

Local Economic Development Strategy Based on Local Industrial Core Competence

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Abstract

Local economy can be promoted through the development of small and medium industries by building up local industrial core competence. Local core competence is one of the strategies to increase local competitive advantage through the optimization of local competitive potency. This study was aimed at drafting the strategy of local economic development through local industrial core competence based on competitive commodities of Banyumas district.

This study employed qualitative as well as quantitative approaches. The study site is Banyumas Regency. Data collecting techniques include secondary data mining, survey, observation, in-depth interview, and focussed group discussion. Data were then analyzed using interactive analysis, Analytic Hierarchy Process and Interpretive Structural Modeling.

The results show that batik is the most potential industry to be the local industrial core competence in Banyumas district. The competitive advantage of batik as the industrial core competence of Banyumas district can be executed through the following three stages: (1) initial stage (infrastructure improvement, finance and legislation support) (2) main stage (human resource development, management and marketing, branding and the creation of batik uniqueness) and (3) final stage (increase in productivity and initiation of related and supporting industries).

Keywords: local industrial core competence, small and medium industries, competitive product, batik, local economic development

1. Introduction

Local development is very important to optimize local economy in order to improve the welfare of people. Within the perspective of local competitiveness, the advantages and disadvantages of individual localities should create synergy to promote distribution and harmonization of regional economic development. The potency of individual localities should be promoted to be their competitive advantage. One of the strategies to promote local competitive advantage is the development of local industrial core competence. The term core competence, initiated by Prahalad and Hamel (1990), serves as the source of competitive advantage in future competition (Prahalad and Hamel, 1994). Core competence is an integrated pool of expertise and technology accumulated through learning leading to business competitive advantage (Agha et al., 2012). Within the framework of local economic development, this concept could be the basis for local development because it is rooted on the advantage of a particular area. Prahalad and Hamel (1990) argued that core competence should have the following characteristics: it delivers real benefit to customers, it is not easy for competitors to imitate, and it opens access to quite a few markets.

Within the perspective of local economic development, core competence consists of an integrated set of capabilities of a particular locality to develop its competitive advantage through its uniqueness (Indonesian Ministry of Industry, 2007). The implementation of local core competence can be observed in Japan (one village one product), Thailand (one tambon one product), and Malaysia (one district one industry) (Radiah and Rosli, 2009; Nurchayo et al., 2012). In Indonesia, the concept has been called one district one core competence (Huseini, 1999; Nurchayo et al., 2012).

Local development is a process that involves many elements, needs strategies and action plans to realize the

identified potencies, deals with constraints, promotes growth to a broader region, and increases capacity which finally leads to the creation of local competitive advantage.

Banyumas district is located quite strategically as it connects many other regions. Brata (2009) found that local economic performance is mostly determined by geographical location apart from other factors such as local government policy, human resources, and financial access. The analysis of potency of resources and its exploitation in 35 districts or city in Central Java province indicated that Banyumas district ranked 21. This shows that the potency of Banyumas has not been optimally managed to improve its competitive advantage.

One of the problems facing Banyumas district in developing its competitiveness is the lack roadmap and action plan based on competitive commodities. Suroso *et al.*, (2011) found that Banyumas district had 8 basis subsectors in developing local economy. These include food crops, vegetables, cash crops, fruit, livestock production, fishery, manufacturing industry, and tourism. Development Planning Board of Banyumas district (2012) decided five commodities including batik, atsiri oil, gurami fishery, natural tourism, and palm sugar as the competitive commodities of Banyumas district. Those commodities are the basis for stakeholders to determine the local industrial core competence to develop local economy. This study is aimed to draft the strategy of developing local economy of Banyumas district through local industrial core competence. This study provides a framework for local government and others stakeholders in Banyumas district in developing regional competitiveness through building a core competency based on local potential.

2. Literature Review

2.1 Local Economic Development

Economic development is a process to increase income percapita in the long term. Economic development consists of 3 main elements: process, increase in income per capita, and long term. Economic development has the objective to change a particular country's economic current condition to a better one where the people can live in a high state of welfare.

According to the World Bank (2001), local economic development is a process by which all stakeholders work collectively with partners from public, private, and nongovernmental organizations to create a better condition for economic growth and employment. Through this process, they create and maintain a dynamic business environment, increase economic welfare and quality of life. Local economic development is based on developing local entrepreneurship and local business and collaboration between local government and other organizations in exploiting potential sources to promote economic activities.

Rahab (2012) showed that the development of competitive commodities in Banyumas has not shown a well-structured steps. The local government of Banyumas district has not built up a roadmap pertaining to the development of local industry. Small and medium industry in Banyumas district has developed without a grand blueprint. Programs to develop small and medium enterprises are temporary, partial and short-run oriented. Comparing regional economic development in 5 districts (Banyumas, Purbalingga, Kebumen, Banjarnegara, and Cilacap), they found that even though every local government has decided upon their competitive commodities, there has been no detailed strategy and action plan through which the commodities will be developed. The local government has not drafted roadmaps on how the commodities sustain their competitiveness. The lack of master plan in developing small and medium industry results in the fact that the direction of small and medium industry is susceptible to the change in local government regime.

One of the factors contributing to the low competitive advantage of local small and medium industry is the problem of value chain management. Rahab and Sudjono (2012) found that the shortage of raw materials and lack of market network has constraint the progress of small and medium industry. In another study, Rahab *et al.*, (2012) found that product and process innovation of small and medium industry in Banyumas district was relatively low. Therefore, external organizations need to support small and medium industry to develop innovativeness. This finding was supported by Najmudin dan Rahab (2011), who found that the entrepreneurs' low level of education, lack of coaching and limited access to business information restricted them from making innovation-based business. The role of Business Development Center, therefore, is imperative in boosting up the development of small and medium industry in Banyumas district (Purwantojati *et al.*, 2010).

2.2 Core Competence

The concept "core competence" was instigated by Prahalad and Hamel (1990), based on a set of tests to identify organizational resources that offer the greatest strategic value. Core competence refers to an integrated stock of skills and technology accumulated through learning and contributes to business competitive advantage (Prahalad and Hamel, 1990; Afuah, 2009). In addition, Prahalad and Hamel (1990) argued that core competence should

have the following characteristics: it delivers real benefit to customers, it is not easy for competitors to imitate, and it opens access to quite a few markets. They are strategic assets and most relevant to business's future market, product, and decision. Competence is integration between technology and production expertise.

Markides and Williamson (1994) defined core competence as pool of experience, knowledge, and system to work simultaneously as catalyst to create and pool new strategic assets. Teece *et al.*, (1997) concluded that core competence should root from an organization's and its competitors' products and services. The value of core competence can be increased by combining products and services with relevant complementary assets.

Hafeez *et al.*, (2002) defined core competence as business sources consisting of physical, intellectual, and cultural assets. Furthermore, core competence can be described as something "unique", "special", "hard to imitate," and "highly competitive". Core competence can be defined as "deployment of resources" or "skills". Shieh and Wang (2007) argued that core competence consists of activities by an organization to be more successful than its competitors and the market needs the product/s. In particular, an organization's core competence is combination of competitive resources in all business strategies.

2.3 Local Core Competence

Within the perspective of local economic development, core competence consists of an integrated set of capabilities of a particular locality to develop its competitive advantage through its uniqueness (Indonesian Ministry of Industry, 2007). By developing local core competence, empowerment will be focused, efficient, and effective in relevance with local potency. Core competence is a pool of unique organizational resources and assets needed to achieve organizational goals (Nurchahyo *et al.*, 2012; Rahab, 2012). The uniqueness makes it difficult for competitors to imitate. Analogous to the idea of one village one product (OVOP), based on product uniqueness developed by Governor Hiramatsu in Oita, Japan, the objective of the development of local industrial core competence is to improve local resources or products that the international market demands.

In Indonesia, the concept of core competence has been adopted into one district one core competence (Satu Kabupaten Satu Kompetensi: SAKA SAKTI) as stated by Huseini. According to Huseini (1999), in order to develop local competitive advantage, core competence should be created. Such competence is required in order that all resources and capabilities are focused on efforts to create core competence. This concept is rooted on the belief that specialization in one commodity in an area will increase the expertise of people living there.

Mulyadi (2010) argued that the development of local industrial core competence would bring about the following benefits:

- a. To exploit local resources at an optimum level.
- b. To distribute industrial sectors in many areas.
- c. To improve local competitive advantage based on local advantage.
- d. To increase value added for the supply chain of the local competitive product.
- e. To develop local uniqueness.
- f. To build collaboration among regions.
- g. To improve the welfare of local people.

3. Method

This is a multidisciplinary study including management science, public policy, and development economics. This study employed qualitative as well as quantitative approaches. The qualitative approach used is case study, whereas to answer the questions of why and how to develop local industrial core competence, Interpretive Structural Modelling approach was used. Quantitative approach was required to analyze the condition of small and medium industry, the potencies of human resources, market, profile of competitive product and to describe respondents' responses and the decision upon local industrial core competence. *Analytical Hierarchy Process* (AHP) method was employed to determine the local industrial core competence (Al Harbi, 2001).

This study was located in Banyumas district. Data were collected using observation, interview, survey, and Focussed Group Discussion (FGD). Informants include businesspeople of small and medium industry, Regional Board of Development Planning of Banyumas district (BAPPEDA), local government agency on industry, trade, and cooperative (Dinperindagkop), Local Board of Legislatives (DPRD), related government agencies, non-governmental organization, mediare presentatives and academicians. Informants were selected by snowball sampling technique.

4. Results and Discussion

4.1 Profile of Respondents

A total of 30 respondents were selected consisting of 23 males and 17 females. Distribution by profession shows that they comprise 2 businesspeople (who also represent business association), 15 academicians, 13 persons from local government agencies, and 1 from banking sector.

4.2 Identification of Core Competence

The core competence was identified using Analytical Hierarchy Process (AHP). In this study, data were analyzed from 30 experts. The hierarchical process of selecting the core competence is displayed at Figure 1.

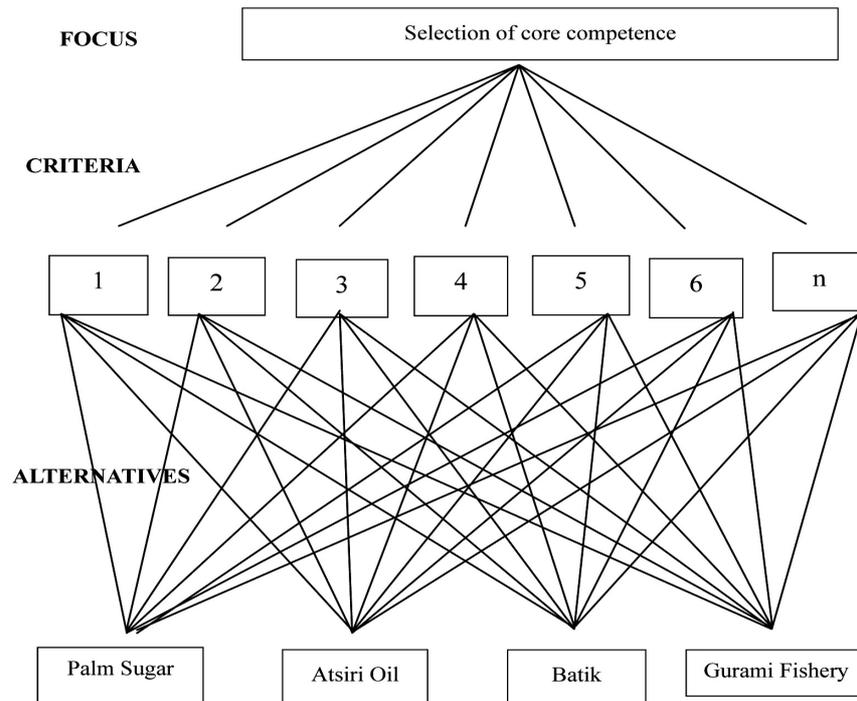


Figure 1. Stages of the selection of commodity as the core competence

Figure 1 shows that the selection stages of core competence consist of 2 levels. Level 1 concerns about the objective of decision making to choose a commodity as the core competence. At level 2, there are 10 criteria, which include contribution to local development, social impact and income distribution, supply of human resources, infrastructure, prospect of value added, level of competitiveness, marketing, local value, geographic condition, policy and institutional support. Those criteria have been determined by The Ministry of Industry (2007) and discussion with experts.

4.3 Strategy of Developing Batik as the Local Industrial Core Competence

In the development of industrial core competence in Banyumas district, this study used Interpretive Structural Modelling (ISM). This method can help a group to identify contextual relationship among sub-elements of each element of a system based on determining idea or structure in a complex problem (Saxena, 1992; Takkar and Deshmukh, 2008; Bhattacharya and Momaya, 2009; Aguilera and Rodrigo, 2011).

The first stage of ISM is brainstorming with experts to pool ideas of developing batik. Experts are those who understand ISM concept, local development, and have expertise in industrial sector, batik in particular.

The selection of experts (researchers, academicians, and non-governmental organization) is based upon the following criteria:

- a. S/he is experienced in their field for a minimum of 3 years.
- b. S/he is ready to work and discuss in multidisciplinary team.

- c. S/he understands well the development of batik industry and batik products.
- d. S/he has sufficient knowledge about research location.

Discussions of the above team about the strategy of developing batik and batik products result in the following ideas (Figure 2):

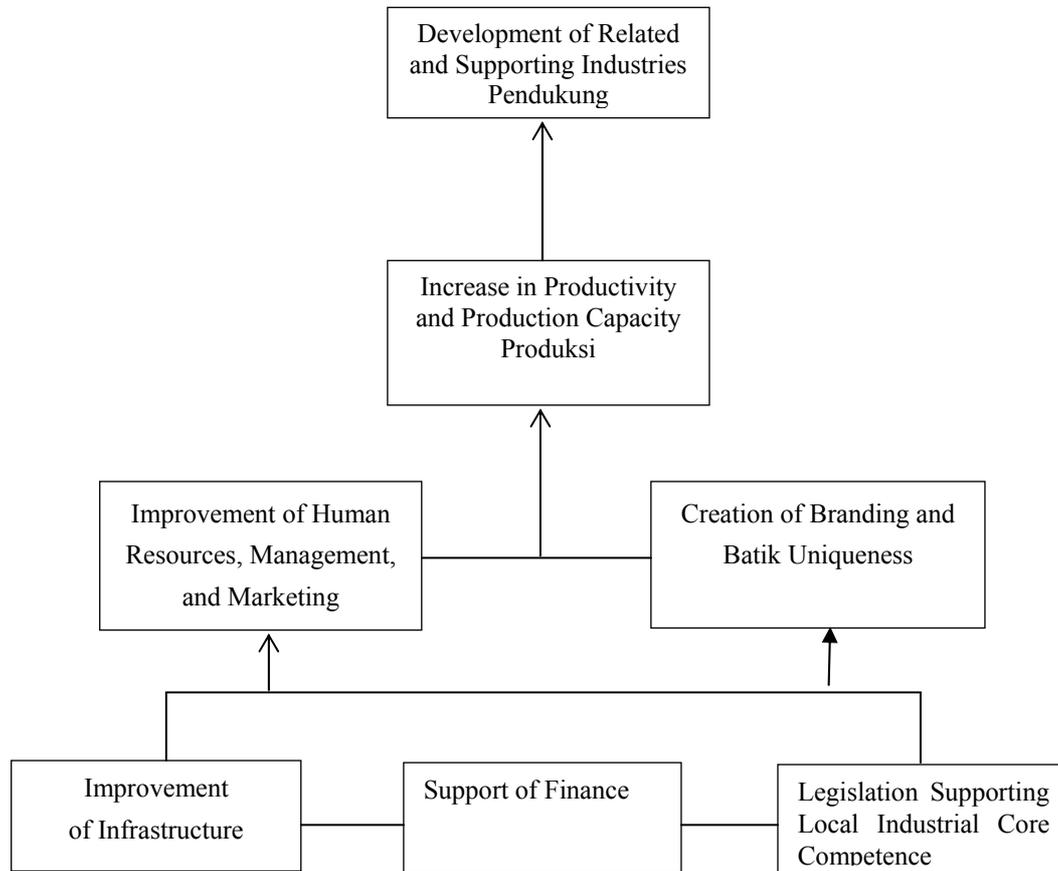


Figure 2. Result of ISM analysis

a. Creation of Branding and Batik Uniqueness

Batik Banyumas should be promoted to be the trade mark of Banyumas district, which has typical characteristics, and thus differentiating it from batik of other areas.

b. Increase in Productivity and Production Capacity

Productivity refers to the ratio of output and input. Productivity affects local industrial performance.

c. Legislation Supporting Local Industrial Core Competence

Support of government policy is required to create conducive business environment through the issues of local legislation and other policies promoting batik industry and batik products.

d. Improvement of Human Resources, Management, and Marketing

Machine restructuring program that is expected to increase productivity should be backed up by human resources who are competent and highly skilled. Therefore, such trainings as production techniques and management, and coaching program are highly recommended.

e. Improvement of Infrastructure

Development of infrastructure such as transportation, electricity, telecommunication, and distribution, is aimed to support the promotion of batik and batik products in Banyumas district.

f. Support of Finance

The role of financial institutions to promote investment and industrial development is highly needed. Financial institutions can provide credit with attractive scheme and ease in access.

g. Development of Related and Supporting Industries

Development of supporting industry cluster seems to be an effective alternative approach to promoting industrial competitive advantage and local development.

4.4 Implementation Strategy of Batik as Local Industrial Core Competence

The development of batik in Banyumas district can be divided into 3 stages. The first stage, during the period of 2013-2014 will be the building of foundation. At this stage, it is expected that the local government of Banyumas district arrange policies that are conducive for the development of batik and batik products. These may include incentive, low tariff rate for machinery (through lobbying to The Indonesian Government) or any other policies. Furthermore, the local government should collaborate with financial institutions to create scenarios in order to promote batik and batik products such as credit with low interest rate, ease and accessing credit, etc.

The second step is the development of human resources, management, marketing, and branding during the period of 2014-2015. At this stage, interventions include training for crafters, expo, website development to promote batik, and business training for batik businesspeople. Moreover, at this stage the image of Banyumas batik should be improved in order to encourage the productivity. The local government, therefore, should support by providing adequate infrastructure.

The third stage, 2015-2016, will be the benefit reaping period. The benefit is the significant production growth of batik and batik products. However, well-designed marketing is highly required to open new markets while maintaining the existing ones. During this stage, related and supporting industries should be developed and well mapped to be classified as suppliers, core industry, related industries, and last-user industries. Strengthening of the whole value chain will be based upon the mapping.

5. Conclusion

Based on Analytic Hierarchy Process, batik and batik products are found to be the local industrial core competence in Banyumas district. The criteria to select the core competence consist of contribution to local development, social impact and income distribution, supply of human resources, infrastructure, prospect of value added, level of competitiveness, marketing, local value, geographic condition, policy and institutional support.

The strategy to develop industrial core competence of Banyumas district can be classified into 3 stages: initial stage (infrastructure improvement, support of financing and legislation), main stage (development of human resources, management, marketing, branding, and creation of uniqueness), and final stage (increase in productivity and instigation of related and supporting industries). Based on those stages, an action plan was arranged for 4 years (2013–2016). The period of 2013-2014 is the initial stage, 2014-2015 is the implementation period and 2015-2016 is the evaluation of the previous periods.

6. Implication

The results of this study provide several implications. First, further research on industrial core competence in Banyumas district using other approaches is needed to obtain more objective results. Second, participation of stakeholders of batik and batik products is imperative in identifying problems, drafting plan and action in order to harmonize efforts to develop batik industry as the core competence of Banyumas district. Third, in order to sustain batik in Banyumas as the strategic commodity to increase local competitiveness and income, supporting policies should be deployed. Therefore, strong political will of the local government of Banyumas district is highly recommended to extend the competitiveness of batik in national as well as international markets.

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