002	0.000	Accept
Perf	0.745	0.745	1.000	0.338	1.000	1.000	0.003	0.000	Accept

Table 1 illustrated the ratio of Chi-square value with Degree of Freedom (χ^2/df) less than 2, the p-Value had no statistical significance, the GFI value and CFI had value higher than 0.90, RMR value and statistical RMSEA value less than 0.05. Hence, it revealed that structural model conformed with the empirical model as model fit.

2.5 Outcomes of Structural Model and Empirical Model Test

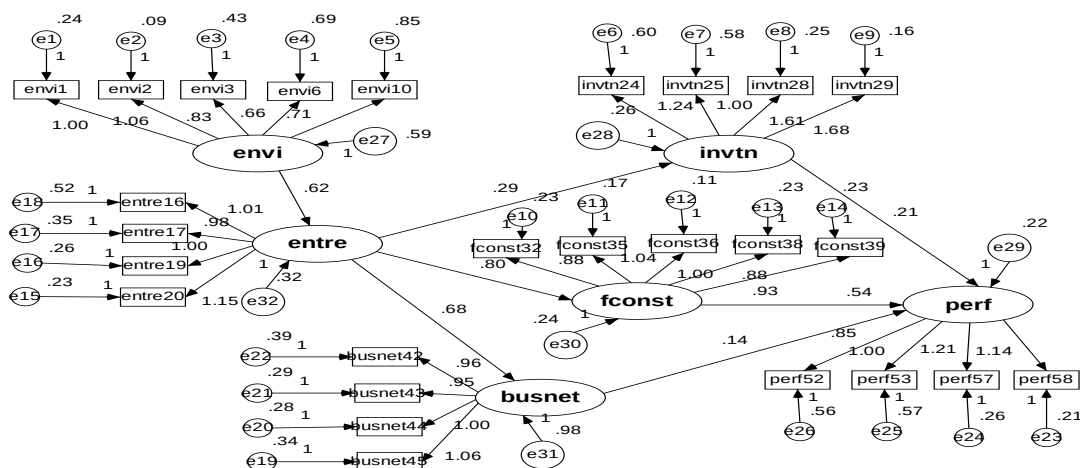


Fig 1: Structural Model of Family Business (Analysis of AMOS7.0 Program)

Table 2: Conformity Value of Model and Empirical Data of Family Business

Variable	χ^2	χ^2/df	Df	p-Value	GFI	CFI	RMR	RMSEA	Result
Family Business Model	36.361	1.277	28.47	0.134	0.973	0.977	0.043	0.034	Accept

Table 2 revealed conformity of each measuring model with empirical model. Hence it could be concluded that measurement of family business had conformed to the theoretical model at acceptable level. Outcomes of measuring model and theoretical model test revealed the statistical value of ratio Chi-square with Degree of Freedom (χ^2/df) equal to 1.277, statistical p-Value equal to 0.65, statistical GFI value equal to 0.973, statistical CFI value equal to 0.977, statistical RMR value equal to 0.043, RMSEA value equal to 0.034 and comparing these statistical values against the assigned criteria that ratio value of Chi-square with Degree of Freedom (χ^2/df) should be less than 2, the p-Value had no statistical significance, and the GFI value and CFI value should be higher than 0.90, RMR value and statistical RMSEA value should be less than 0.05. Hence, it revealed the model fit of structural model with the theoretical model (Tabachnick and Fidell, 2007). Therefore, it could be concluded that measurement of family business had conformed to the theoretical model at acceptable level.

Section3 Outcomes of Hypothesis Test revealed that the assigned hypothesis were all supported as Table 3 below.

Table3: Outcomes of Hypothesis Test

Research Hypothesis	Coef	t-stat	Results
H1. Business Environment had direct effect toward entrepreneurship	0.6203	8.7502 ***	Supported
H2. Entrepreneurship had direct effect toward Business Innovation	0.2912	4.1546 ***	Supported
H3. Entrepreneurship had direct effect toward Family Constitution	0.6852	9.4793 ***	Supported
H4. Entrepreneurship had direct effect toward Business Network	0.8013	4.6932 ***	Supported
H5. Business Innovation had direct effect toward Family Business Performance	0.2164	1.5072 **	Supported
H6. Family Constitution had direct effect toward Family Business Performance	0.5443	5.0038 ***	Supported
H7. Business Network had direct effect toward Family Business Performance	0.1434	2.3822 ***	Supported

Note. t-stat ≥ 1.96 showed that hypothesis had statistical significance at 0.05 level**

t-stat ≥ 2.59 showed that hypothesis had statistical significance at 0.10 level***

Therefore, outcomes of hypothesis test on all variables in table 3 had supported on all

Analysis of Problems and Obstacles of Family Business Performance in Upper Northern Region in Thailand

Research outcomes revealed problems and obstacles of family business performance which could be classified as follows:

1. Certain entrepreneurs had decision making based on the emotional over logical reasons which created problems and obstacles toward operation system,
2. When problem arose from the operation, it was difficult from family member to caution each others as they were all brothers, sisters or relatives which damaged the working system,
3. There was generation gap between each work generation, in particular between 1st and 3rd generation on the thinking and working style differences which generated obstacles on business goals, e.g. declined profit, operation delay and sometime on family business conflict.

8. Research Discussion

Outcomes of research revealed that majority of family business entrepreneurs were male in gender, with age group between 52-60 years old, with married marital status, with bachelor educational degree which in line with the study of Megginson and Byrd (2003, pp. 28-29) which concluded that it was to age group with readiness on both economic status and way of life on managing own business. It also aligned with the concept of Dyer (1986) who stated that family business entrepreneurs had experiences, with specific knowledge passed on through business value from knowledge sharing among family members as the outcomes of physical involvement in business activities since childhood. Furthermore, majority of family business entrepreneurs was sole proprietor business, with over 10 years in business, within services business as the 1st generation of business (pioneer / senior), with number of members between 1-20 persons. This outcomes complied with the concept of Sonfield and Lussier (2004, pp. 189-202) which presented that family business had flexibility and easy to establish once member of family had experiences, ability and good relationship among family members and it also conformed with the study of Moscatello (1990) which supported that family business had united among members in work and spirit, adhere to business principles which was the competitive advantage of family business over other businesses.

The opinion of entrepreneurs valued family constitution at the highest level, since it was the family important capital and the foundation in building competitive advantage for family business over other general businesses which stated in the finding of Deal and Kennedy (1982) that family constitution was the strengthen culture of the organization and had positive effect toward performance outcomes. It was increasingly complex and importance toward family business, including the effect in driving family business (Chajnicki, 2007; Collie, 2002; Davis, 2005; Hernandez, 2000; Herrera, 2007; Reed, 2001). Outstanding performance businesses all had applied family constitution as their direction guidance in managing business resulted in success among the majority of businesses (Barney, 1991). Family

constitution was created to build concrete clarity and as conflict avoidance guideline among family members. It also related to the study of Tanriverdi and Zehir (2006); Wu (2004) that constitution was rules and procedures for jointly practices through the trust in works of family business.

In addition, respondents had opinions on performance and entrepreneurship at high level as well, since performance of family business was the last chapter of business operation as the mean in assessing the success or failure of the entity (Pasanen, 2003; Jaworski and Kohli, 1993). The research outcomes aligned with the concept of Burke and Litwin (1992, p. 533) which stated that performance was the result or indicator of business success, e.g. productivity, profit, service quality, new product launch (Baker and Sinkula, 1999, p. 414), customer or employee satisfaction, retaining current customers, staff motivation and organization engagement toward the entity (Beer and Walton, 1990) through the entrepreneurship mechanism as the capable innovator to change the current market with the integrating of existing limited resources for new products or ideas (Cunningham and Lischeron, 1991; Cantillon, 1730). Within the same token, Schumpeter (1934, p.120) also presented that entrepreneurship could operate 5 different approaches, i.e. 1) introduce new quality product, 2) apply new production process, 3) open new market, 4) search new raw materials source, and 5) establish new business. Entrepreneurs were also the creator of new products or new services in both domestic and international business with the aim to be the leader of global market (Frederick, Kuratko and Hodgetts, 2007, p.321). The concept of Miller (1983, pp. 770-791) also concluded that entrepreneurship had 3 key tasks, i.e. 1) continue introduce new innovations of both products and process, 2) manage corporate risks and 3) apply proactive operation by rely on the analysis ability of current environment which would lead to the adoption of various strategies for competitive advantage.

The following element on business environment also scored by respondents at high level, since both internal and external environment had effect toward family business which similar to the concept of Robbins and Barnwell (1995, p. 241) which quoted that entrepreneurs had to take business environment into consideration in specifying policy, business strategy and objectives to enhance competitiveness of family business capability. There were 3 business environments, i.e. dynamic environment, opponent environment and uncertain environment, for instance on geographic elements, economic element (Minnitti and Bygrave, 2001, pp. 5-16), source of capital, ability to manage risks and the positive or negation uncertainty toward business (Boyd and Gumpert, 1983, pp. 44-64).

Finally, innovation and business network were rated at rather high level, since the majority of family business was a small business and entrepreneurs had less attention on innovation and in turn more focused on price competition as it yield quick results over the adopting of innovation (Porter, 1985) with the exception of large family business who applied innovation as the key tools in building business competitive capability and wealth by utilizing the existing or new available resources, including the developing of new knowledge base as per theories of Drucker (1985); Lemon and Sahota (2003); Schilling (2008); Zhao (2005); Jatuliaviciene, et al (2007); Jucevicius (2008). They all cited that entrepreneurs were related to innovation by having entrepreneurs as the opportunity seeker (Cheng, 2009; Short, et al.,2010). Innovation led majority of business to achieve success (Zhao, 2005, p. 65; Jatuliaviciene, et al., 2007; Kriaucioniene, 2008). Innovation was the specific tools for entrepreneurship by entrepreneur adopt it to gain benefits from changes. It was business opportunity for different businesses or services (Zhao, 2005) through the business network and society as the mechanism in accumulating vast knowledge. Network and members of network were the heart in achieving success

and the relationship among network members on economic system, social system, relatives, politics, activities and projects. Working relationship generated behavior in business organization and society came from visiting, consulting, trading, cooperating and supporting of each others. There were all important elements in building network (Macpherson and Holt, 2007).

The research of Franco and Haase (2009) specified that seeking business opportunities as the result of learning process through network interaction which in turn strengthen the good relationship till become work alliance for utmost profit. There were joining work together and sharing benefits, hence network was able to create new members or new business partners to generate utmost added-value and sustainable competitive advantage for family business.

The outcomes of study on structural effect of environment, entrepreneurship and assigned elements which resulted toward performance of family business revealed that all factors had positive effect toward performance outcomes that complied with the research outcomes of Zellweger and Nason (2008) which summarized that sales volume was the suitable indicator in measuring the performance outcomes of family business. Thereafter, the concept of Neubaum, Dibrell and Craig (2012) concluded that measurement of family business performance could be classified into 9 dimensions, i.e. business growth, age of family business, number of employment, total assets, related customers, competition among stakeholders, change in industry, environment awareness, entrepreneurship application, business network, innovation and family constitution through the participation of stakeholders in performance review, including the employees which was key elements toward successful family business.

In particular, the environment factor had direct and indirect effect toward entrepreneurship as family business entrepreneurs had to analyze the context of both internal and external environment before specifying strategy. Sometime, it facilitated or supporting the creating of new enterprises (Bygrave and Zacharakis, 2007; Minnitti and Bygrave, 1999, p. 89). The dynamic environment would adapt to external factor changes which created opportunity and facilitated entrepreneurs in reviewing business operation. There were important 4 changes, i.e. 1) technology, 2) rules and regulations, 3) society and demography and 4) future trend of new society (Baron and Shane, 2008) which were able to support or stimulate the growth of similar business.

This research was related to the study of Hornsby, Kuratko and Montagno (1999) which quoted that business environment had effect toward entrepreneurship on the high level of business competition issues, e.g. high raw material costs, rapid changes on demand or taste of customers or in technology. It effect family business to adapt themselves for long term business survival (Shan, 2000) by change the work process to suit environment. Entrepreneurs must have willingness to take risks based on the data and but caution (Zahra, 1991 and Margarietha, 2007) as per the study of Wingwon (2007); Bovee, Thill, Wood and Dovel (1992, p. 72) which highlighted that both internal and external environment had effect toward the performance of organization.

Entrepreneurship had direct and indirect effect toward assigned factors, since entrepreneurship was the performance behavior which must rely on the accountability of senior management through the risk management and creating differentiation for the family business to achieve innovation and business opportunity as per concept of Hisrich, Peter and Shedherd (2010); Convin and Slevin (1989); Shane (2000); Miller (1983); Barney (1991); Murphy, et al, (1996); Peteraf (1993); Alvarex and Busenitz (2001). They all stated that entrepreneurs focused on the integrating of both internal and external

resources through the entrepreneurship in achieving business success and generating profits from the generating resources to product added value through the assigned factors, e.g. product innovation, process innovation and managing innovation.

These assigned factors had both direct and indirect effect toward family business performance as the resulted from the adopting both internal and external network in operation, based on the fundamental of family constitution, i.e. fair treatment, trustworthy, honesty by jointly developed rules and regulations as work guideline with participation from all parties, harmony among family members as per study of Longenecker, Moore and Petty (2006); Dyer (1986); Barnes (1969); Mark and Eric (2003); Dension, Lief, Ward and Neale (2004); Thieanphut (2010). These studies concluded that family constitution had both direct and indirect effect toward performance outcomes with indicators to measure business success as higher profits, increased sale volume, expanded market share, market leader and higher capital investment or stock values (Kaplan and Norton, 1996; Inwon, et al., 2005; Christian, et al., 2002; Wheelen and Hunger, 2002).

In addition, numerous researches revealed that the creating of innovation in organization would resulted on the high efficiency of family business performance (Chajnacki, 2007; Collie, 2002; Davis, 2005; Hernandaz, 2000; Herrera, 2007; Reed, 2001; Tanriverdi and Zehir, 2006; Wu, 2004). They were all cited that good preparation of family business entrepreneurs would resulted toward the sustainable success through the good relationship among family members, cooperation and supporting with members at work, joint ownership and uphold the business principle. There were all strengths of family business which different from normal general business.

In conclusion, all revealed structural effects from business environment, entrepreneurship and assigned related factors of innovation, family constitution and business network had effect toward family business performance in upper Northern region of Thailand which was conformed with all developed hypothesis.

8. Recommendation

Family business entrepreneurs should uplift their operational capability by integrating new knowledge learning from business network with the limited available resources to develop and launch new innovation through vision under the modern work context with focus on business sustainability and market leader in global market.

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COOPERATIVE AMONG SMALL MEDIUM ENTERPRISES AND COORDINATION AMONG PUBLIC AGENCIES AS A SOCIAL MODEL TO REINFORCE AN INDUSTRY CLUSTER: A CASE STUDY OF BATIK CLUSTER IN SOUTH-CENTRAL JAVA, INDONESIA

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Abstract

This working paper is a research aimed to create internal aspects mapping of small and medium enterprises of batik cluster in Indonesia, and formulate social model to reinforce cluster, based on case study on SMEs batik cluster in south Central Java, Indonesia. Research method applied is inductive qualitative. Data collected by using partisipative observation approach, in-depth interview, and focus group discussion. Data resources and research subjects are SMEs batik cluster businessmen in south Central Java and related public agencies.

The result shown that based on nine internal aspects mapping, there are several problems need to be overcome to reinforce batik cluster in south Central Java. Those nine aspects are raw material, education level, technology, marketing, financing, partnership, facilitation, cooperation, and coordination. The result of this research shows two social model which is capable to reinforce batik cluster in south Central Java, they are cooperative among SMEs and coordination among public agencies.

Keywords: cluster strengthening, networking cooperation, public agencies coordination, batik, south Central Java, Indonesia.

1. Introduction

In Indonesia, small and medium enterprises (SMEs) are a major economic power, concerning a huge number of SMEs (reaching 99,99% out of all national economy doers) which spreaded all across Indonesia. Based on Ministry of Cooperation and SME's Strategic Plan in 2010-2014, SMEs are expected to gain a role in national economy and rise their contribution on Gross Domestic Product (GDP) to be 6% per year, increase their productivity amounted 5% annually, employ workforce 5% per year, rise investment amounted 10% per year, and also increase 15% of export per year. One of SMEs industry that highly contributes on local capacity building such as workforce employment and capability to compete in global market is batik industry.

Batik, which is one of the method to produce fabric, is a part of textile industry which becomes Indonesia characteristic, especially Java economy. Indonesia Batik, as a wholistic technique, technology, pattern elaboration, and related culture, has been stated as Masterpiece of the Oral and Intangible Heritage of Humanity by UNESCO since October 2nd, 2009.

Batik industry has a great potential in accelerating and expansion Indonesia economy development. Data from Ministry of Industry Republic of Indonesia mentioned that there is a significant growth of batik industry. Batik production in national scale in 2012 projected reach IDR 3,14 trillion, and export reach USD 110 million. Ministry of Industry Republic of Indonesia set the target of small and medium enterprises as batik producer growth in 2012 can reach 8%. Batik, creative industry, shows its strategic value in absorbing a huge number of workforces.

In south Central Java, there are batik centers which well developed such as in Banyumas District, Cilacap District, Banjarnegara District, Purbalingga District, Kebumen District, and

Wonosobo District. Based on data provided by Department of Cooperation and SME Central Java Province year 2009, noted that there are 25 SMEs batik cluster in Banyumas District, 120 SMEs batik cluster in Cilacap District, 62 SMEs batik cluster in Banjarnegara District, 63 SMEs batik cluster in Kebumen District, 23 SMEs batik cluster in Wonosobo District, and 123 SMEs batik cluster in Purbalingga District. Those batik centers in six counties in south Central Java can form a cluster which is batik cluster of south Central Java.

A cluster is a geographical concentration of interconnected companies and institutions in a certain sector. Their reasons are collectiveness, complementary, and boost industries to compete each other. Beside of industry, cluster also includes government and industry that provides service such as training, education, information, research, and technology (Porter, 1998). Schmitz (1997) defines a cluster as interconnected similar companies, collected in certain geographical boundaries. According to Porter (1998), cluster theory focuses on reducing productivity obstacles and intervention.

Batik Cluster in south Central Java has a very great potention to be developed and to penetrate global market with its uniqueness. Batik Cluster in south Central Java also plays an important role as one of main economic activity in Java, Indonesia. Batik Cluster in south Central Java is able to absorp workforce in such a way that reduce poverty and increase economy.

This working paper is based on qualitative research on Batik Cluster in south Central Java SMEs, Indonesia. This research explores and maps internal condition of Batik Cluster in south Central Java SMEs, and also formulate social model to reinforce cluster based on case study on Batik Cluster in south Central Java SMEs, Indonesia.

i. Literature Review

Industrial Cluster

A cluster is a geographic concentration of competing and cooperating companies, suppliers, service providers, and associated institutions (Porter, 1998; Solvell, 2009; Ketels, 2009). Innovation clusters are the linkages, interactions, relationships and development of different but interdependent entities (i.e. education, research, and development, industries, financial institutions) to form a virtuous circle of innovation and entrepreneurship.

Clusters constitute important knowledge spillovers for businesses. Clustering is generally defined as a process of firms and other actors co-locating within a concentrated geographical area, cooperating around a certain functional niche, and establishing close linkages and working alliances to improve their collective competitiveness. The physical proximity of the factors outlined above furthers the creation of formal and informal linkages and networks among firms, higher education and research institutions, financial establishments, public agents and other local organizations, where information can easily flow and propagate. Clustering is seen as a key means of driving regional development by building private and public sector partnerships to mutual benefit through government and regional investment in innovation incubators, science parks and cities, and technology transfer offices (Slovell et al., 2003).

Cooperation Network

Networking has been a new paradigm in business development, replacing competition model in the past (Purnama *et al.*, 2007). Networking theory has been applied in marketing of service, for example in developing new service, penetrating new market, and maintaining business performance (Leek and Canning, 2011). Leek and Canning (2011) stated that whatever the sectors, it is admitted that organization goals is determined by organizational relationship with other parties. Networking is not only used by profit oriented organization, but

also nonprofit organization. Based on his interview with social organization leaders, Shaw (2004) found that they use local network to identify unfulfilled social needs and use contacts to provide direct and indirect access to resources needed.

Benefits of having network for organization are studied by Purnama *et al.* (2007) and Ogunrinola (2011). Based on Purnama *et al.* (2007) studies on network created by handicraft industry with various agencies, the benefits are as follow:

- (a). Bank and State-owned Corporation give a benefit on financing;
- (b). Government and Nongovernment Organization give a benefit in the form of information, publication, exhibition, marketing, and training;
- (c). Collage gives a benefit in the form of training and other indirect benefits on various collegian activities which involve small and medium enterprises; also
- (d). SMEs association gives benefit on information and increasing production capacity to respons sub-contract order and raw material sharing.

Based on his research on micro entrepreneur in rural area in Nigeria, Ogunrinola (2011) found that other than human capital variable proxied by age and formal education, social capital also influences income distribution. Social capital in that research is defined as how well respondents recognize their environment, which is measured by multiplying NTIV dummy variable (whether respondents are natives or not) and the number of respondents that become the member of saving and loan.

Networking implies that parties involved are reciprocal. Factors that influence a person to behave reciprocal in a network are explained by Chiu *et al.* (2010). Based on their study about satisfaction of online profesional association members, they found that self-worth disconfirmation (a higher knowledge sharing gained by an individual), distributive justice (justice accepted by an individual), interactional justice (interpersonal treatment justice) influence on members' satisfaction.

Realizing the important role of partnership in developing industry, Government of Republic of Indonesia establishes the Government Ordinance Number 44 year 1997 about partnership. First preamble that Government Ordinance stated is "to accelerate an independent and reliable national economy realization as a together effort on the sense of kinship, it is needed a real efforts to create good climate to stimulate implementation of strong partnerships among all economy parties based on mutual need, mutual reinforcement, and beneficial principles."

j. Research Method

Location and Time of Research

This research was done in six districts which are batik centers in south Central Java, Indonesia. They are Banyumas District, Cilacap District, Banjarnegara District, Purbalingga District, Kebumen District, and Wonosobo District. This research was done between April 2012 untill November 2012.

Data Collection

Research method applied is inductive qualitative. Data collected by using partisipative observation approach, in-depth interview, and focus group discussion. Data sources and research subjects are businessmen of batik cluster in south Central Java and related public agencies such as Department of Industry, Commerce, and Cooperation in Banyumas Distric, Cilacap Distric, Banjarnegara Distric, Purbalingga Distric, Kebumen Distric, and Wonosobo Distric.

Data Analysis

Data analyzed through transcription, reduction, and coding process. The result produced by transcription, reduction, and coding which then analyzed by using domain, taxonomy, and componential analysis approach to create internal condition mapping of batik cluster in south Central Java, Indonesia. This condition mapping undergrids formulation of batik cluster SMEs in south Central Java reinforcement.

k. Result And Analysis

General Representation of Batik cluster in South Central Java

Based on in-depth interview partisipative observation, and document study, the general representation of batik cluster SMEs in south Central Java is summarized in table 1.

Insert table 1 here

The number of Batik SMEs is various on each districts. This data collected from Department of Industry, Commerce, and Cooperation of those six districts.

In each district, there are batik centers in certain villages or sub-districts. Each centers has their own distinct characteristics. Several centers show very fast developments and have high motivated entrepreneurship craftsmen, such as in Sokaraja center in Banyumas District, Maos center in Cilacap District, East Gumelem Center in Banjarnegara District, Kertek center in Wonosobo District, Gemeksekti Center in Kebumen District. However, there are batik centers which their craftsmen don't have entrepreneurship mindset so that those batik centers are less developed.

In each district, there are craftsmen prominent figures who play an important role in developing batik industry in that region (see table 1). Generally, these figures have a high motivation in developing batik with south Central Java special characterisitic based on their ancestor values. They also give influences on other craftmen by spreading their knowldege and hiring jobless neighbors. They have rapidly developed business, even some of them have penetrated global market and have joint several international exhibitions.

Analysis of Internal Aspects of Batik Cluster SMEs in South Central Java

Based on the result of in-depth interview and focus group discussion with research subjects, writer can identify internal aspect conditions of batik cluster in south Central Java. By applying domain analysis, there are nine internal aspects found in SMEs batik cluster in south Central Java, they are: material (related to raw material sufficiency and supply), craftsmen education level, technology used in batik production process, product marketing, financing, partnership with a great industry and among batik SMEs, facilitation, and coordination among agencies to develop batik cluster.

Taxonomy and component analysis on each internal aspects result condition map of batik cluster SMEs in south Central Java. Those result showed in table 2 below:

Insert table 2 here

Internal aspect mapping of batik cluster SMEs in south Central Java shows various problems that generally faced by SMEs batik cluster in south Central Java. Raw material supplied by a quite far supplier that cost more in production process and low level of its availability. Majority of craftsmen have a low level of education that caused lack of managerial ability and technology mastery. Batik process technology used is still very traditional. Some

advance technologies such as canting listrik, fractal batik process, have not been applied neither have coloring and waste management technology. Most of SMEs marketing are still local and regional oriented; there are only several SMEs that are capable to penetrate national market and only very few of global market. Most financing of SMEs are self funding and banking accesses are very limited. Some of batik craftsmen has cooperated with other craftsmen or other industry, but not a big industry. There has not been an active cooperation that gives significant impact to craftsmen. There are only in the form of foundation hasn't been used properly. Despite of facilitation program from related agencies, the benefit is not optimal due to integrated roadmap program that hasn't been established.

Based on identification of internal aspect mapping of batik cluster SMEs in south Central Java and based on focus group discussion between batik cluster SMEs businessmen and governmental parties (in this case is Department of Industry, Commerce and Cooperation) from six districts in south Central Java region, come several suggestion of solution that presented below.

Cooperative Between SMEs as Social Model of Cluster Reinforcement

Cooperative networking among SMEs batik cluster in south Central Java is needed to overcome various problems faced by batik cluster SMEs businessmen. This idea is crystalized in the focus group discussion between batik cluster SMEs businessmen and governmental agencies.

Cooperative networking among SMEs can overcome raw material supply problem by purchasing material in large amount and ensure material sufficiency for its members. This cooperative networking also can improve batik craftsmen skill and improve technology mastery by having a training program. Marketing and partnership network can be broaden by using this network. Even, huge number of export demand can be fulfilled by having a cooperative in this network. This cooperative network can facilitate finance availability or banking access. In addition, this network also help the member about the importance of this cooperative. This shows the cooperative networking to solve problems faced by members and help to reinforce batik cluster.

Based on the result of focus group discussion between batik cluster SMEs businessman and government in south Central Java region, there are two cooperative networking model which can reinforce cluster, i.e. cooperation and foundation. The existence of batik cooperation can be a solution for material supply problems. By having a batik cooperation, material supply for craftsmen can be coordinated and bought collectively. This method can reduce cost of purchasing material, and ensure its availability for craftsmen. Cooperative networking in the form of cooperation also can broaden marketing network. From this cooperation, marketing scale and strategy can be developed collectively, based on trust and openness. Batik cooperation can increase their members participation on national and international exhibition and help their member to overcome financing obstacle.

The second form of cooperative networking is a foundation. Especially, in the case of batik cluster SMEs in south Central Java, it can be South Central Java Batik Foundation which affiliated with Indonesia Batik Foundation. Indonesia Batik Foundation which is established on October 28th, 1994 it is a foundation that formed as a nonprofit organization as a realization of the batik lover, craftsmen, entrepreneur, and observer interest similarity inspired by Youth Pledge spirit which is also government partner in developing, maintaining, and fostering batik entrepreneurs/craftsmen. Based on Indonesia Batik Foundation's website (<http://www.batik-indonesia.org>), this foundation has three missions, they are:

- (a). Social Mission, strive to develop batik craftsmen skill of small and medium batik entrepreneurs including batik designer in production technique, design, and product differentiation.
- (b). Cultural Mission, strive to encourage and mobilize community participation on batik existence awareness as cultural asset rooted on diversity of local to be preserved and developed, thus in the long term goal, batik museum will be established.
- (c). Economy Mission, is a mission which support other two mission mentioned before by encouraging the effort of giving value added on batik as a high economic value product and special characteristic that distinguish it with other textile products. Encouraging the establishment of institution which is a form of importance interdependent between small and big batik industry in penetrating national and global market, in such a way that will increase craftsmen/businessmen income.

The purposes of Indonesia Batik Foundation (<http://www.batik-indonesia.org>) are:

- (a). Actively participating, together with public agencies, in maintaining, protecting, developing, and socializing national batik as the cultural legacy in the form of high valuable arts which are diverse and spreaded all across Indonesia.
- (b). Promoting batik and its industry as a high value added economic activity in order to support income equity and increase especially for traditional small and medium craftsmen and businessmen.

Mission and goals of Indonesia Batik Foundation are in line with the purpose of cooperative network establishment among batik cluster SMEs in south Central Java. The establishment of cooperative network, south Central Java Batik Foundation, can increase craftsmen skill and technology mastery through training program. Managerial skill problem also can be overcome through training program likewise coloring and waste management technology. Due to its character as nonprofit, the activities are focusing on craftsmen skill improvement.

Based on finding and analysis result in this research, cooperative network among batik cluster SMEs in south Central Java as cluster reinforcement model can be seen on chart 1 below.

Insert Chart 1 here

Coordination among Public Agencies as Social Model of Cluster Reinforcement

The main problem in facilitating batik industry in south Central Java is there is no integrated coordination among public agencies. This is due to the south Central Java batik integrated development roadmap that hasn't been made and sectoral ego from each agencies.

Government needs to set batik development roadmap in south Central Java and develop facilitation program from every related agencies. These include budgeting and stating main duties for each governmental agencies so gain efficiency.

The presence of information centers in south Central Java batik development, which has a complete database about batik industry in south Central Java, will help various developments and facilitations program integration. This kind of information center can increase marketing of batik in south Central Java.

l. Conclusion

Batik cluster small and medium enterprises (SMEs) in south Central Java, Indonesia has a great potential to be developed. The result of analysis and mapping on SMEs internal aspects including materials, level of education, technology, marketing, financing, partnership, facilitation, cooperation, and coordination, shows the presence of some obstacles that need to be overcome to reinforce south Central Java batik cluster.

Result of this research shows two social model that are capable to reinforce south Central Java batik cluster, they are cooperative among SMEs and coordination among public agencies. Cooperative among SMEs in the form of cooperation can overcome raw material supply problem, marketing network expansion, and financing. Beside cooperation, cooperative among SMEs can be done in the form of batik foundation under supervision of Indonesia Batik Foundation. Cooperative in the form of foundation can increase craftsmen skill and technology mastery through trainings. Coordination among public agencies can be done through setting integrated south Central Java batik cluster development roadmap. By having this kind of roadmap, facilitation and development activities can be more effective and efficient.

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o. Appendix

Table 1. General Review of South Central Java Batik Cluster in Indonesia

	Banyumas District	Purbalingga District	Cilacap District	Banjarnegara District	Wonosobo District	Kebumen District
Number of SMEs of Batik	45 SMES, 700 craftsmen *	291 craftsmen *	125 craftsmen *	8 Kelompok Usaha Bersama *, 62 SMES **	3 Kelompok Usaha Bersama *, 23 SMES **	248 craftsmen *
Batik Center	Sub-District Sokaraja, Banyumas, Sumpiuh	Sub-District Bobotsari, Bojongsari, Karangmoncol, Kaligonandg, Kalimanah, Kemangkon, Pengadegan	Sub-District Maos, Nusawungu, Binangun, Cilacap Tengah	Desa GumelemWetan, GumelemKulon, PanerusanWetan, Susukan, Kertayasa, Simbang	Desa Talunombo, Sub-District Sapuran, Sub-District Kertek	Desa Jemur, Seliling, Gemeksekti, Kutowinangun
Figure of Batik Prominent Craftsmen	Bapak Heru Santoso, Batik 'R', Sokaraja Kulon	Bapak Yoga Prabowo, Batik 'Tirtamas', Selabaya	Ibu Euis Rohaeti, Batik 'Rajasamas', Maos	Ibu Giat Saptorini, Batik 'Giat Usaha', Gumelem Wetan	Ibu Yohana, Batik 'Kembangkeli', Kertek	Ibu Hikmah, Batik 'Sekarjagad', Gemeksekti

. Data collected based on partisipative observation, in-depth interview, and document study.

* Source: Department of Industry, Commerce, and Cooperation District Banyumas, Purbalingga, Cilacap, Banjarnegara, Wonosobo and Kebumen, 2012.

** Source: Department of Cooperation and SMEs of Central Java Province, 2010

Table 2. Internal Aspect Mapping of Batik Cluster in South Central Java

Internal Aspect	Banyumas District	Purbalingga District	Cilacap District	Banjarnegara District	Wonosobo District	Kebumen District
Raw Material	Late supply of raw material	Raw material difficulty	Raw material supplied by a very far located supplier (Distric PekalonganandSolo)	Raw material is trasported from other districts (pekalonganandbanyumas), high cost of material.	Raw material is trasported from other districts (pekalonganandbanyumas), high cost of material.	Raw material is trasported from other districts (jogjakartaandsolo),limited supply.
Level of Education	Low education level of craftsmen and medium education level of entrepreneur	Low level education of craftsmen that keeps traditional mindset	Low level of education and skill of craftsmen	Low level of education of cratsmen	Most of craftsmen has low level of education and very limited management skill	Most of craftsmen has low level of education and very limited management skill
Technology	Conventional technology	Conventional technology	Conventional technology and old coloring technique	Conventional technology that caused waste management problem	Conventional technology	Conventional technology
Marketing	Marketing, either competitors or batik printing	Local marketing, price is still controlled by middleman	Marketing is still concentrated in local and regional. One of SMEs has penetrated export Market	Local marketing through exhibition either local and national level.	Marketing is still limited on local market, product of existing seller is better.	Limited marketing and low quality or products.
Financing	Craftsmen hasn't taken any loan from bank	Still using private capital, not bankable	Limited financing	Limited financing, not bankable	Limited access to banking sector, using private fund	Most of capital comes from private fund

Partnership	Hasn't had partnership with state-owned company	Hasn't had partnership with big company	Hasn't had partnership with big INDUSTRY	Has established partnership with Sokaraja and Pekalongan	Has made partnership with shoe company, but not yet with state-owned company	Has had a partnership with Danar Hadi, but still have low quality products
Facilitation	Public agencies has provided facilitation program yet still not optimal	Collage has provided facilitation program yet not coordinated well	Public agencies has provided facilitation program yet not coordinated well	Local government has provided facilitation programs.	There have been facilitation programs but still not well organized	Local government has provided facilitation programs.
Cooperation	There is no cooperation, only association	There is no cooperation and interest to make one.	There is no cooperation, only local cluster	There is no cooperation	There is no cooperation, only local cluster	There is no cooperation, only association that hasn't been used optimally
Coordination	There is no good coordination among agencies	There is no integrated batik development roadmap	There is no good coordination among agencies	There is no good coordination among agencies	There is no good coordination among agencies	There is no good coordination among agencies in setting development program

Internal Aspect Mapping of Cluster Batik SMEs in South Central Java

Raw Material	Problem of raw material supply and availability
Level of Education	Low level of education that caused bad managerial
Technology	Modern technology hasn't been applied
Marketing	Most marketing methods are still local and regional. Limited production capacity
Financing	Limited banking access
Partnership	Partnership among SMEs and between SMEs and big industry hasn't been optimal
Cooperation	There isn't any cooperation. Only few associations have been optimal

REINFORCEMENT MODEL OF BATIK CLUSTER IN SOUTH-CENTRAL JAVA

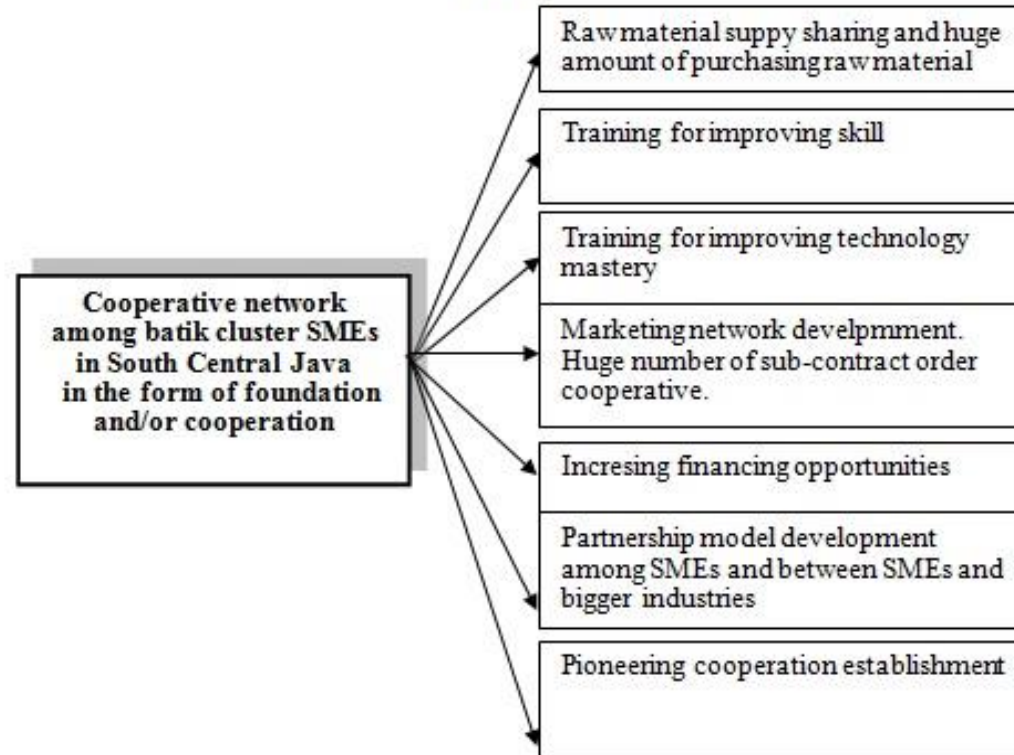


Chart 1. Model of Cluster Reinforcement through Cooperative Network among SMEs

BEHAVIOR MODIFICATION OF FARMERS INTO ENTREPRENEURIAL CASE STUDIES IN VOCATIONAL GEMAWANG VILLAGE

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Abstract

Poor exchange rates compared to the agricultural products and industry products have an impact on the low level of interest of young people to pursue a job as a farmer. As a result, young people migrated and farmland has continued to shrink since the sale of the farmland, to be the factories and housing. The study found a strong function of leadership village chief whose succeeded in changing the behavior of ordinary farmers be farmers who are also entrepreneurs. Study on the psychology of this alteration process of dissecting the behavior performed a successful Gemawang village chief makes his village as the village managed to increase vocational and income per capita population through 10 different types of small businesses that run society. Using ethnographic methods and successful hermeneutic revealed that because the successful behavior modification is the example of village chief, Mastery of new behavior is proven to provide significant economic impact for every individual, behavior modification is done with andragogy approach so that it's easy to do, the ability of village chief to build promotion network and marketing product.

Key word: modification behavior, vocation village, ethnography

A.Introduction

The equalization of development is the classic problem in the developing countries including Indonesia. Since the era of new order, the acceleration of development is very concentrated in urban areas. The turnaround money mostly occurs in big cities with clattering the construction of a factory and the centers of business in the city. This condition result in the occurrence of a real economic growth the gap between urban and rural areas. The city became a strong magnitude to those villages to find work in cities with a larger wage in the wage sector job appeal of agriculture.

Agricultural sector become unattractive for young, because wages employment in agriculture sector is lower than wages work in sector manufacture and industry¹. On the other hand the exchange rate agricultural products also lower than the products industry. These two conditions are enough to be the reason why young people leave the agricultural sector and selecting the migration to urban areas. In these five years, the village of Gemawang shows a different phenomenon. The village has the attraction back which is capable of delivering better lives than just being a factory labor in cities. Young people back in his village of passionate, they now are extraordinary farmer. Although they live in the village, they have better earnings than those who work in the city; relatively their earnings are even nicer than when it became a factory worker.

B.Problem Formulation

This Research examines 3 basic problems:

1. How the metamorphose process of village Gemawang from village that left by young people, now the village is a vocation village with a strong magnitude for young people
2. Who are the parties that significantly has a central role in the process of metamorphosis village Gemawang to be vocation village
3. What is the farmers activities in the Gemawang village so it is able to provide the greater income in than ordinary farmers

C.Objectives

Objectives to be achieved this research is as follows:

1. To describe the metamorphose process of village Gemawang from a village that left by young people, and now the village is a vocation village with a strong magnitude for the young people
2. To explain the parties that significantly has a central role in the process of metamorphosis village Gemawang to be vocation village
3. To describe the farmers activities in the Gemawang village so it is able to provide the greater income in than ordinary farmers

D.Benefits

The benefits that is obtained from this research is as follows:

1. Describe the metamorphose process of village Gemawang from a village that left by young people, and now the village is a vocation village with a strong magnitude for the young people
2. Explain the parties that significantly has a central role in the process of metamorphosis village Gemawang to be vocation village
3. describe the farmers activities in the Gemawang village so it is able to provide the greater income in than ordinary farmers

E. Theoretical Framework

1.Not just Ordinary Farmers

Farming was originally conceived as only the work and expertise of the farm to produce several types of plants or fruits. People in Gemawang understanding themselves as farmers are more or less equal to the understanding of society in general. Farming meant that narrowly limited to farm, to produce agricultural commodities has “defeated” the agricultural cultures are facing torrential flow of industrialization.

Understanding mentioned above, cannot be separated from the belief and system value during is believed by farmers. Farming in understanding traditional value system is grow their crops, forecast the season, get to know the climate forecasting system fertilizing and eradicating pests plant disease so as to produce agricultural commodities which is abundant for sale². The belief of that system is farmer aligned with the world market, good at producing but weak in bargaining with investors. As a result the position of farmers is always in the party who is lost.

Under the leadership of Bambang as chief village, he is successfully built a collective consciousness that farming is not just a farm but also to think about the market and profit. Included in it is to choose the type of plants and more plants have more value; perform post-harvest processing, utilization of free time after the planting season and a range of economic activity-based agricultural products.

2.Modification Behavior

Behavior change from traditional farmers become modern farmers is not easy. The formation of new behavior is always starts on a new difficulty³. In the theory of behavior modification, explained that the urge to master the new behavior can be view from two sides. First of incentive or reward gained from mastering new behaviors and views from the second level of convenience to master new behaviors. In concept behaviorist change of new behavior is driven by the existence of reward gained if the individual master the new behavior. However, in the

theory of Fiesbhien, a new change in behavior that takes place if the individual see/believe that the new behavior is not too difficult to be conquered⁴.

Gemawang case was a combination of both that theory. It is seen from reality that they too interested to reward advantage if mastered new behavior but they also takes no new behavioral change is difficult to estimate them. Change rising is happened by itself along with maturity they do change.

3.Maintaining New Behavior

Mastery of new behaviors will not be able to last a long time, even it can be lost if it is not done the maintenance control of a new behavior⁵. Maintenance of new behavior in the village Gemawang is done for example by creating a conducive environment for example, forming Gallery products so that all products produced by farmers can be shown to "greet" prospective customers. Frequent exhibitions, presenting tourists (Gemawang included in the tourism map of Central Java). With the current economic conditions, people are motivated to make changes and control of various types of new behaviors⁶. Moreover, they feel the reward is directly in line with the increase in revenue continues to increase the flow of tourists who come and buy their products.

4.Transformational Leadership

The new behavior changes in Gemawang among others are triggered by the role of the head of the village who was able to convince the community to make changes. As described in transformational leadership, leaders can influence society through ideas, the ideas and examples of good (best practices) of what ever he does⁷. Accommodates opinion followers and influenced them to new ideas is the embodiment of basic principles of transformational leadership that implemented by Gemawang's chief village. Transformational Leadership inspired his followers to throw over their personal interests for the good of the Organization and be able to have a tremendous influence on followers. They also paid attention to the needs of self-development followers, as well as inspiring his followers to work hard at achieving shared goals⁸.

- a. **Ideal influence.** Provide vision and mission, instilling pride, as well as gain respect and trust.
- b. **Inspirational motivation.** Communicates high expectations, uses symbols to focus on, and claimed the key goals are simple.
- c. **Intellectual stimulation.** Improve intelligence, rationality, and careful problem solving.
- d. **Consideration of the individual.** Provide personal attention, treating each employee individually, as well as train and advice⁹.

F.Research Method

1. Determination of respondents. Snowball technique chosen as the technique of determining the subject of research. In this study starts from the village heads, community leaders are influential, then narrowed to the actors in the field, including the chairman of the working group on the ten areas of vocational education, the mentor - tutors and partners Gemawang village.

2. Data collection procedures. Data was collected through in-depth interviews (in-depth interviews), observations and interviews, study documentation, historical study of past Gemawang village and its footprint changes. In this research, analysis and ethnographic discourses.

3. Data analysis. Do triangulation: members of the working group, Mentor. Triangulation method done through interviews, observation, study documentation. Valid and reliable data, analyzed through ethnographic¹⁰ and hermeneutic model¹¹.

G.Result and Discussion

Result

1. Attitude in Facing Changes

Preliminary findings the research indicated there are some doubts in the society to change from farmers become entrepreneurs. There are three category attitudes over this change. 1. Still not unmoved over changes; 2. Start responded and involved change but still doubtful; 3. Militant in trying change. Differences this attitude had affected the distinction behavior. Group that do not respond change still served as conventional farmers occasional while watching clattering change that goes. Group which has been respond change but still doubted his successes, tending to wait commando of chief of group or the village in making changes. Militant group that believes such changes tends to have elaboration and initiative to do all things without waiting for commando and more involved in total activity

2. Controlling New Behavior

Efforts to control new behavior that is still based on Agriculture and the local culture take place quite rapidly among a group that since its inception has a positive attitude and enthusiasm for change, they are total and not awkward. As for the group that is still hesitant and even earlier have not accepted the importance of the change; mastery of new behavior takes place slowly. But along with the strong encouragement of change and reinforcement that is highly profitable economic calculations then the two groups were also trying to do a new behavior for example mastery of accelerated processing post harvest for agricultural products batik, and the like. There are currently about 10 (ten) business units, who lived in the village of Gemawang, i.e.:

1. Sentra Produk batik
2. Sentra Produk madu
3. Sentra Produk kopi
4. Sentra Produk boga
5. Sentra Produk Alat Permainan Edukatif (APE)
6. Sentra Produk Pertanian Perintis
7. Sentra Produk Budidaya Jamur
8. Sentra Produk Perikanan
9. Sentra Produk Pupuk Bokasi GEMATANI
10. Sentra Produk Garment
11. Sentra Produk Pasta Indigoferae vokasi "NILAWANG"

Mastery new behavior in various fields deftness on is not an easy problem; but because of the tenacity and group chairman in each sentra and slowly they can control the new behavior.

There is a fundamental difficulty in carrying the behavior change¹². *First*, the most difficult stages in the conversion behavior occurs in phases that need to be assured that the changes and should therefore be done to be able to exist and be able to achieve a more decent life. *Second*, make sure that the intended new behavior is not a new behavior that is difficult to be learned.

3. Economic Influence

Mastery of skills in the form of income generating skills on post-harvest processing of agricultural commodities, such as making crackers, chips, syrup and a variety of food products from agricultural materials slowly but surely they could be good. Similarly, making a variety of handicrafts including batik, proved to be done by some members of the public have been able to provide a real economic impact families. On the basis of the other members of the community who also want to try it. Lessons learned that can be drawn from this condition is if a change has a significant impact on increasing people's incomes so they will voluntarily seek to be able to master the new behavior.

Discussion

1. Leadership Capacity

Ability of the suggestive village chief and transformational leadership style with example models become important keys to behavior change. Bambang S profile is the leader of the humble even the history of its leadership is indeed desired community. In Pilkades Bambang S absolute win in a very clear but the issue of money politic and various primordial intrigues. Basic trust is the key to the success of Bambang brings changes. Any idea that leveled Bambang trusted that it really is intended to improve the welfare of society. Therefore, if in the early stages there is a rejection of its more because of lacking confidence felt by the parties will initiate the change. Ethnographic refusal could be solved by non formal approach to the community leaders (youth leaders, religious figures and leaders of other non-formal). If through the lobby and negotiations have still not been produced in common perception to make changes is usually done site visit to some areas that will be replicated the vocation model.

2. Empowerment

One of the keys to successful change is a change in mindset towards the success of the Gemawang community to empower women in the field of post harvest processing (foodservice), sector of batik and various crafts. With the principle of utilization of leisure time activities in between the domestic and agricultural activities of conventional women getting various skills training that ended up on an ongoing basis¹³. The Mother (the woman) is the party that has the power to encourage behavior change; particularly changing the mind set of a man who tends to wander into town to meet the needs of the economy changed need not to wander into the city, the origin would be in the village works diligently farmers plus self-employment¹⁴.

3. Facilitation.

Mastery of new behaviors needs training and facilitation. Gemawang village in value over carrying behavior change is to provide assistance and training are complete and continuous. This is very different from the government's habit of project-oriented program, so when the project ended, the community will be left so it does not matter whether people are really master a new skill or not. For Gemawang cases, mentoring and training conducted by the principle of mastery skills (competencies) rather than project approach.

4. Networking.

Mentoring and training is certainly a great cost, but the Gemawang village does it with a cheap fare even for free because it uses the power of cross-institutional cooperation between networks. The power of networking cooperation (networking) which was being keyword only done of access in doing mentoring in earnest with the correct method so that it is able to help local people mastered the new behavior. Cross-institutional cooperation networks that among other things with multiple partners; for example in the conduct of training and mentoring, the village chief Gemawang partnership with some college (UNNES, UNDIP and some colleges and Government agencies) as well as among Industry.

5. Consistency

Consistency in carrying the key changes is important. In the initial stage of failure or unsatisfactory results but demonstrated consistency stakeholders have managed to scrape doubts. Rural communities are not well educated, but they are very sensitive to the issue of honesty. So any changes will be easier to run when it implied a change in the interests of honesty for the betterment of society.

H.Conclusion

- 1) Behavior change from farmers being farmers who also entrepreneur can be done if started from an edit mindset system of beliefs (belief system), continued with skills training mastery new (skills production and sales), maintenance new behavior, the formation of their cooperation and marketing.
- 2) Leadership role is very important in launching change especially in matters basic trust a leader in the eyes of its citizens and ability affect mass based on ideas supported consistency with.
- 3) Change must be based on the ideology of empowerment, especially empowerment of women because they are a significant figure in the decision-making at the family level (households).
- 4) Changing the behavior will be successful if it has a new behavior or bring significant tangible economic value added and not too complicated. Modifying behavior through facilitation and training completed so that it has a high sustainability, not just project work oriented.
- 5) Changing behavior takes place smoothly if it gets the support of all citizens, especially from figures in youth and non-formal. But on the scale of women's empowerment of households is the dominant factor in the success of the conversion behavior.

I.Recommendations

1. To make improvements, especially in improving the farmers income, the farmers should also be empowered to become entrepreneurs.

2. The younger generation of farmers must be equipped with skills of entrepreneurship from an early age as well as mastery of agricultural cultivation, so that urbanization can be controlled.
3. In the village chief election the practice of money politics or transactional politics should be avoided, so it can produce the village leaders who are committed to making changes to the welfare of its citizens.
4. Government programs in changing behavior should be based on adequate needs analysis, based on changing the mindset that followed by training and ongoing assistance for the maintenance of new behaviors.
5. Need to pay attention to the empowerment of women's role in society, especially in changing the behavior of farmers into entrepreneurs; besides the roles of non-formal leaders.

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ROLE OF ISLAMIC BANKS IN PROMOTING ENTREPRENEURSHIP ORIENTATION AND INNOVATIVE BEHAVIORS OF SMALL MEDIUM ENTERPRISES (SMES) IN RURAL AREA

by

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ABSTRACT

Small and Medium Enterprises (SMEs) play important roles in stimulating economic growth in Indonesia. However, most SMEs are having problems in accessing fund from financial institution. Lack of standardised financial statements and high perceived risks associated with SMEs are among the reason behind it. Meanwhile Islamic financial institutions are less popular if compared to conventional banks. To date the market share of Islamic banks have only reached the amount of approximately five percent in the Industry. Therefore, Islamic banks should find a way to socialized their existence and role in promoting the growth of small business in Indonesia. The purpose of this study is to develop a strategy to promote entrepreneurship and innovative behavior of small and medium enterprises in Indonesia. The method used in this study was descriptive qualitative whereby the instrument used encompasses questionnaires, and in depth interview. The sampling methods used were purposive sampling whereby respondents were chosen based on several criteria meanwhile the informans were choosed using snowball sampling. The result of the study revealed that the strategy to promote SMEs innovative behavior should encompassed of three coaching stages namely conception, implementation and marketing. At the conception stage SMEs should be trained on requirement analysis, idea generation, idea evaluation and project planning. At the implementation stage SMEs should be trained on product development and product testing. Last but not least SMEs must be thought on how to market their products. SMEs also need to be thought on BCF model of Innovation.

Keywords: Entrepreneurship Orientation, Innovative Behaviors, SMEs, Rural Area

1. INTRODUCTION

Indonesia, a country with the structure of the economy dominated by small businesses (SMEs) and trade scale in real sector has problems that must be resolved. Complexity of the hurdles faced by SMEs (as articulated Urata, 2000; Adiningsih, 2001) requires attention from all parties for the business to grow. The handling of the problem of small businesses' promotion and entrepreneurial orientation in marginal areas is expected to give a positive impact to the economy of the people who live in marginal and rural areas. SMEs require assistance from the many parties – government, academician, financial instutions- in getting funds from banks, investors, local and foreign investors even expanding the scope of its business to the international arena.

Financing is a major hurdle in promoting small businesses' growth (Muktar, 2009). The amount of fund distributed to SMEs in the form of Loan up to November 2009, has reached figure of 724,81 trillion rupiah or about 51.34% of the total national banking loans, 1,479 trillion. The number small business received the loan has reached a figure of 19.1 million business unit or approximately 39% of the total number of SMEs in Indonesia. Current estimates there are still around 30 million small businesses are waiting for financing from banks. Thus majority of SMEs operation are supported by family, friends and other informal funding sources.

Majority of the people living in marginal and rural areas are poor, thus government project should be directed towards community development in the region. The availability of funds accompanied with strategy to develop the entrepreneurial skills of the rural communities can be built and optimized, positive multiplier effects can then be felt in all sectors of the economy in the region (Muktar, 2009). To absorb these aspirations, the government has introduced soft loan to increase the production capacity of micro businesses in rural areas (Olaitan, 2006). But most of the financial programs aimed for small business program failed to achieve the expected goal (Muktar, 2009)

Research by Panggabean (2007) concluded that banks and microfinance institutions have not functioned as agents of development in terms of the empowering small businesses in all districts and sub-districts in Indonesia. Thus the role of banks and financial institutions is not only limited to financing but instead how to develop the entrepreneurial orientation and innovative behavior of SMEs. Therefore there is a need to be developed for new patterns of Islamic financial institution role in this case. The roles should consider systemic business coaching and not purely financial in nature.

Islamic finance institutions bring new hope to the people who are unfavour of interest rates. Changes of banking system from interest to non-interest rate systems will save society from the negative effects of interest. Islamic systems will help create stability, well-being, and reduce poverty. In this case Islamic banks play important role towards the establishment of Islamic Economic Systems in a country which shall bring prosperity to the people in the nation.

One form of financing that distinguish Islamic bank with its counterpart the conventional banks is *qardhul hassan*. This form of financing brings social mission as well as the commercial missions. The social mission of this community will enhance the image of the bank and increase the loyalty of the community towards Sharia bank (Adnan and Furywardhana, 2006). Qardhul hasan is interest free financing without obligation to the borrower to share financial gain with the bank (Antonio, 2001; Haron and Shanmugam, 2001). Therefore the *qardhul hasan* can be used as a source of funds for SMEs with insufficient amount of capital to start a business. The versatility of this type of financing offered by Islamic banks can be accomplished with a pattern of entrepreneurship construction especially for SMES located in rural areas. Entrepreneurship education will enhance the ability of the people who live in the countryside to start a new venture (Ehrlich et al, 2000). Mentoring and training in entrepreneurship for SMEs is very important because it gives a positive impact among others: as the primary motivation in the creation of new businesses (Cho, 1998); leads to an increase in some elements of entrepreneurship (Henry et al, 2003); as well as increase the chances of success for new ventures (Postigo et al, 2003)

This research developed the concept of the entrepreneurial orientation which was confirmed in some previous studies as an influential factor in the success of small and medium enterprises and hence their sustainability (Miller, 1983; Lumpkin & Dess, 1996 Wilklund, 1999). It is also

supported by the results of previous research which concluded that entrepreneurial orientation is the determining factors for the success of SMEs in Asia and several other countries in the world such as India and Brazil (Awang, Khalid, & Yusof, 2009; Kreiser, Marino & Weaver, 2002a; Montiero da Siva Montiero, Gomez, & Corriea, 2009).

2. LITERATURE REVIEW

2.1 The Concept of Entrepreneurial Orientation

Entrepreneurship orientation is behavior affecting process, practices and the style of decision making undertaken by management and employees of a company (Lumpkin & Dess, 1996) that produces superior performance for the company. entrepreneurship orientation consisting of innovative, pro-activeness, and dimensions risk taking as proposed by Miller (1983), having correlation very strongly with entrepreneurship. Meanwhile Covin and Covin (1990), Dean (1993) and Lumpkin and Dess (1997) alleged that aggressiveness is a crucial dimension of entrepreneurial orientation. Another dimension of entrepreneurship orientation is autonomy as proposed by Hart (1991) Shane, Venkataraman and Macmillan (1995) and Lumpkin, Cogliser and Schneider (2009). Argument about the relationships among those five dimensions of entrepreneurship orientation has been reviewed by previous researchers (such as Lumpkin and Dess, 1996; Wilklund, 1998; Kreiser et al, 2002, Covin, Green and Slevin, 2006)

Innovativeness refers to work done by the company to grab business opportunity in the market and introduce something new in the process of technology and decision making. Expenditures in research development include innovative research and development of new products or services as well as market access. Innovative business emphasises on new methods as well as involving skilled workers in great numbers (Dess & Lumpkin, 2005). Innovative means that a business should consider how each work unit doing research about new products, market research, product design as well as innovative in terms of marketing products or services. Administration, management factors such as organizational structures, control mechanisms, is also done in order to achieve competitive advantage in the marketplace.

A proactive attitude is an attempt to emphasize one step ahead of competitors in exploiting technology, selling products or services on the market, look for market opportunities as well as new development (Lumpkin & Dess, 2001). A proactive effort has always been a trend setter in the development model of the product to meet the needs of customers in the future. Trend setter is said to be innovative if the venture became the first in market entry, product identity form, applying technical administration and adopt technology (Lieberman & Montgomery, 1988)

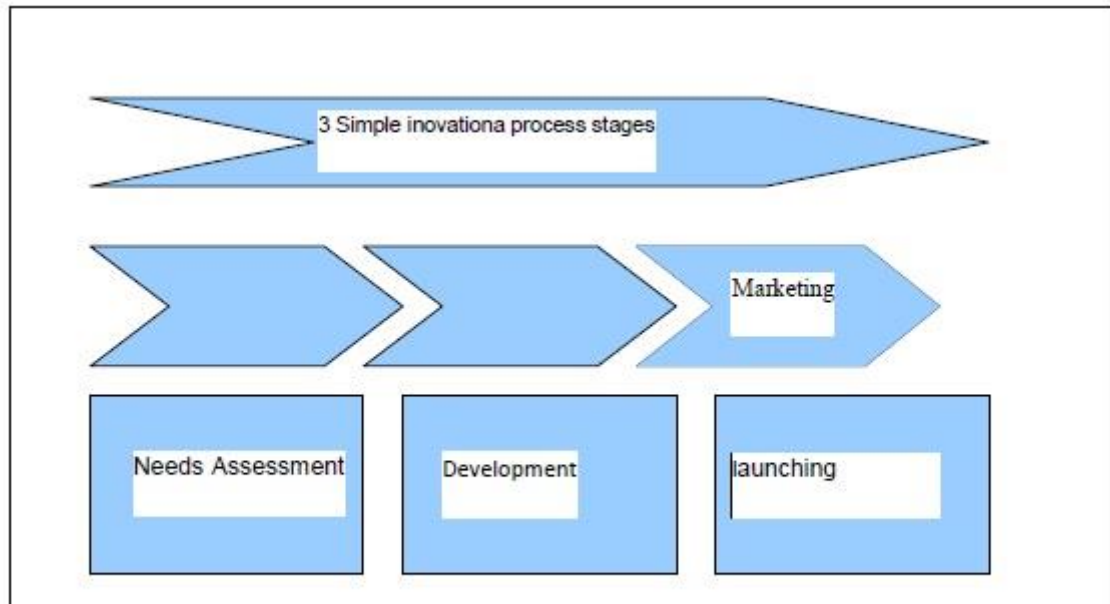
Risk taking is commitment effort to a high cost project and act quickly in anticipation of loss. The aggressiveness in trying is a to defeat rivals by applying market strategy. This activity needs considerable amount of investments in the field of marketing strategies to fight against industrial trends which may threaten companies' safety or market position of a business. Market aggressiveness is shown by success to become chairman in market and adopt principle "the first in market". Smith, Ferrier and Grimm (2001) argued that companies with aggressive orientation will be willing to fight competitors through lower price and sacrifice profit as an attempt to dominate the market. Autonomy is an attempt to motivate employees to participate in the planning of the company. Employees can give you new ideas freely without having to ask for the opinion of his superior. Even the company would ignore the rules and work procedures to involve employees in the development of new ideas (Shane et al, 1995)

2.2 SMEs Innovative Behavior

Innovation is a strategy implement by SMEs to face competition from local, national and global competitors. Real understanding of business objectives will help clarify the concept of business innovation (Solomon et al, 2007). The main function of innovation is cementing a long-term venture sustainability (Ancona & Caldwell, 1987). Innovative ideas and products shall help entrepreneurs fortify their market position from cheap price competition attacks launched by manufacturers who are able to manufacture their product at a lower cost (Tiwari et al, 2007). However, the ability of SMEs innovation is constrained by limited number of resources which impede innovation and commercialization behavior of products, services and processes (Herstatt et al, 2007b)

Business opportunities as the effects of the globalization era forced business industries in Indonesia to innovate and create new arenas for SMEs, known as the global innovation to obtain, maintain and further strengthen the competitive position of SMEs in the market (Tiwari and Buse, 2007). The foundation of innovation was the idea and only individuals who are able to develop, lead, react and modify the idea (Van de Ven, 1986). Therefore it is very important to understand that innovation is based on the individual's effort in providing its performance. For this reason it is necessary to understand what motivates and stimulates the emergence of individual innovation behavior. West and Farr (1989) noted that very little attention was given to innovation at the level of the individual and the group. Individual innovation behavior stages starting from the identification of problems and then forwarded to the formulation of a new idea or an idea adopted from other people as a solution to the problem.

At the next stage, an innovative individual will be seeking support for his idea and trying to form a coalition in support of the idea (Scott & Bruce, 1994). On the third and fourth phases, the individual will complete the formulation of the idea to produce a prototype or model of innovation that could be transmitted, shared, utilized a neologism, which can be used productively (Kanter, 1998). Therefore innovation for the corporate world go through several phases that require different behavior of individuals in each of the stages. Innovation is the behavior that does not occur at any time as well as go through various phases (Schroeder, Van de Ven, Scudder & Polley, 1989), the individual can demonstrate innovation at different stages (Scott & Bruce, 1994). Therefore innovative behaviour requires interaction between individuals or entrepreneurs, leaders, teams, and business units. Without individual innovation behavior will not appear while the entrepreneur is an agent that affects individual behavior



Picture 1 Simple Innovation Stages

2.3 Problems Faced by SMEs

From a variety of studies and efforts fostering people's economic effort in Indonesia, the problem often encountered include: market access, business financing, low skills and production techniques, quality control management in General. Shujiro Urata (2000) conducted a study on SMEs in seven major cities including Surabaya, Indonesia managed to identify problems of the SMES includes: weak market access (29%), finance (19.2%), technical and training information (19.2%), quality control, management, equipment manufacturing 9.6% respectively and another 4%. Moreover, according to Ariawati (2005) weaknesses of SMES can be classified as shown in table 1 below.

Tabel 1. Description of SMEs Development Barriers

Area	Weaknesses
Education	Low education level
Skills	Low technical and managerial skills
Ability to penetrate market	Low ability to penetrate market due to inferior product and small production scale.
Capital	Small amount of capital and lack of capital access to financial institutions
Industrial Technology adoption	Low technology adoption
Business Network	Limited
Business Climate	Less supporting for stiff competitive environment
Infrastructure	Lack of infrastructure

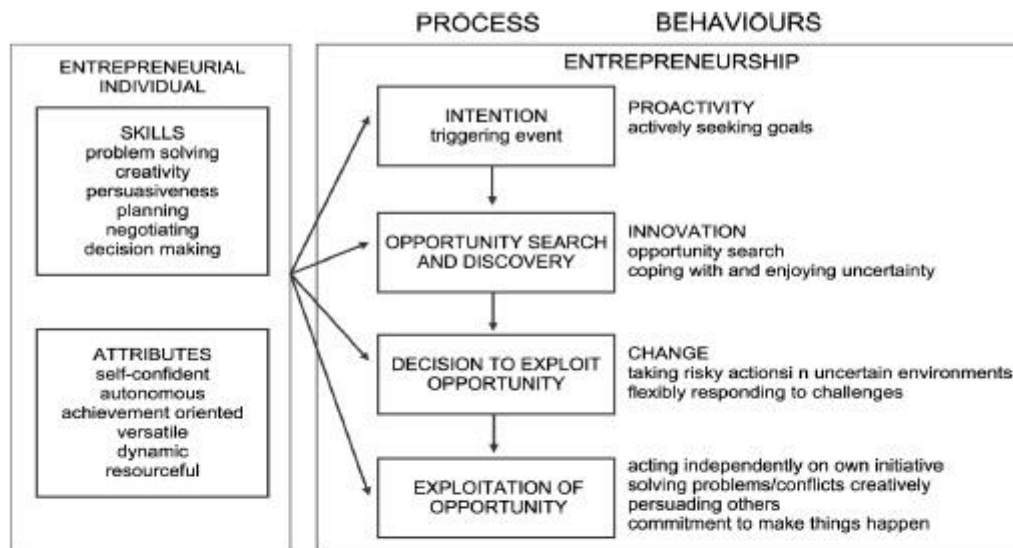
Source: Ariawati, 2005

The above issues, in fact intertwined and interacting with each other. Understanding that internal condition of micro SMES is a necessary stage prior to developing their coaching needs. The coaching of SMEs does not just focused on one side of the course for example, fund access but also other aspects that should be taken into account for example: marketing channel for SMEs, the managerial capabilities, access to raw materials, product design as well as product quality.

Islamic finance institutions as providers of funds should also provide assistance to business customers in the form of entrepreneurship skills. Channeling funds solely without supporting the customers with some necessary knowledge on business management will lead to potential bankruptcy.

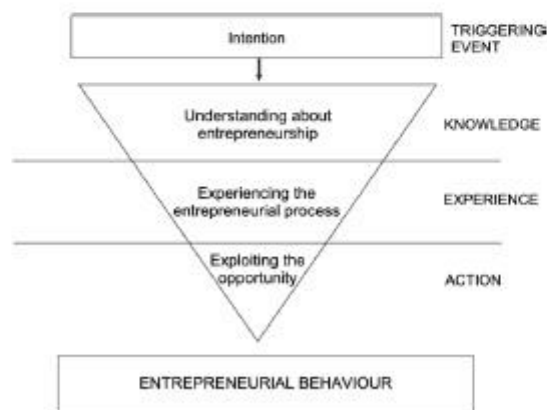
2.4 Promotion of Entrepreneurship Orientation Model

The special challenge in education is the need for facilitation of entrepreneurship learning in support of the process of entrepreneurial education for SMEs by providing more practical business knowledge rather than purely theoretical one as illustrated in figure 1 below:



Source: Elaborated from Gibb (1993) and Shook *et al.* (2003)

Picture 2 Entrepreneurship Education Development



Picture 3 Entrepreneurs Attitudes Development Model

3. METHODOLOGY

The location of this research was in the area of Banyumas Regency. The population of this research was small and medium enterprises that already run a business for a minimum of two years. In addition, the business should be located in the marginal and rural areas in the Regency of Banyumas. Informants in this study were selected using purposive sampling on SMEs which meet the following criteria

- It has been in business for at least 2 years
- It is registered at the Department of Trade and Cooperative of Banyumas Regency
- The business has ever proposed for financing from financial institutions.

The required data in this study are: primary data obtained using questionnaire. Data collection method included a preliminary survey to gain an overview of the organization and understanding problems faced by the respondents, field of observation and direct interviews with SMEs in Banyumas Regency. Data from respondents obtained through questionnaire and

interview. Data that had been processed was presented in the form of a narrative description which was used as the basis for developing the model of the study.

4. FINDINGS AND DISCUSSION

4.1 Types of SMEs Involved

There were two kinds of customers involved in this study: firstly, SMEs that are currently being financed by a bank; and secondly, the potential customer of the bank ie SMEs which have not yet received fund from financial institutions. The SMEs must have been in a business for a minimum of two years.

Overall, the SMEs should be marketly sounds ie they compete in fairly competitive market and the products are needed by the people in the surrounding area. Secondly, the business may be feasible in term of its production, the product offered by the firms must not go against Islamic laws and it is declared healthy by the authority. In addition, the access on raw material is relatively easy and it comes from local market instead of being imported from overseas, Third, the SMEs are financially feasible ie they only require additional capital to fulfill the excess of demand in the market. The business only need additional working capital to cover excess demand for its products and to finance expansion marketing plans that can be taken into account for certain. These criteria would hopefully optimize the utilization of additional capital. Fouth, the business apply good management system. The businesses have started to implement the basics of financial management at least record the inflow and outflow of cash.

4.2 Coaching Model

The coaching model of SMEs involves elements of College, government, and Islamic finance institutions to guide, encourage, and facilitate the creation of an Institute of business consulting to solve various business problems faced by SMEs in rural and marginal areas. To establish the institution building, it is necessary to firstly understand the problem faced by the business, especially related to the business activities. The ‘coaches’ are expected to be able to motivate employees in order to obtain the best solution in settling down various forms of business problems. SMEs should be given appropriate facilities in various fields, be given advice, and many more.

4.3 Qard Hassan as an alternative source of financing

In epistemology the word qardhul comes from q-r-d means the cut. Because the treasure is said to be completely cut out when given to borrowers. Based on the Hadith of the Prophet Muhammad, the granting of a loan by way of introduction the al-qard is more pleasing to God than to give sodaqoh. This is a valid description and need not doubt, as well as the Sunnah of Prophet Muhammad and the consensus of scholars (Maslehuddin, 1994). In terminology, al-qardu alhasan (benevolent loan) is a loan which is granted on the basis of mere social obligation, in this case the borrower is not required to return anything but loans (Perwataatmadja and Antonio, 1999). The nature of the al-qard al-Hassan is not giving financial gain (Antonio, 2001).

This financing agreement is solely based on "by devotion to God Almighty, trust, passion and sense of responsibility brotherhood in Islam (Corporate social responsibility), resulting in the omission of Muqtaridh there is no imposition of the Muqtaridh that suppress and intimidating nature which means there is an intention to establish a Union or Bank ukhuwah Islamiyah. The evidence of verse in Al-Quran mentions

كَرِيمٌ أَجْرُ وَلَهُ لَهُ فَيُضَاعِفُهُ حَسَنًا قَرْضًا اللَّهُ يُقْرِضُ الَّذِي ذَا مَنْ

Who is he that will loan to Allah a beautiful Loan? For (Allah) will increase it manifold to his credit and he will have (besides) a liberal reward (Al Hadid:11)

4.4 Role of Islamic Financial Institutions

The Model construction was developed by involving three elements i.e. Sharia financial institutions as stakeholders; College as intermediary and SMEs as the main party concerned. The bank is not just a function as fund supplier but beyond that they must play a social role as part of their responsibility to the surrounding area. This is in accordance with the teachings of Islam, which advocated a voluntary donation as a form of obligation, through a social fund or the obligation of zakat, which is a defined group of eight rights (Al-Tawbah QS [9]: 60) or through a mandatory alms:

وَالْمَحْرُومِ لِلْسَّائِلِ حَقُّ أَمْوَالِهِمْ وَفِي

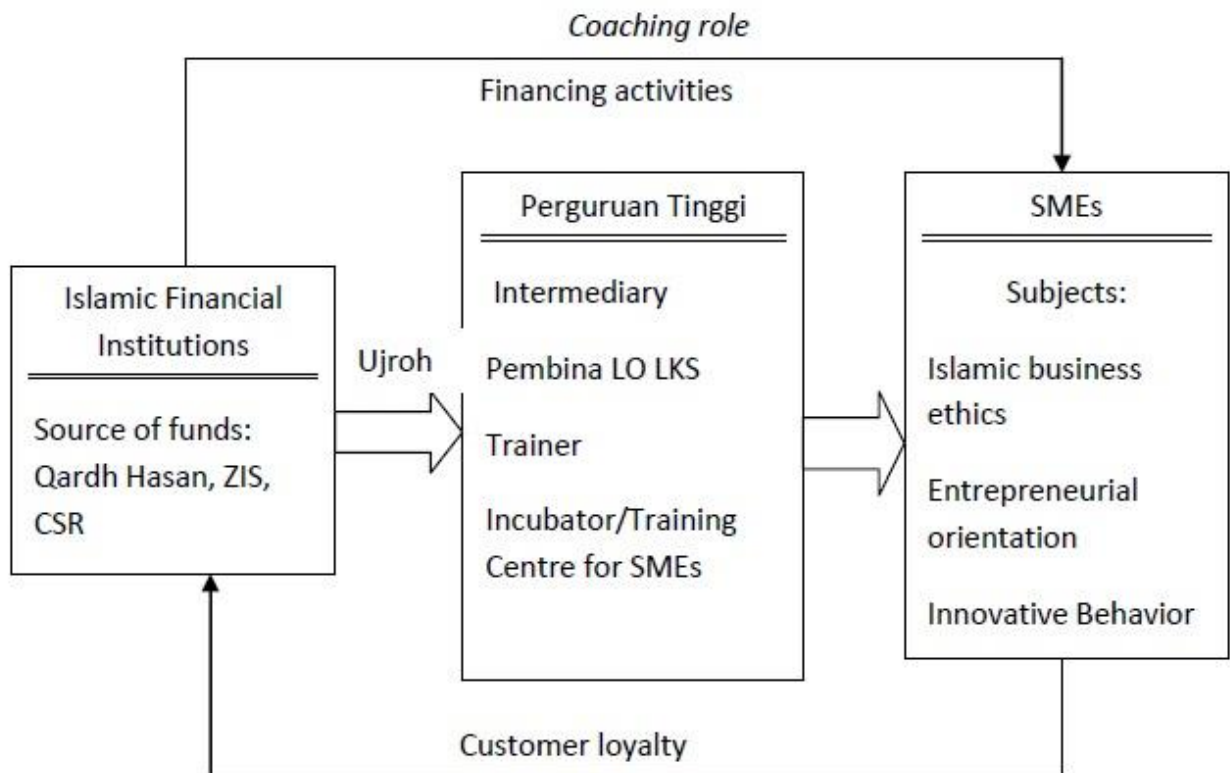
“And in their wealth and possessions (was remembered) the right of the (needy) him who asked and him who (for some reason) was prevented (from asking) (QS Al-Dzariyat [51]: 19)”

In another verse Allah said:

“Let the man of means spend according to his means: and the man whose resources are restricted let him spend according to what Allah has given him. Allah puts no burden on any person beyond what He has given him. After a difficulty Allah will soon grant relief [65]: 7).” In this context the Quran stipulates the obligation to help families and the duty of every individual to assist members of the community. In this case the customer can see the financial institution as families residing on a single supply chain. Some possible source of funds that can be used by the program in Islamic banks coaching is qard Al-hasan. To date the coaching function of Islamic banks are merely performed by liaison officer (LO). Each LO has the responsibility of coaching certain numbers SMEs but the role is only limited to incidental supervision in the field. Meanwhile, the actual need of SMEs is constant supervision in order to persistently stimulate SMEs growth hence their sustainability.

Academicians shall perform the role by functioning as facilitator between banks and SMEs. Colleges may as well performs some forms of training to SMEs in several areas such business ethics, entrepreneurship and innovation. Ethics education in the Islamic perspective is of utmost importance to be given to SMEs. To be success in a business, a person need to possess good knowledge of ethical behavior.

Islamic Finance Institutions role Model in coaching the entrepreneurship orientation and innovative behavior of SMEs can be described as follows:



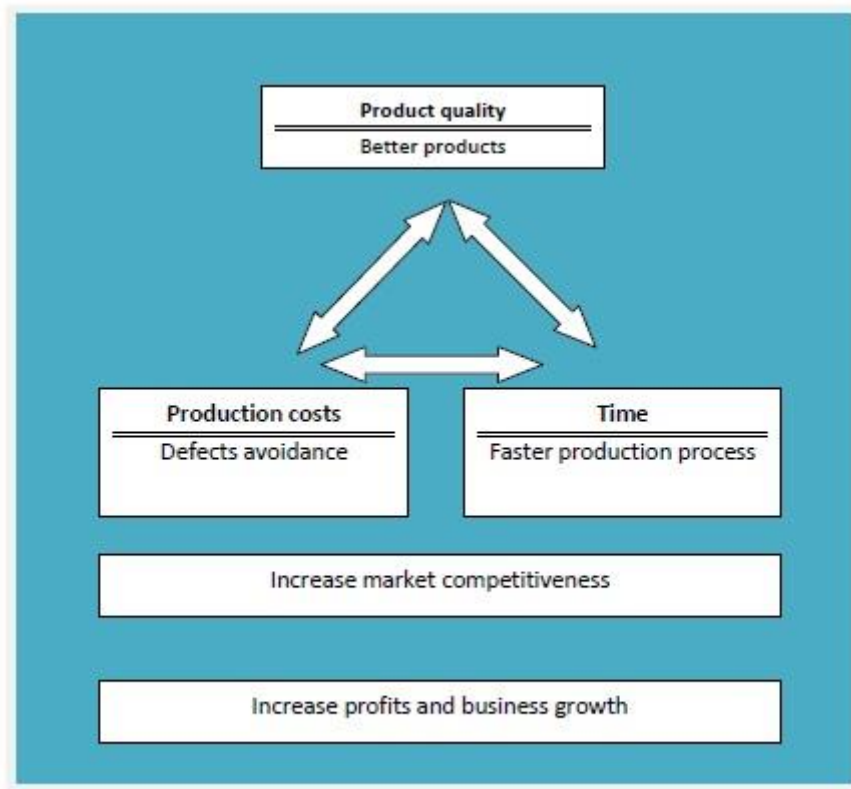
Picture 4 Role of Islamic Financial Institutions

5. Coaching Model of Innovative Behavior

Offering innovative products with improved utility can help strengthen the competitive position of a business in both domestic and international markets. This innovation necessitates an effort to bring new and/or better products to market while developing and manufacturing organization process that allows a more efficient and cost-effective production, distribution and after-sales services (Tiwari, 2007).

SMEs usually frequently conducting business in niches and having direct contact to customers have thereby possessing high possibility of obtaining valuable stimulus in the form of customer feedback. Since SMEs often act in a more informal manner and faced with less hierarchical procedure as compared to larger companies, SMEs become better place for innovation than their companions the larger firms. Edging this potential, in normal condition, must enable them to develop products more fit for market requirement and thus bring over success

In practice, however, the resource constraints coupled with market uncertainties (and a few other factors) limit the ability of SMEs to indulge in dedicated research and development and to experiment with new product development, as demonstrated by many studies (Tiwari, 2007)



Picture 5 Innovative Model for SMEs

6. Barriers to Innovation

Research on factors hindering SMEs innovative behaviors are growing exponentially. For example Acs and Audretsch (1990) carried out research on innovation in the US, while Ylinenpää (1998) performed similar study in Sweden. Meanwhile Mohnen and Rosa (1999) as well as Baldwin and Gellatly (2004) conducted inquiry on this topic in Canada. Based on previous findings the most dominant problems are summarized below in table.

Table 2 Barriers to Innovation

Barriers to innovation in SMEs	Studies (amongst others)	Result
Financial bottlenecks - hindered access to external finance, - high innovation costs (and therefore) - high economic risks	Acs and Audretsch (1990), Baldwin and Gellatly (2004), Rammer et al. (2006)	Confirm
Shortage of and hindered access to qualified personnel	Ylinenpää (1998), FES (2004), Rammer et al. (2005), Rammer et al. (2006)	Confirm
Limited internal know-how to manage the innovation process effectively and efficiently (e.g. missing project management knowhow)		
Missing market know-how - to meet customer's needs - to enter foreign markets	Ylinenpää (1998), Friedrich Ebert Stiftung (2004), HWWA (2004)	Confirm
Bureaucratic hurdles - long administrative procedures - restrictive laws and regulations	Acs and Audretsch (1990), HWWA (2004), Rammer et al. (2006), BMBF (2006)	Confirm
Lack of intellectual property rights	Baldwin and Gellatly (2004), BMBF (2006)	Confirm

Source: adapted from Tiwari (2007)

The result of the study correspond strongly with the results of the previous studies presented in table 2. This indicates that SMEs all over the world face similar innovation barriers. Some major external barriers to innovation encompassess funding issues, finding qualified human resources, bureaucratic hurdles, and the trouble finding “right” cooperation.

The lack of financial resources was found to be one of the major barriers to innovation for SMEs. More than half of the responding firms reported problems in financing innovation projects. The negative impact of this barrier can be gauged from the fact that the financial constraints were cited 22 times as having led to abandonment of one or more innovation projects in the surveyed SMEs within past 3 years. Many projects were aborted in late phases, causing significant losses in the form of sunk costs and lost opportunities

Another major hurdle faced by the survey respondents related to the difficulty in finding suitable, qualified personnel. Majority of the respondents, found difficulties to filled position which requires experience workers. Other issue raised up as a hurdle related to financial access to public funds to support firm's innovation projects. The government funding programs in Indonesia were often evaluated as “not transparent” and cumbersome. This condition is worsen by complex procedures regarding the application of public funds offered by the government. In the case of soft loan, the government ease the requirements of the loan but imposing interest rate equivalent to that of ordinary loan. Furthermore, marketing, conceptualization of innovative products, internationalization were reported as among internal factors that hinder SMEs innovation program.

7. CONCLUSION

The strategy to promote SMEs innovative behavior should encompassed of three coaching stages namely conception, implementation and marketing. At the conception stage SMEs should be trained on requirement analysis, idea generation, idea evaluation and project planning. At the implementation stage SMEs should be trained on product development and product testing. Last but not least SMEs must be thought on how to market their products. SMEs also need to be thought on basic model of Innovation. Although there were substantial numbers of barriers faced by SMEs to initiate their innovation projects, some of them can be overcome well.

Islamic financial Institution (IFI) may use qard hasan as a source of funds to educate SMEs. Two major focus of the training should be on entrepreneurship skills and stimulating innovative behavior. The targeted SMEs encompass IFI's current customers as well as their potential customers.

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THE APPLICATION OF THE OPEN INNOVATION IN SME

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Abstract

After economic crisis in 1997, Indonesia has been acknowledged as a nation that attained remarkable economic growth, and SMEs have historically been the key economic actors in the Indonesian economy. For over 90% of SMEs across all sectors and provide 90% of the country's total workforce. However, despite this remarkable achievement, Indonesia's SMEs remain weak and lack of ability to grow in size and evolve into more successful enterprises. Innovation is a key core competence for succes (Hammel,2007), is because open innovation provides access to new knowledge, permitting the evolution of new strategies more appropriate for responding to turbulent conditions that exist in world markets (Chesbrough, 2007). "Open innovation," posited that firms in the twenty-first century are more likely to be successful by entering into collaborative relationships with other organizations when seeking to exploit innovation. That is the focus of this article, which seeks, firstly, to place the new concept of open innovation in the context of SMEs, and proposing framework for Indonesian SMEs' to improve their success.

Keywords: Innovation, Open Innovation, SME, Strategies

1. Introduction

The purpose of the innovation as a key factor in shaping customers' expectations and meeting

their demands in accordance with their changing experiences and behavior (Hamel, 2007; Prahalad & Krishnan, 2008). Every business essentially need the innovation to keep survive in the turbulent condition in the world market (Chesbrough, 2007), either innovate in product innovation, process innovation, position innovation or paradigm innovation (Tidd and Bessant (2009).

This is because innovation provides access to new knowledge, permitting the evolution of new strategies, Drucker (1998) stresses, "innovation can be systematically managed if one knows where and how to manage". Being this explanation, we can identified innovation as the key core competence for success, stating that without it companies will die (Hamel, 2007). more appropriate for responding to turbulent conditions that exist in world markets (Chesbrough, 2007).

And the SMEs gives the important role in developing countries in creating employment, boosting economic growth, alleviation of poverty and their sheer magnitude (Arinaitwe, 2006; ILO, 2002; Moore and Spence, 2006; Williams, 2007).

Indonesia right now from year 2000 to 2006, SMEs contributes IDR 79 trillions, or 4,75 percent to National Economic Income (Product Domestic Bruto = PDB), and continue increase the contribution time to time, in Year 2009, the SMEs industries grown by 2,27%. (Rencana Strategys, 2012 – 2014, Kemeterian Pariwisata, dan Ekonomi Kreatif Republik Indonesia, 2012).

p. Research Methodology

The research methods using literature review and comparison study as a systematic search of published work to find out what is already known about the intended research topic. A literature review allows the researcher to find out what has been done in terms of the problem that is being investigated. Literature review that using in this paper is not only to identify and analyze all information written about a topic, but also to gain any insight and to have understanding the problem that is being investigated.

q. Literature Review and Conceptual Framework

Open Innovation

Peter Drucker in 1985 was the first to diagnose that the world economy had entered an era of discontinuity. Accordingly, he argued that the past could no longer be assumed to be a reliable guide for the future. Peter Drucker proposed innovation, rather than quality or productivity, as the unique competitive approach to survive the ensuing complexities and uncertainties of the new era of discontinuity. More recently, Gary Hamel in his book: “The Future of Management”, has also identified innovation as the key core competence for success, stating that without it companies die (Hamel, 2007). The purpose of the innovation as a key factor in shaping customers’ expectations and meeting their demands in accordance with their changing experiences and behaviour (Hamel, 2007; Prahalad & Krishnan, 2008).

Open innovation has become one of the hottest topics in innovation management. A searching Google Scholar on open innovation provides over two million hits, Henry Chesbrough’s 2003 in his book has gathered more than 1,800 citations in just seven years (Google Scholar, July 2010). Most organizations traditionally seek to retain ownership of proprietary knowledge by using a “closed approach” to innovation (Cooper, 1994; Cooper and Kleinschmidt, 1995). Close innovation is where companies generate their own innovation ideas, and then develop, build, market, distribute, service, finance, and support them on their own. Chesbrough, 2003a, p. 20). They have a huge investment and the risk of the company, so will becoming not rational financial decision for senior manager anymore.

The basic premise of open innovation is opening up the innovation process. One of its most often used definition is: ‘the use of purposive inflows and outflows of knowledge to accelerate internal innovation (inbound), and to expand the markets for external use of innovation (outbound), respectively’ (Chesbrough et al., 2006).

The content of open innovation is the various knowledge Lichtenthaler and Lichtenthaler (2009) distinguish between three knowledge processes (knowledge exploration, retention, and exploitation) that can be performed either internally or externally. (Christensen, 1997). Related to process and the outcome innovation, Hippel (2010) define into four categories there are; close innovation, where the process and outcome are closed; private open innovation, where the process is open, but the outcome is closes; public innovation, where the process innovation is closed, and the outcome is open; and open source innovation, where the process and outcome are both in open. This concept from Hippel, we can see in two by two matrix in figure 1, below.

According to the outcome of the innovation process is either proprietary (closed) or available to others (open). Recently, the interest for this dimension is growing, as it has become clear that advantageous of the outcome do not always be equal to strong intellectual property protection (Pisano, 2006). Devoting scarce resources to innovation and then to give away the outcome for free seems highly unlikely for economists (e.g., Lerner and Tirole, 2005; Kogut and

Metiu, 2001), but in some cases it makes good economic sense (Von Hippeland Von Krogh, 2006).

Related to the process of knowledge, Lichtenthaler and Lichtenthaler :2009, define to the three process knowledge of innovation, there are; processes of knowledge exploration, retention, and exploitation. The open innovation research by Bianchi et al: 2010 found that the processed mostly deals with the exploration and exploitation processes. Bianchi et al.,2010, also clasified to the inbound and outbond, inbound open innovation refers to internal use of external knowledge, while outbound open innovation refers to external exploitation of internal knowledge. Both the inbond and outbond innovation includes multiple activities, Bianchi et al., identified of three inbound and outbound activities, namely licensing agreements (in and out), non-equity alliances, and technical and scientific services (purchase and supply). Empirical studies have consistently found that companies perform more inbound than outbound activities (e.g.,Chesbrough and Crowther, 2006; Bianchi et.al.,2010; Cheng and Huizingh,2010 ; Chiaronietal.,2010). Procter & Gamble reportedly only uses ten percent of its technologies (Huston and Sakkab,2006) and Motorola estimates the potential of licensing out as \$10 billion annually (Lichtenthaler, 2007).

Related to the open innovation effectiveness, what beneficial of doing the open innovation processes more offensive motives (e.g., stimulating growth) or for defensive motives (e.g., decreasing costs and risks). Both Chesbrough and Crowther (2006) and Van de Vrande et al. (2009) found in empirical studies that offensive reasons were more important than defensive reasons. However, Keupp and Gassmann (2009) only considered innovation impediments related to information capabilities and risk, and found that both factors (defensive and stimulating growth) are strongly related to using open innovation.

Disruptive Innovation Versus Open Innovation

Disruptive Innovation popularized by Christensen (1997). Disruptive innovation is a powerful means of broadening and developing new markets and providing new functionality, which, in turn, may disrupt existing market linkages (Adner 2006; Charitou and Markides 2003; Christensen 1997; Christensen and Bower 1996; Christensen and Raynor 2003; Danneels 2004; Gillbert 2003; Govindarajan and Kopalle 2006). He argues that investing in disruptive technologies is not a rational financial decision for senior managers to make because, for the most part, disruptive technologies are initially of interest to the least profitable customers in a market (Christensen, 1997). The highest-performing companies have systems for eliminating ideas that customers do not ask for, making it difficult for them to invest resources in disruptive technologies.

Christensen and Overdorf (2000) present a framework for dealing with disruptive change that focuses on resources, processes and values. Resources include people, equipment, technologies, cash, product designs and relationships. Processes are the procedures and operational patterns of the firm, and values are the standards employees use to set priorities for making decisions.

The most important processes when coping with a disruptive technology are those in the background such as how the company does market research and translate it into financial projections, and how the company negotiates plans and budgets. Some researchers have empirically found that spin-offs, alliances, market transactions and acquisitions are comparatively optimal for corresponding points at different stages of disruptive innovation (Claude-Gaudillat and Quelin 2006). Another empirical multiple case studies by Macher and Richman (2004) found that IBM, Kodak and HP have adopted either form or a combination of different forms of collaborations to create disruptive innovations.

Due to the disadvantages of the disruptive innovation, the open innovation is a strategic option to absorb the concept of the disruptive innovation, with the guaranteed to be successfully in business performance, since the disruptive innovation has a huge investment, and impacting to the loss Company profitability. (Christensen, 1997). Chesbrough posited that firms in the twenty-first century are more likely to be successful by entering into collaborative relationships with other organizations when seeking to exploit innovation. This is because open innovation provides access to new knowledge, permitting the evolution of new strategies more appropriate for responding to turbulent conditions that exist in current world markets (Chesbrough, 2007).

Small Medium Enterprises (SME)

Some typical characteristics mentioned in literature which are relevant to describe the nature of SMEs and the peculiarities (e.g. Jennings – Beaver, 1997), are :

- Structural peculiarities of coordination.

The degree of structural complexity is low, due to the smallness of the firm. Extensive hierarchies are often not required due to the fact that the management can often easily overlook and therefore control the whole business. The design of the business processes is lean since administrative back-up is only required to a limited extent. Consequently, the flexibility is usually higher compared with larger firms. This precipitates in coordination advantages of the small business.

- Managerial peculiarities of coordination.

Particularly characterized by the influence of the owner-managers. The management process is therefore to a large extent personalized (Storey, 1994; Beaver, 2002) and dependent on the entrepreneurs' dominant logics (Prahalad – Bettis, 1986). The low degree of structural complexity allows them to control and steer the whole organization or at least considerable parts of it. As a consequence, formal planning procedures are not so much required. This does not mean that planning does not take place. However, it is practised the more implicit way which is much more effective in such settings. Facing the considerable impact of the owner-managers on the management process, entrepreneurship is much more depending on single persons. As a consequence, many of the findings from those parts of entrepreneurship theory which refer to single persons (e.g. the entrepreneurial traits school, see Low – MacMillan, 1988; Gartner, 1989) can be transferred to SMEs. Finally, considering the key role owner-managers play, capacity restrictions (managerial bottlenecks and lack of specialized knowledge and professionalization) turn out and highlight the liabilities of coordination small business is confronted with. This might end up in reactive strategies of small companies (Welter, 2003) which is, however, not necessarily so..

- Risk-taking peculiarities.

Is the risk situation of SMEs really different from larger companies, as e.g. Beaver (2002). Following the above train of thoughts, the small business is much more personalized. This affects the risk situation as well. The owner-managers usually invest considerable amounts of capital for a long time. These (strategic) investments are reliable and at the same time outline the (financial) restrictions. Other risk factors are well documented in literature (e.g. Jennings – Beaver, 1997; Beaver, 2002): E.g. SMEs usually depend on a rather small customer base, have limited bargaining power and have to specify their assets to a large extent in order to find an

attractive position in niche markets. In facing in the crises is high and there is a strong necessity to develop a reliable protection belt from the negative consequences of uncertainty.

- Peculiarities of innovation.

Innovation and renewal in the meaning of Schumpeter (1934) comprises product, process, organizational, and market innovations. As for the innovation profile of SMEs we cannot simply consider SMEs to be generally more innovative than large firms. Nevertheless there are some important features regarding the input, throughput, and consequently, the output of the innovation process which bring about an advantageous state (Gibbons – O'Connor 2003): There is typically neither a well-equipped R&D department nor specialized R&D personnel in SMEs. Concerning the R&D output this situation is rather meaningless since the logic and the run of innovation processes is quite different from larger companies. Many employees and owner-managers are involved and rethink the given processes and products more fundamentally. The reason for this is the limited structural complexity so that they can easier overlook major issues the company is concerned with and start processes of innovation and renewal. The low degree of structural complexity in case of SMEs is furthermore one reason why the innovation processes run smoothly and rapidly compared to large companies. Given these throughput advantages of innovation processes of the different kind SMEs are in a promising position to achieve high levels of R&D productivity and innovativeness as well. This helps SMEs to make their way even in turbulent environments.

- Peculiarities of the market interfaces.

SMEs are, by definition, characterized by the firm size. This smallness affects the firm's positioning on factor, product, financial, and personnel markets in terms of bargaining power, name recognition, and brand awareness (Beaver, 2002). SMEs are by no means restricted to a focus on niche markets. However, the size limits market penetration and diversification as well and goes along with predominantly focused product programs.

The dimension of SME in Indonesia, with total export in 2002 around five millions US Dolar, with contributed to the national GDP (Gross Domestic Product) around 58,2%. And they also have a role to absorbing the 99% labor forces, its really promising. And the number of Indonesian SMEs was 42.4 millions and they contribute to 58.2% of GDP, account 19,4% of total export, and employ 79 millions of work force. The strong tradition is a women's entrepreneurship in Indonesia, particularly in micro and small enterprises.

The location of SMEs, 74% are majorities in small cities or rural areas, they are most resilient during economic crisis, compare to the big firm or conglomerates, with performance 64% are not affected, 31% reduces activities, and only 4% discontinued. Base on the datas of the major problems are in marketing by 27%, pproduction by 25%, accounting by 17%, access to capital by 16% and human resources by 15% (Source from Bank Rakyat Indonesia (www.BRI.co.id)).

Conceptual Frame Work

The conceptual frame work of this paper can be shown in figure 2 below :

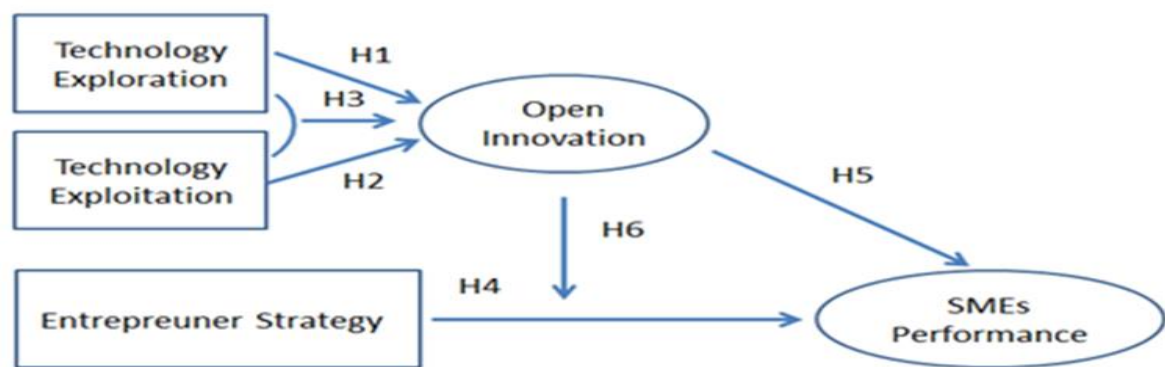


Fig. 2: Conceptual frame work of Open Innovation in SMEs

r. Discussion

Technology Exploration

Globalization and the technological revolution of the last few decades have made technological knowledge the key driver of competitiveness and are profoundly reshaping the patterns of the world's economic growth and activity. (T. Kefela, 2010). Technology exploration refers to those activities which enable enterprises to acquire new knowledge and technologies from the outside. In the survey, found of five practices were distinguished related to technology exploration: customer involvement, external networking, external participation, outsourcing R&D and inward licensing of Intellectual Properties (IP). Firms may have benefit from their customers' ideas and innovations by proactive market research, providing tools to experiment with and/or develop products similar to the ones that are currently offered, or by producing products based on the designs of customers and evaluating what may be learned from general product development. External networking is another important dimension which is consistently associated with open innovation (Chesbrough et al., 2006). Networks allow enterprises to rapidly fill in specific knowledge needs without having to spend enormous amounts of time and money to develop that knowledge internally or acquire it through vertical integration. Networks may also evolve into formal collaborative efforts such as R&D alliances. Such alliances between non-competing firms have become a popular vehicle for acquiring technological capabilities (Gomes-Casseres, 1997). Enterprises may invest in start-ups and other businesses to keep an eye on potential opportunities (Chesbrough, 2006; Keil, 2002). Finally, enterprises can externally acquire intellectual property, including the licensing of patents, copyrights or trade marks, to benefit from external innovation opportunities (Chesbrough, 2006).

Hypothesis 1 : Technology Exploration is a one of resource to support open innovation.

Technology Exploitation

There are three activities related to technology exploitation will be distinguished: venturing, outward licensing of intellectual property (IP), and the involvement of non-R&D workers in innovation initiatives. Venturing is defined here as starting up new organizations drawing on internal knowledge (Chesbrough : 2003). IP plays a crucial role in open innovation as a result of the in- and outflows of knowledge (Arora, 2002; Chesbrough, 2003, 2006; Lichtenthaler, 2007). Enterprises have opportunities to out-license their IP to obtain more value from it (Gassmann, 2006). Out-licensing allows them to profit from their IP when other firms with different business models find

profitable, external paths to the market. The decision of firms to license out depends on anticipated revenues and profit-dissipation effects (Arora et al., 2001). A third practice to benefit from internal knowledge is to capitalize on the initiatives and knowledge of current employees, including those who are not employed at the internal R&D department. Several case studies illustrate that informal ties of employees with employees of other organizations are crucial to understand how new products are created and commercialized (e.g. Chesbrough et al., 2006). Many practitioners and scientists, also outside the field of open innovation, endorse the view that innovation by individual employees is a means to foster organizational success (e.g. Van de Ven, 1986).

Hypothesis 2 : Technology Exploitation is a one of resource to support open innovation.

Bianchi et al., 2010 found that among various inbound (technological exploitation) and outbound activities (technological exploration), alliances of both technologies are most frequently applied, and the alliances also the most effective way of conducting open innovation. More entrepreneurial firms appear to have adopted a double loop learning approach to knowledge acquisition. Peruvian firms involved in open innovation reported higher sales growth and indicated greater reliance on the use of double loop learning. (Ian Chaston and Gregory J. Scott, 2012).

Hypothesis 3 : Technology Exploration and Technology Exploitation are both to support open innovation.

Entrepreneur Strategy, and Open Innovation

Joseph Schumpeter's (1934) in the analysis of the Great Depression caused him to conclude that the most effective strategy for surviving a major economic downturn is for organizations to exhibit an entrepreneurial orientation. Carson et al. (1995) concluded that the scale of market success is likely to be greatest among those firms which exhibit a strong entrepreneurial orientation. Management approaches for SMEs can be found in market theory and transferred to management and organization theory. By now, the character of the considerations is only conceptual. To stimulate more conceptual and even empirical work is another intention. The results of empirical surveys, the management approaches will impact in growth and profitability of SMEs (e.g. Meffert – Klein 2007).

Hypothesis 4 : Entrepreneurial Strategy will improve the SMEs Performance

The empirical study undertaken by Lazzarotti et al.'s (2010) of Italian firms. Their assessment of participation in open innovation involves examining the purpose, aims and rationale for involvement in the activity, the results related to the rationale for open innovation involvement are; a) achieving technological leadership, b) improving performance by means of innovation, c) refining or revising services through innovation, d) gaining access to new expertise, e) focusing greater emphasis on more radical forms of innovation. And the open innovation will be dominant management philosophy. The beneficial of leveraging open innovation are, Huang et al. (2010) posited that open innovation permits leveraging of more ideas from a variety of external sources leading to improved utilization of an organization's existing key assets. And Niehaves' (2010) perspective is that the most important aspect of involvement in open innovation is the acquisition of new knowledge from sources external to the firm.

Specific in the Small companies observation, Lee et al. (2010) observed that open innovation practices at smaller companies are more common in the latter innovation phases, especially the commercialization phase. And research result from Vareska van de Vrande et al. (2009) founded that the responding SMEs engage in many open innovation practices and have increasingly adopted such practices during the past 7

years. In addition, we find no major differences between manufacturing and services industries, but medium-sized firms are on average more heavily involved in open innovation than their smaller counterparts.

Hypotesa 5 : Open Innovation will improving the SMEs Performance

Boosting Up SMEs Performance

Open Innovation, currently accepted tools and practices were novel, such as the telephone and the internet, empowerment and accountability. In their novel stages, they got labeled and studied as separate topics in management, such as telephone marketing and e-business. This is an important stage in the life cycle of any new concept. It is a new concept, to relate in integrate it with traditional concepts (Huizingh, 2002, and Groen and Linton, 2010). In this stage, the new concept is complementary to 'business as usual'. For example, Chesbrough and Crowther (2006) found that early adopters of open innovation do not create new processes and metrics, they tend to layer an open innovation perspective onto existing processes. This is the inevitable destiny of any successful new concept. Open innovation as discussed in the academic literature and implemented in most companies is not at that stage yet. Open innovation will be an integrated theory of management. (Lichtenthaler and Lichtenthaler : 2009). It also explains by Chesbrough's (2007) that making fundamental changes to a company's business model to improving the business performance. This is in line with study from (Trott, 1998; Gilbert, 1990; Ghemawar, 1993), they concluded that innovation will assist firms to emerge from an economic downturn in a much stronger position than their competitors who choose to cut costs or improve internal efficiencies.

Hypotesa 6 : Open innovation, will boosting up the entrepreneur strategy to achieving the SMEs performance.

s. Conclusion and Recomendation

Open innovation is a new model approach to improve business performance, was growing in the current year, due to this strategy bridging the disadvantage of the disruptive innovation which high investment capital and high risk in the business, with the moderate and proven innovation approach.

Some facts, with supportive by empirical study that open innovation is a factor to boost up the business strategy, to increasing the SMEs business performance. The research results support the potential of open innovation for SMEs, and indicate networking as one effective way to facilitate open innovation among SMEs. Which the open innovation will be boosting up the entrepreneur strategy to achieving the SMEs performance.

Management implication from this result, now Companies has source both codified and un-codified knowledge using open innovation techniques. It is possible to do this because of the creation of suitable network infrastructure (intermediary networks) coupled with the development of appropriate organizational routines. The CEOs and senior managers need to recognize that procurement and design processes lie at the root of these routines. This second-order capability will be strategically vital for companies going forward because of the competitive advantage offered by this new form of knowledge sourcing.

Recommendation and the future study, in several cases found that market considerations were the most important reason for SMEs to engage in open innovation, instead of the resource base view consideration. This suggests that SMEs are motivated to capitalize on their internal

knowledge and to find alternative pathways to markets. It seems that future research should pay more attention to the purposive outflows of knowledge, i.e. technology exploitation activities. This recommendation is consistent with Lichtenthaler's (2008) observation that the innovation processes of many enterprises are increasingly marked by external technology acquisition, but that external technology exploitation to commercialize technologies is of a more recent date (p. 148). As for the managerial challenges, we found that organizational and cultural issues are the key barriers to implement open innovation.

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LINKING STRATEGY AND INNOVATION

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Abstract

Strategy and innovation are not related, and to have relation among the two, it needs a synergy between strategy and innovation. This paper proposes a conceptual model that synergize among the two. Innovation becomes strategic when it is fully integrated into the fabric of the organizational planning and management process. Organizations typically have several strategic themes or focus areas, such as: Operational Excellence, Sustainability, or Strategic Partnering. Innovation can be a strategic theme, as well. As a theme, Innovation can be viewed through each of the four perspectives of the balanced scorecard. The research methods using literature review as a systematic search of published work to find out what is already known about the intended research topic, find out what has been done in terms of the problem that is being investigated and to ensure that duplication does not occur, and to identify and analyze all information written about a topic, but also to gain any insight and to have understanding the problem that is being investigated. In this paper, we have shown how innovation can be addressed as a strategic theme, part of a balanced scorecard that includes the other themes that matter to the organization as well.

Keywords: *SMEs, business environment, Indonesia, analysis, information system.*

I. Background

In today's competitive environment, innovation is becoming more and more relevant, mainly due to three major trends: intense international competition, fragmented and demanding markets, and diverse and rapidly changing technologies. Firms that are adapted to the needs and wants of target customers are in a better position to create a sustainable competitive advantage (Alegre-Vidal et al., 2004). Dobni (2010) argue that enhancing the innovative ability in organization is one of the most important levers to increasing profitability and growth in organizations. Innovative firms are more successful over long term if they are more creative, have desire to succeed, possess a common sense of purpose and constituency, and they are empowered (Dobni, 2010). This mean firm must understand the relationship between strategy and innovation, and they have identified the configurations that are best suited to their environment, and also know how the business will achieve its objectives (Dobni, 2010; Stankevics and Jucevicius, 2010).

Dobni (2010) argue that it is important not to confuse strategy with innovation. Innovation has been broadly defined by both academics and practitioners; however it is nothing more than a state of being while strategy, also widely defined - is nothing more than a process of doing. By definition, the two are not related – not even second cousins. Unfortunately, managers try to piggy back the two only to discover that the “process of doing” with all of its budgets, levels, and timelines stifles the “state of being.” Managers have to understand that innovation is achieved through an imperative internalized by employees, and not as a strategic planning goal.

The forces that embed innovation in an organization are quite different than those that guide strategy. Here are some differences. First, innovation is exploitative and unpredictable – premised on a market orientation (Dobni, 2010) value creation and transference, and defining new opportunity space. The strategy process is focused on planning and control. Second, consistent with planning and control - strategy involves budgets, schedules, time frames and cycles, and reporting hierarchies that lead to desired outcomes. Third, strategy formulation is analytical and intuitive, and based on a platform of rational instrumentalism – often forcing organizations to forecast the future based on past experiences (Grant and Jordan, 2012). These are often easy to copy by competitors. Innovation on the other hand works quite differently. It sees organizations defining a desirable future state, and then working toward that state. Innovation is not bounded by a schedule, or monopolized by structure and rules. In the light of this, we raise the research questions:

- How achieving synergy between strategy and innovation?
- How build innovation into firm's strategy?
- How can be structured in order to get a solid conceptual model?

II. Methodology

The research methods using literature review as a systematic search of published work to find out what is already known about the intended research topic. A literature review allows the researcher to find out what has been done in terms of the problem that is being investigated and to ensure that duplication does not occur. Literature review that using in this paper is not only to identify and analyze all information written about a topic, but also to gain any insight and to have understanding the problem that is being investigated.

III. Literature Review and Conceptual Framework

Innovation is a strategic option for improving the organization and making it more competitive (et al., 2005: 1159). As it is referred to the study of Hitt et al. (1997) and Tidd and Bessant (2009), innovation is defined as the doors opening to both global and international competitive advantage through: providing the marketplace with new or unique products/services; creating entry barriers that provide the necessary resources to develop innovation through learning; and creating new values that reshape the rules of competitive environment (Montes et al., 2005: 1159).

Innovation is very important, especially for companies that produce technology-driven products, with the risk of technological obsolescence and in environments characterized by competitive intensity, technological and market dynamism. Organizations around the globe are encountering a joint challenge that is the need to improve the performance to capitalize on rapid change, and to establish or recapture competitive advantage to ensure their survival, profitability and successful running in dynamic competitive environment. Innovativeness of firms and organizations depends on internal factors such as the firm's innovative capability, size and structure, learning orientation and strategic orientation and external factors such as network of partners, external communication and the industrial environment in which the company is located.

The experts define two main categories of innovation: First, Breakthrough Innovation (O'Conner, 2009; A.Koen et al., 2010) – truly new products, services or business models that fundamentally disrupt customer buying patterns and competition in the industry or operating environment. Personal computers, the internet, and

nanotechnology are good examples of breakthrough innovation. The mythology of breakthrough innovations usually includes images of the lone inventor working away in a garage, or “skunk works” separated from the politics of a parent corporation. But, in fact, many everyday products we use today – such as the Internet - were originally breakthrough innovations generated through public-private collaborations in federal agencies such as NASA and the Department of Defense. Second, Sustaining Innovation (Larson, 2000; Liddle and El-Kafafi, 2010) – incremental improvements in products or services that extend the life of or build upon what was once a breakthrough. The introduction of a new version of Windows would be an example of sustaining innovation, and, before that, the annual introduction of new models in the auto industry (Honda CRV type for example). In the government sector, examples would include automating services such as passport applications using the Web (Ditjen Imigrasi, www.imigrasi.go.id) – to use new technology to deliver mandated services more efficiently and effectively. Sustaining innovation is a much more “manageable” process, and many large corporations like Microsoft excel at it. Breakthrough innovation, on the other hand, is often messy, unpredictable, and may even create conflicts within an organization as the breakthrough disrupts entrenched interests and ways of doing things.

Conceptual Model

On the basis of above discussion, the following hypothesized conceptual model is how achieving synergy between strategy and innovation.

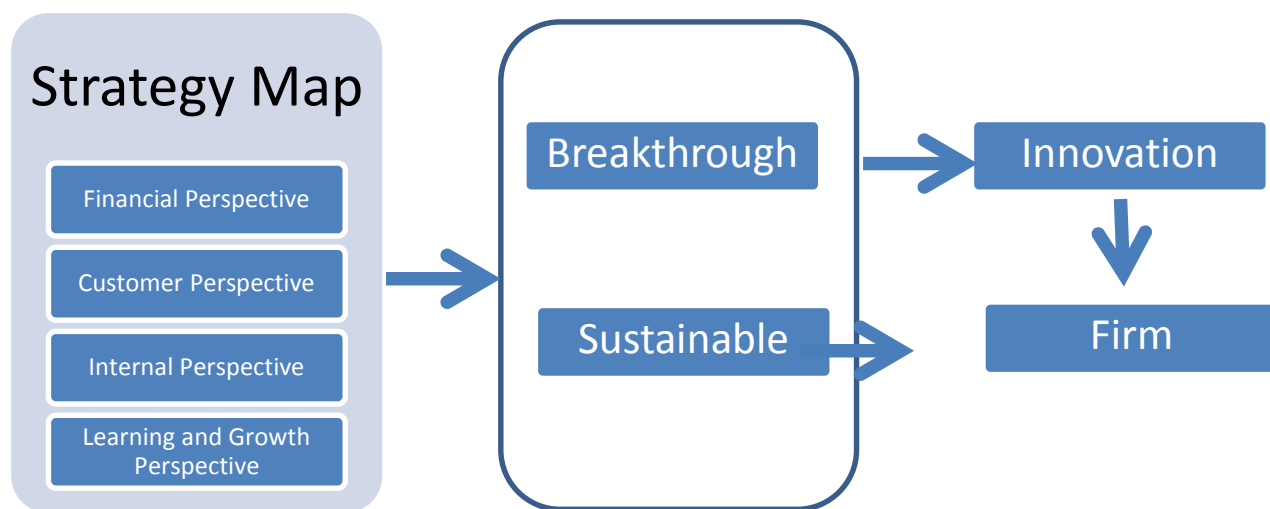


Fig. 1. Conceptual Model

IV. Discussion and Implication

Why using balance scorecard? A strategy-based balanced scorecard system involves the collaborative development of a firm’s “Story of the Strategy” and identifies the connection between creative capacity, efficient product development processes, improved customer and stakeholder value, and financial outcomes. The balanced scorecard uses four strategic perspectives, shown in Figure 1, above– complementary but distinct lenses for looking at organizational strategy and performance. The use of perspectives allows the organization to build a model of how the “intangible” factors –

creativity, talent, new ideas, and collaborative interaction with customers – interact with the more “tangible” factors – well defined processes, funds invested, sales results - to create an innovative, sustainable organization that can adapt resiliently to change.

1. Financial Perspective: In a business, owners, investors and analysts view the organization as a financial system that provides return on investment. In a non-profit, donors see the benefit to others from their support of the organization’s mission. In government, taxpayers and their representatives see value for money spent on the public good.
2. Customer Perspective: In a business, customers see the business’ products and services as a way to satisfy needs and desires at an appropriate price, and stakeholders may act as advocates for other issues, such as the environment and the community. Non-profit and government agencies work within a complex network of impacted clients and stakeholders, any or all of whom may exercise influence on the organization’s funding or license to operate.
3. Internal Perspective: The activities at which the organization must excel in order to provide value for customers, stakeholders, and ultimately, those who foot the bill. Internal management and staff (including contractors, volunteers and others) work to improve business processes to efficiently turn resources into outputs (products and services) that will satisfy customer and client needs. In the case of innovation, effective processes include the procedures for evaluating new ideas, testing them, funding them for further development, or discarding them – the “perspiration”.
4. Learning and Growth Perspective: The foundation of the other perspectives – the physical infrastructure, culture, tools and technology, knowledge and skills, and information systems required to create, plan, design, and deliver products and services to customers and stakeholders. Organizational capacity is a mix of tangible (people, tools, systems, structures) and intangible assets (ideas, culture) that allow the “inspiration” to bloom.

Innovation becomes strategic when it is fully integrated into the fabric of the organizational planning and management process. Organizations typically have several strategic themes or focus areas, such as: *Operational Excellence*, *Sustainability*, or *Strategic Partnering*. *Innovation* can be a strategic theme, as well. As a theme, *Innovation* can be viewed through each of the four perspectives of the balanced scorecard (Kaplan and Norton, 2001), for example:

1. From a financial perspective, innovation means the organization is continuing to provide value – expressed in financial terms – for owners, donors, or taxpayers, depending on the type of organization.
2. From a customer perspective, innovation means developing and deploying new products, services, or business models that create increased value for customers or clients, and address the concerns of other stakeholders.
3. From an internal perspective, innovation means creating and managing a well-understood process for evaluating, fostering, and deploying promising ideas.
4. From a learning and growth perspective, innovation requires a blend of leadership and culture, skills, and organizational structures that allow new ideas to be generated.

These are implication for managers: First, as managers can develop a better understanding about the relationship between strategy and innovation. When this synergy is achieved, innovation become more reliable to execute, or understanding this

relationship make managers get the right track to get innovation performance more likely.

Second, we have related question that managers would be asked, is it possible to manage strategy that drive innovation? In the internal of organization, most of them facing internal company issues such as lack of resources, lack of market intelligence, unsuitable corporate culture. Tidd and Bessant (2009) argue that managers will have better understanding that an essential feature of corporate strategy should therefore be an innovation strategy with considerable uncertainty about present and future developments in technology, competitive threats and market demands.

V. Conclusions

In a strategy-based balanced scorecard system, measures are a means, not an end. Meaningful, strategically important measures can only be developed once strategic objectives have been developed and linked together on the strategy map. And, understanding what measures are truly strategic will help you to identify and prioritize organizational initiatives that will drive your innovation performance and firm performance. Lawson and Samson (2001) indicate a positive relationship between innovation performance and firm performance. Each strategic objective is supported by one or more measures. As you can see, the company is tracking a mix of tangible and intangible indicators that tell it if the culture is becoming more innovative, how many new ideas are moving through the development process, how customers feel about the new products, and how much return there is on the investment in new products. And, initiatives have been identified to improve performance on these objectives.

In this paper, shown how innovation can be addressed as a strategic theme, part of a balanced scorecard that includes the other themes that matter to the organization as well. For organizations in which innovation is critical to fulfilling the mission and achieving the vision, this is a powerful approach. When the theme maps are merged, the organization is assured that innovation is fully embedded into an overall business strategy.

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DOES ENTREPRENEURIAL INTENTION AND ENTREPRENEURIAL ORIENTATION MATTER TOWARDS ACADEMIC COMMERCIALIZATION

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Abstract

Commercialization of academic research has been the focus of many researches on entrepreneurial universities. The increased university-industry linkages in the recent past have forced universities to become entrepreneurial in nature by directly involving themselves in venture businesses. The research is replete with studies where academicians are involved in commercialization of their research work through entrepreneurship. The present study is an attempt to find out how academics perceive commercialization activities of their research work by investigating the entrepreneurial intention and entrepreneurial orientation of faculty and students belonging to various faculties and departments towards commercialization of research. The results indicate that faculty and students having entrepreneurial mindset are more prone to commercialize their research activities. The study also points out that for commercialization of academic work, entrepreneurial intention is not enough but it has to be strongly supported by entrepreneurial orientation. The study contributes to the existing body of literature related to entrepreneurship and the concept of entrepreneurial university and also recommends future course of action.

Keywords: Entrepreneurial intention, entrepreneurial orientation, commercialization, faculty, university, Malaysia.

1. Introduction

For the success of modern day complex societies entrepreneurship has become of vital importance not just for their survival but also for their sustainability (Audretch, 2007). Entrepreneurship comes with many promises and is viewed differently by different stakeholders. Policy makers focus it from view point of economic competitiveness in global markets and employment creation opportunities. Entrepreneur focuses it from opportunity exploitation perspective that would yield high gains and a meaningful career (Kuckertz & Wagner, 2010). Promoting entrepreneurship in the society which is riddled with enormous economic and social challenges is essential and that this should start at early age and policies designed to incorporate this promotion in the educational institutions for fostering entrepreneurial skills in the youth of society (World Economic Forum, 2009). Lenan and Chen (2009) are of the opinion that promoting strong and friendly entrepreneurial culture through policy reforms like legal frameworks that facilitate firm creation are important for transmitting message of value entrepreneurship can add to the people.

2. Literature Review

Entrepreneurial Intention

Entrepreneurship is a process that occurs over a period of time (Kyro & Carrier, 2005). If entrepreneurship is viewed as a process, then intention becomes a natural precursor to the entrepreneurial activity (Lee & Wong, 2004). According to Krueger (2007) entrepreneurship is intentional in nature and comes through choice and not by accident. The environment provides the choice for entrepreneurial activity which has also been proven in the study of Obschonk and Schmitt-Rodermund (2010). The study concluded that entrepreneurial intentions are fed during early part of life by developing entrepreneurial competencies such as leadership and adolescence inventions and research activity.

Educational institutions play a major role in this development of early entrepreneurial competencies which are later manifested in the form of entrepreneurial activity. Research indicates that educational institutions as well as the members of the faculty involved in entrepreneurial activity play an important role in developing entrepreneurial spirit among students through innovative programs and research oriented culture (Kuratko, 2005; Honig, 2004; Carrier, 2005; Lenan & Chen, 2009; Krueger, Reilly & Carsrud, 2000; Lüthje & Franke, 2003, Souitaris, Zerbinati & Al-Laham, 2007).

Prodan and Drnovsek (2010) have highlighted that there is literature gap in the emergence of academic's entrepreneurial intentions. That is how academic's entrepreneurial intentions develop. Measuring these intentions in academics would provide useful insight into the emergence of high technology spin-off firms. Studies have highlighted that prior academic experience, experience with patenting activity, interaction with industry and research focus are few of the important determinants in emergence of academic entrepreneurial intentions. According to Grandi and Grimaldi (2005), academics while creating new ventures are already involved in the invention and commercialization phases, showing the business skills and scientific knowledge. They are of the opinion that academics paying attention to industry specific research are more likely to have their own company. Similarly, Landry, Amara, and Rherrad (2006) also highlight that academics involved in consulting activities with private firms, government agencies and organizations associated with their area of research will find themselves engaged in commercialization activities leading to company formation.

The presence of technology based firms has long been associated with the economic growth of a country, but intention to start a new venture reflect the factors like organizational innovative climate, incentives and rewards and above all individual's innovative orientation. These factors become antecedents for purposive behavior or the intention towards entrepreneurship (Lee, Wong, Foo, & Leung, 2011).

Entrepreneurial intention indicates the effort that the person is willing to make to carry out that entrepreneurial behavior. This intention is based on three main motivational factors that influence the ultimate behavior (Linan, 2004; Linan & Chen, 2009). *Attitude toward start-up* refers to the personal liking or disliking towards becoming an entrepreneur; *Subjective norm* refers to the perception that concerned people (family, peers) approve of the activity; and *Perceived behavioral control* refers to the perception of the ease or difficulty of becoming an

entrepreneur. These cognitive factors provide an insight into the complex process of entrepreneurship (Baron, 2004).

Entrepreneurial Orientation

For the past two decades or so, there has been a strong growth in the university-industry linkages that has a profound impact on the working of the academic scientists and researchers (Lam, 2010). This has resulted in academic capitalization of knowledge. Universities, themselves are involved in the exploitation of research to boost their income and adapt to competitive environment (Henkel, 2007; Macho-Stadler, Pe´rez-Castrillo & Veugelers 2008). These developments have created blurred boundaries between academic scientific work and the businesses (Vallas & Lee Kleinman, 2008). This academic entrepreneurship has been hit with criticism by authors that see it as a risk to academic activities (Beck & Young, 2005; Slaughter & Rhoades, 2004).

Miller (1983) was the first to describe entrepreneurial orientation in terms of proactiveness, risk-taking and innovativeness. Large organizations can benefit from doing things in entrepreneurial manner. This approach has also been taken up by many public sector universities that are facing cuts in the public funding. Many see this as beneficial to the general good of the public whereby, academic research is commercialized for the betterment of the society.

William Todorovic, McNaughton, and Guild (2011) stresses that the entrepreneurial orientation constructs as applicable for commercial organizations may not be suitable for organizations like universities that have different cultural and work settings. However, there is research evidence that these entrepreneurial orientation constructs may also vary within commercial organizations (Kropp, Lindsay & Shiham, 2008; Naldi, Nordqvist, Sjoerg & Wiklund, 2007; Coulthard, 2007).

Recently, universities have started taking up direct role in the venture set-ups, establishing business incubators, and university based consulting. It has been found that academic researchers who collaborate more closely with practitioners have higher research performance than those who do not. Thus, there is a wide acceptance of university spin-off and the commercialization of academic research through entrepreneurship (William Todorovic et al, 2011).

Entrepreneurial behavior policies like performance and reward systems are university wide but their interpretation and implementation depends on faculties and departments that have direct influence on faculty's entrepreneurial orientation and activities. University culture characterized by non-cooperative attitude, weak or few incentives, and un-supported infrastructure are some of the barriers to academic entrepreneurial activity and subsequent commercialization of research (Braunerhjelm, 2007).

Intention to Commercialize

Research shows that academics and researchers who are part of the research process catering to the needs of the industry are more prone to commercialize their research (Landy et al, 2006; Grandi & Grimaldi, 2005; Prodan, & Drnovsek, 2010). However, Meyer (2006) is of

the opinion that commercialization activity of academic research is mostly utilized by small and medium enterprises that are already established and not by the new start-up ventures. He further states that the commercialization activity depends mostly on the national innovation systems that impact academic inventiveness and entrepreneurial activity. However, Wright, Birley and Mosey (2004) opines that for university and academics to commercialize their research, spin-out is the most effective and viable option than to license it to established firms.

The main question why academics prefer to commercialize their research has been answered by Lam (2011). According to her, academics commercialize to get career recognition and advancement, while using the commercial activities to generate fund for their research. For academic scientists, commercialization of their research, acts as an internal motivation factor. Similarly, research has shown that scientists engage in commercial activity of their research mainly for career recognition and advancements (Hong & Walsh, 2009; Krabel & Mueller, 2009).

3. Methodology

The study was conducted to find out the entrepreneurial intention and orientation of faculty and students involved in research activities towards commercialization of their research. The sample was collected from amongst the faculty and students of one research university of Malaysia. The sample consisted of 100 faculty members and 300 students associated with the faculty in scientific experiments. The sample was taken from amongst the science and engineering departments and the selection criteria adopted was the involvement in scientific research activity.

Self administered questionnaire was developed for the study. Self report measurement quality has been a concern of many researchers (Weijters, Cabooter, & Schillewaert, 2010; Strizhakova, Coulter, & Price, 2008; Sharma & Weathers, 2003). However, Greenleaf (1992) suggested that response category label and number of response category may influence the level of respondents' biasness. Thus, to minimize the biasness from respondents forced measurement method was used by adopting a six category response level. The six category labels used were extremely disagree to extremely agree corresponding to 1 and 6 respectively.

The questionnaire comprised of two independent variables of entrepreneurial intention and entrepreneurial orientation and the dependent variable of intention to commercialize. Entrepreneurial intention was measured through 13 items. Entrepreneurial orientation consisted of three dimensions namely innovativeness, proactiveness and risk taking. Innovativeness was measured through 12 items; proactiveness 8 items; and risk-taking 9 items. Intention to commercialize was measured through 5 items. The questionnaire also consisted of demographics which had 10 items. Altogether the questionnaire consisted of 57 items covering demographics, independent variable and dependent variable. The average time clocked for filling up of the questionnaire was approximately 20 minutes. Altogether 400 questionnaires were distributed amongst various science and engineering departments of the university. Appropriately filled questionnaires received were 273 accounting for a response rate of 68.25 percent. Out of 273 questionnaires received 234 belonged to students and 39 were filled by the faculty.

For survey research it is appropriate that the reliability of the scale developed must be reasonable for further statistical analysis. Thus, pilot testing based on a sample of 40 respondents included in the final sample was done. The Cronbach alpha was calculated for inter item consistency which was found to be within the range of 0.70 – 0.90. The alpha reliability for innovativeness was found to be 0.816; proactiveness 0.723; risk taking 0.847; entrepreneurial intention 0.773; commercialization 0.773. Descriptive statistics was obtained

for the data set. Descriptive statistics gives the information regarding normality of data by analyzing skewness and kurtosis. The result of descriptive statistics showed that the data is normal as all the values were found to be within acceptable range.

The demographic profile of the respondents consisted of gender (male 36.3 % and female 63.7 %); in the age category majority of the respondents (83.2 %) were found to be of less than 30 year old whereas 5.6 % were above the age of 50; majority of the respondents belonged to Malay origin and 22.9 % of Chinese origin whereas the rest of the respondents belonged to others category that included Indian and Arab nationalities. Faculty wise distribution of respondents and their educational status was like this engineering 34.2 %, science 43.7 % and social sciences 22.2 %; there were 25 PhDs and the rest of the faculty had done Masters and were pursuing their PhDs. The educational level of students was 92.7 % were pursuing their bachelor degree and majority of them were in either in their 3rd year or the 4th year of study; 2.6 % were pursuing their master degree whereas 4.7 % were in PhD program.

4. Analysis and Discussion

The present study was conducted to investigate the entrepreneurial orientation and the entrepreneurial intention of the academic staff and the students of various faculties of Malaysian Research University. To test the role and relationship of entrepreneurial intention and orientation towards commercialization of research correlation matrix was determined. To find out the impact of intention and orientation on commercialization regression analysis was conducted.

The correlation matrix is shown in Table 1. The results indicate that all variables are significantly positively correlated with one another showing that there exist a strong relationship between entrepreneurial intention, entrepreneurial orientation and commercialization of research activity. Entrepreneurial intention is shown to be strongly associated with risk taking propensity of the individuals. Similarly, commercialization is shown to have a strong positive relationship with entrepreneurial intention and risk taking propensity of the individual.

Table I Correlations Matrix of Variables

	Innov ativen ess	Proac tiven ess	RiskTa king	Ent.Inte ntion	Commerciali zation
Innovativene ss	1				
Proactiveness	.720**	1			
Risk Taking	.569**	.692**	1		
Entrepreneur ial Intention	.449**	.592**	.671**	1	
Commerciali zation	.416**	.511**	.581**	.532**	1

N	273

**. Correlation is significant at the 0.01 level (2-tailed).

After establishing that there exists a strong positive relationship among the variables, the second step was to find out how much impact these two independent variables of entrepreneurial intention and orientation have on commercialization of research activity. To ascertain the impact, multiple regression analysis was performed. The results are shown in Table II. Regression results indicate that both entrepreneurial intention as well as entrepreneurial Orientation has a strong influence on commercialization of research. There exist a strong relationship ($R = 0.610$) of all the independent variables with the dependent variable. One of the assumptions of regression is that the observations should be independent. To fulfill this assumption Durbin-Watson test was applied and was found to be within the range. The beta coefficients for the variables showed that entrepreneurial orientation ($\beta = 0.580$; $t = 6.204$, $p = 0.000$) had most influence on commercialization as compared to entrepreneurial intention ($\beta = 0.418$; $t = 4.283$, $p = 0.000$).

Table II Regression Summary for EI-EO-C Model

Model	R	R ²	B	t	Sig.
1	0.610(a)	0.372			
Intercept			-0.249	-0.724	0.470
Ent. Intention			0.418	4.283	0.000
Ent. Orientation			0.580	6.204	0.000

a Predictors: Entrepreneurial Intention, Entrepreneurial orientation

b Dependent Variable: Commercialization

The results of the study indicate that both faculty as well as students has entrepreneurial mind set. Previous research also maintains that educational institutions play a major role in the developing entrepreneurial mind set amongst the students and students are inspired by the faculty that exhibit entrepreneurial attitude and encourage students to be entrepreneurs as well (Kuratko, 2005; Honig, 2004; Carrier, 2005; Lenan & Chen, 2009; Krueger et al. 2000; Lüthje & Franke, 2003, Souitaris et al. 2007).

Further the study shows that commercialization of academic research depends mostly on the entrepreneurial orientation and not just on the intention. The previous research also highlight that academics involve themselves in the commercial activity only to gain

acknowledgement and the monetary gains are utilized by the academics to further their research (Lam, 2011; Hong & Walsh, 2009; Krabel & Mueller, 2009). Similarly, students when subjected to intense competitive environment of research activity also show the same attitude towards commercialization. For students it is the acknowledgement of their innovative work by the academics as well as by the industry and also an opportunity of career as entrepreneurs.

5. Conclusion

The concept of entrepreneurial university is a recent one and has come about with the increased university-industry linkage. For a university to be entrepreneurial in nature there has to be entrepreneurial mindset of its faculty and above all of the students who are the major force behind majority of the research activities undertaken by the faculty. Both faculty and students drive the entrepreneurial activities of the university. The main question regarding entrepreneurial activity is whether intention is sufficient to become entrepreneur or does it require entrepreneurial orientation as well. To find out the answer to this question, and to capture the perceptions of the faculty and students towards commercialization, the present study was conducted taking into account the entrepreneurial intention as well as entrepreneurial orientation of both the faculty and students. The results point out that entrepreneurial intention alone is not sufficient but needs a strong support from entrepreneurial orientation. Both entrepreneurial intention and orientation helps faculty and students to commercialize their research activity. Commercialization of academic research has become one of the most important areas of entrepreneurial research, as universities and research institutions alike compete for the public funds. In this scenario universities and research institutions are both actively engaged in research commercialization activity to generate much needed financial resources. Similarly, entrepreneurship is regarded as the most important economic activity for the development of an economy. In this age of globalization and intense competition, entrepreneurial intention and orientation play an important part in the development of entrepreneurship activity within a country. The results of the present study highlight that to commercialize the university research only intention is not enough. Entrepreneurial intention coupled with entrepreneurial orientation is needed for successful commercialization of academic university research.

There are few limitations to the study. The study is limited to only one university. Including more universities and increasing the sample may show different results. Secondly, the student sample is mostly consisted of bachelor students who are in their final years of study. By taking more post graduate students doing their PhDs may also show different results. Thirdly, comparison of various faculties has not been done. It would be interesting to see how different faculties and departments perceive commercialization of research. Another limitation of the study is that university policies regarding development of entrepreneurial skills and attitudes have not been taken into account. Future research may take up university policies like training and development, funding of research activity, cultural values.

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SETTING UP THE ENTREPRENEURIAL PROCESS IN THE FAMILY BUSINESS: THE CASE OF FAMILY BUSINESS SUCCESSORS IN THE LIPPO GROUP, INDONESIA.

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Abstract

The entrepreneurial process in the family business is typical not just how the family business successor inherit the business and then problem solving in a typical management position, but also need to focused on human capital process such as: education and working experience and most importantly the successor must have the soul to become an entrepreneur to lead the family business much more successfully than before. For this article, I would like to focused on 4 (four) empirical research of Gartner (1985), Bruyat and Julien (2000), Sarasvathy (2006), and Shane (2003) and a case from how the regeneration of family business into third generation of family business successors in the Lippo Group, Indonesia to shown that setting up entrepreneurial process in the family business will lead to the great firm performance and achieve sustainable competitive advantage.

Keyword: *entrepreneurial process, family business and family business successor*

1. Introduction

The paradigm for the business successors in the family business is in order to inherit or take over the family business. In this article, I will try to embed the entrepreneurial process, which involves more than just problem solving in a typical management position. The successors must find, evaluate, and develop an opportunity that given by their family by overcoming the forces that resists to making sure the family business that he/she rewarded to achieved firm performance and lead the family business to the sustainable competitive advantage.

Mathews, J., (2008). Explained that entrepreneurial process theories and research itself deal with a variety of behavioral and non-behavioral processes and issues that explain the nature of entrepreneurship in different ways. And when we talking about who should be appointed as the family business successors, Walsh, G., (2011) stated that family business succession is the process of transitioning the management and the ownership of the business to the next generation of family members. The transition may also include family assets as part of the process. Family members typically play a controlling role in both the management succession as well as the ownership succession. As such, the effective integration and management of the family component will have a determining effect on the success of the succession process.

Apparently, Shepherd, D., & Haynie, J. M., (2009) explained that the family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.

However, Drake, A. (2009) argued that there is no legal definition of a family business and commentators tend to define family businesses in a variety of different ways. For some,

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the definition is as broad as “any business that regards itself as a family business”, even if family members are no longer involved in management and/or ownership. In other words a family business ethos is enough for the business to qualify as a family business.

In summary, the paper aims at practically studying literature suggestion on the models of entrepreneurial process and follows by a brief case of the 3 (three) generation of family business successor of Lippo Group, Indonesia. Then it draws the final conclusions by summarizing the contribution of this study.

2. Literature Review

2.1. Theory of entrepreneurial process

Before synthesizing literature suggestion about the theory of entrepreneurial process among different models for collaborating, a brief description of entrepreneurial process is necessary to be describing, as Hisrich, et. Al (2005) describe that the entrepreneurial process has four distinct phases: (1) identification and evaluation of the opportunity, (2) development of the business plan, (3) determination of the required resources, and (4) management of the resulting enterprise.

In his research theory of the entrepreneurial process, Gaddefors, J. (2008) refer to a “dialogue” that describes the process of connecting an emerging social network to a specific task domain in a firm. Furthermore, Gaddefors, J. (2008) stated that most researchers concentrating on the entrepreneurial process discuss the creation of new businesses, the process from the discovery of an opportunity and its further development to a full-blown business concept.

In their research, Moroz, P. W. & Hindle, K. (2011) adopt Bygrave’s definition of the entrepreneurial process as involving “all the functions, activities, and actions associated with perceiving opportunities and creating organizations to pursue them”. (Bygrave, 2004). Moroz, P. W. & Hindle, K. (2011) have inferred from what Bygrave (2004) states that much of the variance around explaining success will ultimately reside with the entrepreneurial capacities of each individual, and of course, a host of other specific factors that limit, constrain, or contextually frame the activity. But the true inspiration that emerges from Bygrave’s words resonates in his argument that through development and practical application of good theory, there is great potential for making individuals/students *better entrepreneurs*. For every entrepreneurial process model Moroz, P. W. & Hindle, K. (2011) examine, they assess whether or not this mutuality of theory and practice is being sought or achieved.

Furthermore, in their research, Moroz, P. W. & Hindle, K. (2011) also found that 32 (Thirty-two scholarly) works focused on entrepreneurial process were discovered, and classified. These works constitute the canon of what they know about entrepreneurial process models and thus stand as a foundational artifact of reference that requires empirical scrutiny. The majority of the models surveyed were of a static framework design (does not capture sequence of dynamics) or stage model design (a *priori* stages define major tasks or phases). Dynamic process models were fewer in number and include only one quantification sequence study. The key category (labeled something like “components,” “events,” or “stages”) demonstrated little uniformity other than patterns forming around typical life cycle stages (such as pre-venture, birth, growth, death), or a focus on stages or events based on the concept of opportunity or cognitive phases that involved decision-making. Variables/factors/actions were also highly diverse and at times, overlapped with the key components/events/stages category. Of the 32 models, 20 were conceptual constructs and 12 were based on empirical evidence. Of the empirical studies, three used both qualitative and quantitative methods. The individual unit

of analysis that is, the entrepreneur was the most focused upon, while organizations were the second most used unit of analysis and 16 models encompassed multiple units of analysis. In a strong confirmation of Bygrave's (2004) contention that entrepreneurship research is becoming more and more aloof from any nexus with practical utility, only seven of the models explicitly stated practical implications for the research conducted. Of the models classified as general (14 studies), only five were found to have a "high" explanatory power. Those that were specific or broadly specific were limited in their findings to either a single case (two studies) or to a specific theme that consisted overwhelmingly of corporate entrepreneurship (seven studies).

According to Moroz, P. W. & Hindle, K. (2011) there are only 4 of the 32 process models, works by Gartner (1985), Bruyat and Julien (2000), Sarasvathy (2006), and Shane (2003) and were considered as converging on conceptualizing the entrepreneurial process by what was simultaneously generic and distinct about the process and further analyzed below:

Model 1: Gartner (1985).

Gartner's intention for this conceptual model was to provide a general framework upon which the variance associated with the new venture creation process (each process being unique) can be adequately compared and contrasted in order to focus upon the differences between entrepreneurs and the organizations they create, rather than the differences between entrepreneurs and non-entrepreneurs. Furthermore, the conceptualization does not limit where the new venture may emerge from (such as a corporation spinning out a new venture through an independently structured company, for example), as long as the criteria of independence, profit motive, and individual expertise are met. In other words, if there is no new venture (emergence), there is no entrepreneurship, and only entrepreneurs start new ventures.

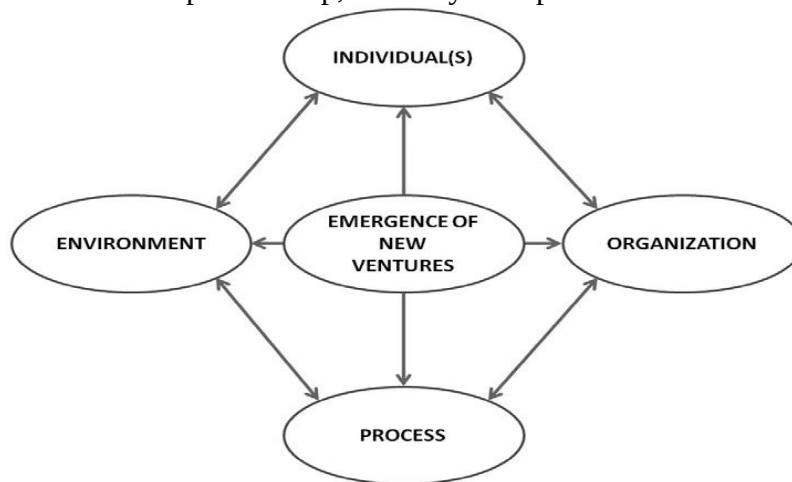


Figure 1- Gartner's Static Framework Model of New Venture Emergence

Model 2: Bruyat and Julien (2000).

The second model selected for detailed scrutiny resides within a paper by Bruyat and Julien. In this study, the state of entrepreneurship research is examined with an eye to discovering and synthesizing a nondeterministic functional definition that best epitomizes the field of work to the date of their investigation. They review the foundational work of early scholars to emphasize two competing positions: (1) that the entrepreneur is a person differentiated from risk-taking capitalists, who creates a business of any kind through the organization of production factors to create value and (2) that the entrepreneur is a risk-taking innovator and through this exceptional talent may affect the economy in some way in order to appropriate profits. They stress the importance of definition as a construct that is only useful

as a tool when it (1) may enhance the effectiveness and quality of empirical research, (2) is accepted by a majority of researchers, and (3) facilitates an understanding of the phenomenon of new value creation to ably predict levels of performance.

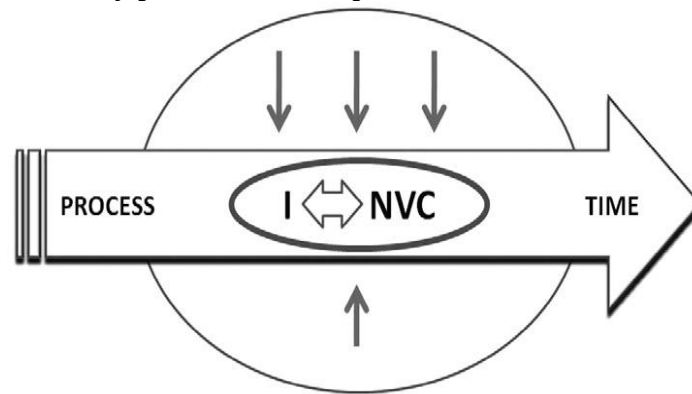


Figure 2- Bruyat and Julien's Model of the Entrepreneurial Process

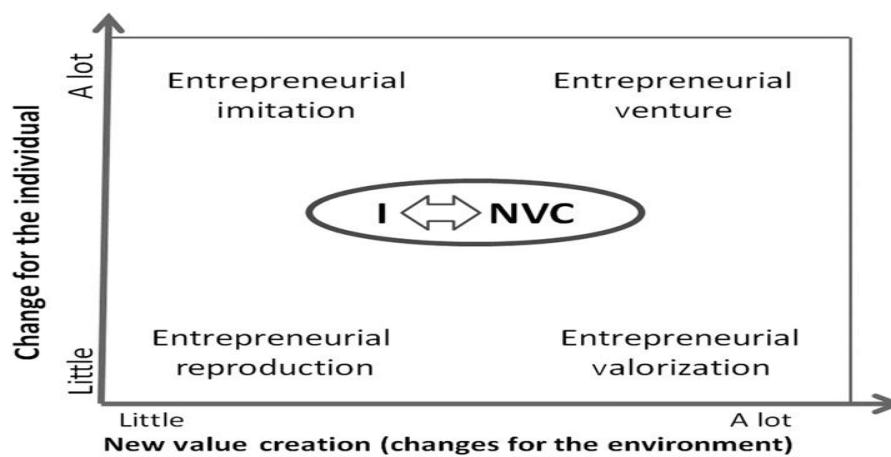


Figure 3 - Bruyat and Julien's Model of the Entrepreneurial Process

Model 3: Sarasvathy (2006).

The third model that has potential for offering insight into what is both generic and distinct to the entrepreneurial process is Sarasvathy's conceptualization of what makes entrepreneurs "experts" at what they do by understanding how they do it. Unlike Gartner, she expands her theorizing to differentiate between types of entrepreneurs and non-entrepreneurs through the development of a concept that she terms as "effectuation." Effectual logic encompasses a non causal approach to decision making where entrepreneurs assess themselves instead of the opportunity, invest only what they can afford to lose, instead of leveraging resources they cannot afford to lose, engage in networking rather than competitive analysis, expect, and relish surprises rather than fearing and seeking to avoid them, and create new ventures (and markets) through enactment of imagination instead of reaction to environmental information.

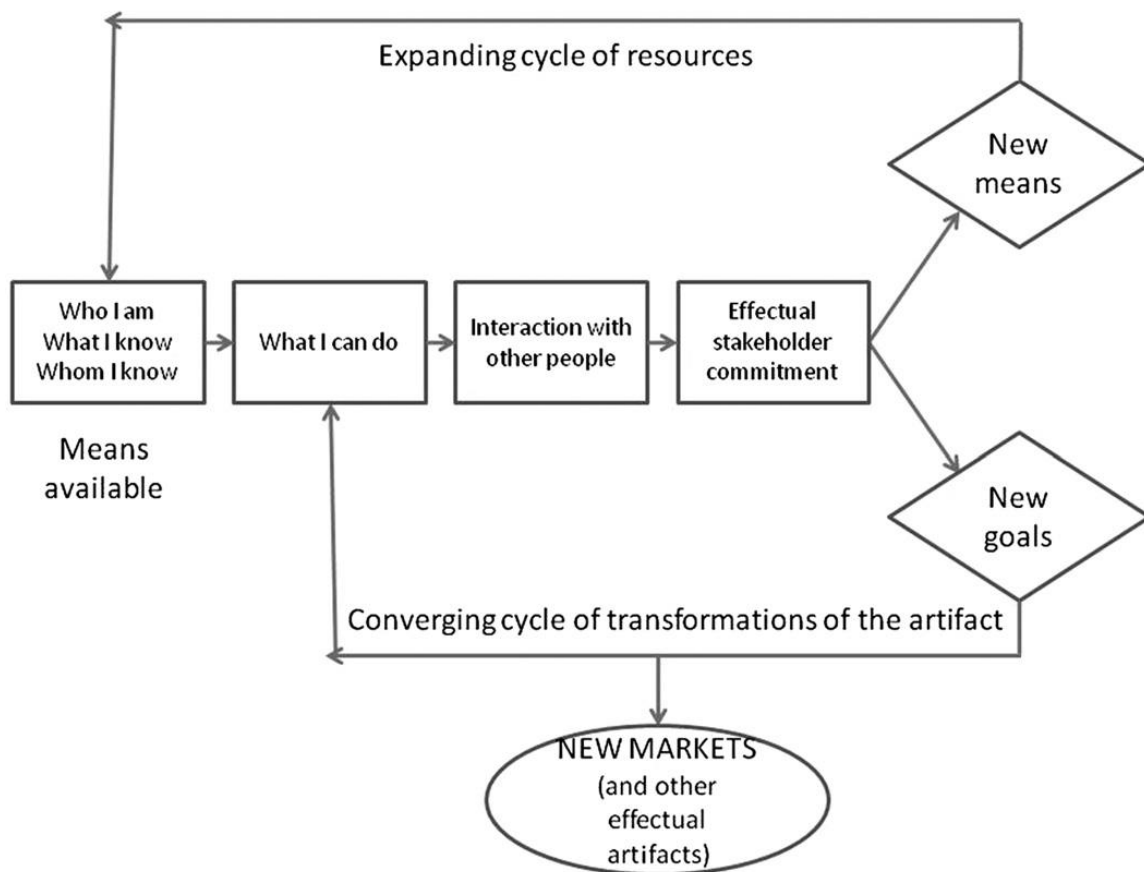


Figure 4 - Sarasvathy's Dynamic Model of Effectuation

Model 4: Shane (2003).

The last model reviewed is also found to demonstrate properties that converge toward denoting what is both generic and distinct to the entrepreneurial process. This model is Shane's attempt to construct a unifying theoretical framework for studying entrepreneurship based upon the nexus of individual and opportunity. Shane is motivated by what he describes as the lack of a coherent conceptual framework for entrepreneurship due to the tendency of researchers to concentrate on only one part of the entrepreneurial process without formal consideration of the relationships between all parts.

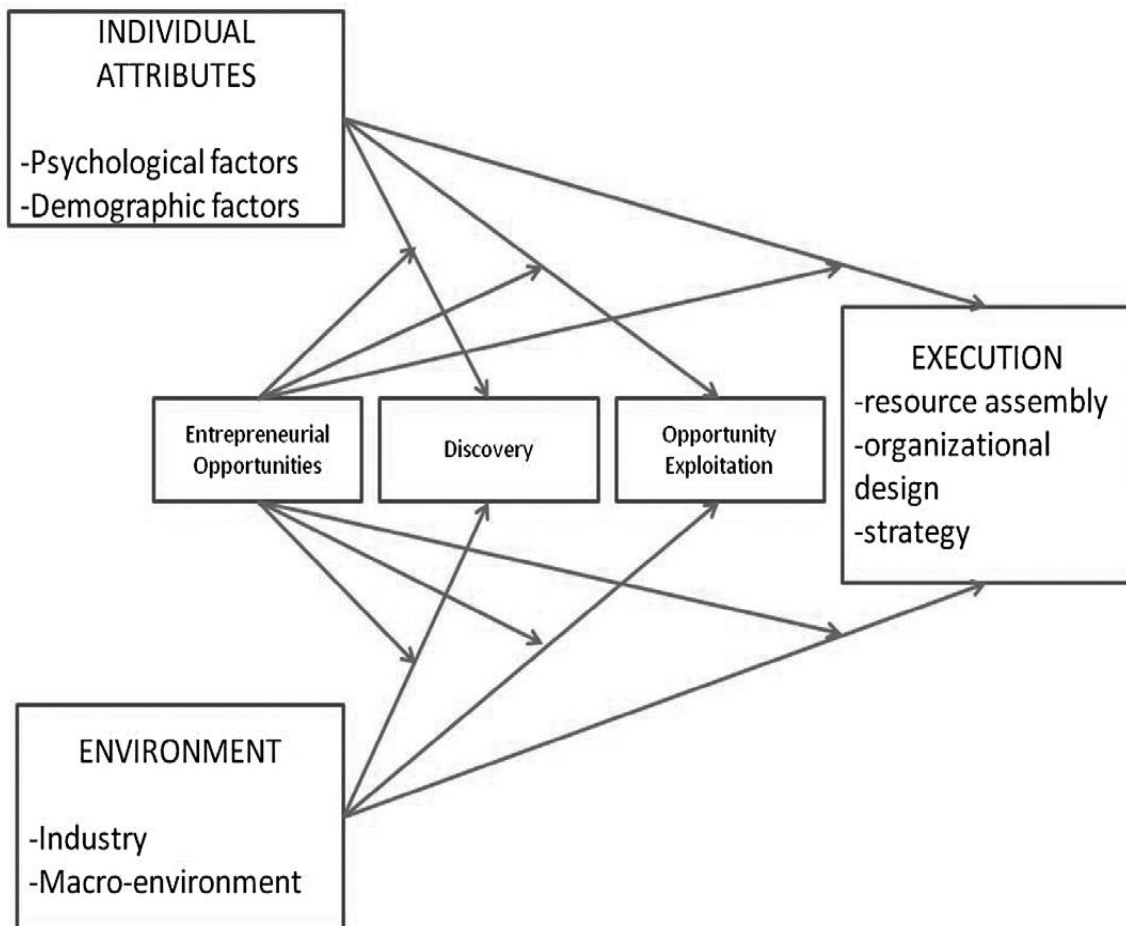


Figure 5- Shane's Model of the Entrepreneurial Process

2.2. Theory of the family business successors

According to Wang, C. (2010) family business Succession is arguably the most important hurdle to intergenerational longevity for family businesses. It involves the passing of business ownership and management from a "senior" to a "junior" generation so that control of the enterprise continues, and is ultimately perpetuated, in the family. Critical to the success of this process is successor selection the search for which typically begins first among the founder's or incumbent leader's children and then expands to include members from the extended family.

Further more, Wang, C. (2010) also suggested that given the significance of succession to the future of both the family and the enterprise, it is reasonable to expect that the successor selection process should involve an objective assessment of all possible candidates and their potential to lead the business.

By any definition, Sardeshmukh, S.R. (2008) argues that family businesses are ubiquitous in the economic landscape. 80%-90% of businesses in the United States are family dominated and contribute almost half the employment and half the GDP. Worldwide, the numbers indicate an equally strong presence of family firms - 75% of businesses in the UK, 80% of businesses in Spain, more than 90% of those in Sweden and 99% of those in Italy, and 85% of businesses in the European Union can be classified as family controlled. Even when it

is acknowledged that family firms constitute a significant proportion of large public businesses, most of the literature has rarely acknowledged the role of family related variables in shaping the strategy of the firm.

Further more, Sardeshmukh, S.R. (2008) also suggested that Family successors are thus highly valued by the founder owners even though a large proportion of family firms fail to attain a family based succession. Even though there is a strong preference for family successors, not many firms undertake the process of succession planning. One important aspect of succession planning is successor development.

3. Discussion

Based on the theory of the entrepreneurial process and family business successor, I came out with the new model to proven that family business successors were naturally born to become an entrepreneurship (Figure 7)

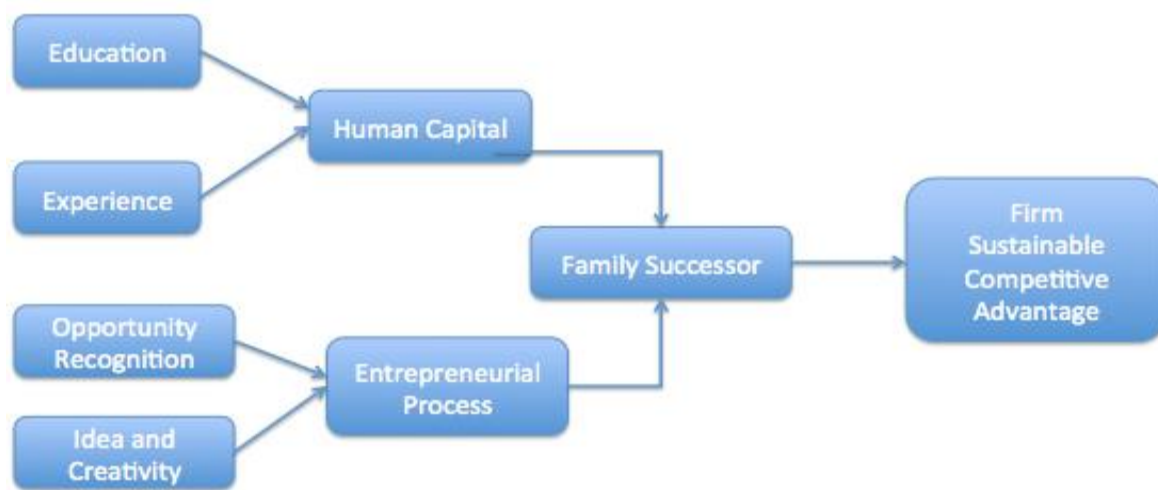


Figure 7- Rano Kartono's model of family successor

The paradigm of human capital may include “skills, abilities, personality, appearance, reputation, and appropriate credentials”. In this article, I only focused on skills and abilities that can be developed as a result of education and work experience. Sardeshmukh, S.R. (2008) argues that investment in education can be argued to be investment in completely general human capital. Formal education, particularly business education can teach concepts and skill that are generic enough and can be applied to most business context. Education can give the successors an ability to grasp the management concepts, and use them in their business. It also exposes the potential successor to new ideas and trends in management.

Sardeshmukh, S.R. (2008) also defines work experience as events that are experienced by an individual that relate to the performance of some job. Work experience is undoubtedly an important component of development and learning; the experiential component is particularly important for managers. The primary outcomes of work experience include increased work knowledge and skills, motivation, values, and attitudes and subsequently performance.

Entrepreneurial processes include the wish to start a business or the specific business idea that was being pursued. Such business ideas may be externally stimulated decisions, a

desire to start a business, or an internal search for business opportunities. The development of a solution from the experience of a problem solving and the knowledge that others have the same problem and are happy to pay for a solution may provide opportunities to apply the new skill in a particular problem solving activity and also generate a potential business opportunities.

3.1. Lippo Group, Riady's Family

Based on the several points and arguments above, which have demonstrated the same interplay of family business successors were naturally born to become an entrepreneurship. For this paper, I will highlight one of the successful generations of family successors in the firm industry in Indonesia- Lippo Group, Riady's Family.

Lippo Group³ First Generation – Dr. Mochtar Riady

Lippo Group was founded by its Chairman, Dr. Mochtar Riady in the 1950s. It consists of private and public companies in China mainland, Hong Kong and Macau; Indonesia, Philippines, Singapore and South Korea with US\$11 billion in assets. Lippo Group has over 15 public-listed companies in different parts of Asia including Hong Kong, Indonesia and Singapore

Lippo Group's main business covers 3 key areas:-

Property investment and development *This includes fully integrated satellite cities, houses, condominiums, Grade A office towers, industrial estates, shopping malls, hotels, country clubs and golf courses. Lippo Group has proven track record in transforming undeveloped plots into residential estates, commercial offices and shopping malls in China mainland and Indonesia. The Group is renowned for its expertise in the development of large-scale residential projects and up-market condominiums as well as Grade A office towers, and has gained substantial presence in the major markets of Asia. The Group has interests in five-star hotel operating in Singapore, Malaysia and China Mainland. PT Lippo Karawaci, the Group's public-listed real estate developer in Indonesia, was awarded the Best Developer in Indonesia by Euromoney magazine in 2007.*

Retail business *The Group's retail business includes hyper malls, supermarket chains, department stores and entertainment business in Indonesia, Singapore and China Mainland. It also involves in the retail and distribution of consumer food and non-food products, health and beauty products.*

Other investments *Other strategic investments and services of the Group include financial services, telecommunication service, information technology and cable TV. Its financial services comprise commercial banking, investment banking, life insurance, general insurance, securities broking and underwriting, asset management and mutual funds with focus on the Asia Pacific region. Lippo Group has also invested in healthcare services e.g. hospital management and chain stores selling medicine and medical equipment. Lippo Group has a team of qualified and experienced professionals who have proven track record in the respective areas of business activities. Lippo Group believes in networking and sustaining long term relationship with its partners. Over the years, it has grown through joint ventures and strategic alliances with many of the world's leading manufacturing, construction and*

³ Information obtained Lippo Group's website - <http://www.lipporealty.com>

financial services companies. With its resources and capabilities, Lippo Group is set to move forward with its partners, and take advantage of the opportunities in the global economy.

Second Generation – Dr. James Riady⁴

Dr James Riady is the CEO of Lippo Group, a Pan-Asian group based in Jakarta with its International headquarters in Singapore. The group has interests in property, department stores, food retailing, malls, IT services, hotels and other businesses. He is also the Founder and Chairman of Pelita Harapan Educational Foundation, or the Educational Foundation of Hope and Light, a group of co-educational K1- Year 12 private, international Christian schools in Indonesia.

During his term as Ambassador at Large and Special Envoy of the President from 1998-2000, Dr James Riady also acted as Special Envoy and Diplomat of the President of Indonesia to Australia. In the same period, he was also a member of the Peoples' Consultative Assembly, Republic of Indonesia. He received the Australian Entrepreneur of the Year Award in 2008 conferred by the Australian Embassy in Jakarta, Indonesia for his work in Australia.

With his vast experience in banking and investments, Dr Riady has served as Deputy Chairman of the Indonesian General Chamber of Commerce and Industry (Kadin Indonesia); member of the National Economic Council and Special Advisory Team to the President; Foundation Member of the World Economic Forum (WEF) in Switzerland; and member of the International Business Council WEF, Davos, Switzerland.

Dr Riady graduated from University of Melbourne with a Bachelor of Commerce in 1977 and received his Doctor Honoris Causa, Letters/ Philosophy from La Trobe University in 2008. He also holds a Doctor Honoris Causa, Christian Studies from Ouachita Baptist University.

Third Generation – Dr. John Riady⁵

Dr. John Riady is Director of Lippo Group and Executive Dean, UPH Faculties of Law, Business and Political Science. John received his Bachelors degree Magna Cum Laude in Political Philosophy and Economics from Georgetown University; Holds an MBA in Finance and Operations from the Wharton School of Business; and a Juris Doctor from Columbia University Law School. He is also a licensed attorney in the State of New York.

John is also Director and Editor at Large of Berita Satu Media Holdings; Chairman of KIKAS-KADIN (US-Indonesia bilateral Committee within the National Chamber of Commerce and Industry); Serves on Columbia Law School International Advisory Board; Member of the World Economic Forum Global Agenda Council (GAC) and Global Shapers Community (GSC).

3.2. Key points to note from the successful generations of family successors

Having noted the above case of Lippo Group-Riady's family generation that have displayed education and working experiences as human capital; opportunity recognition and ideas & creativity as entrepreneurial process for the family successors to sustainable competitive

⁴ Information obtained James Riady's website - <http://www.sblp.com/2012speakers/JamesRiady>

⁵ Information obtained John Riady's website - <http://www.globalshapers.org/shapers/john-riady>

advantage of Lippo Group for more than 60 years, it remains for us to point out a few pertinent key success factors:

- a. This company is considered 3th generation transformation in their respective fields of business field. However, this company is growing bigger and faster from one generation to the next generation (it will not happened if there is not naturally born entrepreneurship)
- b. This company was well prepared of family successor by focusing human capital to invest in education and working experience for their family successor by expand their skill sets and competencies, innovate, and to design better, and wider choices for the sustainable competitive advantage.
- c. This company was strong brand owners in direct and close contact with their clients and partnerships. The leadership instills the culture and discipline for strategy execution, including hands-on management.
- d. This entrepreneurial process has capitalized on their core competency and prior network skills and strengths their new ventures. They employ a more dynamic management approach that constantly reinvents itself.
- e. All the successors from 1st to 3rd generation are come from very strong academic background (all of them are doctor degree graduated). It is prove that education plays very important role in for preparing the family successor.

4. Conclusion

The literature reviews of entrepreneurial process and family business successor and the Lippo Group case analysed in this paper gives a clear example of setting up the entrepreneurial process in the family business really plays an important role to lead the firms that he or she inherited to the sustainable competitive advantage. Its enhancements of management best practice application depends on many factors as for example education, previous working experience, opportunity recognition, creativity and new ideas as entrepreneurial process. Although, there are lots of different perspectives the questions of does the family successor naturally born to be an entrepreneur still need to be expands and support by further research and methodology.

Given the limitation deriving from a single case of Lippo Group as successful family business in Indonesia, other family business successors could be studied, in order to verify whether these conclusions can be generalized. This could be an interesting future step in research.

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NEEDS ASSESSMENT OF PRODUCTIVE ACTIVITIES TO PROMOTE IMPROVED PRODUCTIVITY AND INCOME OF THE POOR (CASE STUDY IN BANYUMAS REGENCY, CENTRAL JAVA PROVINCE, INDONESIA)

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Abstract

The research results of the authors in 2011 about evaluation of the implementation of poverty reduction policies through the National Program for Community Empowerment (PNPM) Urban Independently in Banyumas shows there are a lot of inaccurate targeting the use of the program funds are supposed to be used for productive activities but consumptive activities, so it has not contributed significantly to the increase in income. It encourages further research to identify further their business conditions and the problems they faced in doing business with a focus on the issues : what kinds of the productive economic activities do the poor today? What are the problems faced by the poor in productive economic activities ? What are the needs of the poor in an effort to optimize the business they do. Survey research conducted by the method of qualitative analysis approach. The data used are secondary data from relevant instances and primary data obtained through questionnaires, in-depth interviews, observation, documentation, and Focus Group Discussion, and then the data is analyzed qualitatively. The results showed that : (1) the most productive activities of the poor do now is trade, (2) the dominant issues facing the poor in productive economic activities are capital, marketing, mental and entrepreneurship skills, competition, less adequate and less strategic of businesses place, lack of demand for, and prices of raw materials continue to rise, (3) the needs of the poor in the optimization of business than venture capital is the need to improve soft skills and hard skills in terms of entrepreneurship .

Keywords: Income of The Poor, The Optimization of Business, Soft Skills and Hard Skills Entrepreneurship

1. Introduction

One of the government's poverty alleviation program is the National Program for Community Empowerment (Program Nasional Pemberdayaan Masyarakat) Urban Independently. In Banyumas there are eight districts that were targeted PNPM Urban. Five of them are targeted districts are location to a relatively long program, they are Sokaraja, Baturaden, West Purwokerto, Banyumas, and East Purwokerto.

Referring to the previous research on the impact of the implementation of PNPM Urban poverty alleviation in Banyumas (Rahajuni, Dijan and Lilis Siti Badriah, 2011), suggests that many found relief funds should be used for productive activities, but is still widely used for consumptive activities ; thus not significantly improve the welfare of the beneficiaries, proved

53 percent of the poor are still receiving incomes below the poverty line and 90.9 percent of the poor receive incomes under the Standard of Decent Living Needs (KHL) Banyumas .

Based on this phenomenon, the authors think it is important to conduct further research to identify existing productive activities of the poor and the obstacles they face and their need to optimize the business they are doing so they can increase their productivity and incomes. Based on such matters formulated several problems as follows : what kinds of the productive economic activities do the poor today? What are the problems faced by the poor in productive economic activities ? What are the needs of the poor in order to optimize the business they do.

This study aims to : identify the poor business conditions and the problems they faced in doing business, and need assessment in order to optimize the business done by the poor.

2. Research and Analysis Method

2.1. Research Method

This study is a descriptive survey using the analytical method to analyze the phenomena that occur, explaining the relationship variables, based on the data obtained to get the meaning and implications of a problem to be solved (Sugiyono, 2009). The approach is qualitative in order to explore the existing productive activities information undertaken the poor in Banyumas, problems and needs assessment the poor in productive activities, so we can find a solution in order to increase their productivity and incomes.

This study uses secondary data from the Central Bureau of Statistics, Bappeda Banyumas Regency, Departement of industry, trade, and cooperative of Banyumas regency, district offices and primary data obtained through in-depth interviews and questionnaires to the respondents / informants, as well as through the Focus Group Discussion.

2.2. Sampling method

The population in this study is the poor who are doing business well with productive capital of PNPM Urban in five districts of Banyumas Regency. They are Banyumas, Sokaraja, East Purwokerto, Purwokerto West, and Baturaden. Sampling was done by purposive sampling : (1) based on districts, selected with criteria that the district has long been a target location in the implementation of PNPM Urban independently and be got five Districts. (2) from each district were taken three villages drawn by the distance criteria from the capital district, which is the farthest distance, intermediate, and near. (3) from each village were taken all members of the poor who actually do productive activities based on data base of previous research (in 2011).

Using the sampling method , they were 172 respondents, which is spread over 15 villages in the territory of the 5 districts. Most respondents were in the West Purwokerto District, they were 59 people (34.30 percent), Sokaraja 44 people (25.58 percent), Baturaden 24 people (13.95 percent), East Purwokerto 23 people (13.37 percent), and Banyumas 22 people (12.79 percent).

2.3. Analysis Method

The process of identification of productive economic activities, the problems faced by the poor in productive activities and needs assessment to optimize the business is doing, using

qualitative analysis methods with an interactive model analysis techniques that include components : (1) data collection, (2) data reduction, (3) serving data, (4) making conclusion (verification). By using the conclusions of the analysis technique has been proven to selectively and accurately (Miles and Huberman, 2002).

3. Results and Discussion

3.1 . Identification of Productive Business

Based on the overall data found that the type of trade being the most business done by the respondents in almost all districts, as many as 123 people (71.51 percent). Trading business is conducted generally in the form of a grocery shop , selling snacks market, selling vegetables, selling “Rames” . While conducting the production is still relatively limited . This is due to the limitations of entrepreneurial skills and knowledge they have, so can not take advantage of the real potential of the natural resources available in their environment . Most of the respondents chose the work done at this time is due to fulfil the needs of the family. Then the second biggest reason is to supplement the family income. The reason commonly put forward by the wives who come to work to increase the husband’s income.

Long work done by a person will greatly influence the success of the business she/he lived. Because the longer the effort , the more business experience found in both positive and negative, so that may be the basis for making decisions that are considered more effective as a solution to the problems that may be encountered. The majority of respondents (15 people or 68.18 percent) in the district of Banyumas has run on business for 1-10 years, the majority of respondents (22 people or 50 percent) in District Sokaraja has run on business for 1-5 years, most of the respondents (18 people or 78.26 percent) in the District of East Purwokerto has run on business for 1-15 years, the majority of respondents (20 people or 33.90 percent) in the district of West Purwokerto has run on business for 1-7 years, then 15 people (25.42 per cent) has been running the business for 8-14 years, the majority of respondents (22 people or 91.67 percent) in Baturaden District has run on business for 1-12 years.

Base on the development of the business, in this case based on the respondents' perceptions regarding the progress of the business being operated for this by considering the sales turnover and the income they receive, the majority of respondents (85 people or 49.42 percent) stated that their businesses run so far are in a fixed condition. That is, their efforts are considered experienced stagnant conditions, then 60 people (34.88 percent) of respondents stated that their business continues to grow both turnover and the views from the income they receive . While as many as 27 people (15.70 per cent) stated that their business tend to decrease. Businesses decreased relatively diverse. General problems faced by those whose business is declining because of competition, the price of materials continues to rise, lack of capital, bad debts, lack of entrepreneurial skills . Another problem faced is the suitability of the product / service sought by the needs of the people . The products that people need to have a lot of buyers, while products that are not required by the people will be a little buyer.

3.2 . Facing Problems and Solutions

Every business will always face problems stemming from both internal and external. Ability of an entrepreneur in facing these problems and find appropriate solutions can bring business to a better direction. Meanwhile, if the entrepreneur is not able to find solutions to the problems it faces, will hamper the development of the business being operated. Description of the problems faced by the respondents in the operations can be viewed through the following description .

Table 1 . Description of Business Problem and Solution Do Respondents

District	Village	Problems	Solution
Banyumas	Dawuhan	capital, labor, mental entrepreneurship, responsibility, honesty, marketing	Borrowed capital, profits aside to raise capital, consultation with family / friends
	Pasinggangan	capital , lack of woodworking equipment , marketing , skills , mental entrepreneurship, diseases of animals (poultry , raw materials are difficult and the lack of press machines (brick business)	Working with improvised equipment, rental vehicles for marketing, spraying the cage , making other products, wait the times to get sand downs
	Sudagaran	Mental entrepreneurship, time is limited, many competitors, capital, marketing, skills, expensive raw materials, workshop equipment limited, less strategic places of business	Set the time, borrowed capital, patient, tenacious, friendly, co-operation with partners were more likely to overcome the limitations of the tools and parts, selling on the sidewalk for easy access buyers
Sokaraja	Jompo Kulon	Skills, knowledge, and mental entrepreneurship, capital, marketing, the death of poultry (poultry), many competitors, limited	collaboration with a friend, borrowed capital, socially active, promotions, reduce the selling price, selectively choosing poultry, patient

		transport, less the strategic places of business	
	Klahang	capital, it is difficult to get the goods to be sold, less strategic place of business, marketing, limited time, the price of raw materials rose, mental and entrepreneurial skill, capital and Loans bad debt.	borrowed capital, set aside profits to add capital, looking for a strategic place, selling around, reduce the amount of the production with selling fixed price, raise prices, personal approach to buyer
	Sokaraja Tengah	capital, marketing, competition, less strategic place of business, mental and entrepreneurial skills, limited time and energy, drying equipment of gropak limited	Selling arround, work hard, improve creativity, set aside profits to raise capital, deposit products to stores selling souvenirs
Purwokerto Timur	Kranji	Capital, many competitors, marketing, mental and entrepreneurial skills, material prices continue to rise, pricing methods, the limitations of working equipment owned	Borrowed capital, the selling price is cheaper than the others, the promotion to the stores (for plastic printing business)
	Arcawinangun	bad debt, demand fluctuates, capital, where makeshift, competitors, prices continue to rise, a lot of debt, limited equipment, material prices continue to rise	Borrowed capital, using the husband's money, reduce production, saving money to buy equipment, to learn more focus on business
	Purwokerto Wetan	Capital, competitors, time constraints, bad debt, fewer buyers	Borrowed capital, add best-selling product purchased, limiting the debt, sharing time with husband and other family members, add culinary variety, look for regular customers

Purwokerto Barat	Kober	Capital, marketing, weather, mental and entrepreneurial skills, capital and Loans bad debt	borrow capital, selling around, trying to find new markets, changing selling methods, marketing fixed route, maintaining product quality and service, taking orders, asking for down payment orders, prices affordable
	Bantarsoka	capital, less strategic place of businesses, raw material shortages and rolling out tools are still traditional, many rivals, expensive raw materials, lack of demand, physical aging, bad debt	Borrowed capital, selling land, utilizing the existing space, taking money daily needs day to raise capital, maintain health, tenacious, diversified goods being sold, ask for DP orders
	Rejasari	Marketing, many competitors, expensive raw material prices, capital, bad debt, limited time	Fixed running the business as it is, adding profit to capital, loan capital, patient and tenacious , increase the selling price
Baturaden	Karangsalam	capital, mental and entrepreneurial skills	Borrowed capital, regular meetings with members of the group
	Kutasari	capital, marketing, selling places inadequate and less strategic, competitors	Finding foster father (the cultivation of mushrooms), daily bank loan, using the system pay cash, socialization to the community
	Rempoah	Capital, a limited area (for goats), and mental skills of entrepreneurship, less strategic place of business	Borrowing capital, save money, ask for DP orders, tenacious , save operating costs, promotional merchandise to a friend

Based on the description of the above problems, it is seen that the dominant issues facing small businesses in every village is the capital, marketing, mental and entrepreneurship skills,

competition, inadequate and less strategic place of business, lack of demand for, and prices of raw materials continue to rise. Although they have found a solution to the problems they face to survive in business, but apparently not all of the respondents were satisfied with the solutions taken. According to them, they just solution based on skills and knowledge that they have today. Problems and mental skills for self-employment, they have not found a solution as it could be, although there is a small part of them had attended the training, but they are not optimal practice and some have not been practicing at all. Those barriers include time constraints, lack of capital, lack of assistance and facilities when they can not do alone.

3.3 . Optimization for Business Needs Assessment was Doing

Need assessment carried out in an effort to explore and identify potential respondents and the environment as a basis for a solution that can take researchers do to improve the productivity of the poor in an effort to increase their income based on their needs. Description of the results of need assessment, described as follows.

3.3.1 . Spirit of Entrepreneurship

According to Kasmir (2007), the nature of the character traits of an entrepreneur include highly committed, honest, creative, innovative, dare to take risks, hard work, and be responsible. According to Priyanto (2009) the formation of the entrepreneurial spirit is influenced by internal and external factors. Entrepreneurial spirit is explored in this study include hard work/tenacious, creativity, and dare to risk. The third trait must be owned by an entrepreneur. Entrepreneurial spirit of the respondents viewed from indicators tenacity, creativity, and dare to risk showed relatively good condition. This is reflected in the proportion of respondents who gave the answer "yes" to each of the indicators tenacity, creativity, and courage to bear the risk of the most dominant individual 127 (73.84 percent) of respondents answered "yes" that they resilient in carries on business, 79 people (45.93 percent) of respondents said "yes" that they are creative, and 100 people (58.14 percent) of respondents said "yes" that they have the courage to bear the risk in running his business.

The second largest proportion showed "sometimes" they have a tenacious character, creative, and daring to risk. That is, they are still not fully aware of the importance of tenacity, creativity, and courage to bear the risk in business. While the proportion of the remaining who "do not" have the third character.

However, the proportion of respondents who answer "sometimes" and "no" for each indicator character when viewed as a whole are relatively large. So, it is still necessary to instill awareness of the importance of the entrepreneurial spirit in the conduct of business at least they have a tenacious character, creative, and courage to bear the risk.

If confirmed by the problems faced by respondents in the previous description was in line that the majority of respondents stated that one of the problems they face in running a business is the lack of mental entrepreneurship.

One solution that is relevant to the issue presented by Mr. Surtiwo (PNPM Urban Cities Coordinator) in Focus Group Discussion said that there needs to be an effort to build social capital in the form of an entrepreneur mindset. It means, to achieve a productive society, they need to be understanding and awareness raised to think as an entrepreneur, identify characteristics and mental attitudes that must be owned by an entrepreneur, able to cultivate their own capital by building a management mindset domestic economy with the principle of setting aside some income as though a little savings and no savings only if there is residual income. Besides it, people also need to be aware not start a productive business by way of instant , but actually being able to see the situation and the conditions for the availability of raw materials and markets. Actual market limitations can be overcome by establishing relationships (networking) and do not do alone. To improve the ability of the entrepreneurial community, it would require intensive training which is supported by direct action in real terms through the provision of assistance and facilities.

3.3.2 . Necessary Things for Business Development in Addition to Capital

Issue of capital in general is a problem faced by small businesses. Actually, government already provides a variety of policies to provide solutions for problems of this capital through a variety of programs that are easily accessible by the public, which include economic community grants PNPM Urban Independently and Public Credit.

Through this study , researchers want to explore other things that are considered necessary for the small business community to expand its business in addition to capital. Based on the data collected , description of this can be described as follows .

Table 2 . Description Necessary Things addition to the Capital for Enterprise Development

District	Village	The Needs are Required for Business Development
Banyumas	Dawuhan	entrepreneurial skills, the courage to take risks, business partners (for production, procurement of raw materials, and marketing), strategic business location .
	Pasinggangan	work equipment, expanding marketing network, business skills and management, business development to increase the sale value of agricultural and livestock
	Sudagaran	own workspace, tenacity and patience, entrepreneurial skills, health, strategic business location
Sokaraja	Jompo Kulon	strategic business place, networking, skill and knowledge entrepreneurship, transportation facilities for marketing

	Klahang	strategic business place, quality coconut seedlings (for coconut sugar businesses), land, markets, skills and knowledge entrepreneurship
	Sokaraja Tengah	entrepreneurial skills, hard work, networking, resilient, business equipment, markets, expansion of land (for poultry business)
Purwokerto Timur	Kranji	place of business, add variety merchandise, adequate equipment, market expansion
	Arcawinangun	place strategic business, enlarge stalls, add variety merchandise, add customers, proper equipment , improve entrepreneurial skill
	Purwokerto Wetan	Add merchandise materials, extension of business place , adequate cooking equipment
Purwokerto Barat	Kober	strategic business place, entrepreneurial skills, facility/ infrastructure / business equipment, training
	Bantarsoka	strategic business place, entrepreneurial skills cooking / catering)
	Rejasari	place strategic business
Baturaden	Karangsalam	place of business (husbandry), training skills, increase motivation
	Kutasari	Cooperation among traders (mushroom cultivation), strategic business place, determination of appropriate strategies
	Rempoah	strategic business and adequate place, proper equipment, a lot of customers / orders

Based on the picture of the needs of people in developing their business in addition to capital as shown in Table 2 above, is quite diverse. To provide solutions to these problems are necessary cooperation from various parties including the government, large scale employers, and universities. For the provision of strategic, government policies need to be able to provide the necessary facilities. Many other purposes which they conveyed was the need for entrepreneurial skills and knowledge . To meet this requirement it is necessary to increase the frequency of training based on their needs. This is consistent with the opinion of Albert Shapiro from The Ohio State University states that employers are not "born", but rather "become" through their life experiences (Consortium for Entrepreneurship Education) . Through effective entrepreneurship education, people can

access the skills and knowledge needed to start and grow a new business. There are several elements related to entrepreneurship can be developed through education and training (Vesper, 1982; Clark et al. , 1984; Saeed , 1996; Henry et al. , 2003, in Henry et al., 2005) Some researchers argue that the material and the method chosen should be adjusted with the needs and uniqueness of the area and culture . Kayne and Altman (2005) concluded that entrepreneurship education can not be generalized. Local needs, resources and existing conditions should be considered in planning the content, organization and implementation strategies. Research Hoque , Mohammad Ziaul (2004) concluded that small business growth is stagnant because SMEs simply play the role of financial and ignore developmental role in the development of knowledge and entrepreneurial skills . The research result of Istiqomah and Lilis Siti Badriah (2010) on the evaluation of entrepreneurship education in university (case study student entrepreneurship program at the University of General Soedirman) shows the result that the majority (87 percent) of respondents said that implementation of independent entrepreneurship program with a series of activities include provisioning and internships have been able to increase their interest in entrepreneurship, as well as the utilization of capital support from the program and solid teamwork, make their business were able to develop properly. According to David Birch (first recipient of International Award for Entrepreneurship and Small Business research) when interviewed by Aronsson (2004) says that we can not teach people to be entrepreneurs. Birch said that there are three skills that must be known and controlled by entrepreneurs. They are selling, managing people and creating new products or services .

Based on the results of Focus Group Discussions , participants representative of the Department of Industry, Trade and Cooperatives Banyumas stated that this Department has a variety of programs and facilities in order to support the development of SMEs in terms of support equipment, revolving fund, training, mentoring, and marketing . But the procedure is the small businesses must submit a proposal first. This is a new problem , namely the limitations of their ability to make such proposals. Therefore, one solution could be found by the researchers in the next activity is to conduct a variety of training according to the needs of the community .

4 . Conclusions And Implications

4.1 . Conclusion

4.1.1 . Current Productive Activities are the Poor Do

Based on the overall data shows that trade is a kind of most business done by the poor . While conducting the production is still relatively limited . This is due to the limitations of entrepreneurial skills and knowledge they have.

4.1.2. Problems Faced The Poor in Productive Economic Activities

Dominant issues facing small businesses in every village is capital, marketing , mental and entrepreneurial skills, competitors, inadequate and less strategic place of business, lack of demand for, and prices of raw materials continue to rise. Although they have found a solution

to the problems they face to survive in business, but apparently not all of the respondents were satisfied with the solution taken, which is only based on skills and knowledge that they have today .

4.1.3. The Poor Needs in Conduct of Business Optimization

To optimize the business, in addition to venture capital, the poor requires increased hard skills and soft skills, such as knowledge and skills of entrepreneurship, entrepreneurial spirit form, build networking, the ability to recognize the potential of the region as a business opportunity, market access, has adequate business equipment, find a strategic place of business.

4.2 . Implication

4.2.1 . Most of the respondents who doing business at this time is trading and still a little doing business as the producer that make some goods/sevices because of their limitations in terms of both knowledge and skills of entrepreneurship. It is necessary efforts to further encourage the production capability for those who can truly sustainable and provide a decent living by increasing their knowledge and skills through training adjusted with their needs in order to carry out production activities. This can be done through cooperation between local governments, universities, and entrepreneurs who can become a business partner for small entrepreneurs .

4.2.2 . Need proactive efforts of the government and universities to assist and facilitate the poor in running productive enterprises by synergizing implemented programs to fit the needs of the community . Provision of capital facilities should be done in conjunction with intensive assistance efforts in conducting productive business so any problems are encountered they can be immediately found an effective solution. It also needs to support ease of access to a wider market .

4.2.3 . The poor have the skill and knowledge entrepreneurship are limited, so to support the need to increase their productivity, that is very important to help them to improve the soft skills, including the ability to capture business opportunities, entrepreneurship knowledge, and hard skills, including the improve skills in business management, so it can assist in the implementation of business development.

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SUPPLY CHAIN RISK MANAGEMENT FRAMEWORK FOR MALAYSIAN SME'S

Hamidatun Khusna Mustafa ¹ and Sabariah Yaakub ²

Abstract.

Supply Chain Risk Management (SCRM) studies contribute to new ways of handling vulnerabilities in the supply chain. Certain risks such as production capacity, quality issues, technical risk, and failed internal processes on supply chain can have a direct effect on SMEs' ability to continue operations, get finished goods to market and provide critical services to customers. Risks can disrupt supply chain causing the firm to be inefficient and in the long run, leads to bad company performance. The principal objective of this research is to present a theoretical framework for classifying SCRM in Malaysian SMEs and consequently using this framework to examine the risk mitigation strategies (agility and robustness) that has an impact on the performance of SMEs in Malaysia. Several identifiable variables were selected concerning human capital development, access to financing, market access, infrastructure, innovation and technology adoption, and legal and regulatory environment in measuring the challenges faced by Malaysian SME's. This SCRM framework can be used by Malaysian SMEs to improve existing services and formulate strategic decisions in order to achieve competitive advantage. Furthermore, specific authorities such as Government, World Bank, SME Corporation Malaysia, and Public-private Partnership could find it useful in designing and implementing suitable remedial measures to develop SMEs. The research also important to accomplish Vision 2020 for Malaysia to become a high income country and the analysis is expected to deliver solution to SMEs to overcome key challenges that prevent them from growing compared to other SMEs in developed countries.

Keywords: Supply chain risk management, risk mitigation strategies, Malaysian SMEs, key challenges, company performance.

1. Introduction

Supply Chain Risk Management (SCRM) studies are one of the interesting and important researches as it contributes inspiration for new ways of handling the vulnerability in the chain. Supply Chain Risk Management investigates supply chain risk phenomena and provides models for the analysis of several types of supply chain risks that occur both in the supply and demand side of supply chains. A recent article by Giannakis and Louis (2011) identify SCRM for a wide variety of different risks and this includes "political risks" and "market risks". Moreover, risks can disrupt supply chain causing the firm to be inefficient and in the long run, leads to bad company performance. In this paper, we would like to study on an even more ambitious project, the Supply Chain Risk Management in Malaysian SME's, which the SCRM study is more apparent to Small and Medium-sized Enterprises (SMEs) realizing that risks, technological change and innovation are imperative to SMEs which play a very important role in fostering economic growth of the country, Klonowski (2012). In addition, the study done by Vaaland and Heide (2007) reveal SMEs

is not showing awareness on planning and manages methods in supporting Supply Chain Management compare to Large Enterprises (LEs).

2. Problem Statement

Supply chain disruptions can have significant impact on a firm's short-term and also for a long-term performance. According to Tang (2006), when designing a global supply chain network, certain risks that initiate a potential disruption should be identified in order to ensure the overall operational performance. These include the inherent uncertainties such as uncertain customer demand, uncertain supply, uncertain cost, and natural and man-made disasters such as earthquakes, floods, hurricanes, terrorist attacks, etc. Several studies by previous researcher shown SMEs are facing with many challenges by reason of lack of knowledge, resource and experience (Rahman, 2012; Thakkar *et al.*, 2008; Ongori and Migiro, 2010). Therefore, Malaysia government has planned a New Economic Model in reaching Malaysia to a high income country, called SME Masterplan 2012-2020. The plan is aimed for Catalysing growth and income, which requires evolutionary in economic structure. As SMEs are shown to be an engine of future growth in achieving the goal of making Malaysia a high-income country, identification of the sources and the managements of the risks of SMEs are crucial. Moreover, supported by researchers, SMEs do not have sufficient understanding of diverse organizations which are not aware of the Supply Chain Management (SCM) especially regarding the flow of information and material (Quayle, 2002), and the knowledge, expertise and capability to implement SCM (Rahman, 2012).

3. Research Objective

The main objective of the study is to present a unified framework for classifying SCRM in Malaysian SMEs. As a developing country, Malaysia is keen to develop the good practices and governances to SMEs which are expected to contribute around RM120 billion or 50 % of total production in the manufacturing sector by 2020 (source: Malaysian Small and Medium Industries Development Corporation). This study sees certain risks on supply chain can have a direct effect on SMEs' ability to continue operations, produce finished goods to market and provide critical services to customers. The study seeks to understand "any risks for the information, material and product flows from original supplier to the delivery of the final product for the end user" (Jüttner *et al.*, 2003) in order to produce effective tools supporting the network risk assessment in the area of SCRM. Specifically, the objectives of this study are:

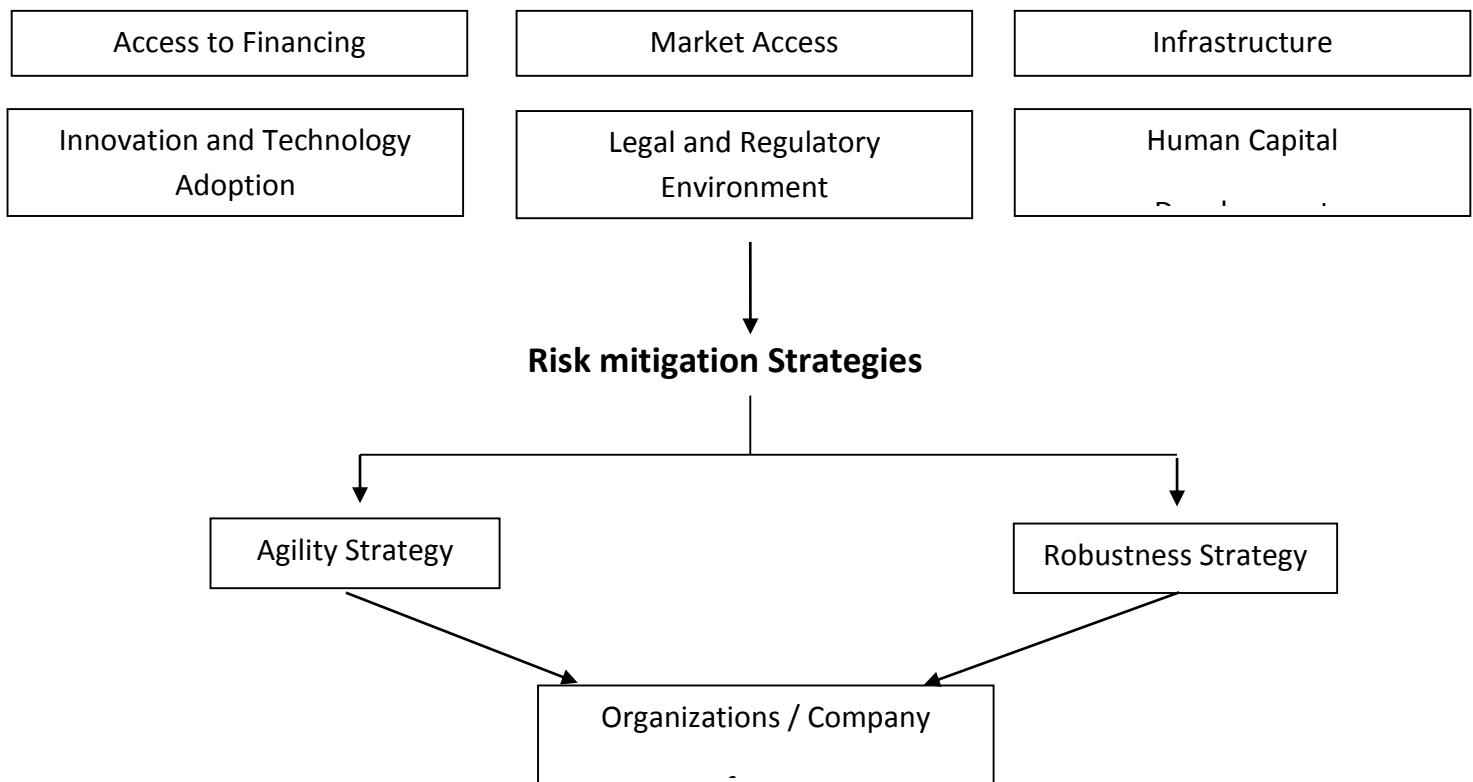
1. To ascertain the sources of the risks inherent in Supply Chain Management in Malaysian SMEs.
2. To examine the risk mitigation strategies (agility and robustness) that has an impact on the performance of SMEs in Malaysia.
3. To determine whether certain SMEs situational variables moderate the relationship between sources of risk, risk mitigation strategies, and the company's performance.

4. Research Question

In this study, a number of questions are brought to attention:

1. What are the sources of the risks inherent in Supply Chain Management in Malaysian SME's?
 2. To what extent the performance of SME's in Malaysia is affected by the risk mitigation strategies?
 3. Are the relationships between sources of risk, risk mitigation strategies and the company's performance moderated by certain SME's situational variables?
5. Theoretical framework and hypotheses

Source of Risks



5.1 Relationship between sources of risk and company performance

The closer Malaysia is to achieve the vision of 2020, the fewer boundaries between countries; the increasing sophisticated technology used; and the closer ties with other countries. However, such phenomena also increase the number of risk. That is why it is important for companies to have their own Supply Chain Risk Management that can integrate and manage the supply chain in an effort to minimize and diminish the potential of risks.

Although SME is dependent small enterprise that has lack of business knowledge and experience compared to large firm. SME has been recognized as an engine for achieving the vision of 2020 of becoming a high-income country. SME will be a vanguard of the Government as functioning as a large home-grown champion that can compete globally. In SME Masterplan 2012-2020, there are six areas which be known as the challenges for SMEs in achieving high performance. The challenges are innovation and technology adoption, human capital development, access to financing, market access, legal and regulatory environment and infrastructure, refer to Figure 1. Based on the conceptual framework on this study, the researcher proposes the following hypotheses to examine the relationship between sources of risk and the company performance using six challenges proposed in SME Masterplan 2012-2020:

H_a: The source of risks inherent in SMEs has a significant effect on the company performance.

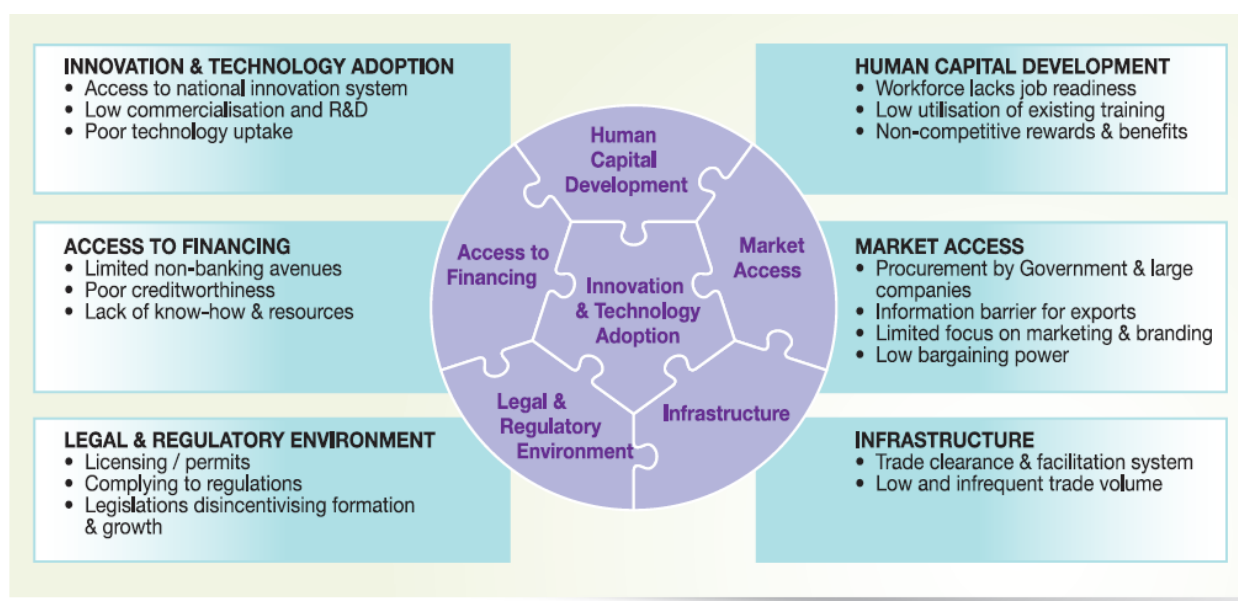


Fig. 1: Key Challenges Faced by SMEs

5.1.1 Access to finance risk

Most of researchers claim the finance risk is one of the factors face by SMEs (Rahman, 2012; Saleh and Ndubisi, 2006; Hashim, 2004; Coskun and Altunisk, 2002). As well, the challenges mentioned in Masterplan are seen not all SMEs are able to expend in their R&D activities, particularly for some that problem in getting bank financing as a result of their poor creditworthiness. This can be seriously affected the SME's performance when the company have problem in obtain funds, it can effect in number of ways such as delay in development new product and training, unable to develop company brand and have longer cash to cash cycle

(Wong and Merriless, 2005; Soinio *et al.*, 2012). Nowadays, money is a something essential in business, without money the company will have a lot of problems, leading to the bankruptcy of the company. This leads to the following hypothesis:

H₁: There is a significant effect between access to financing risk and the performance of company.

5.1.2 Market access risk

Export strategy is the easiest way for SME to expand their business to foreign market as involve low commitment and it can use the existing facilities in home country. However, export strategy is not the only way for SME to penetrate to new market, it can be joint venture, cross-border collaboration, subsidiaries, merger and branches. Although penetrating to international market is the one of the excellent plan to increase the company revenue, but for SME it is difficult for them to perform as they have a problem to achieve economies of scale due to short of raw material and equipment to fulfill large order. According to Neupert *et al.*, (2006), the transitional country is having problem to achieve quality standards given by customer or law specified by country. Besides, in SME Masterplan 2012-2020 and several academic researchers reveal some SME weakness such low quality, resource constraint, lack of equipment, low advertisement and branding and lack of knowledge are the reason why SME difficult in expanding to international market (Neupert *et al.*, 2006; Wagner *et al.*, 2003; Thakkar *et al.*, 2008; Thakkar *et al.*, 2009). Thus,

H₂: There is a significant effect between market access risk and the performance of company.

5.1.3 Infrastructure risk

SME Masterplan 2012-2020 claimed it is hard for SME to find specialized facilities and logistics accordance with the SMEs. According to case study done by Pedersen *et al.*, (2012), in the warehouse selection, SMEs should take on some aspects such as transportation cost, inventory level, sales volume, managerial resource, financial resource, capacity, etc. Furthermore, SME are less focused on EDI and e-based solutions (Vaaland and Heide, 2007). As mentioned above, SME having difficulties to achieve economies of scale due to short of raw material and equipment to fulfill large order and it is reason why SME has less shipment. Due to infrequent shipment, it is difficult for SME to get a competitive price compared to large firm which has high demand on logistics service provider. This leads to the following hypothesis:

H₃: There is a significant effect between infrastructure risk and the performance of company.

5.1.4 Innovation and technology adoption risk

The innovation and technology adoption risk has been mentioned in Saleh and Ndubisi (2006) study, they address some challenges that faced by SMEs such as having low level of technological capability, ICT penetration, and research and development. While in Anuar and Yusuff (2011) study, they found manufacturing SMEs is lack on implement the technology and product innovation in their practices, they suggest the SMEs able to increase their business performance if they focus on technology and product innovation. This can help company to achieve superior customer value and obtain the competitive advantages. If the

company can produce the innovative product then the demand will increase as well the business growth.

In Man *et al.*, (2008), the result of the study is appear that there is significant relationship between innovation and the performance of the SME's, furthermore they are claimed the finding is reliable with the past study done by Abbey and Dickson (1993). In addition, Vaaland and Heide (2007) claim SME lagging in technology and system adoption and they raise a question on how essential SCM works as a competitive tools. The question is related to H_b as risk mitigation strategies will be the moderator to test the relationship between sources of risk and the company performance. Based on this information, we expect SME is not paying much attention on innovation and technology adoption benefits for increase the company performance. The research hypothesis statement will be:

H₄: There is a significant effect between innovation and technology adoption risk and the performance of company.

5.1.5 Legal and regulatory risk

Legal and regulatory environment is the one of six factors that recognized as sources of risk face by SMEs which is listed in SME Masterplan 2012-2020. SME have lack of business knowledge and experience compared to large firm, this includes limited knowledge on regulation applicable in country and unconscious of many sectoral legislations. In addition SME see tax regulation is the factor makes them feel burden. According to Akinboade and Kinfack (2012), there are several factors which SME sees the legal and regulatory as a risk that will affect in their organizational performance compared to large firm such as lack of employee, less resilient on regulatory changes, lack of capacity to spend on regulatory specialized and financial constraint. In their finding, more than half of respondent answer they perceive regulation has a negative impact on business. Thus,

H₅: There is a significant effect between legal and regulatory risk and the performance of company.

5.1.6 Human capital development risk

SME Masterplan 2012-2020 claimed that Malaysia is having obstacle in getting skilled workers in the technical, supervisory and managerial levels. The Masterplan pointed three factors under human capital development which is workforce lacks of job readiness, low utilization of training programmes and non-competitive rewards and benefits. One of the reasons of the low utilization of training programmes problem is the SME assume the training and any improvement activities is a cost rather than a long term investment. Moreover, the result of the study from Rahman (2012), shows the main challenges faced by SMEs are lack of knowledge, skills and expertise, therefore he suggest SMEs to adapt SCM training in order to meet the challenges. In addition, Szamosi *et al.*, (2004) recommend training to SME manager for improving organizational performance. When company has the ideal worker that complete with skills and knowledge it would bring inspiration to the company while minimize time and money. Thus, human capital development risks have an effect to the company performance such company will face a significant risk of losing of competitive power. Based on this reasoning it is hypothesized:

H₆: There is a significant effect between human capital development risk and the performance of company.

5.2 Relationship between sources of risk, risk mitigation strategies and company performance.

The main objective of Supply Chain Risk Management is to minimize the uncertainty situation arises and to contribute the new ways of handling vulnerabilities in the chain. In defining the linkage between the sources of risks, risk mitigation strategies, and organizational performance among Malaysian SME, this thesis use the framework developed by Wieland and Wallenburg (2012). However, the thesis modifies the relationship between the SME's and the strategies to evaluate the impact on organizational performance.

In Wieland and Wallenburg (2012) research, they classify agility in term of the supply chain capabilities to respond quickly to the changes by adapt the initial stable configuration. Difference with robustness, it can be described as the capabilities of supply chain to oppose change with not adapting the initial stable configuration. In addition, they find agility is more suitable for strategic plan to customer-related in the supply chain while robustness is relatively effective to deal with supplier-related. Following Wieland (2013), claim when the possibility of risk is low while the impact is high the agility is the appropriate strategy to implement. In contrast, when the possibility of risk is high and the impact is low, the robustness strategy would be an appropriate choice.

Nowadays, the business environment is more challenging compared with the past as short product life cycles, global market, currency volatile, economy volatile and legal and regulation barriers. This is why, it is important for SME to adapt agility in their business environment to distinguish themselves from rivals. It is also agreed by several researchers in adapting agility strategy in supply chain (Lee, 2004; Baker, 2008; Baramichai, 2007). According to Yauch (2011), agility can describe as a performance outcome which represents the achievement of organizational and volatility environment. Nevertheless, the researcher determined agility can be evaluate when the result achieved for instance organizational reaching high performance in time volatility environment. Generally, the changes are initiate by demand side which is from downstream. In the past study done by Chiang *et al.*, (2012), they are using three items which are customer responsiveness, demand response and joint planning in measuring firm's supply chain agility.

Even though the agility strategy is a swell idea to mitigate risk, but not to forget robustness has a distinct advantage since there is no adaption needed. Robustness strategy is preventing the risk before it occurs at the same time it remains in the same condition such as by using multiple suppliers when the one of the suppliers having a crisis (Tang, 2006) and sharing resources with supply chain that enable company to achieve economies of scale (Hendricks and Singhal, 2003). According to Isotupa *et al.*, (2004), robust strategy can be the best approach when the severity of disruption is low. Zhang and Wang (2011) study claim the supply chain robustness has a positive impact on supply chain performance.

Furthermore, increasing the performance of the supply chain leads to increase the company's performance (Whitten *et al.*, 2012). As we can say when the supply chain able to restrain and resolve the emerging risks by using these strategies, it will results an increase company

performance. Thus the risk mitigation strategies will be the moderator to test the following hypothesized:

H_b: The risk mitigation strategies moderate the relationship between sources of risk and the performance of the company.

H₁: The agility strategy moderates the relationship between sources of risk and company performance of the company.

H₂: The robustness strategy moderates the relationship between sources of risk and company performance of the company.

7. Suggestion of proposition

Supply Chain Risk Management investigates supply chain risk phenomena and provides models for the analysis of several types of supply chain risks that occur both in the supply and demand side of supply chains. As mention before, this study use the framework developed by Wieland and Wallenburg (2012) and the thesis modifies the relationship between the SME's and the strategies to evaluate the impact on organizational performance. They find a positive relation between risk mitigation (agility and robustness) and the company performance. When the company attempt to emphasize on the risk mitigation strategy in reducing the probability of the risk occur, it is same as company are trying to provide a beneficial impact on company performance. In business environment, we can see the customer demand is unpredictable and unprecedented. Customers always demand an innovative product, good customer service, affordable price, durable goods and a high quality of product. As said before, the agility increased will leads to increase the company's performance. For instance, it is good for company to identify new supplier in getting high innovative material instead of develop component in house. Nevertheless, the risks also occur in supplier side such as high price, low quality and insufficient inventory. Therefore, implement robustness strategy by having a multiple supplier is one of the methods to reduce the disruption of shortage of inventory. From our proposition:

P1: Agility is an efficient strategy for restrain downstream risks and improves the performance of company

P2: Robustness is an efficient strategy for managing upstream risks and improves the performance of company.

8. References

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DOES MICROFINANCE REDUCE POVERTY? EVIDENCE FROM NIGERIA'S POVERTY ERADICATION PROGRAMME

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Abstract

Poverty is a worldwide phenomenon. It is a multi-faceted challenge which encompasses economic, social, cultural and psychological dimensions. In fact, the consequences of poverty are traumatic and dehumanizing, hence, no meaningful economic development can be achieved in a poverty ridden country. Several measures and strategies – economic and non-economic have been used to alleviate poverty and enhance economic empowerment. One of the economic measures is the microcredit through microfinance banks. Microfinance has been used on several occasions to reduce poverty, in rural areas in particular which are believed to harbour the poorest people in the world. It is an important aid that can improve the economic performance of the poor. The poor people need microfinance to improve their entrepreneurial skill and socio economic needs. But the poor people could not meet up with the requirements of the conventional banks and microfinance is not reachable. They continue to wallow in abject poverty and vicious circle. In Nigeria, governments had made frantic efforts to alleviate poverty by creating economic opportunities in various forms and empowering the poor through education and financial resources. Despite the aforementioned efforts, poverty still remains pervasive and widespread especially in the rural communities in Nigeria. This paper examines the policies and programmes of poverty alleviation in Nigeria vis-a vis the role of microfinance. Exploratory method was used to review the relevant literature in order to discover the extent of the impact of these programmes on the targeted poor masses and expose the reader to better understanding of the phenomenon. The authors posit that it is not enough to establish policy and programmes on poverty but adequate structure and pragmatic implementation process are of paramount importance. However the concerned poor should be involved and encouraged to participate meaningfully from the planning stage of such programme.

Keywords: Economic Development, Poverty, Microfinance, Exploratory, Nigeria

1. Introduction

Poverty is a global disease that effects the countries all over the world. Hence, countries worldwide always proffer measures to combat the menace. One of the popular measures is for government to embark on growth oriented programmes to alleviate poverty. Research has shown that countries recording high growth rate do not necessarily attain low level of poverty incidence. Suffice to say that increase in country's Gross Domestic Product (GDP) is not a sufficient condition for poverty reduction. To reduce poverty, Governments therefore need to develop strategies that would involve multiple programmes and policies that would be development oriented and minimize inequality and inflation (Akoum, 2008).

Inequality serves as an indicator of poverty. It connotes wide differences in income, in employment opportunities; inequality between urban and rural population and inequality in assets ownership. This occurs as a result of misappropriation and improper distribution of human and capital resources. It shows that majority of the resources are skewed into the hands of the few while the wider population lingers in abject poverty. The poverty ridden majority have little income that would not guarantee good food, quality education, adequate health treatment and basic necessities of life (Abdel-Baki, 2012; Cuong, Truong, & van der Weide, 2010; Kalirajan & Singh, 2009; Smith, 2010)

Education is regarded as one of the important pillars of economic development. It assists the poor to be aware of the opportunities that are abound for entrepreneurship and skill required for the financial development. In fact, studies have shown that literacy serves as a vital requirement for microcredit consideration (Abdel-Baki, 2012; Odhiambo, 2010; Smith, 2010). The literate people are more competent in skill acquisition and management of the business entities (Tang, 2002). Education therefore serves as the major ingredient for human capacity building that can enhance entrepreneurship to reduce poverty (Goel & Rishi, 2012). Education also serves as aid to loan repayment and assists the job seekers to get job of their choice (Orso, 2011)

Health is an important factor that enhances wealth. This connotes that without good health, one will not be able to work for a living. For instance, ill-health can prevent the head of household to earn his living thereby causing unending hardship for the entire family with other concomitant multiplier effects (Jha & Dang, 2010).

It is against this background that this paper is set to appraise the content and performance of Micro-Finance Bank as a catalyst for enhancing economic growth, income redistribution and poverty eradication particularly in Nigeria having adjudged that Micro-Finance Banks have a key role to play in poverty alleviation programmes. Following this segment is the conceptual issues. Section 3 examines the concept of using microfinance to alleviate poverty followed by the discussion on the evaluation of the effect of microfinance in section 4. In section 5, poverty incidence in Nigeria is analysed while the Nigerian experience in Microfinance and poverty are reviewed in section 6. Section 7 concludes the discussion.

2. Conceptual Framework

Adapting the Multidimensional Poverty Index (MPI) of Alkire et.al (2011), the underpinning concept for this paper is depicted in figure 1 below:

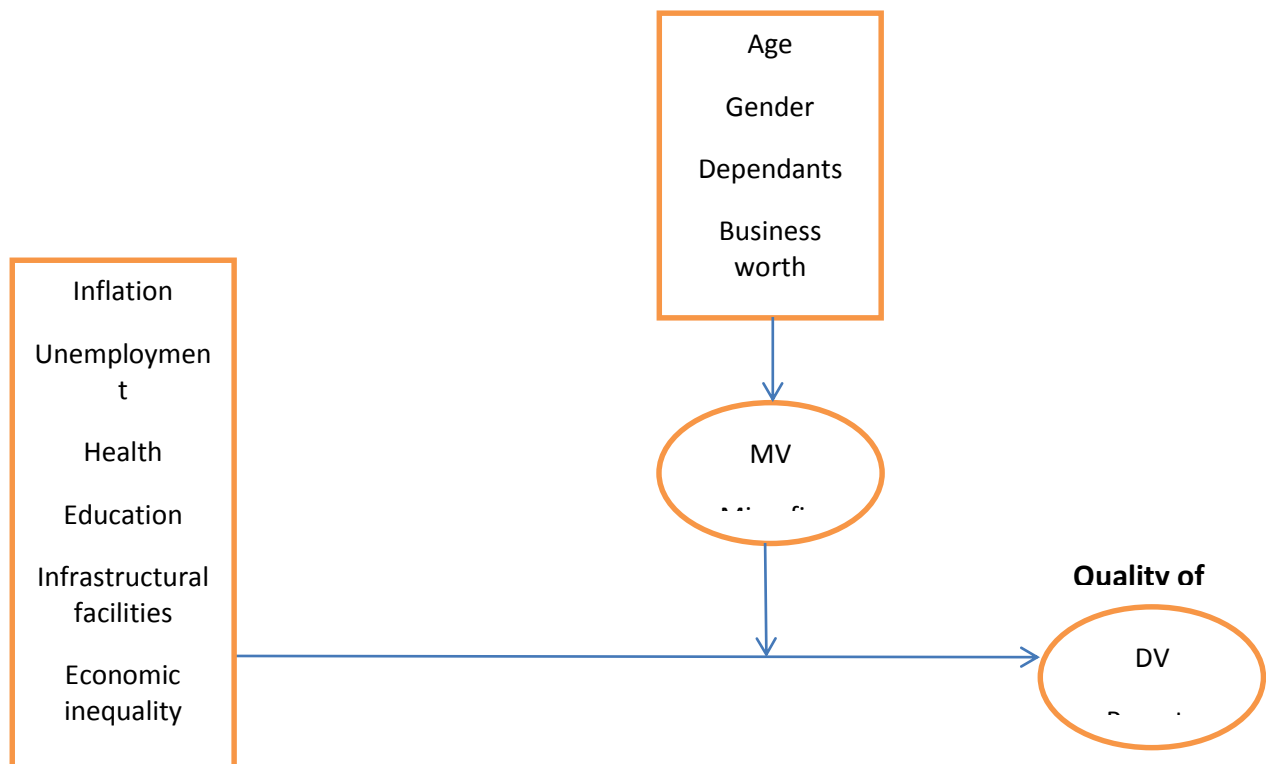


Figure 1: Conceptual Framework

Poverty is a multi-faceted fabric which involves economic, social, cultural and psychological dimensions. It is a world phenomenon whose consequences are dehumanizing, devastating and traumatic. Hence, in September 2000, the United Nations declared Millennium Development Goals (MDGs). The major thrust of this policy is to make life more meaningful to the poor and downtrodden. By implication, reduction of poverty and hunger is adjudged to be the basic root of all other problem issues focused on MDGs (Kalirajan & Singh, 2009). In essence, a person who has a much lower income than that of the rest of the population and who is deprived of any real access to basic services (health, adequate accommodation and education) is regarded as living in poverty. In a given population, the poor are those whose incomes are lowest and who therefore consume least. In fact, according to the world classification, people that live below \$1 per day are poor. They are those who have the worst quality of life. Poverty reduction can therefore be seen as enabling or empowering individuals to get them out of poverty; not only to increase the income and assets of households or individuals but also to increase the social services and security of the people. Poverty reduction will therefore entail development of human capital and the availability of infrastructural facilities that will support the efficiency of the poor (Fay et al., 2005, Aigbokhan 1999, Calderon and Serve, 2010} cited in Sackey(2011).

It has been asserted that poverty is one of the greatest challenges facing the world today. According to James D. Wolfensohn, former World Bank President, “Poverty amidst plenty is the world’s greatest challenge”. This implies that the poor countries do not necessarily lack adequate resources but they are not efficiently managed and distributed thereby causing poverty and inequalities.

No meaningful economic development can be achieved without adequate policies and programmes that will empower the poor to have their means of livelihood. Eradicating poverty

therefore constitutes political, ethical, social and economic imperative of mankind (United Nations General Assembly, 1996). Suffice it to say that only one scheme cannot solve the problem of poverty but has to be policy measures that will cut across the sectors like education and well remunerated labour option (Smith, 2010). Provision of basic commodities and services is another measure that can alleviate poverty. This can be used in particular to avoid social discontent (Abdel-Baki, 2012).

3. Using Microfinance to Alleviate Poverty

Microfinance involves the rendering of financial services to the poor and low income earners together with their micro businesses. It is widely acclaimed that Microfinance can serve as an effective tool to solve poverty problem worldwide. It is an essential aid for increase in productivity of the poor and essential ingredient for economic development (Comim 2007, Dowla & Barna 2006, Wright 2000, Islam 2007) cited in (El-Komi, 2010).

It was asserted that 1.7 billion people from the world population live in acute poverty of between \$1.25 per day and \$2 per day poverty rates. Out of this, rural areas record higher incidence of poverty than their urban counterparts (Alkire & Santos, 2010). Furthermore, empirical investigations have revealed that microfinance, being mostly a rural phenomenon, can serve as an impetus to increase the income of the households and lift them above the poverty level. Hence, most of the world nations use microcredit through the Microfinance institutions (MFIs) as strategy to reduce poverty.

Countries with well organized and efficient financial intermediaries tend to recover faster from poverty and inequality than their counterpart with moribund financial development and uncoordinated microfinance services (Kalirajan & Singh, 2009; Yang, Jialali, & Wei, 2011). Microfinance has its antecedent in Bangladesh and the first world acclaimed MFI is the Grameen Bank. In 1976, Mohammed Yunus established the first Grameen Bank in Bangladesh. With the latter's success, several developed and developing countries adopted the concept of micro financing. For instance, on September 17 1987, Amanah Ikhtiar Malaysia (AIM) was inaugurated with the main aim of reducing poverty and increasing income of Bumiputera and Malays in particular, through microcredit called Ikhtiar financing scheme for poor households in rural areas.

It is also on record that the Microcredit Summit launched in 1997 the global campaign to expand the coverage of microfinance to 100 million of the world's poorest micro entrepreneurs by 2005. Hence, the United Nations declared year 2005 as the International Year of Microcredit (El-Komi, 2010).

4. Evaluating the Effect of Microfinance

Most of studies conducted to evaluate the operations of MFIs revealed that microcredit can really assist in alleviating poverty. Few of the researches are summarized in the table below:-

Author/Date	Title	Findings
Khandker and Mark P.H (1998)	The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does the Gender of Participants Matter?	Grameen microfinance loan increase the household expenditure, family's level of education and good nutrition among others.
J. Morduch (1998)	Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh.	Microfinance loans encourage increase in consumption.
Khandker(2005)	Microfinance and Poverty: Evidence Using Panel Data from Bangladesh.	There is always 20 percent increase on microcredit given to women. Impact of microfinance is always greater on the extreme poverty than the moderate poverty. And, microfinance accounted for 40 percent of the entire reduction of moderate poverty in Bangladesh.
B. Coleman (2002)	Microfinance in Northeast Thailand: Who Benefits and How much?	The wealthy people do participate in microfinance loan and become wealthier.
G. Alenxander (2001)	An Empirical Analysis of Microfinance: Who are the Clients?	Confirms that microcredit assists the poor.
E. Edgcomb & C.Garber (1998)	Practitioner-led Impact Assessment: A Test in Honduras	Increase of 75 percent on profits of microfinance loan participants over non-participants.
B. MkNelly & K. Lippold (1998)	Practitioners-led Impact Assessment: A Test in Mali (1998)	The more the circles/rounds of participation in micro financing, the more the income.
D. Karlan (2001)	Microfinance Impact Assessment: The Perils of Using New Members as a Control Group.	Participants' skill in entrepreneurship always enhance prompt loan repayment and business profit.

Table 1: Measuring the Effect of Microfinance. (Adapted from Grameen Foundation USA Publication Series)

In the same vein, further studies of the clients of microfinance institutions like SEWA Bank, India; Zambuko Trust, Zimbabwe and Mibanco, Peru; testify to the fact that microfinance improves the well being of the participants. Other relevant researches that justify the positive impact of microfinance are ASHI Philippines, FINCA Uganda, FOCCAS and PRIDE Uganda, ICMC Bosnia and Herzegovina, BRAC Bangladesh, SHARE India, Kashf Pakistan, CARD Philippines, Moris Rasik, Timor Leste, Local Initiatives Projects Bosnia and Herzegovina; and Sinapi Aba Trust Ghana (Goldberg, 2005) .

The above analysis confirms that microfinance activities play a vital role in poverty reduction.

5. Poverty Incidence in Nigeria

Nigeria became independent country on October 1, 1960 and became a republic in 1963. With the coverage space of 923,768 square kilometers, Nigeria can be regarded as a large country. The country shares its border in the South by approximately 800 kilometers of the Atlantic Ocean, in the west by the Republic of Benin, in the north by the Republic of Niger and in the east by the Republic of Cameroon. Nigeria has been categorized as the most populous country in Africa and also in the black nation of the world with a population of 140 million people, based on the 2006 National population Census and 163 million based on National Population Commission's estimates (National Bureau of Statistics, 2010). Nigeria is a Federal republic with thirty six states and the Federal Capital Territory (FCT) Abuja. The States form the second tier of government and are further sub-divided into 774 local government areas (LGAs). The latter constitute the third tier of government (The Government of the Federal Republic of Nigeria, 2007). About 48 percent of the Nigerian population lives in the urban areas while 52 percent is in rural areas. Inflation rate stood at 12.0% in December, 2012 (NBS, Feb. 2013).

Nigeria's economic freedom score is 55.1, making its economy the 120th freest in the 2013 Index. The country is ranked 21st out of 46 countries in the Sub-Saharan African region, and its overall score is adjudged to be below the world average. Nigeria is the leading oil producer in Africa. Its Oil and Gas account for about 90 percent of export earnings and 80 percent of government revenue. The country has an extensive informal sector and the majority of the population works in agriculture (2013 Index of Economic Freedom).

According to Bertelsmann Stiftung's Transformation Index (BTI) 2012 which evaluated 128 transformation and developing countries' state of democracy, market economy and political management; Nigeria's Human Poverty Index (HPI) is 0.368. By implication, Nigeria ranks 114 out of 135 countries. The country's environmental problem ranges from air, water and industrial pollution. This has resulted in Nigeria's score of 40.2 in the Environment Performance Index. This index ranks Nigeria to be the 153rd out of 163 sampled countries.

In Nigeria, the main thrust of poverty alleviation on strategy of the government is to create economic opportunities in various forms and empower the poor through education and financial resources (Economic Policy Watch, 2002).

The Nigerian government, under the leadership of different regimes (Civilian and Military), had established several programmes to alleviate poverty. In 1972, the National Accelerated Food Production Programme was inaugurated to boost the food production through an on lending fund from the Nigeria Agricultural and Cooperative Bank. In 1976, Operation Feed the Nation was established to provide extension services to farmers in the rural areas. While The Green revolution programme of 1979 was to put an end to food importation and encourage the production of more crops and fiber. Others are: The Directorate of Food Road and Rural Infrastructure (DFFRI) in 1986, The Peoples Bank of Nigeria (1989), The Community Banks of Nigeria (1990), The Family Economic Advancement Programme (1997), The Mass Mobilization for Self-Reliance (MAMSER), the Better Life Programme (BLP), The Family Support Programme (FSP) in 1993, The National Directorate of Employment (1986),

The Petroleum Special Trust Fund (PTF), The Mass Transit Programme (MTP) ,National Poverty Eradication Programme (2001),The Agency for Mass Literacy, National Economic Empowerment and Development Strategy (2004) and the Microfinance Banks.

Recognizing the need to ameliorate the worsening condition by creating a conducive environment for investment, the government initiated and launched the Poverty Alleviation Programme (PAP) within the framework of Budget 2000. The programme was designed to provide employment for 200,000 people and the sum of N10 billion was set aside for it. The programme was implemented in every state of the Federation and it provided jobs for 214,367 people who were paid stipends of N3, 500 per month. In January, 2001, the Poverty Alleviation Programme was phased out and replaced with the National Poverty Eradication Programme (NAPEP), which has the responsibility for coordinating and monitoring the activities of the core Poverty Eradication Ministries and Agencies.

The major policy thrust of the National Poverty Eradication Programme (NAPEP) is to eradicate absolute poverty in Nigeria by the year 2010. This is based on the premise that about 70 percent of Nigerians live below the poverty line.

NAPEP has provided strategies for the eradication of absolute poverty through the streamlining and rationalization of existing poverty alleviation institutions and coordinated implementation and monitoring of relevant schemes. Among such schemes is the Credit Delivery Programme (CDP) through the Micro-Finance Banks.

Despite the aforementioned efforts, the scourge of poverty is still rampant in Nigeria. Giving the breakdown of the trend of poverty rates in the country, the National Bureau of Statistics laments that the magnitude of the people below the poverty line has increased tremendously despite the fact that Nigerian economy is ironically growing. For instance in 1980, the proportion of Nigerians living below the poverty line increased from 17.1m (27.2% of 65m total population) to 34.7m in 1985 (46.3 % of the total population of 75m). The people living in poverty in 1992 were 39.2m (42.7% of the total population of 91.5m). This figure increased to 67.1m in 1996 (65.6% of the total population of 102.3m). In 2004, the people in poverty were 68.7m (54.4% of the total population of 126.3m), the proportion of people living below property line rose sharply in 2010 to 112.47m (69% of the estimated population of 163m). Table 2 below further clarifies this analysis.

Year	Poverty Incidence (%)	Estimated Population (Million)	Population in poverty (Million)
1980	27.2	65	17.1
1985	46.3	75	34.7
1992	42.7	91.5	39.2
1996	65.6	102.3	67.1
2004	54.4	126.3	68.7
2010	69.0	163	112.47

Table 2: Relative Poverty Head count from 1980 - 2010 (Source: National Bureau of Statistics. HNLSS 2010)

In line with the above assertions, it was claimed that about 92% of the Nigerian population survive on less than \$2 on daily bases while 71% live with less than \$1 daily (UNESCO, 2010).

Consequently, it was advised that Nigeria and other African countries must take drastic measures to improve the conditions of living in their countries; otherwise, they will not be able to meet the 2015 target goals for MDGs (UNDP).

Despite all the government efforts, poverty still remains widespread and pervasive particularly in the rural communities. Nigeria is yet to ensure national food security. Most of the communities still lack steady source of income that can accommodate basic health care facilities, good quality education, good standard housing units, cheap and affordable consumer products; and enabling environment for production and trade.

6. Microfinance and Poverty: The Nigeria's Experience

In Nigeria, it is on record that the formal financial system renders services to about 35% of the economically active population whereas the remaining 65% is left to the hands of informal financial sector like Non-Governmental Organisations (NGOs), money lenders, friends, relatives and Cooperative and Thrift societies. It is therefore important for developing country like Nigeria to enact a formidable finance policy that would integrate the activities of the existing informal financial institutions. And bring them within the umbrella of the apex regulator -Central Bank of Nigeria. This would ensure monetary stability that will be capable to engender sound economic growth and development through the adequate finance of micro, small and medium scale enterprises.

The doctrine of alleviating poverty and elevating the economic active but underprivileged people through microcredit assistance was prominent in the last two decades. Hitherto, microfinance functions in Nigeria with the provision of micro-credit to rural and urban low-income earners. They operate in form of self-help groups that rotate the savings and credits among the group members. There are other informal providers of microfinance services like cooperative societies; and savings collectors usually called "Baba Alajo". However, the major impediment of these informal microfinance institutions is the fact that they serve few people as a result of insufficient funds available to finance their customers' projects and extend the financial services to rural areas. In order to improve this situation, Nigerian governments in the past had established series of financed micro/rural credit programmes that would assist the poor to fund his micro-business. Such programmes include the Rural Banking Programme, sectoral allocation of credits, a concessionary interest rate, and the Agricultural Credit Guarantee Scheme (ACGS). Others were the Nigerian Agriculture and Co-operative Bank Limited (NACB), the National Directorate of Employment (NDE), the Nigerian Agricultural Insurance Corporation (NAIC), the Peoples Bank of Nigeria (PBN), the Community Banks (CBs), the Family Economic Advancement Programme (FEAP) and in year 2001 it created the National Poverty Eradication Programme (NAPEP) with the mandate of providing financial services to alleviate poverty.

Some Non-Governmental Organisations (NGOs) also participate in microfinance activities as a result of the lack of adequate funds from the formal financial sector to provide the services needed by the low income earners and the poor, and also with the declining support from development partners among others. Prominent among them are: Lift Above Poverty Organization (LAPO), Youth Empowerment Scheme (YES) in Minna, Country Women's Association of Nigeria (COWAN), The African Diaspora Foundation, Farmers' Development Association, Grassroots Women Foundation, People to People International and Women's

Consortium of Nigeria. The NGOs are only membership based institutions that engage in charity, capital lending and credit. They shifted from supply-led technique to a demand driven strategy. Moreover, they could not reach out as expected because of the non-sustainability of the sources of their fund.

From the private sector, about eight hundred and seventy Microfinance Institutions are owned by the private organizations all over the country. While appraising these institutions' activities in its December 2005 report, the Central Bank of Nigeria (apex regulator of Banks) affirms that most the microfinance banks have weak institutional capacity, inadequate capital base and there has been a huge supply gap of unsatisfied demand in the market.(Central Bank of Nigeria,2005)

In its report at the 3rd Annual General Meeting held in June, 2013, the National Association of Microfinance Banks (NAMB) in Nigeria claimed that its members had invested more than N222 billion into Nigeria's economy and provided jobs for 22,000 people from its activities nationwide with the total client of six million. The report further solicits assistance for more funds so that microfinance would be more effective with expected responsibilities in the Nigerian economy (Microfinance Africa, June 24, 2013).

The Nigeria Deposit Insurance Corporation (NDIC), the government agency saddled with the responsibility of insuring deposit liabilities of licensed banks and other deposit taking institutions, also claimed that there exists a lot of untapped potential for financial services at the micro level of the Nigerian economy particularly in the rural areas where 76.8 percent of the residents are unbanked (Microfinance Africa, June 18, 2013).

From the above discussion, one can infer that if pragmatic actions are not urgently taken, the poverty in Nigeria would be deepened and this will slow down the economic growth and development.

7. Conclusion

The illustrations so far have really portrayed the role of Microfinance as catalyst for poverty alleviation. However for any poverty reduction or alleviation programme to achieve its objectives, there is need for the establishment of appropriate structure for effective implementation. Hence, we notice the efficiency of microfinance in some countries save Nigeria. Furthermore, as earlier noted, poverty is multidimensional; likewise, its solution should also be multiple programmes. Governments should therefore wage unending wars against poverty. It is not just enough to reduce poverty but concerted efforts should be made to prevent it. This can only be achieved through proactive and multiple programmes, projects and policies that are compatible with the development of the economy.

Efficient implementation of poverty alleviation programmes requires disciplined and transparent government that will shun corruption and encourage proper accountability. For government to achieve its objectives of such programmes, it should encourage the beneficiaries of the programme to be fully involved and support its success.

Development occurs when the economy is able to improve and sustain the standard of living of the people. Suffice to say that economic growth does not connote economic development. That is, there can be growth without development. It is therefore pertinent that development in a country means reduction in the level of poverty, inequality and unemployment without prejudice to economic growth (Seers, 1969) cited in Anger (2010) .

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THE PREVALENCE OF NON-COMMUNICABLE DISEASES AND ITS EFFECTS ON DOCTOR VISITS AMONG THE ELDERLY IN KEDAH, MALAYSIA

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Abstract

The prevalence of non-communicable diseases (NCDs) in Malaysia shows a rising trend that influences the society in many ways which include higher utilization of health services. The elderly are among the high-risk group of having NCDs due to poor disease resistance, the ongoing effect of lifestyle, diet and physical activities. The aims of this study are to identify the distribution of two NCDs which are diabetes and hypertension (high blood pressure) of the elderly population in rural and urban area in the state of Kedah, Malaysia and determine the effect of the prevalence these NCDs on doctor visits. A total of 399 respondents aged 60 years and above were selected by using a multistage sampling procedure in which 43 percent were from rural areas. From the descriptive analysis, it is found that the prevalence of NCDs is higher in urban areas as compared to rural. By utilizing probit model, it is also found that those with hypertension or diabetes, controlling for other variables, are more likely to utilize doctor services. This result implies that the prevalence of NCDs may further increase demand for health care, especially in the state with a high proportion of older age groups. Besides, the process of urbanization may accelerate the prevalence of NCDs in which government interventions in development process are essential to reduce the risk factors of NCDs that are linked to urbanization.

Keywords: Diabetes, elderly, health care utilization, hypertension, non-communicable diseases

1. Introduction

Non-communicable diseases (NCDs) are diseases which are not infectious and cannot be transferred from one person to another. Besides genetically inherited, it may be caused by economic and social conditions, gender, lifestyles, background and environment factors which many of them are modifiable risk factors (Negin et al., 2011; Promthet et al., 2011; Silva-Matos & Beran, 2012). NCDs may be of long duration chronic diseases that slowly progressed. In Malaysia, the major burden of NCDs are cardiovascular diseases, diabetes, cancer and mental illness and these NCDs have shown a rising an alarming trend. The Ministry of Health (MOH) reports that 17 million (60.7 percent) Malaysians live with at least one NCD and almost 15 percent of Malaysians aged above 30 suffers from diabetes and 42.6 percent has hypertension (MOH, 2010).

The increase in the prevalence of NCDs influences the society in many ways which include higher utilization of health services. The World Organization reports that non-communicable diseases (NCD) to be the top cause of mortality in the world. They cause more than 36 million deaths each year, of which almost 80% are from low and middle income countries (WHO, 2013). It has also claimed that major forces for social, economic and social change, which factors may increase the prevalence of NCDs, are population ageing, globalization and urbanization.

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The elderly are vulnerable to chronic health problems, including non-communicable diseases (Ayernor, 2012; Sazlina et al., 2012). The growing elderly population in Malaysia indicates the potential increase in health care use in the future and the rapid process of urbanization and rural development may exacerbate it. The main objective of this study is to analyze the distribution of diabetes and hypertension^⑦ among the elderly in Kedah, Malaysia by gender and urban-rural setting. The second objective focuses on identifying the effect these two diseases on the likelihood of healthcare utilization, specifically doctor visits.

2. Methods

Data

The survey was conducted in October 2012. A total of 400 respondents aged 60 and over, were interviewed face-to-face using a structured questionnaire. Due to missing values of some interest variables, only 399 respondents left for analysis. The multistage cluster sampling was used in selecting the sample for the study. All districts in Kedah were first divided into three strata, based on the status of the municipal council of the district which are City, Municipal and District Councils. Next, at least one district was randomly selected from each stratum. The number of respondents chosen was proportionate to the number of total population in each stratum.

Later, for all districts chosen, the *mukim* (sub-districts) were listed down and arranged in ascending order based on the number of population. We later picked the sub-district at the top, median and bottom of the list. The next stage was to select the targeted area. By selected *mukim*, all housing estates and *kampung* (villages) have been listed out. The list was furnished by the Municipal Council of each district. At this stage, the quota sampling technique was used based on the number of respondents determined in the previous stage. Each numerator had randomly picked one living quarter from the listed *kampung* or housing estate to find the first respondents aged 60 and over, followed by the next house and so on until the predetermined sample size was achieved.

Descriptive Analysis

Prior to empirical analysis of doctor visits, this section begins by presenting the distribution of two selected non-communicable diseases which are hypertension and diabetes. Respondents were asked whether they have any longstanding illness or disabilities. If so, the respondents were given a list of health problems that they may suffered from which include NCDs and NCDs risk factors. Respondents were also asked whether they have been receiving regular treatment for the disease(s) they reported and whether the disease(s) it constrained their daily activities. The distribution is also analyzed by gender and the urbanization level of the locality. Although the prevalence of NCDs are more meaningful if it was analyzed by NCDs' risk factors like physical activities, diet and smoking status, but these factors may be endogenous in cross-sectional data, thus is not considered in this paper.

Empirical specification

Probit Model

The probit model is used in determining the effects of having diabetes or hypertension on health care demand, specifically on formal doctor visits. The respondents were asked whether they had visited a doctor in the past one month before the interview which may also include the regular visits. Assume that for each elderly, there is a latent variable that represents

^⑦ Hypertension is one of the risk factors for cardiovascular diseases with cut off BP greater than 140/90. In this study however, prevalence of hypertension (and other longstanding illnesses) are self-reported and maybe underreported.

his or her unobserved demand on health care. This unobserved demand is associated with variables such as socio-demographic characteristics of the elderly and other considered variables (x_i). Let y^* represent this latent variable and assume that y^* is a linear function of x_i , then,

$$y_i^* = \sum_{i=1}^n \beta x_i + u_i \quad (1)$$

where

y^* = unobserved demand on health care

x = independent variables

u = error term

Let y be the random variable that represents the observed outcomes such that value of y is observed as:

$y = 1$ if the elderly have had doctor visits in the last one month

$= 0$ if otherwise

Assume that the error term in the latent equation (1) follows a normal distribution, we have the probit model. The probability that the elderly have observed outcome of demand for health care ($y=1$) or otherwise ($y=0$) is given as below:

$$\text{Prob}(y = 1) = \text{Prob}(y^* > 1) = \text{Prob}(x' \beta + u > 0) = \text{Prob}(u < x' \beta) = \Phi(x' \beta)$$

$$\text{Prob}(y = 0) = 1 - \text{Prob}(y = 1) = 1 - \Phi(x' \beta)$$

The Φ is the cumulative standard normal distribution function. The maximum likelihood parameter estimates (MLE) are obtained by maximising the following log likelihood function with respect to β :

$$LF(\beta) = \sum_{i=1}^n y_i \ln(\Phi(x' \beta)) + (1 - y_i) \ln(1 - \Phi(x' \beta))$$

The model will be estimated with the robust variance estimates (Huber/White/sandwich estimator of variance).

Selection of variables

Our main interest here is to determine the effect of the prevalence of hypertension (*hp*) and diabetes (*diabetes*) on doctor visits by controlling other demographic, socioeconomic and other health factors. List of variables with the summary statistics of independent variables used for empirical analysis is presented in Table 1.

Table 1: Independent variables for health care demand models

Variables	Definitions	Mean	s.d	Min	Max
<i>age</i>	Age in year	70.03	7.27	70.03	7.27
<i>male</i>	1 if gender is male, 0 female	0.49	0.50	0	1
<i>malay</i>	Ethnicity 1 - Malay, 0 otherwise	0.79	0.40	0	1
<i>edu</i>	Highest Education level 1 - No formal school to 10 - Post - degree	2.31	1.47	1	9
<i>no_work</i>	Main economic activity	0.79	0.41	0	1

Variables	Definitions	Mean	s.d	Min	Max
	1- Not working 0 - otherwise				
<i>smoker</i>	Whether currently a smoker 1 - Yes, 0 - No	0.20	0.40	0	1
<i>vegetarian</i>	Whether a full-time vegetarian 1 - Yes, 0 - No	0.02	0.15	0	1
<i>exercise</i>	Time allocation for exercising 1 = 0 hour to 5 - >3 hours	2.03	1.30	1	5
<i>income</i>	Total of individual income from all sources	601.91	741.50	0	7500
<i>insurance</i>	Own medical insurance 1 - Yes, 0 - No	0.05	0.22	0	1
<i>married</i>	Marital status 1 - Married, 0 - otherwise	0.71	0.45	0	1
<i>live</i>	Number of individuals aged 18 and above that are currently living together	1.85	1.42	0	7
<i>chat</i>	Informal interaction with the society (past two weeks) 1 - Yes , 0 - No	0.58	0.49	0	1
<i>trust</i>	Living in trusted community 1 - Yes, 0 - No	0.94	0.23	0	1
<i>urban</i>	1 - lives is urban area, 0 - rural				
<i>otc</i>	Utilization of over the counter market for health care 1 - Yes, 0 - No	0.54	0.50	0	1
<i>alt</i>	Utilization of alternative health services or traditional healers 1 - Yes, 0 - No	0.10	0.30	0	1
<i>sah</i>	Self-assessed health 1 - Good, 2 - Average, 3 - Poor	1.77	0.66	1	3
<i>long_ill</i>	Having longstanding health problems 1 - Yes, 0 - No	0.66	0.47	0	1
<i>hp</i>	Reported of having high hypertension (blood pressure) 1 - Yes, 0 - No	0.40	0.49	0	1
<i>diabetes</i>	Reported of having high diabetes 1 - Yes, 0 - No	0.24	0.42	0	1
<i>arms</i>	Reported of having problems with arms, legs, hands, feet, back, neck 1 - Yes, 0 - No	0.32	0.47	0	1

3. Results and discussion

Descriptive statistics

From the analysis it is found that 66.42 percent (CI 95% 61.55% - 71.04%) are suffering from at least one longstanding illness of which diabetes and hypertension are among the top three reported. Of 399 respondents, 23.56 percent (19.48% - 28.04%) have reported of having diabetes while 39.59 percent (34.77% - 44.59%) reported of hypertension. There are 17 percent (13.72% - 21.37%) suffer both diabetes and hypertension. Among those who suffer from diabetes, 93.62 percent (0.867% - 0.98%) have regular visit to health centre while 88.61 percent (82.60% - 93.10%) applied for hypertension.

The next section presents the distribution of diabetes and hypertension by gender and urban-rural setting. For urban-rural setting, we have divided the sub-district into urban-rural category based on the urban definition by Statistics Department (2000)[®]. The data show that 56.89 percent of the respondents are from urban area and the remaining 43.11 percent are from rural. Figures 1a to 2b show the frequency distribution of diabetes and hypertension by gender and setting. It shows that 26.4 percent (20%-33%) of men suffer from diabetes which rate is higher than that of women which is 20.79 percent (15.4% - 27%). The opposite trend is found for hypertension where the rate of prevalence is higher for women than men as shown in Table 1a. The distribution by gender is study specific, thus it is difficult to draw a conclusion of the effect of gender on prevalence. For example, in Dalal et al. (2010), by using data from sub-Saharan Africa, found that the prevalence of hypertension was comparable between gender while Ahmad et al. (2009) using data from selected Asian countries and Edwards et al. (2000) with sub-Saharan setting found that being male increases the prevalence of hypertension.

The occurrence of both diabetes and hypertension are claimed to be higher in urban areas as compared to rural, especially the poor in urban areas. The increased risk factors in urban areas may be due exposure to pollution, the consumption of unhealthy foods, lifestyles and less physical activities. Figure 2b shows that the prevalence of diabetes and hypertension are higher in urban areas than that of rural which is consistent with Msyamboza (2011) and Mayosi et al. (2009).

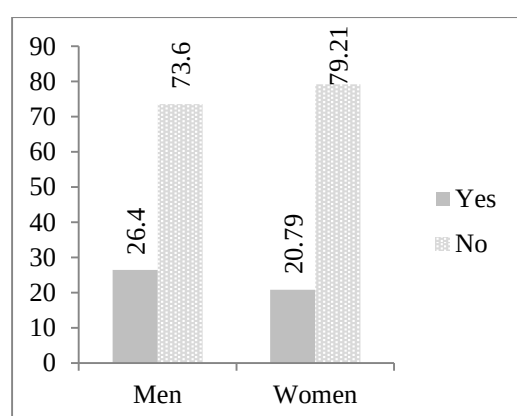


Fig. 1a: Distribution of diabetes

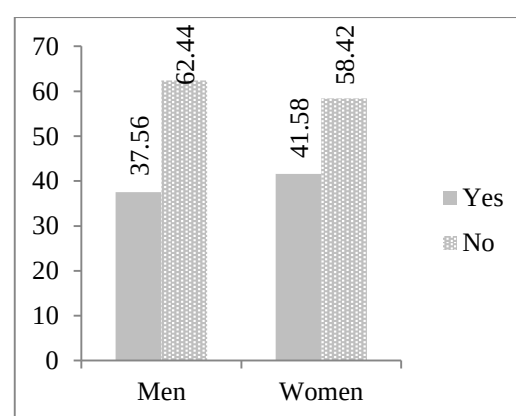


Fig. 1b: Distribution of hypertension

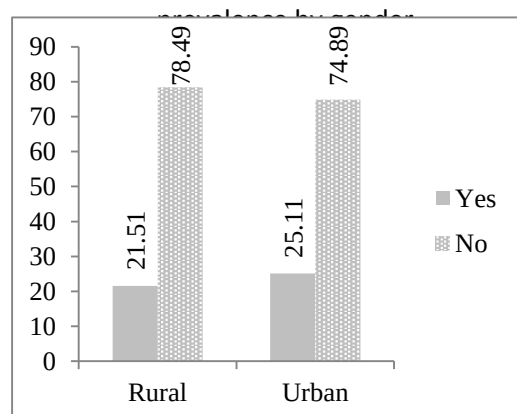


Fig. 2a: Distribution of diabetes prevalence by setting

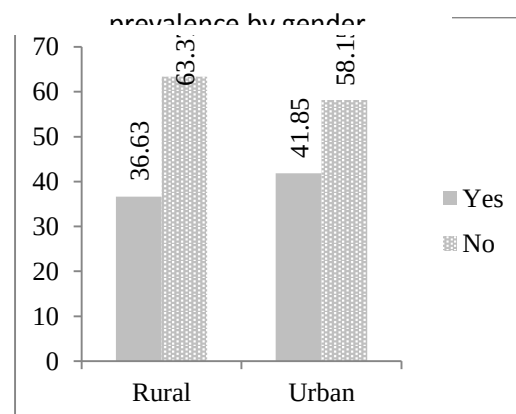


Fig. 2b: Distribution of hypertension prevalence by setting

[®] We use definition as in Census 2000 that defines urban areas as 'geometric areas that were designated as urban areas which had a combined population of 10,000 or more'.

Probit model

This section reports the influence of prevalence of diabetes and hypertension, controlling for demographic, socioeconomic and other health related factor, on the probability of doctor visits. The estimation from the probit model is shown in Table 2. Apart from being vegetarian and engaging in informal interactions, other significant factors are all health related. Suffering from diabetes, has increased the likelihood of doctor visits among the respondents at 5 percent significance level. The prevalence of hypertension has also influenced the likelihood for the same service utilization. From the model it suggests that we may expect the increase in health care demand in the future as population ageing, coupled with the increase in NCDs prevalence among the elderly.

Table 2: The estimated probit model for doctor visit
N=399

Variables	Coefficient	p-value
<i>age</i>	-0.019	0.108
<i>male</i>	0.407	0.058
<i>ethnic</i>	-0.045	0.802
<i>edu</i>	0.084	0.263
<i>no_work</i>	-0.240	0.262
<i>smoker</i>	-0.301	0.162
<i>vegetarian</i>	0.915	0.042**
<i>exercise</i>	0.103	0.093
<i>income</i>	0.000	0.09
<i>insurance</i>	-0.108	0.745
<i>married</i>	-0.352	0.075
<i>live</i>	0.059	0.288
<i>chat</i>	-0.473	0.002***
<i>trust</i>	-0.047	0.869
<i>urban</i>	-0.313	0.045
<i>otc</i>	-0.435	0.012**
<i>alt</i>	0.317	0.256
<i>sah</i>	0.638	0.000***
<i>long_ill</i>	0.754	0.001***
<i>hp</i>	0.622	0.001***
<i>diabetes</i>	0.476	0.021**
<i>arms</i>	0.335	0.073
<i>_cons</i>	0.010	0.992
<i>LogLikelihood</i>	-185.00762	

The symbol *** and ** denote 1% and 5% level of significance, respectively

4. Conclusion

The aim of this paper is to identify the distribution of two non-communicable diseases (NCDs) which are diabetes and hypertension among the elderly in the state of Kedah. Focus is given to the elderly group not only because its proportion to population has been increasing over time, but the probability to be diagnosed with longstanding illnesses that include NCDs has also swelled with age. From the analysis, it is found that the prevalence of hypertension and diabetes are the top three longstanding health problems reported by respondents. Most of the respondents with diabetes (93.62%) and hypertension (88.61%) have periodic visit to health centre for regular monitoring and treatment. In getting the overview of the prevalence distribution, the frequency by gender and setting (urban/rural) is tabulated. It is found that the prevalence rate of diabetes is higher among men than women and as for hypertension we found the reverse finding where the occurrence rate in women is higher than men.

Studies suggest that urbanization is among the determinants of NCDs prevalence. It is found in this study that the prevalence of diabetes and hypertension is higher in urban setting than the rural, implying that the process to transform or develop rural areas must be accompanied with specific measures that could control the prevalence of NCDs, specifically diabetes and hypertension. From the probit model, the study found that the prevalence of diabetes and hypertension contributes to the increased probability of utilizing health care services. Therefore, health promotion, early intervention and detection may reduce unnecessary costs in the future.

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RURAL HEALTHCARE SERVICE: TECHNICAL AND SCALE EFFICIENCY OF DISTRICT HOSPITALS IN THE NORTHERN STATES OF MALAYSIA

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Abstract

Rising costs and financial constraints in recent years have put much pressure on the public health provider for cost control and efficient utilization of resources. Relatively, public hospitals handle more patients and admissions than the private sector hospitals, but resource utilization vary amongst public hospitals. In line with this, efficiency study of hospitals can provide comparison of their relative performance given the need to ensure the best use of scarce resources. This study utilizes Data Envelopment Analysis (DEA) to estimate the technical and scale efficiency of 12 districts hospitals in the northern states of Malaysia over the period of three years (2008 -2010). There are three inputs and four outputs considered in this analysis. The results showed that the efficiency scores were falling in the period 2008 - 2010. The average Variable Returns-to-Scale (VRS) technical efficiency scores for inefficient hospitals were 0.9459 in 2008, but decreased to 0.9181 in 2009 and to 0.8976 in 2010. In terms of scale efficiency, the average scale efficiency scores for scale-inefficient hospitals were roughly constant at 0.89 in 2008 – 2010 period. But the number of scale inefficient hospitals had increased from 7 in 2008 to 11 in 2010. Comparatively more hospitals exhibit increasing returns to scale (IRS) than decreasing returns to scale (DRS). This suggests that the hospitals are too small for the volume of activities that they handle and could expand their services accordingly.

Keywords

Rural healthcare, hospital efficiency, DEA, technical efficiency, northern states of Malaysia

1. Introduction

Rising costs and financial constraints in recent years have put much pressure on the public health provider for cost control and efficient utilization of resources. Globally healthcare costs have been escalating, and likewise in Malaysia. With higher general standard of living, rising consumer affluence and better-informed patients the demand for better healthcare services keeps on increasing. On this background, the 5th Strategic Direction (Quality of Life of an Advanced Nation) of the Tenth Malaysia Plan (2011 - 2015) aims to improve healthcare quality, make it more efficient and effective in ensuring universal access to healthcare to the people. The objective of this paper is to examine the technical and scale efficiency of district hospitals in the northern states of Malaysia using Data Envelopment Analysis (DEA). Although public hospitals are not profit motivated and adhere to firm optimization behaviour, given the large amount of resources that go towards funding them, there is a growing interest in

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examining their efficiency. The efficiency study of hospitals can provide comparison of their relative performance given the need to ensure the best use of scarce resources.

The organization of the paper is as follows. The following section (2) presents an overview of healthcare in Malaysia. Section 3 reviews literature related to efficiency. This is followed by methodology employed in the study in Section 4. Results and Analysis is in Section 5 and the last section is Conclusion.

2. *Healthcare in Malaysia*

The Malaysian healthcare system consists of the public and the private health sector. In the public health sector the main provider is the Ministry of Health (MoH) that provides primary care, secondary care and tertiary cares through a network of health facilities nationwide. The public health services are highly subsidized by the government and used by the majority of the population. In terms of national budget the government budget allocation for health sector was 8.02% of the national budget (RM15.348 billion) in 2010 but dropped to 7.11% of the national budget (RM15.223 billion) in 2011 (Ministry of Health, 2010).

Private health providers complement the medical services provided by the government. Private care consists of among others, general practitioners clinics and private hospitals. Currently, there are about 5642 private general practitioners clinics and 535 private specialist clinics in Malaysia. Private hospitals exist in a variety of sizes. All private hospitals are located in the urban areas. Although there are more hospitals in the private system, about 73% of hospitals beds are within the public system which handles 71% of admission. There were 137 MoH hospitals with a total of 37,793 beds in 2010 whereas the number of private hospitals were 217 with 13,816 beds (Ministry of Health, 2010). In general, the distribution of public and private hospitals across Malaysia skewed towards more developed and urbanized states. The national average for doctor/population ratio and bed/population ratio are 1:859 and 1:515 respectively.

Rural healthservices in Malaysia are provided by the MoH through health centres and districts hospitals. Health centres only handle outpatients services and primary care services are delivered almost free of charge. District hospitals are located in each district of a state and provided outpatient care, inpatient and accident and emergency services which covers non-complicated medical cases. Specialist services are offered on special visiting hours on certain days. For complicated and serious cases patients will be referred to district hospitals with specialist services or to general hospitals or to national referral centres. The national referral centre is the highest level of hospital in the hierarchy of public healthcare system, e.g. Hospital Kuala Lumpur, Institute of Orthopedics and Institute of Neurological Science.

3. *Literature Review*

3.1 *Concept of Efficiency and Approaches to Hospital Efficiency Studies*

The concept of efficiency was introduced in 1950 by Koopmans who defined technical efficiency. Modelling efficiency measurement in a non-parametric way was first introduced by Farrell (1957) who consequently developed measures of technical efficiency and allocative efficiency. Technical efficiency refers to the ability of a firm to produce the maximum possible output from a given set of inputs. In the context of healthcare services, technical efficiency refers to the physical relationship between inputs allocated (e.g. labour, equipment and capital)

and certain health outcomes (e.g. the number of patients treated) or final health outcomes (e.g. mortality rate and life expectancy) (Palmer and Togerson, 1999). Inefficiency exists when inputs could be reallocated in a way that could increase the health outcomes.

There are several methods of measuring efficiency. Recent decades however have witnessed the measuring of efficiency in various areas using frontier efficiency, i.e. DEA and stochastic frontier analysis. The original DEA study was by Charnes, Cooper and Rhodes (CCR) in 1978. Later, the Banker, Charnes and Cooper (BCC) model was introduced by Banker, Charnes and Cooper (1984) in which the model separates the technical efficiency and the scale efficiency. The more recent developments have been described by Banker and Maindiratta (1988). The purpose of the DEA is to establish the relative efficiency of each decision making unit (DMU) within a sample of a given DMUs. Hence, the efficiency of an organization is measured relative to a group's observed best practice.

3.2 Review of Hospital Efficiency Studies

Studies on efficiency of healthcare delivery unit providers are abundant. 80% of the studies published in the last decades and more are added annually (Hollingsworth and Street, 2006). The following section highlights the focus and findings of some of the studies.

DEA technique has been widely used to analyze efficiency in healthcare delivery units in various countries in the world (Worthington, 2004; Moshiri et al., 2011; Hollingsworth (2008). The first empirical test of DEA on hospital was done by Sherman (1984) who applied DEA to a group of teaching hospitals. Studies pertaining to health sector in Malaysia using DEA are rather limited. There were some studies on productivity measurement of Malaysian government hospitals (Che Razak, 2003) and on the efficiency of teaching hospitals in Malaysia (Moshiri et al., 2011).

In the United States, Ozcan and Luke (1993) applied the DEA method to a group of hospitals at the national level and found that government-owned hospitals were more efficient. On the effect of ownership on efficiency, however, some other studies found the opposites, e.g. Chang, Cheng and Das (2004) found that private hospitals are more efficient than public hospitals in Taiwan; or no effect of ownership on efficiency (e.g. Steinmann and Zweifel (2003) for Swiss hospitals). Zuckerman et al. (1994) used a cross-sectional stochastic frontier model to derive hospital- specific measure of inefficiency and assess the relationship between profits and efficiency. Their result indicate that inefficiency accounts for 13.6% of total hospital costs and that the Medicare rewards efficiency and penalizes inefficiency. By removing 13.6% estimated inefficiency would have reduced hospital costs in 1991 by approximately USD31 billion.

Studies by Kirigia, Sambo and Scheel (2001) in Kenya also found that 56% of the hospitals were technically inefficient, whereas Kirigia, Emrouznejad and Sambo (2002) found 26% of the hospitals were technically inefficient. Similar results were reported by Zere, et al. (2006) in their study on the technical efficiency of 30 district hospitals in Namibia where the average technical efficiency was less than 75%. In China, using Malmquist DEA to study the productivity of 12 coastal hospitals and 17 inland hospitals from 2002 to 2005, Ng (2008) found that overall general healthcare sectors in the inland region performed better than those in the coastal region. However, the more market-oriented provinces in the coastal region experienced noticeably better performance in health care provision, and this might be related to the level of economic development of the respective provinces. The study used three inputs, i.e. number of

doctors and nurses, other health staff, and beds; and two outputs, i.e. number of outpatient visits and inpatient stays.

All studies on technical efficiency of hospitals using DEA analysis revealed some degree of inefficiency. Estimates of hospital inefficiencies found the average level of inefficiency between 10% - 20% in many countries. Based on his analysis of 317 published works on frontier efficiency measurements of productive healthcare units Hollingworth (2008) reported that the mean efficiency score across all the hospital studies was 83.5%. The mean in the US hospitals was 82.6% and in EU hospital 86.09%. Interestingly, the mean for public hospitals was higher (88.1%) than in for - profit hospitals (80.1%).

4. Methodology

4.1 Data and Scope of Study

The units of analysis or the DMUs in this study are the districts hospitals (without specialist). The Northern States in this study were Kedah and Perak. There were altogether 22 administrative districts in Kedah and Perak. Excluding the districts which have hospitals with specialists leaved us with 12 districts hospitals which were Baling, Sik, Yan, Jitra and Kuala Nerang in Kedah, and Batu Gajah, Parit Buntar, Sungai Siput, Selama, Changkat Melintang, Tapah and Kampar in Perak. The data consist of three inputs (number of doctors, nurses and beds) and four outputs (number of inpatients, outpatients, surgeries and deliveries). Data were collected for three years from 2008 to 2010.

4.2 Data Envelopment Analysis (DEA)

In this study we utilized the input oriented model which was adapted from the BCC model. The input oriented model for hospital j_o , adapted from the BCC model is to

$$\text{Minimize } \theta \quad (1)$$

subject to:

$$\sum_{j=1}^K \lambda_j x_{ij} \leq \theta x_{ij_o} \quad \forall i \quad (2)$$

$$\sum_{j=1}^K \lambda_j y_{rj} \geq y_{rj_o} \quad \forall r \quad (3)$$

$$\sum \lambda_j = 1 \quad (4)$$

$$\lambda_j \geq 0, \quad j = 1 \dots K$$

The objective of the model is to minimize the efficiency score for the particular hospital being solved for, denoted by θ , where $0 < \theta < 1$. θ is the amount by which all inputs can be contracted for each individual hospital under consideration, while holding output and other

environment constant. $\lambda_j(j=1, \dots, K)$ represent the weights that will be used to form a weighted average frontier composite. Θ is applied only to the three health inputs in constraint (2). The slacks (S) are calculated residually after solving the minimization problem in Equation (1). The input slacks can be determined by $S = \Theta x_{ijo} - \sum_{j=1}^K \lambda_j x_{rj}$.

5. Results and Analysis

5.1 Technical Efficiency

A hospital is efficient when the score is 1. Table 1 shows the pure technical and scale efficiency scores for years 2008 to 2010. The hospitals operating on the efficient frontier define the best practice and could be regarded as role models. In 2008, 6 hospitals – KY, KJ, KN, AS, AL, AC, were found to be technically efficient.

Table 1: Hospitals' Technical and Scale Efficiency, 2008-2010

DMU	Efficiency -2008			Efficiency -2009			Efficiency -2010		
	VRSTE	SE	Return to Scale	VRSTE	SE	Return to Scale	VRSTE	SE	Return to Scale
KB	0.9908	0.8865	DRS	1	1	CRS	0.9912	0.9886	DRS
KS	0.8569	0.9907	IRS	0.8496	0.9960	IRS	0.7762	0.9992	IRS
KY	1	1	CRS	1	1	CRS	0.9323	0.9987	DRS
KJ	1	1	CRS	1	1	CRS	1	1	CRS
KN	1	1	CRS	1	1	CRS	1	0.9361	IRS
AG	0.9730	0.9966	IRS	1	1	CRS	0.8738	0.9965	IRS
AB	0.9666	0.9489	DRS	1	1	CRS	0.9358	0.9997	IRS
AS	1	1	CRS	0.9997	0.9808	IRS	1	0.9446	IRS
AL	1	0.8497	IRS	0.9737	0.8189	IRS	0.9584	0.6423	IRS
AC	1	1	CRS	1	0.9577	IRS	1	0.8120	IRS
AT	0.9209	0.9359	IRS	0.8495	0.8976	IRS	0.8161	0.8356	IRS
AK	0.9674	0.6532	IRS	1	0.6903	IRS	1	0.6890	IRS

Note:

DRS = Decreasing Return to Scale

CRS = Constant Return to Scale

IRS = Increasing Return to Scale

In 2009 the number of efficient hospitals had increased to 7 but declined in 2010 to 5. The average Variable Returns to Scale (VRS) technical efficiency scores for inefficient hospitals were 0.9459 in 2008, but dropped to 91.81 in 2009 and to 89.76 in 2010. The efficiency scores estimate the extent to which the inputs would need to be reduced in equal proportion to reach the production frontier. For example in the case of KS and AT, they could have reduced their inputs combination up to 15% and 8% respectively in 2008 – 2009 while maintaining the same number of outputs.

For each inefficient hospital, the DEA model has identified efficient hospitals that could be used as comparators (benchmarks). Slacks were calculated in DEA by specifying the amount by which an input (output) may be further reduced (increased) in order for the unit to attain the status of an efficient one (Table 2). For example, in year 2008, in order for KS to become

efficient as its efficient peer, was to increase the number of outpatients to 16159 and surgeries by 4036. The similar explanation can be extended for other inefficient hospitals.

Table 2: The Group of Best Performers and Slack Variables for the Inefficient Hospitals in 2008-2010

DMU	Score	Benchmarks	Slacks
2008			
KB	0.9908	3(0.02), 13(0.98)	D(0.94) N(12.55 O(12329.05) I(872.08) S(282.08)
KS	0.8569	3(0.13) 13(0.05) 17(0.45) 18(0.21) 28(0.16)	O(16158.7) S(4035.67)
AG	0.9733	8(0.16) 18(0.84)	D(4.47) B(6.15) I(1285.81) S(1586.91) d(121.7)
AB	0.9666	4(0.66) 13(0.11) 16(0.06) 18(0.10) 19(0.07)	D(1.74) S(2922.25)
AT	0.9209	3(0.15) 8(0.31) 10(0.19) 16(0.27) 18(0.07)	D(2.27) O(64480.11)
AK	0.9674	9(0.16) 10(0.07) 36(0.77)	D(0.4) O(6830.36) I(46.7) d(38.51)
2009			
KS	0.8496	10(0.08) 13(0.12) 15(0.30) 17(0.32) 18(0.17)	O(1892.75) S(205.26)
AS	0.9997	8(0.96) 10(0.00) 16(0.01) 36(0.03)	D(0.14) I(407.78) D(2.24)
AL	0.9737	8(0.19) 9(0.73) 10(0.07)	D(0.61) I(345.98) S(931.06) d(66.36)
AT	0.8495	3(0.02) 8(0.43) 10(0.29) 16(0.23) 18(0.04)	D(1.56) O(62419.9)
2010			
KB	0.9912	10(0.01) 13(0.90) 17(0.01)	N(14.48) O(8813.88) S(151.13) d(9.37)
KS	0.7262	10(0.08) 13(0.00) 15(0.22) 17(0.51) 18(0.11)	S(2032.66)
KY	0.9323	10(0.20) 13(0.02) 15(0.73) 17(0.00) 28(0.05)	N(3.69) S(1637.7)
AG	0.8738	10(0.13) 18(0.72) 19(0.16)	D(2.38) O(5584.09) S(661.51) d(40.12)
AB	0.9358	8(0.15) 10(0.01) 16(0.18) 19(0.66)	D(1.41) S(3142.64) d(89.13)
AL	0.9584	10(0.69) 22(0.31)	D(4.53) O(227.72) I(459.84) S(367.68) d(27.7)
AT	0.9161	5(0.24) 8(0.44) 10(0.18) 16(0.14)	D(2.24) O(50047.64) I(99.35)

Note:

D = Number of doctors

B = Number of beds

I = Number of inpatients

d = Number of deliveries

N = Number of nurses

O = Number of outpatients

S = Number of surgeries

From Table 2, it can be seen that in general the slack variables of inefficient DMUs are output variables and the most significant ones are outpatients and inpatients. Hence, a plausible scenario for these inefficient hospitals was that they were serving less densely populated areas or they received less patients. Undeniably the hospitals have some control over the supply for healthcare services, but not much on the demand for healthcare services. However, the relatively 'excess' input might be necessary in order to maintain some level of 'readiness' based on the size of hospital or population in the district.

5.2 Scale Efficiency

A hospital with the score of 1 is scale-efficient and is operating under constant returns to scale. Inappropriate size of a hospital (too large or too small) may sometimes be a cause for technical inefficiency. This is referred to as scale inefficiency and takes two forms - decreasing returns to scale and increasing returns to scale (Seiford & Zhu, 1999). Decreasing returns to

scale implies that the DMU is producing in the region of decreasing return to scale (diseconomies of scale). Thus the hospital is too large for the volume of activities that it conducts and could contract its services accordingly. In contrast, a hospital with increasing returns to scale is producing in the region of increasing return to scale (economies of scale). In this case the hospital is relatively small for its scale of operations and could expand its services accordingly. The average scale efficiency scores for scale-inefficient hospitals was 0.910 (2008), 0.855 (2009) and 0.841 (2010). In year 2008, 5 hospitals (42%) had a scale efficiency of 1, which implies that they had the most productive size for that particular input-output mix. Thus, about 58% of the remaining considered hospitals were not of optimal size in the year 2008. In year 2009 the number of scale-inefficient hospitals decreased to 50% but increased to 91.6% in 2010. Comparatively more hospital exhibit IRS than DRS, e.g. in 2010, 11 hospitals. This suggests that the hospitals are too small for the volume of activities that they handle and could expand their services accordingly.

. 6. Conclusion

This study aims to examine the technical and scale efficiency of district hospitals in the northern states of Malaysia using Data Envelopment Analysis (DEA). The units of analysis or the DMUs in this study are the districts hospitals (without specialist). The data consist of three inputs (number of doctors, nurses and beds) and four outputs (number of inpatients, outpatients, surgeries and deliveries). The result indicate that the average technical efficiency of the rural hospitals in these states was about 0.9205 in the period of 2008 - 2010. In 2008, 6 hospitals – KY, KJ, KN, AS AL and AC were found to be technically efficient. In 2009 the number of efficient hospitals had increased to 7 but declined in 2010 to 5. The average Variable Returns to Scale (VRS) technical efficiency scores for inefficient hospitals were falling in 2008 - 2010 period from 0.9459 in 2008 to 0.9181 in 2009 and to 0.8976 in 2010. The efficiency scores estimate the extent to which the inputs would need to be reduced in equal proportion to reach the production frontier. For example in the case of KS and AT, they could have reduced their inputs combination up to 15% and 8% respectively in 2008 – 2009 while maintaining the same number of outputs. The similar explanation can be extended for other inefficient hospitals. Based on the slacks variables calculated, in general the slack variables of inefficient DMUs are output variables and the most significant ones are outpatients and inpatients. A plausible scenario for the inefficient hospitals was that they were serving a less densely populated areas or they received less patients. Undeniably the DMUs have some control over the supply for healthcare services but not much on the demand for healthcare services. However, the relatively 'excess' input might be necessary in order to maintain some level of 'readiness' based on the size of hospital or population in the district. In terms of scale inefficiency, comparatively, more hospital exhibit IRS than DRS, e.g. in 2009 6 hospitals and in 2010 11 hospitals. This suggests that the hospitals are too small for the volume of activities that they handle and could expand their services accordingly.

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ENTREPRENEURSHIP DRAIN IN THE AGRICULTURAL SECTOR: IMPLICATIONS FOR RURAL DEVELOPMENT

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Abstract:

Developing countries depend on agriculture as the basic driver for economic growth. Development projects in rural areas are often driven by government initiative to bring development to the people. However, as the economy grows and urbanization proceeds, talent moves from agriculture to other sectors such as manufacturing and services. This results in a drain in entrepreneurship talent from agriculture to the other sectors of the economy. The exit of talent and entrepreneurship from agriculture to other sectors imposes a burden on the rural sector by depriving it of entrepreneurship and thus relegating rural economies to lower growth. The resulting lack of agriculture entrepreneurship in rural areas can impede the progress of the nation. In this paper, we discuss the reasons for entrepreneurship drain in the agriculture sector as a result of rural development and the challenges development planners face in attracting and keeping the talent and entrepreneurs in the agriculture sector. Data from the Malaysian economy is used to illustrate this phenomenon of entrepreneurial drain from the rural sectors.

Keywords: Entrepreneurship drain, rural development, agriculture.

Introduction

Rapid development has taken place over the past decades in many developing countries. Developing countries such as Malaysia, Thailand, China and India have enjoyed tremendous development. However, migration of rural people to urban areas also shows significant increase in Malaysia over the past decade. The ratio of rural population to total population in Malaysia has fallen from 73.40% in year 1960 to 27.32% in year 2011 (World Bank, 2013). There is a sharp decrease of rural population to total population suggesting that many people have moved to urban area from year 1960 to year 2011.

Malaysia is a developing country with its economy relying on agriculture after gaining independence in 1960's. Then, Malaysia starts to progress to manufacturing industry gradually and reduce dependence on agriculture. The contribution of agriculture to GDP fell from 28.8% in year 1970 to 7.70% in year 2011 (Department of Statistics Malaysia, 2012, Selected Agriculture Sector, Table 1). In 1980's Malaysia relied a lot on manufacturing and services

industry. Many talents in agriculture such as farmers (low skilled workers) moved to manufacturing sector (high-skilled labour) during 1980's. The employed persons in agriculture sector reduced from 31.2% in year 1982 to 11.5% in year 2011 (Department of Statistics Malaysia, 2012, Selected Agriculture Sector, Table 4). This overall reduces talent in the agriculture sector.

Why is it so important to have workers working in agriculture sector even though the manufacturing sector can push economy towards greater heights? In answering this question, we should consider that food security is important to the Malaysian economy. Malaysia has an abundance of land for agriculture or farming activities. Malaysia must depend on agriculture sector as well to boost the economy. Agriculture sector is notably important to Malaysia as it can contribute in terms of food availability, food security, reduce budget deficit by importing agriculture products from other countries. Thus, understanding how to lure more talents in agriculture entrepreneurship in rural area is crucial to reduce poverty and facilitate economic prosperity. However, it also poses profound challenges for the country to lure and retain entrepreneurship talents in agriculture sector. In this paper, we will discuss the reasons of entrepreneurship drain in agriculture sector as a result of rural development and impacts of agriculture entrepreneurship drain. This is useful for us to suggest policies to attract talents in agricultural entrepreneurship and avoid agriculture entrepreneurship drain in rural area.

Definition of entrepreneurs

Before we discuss in details in regards to the problems of agriculture entrepreneurship drain, we need to define entrepreneurs. Entrepreneurs are aspiring businessmen that are willing to take risks and bring factors of production (land, labour and capital in economic terms) to produce outputs. Entrepreneurs can see business opportunities and are willing to invest their resources (money and time) and take risks in managing the businesses. They are able to use their ingenuity to make something out of nothing (Banerjee & Duflo, 2011).

Overview of Malaysia approved investments by sectors in year 2012

There are two types of government efforts to promote agriculture sector and encouraging agriculture entrepreneurs in Malaysia to be discussed in this article. The first government effort is the approved investments in agriculture sector by Malaysia.

We will provide the empirical evidence in the table below to illustrate the approved investments in different sectors by government and the number of entrepreneurs in different sectors in Malaysia.

Table 1: Malaysia approved investments by sectors in year 2012

Investment	RM millions	Percentage of total investment (%)
a) Service sector	117600	72.4
b) Manufacturing sector	41000	25.3
c) Primary sector	3800	2.3
-i) Mining	2800	1.7
-ii) Plantation and commodities	548.7	0.3
-iii) Agriculture	507.8	0.3

Total	162400	100.0

Source: Malaysian Industrial Development Authority (2012).

From Table 1, we can see that service sector remains the highest contributors in total investments in Malaysia. Investments in service sector account for 72.4% of total investment approved in year 2012. Primary sector (includes agriculture sector) contributes the least fraction in total investments in Malaysia amounting to 2.3% of total investments in Malaysia. Primary sector are divided into three subsectors namely mining, plantation and commodities and agriculture. If we further divide the proportion of investment in agriculture sector to total investment, we obtain even lower fraction of investment in agriculture sector to total investment. Investments in agriculture sector contribute only a mere 0.3% in total investments approved in Malaysia. (MIDA report, 2012) This implies that investment in agriculture sector is not given serious attention as a key contributor in generating economic growth in Malaysia. Malaysia has not done enough to lure investments in agriculture sector. Malaysia's economy has shifted from agrarian state economy to service-based economy.

Reduction in government development expenditure (reason of agriculture entrepreneurship drain)

One of the reasons in agriculture entrepreneurship drain is reduction in government development expenditure. We will present a table to portray the reduction of agriculture and rural development expenditure below and discuss in details in the next paragraph.

Table 2: Federal Government development expenditure: A functional classification

Year	Percentage of agriculture and rural development
	expenditure to total expenditure (%)
1966-1970	27.70
1971-1975	24.20
1976-1980	19.1
1981-1985	13.6
1986-1990	16.1
1991-1995	11.5
1996-2000	5.9
2001-2005	6

Source: Bank Negara Malaysia- various issues, Annual Report Bank Negara Malaysia- various issues, Economic Report, Treasury Malaysia- various issues, Five Year Economic Plan, Treasury Malaysia- various issues.

Notes: All figures are as proportion of the total Federal Government development expenditure.

From the table above, we can see that the percentage of agriculture and rural development expenditure to total expenditure has substantially reduced from 27.70% in year 1966-1970 to 6.00% in year 2001-2005. This implies that the capital or incentives provided for entrepreneurs to develop the agriculture sector has reduced. There are not enough efforts

from federal government to spend in agriculture development. The entrepreneurs need government expenditure to fund for agriculture development.

Investment in agriculture sector and agriculture entrepreneurs in Malaysia: A paradoxical relationship (reason of agriculture entrepreneurship drain)

The most intriguing finding is that there is paradoxically relationship between entrepreneurs in agriculture sector and investment in agriculture. Total entrepreneurs in agriculture sector are high even though investment in agriculture has reduced over the years and is the lowest among all other sectors.

Table 3: Federal government development expenditure and number of entrepreneurs in different sectors in Malaysia from year 2001 to year 2012

Year	Federal government development expenditure in agriculture (RM million)	Number of entrepreneurs in agriculture (people)	Number of entrepreneurs in manufacturing sector (people)	Number of entrepreneurs in hotel and restaurant service sector(people)
2001		558800	170300	146500
2002		547100	176300	147500
2003		544400	185300	153600
2004		593800	212700	162600
2005	2482	593400	202200	151300
2006	3999	638300	208800	159300
2007	3842	636600	222700	163000
2008	4184	620700	225300	176100
2009	5508			
2010	2920			
2011	836			
2012	1880			

Source: Department of Statistics, Malaysia (2009) and Munoz (2011) and Bank Negara Malaysia (2013).

From the table 3 above, we can see that the number of entrepreneurs in agriculture sector started to decrease from 2006. There is a transition from agriculture to manufacturing and services sectors.

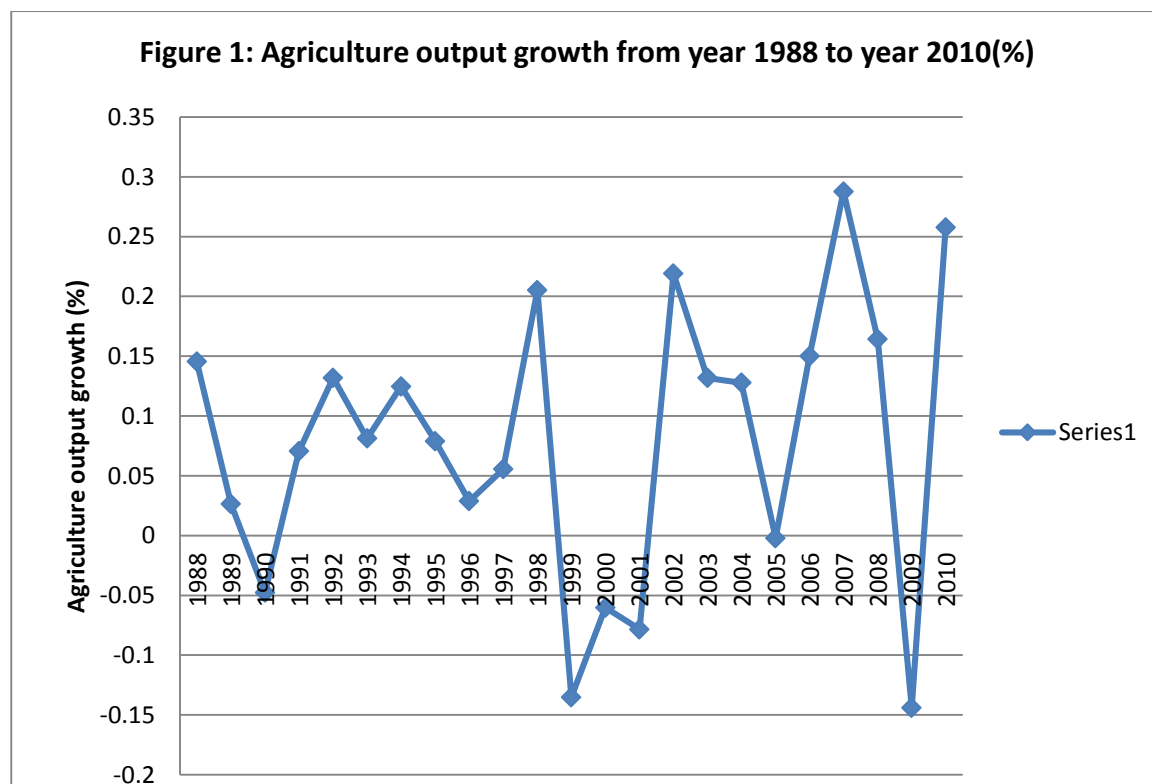
In year 2008, entrepreneurs in agriculture sector are 620700 people that contribute to 35.53% in total entrepreneurs (Department of Statistics Malaysia, 2009). Entrepreneurs in agriculture sector are the highest compared to entrepreneurs in other sectors (manufacturing

and services sectors which becomes major contributor to Malaysian GDP). However, the entrepreneurs in agriculture sector have reduced gradually from 638300 in year 2006 to 620700 in year 2008. Entrepreneurs in other sectors have increased from the year 2006 to 2008. This signifies that there is entrepreneurship drain from agriculture to other sectors such as manufacturing and construction. For instance, the entrepreneurs in hotel and restaurant services sector increase from 208800 in year 2006 to 225300 in year 2008. This could be due to the agriculture entrepreneurs expecting a substantial improvement in their future should they move to become manufacturing or services entrepreneurs. The agriculture entrepreneurs feel that there are not supported by the state because of two significant reasons the investments in agriculture sector is low and the federal government development expenditure is low. We illustrate federal government development expenditure has reduced over the years.

The need to avoid agriculture entrepreneurship drain

Unsustainable agriculture output growth (signaling the need of government to invest in agriculture sector and lure entrepreneurs)

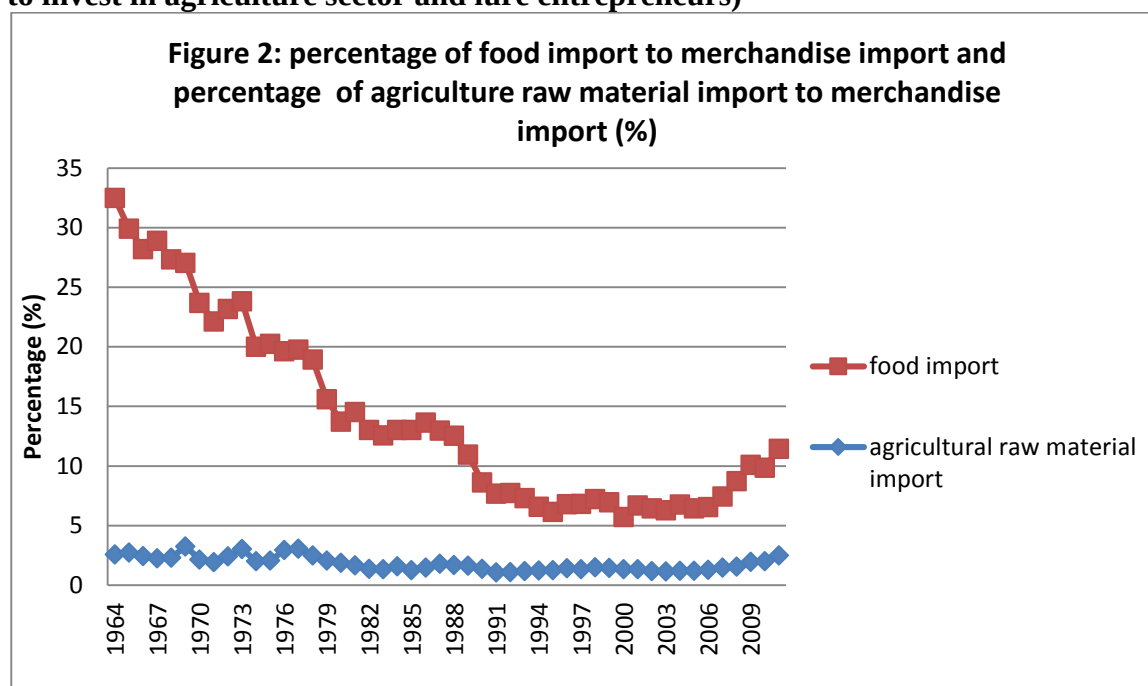
There are large piece of land in Malaysia. However, GDP is not a balanced growth if agriculture entrepreneurship not taken into account. Large piece of land is not fully utilized for agriculture purpose that can increase the productivity of country. Entrepreneurs in agriculture are needed to increase economic growth. The relationship between GDP growth and number of entrepreneurs in agriculture is provided in the table below. We will highlight the negative impacts of entrepreneurship drain from agriculture to manufacturing and construction in the next paragraph to address the importance of solving entrepreneurship drain from agriculture sector to other sectors.



Source: Department of Statistics, Malaysia (2011).

From Figure 1 above, we can see that the percentage of agriculture output growth is not stable. The growth is not sustained. The percentage agriculture output growth does not increase over time and it suffers sharp cyclical declines. The main reason is due to the reduction in government expenditure, and overall reduction in investments in agriculture over the years.

Increase in food import that will increase budget deficit (signaling the need of government to invest in agriculture sector and lure entrepreneurs)



From Figure 2 above, the agricultural raw material import is quite stable over the years. The percentage of import of agriculture raw material import is between 0 to 5 percent from year 1964 to year 2010. However, there is a distinct pattern in food import (the red line). The percentage of food import has fallen sharply starting year 1964 until year 2005. A different story appeared and the trend reversed after year 2005. Malaysia has to import more food from other countries after year 2005. The increase in food import from year 2005 to year 2010 shows two distinct indications. The first indication is that the import of agriculture-related food has increased. The second indication is that the population of Malaysia has increased that demand more food import. Thus, there is a need for government to invest in agriculture sector and lure more agriculture entrepreneurs to improve productivity and meet the growing demand.

Impacts of entrepreneurship drain and entrepreneurship investment

Poverty and less job opportunities

Entrepreneurship drain from agriculture to manufacturing and services sectors need to be given attention. Reduction of entrepreneurs in agriculture sector leads to poverty and less job opportunities. The poor in rural areas depend on agriculture to maintain livelihood. If the fertile land could not be utilized for agriculture purposes and agriculture entrepreneurship drain exists, poverty in rural areas will rise.

Table 4: Land used for agriculture purposes in Peninsular Malaysia from year 2002 to year 2008

Year	Land used for agriculture purposes (hectares)	percentage of land used for agriculture purpose to total land (%)
2002	6145300	6145300 hectares/33000000 hectares =18.62%
2004	6229400	18.87%
2006	5217400	15.81%
2008	5314200	16.10%

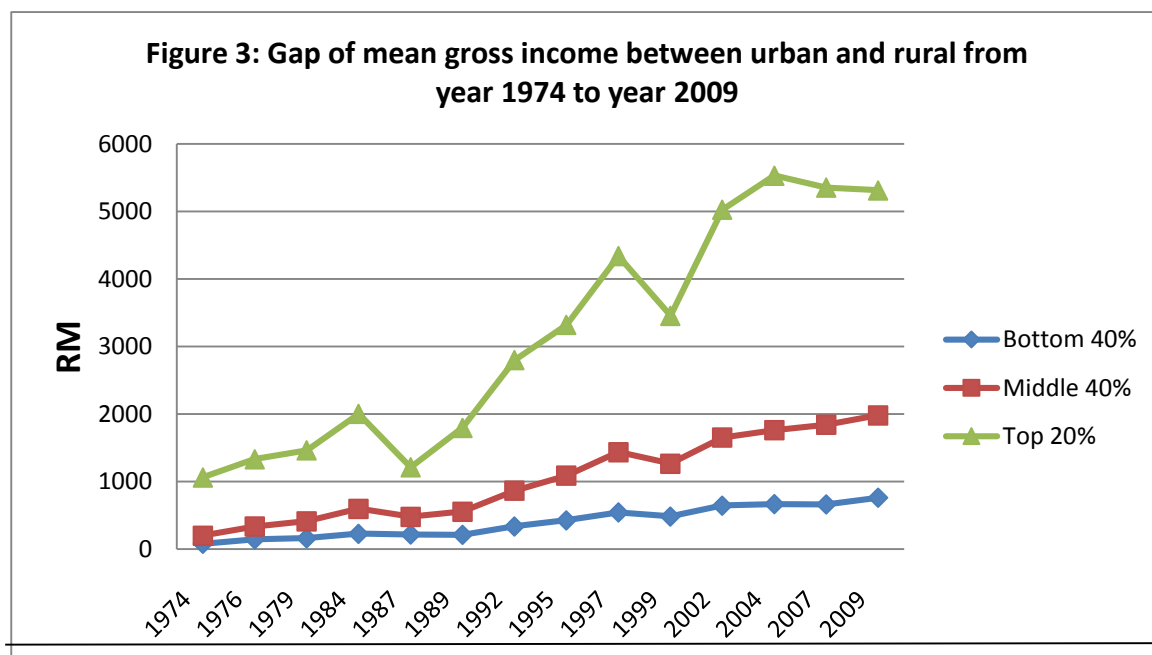
Source: Department of Statistics, Malaysia (2011).

In the table 1, it shows that the land used for agriculture purposes has reduced from year 2002 to year 2008. This shows that the agriculture land is not utilized for the benefit of economic activities (agriculture consumption and export of agriculture). The percentage of land used for agriculture purposes to total land has reduced from 18.62 % in year 2002 to only 16.10% in year 2008.

Entrepreneurship drain and unequal distribution of income

Entrepreneurship drain from agriculture to other sectors shifts the entrepreneurs from rural area to urban area. The entrepreneurship skills possessed by the entrepreneurs are also being shifted to urban areas. This results in concentration of wealth in urban area as entrepreneurs are wealth creators. There is a tendency for agriculture entrepreneurs to move to other manufacturing and services sector which are located in urban area due to the right environment for the entrepreneurs to function in urban area. Thus, there are less entrepreneurs in rural area.

This phenomenon creates inequality between rural and urban area. This inequality can divide the society. The poor in rural area becomes poorer and the rich in urban area becomes richer. The gap between the poor and rich is getting larger. Lack of institutional support for agriculture sector in rural area leads to the shift of ingenious agriculture entrepreneurs to manufacturing or services entrepreneurs. This can endanger the future of agriculture sector.



Source: Computed from Economic Planning Unit, Malaysia data (2010).

We present the figure below showing that inequality between rural and urban has widened. The gap of mean gross income between urban and rural at bottom 40% has increased gradually from year 1974 to year 2009 and implies that the inequality between the urban and rural at bottom 40% has grown dramatically. The gap of mean gross income between urban and rural at middle 40% (shown in red line) has also increased gradually from year 1974 to year 2009. The most interesting part is that the gap of mean gross income between urban and rural at the top 20% is very large and further worsen the inequality effect as it increase from year 1974 to year 2009. Overall, difference in gap between the top 20% and bottom 40% shows a more significant inequality. The difference in gap of mean gross income between urban and rural at the top 20% and bottom 40% are larger and larger from year 1974 to year 2009. This shows the wealth of the nation or incomes are not distributed equally among the rural and urban and also between the top 20% and bottom 40%. The rich become richer and poor becomes poorer. Many agriculture workers are working in the rural area and workers of manufacturing and services sector are working in urban areas. This divided society endangers the future of Malaysia if not taken seriously. The idea now is how to reverse this drain of agriculture entrepreneur. To shed light on how to reduce entrepreneurship drain, we look at the policies that are required to overcome the problem.

Policies recommendation to reduce entrepreneurship drain

Federal government development expenditure on agriculture sector has been gradually reduced. However, the number of entrepreneurs in agriculture sector is significant. This means that the entrepreneurs in agricultural sector are not given adequate support by institution or government. The resources for rural entrepreneurs to develop agriculture sector are limited and thus agriculture sector cannot be expanded on a larger scale basis. Entrepreneurs are operating on tiny businesses and making little money on agriculture sector. As a result, the agriculture entrepreneurs are either wiped out or shift to manufacturing or become services entrepreneurs in urban area to earn more money. Thus, policies are needed to lure the talented entrepreneurs to develop the large piece of land for agricultural purposes. Malaysia can

produce crops for locally consumption and be self-sufficient and be less dependent on imports of crops from other neighboring countries such as Thailand and Vietnam, and at the same time increase the wealth of agriculture entrepreneurs in rural area. The unequal distribution of income between the urban and rural areas can be reduced.

Policies to lure talented entrepreneurs

Invest in public services

Drawing on the low government development expenditure and low investment on agriculture sector which we had illustrated, it is crucial that we have a political or institutional framework to transform the individual agriculture talent into a positive force of increasing agriculture productivity. It is vital for state to invest in public services such as irrigation pipelines and finance in project to encourage agriculture productivity growth (Acemoglu & Robinson, 2012). The state must invest in public infrastructures in rural area, technological innovation and education to equip entrepreneurs with skills and technological know-how. This can stimulate the agriculture productivity growth.

Subsidies

Besides that, the state can provide subsidies (a type of investment) to promote agriculture productivity. For example, the state can channel credit and subsidies to the agriculture firms that are successful. These subsidies in the form of money act as an incentive to attract entrepreneurs to work in agriculture sector and exert effort to increase agriculture productivity. The state can recognize their private property. This recognition makes the entrepreneurs feel that their efforts in working in agriculture sector will one day enjoy the fruits of investments and improve their standards of living. On the macro side, it can reduce the aggregate poverty and reduce budget deficit of over dependent on importing agriculture products for the growing population.

Enable entrepreneurs to start companies with ease

The economic institution of the state must enable the agriculture entrepreneur to start companies with ease. In other words, the state needs to support them and provide the entrepreneurs a platform for them to exercise their talents and skills in agriculture. For instance, the institution or state can make the financing of their projects feasible without subjecting to insurmountable barriers. This encourages them to borrow money to invest in agriculture activity to promote agriculture productivity. The state must also enable the entrepreneurs to hire qualified personnel and provide a competitive market environment to enable the entrepreneurs to market their agriculture products with ease and expand their businesses.

Conclusion

From this article, it appears that rural poverty and inequality gap in rural area are the result of policy weakness. One of the root cause is agriculture entrepreneurship drain in rural area that are not much supported by government in terms of capital, investments and providing platform for them to function. It is very important for policy makers to ponder the dire circumstances of entrepreneurship drain from agriculture to other sectors. There is a need to lure agriculture entrepreneur to increase productivity to increase economic growth and reduce budget deficit by reducing imports of food products.

There are various ways the government can act to combat this agriculture entrepreneurship drain. The government needs to approve more investments in agriculture sector and spend more in agriculture development. The government needs to provide a platform for potential talented entrepreneurs to exercise and exert efforts to become successful agriculture entrepreneurs and create a playing field for the entrepreneurs. This includes the ease of agriculture entrepreneurs to borrow finance to fund their businesses, invest in public services, subsidies as an incentive and recognize their property rights. It is believed with such policies mentioned above being implemented by government, the agriculture entrepreneurship drain can be reduced.

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RURAL DEVELOPMENT IN LARGE DEVELOPMENT PROJECTS: THE CASE OF COMPENSATION IN BAKUN HYDROELECTRIC DAM PROJECT

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Abstract

Compensation for indigenous communities as a result of rural development projects has been a controversial subject. The elements of rights, entitlements, freedoms and justice are often difficult to value. Most of the compensation packages given to the indigenous communities are in market values and non-market values are often ignored. The non-market values which are the social and cultural impacts are very difficult to determine and often not compensated by government. These non-market values are more important compared with market values to the indigenous communities. This paper identifies the reasons why there are conflicts between the policymakers (government) and indigenous communities in terms of valuing compensation by reviewing the empirical literature on economic and social impacts on indigenous communities resulting from relocation. The literature on different valuation methods is reviewed to understand the gaps between the policymakers and indigenous communities on compensation issues.

Keywords: Valuation, compensation, hydroelectric dam, market values, non-market values

Paper Type: Research Paper

JEL classification: I38, O22

Introduction

Welfare has a lot to do with the loss of rights and entitlements. These losses of rights are not addressed properly in compensation. This creates conflicts or disagreements between policymakers (government) and indigenous communities. There are some differences between utilities by the traditional welfare economics that is known as the utilitarian economics and some elements in modern welfare economics such as rights and justice discussed by Arrows[®]

[®] Kenneth J. Arrow (1983). Social Choice and Justice, Collected Papers of Kenneth J. Arrow. volume 1. Cambridge, MA: Harvard University Press.

and entitlements and freedoms by Amartya Sen in Sen (1988)'s article of Freedom of Choice. These elements of rights, justice, entitlement and freedoms are often left out during the process of valuation. The compensation can be analyzed using the Kaldor Hicks utility model that focus much more on satisfying the utility of people in terms of goods and services consumed directly. This goods and services are mostly based on market valuation approach. Kaldor Hicks focused on bringing the utility curve back to the pre-compensation position and that is termed welfare improvement but ignored the part of compensation. Communities especially the displaced indigenous communities often look into the rights that they have and the entitlement to lands, properties and natural resources that they have before resettlement. For example, in the case of Bakun hydroelectric dam, this communities have rights on the native customary rights (NCR) land which are passed down or given to them by their ancestors and grandfathers. After resettlement, the access to the rights of lands is gone because they have been forced to move to a new place and the compensation given is small. These rights and entitlements are often ignored by the state authorities in giving compensation. Thus, this creates conflicts among the state authorities and also the communities. The communities perceive and incur welfare loss.

Large development project such as big hydroelectric dam project can have diverse impacts such as economic impacts and social impacts. The plan to build the large hydroelectric dam project is usually proposed by the government and the objectives are to generate electricity for national consumption and development. Government implements development policies that involve development of large hydroelectric projects. The large hydroelectric dam project will then affect many stakeholders such as people in the area and indigenous communities. The World Commission on Dams estimated that worldwide, between 40-80 million people have been displaced by dam projects (WCD, 2000). People have been deprived of their livelihood, land and homes due to resettlement. Many communities are forced to leave their homes and move to a new location.

The compensation in terms of land, houses and other basic amenities usually are not enough and does not satisfy the indigenous communities. Local communities may feel that they are not well treated after they are being resettled. They are not happy with their compensations provided to them after they are being resettled by the government for the big hydroelectric dam project. There is controversy between the policymakers (government) and stakeholder (indigenous communities) because both of them cannot come to an agreement on the level of compensation. These conflicts of interest between policymakers (government) and stakeholder (indigenous communities) are not easy to resolve. So, it is important to assess the methods for valuing the resettlement for policy purposes. We need to know what the local communities consider valuable and what the government feels important for the people.

The case adopted in this study is the case of Bakun hydroelectric project. Bakun hydroelectric dam project has forced the displacement of the indigenous communities living in the Sungai Asap resettlement scheme. The indigenous communities have been resettled in the Sungai Asap resettlement scheme.

This paper aims to identify the reasons why there are conflicts between the policymakers (government) and indigenous communities arising from the valuation for compensation by reviewing the empirical literature. The economic and social impacts on the indigenous communities and the valuation methods used are examined to explain the valuation gap between policymakers and the indigenous communities.

Background of Bakun hydroelectric dam project

Bakun hydroelectric dam project has an installed capacity of 2400 megawatts and expected to generate electricity for about 30-50 years. The dam measures 210m high. The impoundment of water behind the huge dam will submerge 69640 hectares of tropical forest ecosystem an area as large as the size of Singapore. The hydroelectric dam displaced about 10000 indigenous communities living around the Bakun hydroelectric dam area (Swain & Ang, 2004).

Table 1: Ethnic Composition of the Affected

Communities at Sungai Asap

Ethic Group	Longhouse- Settlement	Family	Population
Kenyah	4	1024	4708
Kayan	8	881	3781
Lahanan/Kajang	1	138	535
Ukit	1	74	300
Penan	1	24	104
Total	15	2141	9428

Source: Local District Office, Sungai Asap (2001)

According to the statistics released by Local District Office, Sungai Asap, the population census of the affected communities of the Bakun Hydroelectric Dam and resettled in Sungai Asap in year 2001 is 9,428 people comprising of 2,141 families. There are basically five ethnic groups affected by the Bakun hydroelectric dam that are Kenyah, Kayan, Lahanan, Ukit, Penan. Out of these five ethnic groups, the indigenous population affected most is the Kenyah group of 4,708 people. This is followed by Kayan group of 3781 people, Lahanan group with 535 people, Ukit group with 300 people and Penan group with 104 people. This shows that the number of people affected by the Bakun hydroelectric dam project is large, affecting some 26.75% of the people in Belaga district in Sarawak.

Resettlement of the indigenous communities

The indigenous communities were resettled under the Sungai Asap resettlement scheme. The Sungai Asap resettlement scheme was established in year 1998 to accommodate the 10000 people from 15 longhouses. The people have to be relocated from their original villages in the Balui River and make way for the Bakun hydroelectric dam project.

Sungai Asap is a sub-district located in the Belaga district. A Sarawak administrative officer is in-charge of the Sungai Asap sub-district. The little town of Belaga is situated at the confluence of Belaga River and Balui River.

Figure 1: Location Map of Sungai Asap Resettlement Area



Review of literatures of Bakun hydroelectric dam project

Land values

There are serious controversies regarding the hydroelectric project from three aspects. The main controversy that mainly raised by non-governmental organizations (NGO) such as Aliran is regarding the people's right especially the rights of local communities around the Belaga district. The rights of local communities to be displaced regarding land, forest, culture are often raised by the NGOs. Land is considered a vital resource by the local communities because they use land for food and spiritual home and as part of their culture heritage.

Bakun hydroelectric dam project would induce displacement of the people especially local community. This would lead to local community losing their property rights on land. They considered the land as their own property rights because they have been living in the lands for so many generations. These local indigenous communities are like the Kenyah, Kayan, Penan and other ethnics which have been ordered to be relocated by the government. The government asked them to leave their own land and move to a new place which was called the Sungai Asap Resettlement Scheme. Protests and criticism come as a result of this. Local communities value land as an important aspect and as part of their life. Beside, local communities also look in to aspects of forest as forest provide the indigenous communities food, medicine, building and site ancestral grounds (World Commission on Dam, final report 1999). Government should look into the aspect of land and property rights in assessing compensation for land forgone as a result of relocation.

It is documented in the report of World Commission on Dams (1999) on how the government dealt with the land and property rights. According to World Commission of Dam (1999), the government maximized the profitability of land by exploiting it for commercial purposes and this created internal conflict with indigenous communities. The state authorities consistently backed the companies and contractors against the indigenous communities even when there was clear incursion on indigenous land and destruction of indigenous property and culture. The state authorities often viewed and valued the indigenous land use as “unproductive” that indigenous attitudes were “barrier to development” and that indigenous communities must be brought into the” mainstream of development”.

From a report of Jehom (2008), it showed that all the households claimed that major portions of their land were not being valued. This becomes an issue when deciding on compensation. The issue is how government gets the value for compensation and what approach the government used to value the land. This lands and rights of the indigenous communities had on the lands must be properly valued because the native lands were owned by the indigenous communities. As stated by Hooker (1999), “we have to be careful as to what we mean by law, native, adat and especially land and land rights.” The land rights were stated in the Native Customary Land Rights.

The household interviewed by Jehom (2008) showed that “Compensation for land was calculated based on the how much land was supposed to be flooded by the water from Bakun dam and not based on how much lands owned by households.” The compensation was divided among the whole community. Jehom (2008) also stated in his doctoral dissertation report that the ambiguous understanding of land rights made it difficult to estimate the lands and farmlands for compensation. Beside, the absence of reliable landmarks, boundaries and community land mapping comfounded made it difficult to calculate value of land. The problems of disputes arised because the Kenyah-Badeng¹¹ communities were not given the opportunities to discuss the compensation value for the land. The evaluation of the claims was evaluated as communal land and not by individual claims due to absence of individual land title. Many of the indigenous communities did not know their rights to administration of ancestral land via adat system and they simply claim the lands. Thus, this results in disputes of overlapping of land claims between two persons. Communal land rights have further complicated the issue of compensation for land for individuals.

State authorities utilized the appointed leaders within the indigenous communities at Bakun area to translate the little information given, control grievances and ensure compliance (World Commission on Dams, 1999). The value of compensation paid to the indigenous communities such as homes and infrastructures were not adequately explained to indigenous communities. They did not understand how the value of their houses and land was monetized. Land allocated to the new site was inadequate in both quantity and quality. It was not valued in social and cultural aspects. Compensation of money paid for their old homes was not paid to the indigenous communities in cash but was used to offset their new compulsory house purchase.

The state authorities used the market value approach to value the compensation for land. The values were calculated based on commercial purposes and did not consider non-market

¹¹ Kenyah-Badeng is the largest Kenyah group in Belaga District. They have to resettle at Sungai Asap Resettlement Area due to the Bakun Hydroelectric Dam Project.

value impacts to the local communities. The valuation method is not clear as the approach to value the land from local communities was not emphasized.

Non-market asset loss (Social and Cultural Aspect)

Controversies often come when there is an argument or debate on the non-market and non-physical assets loss to indigenous communities. Non-market losses and non-physical assets are like social loss and cultural loss. Social loss refers to the loss in community institutions, social networks and cultural loss refers to weakening of cultural identity. These non-market losses are very hard to compensate because they are not monetized in the market. Mahalia (1994) stated that it is very difficult to measure non-physical losses and non-market income loss. This can result in the failure of involuntary resettlement outcome because non-physical losses and non-market losses are not accounted for compensation (Cernea, 2003) but they are substantial in size. Indigenous communities feel that the compensation given to them are undervalued and thus not satisfied with the compensation.

In the case of Bakun, the indigenous communities were being moved to a new environment in Sungai Asap resettlement scheme. Before resettlement, the indigenous communities have strong ties of neighborhoods with their friends and have strong social networks. After resettlement, the indigenous communities lost their strong ties of neighbourhoods with their friends and networks. This makes them feel worse-off. However, this loss of social value is hard to value and compensate because it is very subjective and difficult to measure. The literature on this subject did not touch on how to compensate the social value regarding relocation of the hydroelectric dam project. Thus, the question as how to account for social and cultural values in compensation measurement is still not well answered.

Economic values to local communities

Another aspect of the local communities viewed the relocation project of Bakun based is the economic value to the local communities. Economic aspect is important to them. The income source of the indigenous communities depends on the gardens, fruit trees, plantations and forest. This aspect is considered important in the judgement of valuation by the indigenous communities. The relocation of the project is considered beneficial to them if there is improvement in economic value. If not, the relocation project is a failure.

In the case of Bakun hydroelectric dam project, the jungle is where the income is derived from. The jungle provides them with vegetables and resources. The indigenous communities can sell the vegetables and earn income to increase livelihoods. According to the report which interviewed one of the Kayan indigenous people, the indigenous communities have the jungle resources as their own source of income generation and it is important to them. The rice, fish, meat and vegetables are all free. The indigenous communities have gained access to the natural resources. This means that compensation must also include the compensation for the loss of the income and loss of jungle resources. It is not possible for them to maintain the same utility they had after relocation, thus implying a loss in welfare.

Problems related to compensation for jungle resources

According to Jehom (2008) report of the surveys, the compensation regarding the fruit trees which are jungle resources were done by surveyors on behalf of the government. The problem arised when the surveyors did not check the land or farm that had undergone 'alteration' by having a 'spot check' by the local communities. The 'alteration' of the land or

farm is done to divide the new size of land owned by local communities. 'Spot check' refers to the local communities' meaning of the 'alteration' of land or farm. Surveyors only listed the type and number of fruit trees in the process of doing compensation and did not determine borders between people's land. This may be due to problems of local leaders and lack of experience of the surveyors. The most important thing is that households' opinions were not consulted. This becomes a problem of demarcation of land territories for planting trees causing the indigenous communities to fight for their right.

In the report submitted to State Planning Unit in 1994, Rousseau (1994) stated that in identifying the government's decision on compensation, the government seldom invited them to express their view on compensation. The meetings were conducted in English which was barely understood by the indigenous communities. The indigenous communities had no platform to express the views and problems. In fact, the opinions of the indigenous communities are very important in decision making regarding compensation. It is their rights to express the view regarding compensation. The indigenous communities are also protected under the indigenous and Tribal Peoples Convention, 1989 (No.169) of International Labour Organization. The value of compensation must involve the views of indigenous communities.

Compensation for home owned

One of the most important aspects considered in compensation in valuation was the house and housing condition. After being resettled, most communities felt that the housing conditions are worst than before as stated in the report of Jehom (2008). They have to pay an amount of RM52000 for the new house and they have to spend additional money for renovation. Certificate of fitness (COF) was not given to the communities moving in. Thus, the indigenous communities were not satisfied with the compensation in term of the quality of house given to them. The value of their previous house owned by the indigenous communities was used to compensate for the new houses. However, the valuation on how the government derived the figures of the old house was not known and not stated in the article.

Lack of participation of indigenous communities

Indigenous communities were often not involved in the decision-making of relocation project and compensation in Bakun hydroelectric project. According to the World Commission on Dams (1999) report, the indigenous communities were often viewed as "barrier to development" by the state authorities. This becomes a problem in relocation because they are the ones who are directly affected by the hydroelectric dam project. The participation of the displaced in decision-making is important so that they are empowered to shape the compensation packages in the way that fit their needs and demands. But this was not the case in Bakun.

Review of different valuation methods (non-marketable valuation approach)

There are many valuation methods used to value different benefits of public projects around the world. Basically, it can be divided into two methods, stated preference method, revealed preference method. The most common methods used in stated preference are the contingent valuation method and discrete choice experiment method whereas the common methods used in revealed preference are the hedonic pricing method and travel cost method.

Non-marketable goods such as the environmental benefit, social benefit or loss are normally valued by non-marketable valuation approaches like the contingent valuation method. This method determines the public's willingness to pay to derive the demand for the non-

marketable goods. It uses surveys to obtain the consumer responses to the hypothetical situations. The willingness to pay is in dollar amounts. The responses from the respondents are used to develop a benefit estimate which could be used in benefit-cost analysis of a project. It is a better valuation method to take into account the participation of respondents in decision-making.

Most of the contingent valuation articles stress on environmental issue such as the case of Howley, Hynes & O'Donoghyne (2010) and Ojeda, Mayer & Solomon (2008). The contingent valuation articles talk and discuss on how to obtain the value which is very similar to this study which stresses on how to obtain value of indigenous communities regarding the hydroelectric project. However, some questions can arise as to whether these methods applied in tourism; recreational activities and environment can be applied in the context of obtaining value for compensation for the resettlement of people affected by the hydroelectric project.

The values are very difficult to compare among groups of people as value is not a stable thing. People are making decisions that all the values are the same in every group of people. The outcomes of values can be different and changes according to the different group of people in terms of education and income, example in the case of Howley, Hynes & O'Donoghyne (2010). The contingent valuation articles only showed that the socio-economic variables such as income, education, age and occupation across people has significant impacts on the valuation results. The challenge arise how the government or state authorities can adjust the true value for compensation given the different groups of people in the resettlement of hydroelectric project. The current contingent valuation method in the existing literatures does not account for that and did not mention how to incorporate the socio-economic variables into the compensation model that could be accepted by both the people and government.

Freedom of Choice

Another element is the freedom of choice. Freedom of choice is very important in economic valuation. Welfare is lost if communities are forced to resettle in a new place. Problem arises when communities are forced to leave. Communities have land, houses, access to resources like jungle resources and can have the freedom to move around the environment. The development project that caused displacement of communities will take away their freedom of choice. This leads to a welfare decrease. State authorities do not take into account the freedom of choice in doing valuation and compensation. This can often create conflicts of interests.

Sen (1988) stated that 'The existence of instrumental relevance (i.e., the value of things as means to other ends) does not entail denial of intrinsic importance as well (i.e., their value as ends on their own right)'. In other words, the people must not be denied of their freedom to choose what they want in their standard of living. In the development case, the communities must have the freedom to choose what their activities are in their life. For example, they must have the freedom of access to the jungle resources and freedom of not being resettled. If the freedom to choose had been taken away, then there will be a problem of deprivation.

The freedom of choice is important to the individual itself. If they possess the freedom of choice to choose what they want in their lives, this would generate higher utility compared to if they do not possess freedom of choice. Freedom of choice can lead to better resource allocation as stated in Lange Lerner models of socialist pricing in socialist literature. The settlers who have to be resettled do not have freedom of choice to choose the place they want to live and get better resources allocation. Thus, they cannot allocate the resources effectively. This may be due to several reasons. The first reason is that they do not have access to the

resources before they resettled such as jungle resources and lands for them to collect fruits and forest products. This lack of access to resources denies them the opportunity sell the fruits and jungle products to earn more income. The welfare will fall as a result. This is often ignored by state authorities in doing valuation. The second reason is that they do not have freedom to move around the environment after being resettled because they do not know how to move around and obtain the things they want in their new place. For example, if they want to do cultural activities, they do not know where to undertake the cultural activities in the new environment. They may have to take time to adapt to the new environment. This is not their wish. This freedom of choice should be taken into account by state authorities when doing valuation.

There are two ways freedom can be viewed that are positive freedom and negative freedom (Sen, 1988). Sen (1988) mentioned that negative 'view' of freedom focus on absence of the class of restraints that one person may exercise over another, or the state exercise over individual whereas positive 'view' of freedom concentrate on what a person can do to achieve something. Resettlement in Bakun hydroelectric dam project is an interference by the state and is viewed as negative 'view' of freedom. The state authorities forced the communities to be resettled to another place. The communities feel restrained and are being interfered by the state authorities and the communities may actually lose the freedom. This makes the communities feel deprived of the freedom.

Justice, rights and entitlement

The negative 'view' of freedom has linkage with another element that is the rights that the communities have. The rights to have the lands, rights to move around, right to stay or choose the activities they want to do are important element in the valuation of the communities. One popular theory to explain the justice and rights is Robert Nozick's entitlement theory of justice. Under this theory, everyone has their own rights and there is no person or authorities that can restrain their rights.

The valuation of welfare by communities may include the elements of rights, justice, entitlement and freedom. Welfare can be seen as comprising more comprehensive meanings. It is not just the concept of utility what is used mostly by traditional welfare theory. It has a broader range of meanings which include the elements of justice, rights and entitlement. If this welfare compensation does not include these elements, then the communities' welfare will be reduced. This may bring in negative consequences to the country and an example is provided in the next paragraph to discuss the issue of loss of rights and its consequences.

A good example of loss of rights is found in the Sardar Sarovar dam project in India. This project showed conflicts of interest between the local communities and the government which resulted in the funds for constructing the large dam development project being halted. This article is highlighted in Dwivedi (1999). The reasons of conflicts are the displacement costs being neglected in the project appraisals for doing valuation and giving compensation. Beck (1992) highlighted that the cultural norms and the legal frameworks are important components in the valuation of compensation by the communities. This cultural norms and legal framework are often neglected by the state authorities in giving compensation. The rights to land, properties, schools, education have been left out and ignored by state authorities. State authorities do not compensate the local communities enough. This induces and creates conflicts of interests.

The resettlement case especially, the state authorities are not allow to take away the communities' rights of having lands, rights to move around and the right to choose the activities

they want to do. If the state has taken their rights away by forcing the communities to leave the place and move to a new place, then the compensation must account for the rights and freedom the communities have.

Estimation of compensation gap and satisfaction level

We provide the empirical analysis of the compensation gap and satisfaction level towards compensation using 379 samples collected from indigenous communities located at Sungai Asap Resettlement Scheme. Sungai Asap Resettlement Scheme is a relocation site for the displaced communities as a result of Bakun Hydroelectric Dam Project in Kapit, Sarawak. Compensation gap is the difference between expected compensation and actual compensation given by state authorities. This compensation gap can be used to explain the variations in satisfaction level. Compensation gap is divided into several components namely land compensation gap, house compensation gap, number of house gap, fruits compensation gap, small farm and orchard compensation gap and income gap. The land compensation expected by the settlers consists of the social and cultural aspects.

Table 1: Estimation of satisfaction level with compensation; compensation gap variables

	B	z-stat	Sig
(Constant)	0.9914130	1.44	0.150
Gap in fruits	0.0000006	0.05	0.961
Gap in small farm and orchard	0.0000080 *	1.88	0.060
Gap in land	0.0989110**	2.48	0.013
Gap in value per house	-0.0000100	-1.02	0.306
Gap in number of houses	0.2794710	0.85	0.396
Gap of income	-0.0003290	-0.64	0.524
		Chi-square	p-value
Restriction Test		2.15	0.708

Note:

1. Asterisks ***, ** and * indicate significant at 1%, 5% and 10% level respectively.

Table 1 shows the estimation results of satisfaction level model. The coefficient of gap in compensation of small farm and orchard is 0.000008 and significant at 10 percent level. The coefficient of gap in compensation of land is estimated at value 0.099 significant at 5 percent level. The others gap in compensation variables are found to be insignificant. This means that the gap in land compensation (acres) and gap in compensation of small farm and orchard (RM) are significant and have positive effect on probability of dissatisfaction towards compensation. This implies that land compensation gap and small farm and orchard compensation gap (RM) matters most to the settlers. Since land encompasses many aspects of social and cultural attachment, and based on the empirical outcome, we argue that social and cultural matters most to the indigenous communities in rural area.

Conclusion

From the above discussion, there are some problems in the valuation of development project by the state authorities. State authorities tend to use the market approach to the valuation of compensation such as the houses and market-valued lands. This often creates

conflicts or problems because the valuation of development project by the communities are much more comprehensive compared to the state authorities. From the empirical analysis in this study, it is clear that social and cultural matter most to the indigenous communities. The land is the property right of the community to perform cultural activities. Thus, state authorities need to take into account the social and cultural value when compensating for land.

The displaced communities tend to look into the aspect of non-market valuation such as the cultural and social values when claiming compensation for relocation. Social losses like loss in community institutions, social networks and cultural loss are similar to the weakening of cultural identity. These social and cultural losses are often being ignored by the government when doing valuation and compensation. There are some technical problems in giving compensation for the economic losses in Bakun such as surveyors did not check the land or farm that had underwent 'alteration' by having a 'spot check' by the local communities and houses were undervalued. Certificate of fitness (COF) was not given to the communities moving in.

Beside that, this study also highlights some important elements that are often ignored by the state authorities in giving compensation that cause dissatisfaction among the communities. The elements are justice, rights, entitlement to lands, properties and access to natural resources and environment and also freedom to choose and where the communities want to live and freedom to choose what their activities are.

Finally, in order for a better compensation approach to reduce the controversy between the state authorities and the displaced local communities, the state authorities should compensate the displaced communities by taking into account the non-marketable approach of valuation and the elements of justice, rights, entitlement to lands, properties, access to natural resources and environment and freedom to choose into account. A broader and more comprehensive valuation approach is then needed to deal with compensation for resettlements arising from large development projects.

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THE IMPACTS OF RURAL-URBAN MIGRATION ON HOUSEHOLD INCOME AND UNEMPLOYMENT IN MALAYSIA

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Abstract

Internal migration is a key mechanism for the adjustment of regional economies, particularly when other devices proven fail. However, these processes have a highly factors of that specification complex economic, social, demographics, environmental, etc. Importance of internal migration, the 2009 World Development Report highlights that successfully economies are those that have the high density, mobility and integration. Migration is common element in most societies of population growth, so the scale of movements in developing countries is that the urban population may have the undesirable effects on poverty and development. Migration has come to consider rural-urban migration as a "major factor that contributed to these phenomenon in any urban and the excess of labor force directly exacerbate the unemployment problems in the city is serious". Beyond the cross-border migration, internal migration, especially from rural to urban areas has been a key driver in the economic development of Malaysia. In 1970, more than 70% of the population lived in rural areas. By 2008, this number was reduced by half to around 35%. During the same period, the gap of urban and rural income has been reduced from a ratio of 1:2.1 to 1:1.8. Thus, the larger urbanization has contributed to the increasing average revenue and to improve quality of life. So, this paper provides a cursory of the literature examining the relationship between rural and urban migration, economic growth and unemployment of Malaysia by using data from 1980 to 2011. By using time series data, it has been found that migration is positively influenced by level of economic growth and negatively influenced by unemployment rate for rural and urban migration in Malaysia. Johansen co-integration, vector error correction model and granger causality test are employed to analyze the data.

Keywords: Internal migration, mobility, population, economic growth, unemployment.

1. Introduction

Internal migration can be categorized into 2 levels, intrastate and interstate (Department of Statistics, 2009). Migration trend not only involves the rural areas to urban, but also involves migration from between urban, between rural and urban to rural (Usman & Tarmiji, 2010). According to Purnomo (2009), the population moved from rural to urban areas will indirectly result in the process of development and urbanization. Migration process occurring is considered to be a natural process that will deliver to the destination of the workforce. Malaysian population movement flows have caused the development of major cities with a rapidly growing population. On the whole, the total urban population in Malaysia has increased from 28.4% or 2.96 million in 1970 to 61.8% (13.72 million) in 2000 (Department of Statistics, 2001).

Migration process from the rural to urban especially to cities or towns due to the attraction of employment, education, social services and others push factors from rural area. Migration between rural usually from villages to estate or Regional Development Program such as FELDA, FELCRA and RISDA (Usman & Tarmiji, 2010; Rodzli & Seng, 2012). Migration can be considered as an alternative to get out from poverty trap and it is one of the factors that influence population growth in that area (Yunita Sari, 2009). According to UNFPA (1999), the

world is experiencing continuous urbanization when people migrate to cities and towns to find a good job, educational opportunities and a better standard of living. So, Figure 1 below shows the trend of urban and rural migration in Malaysia.

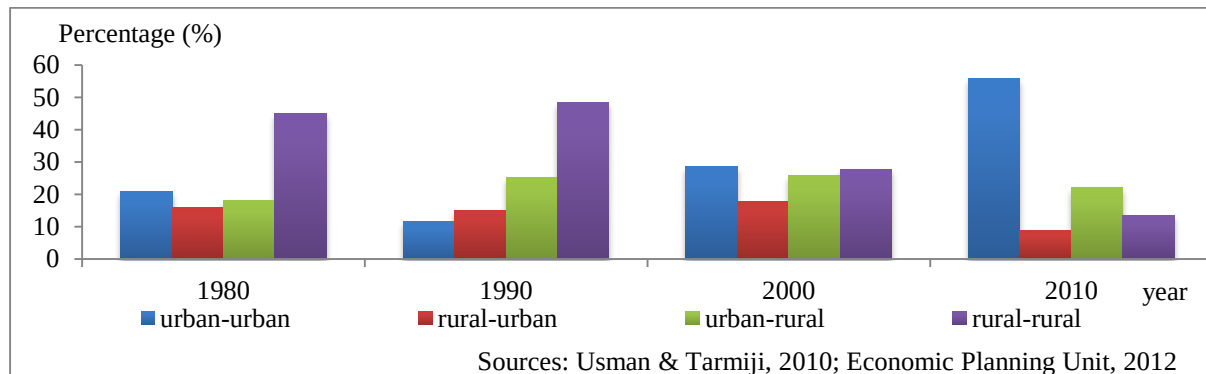


Figure 1: Rural-Urban Migration Trends Year 1980, 1990, 2000 And 2010

From figure 1, the numbers of migration between urban, rural-urban, urban-rural and between rural has a fluctuation because of the pull and push factors. Number of migration between urban showed the most significant increase because the urban area have better infrastructure than rural areas especially in the 20th century (Usman & Tarmiji, 2010; Department of Statistics, 2012). Internal migration can actually increase the level of income, adding work experience and increase the level of life satisfaction (Chamratrithirong, 2007; Chowdury et al, 2012). However, Todaro (1980) said that the rapid migration is not a beneficial process for the solution to the problem of labor demand in urban areas. This is because of rapid population growth, particularly in urban areas is seen as a motivating factor to the migration of people from rural areas to move and this movement occurs in a short period of time (Chamratrithirong, 2007). Migration exacerbates the structural imbalances occur urban and rural areas in terms of supply and also there is an imbalance in the growth of urban job seekers (Todaro, 1980).

Around 4.8% unemployment rate for urban areas was recorded in 1984 and 5.2% for rural areas. However, the unemployment rate is actually suffering from the condition that the fluctuation of the two areas where in 1992, the unemployment rate for urban areas was 3.2% and 4.3% recorded for rural areas. The unemployment rate continues to fall until it reaches 2.1% for urban areas and 2.9% in rural areas in 1997. But the unemployment rate for both these areas increased again in 2002 to be 3.3% (urban areas) and 3.8% (rural areas). In 2007, the unemployment rate for both these areas fell slightly to be 3.1% for urban areas and 3.5% in rural areas. For rural areas, the percentage of unemployment in 2012 is unchanged while for urban areas, the percentage of unemployment rate fell to 2.9% (Economic Planning Unit, 2012; Department of Statistics, 2013)

For total average monthly household income for urban and rural areas, although total revenue for the two regions is seen to increase from year to year but the household income gap is very significant. For 20% top household income, the mean monthly income for urban Household is of RM 13,654 while the mean monthly income for rural Household is RM 6,905. Similarly 20% top household income, the gap of middle 40% of household income and the bottom 40% of household income for rural-urban areas also significant (Economic Planning

Unit, 2012; Department of Statistics, 2013). Table 1 shows the monthly mean of gross Household income and Unemployment Rate for rural-urban areas.

Table 1: Mean Monthly Gross Household Income and Unemployment Rate

Variables	Year					
	1984	1992	1997	2002	2007	2012
Mean Monthly Gross Household Income						
1)Top 20% of household income						
Urban (RM)	4,114	5,133	8,470	9,085	10,576	13,654
Rural (RM)	2,110	2,332	4,130	4,057	5,200	6,905
2)Middle 40% of household income						
Urban (RM)	1,355	1,812	3,000	3,265	3,947	5,294
Rural (RM)	756	946	1,564	1,612	2,104	2,930
3)Bottom 40% of household income						
Urban (RM)	521	748	1,193	1,344	1,655	2,235
Rural (RM)	292	410	649	699	994	1,319
Unemployment						
Urban (%)	4.8	3.2	2.1	3.3	3.1	2.9
Rural (%)	5.2	4.3	2.9	3.8	3.5	3.5

Source: Economic Planning Unit, 2012; Department of Statistics, 2013

In Malaysia, the government has taken steps to control the rate of internal migration and also to develop economic growth in certain areas by establishing the New Economic Corridor in 2007 (Datuk Faizah Mohd Tahir; 2008). There are five agencies have been given the task of developing the New Economic Corridor as follows:

- East Coast Economic Region (ECER)
- Iskandar Development Region (IDR)
- Northern Corridor Economic Region (NCER)
- Sabah Deveopment Corridor (SDC)
- Sarawak Corridor Of Renewable Energy (SCORE)

The establishment and implementation of the five agencies this may be a motivating factor which resulted in the reduction of internal migration rate out of all the states in Malaysia. Various measures have been taken by the government aims to develop and improve the economy, particularly in rural areas. Opening the land schemes such as FELDA, FELCRA, RISDA and other development projects in rural areas also attract people to migrate. The purpose of the scheme is to reduce poverty and unemployment (Nik Hashim, 1992). However, the problem now is the lack of the second generation who are keen to further develop this sector because they prefer to work in the manufacturing sectors. So, this paper is to examine the relationship between rural and urban migration, household income and unemployment in Malaysia.

2. Literature review

Internal migration is an important phenomenon that will happen to a country to achieve development (Mohd Fadzil & Isaac, 2007) and its considered as a system that cycles seen interconnected with the elements involved and have their own goals (Mabogunje, 2002). With refer to the United Nations (UN), internal migration is a permanent change of geographical units to other geographical units in the same country (Crowder & Hall, 2007). According to Usman & Tarmiji (2010), migration is a demographic process that involves the transfer of population from one area to another area. It is a process of population movement that is sensitive to socio-economic development of that area.

Overseas Development Institute, ODI (2006) stated that internal migration consists of poor people who want to improve their standard of living. Many sectors have benefited from internal migration, including agriculture, manufacturing, construction, beaches and coastal economies, as well as services (ODI, 2006; Lee, 2012). Internal migration can be split into two categories: macro and micro basis. Migration focus on the macro level is taking the direction of migration occurring aggregates (Lee, 2012) while for micro level, the main focus is on decision-making by individuals to migrate (Zanker & Jesicca, 2008).

According to Ping & Shaohua (2005), internal migration in China is characterized by two important features: the first one, most migrants leave their farms to urban areas or for non-agricultural activities. Second, the flow of labor was basically directed from the interior to the coast, or from the city center and western regions to the east. These two features are seen overlapping and intertwined with macro socio-economic structure. While Castles & Miller (2003) makes an assumption that people who move from low-income areas to high-income areas and from high density to a less populated area. This gives a picture of the migratory move toward equilibrium specific economics.

In China, the government has implemented a more positive approach towards migration from rural to urban areas, and subsequently adopted a number of policies supporting rural migrants to urban areas (Ping & Shaohua, 2005). Internal mobility or migration only occurs in the early stages (at a young age), while the high mobility rate for Latin American countries and other developed countries, migration occurs at the end of the age when the population was more (Bell & Muhidin, 2009). In Malaysia, Yoshimi Chitose (2003) found that the New Economic Policy was introduced in Malaysia is a significant and positive impact on the ethnic Malay to non-Malay ethnic otherwise migrate no impact on migration.

But lately, Katiman (2006) found that the Klang Valley is still growing with a fast pace and rapid growth occurs in zones built. Out-migration in the Klang Valley metropolitan is more than in-migrant who enter to Klang valley. Out-migration occurs because the core area is crowded and attractions from the outskirts. Migration to the edge of metropolitan areas also resulted also occurs the new city growth rapidly in Klang (Katiman, Fuad & Aishah, 2010). Economic factors seem to influence the internal migration and according to Filiztekin & Gokhan (2008), the internal migration occurs because of poverty, unemployment and income. More attractive employment opportunities in the area of destination has attracted people to emigrate but for the people in Romania, internal migration less than migration out of the country (Pirciog et al, 2009).

Saptanto et al (2011) stated that migration is one of the phenomena related to social welfare in Indonesia. Community tends to migrate to the destination area for the purpose of increasing their income and to enjoy a better of life. Social networks that exist in the destination area also managed to attract the population to migrate to the destination (Filiztekin & Gokhan, 2008). Ping & Shaohua (2005) have emphasized about the relationship between migration and development in alleviating poverty and suggests that internal labor migration can have a positive impact on development and poverty reduction in the area of origin. According to Roslee & Dzulkiflee (2008), the young people in the interior of Sabah migrate because of the pull and push factor that exists between poverty, basic amenities and employment factors

3. Methodology

This studies use the annual time series data for rural and urban areas starting from 1980 to 2011. The data used is secondary and it derived from the Department of Statistics and Economic Planning Unit (EPU). Based on the objectives, the equation (3.1) below has been developed using the appropriate variables.

$$\log M_{it} = \alpha + \beta_1 \log THI_{it} + \beta_2 MHI_{it} + \beta_3 BHI_{it} + \beta_4 UN_{it} + \varepsilon \quad (3.1)$$

where M refer to in migration, i is the urban/rural area, t is the year, THI is the top 20% Household income, MHI is middle 40% Household income, BHI is the bottom 40% Household income, UN is the unemployment rate, and ε is an error. The unit root tests are run first before we run the cointegration and granger causality test. So the purpose of this unit root test is to look the stationary of variables at level and first differentiation (Asteriou & Hall, 2007; Seddighi et al, 2000). Hypothesis for the unit root tests are:

$$H_0 : \delta = 0 \text{ (have a unit root test / not stationary)}$$

$$H_1 : \delta \neq 0 \text{ (no unit root test / stationary)}$$

To test the unit root, Dickey Fuller test Extras (ADF) Act 1979 will be used for this method. ADF unit root test method is as follows.

$$\Delta Y_t = \alpha_0 + \sum_{i=1}^a \phi_i Y_{t-1} + \sum_{j=1}^b \theta_j \Delta Y_{t-1} + \varepsilon_t \quad (3.2)$$

Without constant and trend:

$$\Delta Y_t = \delta Y_{t-1} + \mu_t \quad (3.3)$$

With constant:

$$\Delta Y_t = \alpha + \delta Y_{t-1} + \mu_t \quad (3.4)$$

Constant and trend:

$$\Delta Y_t = \alpha + \beta T + \delta Y_{t-1} + \mu_t \quad (3.5)$$

Where Δ is the first differentiation, ε_t and μ_t is a stationary random error. Based on the hypothesis of the unit root test, if the t-statistic obtained is greater than the critical value, then hypothesis H_0 will not be rejected (meaning the variable is not stationary and have a unit root). But if the t-statistic is less than the critical value, then there is no unit root and the variables is stationary (H_0 hypothesis is rejected).

After performing the unit root test, cointegration tests are made in order to see a direct relationship between all the variables involved. This study aims to look at the long-term relationship between the variables. In the long-term cointegration test, there are two main models developed by Engle and Granger (1987), and also developed by Johansen (1988) and Johansen and Juselius (1990). Cointegration test for this hypothesis is as follows:

$$H_0 : \delta=0 \text{ (not stationary for } \hat{\mu}_t \text{ or not cointegration if } t_\delta > \tau)$$

$$H_1: \delta < 0 \text{ (stationary for } \hat{\mu}_t \text{ or cointegration if } t_\delta < \tau)$$

Whereas $\hat{\mu}_t$ is the error and τ is the critical value. If the value of the t statistic is less than the critical t, then H_0 is received (the variables are not cointegrated). And if the value of t statistic is greater than the critical t, then H_0 is rejected (Asteriou & Hall, 2007; Seddighi et al, 2000). In this study, the cointegration method introduced by Johansen will be used. Linear regression equation for this cointegration is:

$$Y_t = \beta_1 + \beta_2 X_t + \mu_t \quad (3.6)$$

And the residual equation is:

$$\hat{\mu}_t = Y_t - \hat{\beta}_1 - \hat{\beta}_2 X_t \quad (3.7)$$

While test Error Correction Model (ECM) was conducted in order to see the effect of migration, household income and unemployment in the short term. Set of equation for the ECM test is:

$$\Delta Y_t = a_0 + b_1 \Delta X_t - \pi \widehat{\mu_{t-1}} + Y_t \quad (3.8)$$

Where b_1 is the multiplier effect of the variables in the short term and they have immediate impact on the dependent variable of Y_t (when X_t is change, then Y_t will also change). Causality tests in this study to see the granger cause relationship between the variables involved. Granger (1969) introduced this causality test to see the reaction between two variables. Sims has further expanded this model to be a model of alternative causes in 1972 (Asteriou & Hall, 2007; Seddighi et al, 2000). Hypothesis for the granger cause model is as follows:

$$H_0 : \sum_{i=1}^n \beta_i = 0 \text{ or } X_t \text{ does not granger cause } Y_t$$

$$H_1 : \sum_{i=1}^n \beta_i \neq 0 \text{ or } X_t \text{ granger cause } Y_t$$

If the variable X is granger cause of Y and Y is also the cause of X, its means that the past of X help in anticipating the future Y. Similarly, the last value of Y also assists in the expected future value of X. Here is the regression formula for two way causality tests (involving variables X and Y):

$$Y_t = \sum_{i=1}^p \sigma_i Y_{t-1} + \sum_{j=1}^q \beta_j X_{t-j} + \mu_{1t} \quad (3.9)$$

$$X_t = \sum_{i=1}^p \gamma_i Y_{t-1} + \sum_{j=1}^q \delta_j X_{t-j} + \mu_{2t} \quad (3.10)$$

And the formula for calculate the F test (F-statistic) is as follows:

$$F = \frac{[RSS_R - RSS_u]/m}{RSS_u/(n-k)} \quad (3.11)$$

Whereas n is the number of distribution and k is the number of variables. To determine the critical value of F, the formula $F_{m,n-k}$ (where the value of k is equal to $m + n + 1$) will be used and it should refer to the table of distribution F. if the F-statistic is greater than the F-critical, then H_0 will be rejected (it can be concluded that X, is a cause of Y and vice versa).

4. Findings

The result about the relationship between migration, household income (top 20%, middle 40% and bottom 40%) and unemployment for rural urban are discussed. The unit root test is to investigate the stationary property based on Augmented Dickey-Fuller (ADF). Table 2 below shows the unit root test of rural-urban migration.

Table 2: Unit Root Test

Variable	RURAL				URBAN			
	Intercept		Intercept + Trend		Intercept		Intercept + Trend	
	Level	First difference	Level	First difference	Level	First difference	Level	First difference
M	-0.3929 (0.8856)	-4.8663** (0.0094)	-1.5999 (0.7398)	-15.4569** (0.0001)	-0.3907 (0.8923)	-6.5676** (0.0001)	-1.7548 (0.6859)	-6.3446** (0.0010)
UN	-1.3776 (0.5802)	-3.6993** (0.0093)	-1.9620 (0.5984)	-3.6960** (0.0383)	-1.3431 (0.5931)	-2.9558* (0.0551)	-2.4712 (0.3380)	-3.6974** (0.0094)
THI	-2.4890 (0.1277)	-2.7558* (0.0768)	-2.0023 (0.5773)	-3.6957** (0.0480)	-2.5834 (0.1071)	-2.9801** (0.0483)	-2.9474 (0.1629)	-3.3701* (0.0753)
MHI	-2.5636 (0.1112)	-18.5737** (0.0001)	-2.2063 (0.4697)	-15.4567** (0.0001)	-2.5109 (0.1227)	-3.2839** (0.0248)	-2.4877 (0.3314)	-3.2393* (0.0961)
BHI	-2.2863 (0.1824)	-3.0282** (0.0436)	-2.8038 (0.2069)	-3.3611* (0.0766)	-2.2455 (0.1953)	-3.0775** (0.0392)	-2.0487 (0.5528)	-3.6825** (0.0394)

Note: ***, ** and * denote statistical significance level at 1%, 5% and 10%, respectively.

Table 2 above shows the results of unit root test for rural-urban areas. All rural-urban variables (migration, unemployment, top 20% household income, middle 40% household income and bottom 40% household income) are significance at 10% and 5% significance level. Table 3 below shows the cointegration test for rural-urban areas in Malaysia.

Table 3: Cointegration test

Hypothesized no. of CE(s)	RURAL				URBAN			
	Max-Eigen statistic	0.05 critical value	Trace statistic	0.05 critical value	Max-Eigen statistic	0.05 critical value	Trace statistic	0.05 critical value
Migration, unemployment, top 20% household income								
$r=0^*$	22.8797	24.2520	36.7330	35.0109	25.9417	25.8232	47.9675	42.9153
$r \leq 1$	10.0535	12.1477	13.8532	18.3977	14.5209	19.3870	22.0258	25.8721
$r \leq 2$	3.7997	3.8415	3.7997	3.8415	7.5050	12.5180	7.5050	12.5180
Migration, unemployment, middle 40% household income								
$r=0^*$	26.1703	21.1316	36.6557	29.7971	23.9828	25.8232	45.4717	42.9153
$r \leq 1$	7.6568	14.2646	10.4854	15.4947	11.3653	19.3870	21.4888	25.8721
$r \leq 2$	2.8286	3.8415	2.8286	3.8415	10.1236	12.5180	10.1236	12.1580
Migration, unemployment, bottom 40% household income								
$r=0^*$	26.8122	24.2520	38.6063	35.0109	29.9156	25.8232	42.2257	42.9153
$r \leq 1$	8.1304	17.1477	11.7941	18.3977	8.6030	19.3870	12.3100	25.8721
$r \leq 2$	3.6637	3.8415	3.6637	3.8415	3.7070	0.7840	3.7070	0.7840

Note: ***, ** and * denote statistical significance level at 1%, 5% and 10%, respectively.

Table 3 above shows the cointegration result for the relationship between migration and unemployment with top 20% household income, 40% middle household income and 40% bottom household income. While table 4 below shows the vector error correction model (VECM) for rural-urban areas.

Tabl 4: Vector Error Correction Model (VECM)

Error Correction	RURAL			URBAN		
	Coefficient	T-statistic	Prob.	Coefficient	T-statistic	Prob.
Migration, Unemployment, Top 20% household Income						
$\Delta M(-1)$	-0.5598	-1.8256	0.1012	-0.3219	-2.0163	0.0785*
$\Delta UN(-1)$	-3.0099	-0.8123	0.4276	7.5784	2.6543	0.0213**
$\Delta THI(-1)$	-0.2414	-0.0624	0.9516	21.7853	5.3658	0.0007**
ECM(-1)	-0.4048	-1.6995	0.1235	-2.6348	-4.4553	0.0021**
Migration, Unemployment, Middle 40% household Income						
$\Delta M(-1)$	-0.7680	-3.3267	0.0088**	-0.5163	-2.1962	0.0593*
$\Delta UN(-1)$	-3.0082	-0.8339	0.4259	0.2599	0.0093	0.9280
$\Delta MHI(-1)$	-3.5595	-0.4199	0.6844	-15.5056	-2.3577	0.0461**
ECM(-1)	-0.2038	-1.4245	0.1880	-0.3994	-1.6018	0.1479
Migration, Unemployment, Bottom 40% household Income						
$\Delta M(-1)$	-0.5409	-1.7-96	0.1215	-0.5473	-2.3346	0.0478**
$\Delta UN(-1)$	-2.4643	-0.6725	0.5182	10.3701	1.7290	0.1221
$\Delta BHI(-1)$	-0.2550	-6.0421	0.9673	-2.5812	-25812	0.0326**
ECM(-1)	-0.4548	-1.6816	0.1269	-2.3025	-2.3025	0.0503**

Note: ***, ** and * denote statistical significance level at 1%, 5% and 10%, respectively.

Table 4 above shows the short run vector error correction model (VECM). Based on the short run analysis for rural-urban migration above, only urban areas have a short run relationship. For the relationship between migration, unemployment and top 20% household income, all variables are significant at 5% and 10% significant level. The relationship between migration, unemployment and bottom 40% household income for urban areas also have a short run relationship. While table 5 below shows the granger causality for all rural-urban variables.

Table 5: Granger Causality Test

RURAL			URBAN		
Variables	F-Stat	Prob.	Variables	F-Stat	Prob.
UN does not granger cause M	20.7501	0.0003	UN does not granger cause M	0.5823	0.5897
M does not granger cause UN	0.1525	0.7013	M does not granger cause UN	0.0424	0.9587
THI does not granger cause M	0.3671	0.5531	THI does not granger cause M	5.6406	0.0258
M does not granger cause THI	0.5299	0.4772	M does not granger cause THI	0.5026	0.6210
THI does not granger cause UN	5.0662	0.0324	THI does not granger cause UN	6.0088	0.0106
UN does not granger cause THI	2.3096	0.1398	UN does not granger cause THI	0.5653	0.5785
MHI does not granger cause M	0.0536	0.8199	MHI does not granger cause M	5.3089	0.0300
M does not granger cause MHI	0.0126	0.9119	M does not granger cause MIH	1.1591	0.3565
MHI does not granger cause UN	4.8551	0.0360	MHI does not granger cause UN	5.7783	0.0122
UN does not granger cause MHI	0.9982	0.3263	UN does not granger cause MHI	0.3602	0.7028
BHI does not granger cause M	0.5132	0.4841	BHI does not granger cause M	2.3754	0.1485
M does not granger cause BHI	1.4991	0.2385	M does not granger cause BHI	0.5107	0.6165
BHI does not granger cause UN	4.7473	0.0379	BHI does not granger cause UN	5.7207	0.0126
UN does not granger cause BHI	2.3052	0.1402	UN does not granger cause BHI	0.6248	0.5472

Note: ***, ** and * denote statistical significance level at 1%, 5% and 10%, respectively.

Table 5 represents the granger causality for all rural-urban variables. For rural areas, all categories of household income (Top 20%, Middle 40% and Bottom 40%) are granger cause to unemployment while only unemployment is granger cause to Migration. All categories of

household income for urban areas also granger cause to unemployment but only top 20% and middle 40% household income are granger cause to migration.

5. Conclusion

The main objective of this study was to examine the relationship between rural and urban migration, household income and unemployment in Malaysia. For the unit root test result, all variables are significant at 5% and 10% significant level based on ADF test. Cointegration test result showed that at least one variables have a long run relationship with migration for all rural-urban combination variables (migration, unemployment, top 20% household income, middle 40% household income and bottom 40% household income). Vector Error Correction Model (VECM) showed that only urban areas have a relationship in short run. While for granger causality test, all categories of household income for rural areas (Top 20%, Middle 40% and Bottom 40%) are granger cause to unemployment while only unemployment is granger cause to Migration. All categories of household income for urban areas also granger cause to unemployment but only top 20% and middle 40% household income are granger cause to migration.

Migration is considered as one of the drivers of strategy development and growth and is an important route out of poverty for the population (Chowdury et al, 2012). On the other hand, migration is happening today is seen as a major factor contributing to the occurrence of the phenomenon of urban surplus labor and, consequently, the problem of unemployment in urban areas is becoming increasingly serious due to the economic and structural imbalances between rural and urban areas (Todaro, 1980). Labor from outside the area with high experience is also seen to increase human capital and socio-economic development of sending areas (Ping & Shouhua, 2005). They are actually more likely to increase labor supply growth in urban areas but will there be a shortage of skilled and experienced labor in rural areas. In view of the demand side, employment in the most difficult to obtain and expensive cost of living in the area compared to rural employment opportunities (Todaro, 1980)

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STUDY ON THE COMPOSITION OF QUALIFIED' ABILITIES INNOVATION CAPABILITY AND HIP CHARACTERISTIC

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Abstract

The entrepreneur is a unique and eye-catching group in the market economy and it's the career that most people aspire to, but it does not seem to show the advantages beyond the proportion of population in the educated group. This makes us considering the unique abilities of this group which is close to us but difficult to read: Is this kind of talent more innate, or the result of education after birth? By empirical methods this paper shows readers that qualified entrepreneurs should possess two kinds of abilities: innovation capability and entrepreneurship characteristics. While to some extent the innovation capability of changing resource combination can be developed, but eliminating the uncertain entrepreneurship in business needs more talent.

Keywords: Entrepreneurs' Innovation Capability; Entrepreneurship Characteristics; Entrepreneurs' Capital Characteristic

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For the enterprise contract theory, the enterprise is the result of saving transaction costs and a series of contract couplings. Entrepreneur of the enterprise--contract theory, answered the question that: within the enterprise members who should be the supervisor, who should be the entrepreneur or who should be selected to choose the professional manager entrepreneur? That is to say why it is the capital employ labor rather than the labor employ capital. It suggested that not everyone can become entrepreneurs. However, the theory does not further the answer of the individual unique talents besides property that the entrepreneurs should have.

Entrepreneur theory of modern enterprise suggests that it is by the entrepreneurs that have high processing and judgment capability with opportunity and uncertainty that the enterprise could build up. The first and foremost decisions of what to produce and how to produce were also made by the entrepreneurs. We call it the function of the entrepreneurs, which was put forward in 1921 by Knight. Entrepreneur theory of modern enterprise is to dynamically investigate the specific ability requirements of the entrepreneurs for business operation. As well as answer the function, status and role of the entrepreneurs in enterprise and economic growth.

1. Entrepreneurs' Abilities and Its Functions in enterprises

In everyday life, there are many such examples: Some better educated and talented people in the community is not always "success"; in contrast, there are some people without a high

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level of education and looks mediocre qualified finding themselves a good "status" or earned a lot of money . Such comparison often makes us feel unhappy, and puzzle ourselves.

Empirical analysis tells us that the one of the impotent reasons why this happens, is that the former is not good at self-management, however, the latter does. While, in our ordinary people's minds, the so-called self-management is nothing more than good at taking advantage of relationships and opportunities for their own profit which is almost the same with profit secure chaser that always been despised by everyone.

We value genuine talent, and think that such self-management is not true skill and genuine knowledge, and will be disdained by them. In fact, in the theory of the enterprise, such good self-management skills are precisely the entrepreneurial talent. Historically, the entrepreneur' function in the enterprise was decided by entrepreneurs' innovation capability and entrepreneurship characteristics.

1.1. Entrepreneurs' Innovation Capability of Restructuring Resources Determine the Direction of the Use of Resources

Through empirical analysis, in a market economy, the "Entrepreneurial Ability" of the enterprise, first embodied in the entrepreneur unique organizational capability or ability to innovate. One of the functions of entrepreneurs is to transfer resources from areas of low productivity to the higher field (Say Jean Batiste, 1803), It is the entrepreneurs' organization competence. In this regard, the economist Joseph Schumpeter (Schumpeter, Joseph, 1912) holds that entrepreneurship lies in innovation. And the innovation is establishing a new production function in the enterprise that achieve a new combination of the factors of production never seen before, so as to find new use of the factors of production, new direction of development of enterprise. The result is that entrepreneurs create new profit margin, and this innovative capacity is the feature of entrepreneur.

1974 Nobel laureate in economics, Hayek (Hayek, F.) further considers, the character of entrepreneurial ability is good at taking properly use of their existing good talents and existing resources and turning it into useful products or services to others to get paid. He believes that the ability of entrepreneur is not reflected in their existing knowledge, technology, etc, but reflected in whether he could use the knowledge and technology combined with the recourse to produce useful products or service to other people who have the ability to make a return.

In fact, this is the essence of a free market economy: In the market economy, no authority and organization to take the initiative to evaluate a person's worth. Only good at selling yourself that is finding the opportunity can get the largest social utility at the same time, which is the result of innovation. Specifically, you should let others know that you can provide them with useful products or services, and you should know who can give you the best price at the same time, so as to own yourself and the recourses you possessed the best market and sell the best price which both you and others reached their maximum utility.

1.2. Dealing with Uncertainty Entrepreneurial Spirit to Achieve Wealth Creation

Peter • Drucker (Drucker, Peter, 1985) conducted a systematic analysis of the relationship between innovation and entrepreneurship in his book "Innovation and Entrepreneurship". Inspired by Schumpeter, he thinks management innovation is the entrepreneur's unique ability characteristic--organize elements of the enterprise resources or elements of resources in existing state, by changing the combination of resources to produce more or new energy for return of products and services, thereby enhancing the ability to create wealth.

The entrepreneurial spirit, he believes that is neither a science nor an art, it is a practice. Our understanding is that the role of the entrepreneurs' innovation capability is to find innovative

opportunities and direction of new resources combinations; entrepreneurial spirit is the practice talent in dealing with and eliminate all uncertainty when put this innovative combination of resources into production of products or services and get the real pay back. Entrepreneurial spirit is entrepreneurs' unique "practical innovation" talents.

Entrepreneurial innovation is entrepreneurs' necessary capacity characteristics. Entrepreneurship is the measurement of talent of entrepreneur of innovative solution that whether it could obtain the required return in the specific operations. The strength of entrepreneurship determines the level of innovation realization, behaves as the capabilities for dealing with uncertainty. It is more of a talent, a characteristic of entrepreneurs which is reflected in the process of the ability to deal with the problem in an instant, rather than innovation--identify opportunities is rule-based and learning.

It is the entrepreneurship that separate entrepreneurs from general managers. Further more, the empirical analysis about the re-organization capabilities of entrepreneurs and other productive factors told us that the two elements of capital and labor resources themselves do not have the self-organizing ability and innovation ability. That is to say, among all the elements in the enterprise resource, only entrepreneurs with innovative capabilities and entrepreneurship characteristics can lead the other resources to find the usefulness of pilot resources for the entrepreneur resource has the innovative capabilities and characteristics of entrepreneurship.

2. The Position, Role and Function of Entrepreneurs in the Economic Growth

Modern market economy can be called an entrepreneur economy. The richness of resources and the level in order to play the talents not only determines the rise and fall of the country also determines the efficiency of the allocation of economic resources and economic development speed and quality. According to Rostow' (Rostow, ww, 1960) summary, a country's speed of the process of industrialization are more determined by the entrepreneurs resources. Therefore, in the theory of the enterprise, it is necessary to recognize the entrepreneurs 'status, role and function in the economic growth that creates wealth.

2.1. Status—the Allocator of Economic Resources

In the modern corporate enterprises, the entrepreneur is the direct allocator of human resource, capital and other factors of production resources, and also the creator of the enterprise. Whether the production resources could realize the optimal allocation, the product structure could be reasonable and the level of production could be efficiency, depends on whether entrepreneurs could make the right resource allocation decisions—find out who has the ability to make a return and produce them useful products and services. Macro level, a region or a country's condition of overall allocation of resources is the concentrated expression of all enterprises. Since each enterprise's rationality of resource allocation is determined by the quality of the entrepreneur, and then the overall quality of the entrepreneurial resources determines the merits of a region or a country. That is, in the market economic system, the entrepreneur is the dominant position of the allocation of resources, and is the final decider of resource allocation.

2.2. Impact--the Source of Economy Growth

In the modern corporate enterprises, the entrepreneur has become a new factor of production besides land, labor, capital, technology since it occupied the leading position. Analysis theory of modern economic growth suggests that the innovative profits made by the innovative talent of entrepreneurs are the new source of economic growth. In the modern corporate enterprises,

the entrepreneur has become a new factor of production besides land, labor, capital, technology since it occupied the leading position. Analysis theory of modern economic growth suggests that the innovative profits made by the innovative talent of entrepreneurs are the new source of economic growth. A large number of empirical analysis (such as the development history of good or bad enterprises in the same industry) show, in the transformative market economy country, not in the legal determination of the market economic system and micro enterprises will be able to rational allocation of production factors and create a competitive power products; macroeconomic economy can guarantee a variety of resources automatically reach the "most appropriate" distribution, thereby increasing the effectiveness of the entire national economy. The optimizing of microcosmic configuration and allocation of micro-optimization depending on the abundance and functioning level of the entrepreneur resource which determine the resources allocation function.

It is the capacity of the entrepreneur for penetrating the environmental change, predicting the future, finding out opportunities for production and good at organizing productive resources within the enterprise to take the opportunities for innovation, encourage enterprises to translate opportunities for production into a highly marketable or rewarding products and services. The capacity of the entrepreneur improved the efficiency of resource use, created a more useful wealth, increased the effective supply of the market, and promoted economic growth. It is the capacity of the entrepreneurs relied on foresee the future and recombine resource, gather a variety of static factors of production under their spirit of initiative—entrepreneurship, and connection up it with the development and manufacture of production with a highly marketable or rewarding, and thus use the factors of production more efficient and increase output efficiency. It is the entrepreneurs' creative compete with each other, ultimately, improve the allocation of resources in a competitive process. The result of the "improvement" of resource allocation was the entrepreneurial profit, and economic growth of the macro economy. Therefore, the entrepreneur is a factor of production resources and the source of micro business interests and macro economy growth.

2.3. Function--Economic Operation Balancer

In the modern market economy, the one realize the connection between market regulation subject (government) and market competitors (corporate), and turn the government's macro-control policies and market supply and demand signals into enterprise production and management decision-making instructions are the entrepreneurs. During the operation of the market economy, the government no longer directly intervene in production and operation activities, the entrepreneur is the organizer of all the enterprise' supply and marketing activities. Only when the entrepreneurs can correctly understand the macro-control policies and adjust the internal production and investment direction when the government takes Marco-control can the economic operation-- the sum of all economic activities tend to the government established control objectives. Then, the Marco-control is effective.

Meanwhile, entrepreneur is the discoverer and eliminator of economic imbalances. One of entrepreneur's functions is explore the possible market imbalances at all times, and found the basis for decision-making and production opportunities, and make enterprise production and management adjustments timely. So that, production can towards areas of product supply shortage rather than excess direction. Direction of management adjustment made from the company interests promoted the economy to a market equilibrium run objectively. From this, in the modern market economy, the entrepreneur is one of the main factors to determine the economic situation. The entrepreneur is the connector between government's macro-control policies and micro-enterprise behavior. They play the balancer function in economical operation.

In summary, the function of the entrepreneur as a economic operation balancer in the modern market economy and the status in the allocator of economic resources and the function of source of economy growth determined if there was insufficient entrepreneur resources and their talent didn't fully play, there would not be a mature market economy, a complete market mechanism to play a fundamental role in resource allocation and optimization of the role of the modern corporate system. At the same time, it is impossible to improve the modern corporate system, and it will be impossible to achieve the greatest for the economic growth. Therefore, we must create the conditions for entrepreneurial generate, grow and develop to explore incentive system for them to play their talents into high level.

3. Capitalization Characteristics of Entrepreneur Human Resources

Proposal of the concept of human resources and capital resources are corresponded. Multi-level entrust-agent system commission produced by modern corporate enterprise system made the "proletarians" entrepreneur human resources plays a central role in the modern economic growth, the result is the entrepreneur gain the power to transferring part of the profits to the capital requirements of its own and obtain the remaining capital because its position in enterprise-- have control right and contribution-- create the remaining. This is what we are now frequently used "human resource ". It used to indicate the human resources that only get a fixed remuneration.

Capital's characteristic is risk capital and thus receive the residual value. In the modern corporate system, due to the secondary separation of shareholder property rights and corporate ownership, corporate ownership and the right, the control of the business is generally controlled by "proletarians". The "proletarians" are the professional managers. It created the conditions for the one who has no capital but has entrepreneurship (innovative combination of resources through entrepreneurship into practice, thereby creating entrepreneurial profit).

Entrepreneurs used the more distinctive more appropriate and more effective means of production that is "to achieve a new combination". The room between the before and after is the entrepreneur's profits. Also, for these professional managers' working entrepreneurs quantity, quality and results can not be accurately measured and monitored , in such a state of asymmetric information, only allow these entrepreneurs to bear part of the risk that is part of residual claim its rewards and results of operations - profit linked to effectively in order to stimulate them to work hard and use their unique talents to create more wealth and thus ensure the maximization of capital chasing profit targets achieved. Entrepreneurs' human resources get the characteristic of capital properties for the right to obtain the surplus profits for its role and work quality can not be monitored.

But the nature of the entrepreneur human only has the characteristics of surplus value, but not in the general sense of take a risk of the company. This is mainly because entrepreneur human capital inseparability of its owner and it does not have the pledge function, even at greatest risk of state enterprises - bankruptcy, this capital held no responsible, and the owners of capital take no economic loss. It is because of entrepreneur human capital doesn't risk companies risk, that they can not afford their role in the enterprise is bigger. So it must be employed by the capital and incentive and restraint by the owners of capital, so that the enterprises can be value is greatest.

4. Incentive Methods for Entrepreneurship to Elaborate

Based on Zhang Weiying's conclusion of Entrepreneurs--Concluded Contract Theory, in the modern market economy system, the entrepreneur resulting condition is: the property owner must be a natural person to do the ultimate and its non-wide dispersion, in order to generate specific real employment for entrepreneurs—capitalists. Because no employer on hireling.

Principal agent theory told us that the behavior and the quality of the work of the professional manage entrepreneurs can not be monitored. Those entrepreneurs have control right. So it requires incentives for entrepreneurs that allow entrepreneurs to take risks that some residual claim (which is the performance of entrepreneurial capital resources), so that the maximum residual claim the right to correspond with the control, allowed the self monitor, so that the professional managers entrepreneurs just might like to work just as hard work for the enterprise of themselves. Those are the most appropriate incentives for modern professional managers' entrepreneurs to put their special talents into full play. In reality, the extent of the condition the entrepreneurs generate and the extent of incentive method are the two bound variables for the form of entrepreneur resource.

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SPEEDING UP THE CONSTRUCTION AND PERFECTION OF CHINESE RURAL PUBLIC SERVICE SYSTEM

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Abstract

The construction level of the village-level public service system is an important indicator to measure the social and economic development in rural areas as well as the measure of the coordinated development level of the urban and rural. It is also the key to the new rural construction and to build a comprehensive well-off society. Under the premise of insufficient government financial support, village-level public utilities are still a big vacancy in some relatively underdeveloped areas. The construction of the villages and towns there is in confusion, the public environmental health services is in a lower level, and the basic public services is unsound. Therefore, it is necessary to take the opportunity to take this chance, leveraging the full advantage of urbanization development opportunity, to improve the village-level living environment and gradually allow the villagers to recognize the real benefits to improve the service system. At the same time, it is also important to give a political guide and encourage social forces to participate in the construction which will speed up the improvement of village-level public service system.

Keywords: the village-level public service system, new rural construction, public expenditure

1.Introduction

The construction and operation mechanism of the village level public service system is still relatively backward in China now. In this case, there is nearly no perfect rural public service platform in China. Therefore, the establishment and improvement of rural public service system construction has great potential. Under the background of the realization of industrialization, speeding up the development of China rural public service has great advantages not only to promoting the improvement of rural living conditions, improving the quality of life for farmers, promoting the healthy and stable development of rural economy and society, but also to fundamentally reducing the gap between urban and rural areas. All of these will make a good sense to make the dream to complete a comprehensive well-off society true. As the level of the construction of the village public service system is an important index to measure the development of rural economy and society. It is also the key to coordinating and promoting the development of the urban and rural.

2.The Current Support Status of Rural Public Service in China

1.The support of government policy is strengthening. In the recent five years, how to raise the level of basic public services in rural areas is one of the most important question that the government concern. In "the 17th National Party Congress", it is pointed out to make a great develop of the balance of the urban and rural development and promote the building of new socialist countryside. In reality, with the development of the rural economy, the farmers' needs for the public service are growing. The policies, like the implementation of industry re-feeding agriculture and city support rural, provide policy support to the construction of rural public service system, and promote rural economic and social development. Therefore, it is necessary to emphasize the integration of urban and rural development, to increase the intensity of urban

and rural development and to gradually narrow the gap between urban and rural. The policy also point that we should continue to strengthen the industry re-feeding agriculture, city supporting the countryside and let the farmers equally participate in the process of modernization and share the achievement of modernization.

2.The government financial support is insufficient. In addition to give policy support, it also needs financially matching input. Since the investment in the rural public service is limited in China, the effective supply of public products in rural is insufficient. This problem will restrict the rural economic and social development, which directly influence the overall implementation of the new rural construction of a well-off society in an all-round way. The basic public services are identified as the development of compulsory education, public health and basic medical care, basic social security and infrastructure construction. From this view, while the financial in rural compulsory education investment is increasing, but the rural education resources is still backward. From table 1 we can see that the central fiscal agricultural social development expenditure in 2007 is nearly to 142 billion Yuan, compared to 531 billion Yuan in 2012, which increased by 2.75 times. At the same time, the proportion the development of agricultural public expenditure of agricultural expenditure is gradually increasing, from 32.8% in 2007 to 43.3% in 2012, which increased by 32%. But the proportion of the expenditure for agriculture of the total expenditure is not substantial, which indicates that the development of rural education, health and other social undertakings are on the increase, but in the whole of government expenditure is low. Therefore, it needs financial support and to establish and perfect the support of rural public service system implements to sustain the urban and rural development in the future.

Table 1 the Annual Expenditure Ratio Condition of the Rural Social Undertakings Development: 2007-2012

	expenditure in rural areas	agricultural expenditure	proportion in agricultural expenditure	proportion in fiscal expenditure
2007	1415.8	4318.0	32.8	8.7
2008	2027.2	5995.5	34.6	9.5
2009	2723.2	7253.1	37.6	9.5
2010	3350.3	8579.1	39.1	9.5
2011	4381.6	10497.7	41.7	9.6
2012	5313.9	12286.6	43.3	9.8

Data sources: the Statistical Yearbook and financial reports of China in recent years

3.The Construction of the Current Rural Public Service System

1.There are still many differences in identifying the rural basic public service system. In fact there is some inconsistency in the scope of basic public services in rural areas. For example, some believe that the basic public services including regular project and capital projects, while others think that the basic public services only includes regular project, not the capital projects. Currently, the basic public services are identified not only including people's basic livelihood of services, public education, public health and health and social security and other public services, but also including the public facilities construction, ecological protection, other public infrastructure services, public safety services and the employment service. And there is a big gap between urban and rural areas in the fundamental public services, such as , compulsory education, public medical treatment and so on. In addition, in reality, the problem of drinking

water, electricity, transportation, sanitation and other basic necessities of lives have not been resolved in many rural areas. So the basic public service must be included in the construction of public infrastructure. Therefore, it is very necessary to establish and perfect the system of basic public services in rural areas, including at least the most basic public services and the public infrastructure concerning the living consumption.

2. There is large space to establish and improve the system of basic public services in rural areas. Take Hebei Province in China as an example, the result of the sample survey for the establishment and improvement of the most basic public services indicates that nearly 40% are not very satisfactory. The main reason is the formation of schooling is not convenient; the village primary school is less and less. There is nearly 10% people think the basic medical security system is unsatisfactory and the reimbursement is not ideal. 62% of the people think that no pension services and related services in the village. 80% of the people think the rural social security status is satisfied. Less than half think the ecological environment in rural areas is good and the main problem is the treatment of life garbage and the improvement of the village environment. 100% people think there is no employment service in rural areas, 90% villagers think that when facing difficulties and risks, the village has not been able to provide social assistance, no relief way, which is different from the reality of the situation. The answer for the village public cultural and sports construction and development situation is diverse, and the majority thinks that sometimes there are corresponding organizational arrangements, but has not formed the scale. When asked whether has requests for the supply of means of substance, purchase of agricultural products, agricultural credit and other professional services, 90% answer "yes". In reality, most rural is in the absence of such services. How to provide such public service, and who can provide such suitable services is the most important question that should be solved at present. Meanwhile, it is also formed diversified requirements for the public service organization and other issues.

4. Suggestions for Establishing and Improving the Rural Public Service System

Judging from the present development situation, some places such as the pilot of the Chongqing area, Shenyang area, rural public service system is in the continuous improvement, also very fruitful. But in the less developed area, the village public utilities are still exist large gaps. Villages construction chaos and the environmental public health service level is low, the backwardness of cultural infrastructure and other basic public service problems remain unresolved. Therefore, it has the necessity and practical significance for the government to strengthen the popularization and promotion of pilot area development experience.

1. Make a full use of urbanization development opportunity and accelerate the improvement of rural public service system. In the next 20 years, China will make great efforts to the development of urbanization, industrialization and modernization. The urbanization is the process of a rational layout and function definition. So, if village functions confirmed unchanged, it is suitable to speed up the rural public infrastructure construction, and to solve the current chaotic situation of village and town construction, which is not only helpful to perfect system but also helps to make the service function and quality improve. It will also completely change the appearance of new rural construction in rural areas.

2. Take the improvement of the village living environment as a breakthrough point to gradually make the villagers aware of the benefits and perfect service system. The construction of public service system is faced with the lack of funding constraints, therefore, to establish and perfect the process could not accomplish at one stroke. But can we take the lead in village environment improvement, because it do not needs so large investment, as long as the organization's environmental sanitation cleaning, then in the maintenance of engaging 1-2

cleaner by the village government funded conservation. At the same time, it will get the effect instantly to add some fitness equipment in the appropriate site. When the villagers feel and enjoy these changes, they will not only consciously participate in the development of public utilities and construction, but it will also conducive to change the rural public service supply "current top-down" mechanism. At that time, the construction of the supply mechanism of public service system which takes the farmers' demands for the center will not be empty talk, so as to speed up the pace of building and improving of the rural public service.

3. Speed up popularizing the experience of construction rural public service in pilot and steer to the stage of development of comprehensive concrete implement as soon as possible. In the past two years, with the pilot construction of rural public service more and more, there are many good results for the construction of rural public service in the pilots. This requires the government to promote and accelerate the promotion to step in the development stage to make the concrete implementation. From the success experience of Chengdu urban and rural village to Xing Gu Cun, Shahe County in Hebei province ,it has been proved that as long as government increase in financial support to popularizing the experience, the construction of Chinese public service and the new rural village can be expected soon.

4. Increase the investment of rural public infrastructure, and give policy to guide and encourage social forces to participate in the construction. It should be do first to make clear responsibilities at all levels, such as cultural activities, sports and fitness, the village green, environmental health management, dispute mediation, public security and the villagers affairs activities should be established by the organization at village level;while,rural education, employment services, water and electrical communication , the Internet infrastructure construction and maintenance, the circulation of agricultural products, the supply of agricultural means of production, agricultural normalization, rural financial services, rural legal services market development, investment and other aspects of the building should be provided by the government. Based on governance, strengthen the implementation behavior, such as the central government investment should be in place and so on. At the same time, give sufficient incentive mechanism to guide the relevant departments and units of the public service chain extending to the countryside. In addition, it is also important to select good village leaders to improve the basic public service system construction, make sure to strengthen the inspection and requirements at all levels, and make clear function. Then the rural public service system construction can be visibly and tangibly put into effect.

In a word, the key of balancing urban and rural development, implementation of the new rural construction and completion of a comprehensive well-off society is in a village, and difficulties also in the village. We should taking advantage of the opportunity, strengthen, and improve the construction and development of China's rural public system. The outlet lies in the innovation of the public service system construction.

INSTITUTIONAL ENVIRONMENT AND POLITICAL CONNECTION - - EVIDENCE FROM PRIVATE COMPANIES IN CHINA

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Abstract

This paper starts with the five points of the process market and analyze the various regions in the institutional environment for the private business differences in political influence. We select 2008~ 2011 listing of private enterprises and for the sample to the enterprise's controlling shareholder, chairman of the Board of Directors, or members of the senior management organization for current or former government officials, deputies or members of the CPPCC National Committee to determine whether or not it has political connection. The results show that the five aspects of the market process in a private enterprises to establish political connection have a negative correlation between the government intervention, the higher, non-State-owned sector of the economy, the more developed product and factor markets developmental level, the more the protection of the law of the weaker areas, private enterprises tend to the establishment of political connection. The reason for this is that private enterprises to establish political connection one of the markets is the perfect alternative protection mechanisms.

Keywords: Institutional Environment; Political Connection; Private Enterprise

1. Introduction

With the rapid development of China's economy, the private economy has developed into the basis for the development of China's national economy, an important component of the socialist market economy. According to the research of Chinese private enterprises, the top 500 private enterprises in 2010 achieve a net profit of 391.234 billion Yuan, growing 79.56 percent compared with the year of 2009, the sales margin of 5.6%, increased by one percentage point compared with the last year, the rate of return on net assets was 17.76% in 2009 growing to 22.13% in 2010. These data show that the private enterprises' ability of gaining profit has got a comprehensive upgrade to become a strong driving force of China's economic development. However, in a time of rapid growth the private economy is faced with many constraints, including finance, governance structure, and protection of property rights. In China there is a strong intervention in economy, the government, often through the approval and allocation of resources, technical support and specify some of the development policy to indirectly regulate the economy, the government's actions affect the economic decision-making, the complex relationship of government and the market makes companies more inclined to establish a political connection with the government. Consequently, the private enterprises gradually participate in politics, the establishment of a political connection with the government. According to statistics of the Tenth National People's Congress, 200 people come from the representatives of the private economy among nearly 3000 people. In the Tenth CPPCC

National Committee, 64 representatives come from the private economy, of which there are 57 members getting into the Federation of Industry and Commerce. From this point of view, it is universal to establish political relations between the private enterprises and government.

The theory “Law and finance” consider that the institutional environment such as the legal protection profoundly affect the investors' decision-making and corporate governance efficiency. The protection of the law determines financial development, thereby affecting the deepening of financial markets. At present, the legal institutional is still not consummate in our country, but the financial markets and the economy has achieved a rapid development, especially private enterprises have become the main driving force to promote the growth of China's economy. The contrary between reality and theory makes more scholars continue to study it. Allen et al point out that the reason why China has made great achievements in the case of an inadequate in legal protection is that there exist alternative mechanism; reputation and relevance are considered to be the most important alternative mechanism. Yu, (2010) further point out that the private enterprises with political connection can transmit good reputation as a signal mechanism [3], deliver the relevant information reducing the information asymmetry between the government and enterprises. In the process of economic transition, financing constraints, the industry entry barriers, property rights protection are three important factors in the development of private enterprises. According to many scholars' research, through the establishment of a political connection private enterprises are able to get more preferential conditions and reduce various factors restricting the development of enterprises. Hu (2006) consider that the political status of private entrepreneurs reduces the barriers that enter into the finance through transmitting the quality of information, improves the profitability of capital and promotes the development of private enterprises. Hu (2010), in the case of property rights of private enterprise cannot be in effective protection of the legal institutional, the political connection of private enterprises protect property rights from being violated in a certain extent. Therefore, we believe that political connection is most likely to be alternative protection mechanisms for market imperfections.

In general, companies are always in a specific institutional environment, many behaviors of the enterprise are born in their environment in the institutional, the differences in the institutional environment will lead to different economic behaviors and characteristics, therefore, the differences in the environment may affect the motivations of enterprises to establish a political connection. Luo and Tang (2009) study point out: the worse of the local property protection, the higher the degree of government intervention and the more backward of the financial development, the more power to establish political relations with the government, which is taken for as an informal alternative mechanism to help businesses get more resources and preferential terms, and continue promoting the healthy development of enterprises. On this basis, we select the Private Listed Companies in China for study, by means of the actual date to explain the relationship between the private enterprises and government, to prove whether in economically backward areas this informal institutional is more common? Whether it can become an alternative mechanism to promote the rapid growth of private enterprise? Prove the relationship between private enterprise and government whether can contribute to the healthy development of enterprises?

The structure of this paper is organized as follows: The second part is a theoretical analysis of the institutional environment and political relations, and put forward the hypothesis of this paper, the third part of this study design, including sample and data sources, measurement of variable model, the fourth part is an empirical test results and analysis, the last part of this article come to the conclusion and research implications.

2. Theoretical Analysis and Research Hypotheses

Intervention measures taken by the government and the policies often affect an enterprise's decision-making; companies always prefer the support of the government in order to facilitate the enterprise. In this connection, more and more companies tend to establish a political connection with the government, which on one hand can be conducive to corporate finance. Luo, Zhen liming (2008) show that during external financing, companies with political relations suffer less financing constraints, and it's more obvious in the areas with low level of financial development. On the other hand, the establishment of a political connection will help the enterprises obtain more favorable terms. Hu (2008) study found that the political status of private entrepreneurs is helpful for the private enterprises to enter the government regulated industry, to carry on a wide range of investment [10]. In a tax point of view, Wu (2009) found that, in provinces and cities with a heavier tax burden, the companies with government-background executives in the applicable tax rate and effective tax rate should be lower than executives without government background [11]. In addition, the political connection is an important pattern to protect the property rights. Pan (2007) point out: when the property rights of private enterprises is in the lack of effective legal protection, enterprises can rely on political relations to protect the enterprise's property rights from being infringed, as a lack of an alternative mechanism for the protection of property rights. Moreover, in the areas where the development is lagging behind, the institutional is not perfect, this informal institutional of political connection also makes contributions to the development of enterprises. Wu (2008); Luo, Tang (2009) shows: under the condition that the institutional is not perfect, in the areas with low economic level and backward institutional of financial development, the establishment of political relations can alleviate and improve the institutional of underdevelopment, prevent the legitimate rights and interests from being subject to infringement, thus form an informal alternative mechanism to help private enterprises achieve a healthy development, and enhance the value of the company. However, the motives to establish political connection are different under various institutional environment, we need further researches and analysis.

For different parts of the private enterprise, there exist big differences in many aspects such as the degree of government intervention, non-state level of economic development, market development, the rule of law level, The effect that promote the development of private enterprises vary due to the differences in the institutional environment. There is a certain intervention for the development of private enterprises in China, when the degree of government intervention is big, the political connection of private enterprises can not only reduce the bad impact and unfavorable factors which are bad for the development of enterprises, but also provide protection and support to a certain extent. Wu found that private listed companies with political connection can increase the value of the company in the strong areas of government intervention, this phenomenon relates to the political financing convenience. Besides, in the regions where the government intervention is higher, the government may establish a political connection on his own initiative, to provide enterprises with preferential conditions, meanwhile requires enterprises to service for certain social goals, such as labor employment. Thus, we confirm a hypothesis:

Assumption 1: In the areas with higher degree of government intervention, private enterprises will establish more political connection.

In different regions there exist a wild discrepancy in economic structure, a regional non-state economy is more developed, the greater the private economy in the proportion is and the private economy of the region by the degree of ownership discrimination may be lower[1], the

government's effect on private enterprises may be relatively small, making the role of government in the process of development of private enterprises weakened, thus the possibility of establishing a political connection will be reduced. So, we hypothesized.

Assumption 2: The more developed regions of the state-owned economy, private enterprises to establish political connection is the less.

In China, some provinces subject to the constraints of the industrial structure, the level of market-oriented is relatively low, the proportion of government-directed prices and guidance prices is still relatively high, there is a certain intervention in the price of the product, the information about the product's quality can be passed to the government through establishing a political connection, and it will be easier to acquire recognition and support of the government. On the other hand, in the low degree of market areas, the obtaining of bank credit support for private enterprises is more difficult, through the establishment of a political connection with the government will help enterprises to obtain bank loans, making the companies more power to establish political relations in order to open up financing channels. Thus, we hypothesized.

Hypothesis 3: In the areas with lower market development private enterprises will establish more political connection.

The differences in legal protection have a significant impact on the development and the risk of enterprises, especially the protection of property rights. The market exchange is based on the premise that the property rights are clear. In China, traditional law is mainly used to strengthen the political control of social protection, private enterprises are still relatively lacking in the property rights protection and the targets that our country made macroeconomic regulations are private enterprises. So it's more obvious on property rights insecurity for private enterprises. In brief, in order to protect property rights from being infringed and promote enterprises' healthy development, private enterprises tend to make a political connection. Thus, we propose a hypothesis:

Hypothesis 4: In the areas with weaker degree of legal protection, private enterprises will establish more political connection.

3. Study Design

3.1 Sample Selection And Data Sources

We choose the private enterprises listed on the 2008 to 2011 in the exclusion of some samples which do not meet the requirements as the object of study, the samples rejected including: (1) the samples unable to obtain the enterprises' total assets and net return on assets (ROA); (2) unable to obtain a sample of the background information of the enterprises' management. Finally we determine the total number of samples for 1380, which contains a sample of 207 in 2008, 248 samples in 2009, 351 samples in 2012, 574 samples in 2011.

3.2. Selection of Variables and Measurement.

At present, private enterprises participate in politics through various channels, including: private entrepreneurs are elected deputies to the NPC or CPPCC members, which is the most important way; moreover, private enterprise through donations, participating in public welfare undertakings to establish contacts with government. In this article as long as the company's controlling shareholder, chairman of the board or senior management of the enterprise is or has been government officials, deputies to the NPC or CPPCC members, it will be considered to

have political connections, if there is a political connection, the PC values 1, on the contrary, the PC values 0.

The environmental data come from the market index institutional which is composed by Fan Gang, Wang. It contains five aspects of the market-oriented progress, including the relationship between government and the market, non-state economic development, the degree of development of product markets, the degree of development of factor markets, the development of the market intermediary organizations and the legal institutional environment.

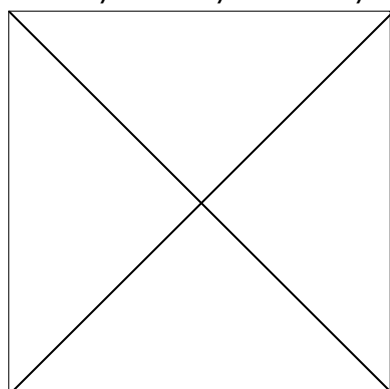
The establishment of political connections may also have relationships with the development of the private enterprises, such as the profitability, the size of the business, according to the purpose of this study, we choose variables as follow: net profit margin of the company's assets, ROA to represent; the size of the business; the rate of return on invested capital, ROIC to express; the growth of the business.

Insert Appendix A

3.3. Model of the Establishment.

This article needs the examination of the relationship between the institutional environment and political connection, we establish the following model:

$$PC = \alpha + \beta_1 Indexgov + \beta_2 Indexpri + \beta_3 Indexmp + \beta_4 Indexme + \beta_5 Indexleg + \beta_6 ROA + \beta_7 Size + \beta_8 ROIC + \beta_9 Growth + \varepsilon$$



Which, α is on behalf of the intercept, $\beta_1 - \beta_9$ are on behalf of the coefficient, ε is for the residuals.

4. Empirical Results and Analysis

4.1. Descriptive Statistics

It can be seen from Table 4-1 Descriptive statistics, approximately 37.17% of private enterprises have political connection with the government, which have gradually become a political strategy for the development of private enterprises, a way to access to resources and preferential terms, a pattern to achieve the government's supporting.

From the index about institutional environment, the market development in different regions is different, the maximum government intervention index was 10.65, the minimum is 1.13, it shows the diversity in different regions on the level of government intervention; there is also a big difference between the maximum and minimum values in non-state economic development index. In different regions private enterprises share a different proportion, the economic structure is diverse among different regions. From the degree of market the

maximum and minimum values of the index of product market development are 10.58 and 4.98, the maximum and minimum values of the elements of market development index are 11.93 and 2.04, respectively, the difference of the data illustrates the difference in market development. Similarly, the maximum value in law development is 16.61, the minimum is 2.79, indicating that the legal environment in China is obvious different.

Insert Appendix B

Table 4-2 shows the correlation testing among the variables, the test results indicate that there are strong connections among the degree of government intervention, the level of non-state economic development, the degree of development of product markets and factor markets, the legal environment of the region and it's significant at the 5% level. There are also negative connections at the 5% level between the establishment of a political connection and the five aspects of the market-oriented progress. Therefore, the higher the degree of government intervention, the lower the level of non-state economic development, the lower the more likely to establish a political connection, and thus the assumptions of this paper are preliminarily proved.

Insert Appendix C

4.2 The Regression Results of Institutional Environment And Private Enterprises to Establish Political Connection.

We use SPSS software to make a logistic regression. First of all, we analyze the goodness of fit of the model. The estimation of the model use a maximum likelihood method, Cox & Shell R side and Nsgelkerke R side are closer to 1, the model is better. The maximum likelihood square value is used the integrity of the fitting effect of the detection model, and its value is relatively large. Take a significant level of 0.05, 8 degrees of freedom, we can get the chi-square critical value of 15.51, Homsmer-Leneshow statistic is 12.82, 8 degrees of freedom, Sig values 0.085. The goodness of fit of the model is good.

Insert Appendix D

Table 4-4 is the result of the logistic regression analysis. It can be seen from the table that the institutional environment does affect the motivation of the private companies to participate in politics. There are negative connections between the five aspects of market-oriented process and the establishment of political relations, while private enterprises to establish political connection are also related with the strength and contributions.

Table 4-4 shows the partial regression coefficient between the government intervention index and political connections is -0.099, Sig values 0.384, greater than 0.05, indicating a negative correlation between government intervention index and political connections, but it do not pass the test of significance, so the government intervention don't have a significant impact on the establishment of political connection. When the government has a higher degree of intervention, on one hand, the political connections will lead to more intervention in enterprises' daily operation and management, increasing the business risk, and make enterprises assume more social functions, on the other hand, the government officials as a corporate management may have a serious agency problem, turning up insufficient investment or overinvestment in non-efficiency behavior, so when the government intervention is higher, private enterprise will assess the benefits and disadvantages to determine whether to establish a political connection with the government, while the findings of this paper also shows that the degree of government intervention is not the main factor that affect the enterprises' establishment of a political connection.

The regression coefficient between the non-state level of economic development and the establishment of the political connection is -0.122, Sig is 0.018, indicating that the non-state level of economic development has a negative correlation with political connection, and it passes the test of significance, matches with the assumption. When private enterprises are in the areas where the non-state level of economic development is low, they are more inclined to establish a political connection.

Similarly, we can see from the Table 4-4, the degree of market-oriented has a significant negative correlation with the establishment of political connection. In the areas where the degree of market is low, private enterprises will establish more political connection. Typically, in the poor areas of the institutional environment, the market for the allocation of resources is relatively bad. The majority of the resources that are required by the private enterprises are controlled in the hands of the government. Private enterprises form an interconnected relationship with the government through the establishment of political connections to acquire various resources and the government's supports. Therefore, in the areas where the degree of market is lower, private enterprises are more inclined to the establishment of a political connection. The third assumption is proved.

The regression coefficient between the level index of the law and political connection is -0.113, Sig values 0.004, indicating that a region's level of development of the law has a significant negative correlation with the political connection. Typically, in the areas where the level of the law's development is low, the government enforcement is not normative, it will be easier for the private enterprises with political connections to be protected by the government, more and more companies tend to establish a political connection. The fourth assumption is proved.

On the other hand, the strength and contribution are important conditions for private enterprises to involve in the politics. The behavior orientation of the establishment of a political connection is diverse in private enterprises with different strength. In the control variables, the regression coefficient between the size of the business and political connection is 0.878, Sig values 0.000, indicating that the size of the business has a significant positive correlation with the political connection. In general, the larger the size of private enterprises is, the wider the local connections will be, the influence and the external reputation in the local will be greater, and the private enterprises will have more opportunities to participate in political connection. At the same time, the large-scale enterprises need to establish political relations to achieve the purpose of asset protection.

5. Conclusions and Implications

Our country is in the process of transition from planned economy to market economy, the government environment is an important part of the external environment of private enterprise. The institutional environment and market-oriented process are significantly different among regions. We start with the five aspects of the market-oriented process, analyze the impact on the motives of establishing political connection under different regional environment. We select 2008 to 2011 listed private enterprises as the research objects, if a company's controlling shareholders, the chairman or business senior managements are or have been the government officials, deputies to the NPC or CPPCC members, it is defined to have a political connection. The results show that there are negative connections between the five aspects of market-oriented process and the establishment of political relations, that is to say, the higher the degree of government intervention, the less developed the non-state economy, the lower the product market and the elements market developed, the weaker the degree of legal protection, the more likely that private enterprises establish political connection. This article explain the private

enterprises' intention to establish political connection from the institutional environment level, the conclusions of the study can help us understand private enterprises' way of growing and its behavioral characteristics and provide some explanation for the "mystery" proposed by Allen, et al. Through the study of this article, I receive the following enlightenment:

1. This article analyzes the motives of the private enterprises to establish a political connection from the level of the institutional environment. The establishment of a political connection is the alternative self-protection mechanism in a case of market imperfections, interpreting the emergence and establishment of the informal institutional. The establishment of a political connection can form protection for the private enterprise, making private enterprises obtain more favorable terms and resources, in order to facilitate the healthy development of private enterprises.

2. The institutional environment determines the motives of the establishment of a political connection. The regional environment has an impact on the private enterprises to establish political connection. So the government should accelerate the process of market-oriented, and constantly improve the legal institutional, reduce the differences on market environment, in order to constrain the motives of private enterprises to establish political connection.

This article should be noted that the political connection can bring many benefits to the enterprise, but if the use of political connection is inappropriate or excessive, it may not be conducive to the healthy development of society. This article study only the effect on the establishment of political connection from the institutional environment, there should be many factors affecting the motivations to establish political connection, and this paper does not fully involved, and needs continuous research.

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Appendix A Table 3-1 The definition of the variables

Variable	Sign	Meaning
Whether the company has a political connection	PC	As long as the company's controlling shareholder, chairman of the board or senior management of the enterprise is or has been government officials, deputies to the NPC or CPPCC members it will be considered to have political connections, if there is a political connection, the PC values 1, on the contrary, the PC values 0.
Government intervention index	Indexgov	The greater index of the government intervention indicates the less government intervention.
Non-state economic development index	Indexpri	The greater non-state economic development index indicates higher degree of the non-state economic development.
Product market development index	Indexmp	The greater product development of the market indicates the higher the degree of product market development
Elements of market development index	Indexme	The greater index of the degree of development indicates the higher degree of development of the factor markets.
The development of the market intermediary organizations	Indexleg	The greater index of legal institutional index indicates the higher level of the rule of law.
Assets net interest margin	ROA	The annual net profit/ total assets of the enterprise
Size of the business	Size	The logarithm of the average of the assets
Returns on invested capital of the enterprise	ROIC	after-tax operating profit before interest / investment in capital
Business growth	Growth	(The income this year-the income last year)/the income last year

Appendix B Table4-1 Descriptive statistics

	N	Mean	Maximm	Minimun	Std.Deviation
PC	1380	0.3717	1.00	0.00	0.48344
Indexgov	1380	9.6968	10.65	1.13	1.13105
Indexpri	1380	11.1143	13.44	3.12	2.3328
Indexmp	1380	9.5266	10.58	4.98	0.9750
Indexme	1380	7.9354	11.93	2.04	2.5808
Indexleg	1380	10.1969	16.61	2.79	3.8152
ROA	1380	9.0055	48.4137	-0.6103	6.0218
Size	1380	21.1734	24.5999	18.6794	0.9611
ROIC	1380	12.8687	67.4509	0.5561	8.1615
Growth	1380	15.1736	121.9046	-21.6578	13.5474

Appendix C Table 4-2 Correlation test

	PC	Indexgov	Indexpri	Indexme	Indexmp	Indexleg	ROA	Size	ROIC	Growth
PC	1									
Indexgov	-0.150**	1								
Indexpri	-0.133**	0.835**	1							
Indexme	-0.222**	0.635**	0.495**	1						
Indexmp	-0.061**	0.648**	0.652**	0.476**	1					
Indexleg	-0.126**	0.763**	0.690**	0.801**	0.646**	1				
ROA	-0.239**	0.041	0.031	0.136**	0.024	0.058*	1			
Size	0.386**	0.006	0.015	-0.013	0.049	0.064*	-0.248**	1		
ROIC	-0.161**	0.057*	0.056*	0.103**	0.030	0.060*	0.910**	-0.097**	1	
Growth	-0.030	0.046	0.030	0.084*	0.008	0.037	0.633**	0.058*	0.682**	1

Note :*** represents significant at 1% level,** represents significant at the 5% level,* represents at the level of 10%.

Appendix D Table 4-3 The goodness of fit of logistic model

Model Summary					Hosmer and Lemeshow Test			
Step	-2Log-likelihood value	Cox&Snell R Square	Nagelkerke R Square	Step	Chi-square	df	Sig.	
1	1464.924 ^a	0.618	0.511	1	12.82	8	0.085	

RURAL PUBLIC SERVICE AND ANTI-POVERTY IN STRETCHES OF POVERTY-STRICKEN AREAS

Wang Jinying Yang Xi

Abstract

Poverty is such an intractable problem in developing countries that almost all governments are committed to tackling poverty through anti-poverty strategies. These strategies, channels and methods of fighting against poverty vary from country to country, then how to reasonably make and effectively implement anti-poverty strategies? The first step lies in the awareness of causes for poverty and constraints on anti-poverty in different areas and different families. Previous experience shows that poverty is directly connected with age of population, health status and regional economic development level. It is not uncommon in rural areas that farmers “fall back into poverty because of aging or sickness”. Meanwhile, the lagging education, incomplete medical care system and pension security system make it even harder for rural areas to get rid of poverty and get rich. Therefore, the construction of public service includes medical care system, pension security system and education and training service system for people in rural poverty-stricken areas becomes a significant issue and an extremely urgent concern. This paper, by adopting the methods of quantitative and qualitative in working with data and documents from household investigation in stretches of poverty-stricken rural areas in Hebei, China, analyzes the demand for public service in poverty-stricken rural areas and puts forward some constructive suggestions as resolutions to the discovered problems in the process of analyses.

Key Words: public service; stretches of poverty-stricken areas; anti-poverty

1 Introduction

A series of anti-poverty policies have been taken and achieved significant effects since the foundation of PRC, and the drastic reduction of the number of poor people in rural China is a piece of convincing evidence. According to Statistical Bulletin of National Economics and Social Development, the annual net income per capita was 2300 yuan in 2012 based on poverty line in rural areas and rural poverty population reduced to 98.99 million by the end of the year 2012, a reduction of 23.39 million over the previous year. By the end of 2012, 53.409 million people had been included to the system of substance allowances for rural residents, an increase of 274 000 people over the previous year; 5.459 million been granted Five-Guarantees (guarantee for food, clothing, housing, medical care and funeral) substance allowance in rural China, a reduction of 61000 people; 19.084 million been medically aided in rural areas throughout the year and 39.151 million been financially assisted into New Rural Cooperative Medical System. These statistics suggest that in spite of the accomplishments achieved in anti-poverty, the situation of poverty does not look good and the task still remains arduous and challenging.

With poverty relief and development in China stepping into a new stage, issues like improving basic public service and promoting its equalization have been put on the agenda. It

has been explicitly pointed out in National Program for Rural Poverty Alleviation (2011-2020) that the objects of poverty relief should have no worries for food or clothing; their basic rights for education, medical care and housing be secured; net income per capita in poverty-stricken rural areas embrace an increase even higher than that of national average; indicators in primary fields of basic public service approach national average and the developmental gap between rural areas and national average be narrowed down by the end of 2020. For the moment, however, the gap between rural and urban China is relatively wide in terms of development and income-consumption level. Impoverished population is mainly in remote and backward areas. Public service construction and the access to the service in urban and rural areas also differ a lot. It is well justified to say that the inequality in distribution of basic public service in rural and urban areas severely jeopardize the chance for poor people in rural areas to get rid of poverty and get rich and also make the current anti-poverty task more challenging.

Statistics in Table 1 show that the proportion of consumer spending on cash by rural residents in China is much lower than that by urban residents in the two basic public service programs of transportation and communication as well as cultural education and entertainment, yet the proportion of consumer spending on cash in medical care is 2.84 percentage higher than that of urban residents. This, first of all, suggests the gap between urban and rural residents in their access to basic public service which will severely constrain the development of rural social economy and improvement of life quality of rural residents. Worse still, the large proportion of spending on cash in medical care by rural residents implies that the attack of diseases constitutes a primary cause for poverty in rural areas and that the phenomenon of “falling into or back into poverty because of illnesses” is very common. Besides, the absence of basic public service is also an rooted cause for the existence, accumulation and transmission of poverty in rural areas.

Table 1 Annual Per Capita Cash Consumption in Basic Public Service Program of Urban and Rural Residents in China

	Urban		Rural	
	Amount(yuan)	Percentage	Amount(yuan)	Percentage
Total Expenses on Consumption	15160.89	100	4733.35	100
Transport and Communications	2149.69	14.18	547.03	11.56
Education, Culture and Recreation	1851.74	12.21	396.36	8.37
Health Care and Medical Services	968.98	6.39	436.75	9.23
The Proportion of Consumption of Basic Public Services	4970.41	32.78	1380.14	29.16

The previous researches have proved that anti-poverty is influenced by various factors such as age and education level of population as well as regional economic development. By applying Logistic Model, Wei Zhong and B. Gustafson analyze poverty dynamics from the late 1980s to the middle 1990s in China as well as relevant influential factors based on data from the large sample investigation of rural households done by Academy of Social Sciences in the year 1988 and 1995. Their research reveals that the crucial factors in anti-poverty in rural China

are the residential locations of households and the geographical features as well as the number of nonfarm payrolls and minors. The rising of poverty rate among minorities owes more to the fact that they live in underdeveloped areas rather than to their identities as minorities. In the late 1980s, poverty rate exhibited an obvious relation with education. When it came to 1990s, it was not just education, but the length of receiving education that had a strong correlation with poverty rate, which, specifically put, formed the pattern of the longer period of education, the easier task of poverty relief. Qiu Ximing and Li Shi analyze the determinants of anti-poverty in rural China in 2000 with Probit Model. Their findings are: the growing age of head of households can help ease poverty; apart from college degree, higher level of degree can also help alleviate poverty; the proportion of people working as migrants to break away from poverty is 2%-3% higher than those staying, but not as high as expected; nonfarm activities can also help rural residents to get rid of poverty, yet still less effective than imagined; the amount of arable land has nothing to do with the increase or reduction of households income; the percentage of households depending on village-run industries to become non-poverty households is 5% higher than that of households in villages without industries; the percentage of households in mountainous areas becoming non-poverty households is 2% lower than those in plain and hilly areas; national poverty relief loans and poverty relief loans of World Bank have little effect on poverty. Based on data from field investigation in Fujian with Logistic Model, Xie Dongmei discovered that factors like household types, participation in nonfarm activities, attendance of training for professional skills and the amount of orchard possessed per capita have a significant influence on poverty of households while most community featured variables have little influence on poverty. Besides, she also found that micro elements in making a living are crucial elements influencing poverty which does not come with significant regional features.

With data source from Fujian, Xie Dongmei's investigation only covers rural poverty status in developed provinces in east coastal China. This paper, however, focuses on poverty-stricken rural areas in Hebei Province as research subject, collects data from household investigation in poverty-stricken rural areas in hebei, China and highlights the analysis of the influence and effects of public service provided in rural areas on anti-poverty of households by adopting both qualitative and quantitative methods. Finally, this paper puts forward countermeasures of equalization of public services including improved medical care system, pension security system as well as education and training system to tackle corresponding problems.

2 Hypothesis and Research Objectives

Rural public service is social service with certain nonexcludability and noncompetitive provided to meet common needs of agricultural and rural development as well as farmers' living and production; it is a kind of public product in rural areas in the form of agricultural information, agricultural technology and labor service. For the moment, the public service at the top concern of rural residents includes medical care, compulsory education, social security, employment of rural surplus labor, public infrastructure construction and public security, etc. The tackling of poverty in rural areas requires the governments to provide public products and public service to rural areas, including the construction of rural and agricultural infrastructure as well as public medical facilities, so that rural areas can get rid of poverty. Public Product Theory defines that public products are with nonexcludability and noncompetitive, which determines the inefficiency and blankness of market in providing public products. The public products on which anti-poverty in rural areas rely include infrastructure, education and medical

care, which market has no motivation to be involved in, so they are normally provided by governments.

Meanwhile, poverty-stricken rural areas have their own particularity. Compared with developed rural areas, poverty-stricken rural areas usually fail to resolve problems in the shortage of public service because of the tough natural conditions, low-level social and economic development as well as poverty in them. Even when basic public service is provided to them by governments, they are still vulnerable to the fate of falling to poverty because of disease and lack of education. For example, despite the nine-year compulsory education program provided by government, many poor families still found themselves struggling to cover other expenses along with the education. For a poor family, to provide for a child through compulsory education is a high price to pay since it means not only to have one less labor force, but also to stick to a tight budget for food and clothing for the whole family, and even to be indebted to many others. All these problems will not disappear even with the implementation of compulsory education. Another example is the new rural cooperative medical care system implemented in rural areas. It is supposed to help rural residents ease the situation of falling into or back into poverty because of diseases, yet it is not the case at all. Ignore the low level of security and complicated procedures of being insured and applying for reimbursement, just the outpatient expenditure in most of the costs of the insured would be enough to make them hesitated to turn to such medical care system for help since outpatient expenditure cannot be refunded either in residential locations or original registered place. As to in-patient expenditure, if the amount is not big enough, it is also not worth applying for reimbursement since the costs for transportation would be too high to be covered by the refunded money. Besides, during rural residents' staying in hospital, other expenditures to cover accommodation would be too much for a poor family. That's why many rural residents refuse to see doctors when they are ill.

Based on the above analysis, the following hypothesis is put forward. That is, poor families in stretches of poverty-stricken rural areas have stronger demand for basic public service than affluent families do, or to put it another way, basic public service is in more urgent need for poor families in rural areas, which is why it is so difficult for them to get rid of poverty and get rich. Therefore, the anti-poverty task in poverty-stricken rural areas should aim straightly at the point. To testify this hypothesis, this paper conducts field investigation to the actual needs for public service like medical care and education of people in poverty-stricken areas and also analyzes the influence of public service on anti-poverty before drawing conclusions to discovered problems.

3 Data and Methods

The data in the present study is micro data gained from Sample Investigation of Population in Poverty-Stricken Areas in Hebei Province conducted together by Population and Family Planning Commission in Hebei Province and Faculty of Economics in Hebei University. It is a large-scale sample investigation in 67 poverty-stricken counties in stretches of poverty-stricken rural areas along Yan Mountain, Taihang Mountains and Heilonggang Basin. Random sampling based on villages was adopted in the investigation after the 67 poverty-stricken counties had been differentiated and divided into several groups. 226 villages were chosen and all the families in these villages were under micro investigation. 56682 copies of questionnaires were handed out and 48569 collected as valid after removing the ones with registering errors and the ones finished by irrelevant people. Among the data collected, 99.57% was valid. Detailed information is available in Table 2.

Table 2 Sample Description

	Sample Size	Percentage
Family Households	48569	100.0
Elderly Families	18552	38.2
Pure Elderly Families	6867	14.1
Cross-Generation Families	685	1.4
Families with Left Women	3806	7.8
Average Schooling Years of Family Members		
0 year	1381	2.8
0-6 years	17692	36.4
6-9 years	24769	51.0
9-12 years	4495	9.3
12-15 years	215	0.4
Largest Expenditure of the Family		
Daily Life	32087	66.1
Smoking and Drinking	150	0.3
Children's Education	4731	9.7
Medical Expenses	5535	11.4
Interpersonal Interaction	859	1.8
Means of Production	3536	7.3
Other	972	2.0
Missing	699	1.4

Firstly, the present study adopts multidimensional measurement of AHP (Analytic Hierarchy Process). Based on micro data of families in large sample obtained in sample investigation, this paper works out the poverty-affluence coefficient of families after through several processes including expert decision, indicators evaluation and comprehensive measurement from the four dimensions like family characteristics, status of income and expenditure, management activities & service access as well as housing conditions (concrete models and evaluation process can be found in another paper). In this way, families in the stretches of poverty-stricken areas can be divided into five categories: very poor, poor, average, better off and affluent. And Ordinal Logistic Regression Method is employed to conduct research into public service level in poverty-stricken rural areas.

The Ordinal Logistic Regression Model is expressed as follows, among which, μ_j is threshold value and α is intercept.

$$\ln \left[\frac{P(y \leq j | x)}{1 - P(y \leq j | x)} \right] = \mu_j - \left(\alpha + \sum_{k=1}^k \beta_k x_k \right)$$

4 Public Service in Stretches of Poverty-Stricken Rural Areas in Hebei Province

Dependent variables are ordinal variables, including five ranks: destitute, poor, average, better off and affluent, so ordinal regression method is adopted to analyze what problems are facing poor families and what is their need for public service compared with affluent families. To get a better understanding of problems facing poor families and the situation of disease, aging problems and education, this paper conducts research into households in stretches of poverty-stricken rural areas in Hebei Province. Take poverty type as a dependent variable. Since dependent variables are ordinal variables, including five ranks: destitute, poor, average, better off and affluent, so ordinal regression method is adopted. The regression results are shown in Table 3.

Table 3 Ordinal Regression Analysis of Influential Factors for Poverty of Families in Stretches of Poverty-Stricken Areas

Independent Variables	Model1	Model2	Model3	Model4
Poverty Level(Affluent)				
Very Poor	-1.323*	-1.364*	-1.461*	-1.441*
Poor	-0.129*	-0.160*	2.095*	2.116*
Average	0.956*	0.928*	5.264*	5.286*
Better off	2.504*	2.498*	7.074*	7.096*
Family Members Healthy(III)	0.264*	0.273*	0.264*	0.263*
Average Schooling Years of Family Members	0.107*	0.107*	0.065*	0.065*
Biggest Concern of the Family (None)				
Family Member's Health	-0.824*	-0.837*	-0.736*	-0.736*
The Cost of Children's Education	-0.449*	-0.470*	-0.439*	-0.440*
The Pension Problems	-1.511*	-1.536*	-1.228*	-1.232*
The Low Income	-0.933*	-0.940*	-0.838*	-0.839*
Other	-0.455*	-0.421*	-0.457*	-0.461*
The Largest Expense (Cost on Dalily Life)				
Smoking and Drinking	0.055	0.038	0.128	0.123

Children's Education	0.135*	0.165*	0.137*	0.134*
Medical Expenses	-0.539*	-0.527*	-0.441*	-0.441*
Interpersonal Interaction	0.191*	0.178*	0.302*	0.304*
Means of Production	0.146*	0.172*	0.092*	0.091*
Other	0.349*	0.379*	0.026	-0.021
Not Attend the New Rural Social Endowment Insurance(Attend)		-0.400*	-0.406*	-0.402*
Not Reimbursed by NCMS(Reimbursed)		0.013	0.033**	0.035**
Help provided to migrant workforce by governments				
Without Trained(Trained)			-0.005	-0.001
Without Help from Governments for Employment(With Help)			0.065*	0.062*
Family without Migrant(With Migrant)			-0.563*	-0.566*
Non-poor Family (Poor Family)			5.156*	5.154*
Anti-Poverty Programmes in Village				
Not Build Roads(Builed)				-0.049*
Not Build Schools(Builed)				-0.003
Not Build Health Center(Builed)				0.058*
Nagelkerke R ²	0.233	0.246	0.938	0.962

Notes: dependent variable is poverty type while reference variable refers to affluent families; inside the brackets are all reference variables, * represents significance on the level of 1%, ** represents significance on the level of 5%.

Since dependent variables are in normal distribution, we have chosen Probit as linking function. Ordinal regression is adopted on condition that the model can pass the parallel test. Among the above models, only by taking into account the existence of migrant workers and poverty status of families (namely the third and fourth models) can they pass the parallel test. The three statistic values of pseudo R square of Model 3 and Model 4 are around 1, suggesting a satisfying imitative effect of the models. Therefore, we base our analysis of causes for poverty on the results of Model 3 and Model 4, and take Models 1 and 2 as references. Regression results in Model 1 show that under the circumstance that only rural families themselves in poverty-stricken areas are concerned, the existence of family members with diseases can be one of the primary factors leading to poverty in the family and average length of education has a negative correlation with poverty incidence, namely, the higher education level of the family members, the lower poverty incidence there will be. Besides, their biggest concern and largest expense also have significant influence on poverty. In Model 2, variables of public service are included, yet the introduction of variables of new rural cooperative medical system (NCMS) and new-pattern rural social old-age insurance does not make much of a difference to the model. In Model 3, new variables like assistance provided by governments to migrant workers and poverty relief programs in villages are included. As a result, the imitative effect of the

models is drastically improved; all other factors demonstrate a diminishing effect on poverty, with no big differences between Model 3 and Model 4.

Regression Results in Model 4 reveal problems of poor families in terms of medical care, education and pension security compared with affluent families. In terms of medical care, the existence of family members with prolonged illness has a significant influence on poverty-affluence coefficient of a family, so obviously it makes poverty rate of the family much higher. In terms of the biggest concern, in comparison with affluent families, people in poor families are more concerned about health status of family members, which implies the heavy burden posed on the whole family by an ill member. This can also be demonstrated in the expenditure of the family. Compared with families with daily living costs as the largest expense, families with medical fees as the dominant expense certainly suffer more from poverty. The existence of an ill member not only means high medical fees, but also the loss of a labor force and a source of income temporarily or permanently. In the mean time, other family members have to shoulder even heavier burdens in order to pay treatment fees for the ill. All these analyses suggest that compared with affluent families, poor families are in more need of public service in medical care to alleviate their current situation of poverty.

The issue of education can also be spotted from the regression results. The average length of education received by family members also has a great impact on the poverty-affluence coefficient of the family. To put it specifically, the more and higher education family members received, the more affluent the family will be; and vice versa. It is easy to imagine: better educated family members naturally anticipate greater possibilities of getting high wages, and they can bring substantial income to the family so as to improve the economic status of the family; in turn, affluent families have the capacity of investing more in the education of the next generation and things will just get better and better, hence a virtuous circle. This exact point has also been proved by the largest expenditure of families. Again compared with families whose largest expenditure is on daily life expenses, families whose largest expense is on the education of the next generation enjoy much lower poverty rate in that poor families can hardly meet the basic needs for food and clothing of family members, let alone investing their money in the education of their children. Yet seen from a different perspective, problems still exist: without good education, children in poor families can only work on the farm or work outside doing physical work with little added value of labor in the future, then the family will find it extremely hard to get rid of poverty and get rich. Despite the implementation of nine-year compulsory education, it is far from enough for poor families. As mentioned earlier in this paper, poor families also need specific public service. And poverty resulted in the lack of education can only be alleviated through better access to public service.

The problems in pension security should also not be neglected. From the participation in new rural social pension insurance, non-insured families are more vulnerable to poverty than the insured families, suggesting that the public policy of new rural social pension insurance makes for the improvement of rural residents' living standards to some extent as well as for the task of anti-poverty. 80% of the population in China live in rural areas and they have great potential in living security needs. The low-level social security and great uncertainty in pension security, medical care and education for the future drastically damage their consuming capabilities. The implementation of new rural social pension insurance, which has in fact improved rural residents' income levels, can doubtlessly help reduce their anxiety for future pension security, increase their recent consumption and further promote the continuous economic development in China. Poor families are more worried that they would have no one to rely on for their old age, especially families of the elderly who will lose their working abilities and worse still have no children around to take care of them after getting old. All these demonstrate urgent need of poor families for public service in the aspect of pension security.

Besides, trainings provided to outside migrant workers by governments have little influence on poverty incidence of the families, and families with help from governments for employment of outside migrant workers even have higher poverty rates. This suggests that members in affluent families do not need to rely on governments for employment outside since they can find a decent job by themselves with excellent qualities in them while members of poor families who fail to find employment by themselves for lack of competence and qualities can only turn to governments for help. Therefore, government assistance, working outside as migrants and poverty are endogenous variables.

5 Conclusions

The above regression analyses reveal that poor families have more urgent need for public service in medical care, pension security and education compared with relatively affluent families. This can be accounted for by the facts that poor people in rural areas are unable to save themselves for their poor qualities and that they have no capacity of seeking for alternatives to fix problems in the absence of public service, like affluent families can do. Therefore, they can only pin their hopes on governments to intensify the efforts in providing public service in rural areas and to make anti-poverty strategies exclusively for special families from the perspective of public service. The role of public service in the task of anti-poverty in rural areas becomes self-evident. Moreover, with the deepening of aging of population in China and the transformation of domestic structures in rural areas, problems in families of the elderly in rural areas keep emerging and the current general public service in rural areas can hardly meet the needs of these special families. Therefore, we should work out a set of anti-poverty policies exclusively for rural families, especially poor families and families of the elderly in stretches of poverty-stricken areas from the perspective of public service so as to alleviate their poverty. For example, special pension security system should be established to meet the needs of families with only the elderly; more systematic and in-depth medical care system and compulsory educational system be provided to families “falling into or back into poverty because of attack of diseases or for lack of education”. Only in this way can problems of poverty be better resolved and these families can sooner get rid of poverty and get rich.

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LEVEL OF EDUCATION, POPULATION OVERFLOWS AND FAMILY ECONOMIC DEVELOPMENT IN IMPOVERISHED RURAL AREAS

Wang Jinying Wei Huijing

Abstract

Population and poverty is an important issue especially in rural areas, poverty problem is becoming the focus of attention nowadays. By the constraints of the poor natural conditions, the fragile ecological environment and the shortage of resources, the economic development is very slow in rural especially rural impoverished areas. Since the reform and opening up, with the development of society and economy, people's standards of living in rural areas have improved significantly. With the development of education and the improvement of social openness, more and more farmers outflow to the cities for work or business. Based on the sampling survey of the two impoverished contiguous areas, the Yanshan-Taihang Mountain areas and the Hei Longgang areas in China, the effects of education and population mobility on the development of family economy will be analyzed and discussed in this paper.

Keywords: Poverty Education Population mobility Family economy

1. Introduction

For a long time, the problem of poverty, especially poverty in rural areas became the focus of our government and society. Since the establishment of China, the government has been committed to the fight against poverty. The urban-rural dual structure under the planning economy system makes the rural area development lag behind. However, with the implementation of the household contract responsibility system and the wide participation in the market economy, the productivity of rural area has increased; the living standards of farmers have improved as well. But in the rural area, there are still a large number of populations that have been caught in poverty due to not only the adverse circumstances but also their ability.

The rural poverty population in China is in the obviously centralized distribution where the areas with poor natural conditions, such as the mountain, plateau, desert areas, or in barren soil areas, old revolutionary base areas, ethnic minority regions, border areas, etc. After solving the problem of food and clothing, people in the poverty-stricken areas are facing more development problems.

Restricted by the natural conditions and geographical environment, in the aspects of living and production, the living standards of farmers lag behind, the mode of production is obsolete and the industrial structure is relatively single. In the social development aspect, education, medical and health conditions are relatively poor, the public facilities and equipment are lacking, the means of traffic and communication are backward, In addition, less information exchange make the needy farmers' ideas backward together with the low cultural quality. Therefore, improving people's way of life in the impoverished rural areas and promoting social development are the priority of our government in fighting against poverty problem.

1.1 Research background and Description of Problem

Since the reform and opening up, with the development of society and economy, people's standards of living in rural areas have improved significantly, so have people's lives in the impoverished areas. But within the constraints of the poor natural conditions, the fragile ecological environment and the shortage of resources, needy families in rural areas have a single source of income which is limited-increase, they still unable to get rid of poverty completely. With the development of education and the increasing of education levels, people in poverty-stricken rural areas have changed the traditional and backward ideas gradually. At the same time, they enhanced the ability to accept new things and new technologies. With the rapid development of urbanization, social openness has improved continually; together with the convenient transportation, highly developed information and communication technologies, more and more farmers go out of the countryside, a large number of population outflows to the city or other developed areas for work or business.

Then, what changes do the education development and out-migration of large population make to the economy in the impoverished rural areas? Could the ability to escape poverty enhance with the education level increased and people are better educated in impoverished areas? Could the families in impoverished areas escape poverty and these areas will take off the poverty label when more and more farmers outflow to the city?

This paper will use data acquired through sample survey from the two impoverished contiguous areas, the Yanshan-Taihang Mountain areas, and the Hei Longgang areas in China. We will use the qualitative analysis, cross analysis and the Multivariate Logistic Regression to answer the above questions, and then, put forward our thoughts on anti-poverty.

1.2 Literature review

The elimination of rural poverty in developing countries is an important development issue (World Bank, 2000). In the study on anti-poverty of rural, what is always an important research topic is the education's (or personal educational background) influence of the direction and degree on the level of per capita income and reducing the rural poverty. The consistent point of view on the theoretical study is that education belongs to the category of human capital. The first effect of education on the educated is labor productivity. Then it impacts the income and poverty in order to improve peasant households' per capita income and reduce rural poverty. (Behrman, 1990). In the theory of human capital (Becker, 1975), education has a very strong spillover effect, it will not only improve the labor productivity of the educated, but also contributes to the improvement of the production efficiency of other people. Education is considered as a long-term investment in social and personal development. Especially the rewards of elementary education are more to the individuals. (Zhang and Zhao, 2006).

Education plays an important role on increasing farmers' income level and on the elimination of rural poverty. Many empirical studies have confirmed that. Cheng et al (2002) tested the poverty alleviation effects of public investment in China. The results showed that the poverty alleviation effects of education investment were the most significant in all kinds of investments of the government. Zhang and Zhao (2006) also proved that there was a high level linear relationship between the education and income. After the follow-up survey of the 2.2 thousand peasant households between 320 counties in China, they showed that the level of the correlation between education and income was increasing significantly, the employment rate of farmers who were educated and had professional skills was much higher than the average level. However, the backward economy in impoverished regions would lead to the lack of effective supply of education. Imbalance development of economic and cultural would lead to

regional disparities, huge gap between urban and rural areas, and polarization between the rich and the poor and so on. (Yang Dongping, 2000).

However there is also a considerable amount of empirical researches questioning the function of education on anti-poverty. Pritchett (2001), Wolf (2002), Easterly (2001) all pointed out in their studies, it could not prove that the contribution of education to economic development was positive. Wedgwood's empirical research (2005) based on the data of Tanzania found that education investment did not bring significant effect on anti-poverty. Yang Guotao (2006) argued that the education level could not pass the significance test; it was hard to judge the impact of direction and degree of the education on poverty. To sum up, there are differences of opinion about the function of education in the existing studies. Therefore, we will attempt to verify whether and how education level produce effects on families in the poverty-stricken areas.

The present studies also appear different sounds about the influence of the floating population on the rural economy and the anti-poverty. Some researchers believe that the migration and mobility of population will promote rural economic development and contribute to shaking off poverty. Koppel (1991) had argued that the large number of rural labor force floating from the countryside to the city had the positive influence to the whole national economy, especially to the rural economy. Wang Xiaolu (2004) also believed that labor flowing among regions would help to narrow the gap of remuneration for labor and the per capita GDP. But there are also some researchers believed it is inevitable that the economy and social order in the rural areas will be broken and the poverty will deepen when a large number of rural population flowing into cities (Chinn, 1979). But there is few of researches about the negative effects of the migration and mobility of population, and most scholars pay attention to how the out-migration eliminate the poverty. Therefore, we will discuss whether and in which case the migration and mobility of population produce effects on families in the poverty-stricken areas.

1.3 The research hypothesis

Hypothesis 1: The education level of the householder has a significant impact on the economic situation of the family. The higher education level does householder have, the greater contribution he do to the family economy.

Hypothesis 2: The higher education levels of family members are, the better the family economic status are.

Hypothesis 3: The families which have migrant labors are richer than the families have not.

Hypothesis 4: Out-migration for work or business can enrich their family. On the one hand, migrant workers can increase the family income and improve the living conditions. On the other hand, migrant workers can not get their families rid of poverty completely. Once again, out-migration for work has different influences to different families.

2. Methods and Models

2.1 Research methods

The quantitative analysis will be adopted in combination with the qualitative analysis, including the cross analysis, frequency distribution and descriptive analysis to study the education level and mobility of the population in impoverished rural area. Multivariate Logistic Regression analysis will be used to explore what the effects of the education level and the out-migration on the family development in the poverty-stricken areas.

2. Model selection

Multivariate Logistic Regression models, the model is as follows:

$$\ln \left[\frac{P(y = j | x)}{P(y = j | x)} \right] = \alpha_j + \sum_{k=1}^k \beta_{jk} x_k$$

Where the dependent variable is the classification of the household economic condition; where $J=1, 2, 3$, respectively represent the family economic situation: the needy, the ordinary and the rich.

3. Data Sources and Sample Description

3.1 Data sources

Data used in our study are from the “Hebei Province Rural Poverty-Stricken Areas Population Survey” in 2012, which is organized by the Hebei provincial population and Family Planning Commission and School of Economics of Hebei University. The survey covers 71 impoverished counties of the province.

The survey used the method of stratified sampling; there were a total of 56682 questionnaires distributed. After removing the registration errors and no or wrong answers, there were 48569 valid questionnaires, effective rate reaches to 82.16%, 180,000 residents were investigated. The survey takes “household” as a unit and uses scientific and rigorous sampling design, involving a wide range and high recovery rate, so the data has a high scientific, credibility and representative.

3.2 Sample description

It mainly studies what the influence of family members’ education and out-migration on the family economic status in this paper. The data of the orphan and pure elder families are excluded because of the particularity, and then 41685 households are retained. The specific description as follows:

Household size: In the rural families, 64.61% families have a household size with 4 members, so the household size of the family is still very large. 22.63% families have 3 members, 10.17% have two family members, and 2.58% have only one.

Table 1 Household size and distribution

units: household, %

Household size	1 person	2 persons	3 persons	≥4 persons	Total
Frequency	1077	4241	9435	26932	41685
Percent	2.58	10.17	22.63	64.61	100

Family economic status: All the investigated economic status will be distributed in the following table. The ordinary family accounts for the largest proportion, it shares the 39.74% in all the households. The richer and the richest families account for 25.31% and 2.31% respectively. The percentages of the needier and the neediest families are 29.65% and 9.59% respectively.

Table 2 The classification and distribution of the families

units: household, %

Families	the neediest	The needier	the ordinary	the richer	the richest	Total
Frequency	1699	11908	16564	10549	965	41685
Percent	4.08	28.57	39.74	25.31	2.31	100

Level of Education: Here we consider the education level of the householders and their spouses, and we also calculate the highest level of education of labor age children and school age children. By comparison, no matter what kind of population, the level of education mainly concentrated in the level of primary school and junior middle school. Junior middle school education accounts for the largest proportion. The children's average levels of education are higher relative to the householders and their spouses. But the proportion of senior high school education or above is still small.

Table 3 The education level of the householder and the householder's spouse

unit: %

Education level	no educated	primary school education	junior middle-school education	senior middle-school education or above	Total
Householder	4.23	35.71	52.80	7.25	100
Householder's spouse	6.52	40.56	48.41	4.50	100

The status of out-migration: To take head of household out-migration status for example, the proportion of the head that go out accounts for 13.54%. The time of going out mainly in one year or less, it accounts for 63.01%. Out-migration for work or business is the main reason, and there is little difference with the distance going out.

4. The Empirical Analysis

4.1 Variables in the Multivariate Logistic Regression

Based on the theoretical and descriptive analysis of the areas surveyed, the Multivariate Logistic Regression is adopted to analysis the influence of education level and out-migration for work or business on the family economy.

Where dependent variable is the classification of the household economic condition: the neediest, the needier, the ordinary, the richer and the richest. Given that the neediest and the richest families are extreme cases, here we merge the neediest and the needier into ‘the needy’, and the richer and the richest into ‘the rich’, so the dependent variable should be divided into three categories –the needy, the ordinary and the rich. The independent variables include education level variables and out-migration variables, and we also considered some other factors, the independent variables are detailed described in the following table.

Table 4 The variables

Variables	Description of Variables
Dependent variable:	1:the needy, 2:the ordinary, 3:the rich (families)
Independent variables: education level	
the householder’s	1: no educated or did not receive education;
the householder’s spouse’s	2:primary school education;
the highest level of working age children	3:junior middle-school education or above
the highest level of school age children	
Independent variables: the state of out-migration for work or business	
time the householder out	1: ≤1; 2: 1-3; 3: 3-5; 4: ≥5 (year/years)
reasons the householder out	1:for work or business; 2:other reasons
distance the householder out	1:in the city; 2: in others cities within the province; 3: other provinces
children out-migration for work	0:no; 1:yes
the householder’s spouse	0: stay at home; 1: go out not for work; 2: go out for work
Independent variables: other factors	
the householder’s age	1:young adults; 2: elders
the amount of arable land	1:less; 2:more
soil conditions	1:poor; 2:more fertile
water convenient or not	1:yes; 2:no
major income sources	1:farming or sideline, work or business; 2:external support

4.2 The empirical analysis of influence of family members' education level on family economic conditions

The following table shows the effect of family education level on family economic development in impoverished areas. In model 1, considering the general factors of poverty, the family economic status with a householder of young adult is significantly better than with an elder. For needy families, incomes from farming and out-migration for work or business are not enough to help the families get rid of poverty; therefore, more external economic supports are needed for these families, such as government relief. The ordinary families are less dependent on external economic support. More families rely on the Agricultural sideline and business to get rich. Families with more arable land, fertile soil and better watering conditions have better economic status.

Table 5 The Multivariate Logistic Regression of education level

Variables (the reference)	Family	the needy		the ordinary	
	Model	model: 1	model: 2	model: 1	model: 2
	Variables	B	B	B	B
Intercept		- 1.856* **	- 3.474* **	.084*	-.567** *
the householder's age (2:elders)	1:young adults	-.533** *	-.289** *	-.195** *	-.127*
major income sources (2:external support)	1:farming or sideline, work or business	5.226* **	5.136* **	2.260* **	2.254* **
the amount of arable land (2:more)	1:less	.851** *	.794** *	.421** *	.380** *
soil conditions (2:more fertile)	1:poor	.484** *	.440** *	.269** *	.301** *
water convenient or not (2:no)	1:yes	-.694** *	-.757** *	-.373** *	-.396** *
education level: (3:junior middle-school education or above)					
The householder's	1:Did not receive education		.434**		.262*
	2:primary school education		.291** *		.095*
The householder's spouse's	1:Did not receive education		.617** *		.287** *

	2:primary school education		.202** *		.115**
	1:Did not receive education		-.339		.276
The highest level of working age children's	2:primary school education		.808*		.584*
	1:Did not receive education		.777		.039
The highest level of school age children	2:primary school education		-.058		-.256
	1:Did not receive education		.777		.039
any migrant labors or not (1 : yes)	0 : no		2.016** **		.994** *
Likelihood ratio tests	sig	.000	.000	---	---
Nagelkerke R ²		.486	.517	---	---

Note: a: The dependent variable is the classification of the household economic condition, the reference is the third kind: the rich family.

b: which in brackets are the reference variable; *, ** and *** indicates the significance level at 0.05; 0.01 and 0.001.

In the condition of general influence factors, we add the variables of education level into the Model 2. The education level has an important influence on the economic situation of the family. The higher education level of the family members is, the better (richer) the economic status is; and the lower education level is, the worse economic status is, and the easier to be caught in poverty. The higher the householder's and spouse's education level is, the bigger odds which the needy families tend to be rich families are. Take the education of the householder as an example, compared with rich families, the poverty odds of families which householders are not educated are 1.54 times than the families which householders with junior middle-school education or above; the poverty odds of families which householders with primary school education are 1.34 times than which householders with junior middle-school education or above. The higher the householder's education level is, the bigger his contribution to family economy is. The same is also true when it comes to the relationship between the education levels of householder's spouse. School-age children have little influence on family economic development; working-age children who are not educated have no obvious impact, but those who receive higher education are likely to help the families more. Moreover, families without migrant labors have a higher poverty incidence while families with migrant labors can have their economic status improved substantially.

4.3 The empirical analysis of influence of family members' out-migration for work or business on family economic conditions

The table below is the reflection of the influence of family members' out-migration for work or business on family economic development. Model 1 mainly considered the status of family members' out-migration. It can be found that the out-migration of householder for work or business makes a greatest contribution to the family than for other reasons (such as social or family reasons); and the odds of poverty is much smaller. The same is also true when it comes to the

children. This proves that out-migration for work or business has a significant influence on family economic status. For the needy families, a short distance out-migration (in the city) of the householder has an obvious impact on family economy; but for ordinary and rich families, there should be a long-distance out-migration. How long it might take householders out-migration for work or business has little influence on the families. Whether the householder's spouse out for work or not doesn't matter for the ordinary and rich families, but not for the needy families. In addition, the higher the householder's education level is, the better family economy is.

Table 6 The Multivariate Logistic Regression of the situation of out-migration

Variables (the reference)	Family	the needy		the general	
	Model	model:1	model:2	model:1	model:2
	Variables	B	B	B	B
Intercept		0.151	-1.793	0.263	.821*
reasons the householder out (2:other reasons)	1: for work or business	-3.402***	-4.319***	- 1.007***	-1.244***
	1: in the city	.424*	.004	-0.003	-.134
distance the householder out (3: other provinces)	2: in others cities within the province;	0.029	.110	-.364***	-.351***
	1: ≤1	-0.185	-.147	0.026	-.175*
time the householder went out (year/years) (3: ≥5)	2: 1-3	-0.246	.143	-0.083	-.142
	3: 3-5	0.102	.263	-0.196	-.224
children out-migration for work (1:yes)	0: no	.583*	.583	.217**	-.030
The householder's spouse (2: go out for work)	0: stay at home	-.712**	-.179	0.145	-.127
	1: go out not for work	-0.395	.196	0.28	.102
education level of the householder's (3:junior middle-school education and more)	1: did not receive education	1.868**	2.084*	.997*	1.064*
	2: primary school education	.534**	.527*	.221**	.179*
the number of migrant in the family	(person)		-.191		-.192***
the householder's age (2: elders)	1: young adults		.621		.056
the amount of arable land (2:more)	1: less		.418		.646***
soil conditions (2:more fertile)	1: poor		.914**		.636***

water convenient or not (2:no)	1: yes		-1.008**		-.457***
major income sources (2:external support)	1: farming or sideline, work or business		5.838***		2.731***
Likelihood ratio tests	sig	.000	.000	---	---
Nagelkerke R ²		.076	.294	---	---

Note: a: The dependent variable is the classification of the household economic condition, the reference is the third kind: the rich family.

b: which in brackets are the reference variable; *, ** and *** indicates the significance level at 0.05; 0.01 and 0.001.

Model 2 shows several factors influencing family economic status. Compared with Model 1, it can be found that householders migrant to cities for work or business is an important channel to improve family economic status; householders' migration distance and time have little influence on needy family, but a longer migration distance (in others cities within the province) in a short term (≤ 1 year) can bring back considerable incomes, constrained by seasonality of farm work and migrant costs; the migration of householders' spouse and children has an insignificant impact on family incomes. The higher the householder's education level is, the better family economic status is, since they are able to get a better job and master some labor skills faster so as to improve work efficiency and earn more money.

4.4 Subjective understanding and judgment on family economic status

In the survey on changes of family living standards in recent five years, 36.38% families have improved their living standards, 11.92% have their living standards decreased, while 51.47% have made no difference. Further investigation on reasons of improved family living standards is shown bellow. 38.25% needy families tend to believe that their improved living standards should be attributed to government support, 31.87% owe it to planting economic crops, while only 10.80 % choose out-migration for work or business. 53.12% rich families ascribe improved living standards to family sideline, 47.06% incline to migration for work or business, while ordinary families choose migration for business (42.14%) and alleviated economic burden (42.41%). It can be concluded that out-migration for work or business can enhance living standards of family but not main reasons of poverty alleviation for the needy and ordinary families.

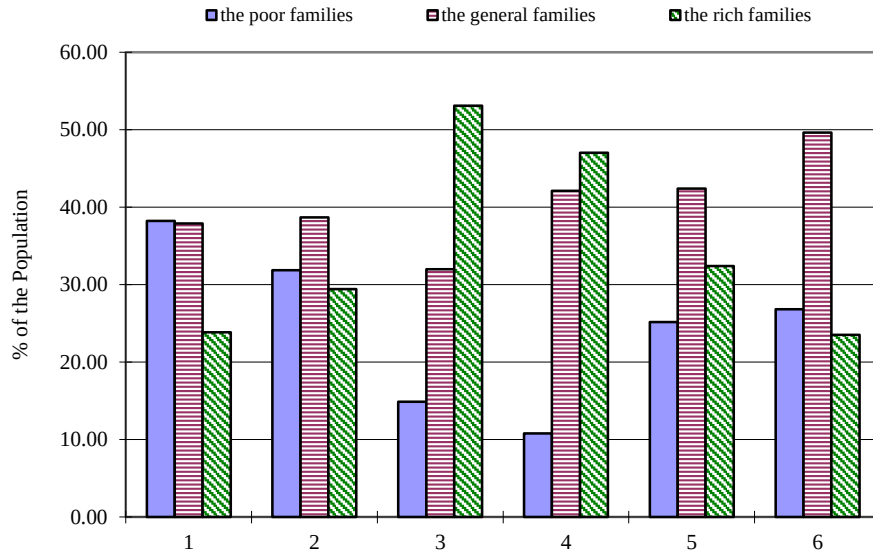


Chart 1 Subjective understanding and judgment on family economic status in recent five years

Note in the chart 1, 1: government support; 2: plant economic crop; 3: sideline; 4: go out for work or business; 5: the economic burden alleviated; 6: others.

In addition, when it comes to the question “How do rich families in your village get rich”, needy families owe it to “farming” and the support of anti-poverty projects and capital, while ordinary and rich families choose “more income from part-time works” and “developing sideline”.

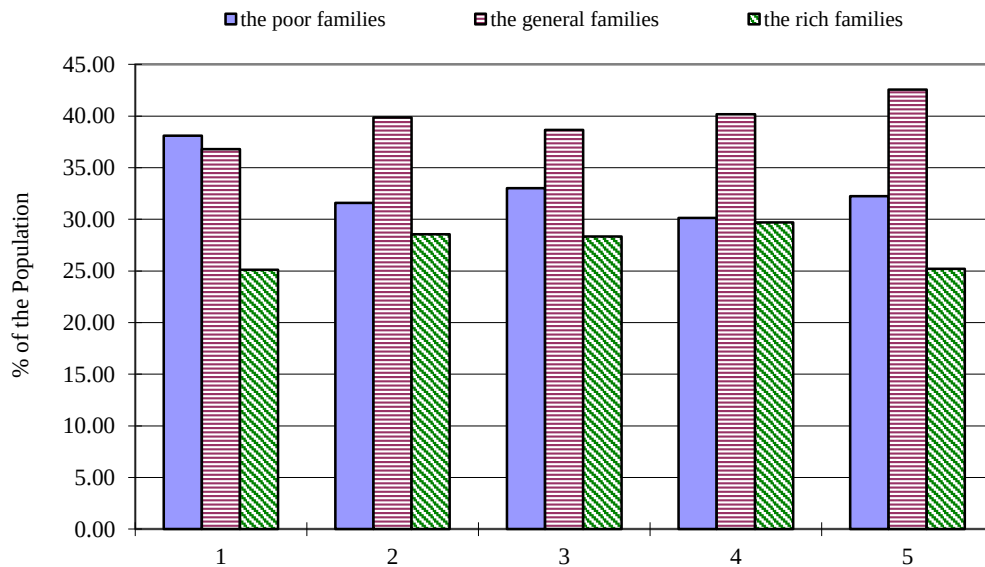


Chart 2 subjective judgments on how do rich families get rich

Note: 1: plant crops well; 2: develop sideline; 3: be able to acquire anti-poverty project and capital; 4: more working-outside income; 5: others.

It shows that out-migration for work has little influence on poverty alleviation of needy family and needy family is backward in their concept of poverty alleviation. Agriculture (farming) is the foundation of agricultural production, thus, income generated from agricultural

production is essential to family incomes. However, limited by natural environment and resources, it is pretty difficult to increase agricultural income due to backward technology, low land utilization rate and great risk in agricultural production and market. Thus, it becomes not too optimistic about improving family economic status merely relying on agricultural production (farming), and sideline or out-migration for work becomes a primary source of increased household income. Needy family still keeps an eye on “farming” and ignores the roles of sideline, part-time works, the support of anti-poverty projects or capital in poverty alleviation, which is backward or narrow-minded.

5. Conclusion and Discussion

The following conclusions can be drawn from the above theoretical and empirical analysis:

1. Major economic sources and land condition of families in impoverished rural areas are the main factors influencing family economic status. Families with more arable land, fertile soil and better watering conditions have better economic status, since considerable income can be generated from agricultural production. Those families with low land productivity are more likely to be in extreme poverty, on the contrary, external economic support and out-migration for work can improve family living standards. For needy and ordinary families, out-migration for work or business is not a major reason to alleviate poverty.

2. Family members' education level has an obvious impact on family economic status. Educated people are more able to improve poverty status than uneducated ones; those who receive higher education are more likely to alleviate poverty than lower education receivers. The higher the householder's education level is, the bigger his contribution to family economy is. The same is also true when it comes to the relationship between the education level of the other family members, like householder's spouse and working-age children. School-age children have little influence on family economic development, because they are unable to work to earn money in school period.

Limited by economic status, needy families will reduce their investments in children education or human capital. However, children education relates to the future development of family economy. If needy families pay little attention to children education and their children are poorly educated, they will be unable to get rid of poverty from generation to generation, which will do harm to the development of family and its offspring; families with better economic conditions can afford or stress investment in children education, which will help family to cast off poverty to get rich, thus benefiting the sustainable development of family and its offspring. Therefore, education has a long-term effect on poverty and economic returns. So further investment and support in education have a long-term and positive significance on poverty alleviation in impoverished rural areas.

3. Out-migration for work or business has a significant influence on family economy. Firstly, families without migrant labors have a higher poverty incidence while families with migrant labors can have their economic status improved substantially. Secondly, the out-work of householders is a crucial channel to improve family economic status. Thirdly, taking seasonality of agricultural production and migration costs into account, householders are unable to work outside too far or too long, so they have to work within the province in a short term, which also has a positive impact on family economic status. Last but not least, it will take more migration and time costs for householders to commute between home and workplace within limited time, and it is hard to find a better job nearby, so householders will not work outside too far or too long. On the contrary, householders will earn considerable income by working outside in slack season within short distance in the short run, and they can also take

care of agricultural production in busy season, which will also save migration costs and improve family economic status.

But out-migration for work is only a way to increase family income, rather than the most effective method to alleviate poverty and get rich. That is to say, out-migration for work can improve family economic status, but is unable to eliminate poverty fundamentally in rural areas. Limited by education level and labor quality, migrant labors are unable to get a decent job with considerable income, which will not make their family become richer or have a better development; in addition, needy families are likely to be conservative. They just concern about their farmland and are not willing to work outside, thus, out-float for work makes no sense for them. Going out for work is not a long-term policy for family's sustainable development. For those who work outside for a long time, they are out of local (rural) agricultural production and social networks, and job resources and social networks in workplace (city) is out of reach. As a consequence, they are in a dilemma between the rural and the urban, unless they continue to work outside for a long run.

This can be explained from a theoretical level. Within a simple family life cycle, when families gradually become mature, they are under greater pressure as their children grow up, and working outside can enable householders to make additional money to support their families. However, when entering an empty-nest period gradually, families have less economic burden. If householders continue to work outside, family income increases while consumption decreases, which will improve family economic status; but the householders' physical fitness, working capacity and labor enthusiasm will gradually decrease as they grow older, then family economic status will go back to original state and even become worse.

To sum up, it will be a long-term and complicate system engineering to help needy families in rural areas to get rid of poverty and become rich, and to eliminate the root cause of poverty to maintain rapid, effective and sustainable development in rural areas.

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A tale of three countries: Who is moving away from the rural agrarian economy?

Jan-Jan Soon

Abstract

This paper extracts from the World Bank database relevant data (from 1960 to 2012) on three countries – Malaysia, China, and Indonesia – to see which country is breaking away from the rural agrarian path towards a more developed country. Malaysia, China, and Indonesia have important historical, cultural, and economical links. They have started off as rural agrarian (farming) economies and are currently striving towards becoming industrialised economies. Using comparative analysis, this paper also fills the literature gap by focusing on the three countries. This paper discusses a number of issues revolving on agricultural land use, levels of agricultural mechanization, agricultural production, sectorial value added, sectorial employment, rural-urban population and poverty. The evidence and discussions seem to be pointing to Malaysia as shaking off its rural agrarian image, compared to China and Indonesia.

Keywords: agrarian, rural, Malaysia, China, Indonesia

JEL Code: N50, O18, O53

Overview

‘Rural’ and ‘agriculture’ can almost be deemed synonymous. According to United Nations’s Food and Agriculture Organization (FAO 2013), more than 3 billion people – almost half of the world’s population – live in rural areas. From this figure, roughly 2.5 billion of them depend on agriculture for their livelihoods. For many developing countries, agriculture acts as the engine of economic growth. Approximately three-quarters of the world’s agricultural value added is generated in developing countries, and in many of these countries, the agriculture sector contributes as much as a third of their GDP.

Malaysia, China, and Indonesia have important historical, cultural, and economical links. Historical links between the three countries dates back to around 200 BC during China’s Han Dynasty (206 BC – 220 AD), a prosperous period when trade bustles along the maritime Silk Route. This route passes through the waters of Malaysia and Indonesia, connecting China with the western world. These three countries are also bound by steep Asian cultures and traditions. China is the largest economy in Asia and the second largest globally after the United States, while Malaysia and Indonesia taken together, are the economic powerhouse in the South-East Asia region. These countries are linked together economically through bilateral relations such as the China-ASEAN Free Trade Agreement (CAFTA). These countries have started off as rural agrarian (farming) economies and are currently striving towards becoming industrialised economies.

Based on the latest statistics from FAO (2013), in 2011, China’s rural population makes up 49.5% of its total population, Indonesia 49.3%, and Malaysia 27.3%. Although the proportions of rural population are quite high especially in China and Indonesia, their

rural population growth figures beg to differ, i.e. in 2012 Malaysia has a negative rural population growth at -0.85%, China at -2.12%, and Indonesia at -0.31%. All three countries registered positive urban population growth rates i.e. Malaysia 2.59%, China 2.98%, and Indonesia 2.74% in that year. At the same time, the importance of the agriculture sector declined in terms of value-added and employment, and outperformed by the manufacturing and services sectors. All these seem to be suggesting that these countries are moving away from a rural agrarian economy towards an industrialised nation. If this is so, how are their performance and which country is leading the way? This paper addresses these questions. Using comparative analysis, this paper also fills the literature gap by focusing on the three countries.

Problem statement

Figure 1 shows that in terms of GDP, Malaysia, China, and Indonesia started off at about the same footing in the 1960s.¹² Over the decades, the GDP for Malaysia and Indonesia increased gradually, but the GDP for China increased exponentially by mid-1990s. The GDP per capita shown in Figure 2 however, tells a rather different story. Malaysians enjoyed the highest GDP per capita compared to their Indonesian and Chinese counterparts. This is perhaps partially due to Malaysia's relatively smaller population.

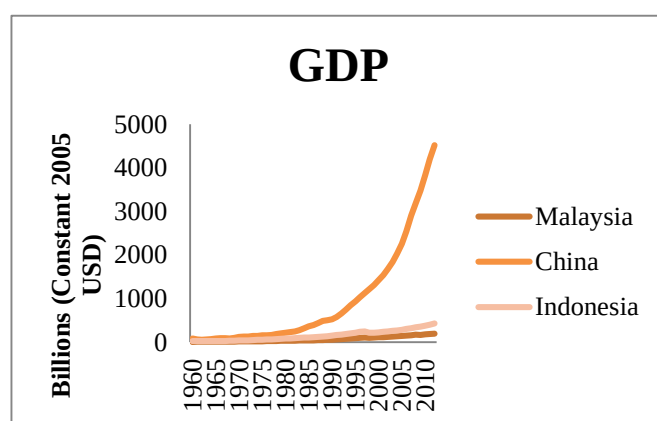


Figure 1

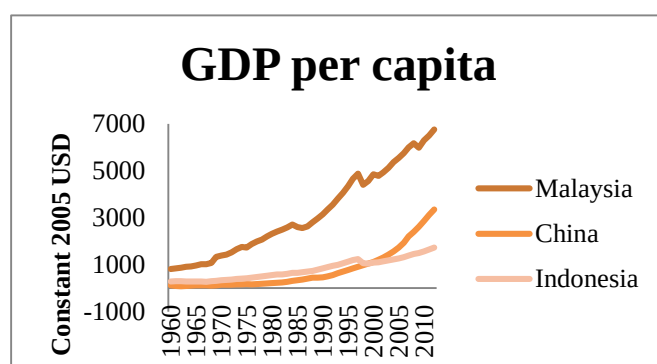


Figure 2

A consistent pattern from Figure 1 and 2 shows that, both the GDP and GDP per capita are increasing. Higher GDP and GDP per capita are associated with high-income nations, which are in turn associated with countries moving away from the rural agrarian

¹² Figure 1 shows data in terms of real GDP, i.e. at constant 2005 USD.

path. In other words, as Kuznets (1955) puts it succinctly, an invariable accompaniment of growth in developed countries is the shift away from agriculture, a process usually referred to as industrialization and urbanization. Each of these countries has their own 5-year plan in developing the country, with the most current ones being the 10th Malaysian Plan (2011-2015), Indonesia's National Medium-Term Development Plan (2010-2014), and China's Five-Year Plan (2011-2015). The timeframe in these plans are closely similar, but will they translate into similar rate of progress for the countries?

Data Analysis & Discussion of Findings

The annual data used in this paper are extracted from the World Bank database.¹³ This database is itself a collection of data from many different sources such as Food & Agriculture Organization (FAO), United Nations Population Division, International Labour Organization (ILO), UNESCO, UNICEF, and the Asian Development Bank (ADB).

Agricultural Land Cultivation

Agricultural land refers to land that is arable, under permanent crops, and permanent pastures. FAO defines arable land as land with temporary crops. Land under permanent crops is land cultivated with crops that occupy the land for long periods. For example, in Malaysia, some of the perennial crops include cocoa, palm oil, and rubber. Permanent pasture is land used for five or more years for forage crops, either natural or cultivated.

Figure 3 shows that comparatively, China has the largest proportion of agricultural land. This is not surprising considering its massive land area. The more interesting aspect of Figure 3 is that the proportion of land used for agricultural purposes sees an increasing trend throughout the years, although there are certain decades in which the proportion of agricultural land in Malaysia and Indonesia stagnates. In 2011, the proportion of agricultural land in Malaysia, China, and Indonesia is 23.9%, 55.7%, and 30.1% each.

¹³ <http://data.worldbank.org/country/>

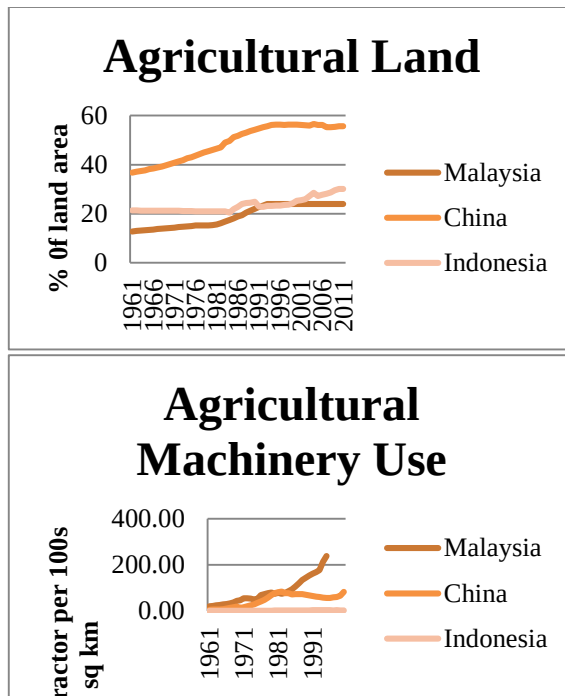


Figure 3

Figure 4

Agricultural machinery use refers to the number of tractors used in agriculture. Figure 4 shows that Malaysia fared the best in terms of mechanization in agriculture, where in 1995, there are 238 tractors used per 100 square kilometres, as compared to 56 in China and only 4 in Indonesia.¹⁴ Malaysia's agricultural machinery use shot up from the early 1980s, and at the same time breaking away from that of China's. In recent years however, one of the top priorities in China's on-going Five-Year Plan (2011-2015) is on agricultural and rural development where the Chinese government targets agricultural technology integration and farming mechanization to cover 60% of the ploughing, planting, and harvesting works. Mechanization level in Indonesia remains low throughout the years, registering a maximum of only the use of 4 tractors per 100 square kilometres. Realizing this, the Indonesian Center for Agricultural Engineering Research and Development (ICAERD) was set up in 2002 under the Ministry of Agriculture to tackle the farming technology and mechanization adoption issue.

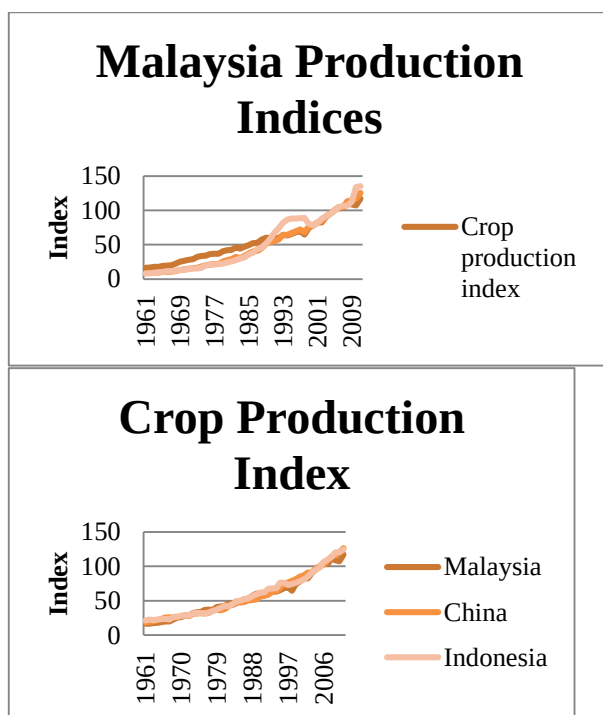
Production Indices

Crop production index shows agricultural production for each year; it includes all crops except fodder crops. Food production index covers food crops that are considered edible and that contain nutrients, except coffee and tea. Livestock production index includes meat and dairy products. This paper refers these three indices as agricultural production indices.

Figure 5 shows the production indices by country and by production type. A glance at the figure shows that the indices are following an upward trend from the 1960s

¹⁴ Data are only available up to 2000 for China and Indonesia, and only up to 1995 for Malaysia. A caveat to note - The available data on the number of tractors used in agriculture however, do not specify the types of tractors nor the kind of land the tractors are used on.

until 2011.¹⁵ Figure 5 shows that the agricultural production indices in Malaysia and Indonesia saw a drop during the 1997 Asian financial turmoil, where the resulting currency depreciation impacted crop planting decisions. In Malaysia's case, the drop in agricultural production can be partly associated the overdependence of the farmers on government subsidies, where a domino effect was in play, i.e. when subsidies dry up, so do agricultural production. The drop in the Indonesian agricultural production is compounded by both the financial crisis and the 1997-1998 El Nino phenomenon which hit Indonesia, bringing along with it the vagaries of the hot and dry weather that were the partial culprit in the plummet of Indonesian agricultural production during that period (FAO 1998). Compared to Malaysian and Indonesia, agricultural production in China was unaffected during that period due to its large number of self-reliant small-sized farming (APO 2004, p. 114). China's agricultural production did not suffer as China was not an open economy until quite recently.



¹⁵ The indices show annual production relative to base period of 2004-2006.

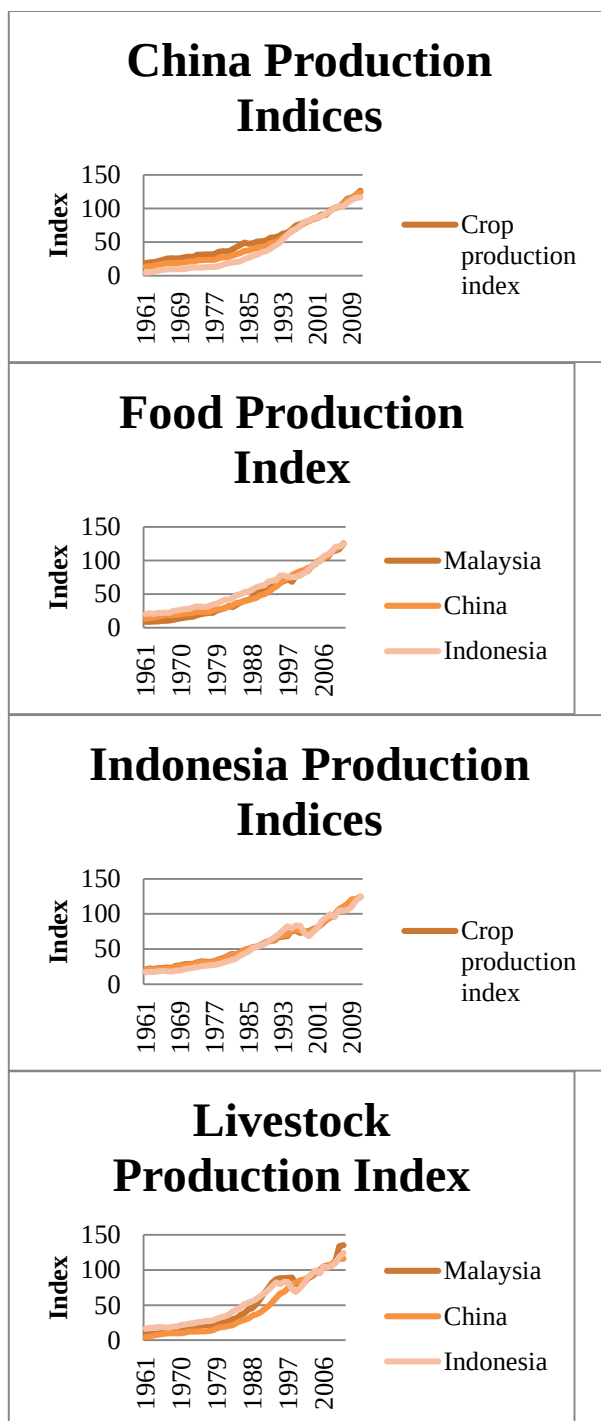


Figure 5

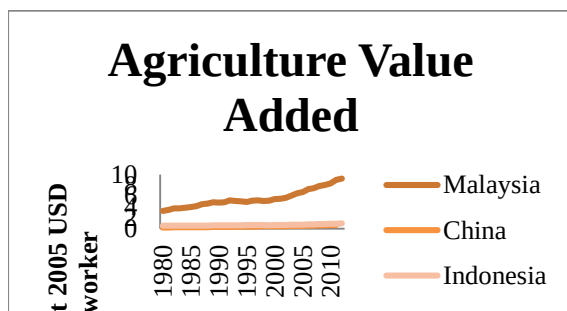


Figure 6

Value Added

Agriculture value added per worker measures agricultural productivity, i.e. value of the output less the value of intermediate inputs. It is obvious from Figure 6 that Malaysian workers contribute higher value added to the agriculture sector than their Indonesian and Chinese counterparts. There appears to be two phases where during the pre-2000 first phase, the agricultural value added per worker increased gradually. In the post-

2000 second phase, it shot up at a faster rate. This upward trend coincides with the 2002 restructuring of the country's main agricultural R&D agency, the Malaysian Agricultural Research and Development Institute (MARDI). MARDI shifted its focus to research areas such as agricultural biotechnology (which includes genetic engineering and bioprocessing), and food technology (which includes food processing/packaging/handling and product development). All these will bring about higher agriculture value added per worker. Some of the agri-based high value added projects include swiftlet farming, high value herbs production (e.g. Tongkat Ali), high value tropical fruit (e.g. rock melon, starfruit, pineapple) and vegetable production (e.g. tomato, capsicum).

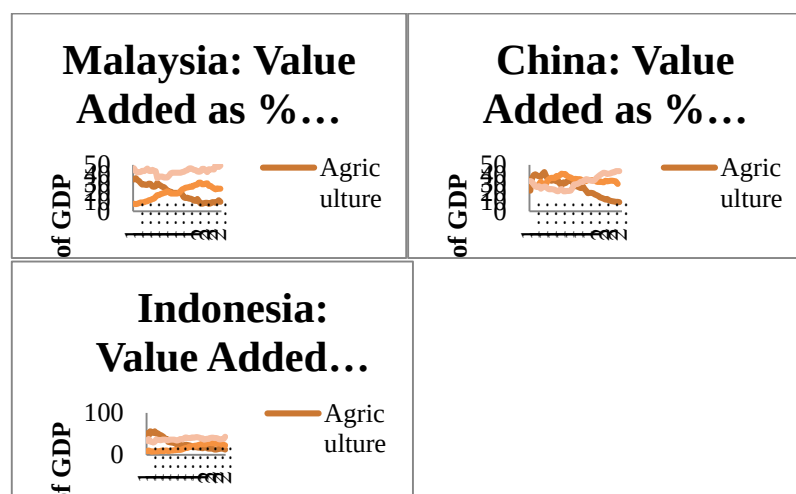


Figure 7

The agriculture sector as a whole however, paints a different picture, as shown in Figure 7. Value added in the agriculture sector as a proportion of GDP follows a declining trajectory throughout the years for the three countries. In contrast, value added in both the manufacturing and services sectors is increasing. In Malaysia and Indonesia, value added from the services sector is consistently higher than that from the manufacturing sector. This inevitably means the shrinking importance of the agriculture sector in terms of its contribution share to the GDP. In China, the increase in the services sector's value added as a proportion of GDP coincides with China's reform and opening up in the late 1970s, hence propelling this sector to be an important catalyst of China's economic growth.

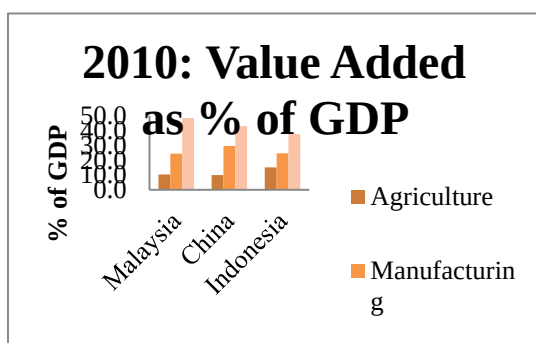


Figure 8

Figure 8 looks at the individual performance of each country in 2010.¹⁶ As for Malaysia's value added in the services sector contributed 48.5% to its GDP, China 43.2%, and Indonesia 37.8%. China's manufacturing sector contributed 29.6% to its GDP in terms of value added, and Indonesia's value added in the agriculture sector contributed 15.3% to its GDP. To a certain extent, it seems that Malaysia is surging its way to a more service-oriented economy, while the share of value added to GDP from the Chinese manufacturing sector

maintains at a non-fluctuating level, and that the agriculture sector in Indonesia still contributes quite a significant chunk to the Indonesian GDP in terms of value added.

Employment

If we notice, the sectorial employment trends in Figure 9 coincide with the value added trends in Figure 7. The Malaysian services sector has been the largest employer since 1980 with employment in this sector making up 59.2% of the total employment in 2010. Employment growth in the service sector was attributed to strong performance in the finance, insurance, real estate and business services, wholesale and retail trade, accommodation and restaurants as well as the transport and communications subsectors (EPU 2010, p.41)

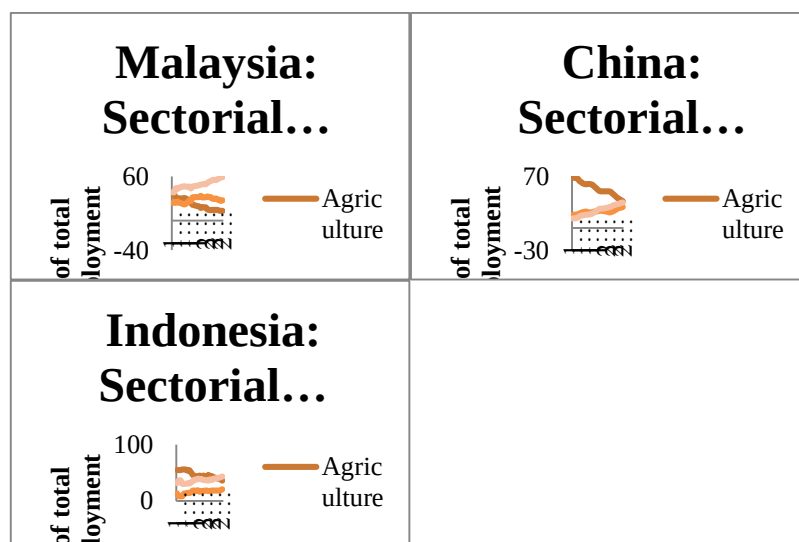


Figure 9

In China, the agriculture sector has been the largest employer although the proportion of total employment in this sector is on the decline. The employment proportion of the three sectors in China seems to be converging, where in 2010, employment in the industrial sector made up 28.7% of the total employment, services

¹⁶ The latest World Bank data on value added for China is only up to 2010.

34.6%, and agriculture just slightly higher at 36.7%.¹⁷ As for Indonesia, its services sector emerges as the main employer among the three sectors beginning in 2008 employing 40.8% of the Indonesian workforce, while its industry and agriculture sectors employing 40.3% and 18.8% each. It is therefore obvious that the services industry is playing an increasingly prominent role in terms of employment, and this sector has clearly stood out in the Malaysian case.

Rural-urban population

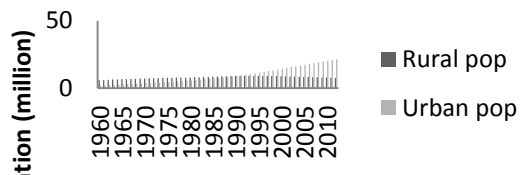
Figure 10 summarises the rural-urban population headcount and growth. The total urban population (in millions) for the three countries is increasing over the years, while their total rural population somewhat peaked in the 1990s. The total urban population in Malaysia has begun to surpass its rural population since 1991, while the total urban population in China and Indonesia only took the lead in 2011. In China, the relatively slow converge of the rural and urban population can be partly due to its infamous *hukou* system, i.e. a system where almost all aspects of a person's life is tied to one's birth place. He or she reaps the most benefits if fortunate enough to be born in a prosperous urban province as compared to an underdeveloped rural province. Benefits are in terms of the quality of education, adequate health care, and employment opportunities. Migrant workers who move to the urban provinces seeking better jobs would not be able to enjoy the same benefits as those born there.

In terms of the annual population growth rate, similar declining patterns can be seen in the three countries. These patterns seem to be consistent with the received wisdom that population growth and economic development are negatively related (Galor & Weil 2000). In China, the dip in population growth in 1961 coincides with the Great Leap Forward era, where the then Chinese President Mao Zedong initiated the Great Leap Forward campaign in 1958 to transform China's farming society into a modern industrialized one. The campaign however ended abruptly in 1961 as a result of disastrous crop failures, famines, droughts, and floods. All these took a toll on China's population growth, in which its urban population growth dropped from a 4.8% in 1960 to 1.3% in 1961, and its rural population growth dropped from 1.3% to -1.5% in the same period.

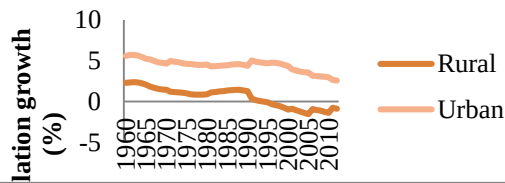
In 2011, Malaysia's total population is 28.7 million with a population density of 88 people per square kilometre of land area; China has 1.3 billion people with 144 people huddled in a square kilometre; and Indonesia's population totals to 243.8 million with a density of 134 people. Comparing the geographic area, population total and its density, as well as the rural-urban population and growth, it seems that Malaysia is fast moving away from its once stereotype rural agrarian setting.

¹⁷ Industry corresponds to International Standard Industrial Classification (ISIC) divisions 10-45 and includes manufacturing (ISIC divisions 15-37). It comprises value added in mining, manufacturing (a subgroup of industry), construction, electricity, water, and gas.

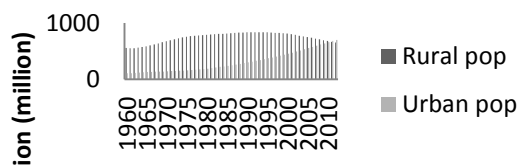
Malaysia: Rural-Urban Population



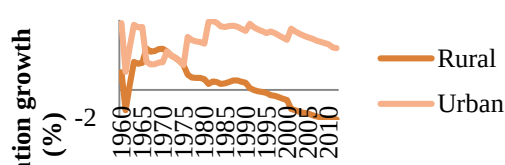
Malaysia: Population growth



China: Rural-Urban Population



China: Population growth



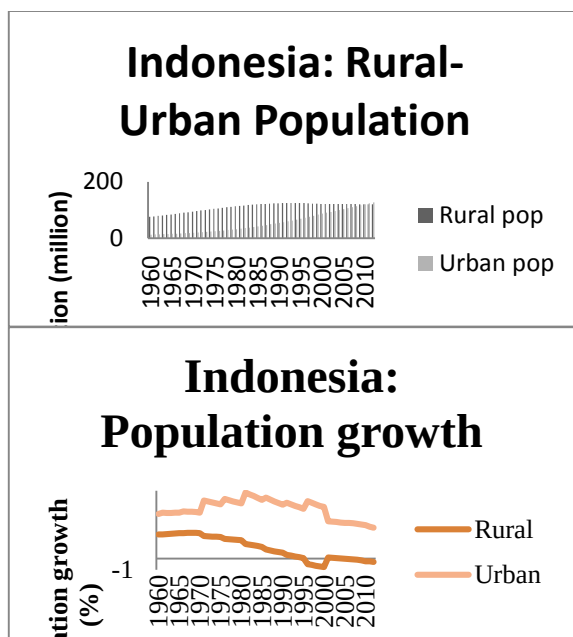


Figure 10

Poverty

Poverty gap at rural poverty line is the ratio of the rural poverty gap to the rural poverty line; it reflects the depth of rural poverty as well as its incidence and intensity. Rural poverty rate is the percentage of the rural population living below the national rural poverty line.¹⁸ Figure 11 shows the poverty gap and rate for Malaysia and Indonesia rural-urban population.¹⁹

Indonesia's rural and urban populations have both a wider poverty gap and a higher poverty rate than Malaysia. Based on the Human Development Report (UNPD 2013) prepared by the United Nations Development Programme (UNDP), about 18% of the population of Indonesia are living below USD1.25 a day and 12.5% of its population are living below the national poverty line set at 200,262 rupiahs per month (USD22). In 2009, both of Malaysia's rural and urban poverty rates are less than 10%, while Indonesia's urban poverty rate is 10.7% and rural 17.4%. Realizing its high rural poverty rate, Indonesia draws up its National Medium-Term Development Plan (2010-2014) with poverty reduction as one of its top agenda. As a result from this plan, the *Mandiri* National Community Empowerment Program sets aside a budget allocation of Rp10.3 trillion in 2009 and Rp12.1 trillion in 2010 to eradicate poverty in 30% of Indonesia's poorest sub-districts or *kecamatan* in the rural areas.

¹⁸ Their urban counterparts are similarly interpreted.

¹⁹ The World Bank data on China are sporadic at best, and therefore excluded in the discussion here.

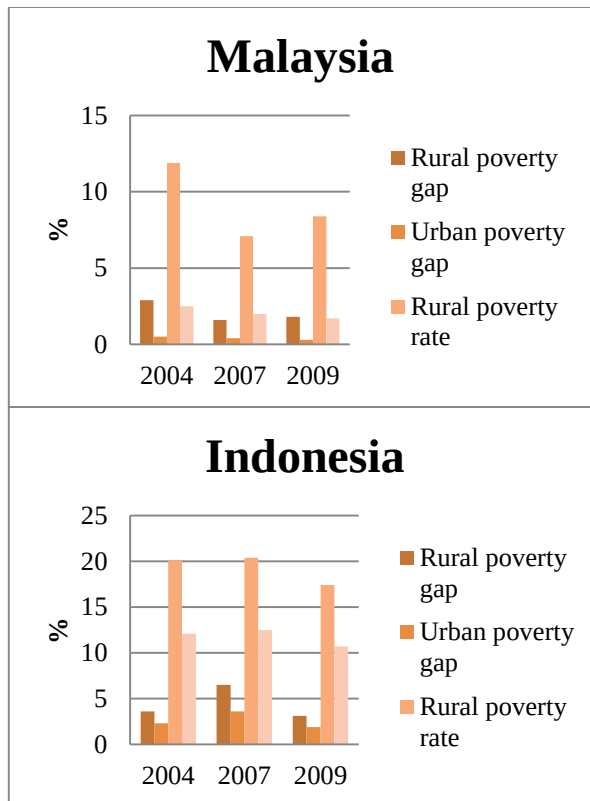


Figure 11

Conclusions

This paper extracts from the World Bank database relevant data (from 1960 to 2012) on three countries – Malaysia, China, and Indonesia – to see which country is breaking away from the rural agrarian path towards a more developed country. This paper discusses a number of issues revolving on agricultural land use, levels of agricultural mechanization, agricultural production, sectorial value added, sectorial employment, rural-urban population and poverty. All the discussions seem to be pointing to Malaysia as the country that is shaking off its rural agrarian image and towards donning the cloak of modernization and urbanization. This is supported by the evidence provided by the data on Malaysia's relatively high level of agricultural mechanization, high value added as a percentage of GDP in its services sector, largest percentage of employment in the services sector, and relatively low rural poverty rates.

This is however not to discredit that China and Indonesia are left behind in the race for development. In fact, China and Indonesia are catching up and it would just be a matter of time before they too break away from the rural agrarian path. Furthermore, the shift away from the rural agrarian economy does not necessarily means that it is a good thing. Moving towards an urban industrialized economy too fast comes along with its own set of problems and issues, such as sustainable urban living, and the role of the rural areas to absorb urban overcrowding. Whether or not such a shift is a good thing will be further explored in a future paper.

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VALUE OF SOCIAL NETWORK FOR DEVELOPMENT OF RURAL MALAY HERBAL ENTREPRENEURSHIP IN MALAYSIA

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Abstract

Rural entrepreneurship is recognized now globally as a primary engine of economic growth for developed and developing countries. Herbal industry of Malaysia is growing in every year tremendously. Therefore, the government of Malaysia has approved more budgets for it and trying to increase the number of successful rural Malay herbal entrepreneurs nationwide. However, with this significant growth, little empirical research has been conducted in this area. The purpose of the study was to explore the value of social networking among rural Malay herbal entrepreneurs in Malaysia. It was a qualitative case study research and in-depth interview was used to collect data from ten rural Malay herbal entrepreneurs and conducted in MAHA (Malaysian Agriculture, Horticulture and Agrotourism). The finding showed that majority of the rural Malays herbal entrepreneurs are lagging behind relatively to other ethnic groups in Malaysia due to poor networking. It is also suggested that rural Malay herbal entrepreneurs need to immediately develop their own network skills through government, family members, relatives, friends and other form of support groups.

Keywords: *Rural Malay entrepreneurship; success factors; network; herbal industry; small medium enterprise (SME); case study; qualitative methodology.*

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1. Introduction

Rural development is more than ever before linked to entrepreneurship. Institutions and individuals are promoting rural development entrepreneurship as a strategic development intervention that could accelerate the rural development process. Furthermore, institutions and individuals seem to agree on the urgent need to promote rural enterprises – the development agencies see rural entrepreneurship is a potential element for employment, politicians see it is a key strategy to prevent rural unrest,

farmers see it as an instrument for improving farm earnings, women see it as an employment scope, independence and a reduced need for social support. To all these, entrepreneurship stands as a vehicle to improve the quality of life for individuals, families and communities to sustain a healthy economy and environment (T.Petrin, 1994)

Rural entrepreneurship is recognized as an important component to contribute to the country economy development (Ahmed et al., 2012). Entrepreneurship supports country economy growth through the knowledge and increased the competition of the entrepreneurs (Carree & Thurik, 2003). The rural development accepts entrepreneurship as the central force of economic and development but except for other factors of development is impossible. Therefore, the government of Malaysia is trying to develop rural entrepreneurship for a long time. But until today development of rural Malay entrepreneurship is in infancy stage. However, different authors revealed that Malay entrepreneurship is growing gradually, only technology-based entrepreneurship is lagging behind relatively with other ethnic groups in Malaysia (Paul et al, 2013). Rural herbal entrepreneurship in Malaysia has become another economic growth and it is potential industry in the Malaysian agriculture (Murray, 2011). Malaysian Third National Agriculture policy had identified herbal natural products industry as new and it has the potential in future and estimated current market value RM8 billion. In 2003, Abdul Aziz has mentioned that the key driving force for growth of the herbal industry in Malaysia are changes in life style on health and growing cost of the synthetic medicines.

The diversity of genetic resources, best climate, increasing research and development interest, demand for herbal natural products and indigenous knowledge put Malaysia as having a vast potential size in terms of herbal based market (Ibrahim, 2006 ; Jamai, 2006). However, until now, the herbal industry is facing numerous problems such as skill-manpower, raw materials shortage, limited cultivation activities, domestic grade without scientific value report, human capital, financial and social capital and technical knowledge-how etc (Hawa, 2011 ; Viduriati et al, 2012 ; Nordin et al, 2008). Besides these categories shortage, there are a lot of opportunities for new and old products development processing technologies which herbal entrepreneurs could venture into government authorized good manufacturing practice (GMP) holder entrepreneurs (Ismail and Sulaiman, 2007 ; Ellitan, 2002) and government authorized agents (such as Mardi and Firm). It is proved that there is a huge potential in herbal market but the involvement domestic market in Malaysia is very low and infancy stage.

A. Social Network and Its Importance

This study focuses on the social context of entrepreneurs where positions and activities in social networks influence the ability of entrepreneurs to acquire and use information will establish entrepreneurship (Aldrich and Zimmer, 1986). To establish an entrepreneurship need required capital, manpower and distribution channel. Most of rural entrepreneurs start their herbal business with idea and some capital. They may have only a vague cognizance of how to organize the establishment process and manage it. Therefore, contacts with other persons who may provide the necessary information to the entrepreneurs, are essential to complete establishment process. Entrepreneurs may not know how to develop an entrepreneurship when they conceive their business ideas. These types of ideas have to develop and prove socially against critical and resourceful persons who may give valuable advice and connect an entrepreneur to entrepreneurship connections offering crucial resources.

2. Methodology

This study was a preliminary qualitative case study approach conducting semi-structured in-depth individual face to face interview among ten rural Malay herbal entrepreneurs from five states, namely Selangor, Kelantan, Pahang, Malacca and Perlis. Rural entrepreneurship development is useful to use case study approach (Barkley,2006). This research includes the development of research design, data collection and analysis. For qualitative research, it is better to use multiple-case study design relatively to single. According to Henderson (2001), case-study multiple – approach is very popular for rural entrepreneurship development. That’s why qualitative research ensure that the analysis relied on all evidence and it is most significant for the case study (Yin,1994) and also provided rich and thick explanation from the respondent’s experience and perception on the backwardness of rural herbal entrepreneurs.

a. Sample selection

The primary goal of this research was to investigate the value of social network for herbal entrepreneurship development. For this research, researcher had selected ten rural herbal entrepreneurs those are running business from generation to generation in their rural area.

b. Data Collection

Case study research typically employs multiple data collection methods (Yin, 1994). Data for this research were collected through semi-structured in-depth individual face to face interviews, field note and observation. The open-ended interviews were used to collect the depth of data gathering and to increase the number of source information (Yin, 1994).The sample was made up of the rural Malay herbal entrepreneurs who responded the questions regarding social network which is related herbal entrepreneurship development and average interview time for each respondent was an hour to one and half hour. The aim was to get each respondent to answer regarding various subject matters; they will ask questions starting with entrepreneurs profile; entrepreneurial culture and mindsets as well as entrepreneurial support and governmental policies.

c. Data Analysis

The main issue of studies executed using case-based qualitative research is deciding prior to the start of data collection as well as how much data to collect. To help address this problem, several steps were taken before hand including development of a predefined framework and the outline for the case study reports. There is no standard format for within case study analysis and the process is typically accomplished through a detailed description for each case that provide basic for generating insights (Eisenhardt, 1989). For analysis of interview data was started with the coding process. The whole transcribed interviews were read in order to locate the relevant segments that corresponded with previous identified categories and to code them. Then the relevant segments of data with their respective coding inserted in brackets were retyped and made bold. Now, the difference and similarities between codes were properly checked and these codes were categorized as their similarities. In the next step, analysis was carried out looked how this coded concepts helped to get the answers of the questions posed.

3. Discussions, Conclusion and Recommendations

Based on the ten respondent’s data, all rural herbal entrepreneurs were identified factors to develop their entrepreneurship such as human capital, financial and social network, technical knowledge know-how. Research report shows, social network is very

important key point to development mainly rural entrepreneurship which is lagged in Malay communities compared to other ethnic groups in Malaysia. The networking of Chinese herbal entrepreneurs are very strong and help each other whenever they need too. On the other hand, Malays have very limited social network infrastructure among their family members, relatives, friends and other support groups. It is really at a critical stage for Malay rural herbal entrepreneurs to develop their entrepreneurship. This study showed the importance of social network for developing entrepreneurship and it highlighted the importance of pursuing a network perspective for future studies.

This research showed entrepreneurs the importance of social networks for development to entrepreneurship where entrepreneurs can use their relations for mobilizing complementary resources, getting support and help and developing viable business relations. Based on this research, entrepreneurs should have a large networks and use much time with their relations. So, it is very important to belong to a comparatively dense cluster, where the relationship contain trust and where alters have a variety of entrepreneurship related competencies and connections from the work. It is also important to have a number of weak relations that may connect the entrepreneur to other clusters to get non-redundant information. Bridges may also introduce entrepreneurs to other resource persons which may lead to establishment of new entrepreneurship relations.

In conclusion, this research integrated the causes for the failures of rural Malay herbal entrepreneurs to develop their entrepreneurship. The findings of this study showed that both internal and external factors contributed to the lack of development among rural Malay herbal entrepreneurs. The internal factors are negative attitude and mindsets, absence of entrepreneurial culture within their communities, lack of cooperation and networking and fear of failure. Finally, the external factors are lack of sustainability and competitiveness among Malay rural herbal business and present government strict herbal government policies.

The findings identified that the government of Malaysia has made plan to promote the rural Malay herbal entrepreneurs in development but majority of the entrepreneurs until today were unsuccessful. From the findings of this research, it is understood that the main reasons of development inadequate financial support, lack of social network, the new government rules for herbal manufacturer. In addition, from the research it was identified that if the rural Malay herbal entrepreneurs do not develop their psychological behavior and social network development as entrepreneurs, they will be lagging behind with other ethnic groups in Malaysia day by day of their business. Finally, the government needs to modify their current herbal policy to help directly rural herbal entrepreneurs based on their individual needs. If these steps were to be taken immediately then slowly will increase rural herbal entrepreneurs instead of reducing numbers every day and will progress swiftly.

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THE LESSONS FROM URBANIZATION OF CHINA

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Abstract

Urbanization is an important way to eliminate rural poverty and to narrow urban-rural income gap. In China, In 1958 China adopted a strict household registration management system. Since then, the flow of urban and rural residents was strictly limited, a fragmented duality society formed. In 1978, China implemented economic reforms, household registration system also gradually relaxed. Thus the urbanization process has begun. Over the past 20 years, in particular, the speed of urbanization accelerated significantly. We can see some important experiences and lessons from analysis of the process of urbanization. In order to promote economic growth, developing countries must implement the urbanization policy, and at the same time must properly solve the demand of public services caused by urbanization. Otherwise, it will produce complex new social problems. China's urbanization lesson shows that urbanization is not only an economic problem, but also a social problem. Such as fair treatment of social security between the new city residents and original residents, the housing and children's education of the new city residents, living care to rural left-behind children and the elderly, and so on, is a huge challenge for the government's ability providing public service.

Keywords: urbanization;rural population flow;government public service ability

1.Introduction

Urbanization is a process that people migrate to urban areas. In this process, population grow in urban areas and decrease in rural areas. Urbanization always causes a series variation. Generally, the growth of population in urban areas needs government offer more public service; while the population decrease in rural areas would reduce the burdens of public service ^[1]. This rule is not working in China, because urbanization and economic reform occurred in the same period. Before the economic reform, Chinese government manage population in urban and rural areas separately by family registration system. In family registration system, urban residents and rural residents can't migrate to the other area freely. Therefore, the public services for the two groups of people are different. Urban residents access to public services of education, medical care, public transit and food supply by the government with low cost or free. On the other hand, rural residents access to a few public services. While the economic reform was carried out, the unfairness of the government public service system was broken gradually. People put forward their own demands of equalization of public services. In this context, after urbanization was occurred in China, a large number of rural residents leave their hometown and move to the cities for better job. Their arrival increased the demand for public services in urban areas. The governments of cities must provide appropriate public services for the growing population to ensure that the existing level of public services of urban residents would not be reduced. As China's existing land system is associated with the rural household, the rural residents that migrate to the city do not give up their land management rights. Most rural migrations work in the cities just as labourer, the elderly and children are left in rural areas. These special population groups proposed their

requirements for the government's public service, especially in the pension, education, health care, living environment and other aspects.

In short, the development of urbanization and the scale growth of public services, quality improvement of public services are inseparable. In recent years, one of the important indicators of China's economic and social development is that the urbanization improved the rural residents' living standard significantly. However, it is need to be admitted that the process of urbanization in China has produced a series of social problems that cannot be avoided. Whether it is the mistakes of government decision-making, or reform programs are hard to adapt the needs of public services of China's huge population migration, the researches on measures according to these formed the social problems are important.

2. Trend of rural migration in urbanization and its structure

China is the most populous country in the world. By 2012, the total population of China mainland is 1.34 billion. By 2011, urbanization rate of China reached 51.2%, which is considered one of great events of China's population structure, because the indicator exceeded 50% for the first time. This indicator is determined by the resident population. China government manages population with family registration system, therefore, the rural migrations that live in urban areas are still considered as rural residents. Thus, the actual urbanization rate of China is about 37% [2]. In the Chinese government's future social development plan, the urbanization rate is expected to reach 70% in 2030 and stabilized at this level.

Generally, rural migrations can be separated into two groups.

The first group is formed by students; include college students and technical school students. For a long time, students are the main group of rural migration, which is because rural living standard is lower than urban area and jobs in urban areas need higher level of technology. Since College Entrance Examination was reopening in 1977, China's university education has transformed from elite education to mass education. Starting from 2000, the enrolment amount of university increased quickly. By 2004, enrolment rate of university reached 19%, 23.3% in 2008, and 27% in 2013. But only a few of the students come from rural areas go back to work in their hometown.

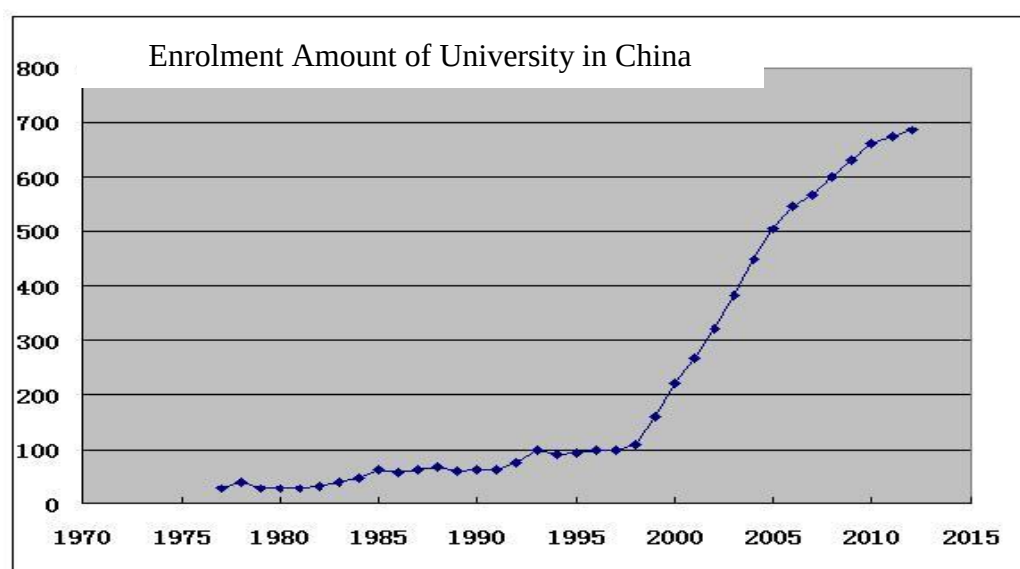


Figure 1: Change of enrolment amount of university in China

Source: published data of Ministry of Education of P. R. China.

The other group is formed mainly by rural labour force. This group is called migrant worker. For a long time, they are special workers in urban areas, because they work in the cities, but have no household registration. Migrant workers could not access to the public welfare for urban residents and workers, including medical care, children's education, housing and pension, which should be provided by the local governments that they came from. Therefore, a large part of migrant workers return to rural areas after working for a certain time. They float between rural and urban areas frequently. It is estimated by a sample survey that in 2011 China has 252.78 million migrant workers with a 10.55 million people increase over the previous year. The increase rate was 4.4%. In which, there were 158.63 million external migrant workers with a 5.28 million people increase over the previous year. The increase rate was 3.4%. The amount of local migrant workers was 94.15 million with a 5.27 million people increase over the previous year. The increase rate was 5.9%.

Table 1: Amount of Migrant workers(million)				
	2008	2009	2010	2011
Amount of Migrant Workers	225.42	229.78	242.23	252.78
1. External Migrant Workers	140.41	145.33	153.35	158.63
(1) Some family members are migrant workers	111.82	115.67	122.64	125.84
(2) The whole family are all migrant workers	28.59	29.66	30.71	32.79
2. Local Migrant Workers	85.01	84.45	88.88	94.15

Source: National Bureau of Statistics of China

3. Challenges of Public Service from Rural Migration

3.1 Difficulties of Retaining Population Living in Rural Areas

Family registration system is established in China to manage urban and rural population separately. Most of migrant workers work in urban areas alone or couples, only a few migrant workers take a long stick and get success in cities, then they move the whole family into the cities to live together. Thus, in many rural areas, a large number of elderly, women and children are left behind. China Agricultural University preceded a survey on rural left-behind people in 2010. The survey shows that there are 87 million left-behind people in China, including 20 million children, 20 million elderly and 47 million women. Left-behind women accounted for 54.2% of all [3].

The living condition of the rural left-behind people is facing a series of problems. The left-behind women are the main labour force in their families. They not only do the housework, but also bear the heavy agricultural work that used to be taken by men.

There was a questionnaire survey on the problem of left-behind women in Yushui District, Xinyu City, Jiangxi Province. The researchers sent 500 questionnaires and held forums to collect data. The result showed that more than 50% of the women left-behind took more than 6 hours on housework; more than 60% of them bear all the agricultural work; nearly 70% of them claim for sickness or poor health; 45.2% of them suffering from gynaecological diseases; 14.9% of the sick group have no money or time for healing; 14.7% of them have never had medical examination.

The main problem that the left-behind children are facing is family education and the lack of parental care. These children are often anxiety and tension. Usually, they present to not obey to the discipline of temporary guardian and teacher. Some migrant worker parents do not have time to stay with children. They feel sorry and always compensate with money. That made some left-behind children develops indolent, extravagant habits. Temporary guardian always focuses on fostering but not education. The responsibility of education is always left to school. Without the assist of family and society, it is difficult to achieve the purpose of education. In addition, it is difficult to guarantee the safety of some children left-behind, especially during holidays and weekend, because their parents are not around, children safety supervision is missing, combined with that some temporary guardians neglect their duties.

To the left-behind elderly, nursing and medical care is the most important problem. They are separated from their children and feel lonely; some of them even have to do the agricultural work themselves, cannot spend their remaining years in comfort.

3.2 The difference of public welfare is the obstacle of migrant worker

When planned economy was proceeding in China, residents in urban and rural areas were treated different. All urban residents need are dependent on public welfare and low price products that controlled by the government. Including housing, food, education, medical care, salary and pension, almost all people need in their lives can be supplied by the government. However, in that period, China's level of economic development was low, the supply level of public welfare was low, too [4]. People can eat their full, but cannot eat well, no one have bank deposits.

Even so, compare with rural residents' lives, urban residents' lives are still much better. Rural residents own lands, but there are 800 million rural population in China. Every rural resident owns only 1.1 thousand square meters land. At that time, rural management system used egalitarian distribution, which has disappointed rural residents. In this context, the rural economy has been repressed for a long time, labour productivity was low. China's level of economy development was low; government could not provide public welfare for rural residents. This kept rural areas into poverty for a long time.

Till now, the difference of economy and public welfare in rural and urban areas is still not issued effectively. For example, migrant workers children can study in the city that their parents work, but they have to go back to their hometown to take the college entrance examination if they do not have an urban household registration. Migrant workers provide their labour in the cities, create wealth for the cities and pay taxes to the cities, but they still not belong to the cities. They do not have legal status or fair treatment, which is contrary to fairness and justice.

3.3 Public services cannot meet the need in urban areas

Migrant workers population keep increasing in urban areas. Public services cannot meet the need, though migrant workers do not access to the public welfare as urban residents.

First of all, the living conditions of the migrant workers are poor. As a migrant workers concentrated city, Beijing's housing price is very high. In 2013, there are 100 cities, in which, the new housing price are higher than 10 thousand RMB per square meter. Including Beijing and Shanghai, in the top 10 cities in China, the new housing prices are nearly 20 thousand RMB per square meter. Migrant workers always choose to live in poor living condition districts that far away from downtown for a cheaper rent, and formed shabby settlement, which is not integrate with the cities. Even in Beijing and Shanghai, migrant worker's shabby settlements still can be found.

Next, the new generations of migrant workers need to integrate themselves into cities. One part of the new generations were born in the cities or came to the cities after their parents and another part of them, who were born in the 1990s, grew up in the rural areas and working in the cities. A report of 2010 showed that the new generation of migrant workers account for 73.8% of the total migrant workers. Data on the Report on China's Migrant Population Development 2013, issued by the China National Health and Family Planning Commission, shows that there are 236 million migrant populations meaning one in every six people is migrant people. The new generations of migrant workers are not like the elder generations who came to the cities in 1980s and 1990s. They have more desires on modern city lives and don't want to engage in agricultural works. They move to cities not only for higher earnings but also for higher standard of life and individual development. Moreover, the new generations are not willing to take simple and seasonal physical works, but they do not have their own advantage due to low education background, so most of them remain at the edge of the city population. They have low incomes, cannot afford the family, and don't have the chance to benefit from public welfares like social insurance, medical insurance, or low-cost housing either, which have become a great contrast with their expectation[5]. Numbers of social negative problems are emerged when the new generations of migrant workers cannot face the contrast squarely, and they even become the important parts for city criminal population. To solve the problems, the government must act positively from the perspective of public service.

Then, the extending of urbanization laid the government public investment in a heavy debt. There is a hot debate on the excessive local government debt issue among the Chinese scholars recently, and concerns also come from many international opinions. People worry that the huge debts may overwhelm the Chinese government due to the local government's inadequate ability of paying back debt. Although it seems that the proportion of the total debt on GDP of China is not very high and far below the average level of developed countries like America, EU and Japan, the phenomenon of over high debt still exist in some local governments. By the end of 2010, according to the report of China National Audit Office, the total debt of national local government was 10.7 trillion RMB, and the debt ratio of 78 municipal governments and 99 county level governments were higher than 100% which were over the internationally recognized safety standards. While the current data is not accurate, experts estimate that the total debts of local government may already reach to about 18 trillion RMB, and the highest debt ratio for the 10 large provincial capital cities is as high as 189%. IMF shows concerns on the potential debt crisis of Chinese government recently, and claims that the Chinese local government debts have accounted for 50% of GDP. The high increase speed of local government debts has close connection with the economic and social management system in China, and factors of urbanization also cannot be ignored. For example, in order to solve the increasing problems of traffic jam, not only megalopolises like Beijing and Shanghai have built the subway lines, but also many provincial capital cities and

non-provincial capital cities have invested a lot on subway construction. In 2012, the approved investment on urban subway construction was closed to 1 trillion RMB. The average cost of per km of subway line was 632 million RMB, and the most expensive subway line is subway line 7 of Shenzhen city as high as 842 million RMB for per km.

4. Conclusion

Urbanization is a necessary historical period for developing countries. However, how to reduce and control the social problems caused by urbanization is a severe test for government's public service ability. For now, what we can learn from the urbanization process of China are:

First of all, we should insist on the coordinated development of urban and rural economies. The core reason for urbanizing is to pursue the economic benefits. Too many rural people are fettered by lands, and the low labor productivity in rural area has significantly reduced the comparative economic interests of the rural population; while the urban people who are the minority have possess relatively high economic interests under the government policy of interest transportation. This kind of development mode is a negative and unsustainable mode that has resulted in a waste of abundant labour resources and a restriction of creating social wealth because the labour resources cannot transform to effective economic resources. Only keeping the coordinated development of urban and rural economies and letting the rural residents able to gain right economic interests from the lands, can keep the flow of the rural population on a rational level. As for the condition of the innate weak competitiveness of agriculture, government should increase the proportion of providing public goods and service for the rural residents [6]. Under the specific conditions of China, the resource reallocation between rural and urban area by the government is regarded as a feedback measure taken by developed cities to rural economic and rural interests.

Next, the government should keep guiding the urbanization process. The economic interests of rural population in China have been suppressed by planned economy too long, once the government releases its control in population migration, the urbanization process may become uncontrollable. Therefore, it's the government's responsibility of guiding the migration of rural population through introducing policies. First, the urban industrial development is a fundamental platform for the employment of rural migrant population, so the government should consider the development level of urban economy and its demand for rural working population. Otherwise, the unemployed rural migrant population will cause city management crisis. Second, the government should consider the mode of developing large cities, middle and small cities simultaneously. For the past decade, the net growth of permanent residents in Shanghai reached to 6.61 million, and increased 660 thousand people yearly. The fast population inflow led to a as high as 9,589 people per square km density of population in Shanghai, and this number is 16,828 people per square km in city central area, which surpassed Tokyo, London and other international large cities. Meanwhile, the over inflow of population has resulted in lots of difficult city management problems. Developing middle and small size cities will help declining the population pressures of large cities and preventing the over increase of city size, living cost, and the difficulty of managing cities. Under the traditional Chinese family culture, developing middle and small size cities will also benefit the rural migrant population so that they can work in the place close to their hometown and take care of the elderly and their children. To realize the coordinated development of large, middle and small cities, the government should

provide financial support for the middle and small cities, especially for the small towns, and guarantee middle and small cities' right of distributing financial resources.

Finally, it's important to effectively combine government with market means. In recent years, Chinese government is working on relative policies to ensure that migrant workers can integrate with urban society. Household registration deregulation is proceeding in small and medium sized cities to solve the problem that migrant worker parents live in separate places. Rural social pension and medical insurance were established. Government also pave roads in rural areas, provide agricultural subsidy, lead to found small and medium sized enterprises. All these above should be paid from finance. Urbanization is fast, which cause debt burden of finance increased. Therefore, government should promote the reform of economy and society. Let market lead the way, which government is hard to work. For example, rural land transfer, rural social pension system, rural resident job hunting problem and migrant worker housing problem, all of them can be issue by government and market working together.

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THE DEVELOPMENT HISTORY AND FUTURE DIRECTION OF THE CIRCULATION SERVICE SECTOR OF AGRICULTURAL PRODUCT IN CHINA

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Abstract

The paper introduces the classification of rural service sector in China. By analyzing the related policies and practices of the circulation service sector of agricultural product in China, the paper divides the development history into five stages: stage of free purchasing and marketing at low level, stage of state monopoly of the purchasing and marketing, stage of relaxing market control, stage of the beginning of circulation system, stage of establishment of circulation system. In summing up the experience of China and taking example by other countries' circulation pattern of agricultural product, the paper points out the suitable pattern, the future development direction of the circulation service sector of agricultural product in China.

Keywords: service sector; rural service sector; circulation service sector of agricultural product

1. Introduction

China is a large agricultural country. By the end of 2011, the rural population accounts for up to 48.7%, but the output of agricultural product was only about 17.1% of the gross domestic product (National Bureau of Statistics, 2012a) . It is obvious that the rural population and the rural output are not balanced. On the one hand, it shows that China's rural economic development lag behind, on the other hand, it shows that the growth of the rural economy has a huge space. To develop the rural service sector especially the circulation service sector of agricultural product (hereafter refereed to as CSSAP) is one of the important ways to improve this situation.

2. The concept and classification of rural service sector

The classification of the national economy industry is not just related to statistical approach, but also directly related to the national macroeconomic regulation and control, economy development, and policy making. Therefore, in order to analyze the concept and classification of rural service sector, the concept and classification of service sector must be clarified first.

The concept of service sector in China

In 1935, the British economist Allen Fisher, a professor at the University of Otago in New Zealand, first proposed the concept of the tertiary industry.

In 1957, the British economist Colin Clark developed the connotation of the concept of Fisher's tertiary industry. The structure of the national economy was clearly divided into three branches. The first branch mainly includes agriculture sector, and includes animal husbandry, etc. The second branch mainly includes manufacturing sector, mining sector, etc. The third branch is service sector, such as construction, transportation, communications, business, finance, professional and personal life

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service, government administrative, law service, the army service, and so on. Clark claims replacing directly the concept of Fisher's tertiary industry with service sector.

Since then, the theory of tertiary industry was further improved and perfect along with the development of practice. There is a group of economists who have given different classification on national economy, however, eventually Fisher and Clark' classification method is admitted by most people.

On April 5, 1985, the National Bureau of Statistics of China made the classification of the three industries divisions of the national economy. The first industry refers to agriculture (including forestry, animal husbandry, and fishery, etc.). The secondary industry refers to industry (including mining, manufacturing, water supply, electric power, gas, steam, hot water) and construction. The tertiary industry refers to other industries except for the first and secondary industry (General Office of the State Council, 1985).

On December 17, 2012, the National Bureau of Statistics of China published the standard 'the Rules of the three Divisions of Industry'. The first industry refers to agriculture, forestry, animal husbandry, and fishery (excluding service sector in these industries). The secondary industry refers to the mining industry (excluding mining auxiliary activities), manufacturing (excluding metal products, repairing sector of machinery and equipment), electric power, heating, gas, water production and supply industry, construction industry. The tertiary industry refers to service sector, including all other industries except for the first and secondary industry. This was the first time in China that the tertiary industry was explicitly stipulated as service sector (National Bureau of Statistics, 2012b).

Classification of service sector in China

In 1975, the American economist, Browning and Singelmann divided the service sector into consumer service sector, producer service sector, and distribution service sector.

In 1978, based on the three way divisions in 1975, Singelmann divided the service sector into four kinds of classification according to the nature, characteristics, and functions of service: circulation service sector, producer service sector, social service sector and personal service sector. Later, western scholars combined Browning and Singelmann's classification method, put forward the quartering divisions: the producer service sector, distribution service sector, consumer service sector, and social service sector (Fang & Bi, 2008).

In 1991, the World Trade Organization divided the trading service sector into 12 sectors and 144 sub-sectors (World Trade Organization, 1991).

On December 17, 2012, the National Bureau of Statistics of China divided the service sector into 18 sectors and 49 sub-sectors (National Bureau of Statistics, 2012b).

Concept of rural service sector in China

Rural service sectors cover a wide range. There is not a unified definition. It is generally believed that the rural service sector is a collection of departments and enterprises which produce and sell products in rural areas in order to serve the development of economy and society (Du & Liu, 2010).

Classification of rural service sector in China

On December 1, 2012, the State Council of China issued 'the 12th Five-year Development Planning of Service Sector' (hereafter refereed to as Planning). In Chapter 3 'Important part of service sector development' of the Planning, there is one complete

section–‘Section 3: Enhance the level of rural service sector’ –to emphasize the importance of the rural service sector for the development of whole service sector in China (the State Council, 2012).

The Planning divided the rural service sector into producer service sector and consumer service sector. It merges the distribution service sector and social service sector into producer and consumer service sector. The logic of this kind of classification is not clear, so this paper uses quartering divisions to classify the rural service sector in China. Refer table 1 Quartering divisions list of rural service sector in China.

Table 1 show that rural service sector cover a wide range, it involve all aspects of rural area development.

Table 1 Quartering divisions list of rural service sector in China

Sectors	sub-sectors	
Rural producer service sector	1	Agricultural science and technology service sector
	2	Rural financial service sector
	3	Agricultural information service sector
	4	Rural intermediary service sector
	5	Quality inspection service sector of agricultural product
Rural distribution service sector	6	Circulation service sector of agricultural production means
	7	Circulation service sector of agricultural product (CSSAP)
	8	Circulation service sector of rural consumer product
Rural consumer service sector	9	Accommodation and restaurant service sector
	10	Farmer household and repairing service sector
	11	Rural leisure and tourism service sector
	12	Rural passenger transport service sector
Rural social service sector	13	Circulation service sector of rural land
	14	Service sector of farmer employment and entrepreneurship
	15	Rural education service sector

	1 6	Rural medical and health service sector
	1 7	Rural culture, sports and entertainment service sector
	1 8	Rural communal facilities service sector
	1 9	Rural environment management service sector

Amongst the 19 sub-sectors, CSSAP is very important to the development of rural area. Developing CSSAP is significant to guide farmers' production, increase farmers' income, improve residents' life, perfect market regulation, and promote the development of other rural service sectors. Therefore this paper only discusses CSSAP which belongs to the rural distribution service sector.

3. The development history of CSSAP in China

CSSAP experienced a winding development history during the last more than 60 years since 1949 when the People's Republic of China was founded. The development history can be roughly divided into five stages (Zeng, Sheng, Jiang & Zhu, 2011).

Stage of free purchasing and marketing of agricultural product at low level (1949-1953)

In the early years of the new nation, private business was the main circulation channel of agricultural product. Price of agricultural product was mainly regulated by the market. By 1953, the state-run commercial system was preliminary established, and gradually become the main circulation channel of agricultural product.

Stage of state monopoly of the purchasing and marketing of agricultural product (1954-1980)

Along with the stability of social life, urban population increased rapidly. The demand for agricultural product increased rapidly correspondingly that highlighted the contradiction between supply and demand. In order to ensure the supply, the government successively issued a series of state monopoly policies of purchasing and marketing.

In October 1953, the government issued the state monopoly policy for purchasing and marketing for grain.

In September 1954, the government issued the state monopoly policy for purchasing and marketing for cotton.

In 1955, the government issued the policy of sending the purchase contract of live pig by the state.

In 1961, the government clearly divided the agricultural product into 3 groups, and put forward three kinds of purchase policy: The first group includes grain, cotton, and edible oil which adopt the state monopoly policy for purchasing and marketing. The second group includes other important agricultural product which adopts the policy of

sending the purchase contract by the state. The third group includes other agricultural product except for first and second group whose prices can be negotiated by the state business and producer (CCCPC Party Literature Research Office, 1992).

From 1979 to 1980, the government limited anew the range and quantity of planned purchase by the state. The grain, cotton, edible oil, and timber belong to the group of state monopoly of purchasing and marketing. 127 kinds of agricultural product including flue-cured tobacco and tea belong to the group of sending the purchase contract by the state (Guan, 2001).

In 1980, the prices of 91.8% agricultural product were controlled by the government, the price of only 8.2% agricultural product were regulated by the market (Editorial Department of China's Price Yearbook, 1980-2010).

The state monopoly policy of purchasing and marketing, which canceled the free market, did work for stabilizing the grain price and ensuring supply in the early years, but later the policy became so rigid that it seriously hindered the development of agricultural economy.

Stage of relaxing market control (1981-1991)

With the deepening of reform and opening policy, the circulation system of agricultural product began to break through the past planned economy system. The state monopoly policy of purchasing and marketing was cancelled gradually. As the object of circulation of agricultural product market—the agricultural product itself – was free from the shackles of planned economy.

In 1984, the agricultural product was harvested. The difficulty of selling grain and cotton appeared in some areas in China. So the government put forward a policy of reforming the state monopoly of purchasing and marketing in 1985. By 1991, most agricultural product can be free purchasing and marketing. The price of 81.8% agricultural product was regulated by the market (Editorial Department of China's Price Yearbook, 1980-2010).

As the important carrier of CSSAP, the wholesale market of agricultural product developed very fast during this stage. According to the statistics of the State Administration for Industry & Commerce, from 1986 to 1991, the number of the wholesale market of agricultural product increased from 892 to 1509, the growth rate reached 69.2% (Min, Chen, An & Li, 2011).

Stage of the beginning of circulation system (1992-2000)

In 1992, the state explicitly put forward the most important decision—to establish a socialist market economic system which created foundation of institution and policy for the development of CSSAP.

After 1992, on the one hand, along with the income and consumption levels of urban resident increased significantly, their demand for agricultural product increased greatly. On the other hand, along with the deepening of rural reform, a number of large-scale, specialized, regional agricultural production base begun to emerge. This stimulated the rapid development of city destination wholesale market and rural origin wholesale market. A network of trans-regional, large area, and multi type agricultural product wholesale markets emerged gradually. Since then wholesale market of agricultural product has become a hub of circulation of agricultural product in China.

According to the statistics of the State Administration for Industry & Commerce, by 2000, the number of the wholesale market of agricultural product reached 4387, the annual growth rate reached 14.2% (Min, Chen, An & Li, 2011).

Stage of establishment of circulation system (2001-2010)

Since 2001, leading by the State Council, Ministry of Agriculture, Ministry of Commerce and other departments, the government has done much fruitful work on CSSAP, especially made a great progress in the aspects of cultivating market subjects and establishing the market network.

3.5.1 Cultivating market subjects

China is a country with a large population and little arable land. Agricultural production has long been a small-scale, family production. The scale of the market subjects of agricultural production is small, the number is large, and the operation is decentralized. This resulted in the connection contradiction between small scale, family production and large market.

To address this situation, in November 2000, the Ministry of Agriculture held its first national session of the agricultural industrialization. Since then, the government successively issued a series of policies to support the development of agricultural industrialization. Amongst the two most important policies are cultivating, recognizing the agricultural industrialization leading enterprises and supporting the development of Farmers' Cooperatives (Han, 2012).

From 2001, the Ministry of Agriculture and other government departments begun recognize the agricultural industrialization leading enterprises. By March 2012, the government has cultivated and recognized 1253 state-level agricultural industrialization leading enterprises, more than 10000 province-level agricultural industrialization leading enterprises, and 100000 small-medium agricultural industrialization leading enterprises. The products from the agricultural industrialization leading enterprises cover planting industry, animal husbandry, and aquaculture. Business involves production, process, and circulation link (Chen, 2012).

In 2000, the first Farmers' Cooperatives registered in the industrial and commercial bureau was born in Zhejiang province, whose name was Wenling Shiqiaotou Vegetable Farmers' Cooperatives. Farmers' Cooperatives Law of P. R. China was issued on October 31, 2006, and put into implementation on July 1, 2007. By March 2012, the number of registered Farmers' Cooperatives reached 552300, the peasant household who joined the Farmers' Cooperatives reached 43000000, which was about 17.2% of the total number of the national peasant household (Sun, Ning, Cheng, Jiang, Hu & Mai, 2012).

Agricultural industrialization leading enterprises and Farmers' Cooperatives implement standardized and specialized production, carry out large scale and branding operation, thus the organizational degree of market subject was improved, and the farmers' income was increased.

After years of agricultural industrialization practice, at present the government has formed the following consensus on the definition and status of agricultural industrialization.

Agricultural industrialization is an organization pattern of integrating production, process and circulation of agricultural product, which was drove by the leading enterprises and Farmers' Cooperatives based on the market orientation and family operation (Chen, 2012).

Agricultural industrialization is an important achievement of China's rural reform. It is another significant innovation of agriculture management system after the family contracting operating system (Han, 2012).

3.5.2 Arranging the network of CSSAP

Since 2001, the government have invested a lot of money and done a lot of work on the construction of retail terminals and wholesale markets of agricultural product.

First is in the field of construction of wholesale market of agricultural product.

As early as 1995, in order to consummate the circulation channel of CSSAP, the Ministry of Agriculture established a liaison and support system for some certified wholesale markets of agricultural product. Throughout the country, the Ministry of Agriculture selected a number of wholesale markets of agricultural product which have large scale, better facilities, and better management to support as certified market. By the end of 2010, the number of certified market reached 776 which have become the significant support of CSSAP (Zhang, 2011).

In 2006, the Ministry of Commerce began to organize the implementation of 'Double Hundred Markets Project' which supports 100 wholesale markets and circulation enterprises of agricultural product every year. As of October 2010, 'Double Hundred Markets Project' has arranged the central fiscal capital of RMB 1.5 billion to support 936 markets and the enterprises (Chang, 2010).

According to the statistics of the State Administration for Industry & Commerce, since 2001, the number of wholesale market stabilizes between 4100 and 4300, but the transaction volume of single market increased considerably (Min, Chen, An & Li, 2011).

Second is in the field of construction of retail terminals.

Since 2005, in order to establish a new type of rural market circulation network, improve the rural consumption environment, the Ministry of Commerce launched 'Pilot Project of Thousands of Villages and Townships Markets'. From 2005 to 2010, the central government invested RMB 4.3 billion to this pilot project. By the end of 2010, the project had built 520000 chain countryside shops which covered 85% of towns and 65% villages (Jiang, 2011).

Third is in the field of shortening the channel chain.

With the rapid development of large chain supermarkets and Farmers' Cooperatives, some area in China has met the requirements of direct selling of fresh agricultural product from field to supermarket. In 2008, Ministry of Agriculture and Ministry of Commerce jointly undertook 'Pilot Project of Direct Links between Farmers and Supermarkets'. The project selected some large scale chain supermarkets and Farmers' Cooperatives, and built direct links between them (Ministry of Commerce, 2008).

By the end of 2011, the number of supermarket chain retail enterprises which undertook the direct link project was over 800, which covered all the supermarket chain retail enterprises whose turnover was over RMB 20 million. The number of Farmers' Cooperatives which joined the direct link project was over 15000. By the direct link between supermarkets and farmers, the circulation links was reduced by 2-3, the circulation cost was reduced by an average of 10-20%, the retailing price was reduced by 10-20%, and some fresh agricultural product can be transported to the supermarket from farm field within 24 hours (Jiang, 2012).

After decades of efforts, the circulation system of agricultural product was basically established. However, compared with the developed countries, the overall level of the CSSAP in China is still underdeveloped. The traditional and extensive circulation pattern

has not been changed. The main shortcomings include: Infrastructure construction lagged behind, and circulation loss was high; There are too many circulation links, and the circulation pattern needs to be further optimized; The business scale is too small, and the degree of organization is too low; The regional development is unbalanced, and the market layout is unreasonable; The standardization degree of agricultural product is low, and technology innovation and application ability is very weak (Chang, 2010).

4. The choice of circulation pattern and future direction of CSSAP in China

In view of the problems existing in the development of CSSAP in China, summing up the experience of the decades, drawing lessons from foreign experience in agricultural product circulation, deciding the suitable circulation pattern, pointing out the future direction of CSSAP, all these are important works of the Chinese government.

Foreign circulation pattern of agricultural product.

Around the world, there are different circulation patterns of agricultural product due to different national conditions. The following examples include East-Asia Pattern, European-Union Pattern, and the United-States Pattern.

4.1.1. East-Asia Pattern

The characteristics of the countries of East Asia are with a large population and little arable land. The small-scale family pattern dominates the agricultural production. In Japan, South Korea, for example, in the circulation system of agricultural product, wholesale market dominates the system. The government pays high attention to support the development of the construction of agricultural wholesale market, and stresses the public welfare nature of the agricultural wholesale market. The construction of Japan's central wholesale market and local wholesale market are invested by the central and local fiscal funds. In South Korea, the funds invested by the government into the construction of agricultural wholesale market accounts for 70% of the total amount of the funds required for the construction. Farmer cooperative organization is an important bridge and link between farmers and the wholesale market of agricultural product.

The East-Asia Pattern can be summarized as: wholesale market auction pattern based on the small scale farmer and farmer cooperative organizations.

4.1.2. European-Union Pattern

France, Italy, Holland, Germany, and other European countries have the wholesale market of agricultural product. Most of the large wholesale markets of agricultural product adhere to the principle of public welfare. At the same time, the European Union supermarket retail chain operation was very developed. Many supermarket chain enterprises establish the unified purchase channels and distribution centres, which realize the direct transaction between farmers' organization and supermarket.

The European-Union Pattern can be summarized as: wholesale market transactions pattern and direct transactions pattern simultaneously based on the medium-sized farms and farmers' cooperatives.

4.1.3. United-States Pattern

On the one hand, the scale of the United-States' family farm is large. The average area of one family farm is about 200 hectares. The family farm implements mechanization operating, socialized service, and enterprise-oriented operation. On the other hand, the scale of supermarket chains is so large that stable supply, delivery in time, and quality assurance of agriculture are needed. So the direct transactions developed very fast.

The United-States Pattern can be summarized as: direct transactions pattern based on large farm and supermarket chain.

The choice of circulation pattern of agricultural product in China.

The national conditions of China are close to the East Asian countries: On the one hand, the fact of large population and less arable land results the small-scale but large number producers of agricultural product. The operation of the producers is scattered. The Farmers' Cooperatives are at the early stage. The number of agricultural industrialization leading enterprises is not big enough. On the other hand, the scale of supermarket for agriculture product is not large enough, and the number is not big enough. The conditions are not ready for direct transactions between farmers and supermarket across the country. As the hub of CSSAP, the wholesale market of agricultural product will exist for a long time.

So the circulation pattern of agricultural product in China can be summarized as: wholesale market hub pattern based on the small scale farmer and farmer cooperative organizations.

The future direction and main targets of CSSAP in China.

In December 2011, on the basis of the experiences and lessons of decades, the State Council and the Ministry of Commerce issued directional and guiding documents for the development of CSSAP. The documents point out the future direction and main targets of CSSAP.

The future direction of CSSAP: Direct transactions pattern based on Farmers' Cooperatives, leading enterprises and supermarket chain (Ministry of Commerce, 2012).

The main targets of CSSAP: Focus on strengthening the connections between producers and sellers. Reinforce the infrastructure construction of CSSAP. Innovate on the circulation pattern of agricultural product. Enhance the organizational degree of circulation. Improve the circulation chain and market layout. Further simplify the circulation links. Reduce circulation cost. Establish and improve efficient, open, safe, and orderly circulation system. Ensure market supply and stable price for agricultural product (the State Council, 2011).

5. One enterprise case

Shenzhen Agricultural Product Co., Ltd., (hereafter referred as SZAP) which focuses on the business of the investment, development, construction, operation and management of wholesale market of agricultural product, is one of the largest chain management enterprises and the first public company (Shenzhen Stock Exchange, 000061) in CSSAP in China. Since the foundation of SZAP in 1989, SZAP has invested in 21 cities successively to establish more than 32 integrated large-scale wholesale markets of agricultural product and the on-line trading markets of the staple agricultural product. It has built a nationwide platform of agricultural product exchange, logistics and comprehensive services initially and has become No. 1 brand in the field of wholesale markets of agricultural product.

The development course of SZAP can be divided into five periods, which to some extent reflects the development history and future direction of CSSAP in China (SZAP, 2013).

The Start-up Period (1989-1992).

In January 1989, the company found as the name of “Shenzhen agricultural product wholesale company”. In October 1989, the first subordinate enterprises-Shenzhen Buji Central Wholesale Market for Agricultural Product- was built and put into operation. This opened up a well-known ‘Buji Pattern’ – ‘enterprises build markets and markets are run like enterprises’ which has far-reaching impact on the development of CSSAP.

Building the foundation period (1993 - 1997).

In May 1993, the company completed shareholding system reform and changed its name into ‘Shenzhen Agricultural Products Co., Ltd.’ In January 1997, the company’s stocks traded in Shenzhen Stock Exchange and become the first listed company in CSSAP in China. The connection with capital market laid the foundation for future’s sustainable development. In June 1997, the second market – ‘Shenzhen Futian Wholesale Market of Agricultural Product’ found and opened.

Rapid expansion period (1998-2004).

SZAP implemented vertical integration strategy-extending its business to the field of agriculture production and retail terminals. In 1999, the company stepped the first step of outside expansion—invested and controlled Nanchang (Shenzhen) Center Wholesale Market of Agricultural Product. In 2003, the company invested and controlled Guangxi Sugar-Net- Wholesale Market for Sugar, began to enter the field of e-commerce of staple agricultural product. By the end of 2004, the number of wholesale markets reached 13, which distributed in 9 provinces.

Returning to core business period (2005-2007).

From 2005, SZAP begun to return to core business- the wholesale market of agricultural product. By the end of 2007, the number of wholesale markets reached 20, amongst 3 e-commerce markets of agricultural product. The way of development changed into the quality’s improvement from the quantities’ expansion.

Enhancing the network value period (2008-today).

Since 2008, SZAP implemented the strategy of ‘enhancing the network value’. While continuing to expand the distribution of the wholesale market, the company attached great importance to co-ordinate the wholesale markets’ operation and management. SZAP pushed forward the following works, such as market planning, construction, management, services, the standardization and normalization of food safety, and so on. Strive to give full play to the synergistic effect of wholesale market network system. Enhance the overall influence and profitability of SZAP.

In 2012, the annual transactions amount of all SZAP wholesale markets was over 24 million tons, and annual transactions turnover was over RMB 140 billion which is about 10% of the total turnover of all the scale wholesale market of agricultural product in China.

6. Conclusion

On Nov 8, 2012, the Eighteenth National Congress of the Communist Party of China held in Beijing. The Congress put forward the nation developing strategy— ‘promoting harmonized development of industrialization, IT application, urbanization and agricultural modernization’ (Hu, 2012). Compared with the rapid development of industrialization, IT application, and urbanization, the development of agricultural modernization lags behind. Developing the rural service sector including CSSAP will have positive effect for the development of agricultural modernization.

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Malaysia Banking Goes Rural

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Abstract

This paper aims to look on the importance of efficiency study on rural banking in Malaysia. Malaysia's newest financial reforms involve spreading the banking system further through rural areas. Many believe that this will further the country's Islamic banking industry as the majority of the population in these regions is Muslim, but others are concerned that not enough profit is to be found. Malaysia Central bank governor has announced new banking guidelines that extend a program allowing banks to offer services through non-bank outlets, thereby expanding their reach to rural areas.

Keywords: Rural banking, financial reforms, Islamic banking

1. Introduction: Bank Negara Malaysia Financial Reforms

In October 2012, Bank Negara Malaysia (BNM) has introduced a framework for agent banking, which will allow banks to offer banking services through nonbank retail outlets. The introduction of the new guidelines was believed to help develop rural areas depositors and provides needed services to rural community. The aim is to encourage the involvement of Islamic banks as the percentage of Muslim in rural areas is higher than in the major areas. The banking agents will provide the basic banking services of accepting deposits and facilitating withdrawals together with fund transfers, bill payments and financing repayments. According to the pilot scheme by BNM in 2010 with conjunction with three financial institutions, more than one million transactions worth more than RM190million were conducted through 2,322 agents. The guidelines issued by BNM outline the requirements to be observed by financial institutions in the areas of governance and oversight, management of agents, customer protection, awareness and education. All authorised banking agents will have to display a national agent banking logo together with the logo of the financial institution

According to BNM, the agent banking initiative has already produced promising results. Three financial institutions, namely Malayan Banking Berhad (MBB), RHB Bank Berhad (RHB) and Bank Simpanan Nasional (BSN) have a combined agent network of 4,120 agents as at end-December 2012, which includes post offices, petrol stations, retail outlets and telecommunication agents (Figure 1). Bank Simpanan Nasional (BSN) has announced plans to further expand their agent banking network to 5,000 agents in rural areas nationwide by 2014. Since its implementation in 2012, a geographical mapping exercise by the Bank found that 75% out of 837 mukims (sub-districts) with a population of more than 2,000 have at least one financial access point, a significant increase from only 46% in 2011. This is expected to increase further to 90% by the end of 2014. The total number of transactions conducted through agent banks since the introduction of agent banking has exceeded three million, with a total value of more than RM446 million. Compared with branches, financial institutions reported that agent banking channels delivered cost savings in terms of set-up costs of more than 80%, while agents have also benefitted from the increased customer flow to their business premises (Financial Stability And Payment Systems Report 2012, Pp,73) .

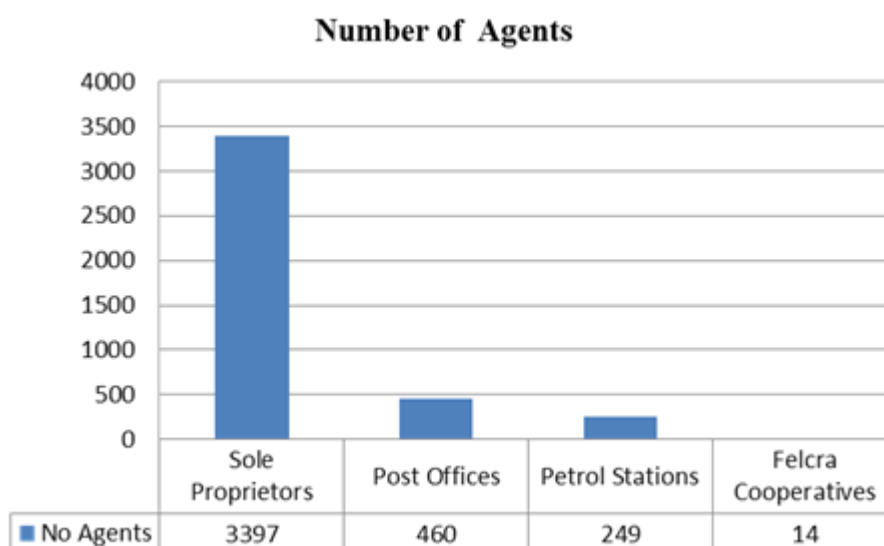


Fig. 1: Number of Agents

The main concern seems to be around profitability due to the relative poverty of many rural areas. To some extent the success of the scheme will depend on how well banks can control the costs of running an agent network.

2. The Study on Rural Banks

According to BNM, at present no data is available on how many transactions were sharia-compliant. With only feedback given through the pilot scheme in 2010, the development of agents banking is appear healthy. This is proven when RHB's Islamic business has been growing at an average rate of 20 per cent compared to eight per cent for its conventional business. Since June 2012, Malaysia's Islamic banks collectively held 19 per cent of the country's banking assets and with greater proportion of Muslims is in rural than urban centre, the potential to increase in the future is very promising.

With lack of data to further acknowledge the importance of rural banking in Malaysia, may slow the expansion of BNM program in providing greater services to rural areas. Research on agents banking which involved rural areas is desperately importance since this will allow channelling information to spur and support financial reforms in Malaysia especially in the growth of the country's Islamic banks. Thus, the findings would be useful for the banking and other relevant authorities in promoting specific regulations and policies that may contribute towards the expansion of rural banking in rural areas in Malaysia.

Over the past decades, there have been numerous discussion and research on Malaysia banking development. However, Thambiah et. al (2011) is the only paper that found to have look into rural banking in Malaysia with concentration on Islamic Banking. This study analyzes the difference in the awareness, perception, and preferences on Islamic retail banking (IRB) between the urban and rural banking customers of Malaysia. The finding has brought some interesting results that may be further recommended for future studies. Three important findings are lack of awareness on IRB between the urban and rural banking customers;

perception of urban banking customers on IRB, in comparison with rural customers also seemed to vary, about perceived complexity, uncertainty, and observability.

None has been discussed on the efficiency and profitability which among the issues that BNM point out with regards to the introduction of new guidelines for further develop the rural banking in Malaysia. Compared to other Asian country such as Indonesia, China and India, the development of rural banking are still lacking in Malaysia. With the new guidelines by BNM, these are confidences for further development in agent banking in the rural areas.

This paper will fill a gap or lead to greater understanding in the importance of rural banking and the needs for efficiency in implementation which give greater impact on the profitability. The profitability is intended to measure the working efficiency of the business. Improved efficiency in provision of services would mean lower cost and financially sustainable operations and adequate return has been earned in accordance with the expectations of the bank on the capital invested.

3. Analysis Description

The efficiency and profitability is the most important indicator of financial performance. The level of efficiency, productivity, and cost effectiveness is reflected through the bank's profit which can be considered as a composite index of the bank's performance in its various areas of operation. Therefore, banks particularly to implement the BNM program at the present juncture have to ensure equilibrium between agent banking and profitability and earned reasonable return to defend their survival. Hence, the present propose study is to examine the efficiency and profitability performance of rural banking in the context of their performance in Malaysia as a whole.

4. Methodology

To make this study successful, data will be based on both primary and secondary sources. Basically, the secondary sources included financial statements of current agent banks and BNM as well as other printed documents of the bank. However, the electronic and print media also served as an important source of retrieving data for this exercise.

5. Expected Outcome

The new guidelines on rural banking by BNM are expected to encourage and assist in the establishment of banks in order to meet the credit needs of the community. The analysis is expected to show that the policy of BNM to reform the banks structure has a positive efficiency results and the study will recommends its continuance.

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Willingness to Pay for Crop Insurance Scheme among Paddy Farmers in Kedah Malaysia

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Abstract

This study examines the farmers' willingness to pay (WTP) in contributing to the Crop Insurance Scheme (CIS) specifically among the paddy farmers in Kedah. The CIS reduces the risk that farmers face in the event of natural disaster such as flooding or crop failure causes from pest attack and crop diseases. In this study, we focus on three selected districts in Kedah. A total of 139 respondents were randomly selected from these areas. The CIS is based on a hypothetical product which contain of three main attributes; (1) type of coverage, (2) sum assured/benefit, (3) and premium payment or the price. Data are obtained by applying Choice Experiment (CE) technique and analyzed with the multinomial logit model (MNL). Two models are presented in this paper namely the basic model and the interaction model. The study shows, among others, that marginal willingness to pay to obtain protection from crop failure amongst the attributes ranges between RM33.69 to RM128.63 per year for the basic model. On the other hand the marginal willingness to pay for the interaction model ranges between RM19.42 to RM73.32.

Keywords: willingness to pay; crop insurance scheme; multinomial logit; paddy farmers; choice experiment technique

1. Background

During the 2013 National Budget presentation, the prime minister who is also the finance minister announced the introduction of Crop Insurance Scheme (CIS) for paddy plantation. The general guideline of the scheme is to provide coverage up to maximum of RM13,000.00 per hectare for small scale farmers who own less than 10 hectares of paddy field. The intention of this scheme is to provide a better help to lighten the burden face by the small scale farmers as compared to the current practice of giving direct aid by the government in the event of crop failure. Prior to the CIS, farmers were given direct aid in term of cash in the event of crop failure ranging between RM500.00 to the maximum of RM800.00 per hectare, depending of the stage of the crops. Obviously, the direct aid is too low to the farmers and become a constant burden to the government who need to fork out quite a large portion of the budget allocated to the agriculture sector. The introduction of CIS is more benefiting to the farmers. However, it will need certain amount of contribution to the insurance market system. There will be a consortium of insurance providers who will offer such policy on the basis of risk sharing and risk pooling concepts.

In terms of crop failure, flood and storm are among the natural disasters, damaging plantation and properties and affecting economic activities. The flood will submerge the paddy plantation and spoil the crops. The occurrence of storm during the rainy season is also a threat. The paddy plants will fall off or break before it reaches maturity and ready to be harvested. Based on statistics published by the *Majlis Keselamatan Negara* (National Security Council), for the period of 2005-2007, the number of flood victims in Malaysia is between 26,000 to 39,000 families (or between 100,000 and 148,000 people). In terms of damage to properties owned by individuals and the government was estimated reaching to RM1 billion. To emphasize the magnitude, the December 2007 flood, the cost of damage suffered by the flood victims was about RM38 million while the properties damage incurred by the government was about RM813 million. In terms of economic activity, the damage in the agricultural sector was about RM56 million and claimed 33 lives.

Another threat to the paddy plantation is the attack from pest such as snails, grasshoppers, rice bug and crop diseases either bacterial or fungal base disease.

Although CIS was announced during the budget presentation, details of how it will operate remain unclear both to the farmers and the insurance providers. One thing for sure, in the early stage, the government will not ask the farmers to pay anything for the premium. It will be paid from allocated budget to the agriculture sector. Thus this study tries to discover to what extent the farmers do willing to pay for CIS should it is offered in the market. By knowing the farmers' WTP, it will help policy makers to estimate and allocate the fund for such scheme to be implemented.

In general, this study aims to evaluate the perception of farmers on the proposed implementation of the CIS. To achieve the general objective, the specific objectives are:

1. To determine the attributes for a proposed CIS
2. To determine the degree of importance among the attribute concerns
3. To measure the WTP for the CIS among farmers in the affected areas.

In achieving our objectives, the study employs the economics valuation technique specifically the Choice Experiments (CE).

2. Choice Experiments

CE is a technique where respondents are required to choose the most preferred alternative from a series of alternatives presented to them (Bateman et al., 2002). These alternatives refer to various hypothetical scenarios that portray the CIS under study. These alternatives usually consist of possible combinations of various attributes and in order to portray a wide range of scenarios, different levels of attributes are employed. An underpinning theory in CEs explains that the utility derived by consumer in using any good can be derived from the characteristics or attributes of the good (Lancaster, 1966).

The analysis of CEs data traditionally uses the multinomial logit (MNL) model (McFadden, 1974). MNL is the most frequently applied model for parameter estimation in CEs (Adamowicz, Swait, Boxall, Louviere, & Williams, 1997; Boxall & Adamowicz, 2002;

Hanley, Mourato, & Wright, 2001). The popularity of the model is because it is easy to be estimated compared to other models such as the multinomial probit (Train, 2003).

In this model, an individual faces a choice among J alternative CIS in a choice set. The utility that consumer n derives from choosing a CIS can be expressed as:

$$U_n = V_n + e_n \quad (1)$$

Assuming an individual choice is based on the random utility model (RUM) framework, the indirect utility function of U_n can be decomposed into two components, V_n the part that is a function of factors observed by analysts which is known as deterministic element, and e_n the stochastic component (Hanley, et al., 2001). The MNL model assumes that individuals have homogenous taste preferences (i.e. where individuals have identical yardsticks when choosing alternatives in the choice cards).

However, the assumption is not always the case in the real world because population consists of different types of individuals, with different characteristics and tastes (or preferences). Taste heterogeneity can be classified into two parts: systematic heterogeneity and random (or stochastic) heterogeneity (Bhat, 1997). Systematic heterogeneity explains variation that happens due to observable individual characteristics. On the other hand, random heterogeneity accommodates the variations due to unobservable individual characteristics.

Systematic heterogeneity can be accommodated in MNL through an interaction between socio-demographic characteristics, and constant terms and/or attribute(s) of the alternatives (Adamowicz, et al., 1997; Blamey, Bennett, Louviere, Morrison, & Rolfe, 2000). The socio-demographic characteristics have to be interacted with constant terms and/or attribute(s) because they do not vary across alternatives. This model is known as MNL with interactions.

Table 1: Attributes and Level for CIS

Attribute	Level	Expected Coefficient Sign
Type of Coverage (COV)	Flood (SQ) flood and plant fell off flood, plant fell off and crop diseases	+
Sum Assured/Benefit (SUM)	RM800.00 (occasional government aid) (SQ) RM3700.00 RM4600.00 RM5500.00	+
Premium Payment (PREM)	RM0.00 (SQ) RM10.00 RM15.00 RM25.00	-

In this study, several attributes in relation to CIS were elicited from several discussions with the insurance market players and farmers as presented in table 1. Although the specific scheme still does not exist, the hypothetical scheme should at least include these attributes since these are the basic attributes that are usually being considered by consumers when deciding to purchase a policy.

3. Crop Insurance Scheme – The Models

The study involves two stages, namely a survey to elicit responses using the choice sets and the econometric analysis to estimate a utility model, whereby the WTP estimates are derived. The model consisted of the dependent variable and the independent variables consisted of several selected attributes at different levels. The model is presented below in equation (2).

$$\text{Model 1: } V = \beta_1 \text{COV} + \beta_2 \text{SUM} + \beta_3 \text{PREM} \quad (2)$$

The model coefficients β_i represent the relative importance attached to each attribute in determining a respondent's ranking. Strictly speaking, they can be interpreted as the marginal utility/disutility associated with one unit change in any of the attributes as shown below.

$$\delta V / \delta \text{COV} = \beta_1 \quad (2a)$$

$$\delta V / \delta \text{SUM} = \beta_2 \quad (2b)$$

$$\delta V / \delta \text{PREM} = \beta_3 \quad (2c)$$

The WTP for each attribute is defined as the marginal rate of substitution between each attribute and the price variable where:

$$\text{WTP}_{\text{COV}} = (\delta V / \delta \text{COV}) / (\delta V / \delta \text{PREM}) = -\beta_1 / \beta_3 \quad (3a)$$

$$\text{WTP}_{\text{SUM}} = (\delta V / \delta \text{SUM}) / (\delta V / \delta \text{PREM}) = -\beta_2 / \beta_3 \quad (3b)$$

A limitation of the main effects models given above is that they do not allow preferences to vary across individuals in accordance with socio-economic characteristics. This can be corrected by interacting the attributes with socio-economic characteristics. According to Greene (1989) the individual specific variable must be entered in the utility function in interaction form with attributes that change across the alternatives. A natural interaction to include is the division or multiplication of price by some other variables such as income or in our case, with either the farmers belongs to any plantation scheme or not, SKIM, to obtain a variable which captures price as a proportion of the attribute that we interacted (Garrod & Willis, 1997, 1999) and is given in Model 2.

$$\text{Model 2: } V = \beta_1 \text{COV} + \beta_2 \text{SUM} + \beta_3 \text{PREM} + \beta_4 \text{SKIM} * \text{PREM} \quad (4)$$

$$\delta V / \delta \text{PREM} = \beta_3 + \beta_4 / \text{SKIM}$$

(4a)

4. Choice Set Formation

Questionnaires containing the CE were designed to collect data from respondents at the identified areas. The choice set for the CE uses the *fractional factorial* design generated using the ORTHPLAN procedure in SPSS. The use of fractional factorial design reduces the number of cases from 48 based on a *full factorial* ($3^1 4^2 (L^A)$) design to 9 cases. Not only the numbers of cases were reduced, fractional factorial design also maintained the element of *orthogonality* in the choice set produced, meaning that each variable has no correlation with each other.

Table 2: Example of Choice Set

Choice Card 4

	Policy A	Policy B	Policy C
Type of Coverage	FLOOD AND PLANT FELL OFF	FLOOD AND PLANT FELL OFF	FLOOD
Sum Assured/Benefit	RM3700.00	RM5500.00	RM800.00
Premium Payment	RM10.00	RM25.00	RM0.00

If you have the choice of buying the CIS, which policy would you buy? Please choose only **ONE** of the above policies.

Please (/) which attributes influence you when making the choice of buying the CIS policy?

	Always	Sometimes	Seldom
Type of Coverage			
Sum Assured/Benefit			
Premium Payment			

The generated cases were paired to form several choice sets and were presented to the respondents together with other demographic and attitudinal questions. Each respondent was asked to answer 4 different choice sets. In every single choice set, respondents were presented with 3 choices of which, the first 2 choices are the cases generated and paired in the experimental design while the third choice is the *status quo* or the *business as usual* option. Every time the respondents were presented with the choice set, they were also asked the reason why they made such decision. An example of a choice set is presented in table 2.

5. The Results

The respondents for the study were identified using the *Stratified Random Sample*, where the strata were identified using the postal/zip code based on the information provided by *Pos Malaysia Berhad* in the identified areas of the district of Kota Setar, Pendang and Kubang Pasu in Kedah. A total of 139 respondents were surveyed from these three districts. Respondent's profiles are presented in table 3.

Table 3: Respondents' Profiles

Category	Frequency	Percentage
Age (years):		
40 and below	28	20
41 – 60	79	56.8
61 and above	32	23
Gender:		
Male	16	11.5
Female	123	88.5
Marital Status:		
Single	13	9.4
Married	119	85.6
Single Parent/ Divorcee	7	5
Education Level:		
Primary school and below	33	23.7
PMR	33.1	33.1
SPM	34.5	34.5
STPM and above	12	8.7
Experience as paddy farmers:		
10 years and below	28	20.1
11 – 20 years	30	21.6
21- 30 years	51	36.7
31 and above	30	21.6
Farm ownership:		
Owner	74	53.2
Rental/Lease	65	46.8
Size of farm (<i>relong</i> *):		
5 and below	25	18
6 -10	64	46
11-15	27	19.4
16 and above	23	16.5
Involve in some other job/occupaption	66	47.5
Belongs to Local Farmers' Organization	108	77.7
Experiencing Flood	123	88.5

*Local measurement: 1 *relong* = 0.7 acre = 0.2835 hectare

Generally our respondents consist of middle age married females with an average of secondary level of education background. About 80 percent of them have more than 10 years of experience in paddy plantation. Although most of them owned the paddy fields (53.2%) the size of ownership usually small, where more than 60 percent of them with size of farm 10 *relong* or less. It is interesting to note that most of them belong to local farmers' organization (77.7%) and most of them are at risk from the natural disasters which is flood (88.5%).

Table 4: CE Basic and Interaction Models

Attribute	Basic Model		Interaction Model	
	Coefficient	Implicit Price	Coefficient	Implicit Price
COV1	1.3017*** (0.1667)	67.11	1.3086*** (0.1672)	38.31
COV2	2.4950*** (0.2346)	128.63	2.5044*** (0.2371)	73.32
SUM1	0.6534*** (0.1755)	33.69	0.6632*** (0.1761)	19.42
SUM2	0.9489*** (0.1533)	48.92	0.9627*** (0.1540)	28.19
SUM3	1.0421*** (0.2179)	53.73	1.0444*** (0.2186)	30.58
PREM	-0.0193* (0.0106)	-	-0.0927*** (0.0339)	-
SKIM*PREM			0.0761** (0.0334)	
Summary Statistics				
Log-likelihood function: $L(\beta)$	-462.2945		-459.7337	
Log-likelihood: $L(0)$	-521.6533		-521.6533	
Pseudo- R^2	0.11379		0.1187	
Adjusted Pseudo- R^2	0.10898		0.1131	
Chi-squared	6.42774		12.5966	
Number of observations	556		556	

***significant at 1%, ** significant at 5%, and *significant at 10%; std. errors are in brackets

The estimated coefficients and implicit prices for basic MNL and the MNL with interactions models are presented in Table 4. The explanatory powers for both models are considered good with their adjusted pseudo- R^2 of 11%. The estimated results show that all attributes are significant at least at 10% in both models and have the a priori expected signs. The results also confirm to the axioms of choice: non-satiation when the coefficient values for attribute at higher level are greater than the coefficient values for attribute at lower level. For instance, the attribute of coverage at higher level (COV2) in the basic MNL is greater than the attribute at medium level.

The estimated interactions variable (Skim*Prem) was significant at 5%. The results for interactions with the prices attribute show that the estimated coefficient for respondents who participated in the scheme is greater than the estimated coefficient for those who do not. If

translated into the WTP estimates, however, the results suggest a respondent who participated in the scheme is willing to pay less compared to their counterpart.

The implicit price for each attribute was calculated as the ratio of coefficients for the attribute (or level) with the cost parameter using the Wald procedure (Delta method) in Limdep 8.0. The implicit price measures the respondents' willingness to pay. For instance, the implicit price for attribute COV1 in basic CL model means that respondents are willing to pay an extra of RM67.11 to obtain an improvement to the attribute from the basic to medium level. Rationally farmers are more than willing to pay for additional benefits in reducing the risk of crops failure as compared to the RM800 they received currently from the aid program given by the government.

6. Conclusion

The main purpose of this paper was to apply the use of CE in valuing farmers' WTP for a potential crop insurance scheme to be proposed in Malaysia. In doing so, three most important attributes were identified namely *the coverage*, *the sum assured* and *the premium price* of the policy. The study found that the potential of introducing such scheme is possible based on the WTP provided by farmers. Furthermore, based on the results found in both models presented above, *the coverage* elements are crucial and important relative to *the sum assured* element, as given by higher MWTP, which also indicated the degree in the relative importance among the attribute concern in a scheme. Therefore in designing a suitable CIS policy, both the government and the insurance providers should give an extra emphasize on these attributes in order to come up with an attractive insurance scheme. The potential of the CIS cannot be denied since there is a huge market for such scheme. Beside, it will reduce the dependency to government aid and open the new market horizon in risk management.

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The Sustainable Livelihoods Index: A Tool to Assess the Ability and Preparedness of the Rural Poor in Receiving Entrepreneurial Project

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Abstract

This paper describes the Sustainable Livelihoods Index (SLI) as a useful tool in assessing the livelihoods elements of the rural poor households. Income data alone may not fully reflect the suitability of the hardcore poor in receiving government assistance in the form of entrepreneurial projects. In this case rendered projects do not take into account the ability and preparedness of the poor in receiving the projects. The main objective of this study is to measure comprehensively all the livelihood elements of the rural poor households through developing a Sustainable Livelihood Index (SLI). This index is based on Sustainable Livelihood Approach (SLA) framework. A total of 22 livelihood asset and outcomes indicators were identified from the data set and broadly grouped into five groups of assets namely human, physical, natural, social, financial assets and 2 groups of livelihoods outcomes which are food security and health status. Then, an aggregate SLI for each household was constructed by averaging all the seven groups of livelihood assets and outcomes indices with an equal weight. Overall, about 73% of considered households attained SLI below than 0.5, with a mean of 0.47. With regard to household income that has been used as a poverty measurement, the study finds that the Sustainable Livelihood Index (SLI) moves in tandem with the total of household income. There are 90.91% of the households in hardcore poor group having SLI below 0.5 indicating that households with a low income will also have a low SLI. Although income and SLI move in the same direction, this paper suggests the use of SLI as a more analytically rigorous tool to assess the ability and preparedness of the rural poor than the regular use of household income level alone. Besides it may help the local authorities to broaden their scope in a manageable way as to ensure the sustainability of a given project.

Keywords: Sustainable Livelihood Index, Rural Poor, Ability, Preparedness and Entrepreneurial projects.

1. Introduction

The concept of Sustainable Livelihood (SL) is an attempt to go beyond the conventional definitions and approaches to poverty eradication. These had been found to be too narrow because they focused only on certain aspects or manifestations of poverty, such as low income, or did not consider other vital aspects of poverty such as vulnerability and social exclusion. In achieving the goal of poverty eradication, various types of assistance were offered by the government either in the form of cash or development projects. These assistances were normally based on income data. Income data cannot fully reflect the ability of the poor in receiving government assistance in the form of particular development projects such as entrepreneurial activities and agricultural projects. In this case, rendered projects do not take into account the ability and preparedness of the poor in receiving the projects. Hence, a given project does not sustain.

The SL concept offers a more coherent and integrated approach to poverty. This concept give more attention to the various factors and processes which either constrain or enhance poor people's ability to make a living in an economically, ecologically, and socially sustainable manner (Kranz, 2001). A livelihood is sustainable when the poor can cope with and recover from stress and shocks, maintain or enhance its capabilities and assets, provide sustainable livelihood opportunities for the next generation; and contributes net benefits to other livelihoods at the local and global levels in the short and long term, (Robert Chambers & Gordon Conway, 1992).

The best known composite index of social and economic wellbeing with respect to Sustainable Livelihood Approach is the Livelihood Security Index (LCI) developed by Lindenberg (2002), Sanzidur & Shaheen (2010) and Rahman & Akter (2010). LCI is one of the most important social indicators for assessing the quality of life, coupled with meeting the basic needs of human beings. The basic aim of this index was use in measuring progress at the family and community level through identifying the constraints to peoples' well-being as well as their assets and opportunities. Rai, et al. (2008) also developed an index with respect to sustainable livelihood concept, namely Livelihood Index. A composite integrated livelihood index was developed based on macro level data to evaluate the developmental process of the country by regions. On other dimension, Hanh et al. (2009) includes vulnerability indicators in developing livelihood index namely Livelihood Vulnerability Index (LVI). LVI used to estimate climate change vulnerability based on eight domains namely socio-demographics, livelihoods, social networks, health, food and water security, natural disasters and climate

variability. Data were aggregated using a composite index and differential vulnerabilities were compared between districts in Mozambique.

This study attempts to develop an index that could capture comprehensively all livelihood elements of the rural poor, namely Sustainable Living Index (SLI) to assess the ability and preparedness of the rural poor in receiving entrepreneurial project channeled by the government. Slightly different with indices discussed above, this index concentrates on formation of micro-index that base on the livelihood assets possession of every household. The developed SLI may be treated as additional information in assisting the local authorities in selecting the appropriate rural poor for government assistance, beside the regular use of household income level.

2.Methodology

Data are collected using a structured questionnaire. A questionnaire design is based on the Sustainable Livelihood Analysis (SLA) framework as suggested by the Department for International Development (DFID), 1999. This approach is used to identify asset ownership, strategy implemented and outcome achieved, institution influence and vulnerability context faced by hardcore poor households in sustaining livelihoods. The questionnaire is divided into eight parts, namely sosio-demography information, human assets, physical assets, financial assets, social assets, natural assets, food security and health status. The questionnaire and interview were administered using *Bahasa Melayu*. All variables included are in the form of nominal, ordinal or interval data. The detail of the variables for each section is presented in the Table 3.2.

A specific Sustainable Livelihood Index (SLI) of rural poor household developed to identify potential households that are able to participate in poverty eradication programs or projects. The Sustainable Livelihood concept has multidimensional aspects. It includes livelihood asset, livelihood strategy, livelihood outcome, institutional involvement, and vulnerability context. Therefore, it is important to select parameters, which are representative indicators of all these sectors of human-life. With respect to assessing the ability and preparedness of the poor in receiving the development project, this study had identified 22 livelihood asset and outcomes indicators from the data set and broadly grouped them under five groups of assets namely human, physical, natural, social, financial assets and 2 groups of livelihoods outcomes namely food security and health status (Table 3.2).

Table 3.2: List of indicators for livelihoods assets and livelihood outcomes

Human Asset	Physical Asset	Social Asset	Financial Asset	Natural Asset	Livelihood Outcomes
Highest level of education possessed by each member of the household	The main water source for drinking	Holding positions in society	Total of income from main occupation	Ownership of land can be used for agriculture	Food Security
Working experience for the current job	The main water source used by the family for other purposes such as cooking and washing	Involvement in agriculture association	Income source from other economics activities/ part time job	Natural resources assistance from relevant agencies (Eg:soil, seeds, fertilizers, pesticides, etc.)	Health status
Knowledge level of the current job	Type of toilet	Relationships with officials from relevant agencies which is responsible providing assistance (Examples: Welfare Department,Zakat,Department of agriculture, KEDA, Department of fisheries, PPK and others	Other sources of income(from non-economic activities) such as from children's, pension, zakat, scholarship, etc.	Levels of natural resource use given	
Knowledge concerning how to obtain information about the aids from the government or any other agencies	Housing characteristics	The level of involvement in politics party		Ownership of livestock	
	The main fuel type usually used by household for cooking				

Human Asset	Physical Asset	Social Asset	Financial Asset	Natural Asset	Livelihood Outcomes
	Amenities access to information				
	Vehicle ownership				
	Home ownership				

Index is then constructed following Hahn et al. (2009). Indicators are identified and it is assumed that each indicator has equal weight to the individual groups of livelihood assets and outcomes. The indicators are then standardized following the procedure adopted in measuring Life Expectancy in Human Development Reports (Hahn et al. 2009). For example, a standardized indicator j of a household is given by:

$$Index_{sd} = \frac{S_d - S_{min}}{S_{max} - S_{min}}$$

Where, S_d is the original sub-component for community d , and S_{min} and S_{max} are the minimum and maximum values, respectively, for each sub-component determined using data from the same community survey.

An aggregate SLI for each household then constructed by averaging of all the seven groups of livelihood assets and outcomes indices with an equal weight of each. Each of the group's indices can be shown separately and an aggregate measure of Sustainable Livelihood Index can be displayed.

3. Result and Discussion

In Malaysia, the poor are identified based on the comparisons of total household income with the poverty line income (PLI). In 2012, for Peninsular Malaysia, the poor are divided into two groups, namely the poor and the hardcore poor with a PLI of RM760 and RM380. Based on the survey, this study divides households into four categories, namely hardcore poor with an income of less than RM380, poor with an income of RM381-RM760, low-income group (RM761-RM1200) and the middle income group with a total household income of more than RM1200 per month. This study used equivalised income as a measure of household income, which takes into account of the differences in a household's size and composition.

Table 5.3 shows the pattern of average total household income (THI) and average Equivalised Total Household Income (ETHI) without income transfer; and average SLI by group of household. The study finds that SLI move in tandem with ETHI and the total of household income used as a poverty measurement. On average the hardcore poor and the poor

has a lower SLI of 0.35 and 0.46 respectively. This result means the estimation of poverty through total household income already reflects the livelihood assets ownership as a whole. In this case, household income plays a significant role in the increase of assets of the hard core poor.

Table 5.3 the pattern of THI, ETHI and SLI by group of household in mukim Kupang, October 2012

Group of household	THI	ETHI	SLI
Hard-core poor	50.00	31.25	0.38
Poor	575.00	272.27	0.46
Low income group	1020.03	407.80	0.46
Medium income group	1688.33	763.54	0.50

The percentage of 90.91% of the household in hardcore poor group having SLI below 0.5 indicates that households with a low income will have a low SLI. But, interestingly this result also revealed that households with high income do not all have high SLI, which is most of them having SLI less than 0.5. There is no much variation in SLI achieved by household group, which is overall finding shows that about 73% of the respondents having low SLI with an index less than or equal to 0.5.

Table 5.4 the distribution of household group by level of SLI

SLI range	0-0.25		0.26-0.5		0.51-0.75		0.76-1		Total	
Group of household	No.	%	No.	%	No.	%	No.	%	No.	%
Hardcore poor	0	0	10	90.91	1	0.09	0	0	11	100
Poor	0	0	37	77.08	11	22.92	0	0	48	100
Low income	0	0	24	80.00	6	20.00	0	0	30	100
Medium income	0	0	38	63.33	22	36.67	0	0	60	100

Thus, it is important to have an index by individual group of asset. This information is useful to help the government and policy maker in ensuring assistance will reach to the right target groups based on their ability and preparedness, and to ensure the sustainable livelihood of the hardcore poor. Table 5.5 shows the descriptive analysis of the individual asset group's index by income group. The livelihood outcome components such as food security and health status are also included in the calculation of SLI.

On average, this study shows that the hardcore poor group obtained relatively low index at less than 0.5 for all the asset groups except for physical asset. The assistance particularly in terms of financial support given by the government at the present time might be appropriate for this group. However this kind of assistance does not guarantee the sustainability of the poor's livelihood, otherwise will promote their reliance on government assistance. Assistance in term of entrepreneurial project is the better safeguard to the sustainability of the poor's livelihood. However result showed that most of the hard-core poor in Kupang faced the issue of low human capital especially in the level of education. This result indicates that the assistance in term of entrepreneurial project which requires knowledge of high technology is not appropriate for this group. Low levels of education will result in slow technology transfer and further lead to inefficiencies in the implementation of entrepreneurial projects.

To capture this issue, the entrepreneurship projects that will be given to households must be diverse in terms of technical knowledge requirements, the financial capital required and the level of risk that may be encountered. Training and intensive instruction is necessary to increase their technical knowledge and skill to ensure the sustainability of the project and thus the sustainability of the poor's livelihood. Moreover, to address this problem in the long term, it is necessary to raise awareness of education among the poor children's.

On the other hand, the study found that on average the natural asset among all groups of household are the lowest compared to others asset. Thus, the entrepreneurial activities introduced must not be based on land use. The home based entrepreneurial activities such as food processing, telecommunication, retailing, sewing and crafts may be more appropriate. However, the agro-entrepreneurial activities might be possible with the opening of agricultural land in rural areas, especially in the areas that inhabited by the poor.

Table 5.5 Descriptive analysis of individual livelihood asset by group of household.

	Hardcore poor	Poor	Low income	Medium income
Physical	0.79	0.71	0.68	0.66
Financial	0.30	0.35	0.34	0.48
Social	0.12	0.10	0.11	0.15
Human	0.25	0.57	0.62	0.56
Natural	0.07	0.08	0.08	0.10
Food Security	0.60	0.55	0.55	0.59
Health	0.66	0.91	0.84	0.90
SLI	0.35	0.42	0.44	0.48

4. Conclusion

Institutions and individuals promoting rural development now see entrepreneurship as a strategic development intervention that could accelerate the rural development process. Furthermore, institutions and individuals seem to agree on the urgent need to promote rural enterprises: development agencies see rural entrepreneurship as an enormous employment potential; politicians see it as the key strategy to prevent rural unrest; farmers see it as an instrument for improving farm earnings; and women see it as an employment possibility near their homes which provides autonomy, independence and a reduced need for social support.

To all these groups, however, entrepreneurship stands as a vehicle to improve the quality of life for individuals, families and communities and to sustain a healthy economy and environment. However, the acceptance of entrepreneurship as a central development force by itself will not lead to rural development and the advancement of rural enterprises. What is needed in addition is an environment enabling entrepreneurship in rural areas. The existence of such an environment largely depends on the preparedness of the community and policies promoting rural entrepreneurship.

The preparedness of the community can be assessed by studying at their livelihood assets possession that comprises of human, financial, physical, natural and social asset. The Sustainable Livelihood Approach provides a holistic framework in analysing the livelihood of

the community systematically. Further the developing of the Sustainable Livelihood Index for individual household enables us to identify the preparedness of community in receiving and thus handling entrepreneurial project objectively. This study suggests the use of SLI as a more analytically rigorous tool to assess the ability and preparedness of the rural poor than the regular use of household income level alone. Besides it may help the local authorities to broaden their scope in a manageable way as to ensure the sustainability of a given project.

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RURAL WOMEN ENTREPRENEURS IN MALAYSIA: THE ELEMENTS OF A SUCCESSFUL BUSINESS

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Abstract

This paper presents a demo-socio-economic profile of rural women entrepreneurs and explores the elements of how cultural values, Islamic values, social and environment, individual beliefs, and opportunities/infrastructure have influence on the successful of rural business women. In this preliminary survey of 30 respondents in northern area of Kedah, this study found most of the respondents are married, and have some formal education and previous working experience. The result shows that almost 80 per cent of respondents believe in religion, work hard, and always thankful to God. They highlighted the importance of exposure to entrepreneurship since childhood, and keeping good manners as the most important factors in influencing the success of the business. In terms of Islamic practice, a total of 80.6 per cent agreed that the factor of trustworthy and the business must be 'halal' are required in each transaction involved. This study further discovers that the biggest challenge to these rural women is to balance the time between family and business.

Keywords: *women entrepreneurs, rural, cultural value, islamic practice*

1. Introduction

The phenomenal growth of women-owned businesses has made headlines when women consistently have been launching new enterprises at twice the rate of men (Hadary, 2013). This is also true for Malaysia as women are forming an increasingly significant portion of the SME sector, which is the major source of new jobs. According to Ministry of International Trade and Industry (MITI) Report in 2009, women entrepreneurs only owned about 16% or close to 83,000 SMEs business. Furthermore, 85.5% of women -owned businesses in Malaysia are in the service industry (MITI, 2009). Yet women continue to face barriers to entrepreneurial activity in comparison with men. Thus, if Malaysia is to benefit fully from the female potential for job creation and economic growth, decision-makers at local and national level must agree measures to ensure the best possible framework to support women's entrepreneurship.

Study by Jariah and Laily (1995) have identified that Malaysian women entrepreneurs are facing problems of low levels of education, lack of skills (especially managerial skills), performing the dual role of housewife and businesswoman, working as unpaid family workers and a lack of representation at decision making levels. In an attempt to analyse these problems, it is assumed that an understanding of Malay social-cultural values would be a prerequisite in planning women's future in the field of entrepreneurship. A lack of understanding of these values would make it impossible to correct traditional perceptions and views, for instance women's domestic role, and future plans for Malay progress would be likely to fail because they would be in conflict with the established and existing values of an industrial society.

Different from other studies on women and entrepreneurship, this paper investigates the five elements of how cultural values, Islamic values, social and environment, individual beliefs, and opportunities/infrastructure might have an influence on rural business women. In planning for women's future in the field of entrepreneurship, a lack of understanding of these Malay social-cultural values would make it impossible to correct traditional perceptions and views. Women's domestic role, and future plans for Malay progress would be likely to fail because they would be in conflict with the established and existing values of an industrial society.

2. Literature Review

It is essential to study Malaysia women entrepreneurs with consideration of their diverse background and culture. The entrepreneur's ethnicity, together with social categories such as class, religion, and so on does affect how they live their lives.(Letherby, 2003). This is due to the fact that entrepreneurial behaviors are actually influenced by historical background, socioeconomic and institutional environment in which the businesses locate (Jones & Treanor, 2011)

In Malaysian context, (Sarimah, 1994; Jariah and Laily, 1995), studies on women and entrepreneurship have focused on their roles, contributions, problems and other social issues, while very little research has been done investigating elements of how cultural values, ideologies or social and individual beliefs might have an influence on these business women. This raises some research questions of interest, since these elements might be identified in analysing the problems confronting such women and which may be affecting their development process as successful businesswomen.

In a study on urban Malay entrepreneurs in Malaysia through deploying an ethnographic approach in the research methodology, Sloane (1999) attempts to explore the complex themes of Islamic duty and financial obligation which underlie Malay life in relationships with parents, spouse, cohorts and the community and in relation to the development of entrepreneurship in the Malay community. The study also explored a redefinition of Islamic economic beliefs and meaning which have shaped the Malay understanding of entrepreneurship. However, this study has focused only on urban Malay entrepreneurs who might have a different interpretation of the meaning of entrepreneurship. Thus, this study attempts to fill the knowledge gap by exploring similar themes with some other Malay entrepreneurs, specifically Malay rural business women.

Islam is the official religion of Malaysia. All Malays are Muslim, whereas the majority of Chinese are Buddhists or Christian and Indians are usually Hindus. As Muslims, the Malays practice and uphold the Five Pillars of Islam, that is, the professions of the Faith, the daily prayers, the fasting during Ramadhan, payment of the annual tithe (*zakat*), and the pilgrimage

to Mecca. Islam, which literally translated means ‘total submission’, is not only a belief system but also a way of life. Muslims are expected to run their lives according to ‘*koranic*’ injunctions (Afshari, 1987: 10). Noraini (1984) has further stressed this point and states that Islam is a significant ideological force that influences Malay women’s way of life and is an important factor influencing the development of the Malays.

In support of these statements earlier studies have argued that religion has an influence on economic activity including Geertz’s (1956) famous study of pious Muslims in Indonesia, Bellah’s (1970) study of the correlation between the religion of the Tokugawa and bureaucratic values which are conducive to economic growth, Gupta’s (1994) study which sought to explain entrepreneurial success through religious values in India and a study by Sloane (1999) which focused on the ‘Islamic view’ of entrepreneurship among the urban Malay Muslim entrepreneurs of Malaysia. All these studies were mapped along the lines of Weber’s study of Calvinist entrepreneurs in seventeenth – century Europe.

As comparison, studies by Lee (1996) and Redding (1986, 1990) have also placed emphasis in their writings on the role and influence of Chinese ethnicity and culture on entrepreneurial success. These scholars have identified that the combination of Chinese family dialect, family structure and culture, and the Confucian value system may exercise a particular influence on the setting up of a business. However, the study by Alwis and Senathiraja (2003) among small and medium scale business in Sri Lanka have shown that business value formation is influenced by the socio-cultural and personal background factor such as age, ethnicity, religion and education. They concluded that Sinhalese and Tamil are highly religious businessmen and more ethical. Thus, this study hopes to provide an understanding of a different kind of interpretation of how Islamic economic beliefs and meanings have shaped the Malay understanding of entrepreneurship.

3. Data and Methodology

Respondents of this study are rural women entrepreneurs who 1) had been in business for more than a years to ensure they are committed to business and have experience of being a businesswoman in a business environment.2) had spread over a variety of different types of business at various programme centres (i.e: AIM, TEKUN, MARA) and could be categorized as petty traders, owners of family farms and plantations and micro-enterprise owners. 3) able to make their loan repayments as scheduled and 4) had a substantial monthly income (not less than RM500). Questionnaires were used in in-depth interviews with women entrepreneurs in rural Kedah.

4. Analysis of Data

The first part of this section presents the demo-socio-economy profile of the respondent while the second part discusses the factors that influence the success of these entrepreneurs. For this preliminary study, a total of 36 respondents were interviewed. Table 4.1 shows the respondent background’s characteristics.

Most entrepreneurs are at the age of 31 to 50 years; already married and have secondary levels of education. Most of them have children in which nearly 40 percent have more than four kids. More than half of the entrepreneurs were previously working and only 36.7 per cent were

housewives. We can conclude that respondent's intention to open business was to generate extra incomes for their families when this survey found that more than 60 per cent of their spouses are currently employed.

Table 4.1: Respondent's Characteristic

VARIABLES		FREQUENCY	PERCENTAGE (%)
Age	< 30 years	5	20.0
	31 – 40 years	11	36.7
	41 - 50 years	9	30.0
	51 - 60 years	4	13.3
	>61 years	1	3.3
Marital Status	Married	23	76.7
	Single	2	6.6
	Divorced/widow	5	16.7
Education	Primary school	5	16.7
	Secondary school	18	60.0
	University/College	7	23.3
Number of Children	0	4	13.4
	1	3	10.0
	2	7	23.2
	3	5	16.7
	>4	11	36.7
Work Experience	Yes	19	63.3
	No	11	36.7
Husband's Employment (n=28)	Yes	19	63.3
	No	11	36.7
Home Status	Owned	28	93.3
	Rent	2	6.7
Type of House	Home Village	11	36.7
	Residential	12	40.0
	Settlers Area	7	23.3
Home Facilities (Yes)	Electricity	30	100
	Radio	28	93.3
	Television	30	100
	Permanent telephone line	16	53.3
	ASTRO	16	53.3
	Internet	15	50.0
	Smart Mobile Phone	27	90.0
	Bicycle	14	46.7
	Motorbike	24	80.0

Health Status	Car/Van	24	80.0
	Lorry/Agriculture Vehicle	0	0
	Good	22	73.3
	Average	18	26.7

As this study is focusing on rural areas, most of the respondents are found to own their homes. Living in the home village and residential type of house, they are all well facilitated with electricity, television and more than 80 per cent of respondents have own vehicle from bicycle to car or vans. Surprisingly enough, not all these respondents are in good health status when 26.7 per cent stated that their health's statuses as average.

Table 4.2 presents the information on entrepreneurial business. Overall, the entrepreneurial income is not that great when most respondents stated their monthly income as less than RM500 (33.3%).

Table 4.2: Information on Business

VARIABLES		FREQUENCY	PERCENTAGE (%)
Income (per month)	RM500 – RM1000	14	46.7
	RM1001 – RM1500	3	10.0
	RM1501 – RM2000	7	23.3
	RM2001 – RM2500	1	3.3
	RM2501 – RM3000	5	16.7
Business Ownership	Single	23	76.7
	Partnership(non-family)	3	10.0
	Partnership (spouse)	4	13.3
Type of Business	Food Production	14	46.7
	Retail/Small business	1	3.3
	Other	15	50.0
Year in Business	1 - 5 years	23	76.7
	6 - 10 years	3	10.0
	11 - 15 years	2	6.7
	>15 years	2	6.7
Number of Employee	1 to 3	26	86.7
	4 to 6	2	6.7
	7 to 8	1	3.3
	>8	1	3.3
Initial Capital	<RM1,000	8	26.7
	RM1,001 – RM5,000	6	20.0
	RM5,001 – RM10,000	5	16.7
	RM10,001 – RM50,000	7	23.3

	> RM50,000	4	13.3
Source of Capital	Own Saving	22	73.3
	Family	3	10.0
	Loan	5	16.7

This study finds that more than 75 per cent of the women entrepreneurs own their business by single ownership. A total of 46.7 per cent involve in food production as type of business. This is well explained by the fact that food is a necessity of life and must be consumed daily. Most respondent can be considered as young entrepreneurs as their involvement in this business are for only about 1 to 5 years. Only 14.4 per cent of respondents have become entrepreneurs for more than 10 years. In terms of source of capital, about 73.3 per cent started their business using their own savings. Nevertheless, incentives from the government such as loan, actually does help new entrepreneur to start up their own business, including the women.

By referring to Table 4.2, most entrepreneurs hire 1 to 3 workers (86.7%). This may due to the fact that their businesses are still new, i.e about 1 to 5 years. Surprisingly, most women entrepreneur just started their business with capital amount less than RM5000. (46.7%). However, there are few women entrepreneurs invested quite a big capital to start up a business such as more than RM 50,000 (13.3%). These entrepreneurs take up loans from bank. Bank loan's itself consisting of conventional and Islamic. Source of capital mostly comes from own saving (73.3%), followed by family (10%) and bank loan (16.7%). Women entrepreneurs tend to use their saving to start up a business since they want to avoid high risk at their beginning of business operation.

Table 4.3 illustrates the personal conducts of the respondents in managing their businesses. The study shows that almost all respondents have positive personal conducts in managing their businesses. They strongly agree on having qualities related to Islamic belief/ faith.

Table 4.3: Attitudes and Perceptions

	Totally Disagree (%)	Disagree (%)	Somewhat Agree (%)	Agree (%)	Totally Agree (%)
I am confident that I can confront the unexpected event efficiently	0	0	13.3	53.3	33.3
I set goals and visions for myself in order to make a successful business	0	0	3.3	43.3	53.3
I will work hard to achieve my goals	0	0	0	40.0	60.0
I am a person who always wanted to learn	0	0	0	36.7	63.3
I always thank God for happiness provided (grateful)	0	0	0	26.7	73.3
I believe with full faith in Qada and Qadar	0	0	0	23.3	76.7

When I feel tense and upset about the performance of the business, I read the Quran	0	0	3.3	36.7	60
Values like honesty and patience could be the secret to business success	0	0	0	33.3	66.7

Table 4.4(a) to Table 4.4(f) below present factors that influence the success of the businesses. For this purpose, the discussion is based on the five contributing factors as discussed in the literature review. Those are cultural values, Islamic faith, social and environmental influences, individual belief (self-belief) and availability of the opportunity and or infrastructure.

On the aspects of culture values, the most contributing factors for the success of the businesses are full support from the family members to start this business when almost 80% of respondents stated their agreement on this factor. Table 4.4 (a) shows a large proportion of respondents agree on the importance of being courteous when dealing with clients, customers and community. They also highlighted the factors of availability of loans and services in their businesses. Some (46.7%) of them acknowledge that there are some form of gender discrimination in managing their businesses.

Table 4.4(a): Cultural Values

Cultural Values	Totally Disagree (%)	Disagree (%)	Somewhat Agree (%)	Agree (%)	Totally Agree (%)
I was exposed to business world since childhood	10.0	13.3	20.0	30.0	26.7
I received full support from the family members to start this business	0	16.7	6.7	30.0	46.7
Gender discrimination do appear while managing this business	16.7	10.0	26.7	36.7	10.0
I need to keep to be courteous in dealing with the community	3.3	0	3.3	26.7	66.7
Availability of the loans and services for business encourage me to venture into business	20.0	23.3	6.7	30.0	20.0

Overall, Islamic values seem to play an important as controlling factors to ensure that the businesses are dealt ethically and fairly. In this aspect, a large number of the respondents ensure that their businesses are managed according to Islamic practices and the products/ services provided by the businesses are permissible in Islam. By referring to Table 4.4(b), it is interesting to note that there is a small number of entrepreneurs who do receive usury (10%).

Table 4.4(b): Islamic Values

Islamic Values	Totally Disagree (%)	Disagree (%)	Somewhat Agree (%)	Agree (%)	Totally Agree (%)
I do not receive interest (usury) in business operations	10.0	3.3	0	43.3	43.3
There is a prayer room at my business premises	0	0	0	30.0	70.0
I hang some verses from the Quran on the walls of my business premises	0	3.3	0	40.0	56.7
I choose the type of business that is legal and permissible by Islam	0	0	0	26.7	73.3
My business must be lawful/halal and honest in all transactions	0	0	0	20.0	80.0
My business does not have to involve any prohibited act such as theft, fraud or unpaid debts	0	0	3.3	20.0	76.7
I will get my husband permission first before living the house (going anywhere,)	10.0	0	0	33.3	56.7

The overall level of social involvement of the respondents at community level can be seen in Table 4.4(c). This finding indicates that most of the respondents are actively involved with community activities. This means that they hold positive social values. Most of them acknowledge that these activities help to connect them with important individuals who can somewhat facilitate their businesses. Most respondents seek opinion from their employees to solve the business problems or to improve their businesses. They are willing to attend business training to enhance their knowledge in their businesses. However, only 36.7 % of the respondents are actively involved in political activities.

Table 4.4(c): Social Values

Social Values	Totally Disagree (%)	Disagree (%)	Somewhat Agree (%)	Agree (%)	Totally Agree (%)
I hold a position in the community	13.3	23.3	13.3	36.7	13.3
I involve with relevant association in the community	6.7	26.7	13.3	40.0	13.3
I become acquainted with the top management of agencies or relevant bodies	10.0	20.0	16.7	40.0	13.3

The acquaintance with the to management of agencies helps to promote my business	16.7	16.7	20.0	36.7	10.0
I am actively involved in political parties	16.7	36.7	10.0	30.0	6.7
I attended courses and business training to enhance my business knowledge and skills	0	6.7	0	30.0	63.3
I occasionally discuss with the employees to get their opinion/ideas on issues regarding the business	3.3	3.3	6.7	50.0	36.7

As displayed in table 4.4(d), most of the respondents have positive interpersonal relationship. They have good relationship with their spouses, their children, friends and other family members. Most of them do spend their free time with their family members and friends and more than 80 percent agree on the time spend on themselves, no matter how busy they are. On the other hand, nearly 20 percent of respondents do not agree on a close relationship with employees.

Table 4.4(d): Interpersonal Relationship

Interpersonal Relationships	Totally Disagree (%)	Disagree (%)	Somewhat Agree (%)	Agree (%)	Totally Agree (%)
My relationship with my spouse is very good	0	0	0	26.7	73.3
My relationship with my children is very good	0	0	0	30.0	70.0
My relationship with my friends is very good	0	0	0	30.0	70.0
I always spend my leisure /free time with my family	0	6.7	3.3	30.0	63.3
I often go out to meet my friends for to maintain the close relationship	0	6.7	16.7	40.0	36.7
No matter how busy I am, I always have time for myself	0	0	13.3	40.0	46.7
I am close with the employees and often help them with their problems	3.3	3.3	6.7	40.0	46.7

Table 4.4 (e) illustrates the questions on self-beliefs. The results show that all these rural women entrepreneurs have high self-esteem, creative and hardworking when more than 90 per cent of respondents strongly agreed on these values. Being an entrepreneur, most of them are highly confident that they are able to achieve what they have planned (88.3%) and solve

the problems (83.3%). A total of 96.7 per cent agree that they need to work hard in order to promote the business. Besides that, they are also able to face all the challenges in positive manner.

Table 4.4(e): Self-Beliefs

Self-Beliefs	Totally Disagree (%)	Disagree (%)	Somewhat Agree (%)	Agree (%)	Totally Agree (%)
I am able to achieve my business plan	3.3	3.3	10.0	50.0	33.3
I am creative in solving problems	0	0	16.7	60.0	23.3
I always work hard to promote my business	0	0	3.3	30.0	66.7
Competition in the business motivates me to improve my business	0	0	3.3	43.3	53.4
I am always calm and think positively in facing all the challenges in the business	0	0	3.3	40.0	56.7

The government has provided various forms of support and assistance in the nurture of female entrepreneurs. The availability of the opportunities for the businesses in terms of loan facilities, business development programmes and training play important roles in motivating the entrepreneurs to venture into their present businesses. It is evidenced when most respondents agree with these statements. However, there is a small number of respondents do not agree on the availability of financial assistance and development programmes by the government as factors that influence the successful business. By referring to Table 4.4(f), less than 10% of these respondents denied the importance of such support programmes.

Table 4.4(f): Facilities/Helps

Facilities/Helps	Totally Disagree (%)	Disagree (%)	Somewhat Agree (%)	Agree (%)	Totally Agree (%)
Government provides financial assistance in developing business	6.7	16.7	13.3	50.0	13.3
Various business development programmes made available by the government /non-governmental agencies	3.3	3.3	16.7	30.0	46.7
The assistance by various agencies lead to the success of my business	6.7	3.3	13.3	30.0	46.7

Organized training programmes lead to the success of my business	0	0	16.7	33.3	50.0
Relevant business facilities and infrastructures are needed to ensure successful business achievement	0	0	0	40.0	60.0

This study further discover that a total 70 per cent of the respondents agree that they earn more income after being entrepreneurs and the same percentage of respondents agree that it is important to conduct businesses based on Islamic law and values in order to earn blessings in lives and hereafter from Allah SWT (76.7%). In addition, almost 70 per cent of the respondents agree that the biggest challenge faced by Malay women entrepreneurs is to have work-life balance.

5. Conclusion

From this preliminary survey on rural women entrepreneurs in Kedah, this study finds most of the respondents are married, have secondary level of education and some previous working experience. The result shows that almost 80 per cent of respondents believe in religion, work hard, and always thankful to God. In terms of the five elements, the study finds that most of these rural women entrepreneurs have all the personal characteristics needed to become a successful entrepreneur. They agreed on the importance of cultural values and Islamic values in managing their business. To ensure successfulness, they them highlighted the importance of family support and also the role of government in terms of training and conducive facilities.

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A Research on Hebei Urbanization Based on Analysis of the Carbon Footprint

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Abstract.

With the acceleration of urbanization, China's ecosystems are facing increasing pressure. This paper will explore the resources and environmental constraints during the process of urbanization in Hebei Province, by using the carbon footprint analysis of the ecological footprint method. By calculating the carbon footprint and carbon deficit change in Hebei Province in recent years, as well as based on the analysis of urbanization development, we verify that urbanization in Hebei Province and carbon footprint are significantly correlated. Moreover, we deeply analyze the fossil energy consumption structure and its corresponding contribution factor in Hebei Province. Finally, this article explores the new urbanization development model in order to slow the growth of the carbon footprint in Hebei Province.

Keywords: Hebei Province; urbanization; ecological footprint; carbon footprint

Urbanization is an irreversible historical process during the current economic and social development. With the process of urbanization, China's ecosystems are facing increasing pressure on resources and environment. In particular, the continual growth of consumption of fossil fuel energy has created a huge bottleneck on our urban development, as seen evidently in Hebei Province. In the process of urbanization, we have to control energy consumption with efforts, and improve the city's capacity to carry resource and environment, which has a special significance for Hebei Province for it is situated in the capital economic circle.

1. Carbon Footprint and Its Relationship with the Development of Urbanization

The concept of the carbon footprint comes from the ecological footprint. The concept of ecological footprint was proposed and developed by an ecological economist professor—Ress and his students Professor Wackernagel and Dr. Wada. The ecological footprint method quantitatively determines the sustainable development state of a region, by estimating the consumption of natural resources needed to sustain human and the size of the ecological and productive space required to absorb waste generated by human, and comparing these with the region's natural carrying capacity of the ecosystem^[1]. Ecological footprint include the following components: farmland, woodland, grassland, fishing land, construction land and carbon footprint (i.e. carbon sequestration land). The carbon footprint represents the vegetation area that is used to absorb carbon dioxide caused by fossil fuel combustion emissions after deducting the ocean carbon absorption contribution. Combustion of fossil fuels (which contain some natural resources, such as coal, oil and natural gas) will produce greenhouse gases and destroy

the ecological environment. Corresponding vegetation area is needed to absorb carbon emissions caused by fossil energy consumption. Ecological footprint theory can quantitatively assess the occupied size of ecosystems by human activities, and reveal the relationship between human development and ecosystem carrying capacity [2].

Since 2008, the international environmental organization World Wildlife Fund (WWF) and the Council for International Cooperation on Environment and Development of China have been releasing "China Ecological Footprint Report" every two years. Report showed that in the last 50 years, China's ecological system has been facing growing challenges of resource requirements. Among them, the proportion of fossil carbon footprint caused by energy consumption in the entire ecological footprint has been increasing very obviously. In 1961 the proportion was just 10%. In 1998, it accounted for 35%. In 2003, it increased to 41%. In 2008, carbon footprint accounted for more than half of the ecological footprint, reaching to 54%. From 2003 to 2008, China's per capita carbon footprint increased by 76% [3]. In 2011, China's per capita carbon emission increased by 9 percent from 2010, reaching 7.2 tons. It is obvious that the carbon footprint caused by fossil energy consumption has become the most significant factor to influence the size of ecological footprint.

Energy is always the basic material base for human's survival and development. Especially in the modern society, the development of national and regional urbanization generated a growing dependence on energy. Practices in the past 50 year have proved that China's ecological footprint had obvious dependence on the level of urbanization. Urbanization's driving force on China's ecological footprint is mainly due to the expansion of consumption and the change of consumption patterns. Urbanization process will be accompanied by a growing need of infrastructure, energy and natural resources. The most obvious fact is that urbanization led to the rapid rise in energy consumption. As seen from the aspect of primary energy consumption alone, 80% of China's current energy demand comes from cities and towns. This adds to tremendous pressure to the ecological system.

In the future, with the rising proportion of urban population and incomes, the national economy and resident consumption will maintain rapid growth, and the urban migration will change people's consumption behavior and habits. Studies have shown that when a rural resident transfers into an urban one, his energy consumption will increase by 3.5 times and electricity consumption will increase by 3 times. Meanwhile, the acceleration of urbanization will be accompanied by a substantial increase in the consumption of urban energy resources. According to estimates, every one percent increase in the urbanization rate leads to increase of 49.4 million tons of standard coal of energy consumption, 6.45 million tons of steel consumption, 21.9 million tons of cement consumption, 10,000 tons of life ammonia emissions, 195,000 tons of life nitrogen oxide emissions, 25.25 million tons of CO₂ emissions and 5.27 million tons of garbage production.

Hebei Province is a major energy consumer. With economic development and improvement in the level of urbanization, energy demand is also increasing. Since 1991, fossil energy consumption in Hebei has increased to 294,982,900 tons of standard coal in 2011 from 64,719,300 tons of standard coal, representing a 3.56-time increase over 20 years. Data shows that fossil energy consumption in Hebei is dominated by coal consumption and has a simple structure, while the share by oil and natural gas consumption is relatively small.

7. 2. Carbon Footprint of Energy Consumption and Capacity in Hebei

2.1 Carbon Footprint Model

Although in recent years a number of organizations and research institutions widely applied the concept of carbon footprint, the definitions used are not entirely consistent. In different definitions, the calculated results for carbon footprint are not the same. Taking the scope of this paper into account, in this paper, the carbon footprint is defined as the carbon emissions because of the consumption of fossil fuels. While coal, oil and natural gas consumption are the major contributors to carbon emissions in the atmosphere, thus the carbon footprint is the total carbon emissions produced by the three main fossil energy consumption^[4].

Currently, there are three internationally recognized ways of carbon footprint calculation^[5]: The first is the life cycle analysis (LCA). The second is carbon emissions of fossil fuel calculation method (IPCC carbon emission method), and the third is input-output method (IO). Life cycle analysis is a bottom-to-top method of calculation, which calculates "From the start to finish" process of the product, and the calculation process is relatively detailed and accurate. IPCC carbon emission method is list of greenhouse gases prepared by the Committee on Climate Change and fully considers the greenhouse gas emissions during computation. Input-output method is a bottom-to-top method of calculation, which use the input and output approach, and its calculation results are inaccurate. We use IPCC carbon emissions method in this paper, mainly through the carbon emissions by using fossil fuel energy to calculate carbon footprint, and made the appropriate on the basis of the IPCC carbon emissions method. At present, there are the following main energy: fossil fuels, power, biomass, solar, hydro, wind and nuclear energy and so on, and the fossil fuels energy, as the representative of the traditional energy sources, mainly gives rise to carbon emissions, which is consistent with current energy consumption features in Hebei Province. Therefore, this paper mainly calculates the traditional high-carbon energy fossil fuels, which leads to carbon emissions, and the involved energy includes coal, oil and natural gas. The carbon footprint of this paper is divided into three specific accounts: carbon footprint of coal, carbon footprint of oil and carbon footprint of natural gas. By building energy consumption model, we calculate the carbon emissions of primary energy consumption each year in Hebei Province. In this paper, the energy consumption of carbon emission model is as follows^[6]:

$$Ch = \sum Qh_i \times NCV_i \times \frac{1}{1000} \times (Cf_i \times \frac{12}{44} + Mf_i \times \frac{12}{16})$$

In the above formula, Ch stands for fossil energy consumption carbon footprint; Qh_i represents the fossil energy consumption of the i kind; NCV_i means net calorific values of energy (TJ/Gg, 1Gg = 109g); 1/1000 means the unit conversion factor; 12/44, 12/16 respectively, means the carbon content of CO_2 and CH_4 conversion factor; Cf_i and Mf_i are default CO_2 and CH_4 emission factors; NCV_i , Cf_i , Mf_i all adopt the given values of IPCC 2006 (The respective region-specific emission factors for various types of gas have not been found, so this paper uses data of the "IPCC 2006 guidelines for National Greenhouse gas Inventories").

2.2 Carbon bearing capacity calculation model

Carbon carrying capacity is defined as follows: it is the maximum capacity of all productive land in an area to absorb carbon emission. According to the data that the Intergovernmental Panel on Climate Change (IPCC) published in 2011^[7], we can know that terrestrial ecosystem in forests and grasslands played a decisive role in fixing carbon, reaching to 93% of the total accumulation. Therefore, this paper mainly takes the carbon carrying capacity of forest, grassland into considerations for computation of carbon carrying capacity. In this paper, we use NEP indicators to reflect the carbon absorption of

different vegetations. Net ecosystem productivity (NEP) reflects the carbon sequestration capacity of vegetation, which is the carbon absorption of 1hm² of a type of vegetation in one year. Hebei Province has a tropical monsoon climate. Therefore, NEP values of forests and grassland were taken as 4.50t/hm², 0.95t/hm²^[8]. Carbon bearing capacity calculation model is as follows:

$$CC_w = \sum CC_f + CC_g$$

$$CC_i = M_i \times NEP_i$$

In this model, CC_w is capacity for regional carbon; CC_f stands for forest carbon sequestration capacity; CC_g stands for grassland carbon sequestration capacity; CC_i represents the carbon sequestration of the i kind of productive land (vegetation); M_i is the area of the i kind of productive land (vegetation); NEP_i stands for the NEP of the i kind of productive land (vegetation). Carbon deficit calculation method:

$$CD_w = CC_w - Ch$$

CD_w represents the carbon deficit for the region, when its number is greater than zero, which indicates the carbon surplus; less than zero, which indicates the carbon deficit.

The data used in this study, including the recent 20 years' related data of fossil energy consumption as well as forest, grassland area sizes in Hebei Province, is from "Hebei Economic Yearbook" (2000-2012), "China Statistical Yearbook" (2000-2012) (The data of forest and grassland area sizes between 1991 and 2004 is missing due to incomplete statistics).

2.3 Data processing results

Using the above carbon footprint analysis model, we calculated 1991-2011 years' carbon footprint for fossil energy consumption and carbon carrying capacity in Hebei Province, and the results are shown in Figure 1. Since the data of 1991-2004 years' forest and grassland area is unable to be obtained, we only calculated the carbon carrying capacity from 2005 to 2011. However, by calculating the carbon carrying capacity between 2005 and 2011, the recent carbon footprint and carbon capacity trends in Hebei Province can basically be reflected.

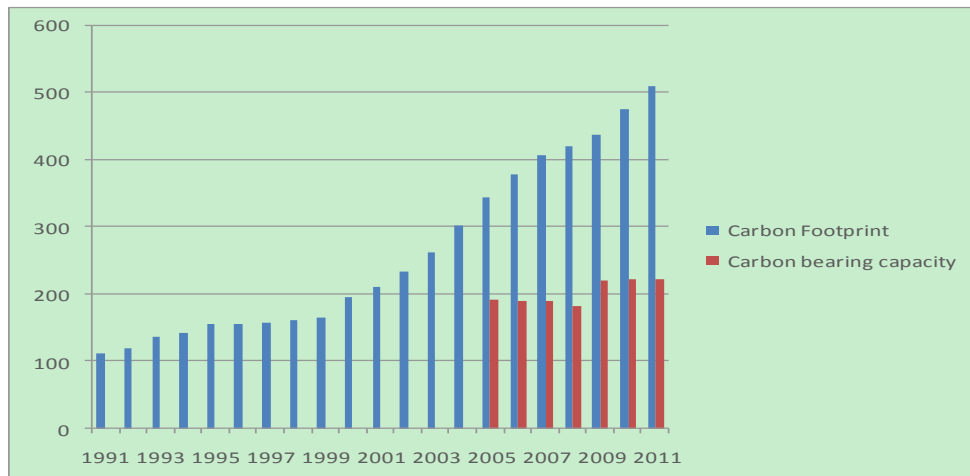


Figure 1 Hebei carbon footprint of fossil energy consumption and carbon bearing capacity (Unit: 10⁵tC)

As can be seen from Figure 1, the carbon footprint of fossil energy consumption in recent years has far exceeded the carbon bearing capacity, and carbon deficit has shown a widening trend year by year. The carbon deficit increased to 28804247tC in 2011, from 15244088tC in 2005, making an increase of 88.95% over 7 years. In 2012, Hebei Province ranked second in energy consumption, and energy

consumption per unit of GDP is almost 60% higher than the national level. To predict according to the current style and rate of energy consumption, in a long period of time, the carbon deficit of fossil energy consumption will not be reduced but continue to increase in Hebei, rendering the situation not optimistic.

From the overall structure of carbon footprint of fossil energy consumption in Hebei, the carbon footprint of coal takes the largest share, followed by the carbon footprint of petroleum and natural gas. The carbon emissions footprint of coal made up more than 80% of all carbon footprint. The proportion of carbon emissions footprint of petroleum is between 13%-17%, and the proportion of natural gas is only 1%-2%. This shows that in the carbon footprint of fossil energy consumption structure, coal consumption is the most important contribution factor, and therefore, it is the most important reason that results in the continual increase of carbon deficit in Hebei. The structure of carbon footprint from fossil energy consumption in Hebei is shown in Figure

2.



Figure 2: Hebei carbon footprint fossil energy consumption structure

Because of the long-term emphasis on the industries like steel, construction materials, petrochemical, electric power in Hebei Province, the energy consumption pattern is not reasonable and leads to irrational energy structure. About one-third of carbon emissions is generated from the coal-fired electricity.

8. 3 The Relationship between Urbanization Process and Fossil Energy Carbon Footprint of Hebei Province

As mentioned above, under the established model of urbanization development, there is some correlation between fossil energy consumption and urbanization process. Therefore, it is necessary to make further analysis of the intrinsic relationship between carbon footprint of fossil fuels and urbanization rate. In this paper, the urbanization rate is determined by using the number of urban population in an area divided by the total population of the region. With this method, we can calculate the rate of urbanization of Hebei Province in the years between 2000 and 2011, and we obtain the data of 1991 - 1999 through references from other sources [9]. Statistics show that Hebei's urbanization rate in 2000 was 26.1%, rose to 45.6% in 2011. The urbanization rate increased by 19.5% in 11 years.

3.1 Correlation Analysis

As can be seen from the scatter plot, the data of Hebei's urbanization rate and the carbon footprint scattered in the area from the upper right to the lower left corner, and the two variables have a very significant linear correlation trend. Moreover, we have not found outliers posing strong influence from the figure. Therefore, we can perform the correlation analysis.

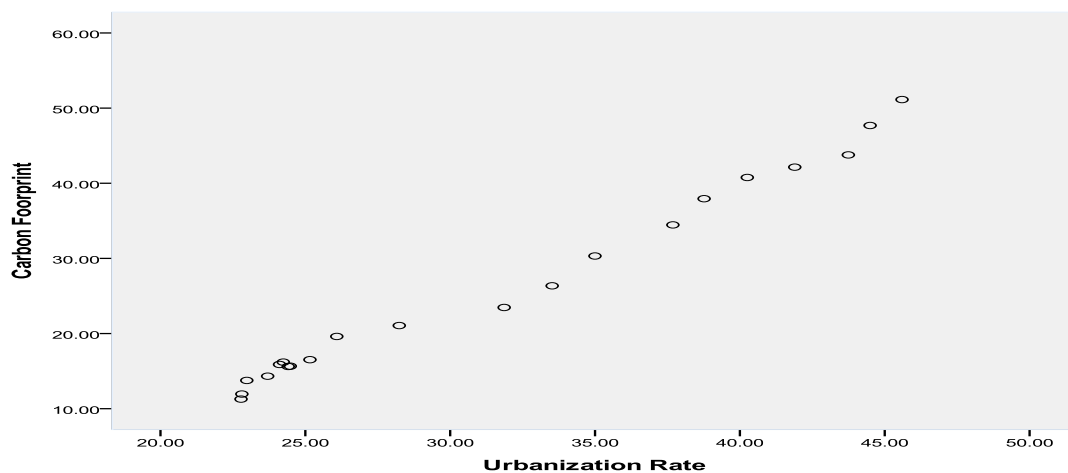


Figure 3: The relationship between urbanization rate and carbon footprint

In doing the correlation analysis, we use SPSS statistical software to analyze these two variables, Hebei's urbanization rate and carbon footprint, in order to measure the degree of closeness of the relationship between these two variables. The results are as follows:

Table 1: Correlation Analysis

		Carbon Footprint	Urbanization Rate
Carbon Footprint	Pearson Correlation	1	.993**
	Sig.(2-tailed)		.000
	N	21	21
Urbanization Rate	Pearson Correlation	.993**	1
	Sig.(2-tailed)	.000	
	N	21	21
**.Correlation is significant at the 0.01 level (2-tailed).			

From the analysis results, we can see that the correlation coefficient between the urbanization rate and the carbon footprint is 0.993, which indicates a positive correlation between the two variables, and the correlation is relatively strong. Thus, there is an obvious statistical significance.

3.2 Linear Regression Analysis

In order to forecast the trends of urbanization rate and carbon footprint, we create a simple linear regression model, taking the urbanization rate as independent variables and the carbon footprint as dependent variable. The resulting SPSS linear analysis is as follows:

In this model, urbanization rate serves as an input variable, namely the independent variable, and the carbon footprint acts as the dependent variable.

Table 2: model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.993a	.986	.985	1.57813
a. Predictors(Constant), Urbanization Rate				

The fitted model is as follows: It shows the correlation coefficient --R is 0.993, which means that the correlation between these two variables is 0.993, and the coefficient of determination-- R^2 is 0.986, indicating that the regression model can explain 98.6% of the variation situation of independent variables .

Table 3:Anova^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3356.504	1	3356.504	1347.731	.000a
	Residual	47.319	19	2.490		
	Total	3403.824	20			
a. Predictors(Constant), Urbanization Rate						
b. Dependent Variable: Carbon Footprint						

The results in the model: we use the F value to testify the significance of the regression equation.

The F value test calculation shows that $F_{0.01}(1,20)$ is equal to 8.10, and F equals to 1347.731, which is bigger than 8.10, thus we deny H_0 , meaning that the urbanization rate has a significant influence on the carbon footprint.

Table 4:Coefficients ^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-22.933	1.382		-16.599	.000
	Urbanization Rate	1.559	.042	.993	36.711	.000
a. Dependent Variable: Carbon Footprint						

The above table shows all test results, including constant coefficients, using t-test.

The t-test calculation shows that $t_{0.01/2} (19)$ is 2.8609, $|t|$ is equal to $1.559 \times (1381.741)^{1/2} / 1.563$, namely 37.0766, which is bigger than 2.8609, therefore we reject H_0 . That is to say, the independent variable - urbanization rate - and the dependent variable - carbon footprint - have a significant linear correlation relationship, and the regression results are obvious.

Therefore, from the results obtained by the above analysis, we can know that between the urbanization rate and the carbon footprint exists the following linear relationship: suppose Y is carbon footprint and X is the urbanization rate. Then the relationship is $Y = 1.559X - 22.933$. The higher the urbanization rate is, the bigger the region's carbon footprint will be.

"China Securities News" reported that Ma Xiaohu, Macroeconomic Research Institute of NDRC, said that according to national development planning and relevant predictions of United Nations, by 2020, China's urbanization rate will reach 60%. Thus, it can be predicted that if the urbanization rate could reach 60% in Hebei province in 2020, the carbon footprint will be 70607000tC. If we assume that the carbon bearing capacity remains at 22333105tC in 2020, by then the carbon deficit will reach 48273895tC in Hebei, and the deficit is 1.68 times of the current number.

9. 4 The urbanization choice of Hebei Province

Through the above analysis, we can see that there are two major problems during the process of urbanization in Hebei Province. Firstly, with the improvement of the level of urbanization, the carbon footprint has been growing and carbon deficit has been expanded year on year. Secondly, since coal consumption takes large proportion and its carbon emission factor is high, carbon emissions is mainly generated by coal consumption. Although in recent years Hebei Province has made positive changes to the structure of excessive dependence on coal energy consumption, so far there has been little success. Environmental monitoring data shows that several cities in Hebei Province were among the most heavily polluted ones in China, making Hebei the province that suffers the most air pollution. Energy conservation task has become very difficult. Therefore, choosing one way of urbanization development that can both guarantee the realization of the goal of urbanization and is not at the expense of the living environment. It is one of the most urgent tasks for Hebei Province.

4.1 Instill the concept of low-carbon urban city throughout the entire planning and construction process

Low-carbon economy is an economic development model which is based on low energy consumption, low emission and low pollution. It is another major progress following the industrial civilization and agricultural civilization of human society, and it is bound to affect the selection of future urban development mode. Low-carbon economy has more emphasis on efficient production and energy

use through industrial restructuring and upgrading, high-tech applications and the development of environmental protection industry. The major problems in the industrialization and urbanization process have close relationship with the unresolved problems related to low-carbon economy. Therefore, during the process of determining patterns of urban development and improving the urban development planning, we should attach great importance to the concept of low-carbon and truly integrate the concept into the process in order to expand the urban environment capacity and improve urban ecological carrying capacity.

Firstly, in order to achieve urban planning for sustainable development in harmony with nature, we should support the concept of low-carbon urban planning-led approach. Secondly, we should change the modern urban lifestyle with low carbon concept and characteristic. Meanwhile, the government should take a low-carbon policy as a lever to guide the low-carbon urban planning. Only when we promote low carbon concept in the urban development process, can we reduce waste and improve the efficiency of energy.

4.2 Simultaneously promote urbanization and the structural adjustment of energy consumption

In the fossil energy consumption, coal has the highest carbon content, followed by oil. While the natural gas only has 60% of carbon-intensive calorific value per unit of coal's. And solar, wind, hydro, nuclear, etc. belong to non-carbon energy sources. Therefore, in order to provide clean and efficient energy security of urban development, we need to adjust the coal-based fossil energy consumption structure under the premise of total control, to implement clean coal utilization projects, and to increase the proportion of petroleum, natural gas and other clean energy. We also require to accelerate the development of wind, solar, biomass and other green energy, and to increase the weight of low-emission, low pollution, high calorific value clean green energy. To meet this requirement, it is necessary to adjust the industrial structure as an important way to adjust energy consumption structure, and actively develop the low-carbon industries bearing characteristics like low energy consumption, low pollution, high calorific value. High-carbon industries' access to the market should be limited. Industrial transfer incentives and compensation and benefit-sharing mechanisms should be placed to encourage the development of advanced manufacturing, high-tech industry and modern service industry. Meanwhile, we should actively promote optimization and upgrading of related high-energy industry.

4.3 Increase supervision on the technological transformation of key industries

In the industrial field, the current high energy consumption and high pollution industry in Hebei Province mainly include the following six industries: metallurgy, electric power, construction materials, petrochemicals, chemicals, and coal. During the process of urbanization in the future, we should have strict examination and strict planning on these industries and enterprises, develop strict standards for energy consumption and pollutant emission. and set higher barriers of entry to new projects in energy conservation, environmental protection. In addition to strengthening supervision of existing enterprises, we have to strengthen technological innovation, improve the technological innovation system, increase research and development of key technologies, reinforce technological transformation of energy saving and process energy management, speed up the elimination of outdated production capacity, and improve equipment and technical level.

4.4 Include the development and utilization of new energy into the urban construction planning

In essence, the new energy and renewable energy sources have the characteristics of low emission or zero-emission. They can fundamentally solve the problems caused by two major drawbacks of fossil fuel, namely its limited reserve and pollution, and improve urban sustainable development capacity. To this end, during the urban planning and construction, we should accelerate the development and utilization of wind, solar, biomass and other green energy and their related infrastructure. Also, through franchises, government procurement, pilot testing, subsidies on new energies and other ways, the government should provide policy support and guidance in the fields of green energy efficient home (solar thermal, photovoltaic), green transportation, green consumption, and other fields, and encourage the development of related industries in order to enhance the city's comprehensive carrying capacity. In order to provide energy saving technology and equipment support, we should establish an energy saving innovation and technology transfer system. It takes enterprises as the main body, and with a combination of industry-university-research cooperation, it foster a number of energy-saving enterprises which have independent intellectual property rights, independent brands and core competitiveness. On this account, we can constantly improve the energy saving technology innovation system.

The road of urbanization in developed countries has shown that the accompanied growth of carbon footprint with increasing urbanization is not an irreversible historical law. During the process of urbanization planning and construction in Hebei Province, as long as we insist on implementing the concept of low-carbon city, constantly adjusting the industrial structure and energy consumption structure, strengthening the technological transformation of key industries and the development and application of new energy so that we lead a new way of urbanization, the inflection point of low-carbon urbanization will come soon.

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