

Industrial Development Strategy of Cluster-Based Embroidery and Garment in Kudus, Central Java, Indonesia

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Abstract

Embroidery and garment industry were selected as the *One Village One Product* in Kudus District, as part of the regional economic development through research facility of *Indonesian Economic Development Acceleration Master Plan 2012-2014*. Diamond Porter Model was used to enhance the competitiveness of Embroidery and Convection cluster of *Padurenan, Kudus, Indonesia* which was promoted a productive village, as well as the Best Practice of UMKM-based cluster development.

The advantages of this concept is through the value chain, in which problem mapping can be done from the upstream to downstream so that the basic and fundamental problem can be identified and overcome. To identify the competitive factors affecting the competitiveness of the industry individually as well as a cluster. To put the businessman as the initiator, develop a network, choose the trigger and create a center of economic and industrial to tie the group, related industries and supporting each other synergistically.

Keywords: Embroidery and garment industry, *cluster*, *diamond Porter*, *OVOP*, *MP3EI*.

1. Introduction

In the era of global economy, Small and Medium Micro Enterprises (SMEs) is a unique and specific business since it use more local resource, so that the turbulence and macro-economic dynamics at macro level is not always have a significant impact on SMEs. SMEs can trigger regional and even national economy. Moreover, can be a leader in the global business. This is supported by the experience of SMEs in various countries in Asia such as China, Thailand, and India that develops and sustains economic development of the country significantly. Reality is not affirming the perpetrators to turn themselves into the formal economy, because it is not flexible in the face of competition in economic conditions continued to press.

Changes in institutional industry demand that businesses be able to operate more flexibly. The next paradigm shift required businesses as part of efforts to increase the capacity of businesses. And it will ultimately lead to the revitalization of the economic institutions of SMEs, which naturally grows as an informal and flexible business.

Since the beginning of SMEs has a network, both with similar industries, related and supporting industries in relation to upstream and downstream industries, but not in a strong bond and is recognized as a strength. So what is needed is the development and strengthening of the economic scale of SMEs to be more flexible and efficient in performance. To realize efficient and performance in cluster-based network is a less natural development of social capital in addition to economic capital. Businesses still have an understanding that the capital money is a primary requirement. In the true natural clusters social capital have grown in such a way but less recognized and accommodated as significant capital equals economic capital. In theory, social capital can actually reduce transaction costs and ultimately SMEs can work efficiently. Perpetrators tend to act as though the individual has been a joint venture groups or centers.

Embroidery and convection has been developed as a cluster center and natural. Embroidery and convection are semi-finished products, acting as industrial raw materials garment and fashion industry and household purposes.

Operational business and industry need clear information about market opportunities, prices of raw materials and the price of similar products. The business must have systems and mechanisms that quickly and accurately, as an input to make a decision.

The role of the importance of SMEs and conditions faced by programs require as an integrated and cross-sectoral stakeholders, to support the acceleration of economic development potential of the area-based local development. This is in line with the Master Plan for the Acceleration and Expansion of Indonesian Economic Development with the synergy program involving three parties (triple helix) which has an important role because of their own competence related to the development of SMEs, namely universities, government and industry (SMEs) in a partnership relationship equal and mutual respect in a joint program to develop a participatory implemented SMEs Embroidery and Convection in

Kudus using the cluster approach. In the development of the triple helix turns into ABG's, ie Academic, Business, Government and Society.

Empirically, SMEs development programs have been carried out by many parties, but not synergistic and coordinated. So it is not clearly known and perceived progress made by the entrepreneurs. Specifically, the purpose of the program is different for each stakeholder. These conditions require the presence of the grand design of the development of SMEs, followed by all parties based on a study of the problems and needs according to businessmen.

Development of SMEs with the cluster approach aims among other things that the clusters based on local resources, products and human resources; mobilization of local stakeholders; cooperation and togetherness. Encourage SME cluster development benefiting external economy and collective efficiency. Cluster development increase productivity, value added and employment.

Embroidery and convection cluster development in line with the policy Kudus Central Java Province which focuses on agriculture-based processing; export-based industries and tourism of the region as a pillar of economic development that is expected to have broad impact on national economic development.

Industrial Embroidery and convection is a type of industrial-scale SME-developed diamond cluster approach, as piloting and best practices to support the rural village Padurenan as productive in the Kudus District.

2. Theoretical Overview

2.1. Micro, Small and Medium Enterprises

Act 20 of 2008 Section six (6) and an explanation, of SMEs, SME criteria are as follows: Micro, the criteria has a net worth of at most Rp 50.000.000.- (fifty million rupiahs) excluding land and buildings; or Has an annual sales turnover of Rp 300.000.000.- (three hundred million rupiahs). Small Enterprise, with a net worth criterion has more than Rp 50.000.000.- (fifty million rupiahs) up to a maximum of Rp 500.000.000.- (five hundred million rupiahs), excluding land and buildings, or have annual sales of more than Rp 300.000.000.- (three hundred million rupiahs) to a maximum of Rp 2.500.000.000.- (two billion five hundred million rupiahs). Medium Enterprise, the criteria has a net worth of more than Rp 500.000.000.- (five hundred million rupiahs) to the most widely Rp 10.000.000.000.- (ten billion rupiahs), excluding land and buildings, or have the results annual sales of more than Rp 2.500.000.000.- (two billion five hundred million rupiahs) to a maximum of Rp 50.000.000.000.- (fifty billion rupiahs). What is meant by net wealth is the result of a reduction in the total value of business property (assets) with a total

value of liabilities, excluding land and buildings intended for business. And with annual sales revenue is the result of net sales (net) from sales of goods and services in a single financial year.

Principles and Objectives of SMEs Empowerment.

In Chapter II, Article 4 and Article 5 of Law 20/2008 on SMEs, SMEs empowerment principles and objectives are as follows: The principle of empowerment of SMEs Growth independence, unity, and entrepreneurial SMEs to work with their own initiatives. Realizing the public policy of transparent, accountable, and justice. Development of business potential of the region-based and market-oriented in accordance with the competence of SMEs. The higher competitiveness of SMEs. Implementation of the planning, execution, and control in an integrated manner.

While the goal is the empowerment of SMEs to realize a balanced structure of the national economy, developing, and justice; the ability of SMEs to grow and develop into a strong and independent businesses; enhance the role of SMEs in regional development, employment creation, income generation, economic growth, and poverty alleviation.

2.2. Understanding Diamond Cluster

Cluster is essentially an attempt to classify interconnected core industry, supporting both industry (supporting industries), related industries (related industries), supporting services, economic infrastructure, research, training, education, information infrastructure, technology infrastructure, natural resources, and related institutions. Cluster is also a way to organize some economic development activity.

There are several definitions of the cluster. Porter (1990) defines Clusters as "Clusters are geographic Concentrations of firms, suppliers, related industries, and specialized institutions that occur in a particular field in a nation, state, or city". Another definition of industrial Clusters is "geographical concentration of industries that gain performance advantages through collocation" (Doeringer & Terkla, 1995). While Rosenfeld (1995) adds the definition of Clusters with "the relationship between a company that also provides a variety of complementary services, including consultancy services, education and training providers, financial institutions, professional associations and government institutions.

Niven and Droge (2000) argue there are at least three forms framework Cluster: Diamond models, flexible specialization and the collective efficiency. Model is flexible and specialization applied by many developing countries. Porter Diamond Model is widely used in developed countries. Model diamond is considered superior to other models in explaining the dynamic

clusters and has a great role in improving produktivitas through the process of industrialization. Cluster model of Porter's approach is the development of industrial districts or industrial estates developed by Alfred Masrshall in 1920 (Desrochers and Sautet, 2004). Unlike the Marsall that only focus on similar companies. Cluster model of Porter is not limiting to just one industry, but more broadly. Diamond Cluster Model,

including related industries, as well as other companies that have relevance in technology, the same input. By working together in a cluster, then the company / related industries will benefit from synergies and efficient than working alone. According to Porter (2000), clusters can be formed in the city, regional regions, and even countries. Cluster analyzes Porter diamond industry with a model approach, according to the division below.

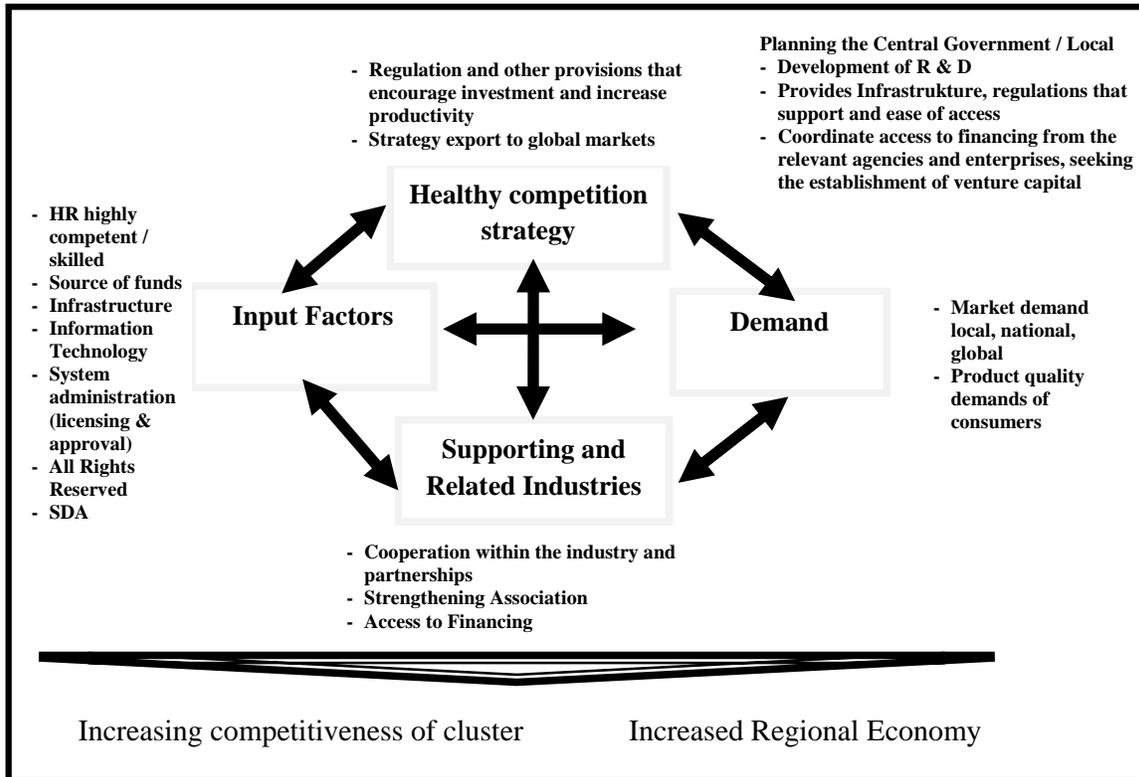


Fig. 1Diamond Cluster Model Porter (1998)

Identify the competitive forces in the cluster is very important to know the competitiveness of the cluster and vice versa. The strength of the cluster are generally divided into factors associated with the strategy of healthy competition in the industry; input; consumers and supporting and related industries.

a. Strategy fair competition

Corporate strategy and competitor in the diamond models are also important because these conditions would motivate a company or industry to constantly improving the quality of the products and are always looking for new innovations. With healthy competition, the company will always look for new strategies that fit and always strive for improving efficiency.

To be able to create a healthy competition strategy business actors should really put themselves (and their business enterprises) within the industry and the market. Position as market leader or market follower requires a different strategy. In order to

formulate a strategy also requires a true understanding of who the competitors and how competitors. Among micro entrepreneurs who charted tough competitor. Are considered competitors of similar products often are entrepreneurs around the existing business location (home). This happens because the business is growing in one location. It could be caused originally a part of the workforce later on their own, or they are children or previous generation of entrepreneurs. If so that is not considered a real competitor competitors, because it is actually in their business operations work together.

If the mapping is not exactly a competitor against whom there will be errors in mengidentivikasi how competitors and consequently made no optimal strategy.

b. Input

Porter input factors in the analysis are the variables that already exist and are owned by a cluster of

industries such as human resources (human resources), capital (capital resources), infrastructure: physical, information, science and technology, administrative infrastructure, and natural resources. The higher the quality factor of the input is, the more likely the industry to improve competitiveness and productivity

Industry Input factors include, among others that highly competent human resource/skill; infrastructure funding sources; information technology; administration system (licensing & approval); copyright; natural resources, raw material yarn, fabric, tools (icikmachine; Juki or computer). If producing embroidery that is integrated with convection; or other material such as batik or the jeans material input factor types and the number increased until the input goods to accessory.

c. Consumers

Diamond demand conditions according to the model associated with sophisticated and demanding local customer. The more advanced a society and increasingly demanding customers in the country, the industry will always strive to improve the quality of the product or to innovate in order to meet the needs of local customers are high. But with globalization, demand conditions not only from local sources but also from abroad.

In general, consumers embroidery and convection segmented into three (3) any market, local and foreign. That is the market for this type of embroidery icik; Juki and embroidery machine that uses a computer. Indirectly from the type of embroidery that is segmented by price. Embroidery icik, mengerjakan takes longer; Juki embroidery relatively shorter and embroidery machine that uses the fastest computer. Similarly, the complexity of creating, embroidery icik requires attention and focus is higher than the Juki and computer.

d. Supporting and Related Industries.

The existence of supporting and related industries will increase efficiency and synergies in the Cluster. Synergies and efficiencies can be created mainly in transaction costs, sharing technology, information and specific skills that can be utilized by industry or other companies. Other benefits and related supporting industries is the creation of competitiveness, as well as increased productivity.

3. Research Objective

Industrial embroidery and convection is an excellent product scale industrial SMEs developed areas through the One Village One Product (OVOP). OVOP is a vertical policy aimed to encourage a wide range of products to be developed into a mainstay of the region

more competitive in national and global markets with diamond cluster approach, as piloting and best practices to support the rural village Padurenan as productive in the Kudus District.

Based on the description above, the purpose of this study is to analyze models of Porter's diamond model of cluster development in the embroidery industry and convection Village Padurenan, Gebog, Kudus, Indonesia as the study area.

4. Research Methods

Mapping the problems and potential of using the value chain approach, starting from raw materials to the production-distribution process. Mapping the potential problems as a strategy to build a chain of mutually sustaining cooperation among industry peers, suppliers of raw materials and auxiliary materials, related industry and supporting industries. By knowing who, where and how to position the chain members as well as members of the industry outside of the chain will be identified strengths and weaknesses of the competition as a cluster.

Using a diamond cluster, to identify competitive strengths consist of supplier, consumer, industrial substitution, new players who produce similar goods and competition among similar industries. It is expected that each has a function and function synergistically. That will create competitiveness, revenue optimization and each party into a dynamic cluster.

The population study of 153 entrepreneurs in Padurenan embroidery and convection. The sampling technique used was purposive, according to the title of the research is focused on entrepreneurs embroidery cooperative members as much as 23 people. This research is applied using skim MP3EI for three (3) years, ie 2012-2014. So that the research conducted is equipped with the training and mentoring activities.

Cluster favored because it has leverage and can absorb labor and kemiskinan. Tekstil alleviation is one focus that requires accelerated development, as one of the corridor, which was centered in Java. Textile requires serious attention in improving competitiveness by increasing the internal capacity or website. It is given that in the era of economic globalization, the market and the potential for the Indonesian textile products developed as a global product. Therefore Embroidery and convection become one of the products that facilitated the Master Plan of Indonesian Economic Development Acceleration Program (MP3EI).

5. Results and Discussion

Industrial Embroidery and Convection Problems in Kudus regency are not much different from the problems faced by similar industries in various regions in Indonesia. Human resources are major factor and key for

Embroidery and Convection industry advancement, because the embroidery and convection not only the industry that is raw and supplementary materials processing into semi-finished products or ready-made products, but in the process comprises the art. Therefore, it must be based on the local culture. Embroidery and convection is also not just a product that is done by means of machine production but the product is done manually increasingly have the value of *craft* and therefore it is only done by people who have the talent, creativity, art and life which like that job.

Since the proven of reliability has faced a crisis in 1998 with its extend impact, the micro scale business/ industry/ home industry, small industry, and medium industry (MSMEs) steal the attention of economists and encourage the birth of the program with a focus on increasing the leverage generated group of entrepreneurs in the scale. Business/large scale industries become increasingly difficult to put themselves in the global competition, which is very little expected to give prosperity for society. So that SMEs which can serve as equitable distribution of income, redistribution of income and can ultimately reduce the number of poor people. Attentions and policies were born as a form of recognition of the role and contribution of the SME. In tempestuous, commitment to help and make SMEs become large and competitive by various parties embodied in various of facilitation programs, such as capital, human resource development, technical assistance and managerial capabilities of business entrepreneurs and entrepreneurship.

Nevertheless, in general SMEs are still facing the problem that cause the business owners and the chain does not increase welfare. It financially has not changed significantly since the systemic constraints. In addition to direct distribution to consumers, the most used agents and wholesalers with a consignment system. Even though on paper they get profit but in fact this condition does not guarantee their cashflow preserved. Paradigm businessman was hard to be changed even though the macroeconomic conditions have changed rapidly. Compensation claims and warranties if the market is willing to change, can not be fulfilled even by the Government. Completion of market and marketing problems can not be solved only on design, capital, raw materials, or networking alone but must be done comprehensively and simultaneously. While the nature of the coaching is done through a variety of programs are not sustainable and partial. Understanding of the problems facing SMEs only limited interests and goals of the program are made by the stakeholders themselves.

Sandee (2002), states that developed in the Indonesian cluster consists of a micro-scale enterprises, small and medium enterprises that produce goods and services for the local market, using family labor and sometimes the use of external labor paid. The characteristic cluster

attached to almost all kinds of seeded and considered to be developed in Indonesia. Porter (1998) defines that the cluster must have the interrelationship among the businesses in the industry in terms of raw materials to the market. In fact, in Indonesia there is no cluster that meets the criteria in terms of the relationship in question. Industry and Trade (2002) reinforces this reality by stating the amount of 90% among business groups who meet the criteria have not been developed as a cluster.

Complete cluster will form the value chain (*value chain*) between effort and impact on value added (added value) as well as productivity. This happens because in the cluster will be compelled to perform division of labor and specialization according to ability and competence of each business is incorporated as cluster members and stakeholders in it. Schmitz (2002), states with the cooperation activities in the cluster will bring benefits for its members and collectively a lot of unnecessary cost savings thus increasing efficiency. Cluster cooperation activities driven by the need to support each other and encourage other efforts, including the growth of innovation and entrepreneurship. Nationally cluster concept was developed for SMEs since 2000 empower contained in the National Development Program (PROPENAS) 2000-2004. Government's commitment to using the cluster approach in empowering and developing SMEs is based on a fact: the number of SMEs in Indonesia, and uneven in different regions to the province of all district/city. SMEs become a safety valve for the problems of unemployment and poverty alleviation.

Industry on the scale (SMEs) develop naturally, in response to dynamic macro-economic conditions that impact is not always positive on the micro scale. Industry on a scale of SMEs is growing in almost all sectors and community-based truth.

Potential of SMEs as a very large cluster to be developed as an attempt to overcome the problems with business groups, which do not have the competitive edge because it still operates in the natural, individual and short-term profit-oriented. Besides, SMEs are more focused on the local market, traditional and tends to just be a way of surviving owner. So often can not establish institutionalized cooperation, and even depend on the middlemen, collectors who became a mediator for distributing goods and services they produce to the market. The technology used in the production process, distribution to reach the market is still traditional, so that productivity is not optimal. Cooperation that exists only based on the interests that are not waking moment of "trust" among the actors in the group. Cluster, can actually be used to overcome these problems. Cluster, must have institutionalized cooperation, build trust, operates not only rely on economic capital (money and profits) but also develop the bond between its members by developing a social spirit -norm based on values and culture that have been held in such groups.

Embroidery and garment cluster development in Kudus activities carried out by stages, namely: (1) rapid assessment RALED and STATUS OF LOCAL ECONOMIC DEVELOPMENT (LED) in 2011 with the result that the status LED is studied from six (6) dimensions of evaluation consisting of aspects of group target (61.38); Location Factor (34.47); Kesinerjiaan and Policy Focus (49.06); Sustainable Development (64.17); Governance (49.09); Process Management (50.18). Four aspects (dimensions) become key to strengthening the competitiveness of the local economy must Kudus which special attention is the location factor, governance, and focus kesinerjiaan policies and aspects of the management process and continued action plans (plan of action).

Plan of Action Embroidery and garment development is formulated by the Kudus District Development Planning Agency with the Faculty of Economics, University of Muria Kudus is the action plan (operational) recommended to the Department / SKPDs / Institutions and other stakeholders to realize the cluster embroidery and convection are independent and competitive. Plan Of Action Embroidery and garment cluster development as part of the process and stages of policy implementation of Local Economic Development (LED) in the Kudus District.

5.1. Potential Cluster Embroidery and Convection Kudus

The number of embroidery and convection entrepreneurs in the Kudus District that still survives to this day is a five-member group varies between 15 to 150 entrepreneurs. Among those who went bankrupt due over the business. Judging from the number of entrepreneurs are still has great potential, especially the number of its production and absorption. As a business that does not rely entirely on the global resources, has a relatively good stability of the demand side. This is because the market is more local and regional focus. Nevertheless competition among similar products from both within and outside the country is very significant. So the niche market increasingly narrowed.

5.2. One Village One Product (OVOP).

One Village One Product (OVOP) is a vertical policy aimed to encourage a wide range of products to be developed into a mainstay of the region more competitive in national and global markets. Flagship product is selected based on criteria OVOP Embroidery is a craft. Criteria as the favored product among others absorb labor; use of appropriate technology, and community-based roots and be able to contribute to both the economy and regional actors significantly.

5.3. Indonesian Economic Development Acceleration Master (MP3EI)

For policies with Indonesia as a breakthrough to realize the developed and included in the ten (10) countries in the world in 2015 Since 2011 the government of Susilo Bambang Yudhoyono to encourage these efforts through a Master Plan for the Acceleration and Expansion of Indonesian Economic Development (MP3EI). In particular the aim is to encourage inclusive economic growth; equitable and sustainable. Economic growth target is 7-9%.

MP3EI breakthrough approach that is based on the spirit of "Not Business As Usual", through a change of mindset that success is not only dependent on the government alone but as a collaboration between central government, local governments, state enterprises, enterprises, private and Academia (Universities).

Interaction with universities, industry and government developed through the concept of triple helix, in accordance with their respective competences. Current community involvement has also become a focus for the community so that the multiplier effect of any program designed and implemented can be realized. The approach involves the community into ABG's, namely Academics, Business, Government and Society.

Porter's cluster approach is the development of a model of industrial district or industrial area developed by Alfred Marshall. Alfred Marshall just focus on similar industries, while Porter gave space in the industry are not similar, interrelated industries in technology, and uses the same input. So that the industry can work together synergistically cluster and benefit both business efficiency and reinforcing network.

Porter's Diamond Cluster model, identify input factors, demand, related and supporting industries and companies strategy and its competitors. Input factors in Porter's analysis is that variables already exist and are owned by a cluster of industries such as human resources, capital, infrastructure, natural resources, infrastructure and other administration. The higher the quality factor of the input is greater opportunity to improve industry competitiveness and productivity.

Diamond demand conditions according to the model associated with sophisticated and demanding local customers. The more advanced a society and increasingly demanding customers in the country, the industry will always seek to improve the quality of the product or to innovate in order to meet customer's demand but also locally sourced from abroad.

Supporting and related industries are important factors associated with efforts to improve the efficiency and synergy within the cluster. Synergies and efficiencies can be created mainly in transaction costs, sharing technology, information and specific skills that can be utilized by industry or other companies. Supporting and

related industries will encourage competitiveness and increased productivity. Corporate strategy and competitors will motivate the company and industry to improve the quality of products produced by a variety of innovations. Healthy competition will encourage companies to look for new strategies that fit in accordance with the dynamic development of the business at hand.

In order to identify the competitive factors then parse Porter noted the importance of the value of the supply chain of materials to create products, processes of production and the distribution of goods and services from products to services.

5.4. Value Chain conducting Crafts Embroidery and Convection

The approach used in the SME cluster development program is the value chain. The value chain is a series of productive processes from the provision of inputs, production, marketing or distribution to the final consumer. This approach systematically takes into account all stages of the start of the production process as well as analysis of the various linkages and information flow along the chain. Therefore, the identification of activities in and along the chain of production, distribution and consumers provide a full picture of the industry as a cluster linkages are dynamic

and flexible. The more dynamic cluster functions involving factors that Markowitz kompetitif diamond, it can be expected that the economic sector is related more alive. Clusters that function can turn supporting and related industries.

The application of the value chain in the context of this cluster will create linkages and tighter integration among the actors to strengthen the cluster itself, and increase the competitiveness of the sub-sector concerned. Value over the value chain approach is the ability to create institutional linkages and coordination between suppliers, manufacturers, dealers, and distributors. So in addition to foster competitiveness in similar industries in the cluster are also creating economic added value in supporting and related industries.

As an input to the preparation of cluster development strategy, the identification of the activity on the chain since the availability (suppliers) of raw materials to production; in the chain of production activities; and distribution chain will be showed clearly the problems and constraints faced by businesses and chains are real. So the mapping problem in a chain-industry effort can be done properly and produce strategy to address the problem and develop optimally.

If it is drawn, the industry value chain-craft Embroidery and convection as follows:

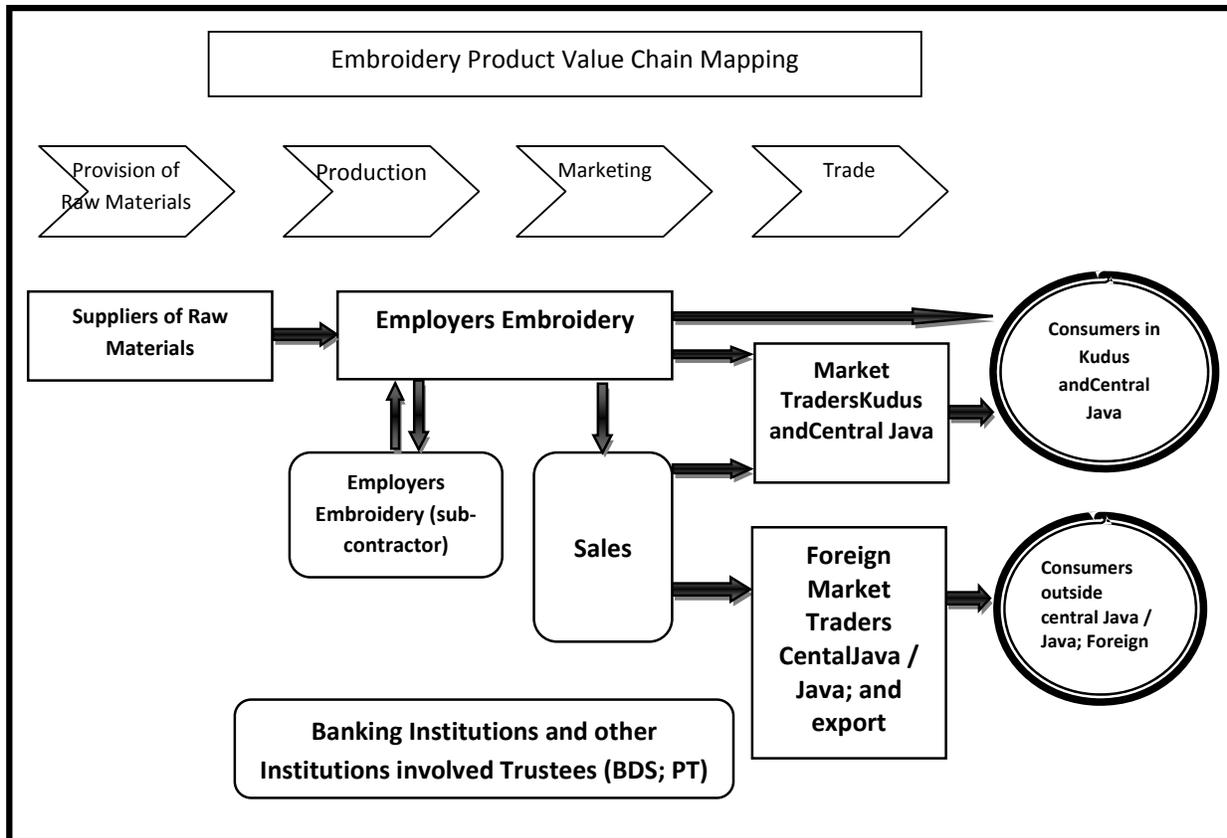


Fig. 2 Embroidery Product Value Chain Mapping

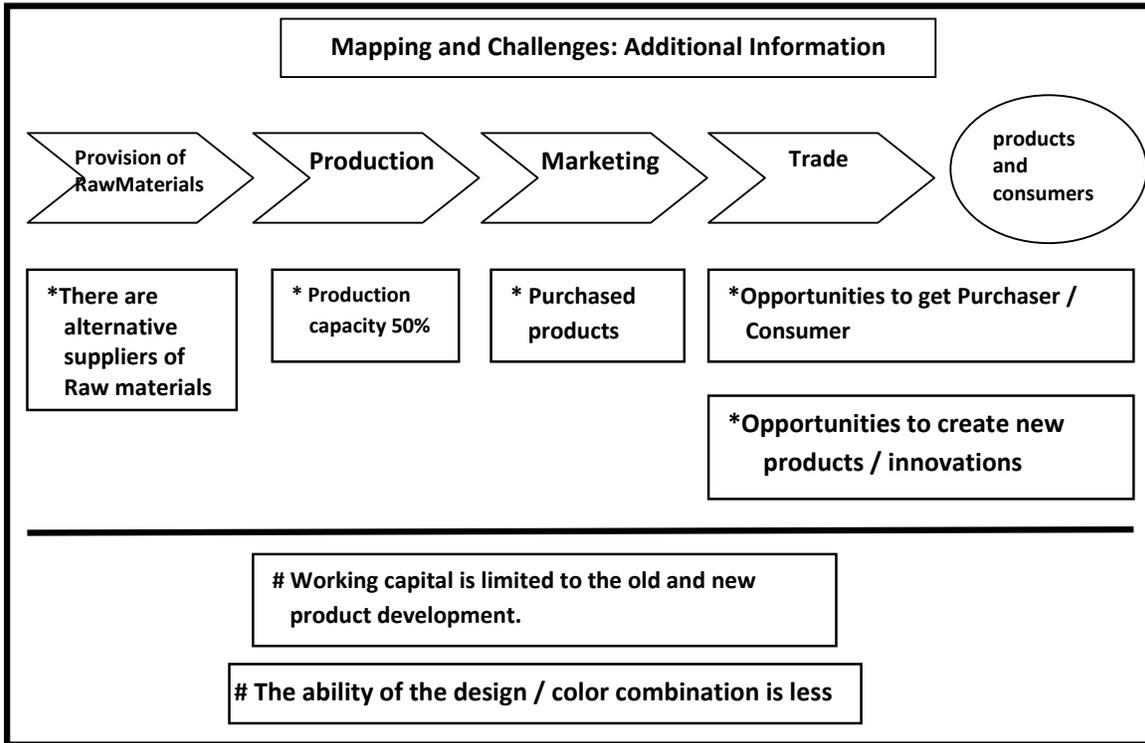


Fig. 3 Mapping and Challenges: Additional Information

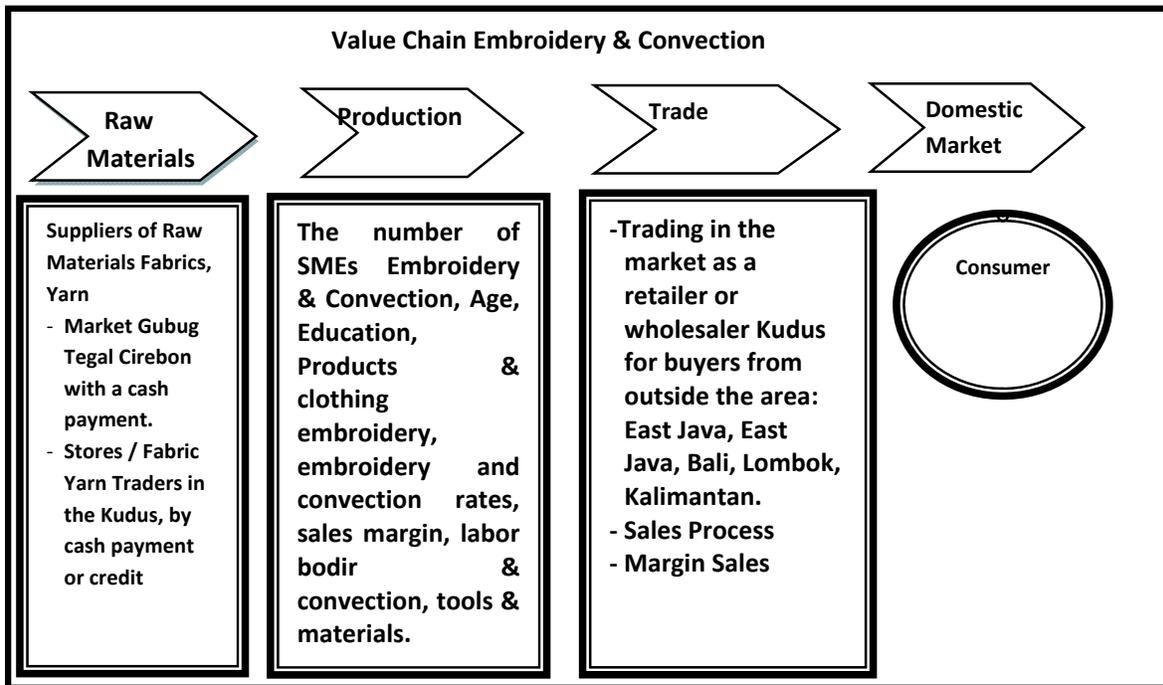


Fig. 4 Value Chain Embroidery & Convection

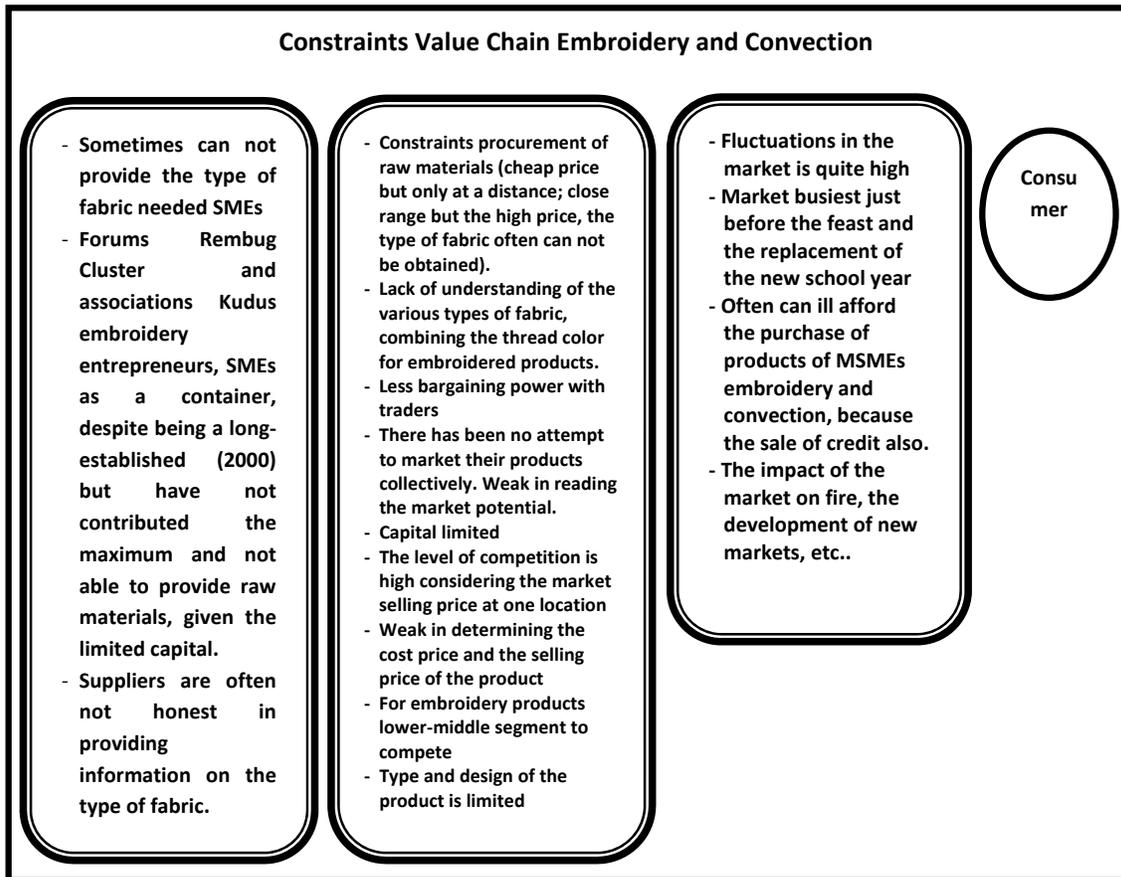


Fig. 5 Constraints Value Chain Embroidery and Convection

Embroidery and garment production Kudus is one of the best besides the products Tasikmalaya and Padang. Therefore, for the craft industry-champaign and Tasikmalaya are the closest competitors. Besides, the products imported from Thailand and China who have mastered the textile and fashion market in Indonesia is also a contender, with strengths in the simple model and price against. The advantages of competitors' products become a problem for industry-craft of the Kudus as the model and the price can not compete.

Employers embroidery and convection in the district belonging within a community Kudus. Among employers who are members of the community who live in the village there Padurenan. Padurenan village was promoted to the village productive since 2009, with majority of the people trying to field craft embroidery and convection. Some related institutions are Bank Indonesia, Bank Central Java, Kudus District Government, University of Muria Kudus and GIZ-RED according to their respective capabilities.

GIZ-RED, in his capacity as a consultant / companion cluster has conducted a survey to determine market map

embroidery and convection Kudus production in general and in particular the production of Padurenan village developed as a cluster-based group.

6. Conclusion

The development of industrial-craft embroidery and convection become one of the leading areas developed by various parties in addition to the city district government as territory holders.

Using a diamond cluster models proposed by Michel Porter be the right approach therefore more able to understand the problems of each activity in the chain. Such an approach can also identify the competitive factors affecting the competitiveness of the industry individually and as a cluster.

The approach adopted must be accompanied characteristics and cultural understanding of the region. Because entrepreneurs are influenced by the local culture. Although the model is applied correctly but there should be an adjustment on the approach used. This is very important because the expected changes

have an impact not only economically but in reality is determined starting from the way of thinking that businesses will encourage other changes automatically. In this case the implementation of industrial development - based embroidery cluster is closely associated with the functions of businesses in accordance with their competence. The cluster will be very dynamic and value-added created can provide a multiplier effect on the society as widely as related industry players and supporters.

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