Empowering Network Management and Performance Quality in the Development of Business Organization A Case study on SMEs Cluster in Balikpapan East Kalimantan

by Muhammad Noor

Empowering Network Management and Performance Quality in the Development of Business Organizations A Case study on SMEs Cluster in Balikpapan, East Kalimantan, Indonesia

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ABSTRACT

The purpose of research is to determine the pattern and strategy of organization development (OD), especially SMEs Clusters as a business organization. The research took place at Balikpapan City and was conducted on three types of SMEs Clusters: Batik Cluster, Food Cluster and Handicraft Cluster. The number of samples chosen within the cluster sampling design of this research was 76 respondents and strengthened by 9 key informants. Social Network Analysis (SNA) was applied to analyze data. This research found that organization development, primarily in SMEs Cluster, could be done through empowering four variables: first, strengthening network management by maximizing centrality approach diversity, namely indegree centrality, outdegree centrality, closeness centrality, betweenness centrality, eigenvector centrality; second, developing the performance of business organizations with four indicators, among others business plan, business management, specific skill of workforce and business report; third, by involving institutions at the provincial and district or municipality level.

Keywords: Organization Development, SNA, SMEs Cluster, Network Management

1. INTRODUCTION

The contribution of Small and Medium Enterprises (SMEs) to economic growth can be categorized into three elements: the largest number of enterprises, the highest employment provider, and the largest single contributor to exports. In addition, referring to the National Statistic Agency, the number of SMEs in Indonesia is around 60 million.

Cluster is one of the models in developing SMEs, and in East Kalimantan it has been announced by the local government as well as business entities. The process of developing SMEs faces many obstacles. Rini Tumiar Nainggolan [1] explained that the problems in the development of SMEs are the limited role of the Cooperatives and SME Department coaching program, limited monitoring and evaluation of the program by the government officials, and not having sufficient supervisors for the number of SME's. Consequently, guidance and training to assist and develop SMEs was not progressing well.

Referring to some research above, SMEs in East Kalimantan have several fundamental problems; these comprise of a weakness of network, lack of organizational management, and low quality of human resources.

The network plays a key role in SME cluster development. The relations between fellow businessmen in the cluster are crucial and affect the cluster's existence. Close or distant, strong or weak, bad or good, process and patterns of communication among them also influence the shaping of the existence of clusters.

Referring to the crucial problems above, it could be concluded that network management is a very significant issue or factor in developing SME clusters. Thus, it is very logical and reasonable to hold a research on a proper and appropriate network management strategy to be applied to the SME cluster.

2. LITERATURE REVIEW

The fundamental characteristics of an industrial cluster are commonality, concentration, connectivity [2]. Meanwhile Haris [3] defines a cluster as a group of some objects that have similar characteristics and indicators. Another opinion is explained by Yuka Asmara [4], stating that industry cluster is a collection of a variety of different economic actors, interacting and cooperating with each other, bound by the social network, and Morosini [5] calls it as social glue. Dayasindu [6] reveal that the things making these interactions continuing to this day is their social closeness or a close-knit social relationship. Regarding the trust factor, Marijan [7], explains that to establish SME into a cluster, the trust factor must be established. The realization of cluster industrial policy can be carried out by coordinating industry development efforts among local governments and by providing information to the firms that could benefit from locating or participating in an industry cluster [8].

North [9] confirms that the economic performance of an industry cluster is the outcome of a complex process of playing the economic game according to formal and informal rules that provide incentive structures and channel innovative activities in a certain direction. Another view on cluster explains that clusters may not simply reduce the cost of production but the cost of exchange, by enhancing trading relationships and the transparency of local input and output markets [10].

Referring to some theories above, it could be concluded that the definition of SME cluster is a group of SMEs fulfilling specific requirements, as follows: a. Commonality; refers to SME similarities in products, b. Concentration; there is a grouping of businesses that interact with one another and centralized in one area, c. Connectivity, business organizations are interconnected with one another. Another side of the characteristic of SME clusters is market accessibility, easily recognized as a center of industry and finally, and ease in creating public opinion in product marketing.

Robert Agranoff [11] state there are seven fundamental questions of network management; group decision approaches; flexibility in networks; accountability; trust; common goals; mutual dependency; power and network productivity. Furthermore, Mirzadeh P. [12], throughout the network life cycle, there are three underlying themes: network strategies, network organization, and network information management. Furthermore, Timo Järvensivu [13] offers some key words related to network management; management functions in hierarchies: planning, organizing, leading, and controlling.

Business organizations development, especially SMEs Clusters, could be done by recognizing the fundamental problems. Some fundamental problems at SMEs Cluster in Balikpapan are low trust among business people, low quality of human resources in developing networks vertically; and local-minded mindset. Considering several theories and an explanation of the fundamental problems, the focus of this research is how to empower network management and quality of performance for the development of business organizations, primarily SMEs Clusters in Balikpapan.

3. METHODS

Social network analysis is implemented to be able to describe the network in the Cluster SMEs. Through this method, the actors who play an active role in the cluster can be identified. Through social ties, people get access to information, social support, and other resources [14]. Through Social Network Analysis (SNA), it is possible to identify actors or groups who play a central role in the network [15]. SNA implements several metrics such as the degree of centrality, betweenness centrality, and reciprocity [16]. Suafa Badi [17] states that sample size of SMEs was determined based on three categories: ownership, size of SME and time of operation. Based on these theories, this research was conducted on three categories of SME Cluster: Batik, Food and Handicraft Cluster. The sample criteria were having a minimum of 3 and no more than 100 employees, members of joint business group and a part of the cluster system. Seventy six (76) respondents were selected to be sample by using a cluster sampling design. Data collection was carried out using full structure questionnaire and measured on an ordinal scale through five answer levels. To strengthen quantitative data, the study was continued by interviewing 9 key informants, constituting the representatives of regional governments and supporting institutions.

4. RESULTS AND DISCUSSIONS

4.1.Network Management

There are four SME Clusters in this study: Batik, Tofu Tempe, Cruband Handicraft Cluster. In relation to the networks management development of SMEs Cluster, it is confirmed that there were eleven actors with active roles. They were Kaltimtara Bank, the Province Tourism Agency; the Association, Local Government Technical Institution; District technology and Industry Department; Provincial Social Department; Technical and Vocational Education and Training Centers; Province Industry, Trade Cooperative, and SME Department; District Tourism Department; District Cooperative and SME Department; and Joint Venture Leaders, The interactions among the actors in SMEs Clusters have met the centrality approach, including Closeness centrality, Betweenness centrality, and Eigenvector centrality, yet none of the actors played a role in Degree centrality.

Network development of SMEs in Balikpapan reflects the active role of local and provincial governments. This harmonious combination has an impact on the efficiency of the cluster network development

programs. Role dominance was performed by the District and Provincial Trade and Industry Department, for example in establishing the Local Government Technical Institution with specific tasks to handle and to develop the Tofu Tempe Cluster.

The District Trade and Industry Department was able to play an active role in Betweenness centrality and Eigenvector centrality. Also, this institution plays a role in Betweenness centrality because it acts as a bottleneck for institutions that cannot interact with certain institutions. Furthermore, the District Trade and Industry Department connects two different actors that have important roles: to collaborate, build and strengthen networks in the SME Cluster. Another institution playing an important role in strengthening the networks is the Local Government Technical Institution, since this institution is a representation of the government dealing with technical matters in developing SMEs, making this institution a reinforcer of all policies made by the District Trade and Industry Department.

The role of the Association in the SMEs business is to provide a strategy for confronting the market. Since global competition is a reality, it is almost impossible to separate the domestic market from the international market. Considering that, the existence of the Association is crucial in establishing communication with the government and stakeholders, as an effort to get support from the government regarding policies on business protection and market penetration. If the Association plays an active role in raising the SMEs' bargaining position, their position will be stronger than before. Although its roles can be categorized into several aspects, yet its priority aspects are management, marketing, and information.

SMEs in Balikpapan were quite enthusiastic for business management, and the Association equips human resources with an ability to help SMEs manage their business. Prioritizing these three aspects, this institution could contribute to strengthening and expanding the SMEs Clusters management network in Balikpapan. Accelerating the SMEs development is done through collaboration between the Association with the Tourism Department, such as combining tourism promotional packages with tours to industrial centers in Balikpapan. The Association could also have a bargaining position with the Tourism Department to market the SMEs products as 'local pride products' through massive and organized promotions. Although each cluster in Balikpapan requires different handling due to their different conditions, all clusters need to share same the vision and mission, as well as to work on programs for all stakeholders to ensure that their networks are strengthened and expanded.

In conclusion, the actors with active roles in the SME clusters in Balikpapan consist of 11 institutions from either provincial government or local government. Generally, those actors contributed by strengthening the SME clusters in Balikpapan, where their roles and contributions are fairly distributed in the three paths of centrality: Closeness centrality, Betweenness centrality, and Eigenvector centrality. This condition strongly influences the performance of the SME cluster networks, thus influencing the existence of the SME clusters in Balikpapan.

4.2. Performance Quality

The performance of the Cluster SMEs can be observed from the following indicators.

4.2.1. The Business Plan

The discussion about business plan is based on three aspects: business target, organization standard, and consumer management. Referring to those three things, this study explores the ability of business people to organize their business plan in Small and Medium scales. Business people of SMEs clusters at Balikpapan explain that they have the ability to compile business plans, including business targets, organizational standards and consumer management.

4.2.2. Business Management

Business management can be evaluated through three indicators: managing consumer database, implementing professional financial system, and managing company assets. Business, if well-managed, can support the sustainability of the business and its development process to be better than previous conditions. Customer management is related to the marketing of the SMEs products. This is to bind customer loyalty. If the company successfully creates product fanaticism towards customers, this strategy is able to make the customers loyal. In other words, if the company has the ability to build emotional connection to customers, this strategy can strengthen the relationship between producers and customers. This relationship will simplify the efforts of customer management and make it better and more professional. Next is discussion on the company financial management. Financial management is the main affair of all companies. Managing finances improperly can cause negative impact on business existence; therefore, business practitioners need knowledge and understanding on financial management basic. Although SMEs unnecessarily need a complete and perfect financial system like large companies, managing SMEs requires professional financial management knowledge. Later, business management requires company assets management. A well-managed asset management will be the indicator of company health and also facilitate to find out its progress.

4.2.3. The Specific Skill of Workforce

Workforce drives the SMEs' production process and product marketing. Its existence is absolute for every

business organization. However, its roles are sometimes not optimal due to insufficient business skills. These specific business skills are financial skills, production skills, packaging skills and others. Workforce with low skills will affect product quality, financial efficiency, creativity, loyalty, and company productivity.

Regarding specific skill, there are several possible strategies to do: improving employee recruitment system, and coaching employees having no specific skills yet. These programs can be done by cooperating with related departments, such as Department of Industry, Cooperative and SMEs, Department of Manpower, Regional Technical Implementation Unit, and Vocational Training Center. The conclusion is that most of the workforces in Balikpapan belong to the clusters having already possessed specific skills.

4.2.4. Business Report

Business reports are assessed through several indicators, among others: bookkeeping business, provision of human resources capable of handling bookkeeping, implementation of systems and specific applications for bookkeeping, and directions to bookkeeping on a regular basis. A well-prepared business report can be a reference and source of information to the company. Business people can observe their business development by referring to business reports, for example profit growth, asset development, production fluctuations, employee conditions, and so on. Entrepreneurs in Balikpapan have demonstrated their ability of preparing business reports regularly. This positive situation can be a reference for business people in other areas related to the preparation of their business reports. In conclusion, the SMEs cluster in Balikpapan has good ability and performance in preparing business plans, business management, specific skills of workforce and preparing business reports

4.3. Strategy

SMEs cluster development is possible by optimizing several strategies, among others: accounting management strategy, workforce management strategy, resources sharing strategy, strategy for maintaining interdependence, cooperation strategy, community oriented strategy and bureaucratic-oriented strategy. Referring to the interview data with key informants, statistical data from business actors, and analysis based on the basic concept of clusters, namely commonality, concentration, and connectivity, the strategy considered appropriate in the organization development for SMEs Clusters is the one for maintaining interdependence.

5. CONCLUSION

Network Management Empowerment is essentially about strengthening network management to strengthen the existence of SMEs Cluster. This strengthening is based on two indicators: firstly, diversity of centrality approaches and diversity of actors. If the network management consists of five indicators, namely in-degree centrality, out-degree centrality, closeness centrality, betweeness centrality and eigenvector centrality, then supported by actors consisting of government institutions at the provincial and district level, as well as institutions that are representatives of supporting institutions and business people, network management will have strong ties and power in supporting development of organization.

Meanwhile, the performance of SMEs Clusters is determined by 4 indicators: business plan, business management, specific skills of workforce, and business report. Business plans are assessed through three indicators, namely business targets, standardization of business organizations, and consumer management. Generally, all SMEs clusters in Balikpapan have prepared their business plan well. Business management includes customer, financial and asset management. In general, it can be concluded that all of SMEs clusters were able to manage their business to the maximum. Meanwhile, specific skills in this study are financial expertise, production, packaging and other specific skills related to business in SMEs clusters. Most of the SMEs clusters (80% to 100%) have workers with good specific skills. Writing a report is one of the steps to compile business reports on a regular basis. Majority of business people in all clusters which had compiled their business reports on a regular basis. Refers to network management and performance of Cluster SMEs, it can be concluded that Cluster SMEs have the potential to be developed into better Clusters.

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