

# Industrial Clusterization to Improve the Competitiveness of Small and Medium Industries in the City of Palembang

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## ABSTRACT

The existence of Small and Medium Industries (SMEs) has received attention from the government, but it is felt that it has not been able to contribute maximally to productive economic activities. Palembang City is one of the many regions in Indonesia that has great potential in the development of SMEs. This research is intended as an effort to strengthen SMEs with an industrial cluster approach, namely by mapping cluster development and formulating SMEs development strategies that have competitive advantages. The study population consisted of SMEs Nusantara practitioners in Palembang, which consisted of 260 unit. The sample of this study will focus on the types of Songket industry, the sampling method using snowball sampling techniques. The analytical method used is Cluster Map to determine business people in the cluster, Diamond Cluster to identify strategic factors and SWOT Analysis. The results of the study show the results of mapping the development strategy of SMEs Nusantara, namely to innovate designs, increase sales promotion, establish cooperation with the local government, and carry out marketing through online media.

**Keywords:** *Small and Medium Industry, strategy, cluster, SWOT Analysis*

## 1. INTRODUCTION

Small and Medium Industries (SMEs) is one of the drivers of creating employment and increasing the country's economy that is capable of competitiveness and will tend to have faster economic growth [1]. Palembang City is one of the regions in the province of South Sumatra, Indonesia, which has a quite many Micro, Small and Medium Enterprises (SMEs) totaling 28,766 units [14]. SMEs are the key to economic growth in South Sumatra, this is evident from the period of 2012 to 2017, continues to experience growth with an average growth of the number of SMEs reaching 4.8% per year [2].

The rapid industrial competition has an impact on SMEs players who have so far been seen as a "tool to reduce poverty / unemployment" rather than as "a part of the business in increasing national industry competitiveness". For this reason, in order to be able to compete, SMEs in Palembang City must have a competitive advantage, one of which is through empowering SMEs into business groupings into clusters. As revealed [3], a cluster will not succeed, if the following two conditions are not met. First, collaboration between SMEs within the cluster must be strong in production, procurement of raw materials, marketing, innovation, and others. Second, the cluster must have a strong network of cooperation with all stakeholders. The formation of specific industry clusters, especially for SMEs can significantly improve competitiveness and increase SMEs growth [4].

The SMEs clustering of increasing SMEs competitiveness can be a basic framework for developing strategies to achieve the ideal conditions that are targeted. The ability of SMEs to compete depends on several characteristic variables. Previous literature studies have been done [5] that SMEs characteristics such as working capital, information technology, and accounting knowledge have a positive and significant impact on SMEs performance, that the government through related institutions must have an approach and provide special opportunities for SMEs to disburse capital loans work without complicated requirements and low-interest rates. SMEs Owners must also commit to improve the competence of their employees through training and design/development of appropriate technology and be able to prepare Financial Statements. Efforts to increase the competitiveness of SMEs businesses can also be done through increasing the ability of technology, knowledge in production, management, and marketing [3].

Competitive position can be seen from the ability of innovation, quality focus, customer loyalty, response to change, price advantage and marketing strength [6]. For this reason, this study aims to map the development of an integrated SMEs cluster based on competitive advantage and develop strategies to be able to compete and create dynamic industrial clusters. Therefore this research is expected to be able to provide ideas related to strategies for strengthening SMEs that are superior and competitive according to the local excellence of each SMEs.

The problem in this research is how to map the competitiveness of industrial clusters in SMEs in Palembang City? What is the SMEs cluster development

strategy in Palembang? This research is expected to be useful for the SMEs industry, which is knowing strategies that can be used to be able to compete according to competitive advantage by building a network of cooperation with the government and related industries. For the Government, the results of this study can be input and consideration for formulating the development strategies of all SMEs clusters in the city of Palembang.

**2. LITERATURE REVIEW**

In the Ministry of Industry Regulation No. 6 of 2016 Article 3 Paragraph 1 states that small industries are industries that have a maximum of 19 employees, have an investment value of fewer than 1 billion rupiahs, excluding land and buildings where businesses are located. whereas, Medium Industry is an industry that has a maximum of 19 employees and the minimum investment value of 1 billion rupiahs or has a minimum employee of 20 people and a maximum investment value of 15 billion rupiahs (Minister of Industry Regulation No. 6 of 2016 Article 4). Competitiveness is a combination of institutions, policies, and factors that determine the level of productivity of a country [1].

The competitiveness of SMEs can be characterized by: (1) an increasing trend of the growth rate of production volume, (2) the share of the domestic market and / or export market that is always increasing, (3) for the domestic market, not only serving the market only local but also national, and (4) for export markets, serving not only in one country but also many countries [7]. The competitiveness of SMEs products can be improved through creativity through learning and competence [8] and the company's commitment to market competition and success in the market competition itself [9]. [10] revealed four factors of competitive advantage, namely factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. The cluster is an interconnected system organ [11]. [12] defines a cluster (Diamond Cluster) as an area of industrial concentration or other institutions related to certain sectors. A cluster consists of core companies, related industries, supporting industries, and other services as a whole [13].

**3. METHODOLOGY**

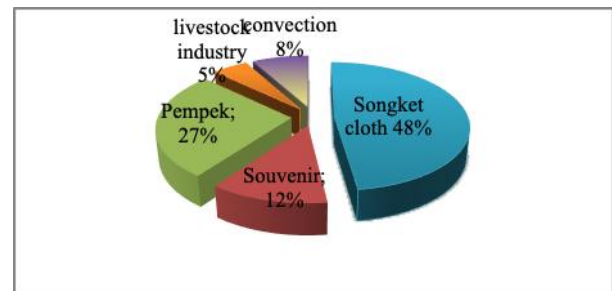
This type of research is qualitative research using descriptive data. The study population consisted of SMEs actors who were members of a community called SMEs Nusantara in Palembang, which consisted of 260 SMEs with types of business such as songket, pempek sales, handicrafts, convection, weaving, breeders, and services. This research sample will be focused on the type of songket SMEs fabric, with the reason songket is a product of 'handmade' heritage of the people of South Sumatra that must continue to be preserved. The respondents in this

study sample were all parties involved in the primary activity chain and supporters of the songket fabric production process consisting of raw material suppliers, craftsmen, wholesalers, and end consumers. The sampling method uses a snowball sampling technique in which one key respondent provides information about other key respondents in one supply chain path. Data collection was conducted on July 2019. The method of analysis used Cluster Map, Diamond Cluster, and SWOT Analysis.

**4. RESULTS AND DISCUSSION**

**4.1. Types of Business SMEs**

Mapping the Potential of SMEs Nusantara in Palembang City based on data obtained from the Department of Cooperatives and SMEs that there are 260 SMEs with types of business such as songket, pempek, handicraft, convection, breeders and services. To see the distribution can be mapped as shown below.



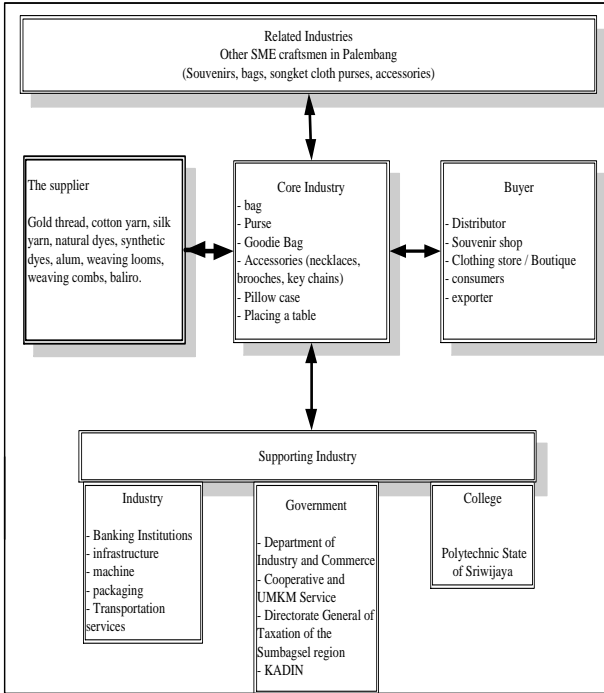
\*Source: Data Processing, 2019

**Figure 1** Songket Fabric Potential Map in SMEs Nusantara

Next, business actors and partners involved in the cluster are determined, as in the following cluster map (Figure 2).

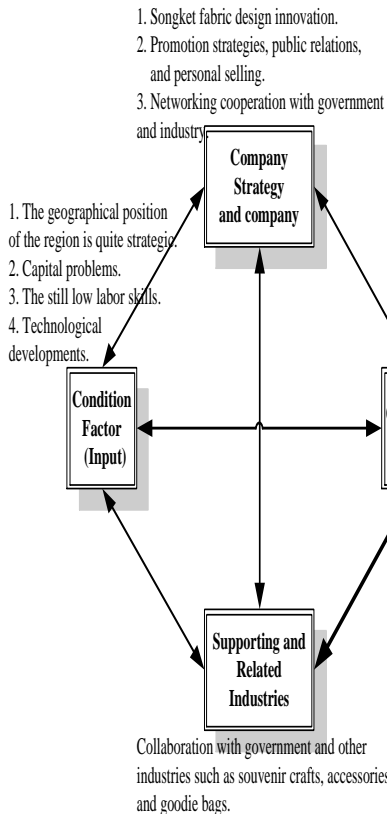
**4.2. Cluster Map**

Performers and business partners involved in the SMEs Nusantara cluster consist of suppliers of raw materials needed by major industries, consumers and exporters, then there are supporters who support and get involved such as local industries, local government and local universities such as the State Polytechnic Sriwijaya. Furthermore, to identify the competitive advantages and relationships of business players formed in the SMEs Nusantara cluster, Diamond Cluster is used, which is dynamic and can increase productivity.



\*Source: Data Processing, 2019

Figure 2 Songket Fabric Industry



\*Source: Data Processing, 2019

Figure 3 Diamond cluster model of songket fabric industry

From Figure 3, the condition factor (input) covers the geographical position of the region quite strategically in terms of marketing and supply of raw materials, capital is still a significant problem in increasing productivity as well as the low skills of the workforce and the rapid development of technology. The demand condition factor depends on whether there is a large number of orders (fluctuating), especially for major/large customers, it also depends on the industry supporting the supply of raw materials, although there are regular customers or distributors who order songket fabric. Strategic industrial clustering strategies that are competitive in SMEs Nusantara, namely maximizing songket fabric design innovations, enhancing promotion strategies, public relations, and personal sales as well as establishing networks of cooperation with government and industry.

4.3. Mapping Cluster Development Strategies

Mapping of the SMEs Nusantara development strategy was carried out using SWOT Analysis, namely Internal Factor Analysis Summary (IFAS) and External Factor Analysis Summary (EFAS). The following table is the result of IFAS and EFAS Songket Fabric calculation.

Table 1. Matrix of IFAS Songket Fabric Industry

Internal Factors	Weight	Rating	Score
<b>Strength</b>			
1. Have your unique motives.	00.05	5	0.25
2. Comfortable working environment.	00.05	5	0.25
3. Fabric quality.	00.15	8	1.20
4. Songket cloth image has become its icon in the eyes of the community.	00.15	7	1.05
Sub Total			2.75
<b>Weakness</b>			
1. Production equipment is still traditional.	0.20	4	0.80
2. Prices are relatively expensive.	0.10	4	0.40
3. Promotion is still lacking.	0.25	2	0.50
4. Production echnology is still low	0.05	2	0.10
Sub Total			18
Total			4.55

\*Source: Data Processing, 2019

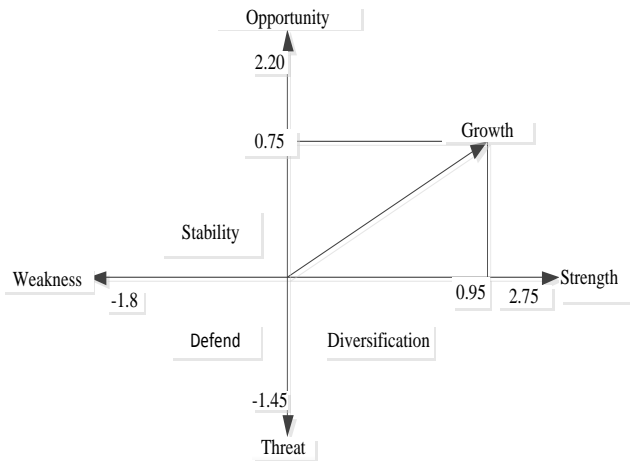
Table 2. Matrix of EFAS Songket Fabric Industry

Internal Factors	Weight	Rating	Score
<b>Opportunity</b>			
1. Potential o continue to survive and develop in the future	0.15	6	0.9
2. Community interest in songket is still high	0.05	6	0.3
3. Fabric quality.	0.05	5	0.25

Internal Factors	Weight	Rating	Score
4. Songket cloth image has become its icon in the ayes of the community.	0.15	5	0.75
Sub Total			2.2
Threat			
1. The emergence of more sophisticated weaving machines.	0.05	3	0.15
2. The appearance of a similar fabric	0.20	3	0.60
3. Increase in raw material prices	0.15	2	0.30
4. Regeneration of craftsmen	0.20	2	0.40
Sub Total			1.45
Total			3.64

\*Source: Data Processing, 2019

After the IFAS and EFAS results are obtained, then by using the General Strategy Matrix to determine the position of the Nusantara SMEs in the SWOT quadrant.



\*Source: Data Processing, 2019

**Figure 4** Cartesian diagram of woven SMEs SWOT

Based on Figure 4, it is known that SMEs Nusantara is in quadrant I (growth-oriented strategy) meaning that the SMEs development strategy is a strategy of using strength to maximize opportunities (Opportunity). When referring to this strategy, the SMEs Nusantara must maintain the motif of the typical fabric of South Sumatra, create a comfortable work environment, continue to improve the quality of fabric, both fineness, neatness, kind of good raw materials and maintain the image of songket as a separate icon in the eyes of the community. Implementation of strategies that can be used includes innovating design/product variations according to demand and fashion trends, increasing sales promotions such as exhibiting at the local, national and international level, if there are new products should be promoted directly to customers or can be an event sponsor certain activities. SMEs Nusantara can also collaborate with local government related to craftsman competency training, credit information and funding assistance, or technical guidance for preparing

financial reports and tax calculations. Marketing through online media, to capture broad market opportunities. Create a website or blog that can be used as a marketing tool and a communication tool with consumers directly.

### 5. CONCLUSION

Mapping of SMEs clusters incorporated in the Archipelago SMEs which has the greatest potential to be fostered and developed is the songket fabric industry. Industry clustering strategies that are competitive in SMEs Nusantara can be done by maximizing songket fabric design innovations, improving promotion strategies, public relations, and personal sales as well as establishing networks of cooperation with government and industry. The mapping of the SMEs Nusantara development strategy based on the SWOT analysis that can be applied is to do (1) design innovation/product variation, (2) increase sales promotion, (3) collaborate with the local government, (4) do marketing through media online media.

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