



# Small Scale Agricultural Industry Performance in Southeast Sulawesi, Indonesia

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## Abstract

*This study aims to reveal the performance and various obstacles faced by small-scale agricultural industries in Southeast Sulawesi. Research, utilizing secondary data published by various government agencies, and primary data on small-scale agricultural industries located in 12 districts in Southeast Sulawesi in 2018. The results showed that small-scale agricultural industries employ 42.01% of the workforce in the sector industry, as well as the investment value which covers 59.73% of industrial sector investment in Southeast Sulawesi, but the value of agricultural products industry products only covers 26.57% of the total value of industrial products in Southeast Sulawesi. This condition is largely caused by small-scale agricultural industries with legal entities that are relatively small, only around 30.48 percent of the total small-scale industries in Southeast Sulawesi. This condition indicates that most small-scale agricultural industries have not experienced and become an obstacle in conducting partnerships with medium and large industries. Furthermore, Competition to obtain raw materials with larger industries in Java also makes it difficult for many local furniture industries to obtain better quality raw materials. Knowledge and skill of the workforce are relatively low compared to advance or big industries. These factors influence the ability to scale agricultural industries to access capital, to create good product design, manage their business as well as expand markets. That is generally the circle of problems that surround small and medium industries in Indonesia. Therefore, in the context of developing small and medium industries, the strategies used cannot be overcome by problems but all comprehensively.*

**Keywords:** *small scale industry, agriculture, licence, labour, capital and market.*

## I. Introduction

John M. Staatz (1997) argued that in order to be successful, future industrialization strategy needs to be built firmly upon the links between agriculture and industry, exploit comparative advantage, and be conceived of in the context of a system to take advantage of the synergies between agricultural and industrial development. This paper aims to analyze the performance of small-scale agricultural industries in the workforce of Southeast Sulawesi Province in order to arranged development policy.

To map the performance of small-scale agricultural industries, research is focused on 12 district areas which are expected to represent regional characteristics (mainland and islands) and the

performance of types of industrial products developed in each region.

In order to be able to know the performance of small-scale agricultural industries, identification of weaknesses or problems faced by each industry is carried out. By knowing the weaknesses or problems faced by the industry, the strategy of eliminating weaknesses and problems can be determined and further development policies can be arranged.

Judging from the performance of the industrial sector including aspects of the number of companies, the number of workers and the value of investment, the industrial sector in Southeast Sulawesi is still dominated by small industries (Central Bureau of Statistics, 2017). More details are presented in Table 1 below.

**Table 1: Number of Industrial Companies, Number of Workers, Investment Value and Production Value by Type of Industry in Southeast Sulawesi Province, 2016**

Industrial Group / Type	Number of companies (units)	Number of Labour	Value of Investment (000 Rp)	Value of Production (000 Rp)
Chemical Industries	10	248	18.782.421	115.739.908
Metal Industries	1	718	30.733.958	2.927.427.599
Divers Industries	1	122	520.000	547.560
Agricultural and forestry industries	205	2.987	210.943.172	229.032.383
Small Scale Industries	12.356	62.459	1.290.197.566	2.874.033.901
a. Agricultural products	1,507	27,954	926,506,889	1,633,456,270
b. Chemicals	1,462	9,557	163,369,826	713,496,369

<b>c. Machine and metal</b>	3,070	8,526	88,359,837	203,100,559
<b>d. Divers Industries</b>	6,317	16,422	111,961,014	323,980,703
<b>Jumlah</b>				
<b>2016</b>	12.573	66.534	1.551.177.117	6.146.781.351
<b>2015</b>	12.003	63.973	1.491.516.459	5.910.366.684
<b>2014</b>	11.428	62.219	1.463.867.124	5.815.764.341
<b>2013</b>	11.381	62.026	1.448.042.024	5.253.649.943

Source: BPS Provinsi Sulawesi Tenggara

The data in Table 1 shows that in terms of the number of industrial companies in 2016, 98.27 percent of them were companies in the small industry category. Similarly from the value of investment, 83.18% of total industrial investment in Southeast Sulawesi in 2016 was dominated by small industries, the most important being that the number of workers working in small industries was very dominant, as big as 93.88% of the total workforce working in the industrial sector. However, in terms of production value, small industries only control 46.76% of the production value.

Based on the data in Table 1 it also shows that most of the workforce working in the agricultural products industry is 42.01%. Similarly, when viewed from the value of investment, the agricultural products industry contributed 59.73% of the total investment value in 2016. However, in terms of production value, the agricultural products industry only controlled 26.57% of the total value of industrial products in Southeast Sulawesi. The domination of the agricultural products industry is also one of the reasons for the low value of industrial production in Southeast Sulawesi, because generally the nature of agricultural products that are rapidly damaged causes unable to reach a wider market to get better prices. Most of the agricultural industry is also a small industry that has not utilized the technology of handling agricultural products (post harvest) optimally.

This indicates, efficiency and the ability to obtain appropriate prices in marketing of products for most small industries, especially the agricultural products is still quite low. Considering its significant contribution to Southeast economics is important to identify various weaknesses that cause low production values to improve performance of small scale agricultural industries.

**Table 2: Number of Agriculture and Forestry Product Processing Industry, Labour, Investment Value and Production Value by Regency in Southeast Sulawesi Province, 2018**

Regency	Number of companies (units)	Number of Labour (person)	Value of investment (Rp)
Buton	817	1.277	10.365.615.000
Muna	315	1.923	34.399.025.000
Konawe	909	5.338	61.152.859.950
Kolaka	35	555	1.626.986.300
Konawe Selatan	2.128	5.424	18.656.289.600
Bombana	1.078	2.707	8.679.700.000
Wakatobi	39	452	24.598.522
Kolaka Utara	627	1.158	1.017.289.060.000
Buton Utara	218	567	3.380.560.000
Konawe Utara	256	1.131	22.651.781.000
Kota Kendari	101	478	33.992.000.000
Kota Baubau	1.964	4.031	31.474.050.000
<b>Southeast Sulawesi</b>	<b>8.487</b>	<b>25.041</b>	<b>1.243.667.926.850</b>

Source: Direktory of Industries in regencies level 2018 (processed)

Another problem that is generally faced by small industries in Southeast Sulawesi is the lack of small industries that have legal documents due to the low managerial capacity of business owners,

## II. Metodology

This research was conducted in 2018 utilizing secondary data from 2016-2017 published by related institutions in Southeast Sulawesi. The data is then processed and identified by field conditions to reveal the various weaknesses and advantages of small-scale agricultural industries. Then a SWOT analysis was carried out to formulate a strategy for developing agricultural products in Southeast Sulawesi. In the SWOT analysis this was also done through the focus of group discussions with small industry actors and related government agencies.

## III. Small Scale Agricultural Industrial performance

Small scale agricultural industrial performance in Southeast Sulawesi Province were studied to determine various aspects that hinder its development. Based on 2017 data on the number of small-scale agricultural industry companies, the number of workers employed as well as the investment value of small-scale agricultural industries in each district in Southeast Sulawesi which are processed from various government agency publications, are presented in Table 2.

Based on the data in Table 2, there are significant differences in the number of companies compared to 2016 (Table 1), this is because at the districts level the agricultural products industry is combined with various industries. But from the amount of labor and the value of the investment seems to be a decline. Generally this is because of a number of small industries not continuing their business as caused by various problems such such as raw materials that are not available, capital constraints and problems in marketing products.

labor possessed, lack of information and services. The following are described one by one problems faced by small agricultural industries in Southeast Sulawesi.

## 1. The legality and age of small industries

The legality and age of an industry can affect the performance of the industry. If an industrial business has complete licensing, legal entity and long life, it will make customers have high trust. Likewise with business partners, will provide a good response in working together or partnering so that it will affect the performance of the industry. The legality of small industries in Southeast Sulawesi Province is presented in Table 3.

Table 3 shows that small-scale agricultural industry with legal entities is relatively small, only around 30.48 percent of the total

**Table 3: The formal Legality of Small-Scale Agricultural Industry in Southeast Sulawesi Province, 2018**

No	Regency	Percentage (%)		
		Legal entity	Complete Licencing	Age 5 years or more
1	Kota Kendari	33,33	16,67	50,00
2	Konawe	0,00	33,33	66,67
3	Konawe Selatan	33,33	33,33	46,67
4	Konawe utara	-	-	-
5	Kolaka	63,16	57,89	73,68
6	Kolaka Utara	37,50	18,75	50,00
7	Bombana	-	-	-
8	Kota Bau-Bau	25,00	41,67	33,33
9	Buton	-	-	-
10	Buton Utara	14,29	14,29	35,71
11	Muna	14,29	14,29	14,29
12	Kolaka Timur	-	-	-
<b>Southeast Sulawesi</b>		30,48	31,47	46,67

Source: Processed from primary data, 2018

Constraints in terms of legality also make small industries, especially agricultural products still classified as infant industry, or only 46.67%, aged 5 (five) or more. Based on company legality, it can be concluded that small industries are relatively not ready to conduct business partnerships, considering that business partnerships are usually accompanied by a legal agreement (cooperation contract) which requires complete administrative legal requirements. This condition indicates that most small-scale agricultural industries have not experienced and become an obstacle in conducting partnerships with medium and large industries, considering that usually medium or large industries choose experienced business partners.

If observed per districts, only small agricultural industries in Kolaka Utara Regency have legal entities and have more complete licensing than other districts. Thus, when compared to small industries in other districts, small industries in Kolaka Regency can be considered more ready to conduct business partnerships, because in the regency there are small-scale industry with legal entities, complete licensing, and around 73.68 small-scale agricultural industries who is more than 5 years old.

small-scale industries in Southeast Sulawesi. Likewise with the complete licensing, only 31.47 percent of small industries that have relatively complete licensing. Several reasons for small industries do not have complete licensing, including; do not understand licensing procedures, rather complicated bureaucracy, and licensing arrangements require time and money. Although after being confirmed to the relevant Office, the licensing process is free of charge. Based on this condition, legally, small industries in Southeast Sulawesi Province still need to be addressed.

Based on the results of interviews with industry players spread across 12 districts, it was found that most industry players considered the requirements and bureaucracy in licensing arrangements to be long-winded and require high costs. This is partly due to limited service facilities and infrastructure, the speed and accuracy of services are still low, the dissemination of information about licensing has not been done well.

## 2. Suply of raw material

Raw materials in an agricultural industry are the main input to produce products. The availability of raw materials will affect the sustainability of the production process. If the availability of raw materials is hampered, it will cause the production process to stagnate. The performance of the raw materials observed in this study includes: the origin of raw materials and how to obtain raw materials. By observing these variables it can be seen that there is an opportunity for an industry to be able to make a partnership. The performance of small industrial raw materials in Southeast Sulawesi Province is presented in Table 4.

**Table 4: Performance of Raw Materials of Small-Scale Agricultural Industry in Southeast Sulawesi Province, 2018**

No	Regency	Percentage (%)	
		Local raw materials	Fixed suppliers
1	Kota Kendari	91,67	50,00
2	Konawe	100,00	22,22
3	Konawe Selatan	93,33	0,00
4	Konawe utara	-	-
5	Kolaka	100,00	0,00
6	Kolaka Utara	93,75	6,25
7	Bombana	-	-

8	Bau-Bau	100,00	0,00
9	Buton	-	-
10	Buton Utara	100,00	0,00
11	Muna	92,86	0,00
12	Kolaka Timur	-	-
<b>Sulawesi Tenggara</b>		96,67	5,71

Source: Processed from primary data, 2018

The results of observations on the performance of small-scale industrial in terms of raw materials (Table 4). It can be seen that the opportunity to make partnerships with fellow small industries is relatively large, especially partnerships in the procurement of raw materials for small industries. This is because around 93.24 percent of small industries use raw materials from local sources. With most small industries using local raw materials, the opportunity for other small industries to make partnerships as suppliers is relatively large. But in fact, small industries that have partnerships with suppliers are only 5,71 percent or relatively small. This is because there are still frequent obstacles in terms of continuity in the availability of raw materials which are sometimes interrupted in the market because they are seasonal, the quality is not uniform and many of them do not meet the requirements to be processed as industrial products. Compared to other regions in Southeast Sulawesi, relatively only a few small industries in Kendari City have fixed suppliers and have made work contracts with several suppliers.

This condition indicates that it is very important to provide guidance to suppliers of agricultural industry raw materials to ensure product availability and to create more homogeneous product quality. Such guidance can be carried out through partnerships with large industries, as well as technical guidance carried out by the government.

It must be admitted that some small industries that produce furniture use fairly high quality raw materials (teak). However, the raw materials of teak are still still relying on teak planting which grows in the forest, and the population is decreasing sharply, while teak cultivation still cannot meet the needs of local industries.

**Table 5: Small Industry Workforce Performance in Southeast Sulawesi Province, 2018**

No	Regency	Percentase (%)		
		Family workers	Labour education	Labour training
1	Kota Kendari	8,33	0,00	0,00
2	Konawe	88,89	0,00	11,11
3	Konawe Selatan	60,00	0,00	33,33
4	Konawe utara	-	-	-
5	Kolaka	68,42	0,00	10,53
6	Kolaka Utara	71,88	12,50	0,00
7	Bombana	-	-	-
8	Bau-Bau	41,67	8,33	16,67
9	Buton	-	-	-
10	Buton Utara	78,57	0,00	0,00
11	Muna	57,14	0,00	0,00
12	Kolaka Timur	-	-	-
<b>Sulawesi Tenggara</b>		62,86	2,86	9,52

Source: Processed from primary data, 2018

Formal education of workers in small-scale agricultural industries are mostly low to medium, only a few small industries in Kolaka Utara and Baubau have workers with undergraduate education. Likewise, non-formal education is also relatively low, they rarely receive appropriate training to enhance skills and creativity in order to improve the quality of processed of their agricultural

Competition to obtain raw materials with larger industries in Java also makes it difficult for many local furniture industries to obtain better quality raw materials.

### 3. Labour

Management of employees involved multiple roles, including goal setting, training, providing tools and performance feedback, clear lines of supervision, and development of a team working for the business (Durts, et al, 2018). The position of labor in an industry is also the main input that determines the production process. The performance of the workforce studied includes: the origin of the workforce, the suitability of the workforce, education, skills, and quality development efforts. By knowing the performance of the workforce, it can be seen the readiness of an industry to develop its business and make partnerships with other industries. Employee perceptions differed among farms regarding whether they would recommend their farm as a place to work, teamwork within the farm, whether rules were fairly applied, availability of tools and equipment, clear lines of supervision (Durts, et al, 2018).

The workers which are derive from families usually unprofessional because the recruitment process is not through selection. The suitability of the number of workers with what is needed, education, workforce skills and training of workers also greatly affects the performance of the industry. The performance of small industrial workers in Southeast Sulawesi Province is presented in Table 5.

products. Many Human Resource Management practices, such as training and performance incentives, are intended to influence employee behaviors (Dessler, 2003 in Stup et al, 2006).

Most of small-scale agricultural industries rely on family labour. Their skills are generally obtained because the activities carried out have been going on for generations, but in terms of creativity of the

workforce to develop and create new products to expand the market are generally very low. It must be acknowledged that the government has built labour training centers in several districts, but the types of training offered are still very limited and generally still lag behind of fast-growing market demands.

#### 4. Capital

**Table 6: Capital Performance of Small Industries in Southeast Sulawesi Province, 2018**

No	Regency	Percentage (%)		
		Capital comes from the owner	Sufficient amount of capital	Capital accumulation
1	Kota Kendari	83,33	100,00	83,33
2	Konawe	88,89	55,56	88,89
3	Konawe Selatan	100,00	60,00	26,67
4	Konawe utara	-	-	-
5	Kolaka	100,00	31,58	63,16
6	Kolaka Utara	100,00	43,75	87,50
7	Bombana	-	-	-
8	Bau-Bau	83,33	66,67	50,00
9	Buton	-	-	-
10	Buton Utara	100,00	71,43	78,57
11	Muna	100,00	64,29	100,00
12	Kolaka Timur	-	-	-
<b>Southwest Sulawesi</b>		97,30	59,46	62,16

Source: Processed from primary data, 2018

Table 6 shows that most (97.30 percent) of small industries are cultivated with capital from business owners without partnering with other industries, or in other words, most small industries do not obtain capital from financial institutions. About 59.46 percent of small industries have sufficient capital, this is more due to the fact that most small-scale agricultural industries adjust their business scale with the availability of their own capital. The inability of most of small industries to access capital is also due to the incomplete company legal documents, as well as the inability of small scale industries to convince banking institutions about the guarantee of repayment of loans submitted. Thus, in order to develop small industries in Southeast Sulawesi, the government should pay attention to other factors, such as management factors and improving the quality of human resources (labor), to be able to obtain capital assistance from financial institutions

Table 6, also shows that 62.16 percent of small industries have accumulated capital. This means that many of small industries must succeed in needing their own capital by setting aside a portion of their profits. However, considering that in the field discussing the capital accumulation carried out is relatively small so it cannot improve, processing agricultural products significantly.

In addition to raw materials and labor, capital is also an important element in an industrial company. Observation of capital variables aims to determine whether a small-scale agricultural industry company is categorized as a healthy business or not. If an industrial business is healthy, one characteristic is the accumulation of capital in the business. The capital performance of small industries is presented in Table 6.

#### 5. Product Design

Another factor that determines the success of developing an industry is the design of the products produced by the industry. An industry-produced product with a design (performance, taste, and quality) that consumers like will succeed in winning competition in the market, so that the industry will grow and develop faster. Therefore, small industries should also always innovate to create products that are accepted and favoured by consumers.

The variables of product design observed in this study include: the continuity of production process (disconnected or continuous), the existence of a division of product development team and the implementation of product development. The continuity of production process is indicated by the production process that produces products with different product designs each time production. While a sustainable production process is a type of production process that produces products that have a fixed design / production each. The performance of the design of small industrial products is presented in Table 7.

**Table 7: Keragaan Design Produk Industri Kecil di Provinsi Sulawesi Tenggara, 2018**

No	Regency	Percentage (%)		
		The continuity of production process	The division of Product development	The development of Product Design
1	Kota Kendari	0,00	0,00	83,33
2	Konawe	0,00	22,22	66,67
3	Konawe Selatan	6,67	0,00	60,00
4	Konawe utara	-	-	-
5	Kolaka	15,79	15,79	84,21
6	Kolaka Utara	12,50	0,00	43,75
7	Bombana	-	-	-
8	Bau-Bau	25,00	16,67	58,33
9	Buton	-	-	-

10	Buton Utara	0,00	0,00	7,14
11	Muna	28,57	7,14	0,00
12	Kolaka Timur	-	-	-
<b>Southeast Sulawesi</b>		12,38	7,62	48,57

Source: Processed from primary data, 2018

Table 7, which shows that only 7.62 percent of small industries that have divisions or product development teams, it indicates that small scale industry pay less attention to the product design. Thus, it can be expected that small industries has lacked of innovation to create products with designs that are accepted and liked by consumers. Furthermore, although the results of the study show that small industries that carry out product development are relatively large, which is 48.57 percent, in fact most of the product development carried out due to the consumer orders. In other words, the design idea or creativity of the product is generated by the demand of consumers who order their products not by the own initiative of the owner.

## 6. Business Managerial

Another factor observed in small industry performance is managerial business. Managerial variables are observed with the aim of knowing whether a small industrial business is managed well or not. The managerial elements observed in this study include: separation between industrial management with household management, division of labor in small industrial operations, production planning, administration, evaluation and quality assurance. To implement this, it must be properly documented

(well administered). One of the causes of small industries that do not develop is usually business capital is used for household needs. Or in other words, the administration of the company is not orderly. Standard Operational Procedure need to be provided with the scoring chart and assessors need to be trained to use this chart with proper training material (Vasseur et al, 2013).

A business will tend to be more efficient if labor division is carried out. With the division of labor, the workforce working in a division will become experts in their fields. The production process carried out by skilled workers will produce products with low cost without sacrificing quality. Likewise, with the application of management functions, such as business plan, organized, carried out monitoring and evaluation regularly will result in the success of the business. Small-scale managerial performance is presented in Table 8.

Referring to the results of the study in Table 8, it can be stated that small industries in Southeast Sulawesi Province are difficult to grow and develop well. This is because the proportion of small industries that separates the management of the company from household management is relatively small (only 33.33 percent), good corporate administration is only 32.38 percent, the application of division of labor is only 8.57 percent, and the application of management functions relatively small.

**Table 8: Small-scale Managerial Performance in Southeast Sulawesi Province, 2018**

No	Kabupaten	Percentage (%)						
		Management of the company separate from household	Labor Division	Product adjusted markets demand	Undertake evaluation	Well administration	Doing monitoring & evaluation for labour performance	Quality assurance
1	Kota Kendari	66,67	0,00	83,33	83,33	100,00	100,00	66,67
2	Konawe	66,67	0,00	88,89	77,78	66,67	77,78	77,78
3	Konawe Selatan	20,00	20,00	66,67	46,67	40,00	53,33	80,00
4	Konawe utara	-	-	-	-	-	-	-
5	Kolaka	0,00	0,00	68,42	10,53	26,32	31,58	73,68
6	Kolaka Utara	6,25	18,75	31,25	37,50	18,75	31,25	50,00
7	Bombana	-	-	-	-	-	-	-
8	Bau-Bau	41,67	16,67	41,67	66,67	50,00	83,33	91,67
9	Buton	-	-	-	-	-	-	-
10	Buton Utara	21,43	0,00	7,14	7,14	7,14	7,14	7,14
11	Muna	92,86	7,14	7,14	7,14	7,14	0,00	0,00
12	Kolaka Timur	-	-	-	-	-	-	-
<b>Southeast Sulawesi</b>		33,33	8,57	45,71	35,24	32,38	40,95	54,29

Source: Processed from primary data, 2018

It must be admitted that it is indeed not easy to implement good managerial, because it requires trained human resources. Meanwhile, it is known that small industries have low capital and low income. However, major innovations usually go through countless minor product and systems improvements ... such incremental innovations typically produce a highly specialized system that depends upon economies of scale and mass marketing for success (Abernathy and Utterback, 1978). Therefore, assistance from stakeholders is needed through a mutually beneficial partnership process to get over the problems faced by small industries.

## 7. Marketing

The marketing elements observed include: the market of products produced by small industries, the number of competitors, the toughness of products in the market, the price of products, promotions and marketing cooperation. Marketing variables are observed with the aim of knowing the capacity of small industries in terms of product quality and efforts to develop the marketing of their products. The marketing performance of small industrial products is presented in Table 9.

**Table 9: Marketing Performance of Small Industrial Products in Southeast Sulawesi Province, 2018**

No	Regency	Percentage (%)					
		Local Markets	Number of competitors	Toughness in the markets	Cheap product prices	Promotion	Marketing cooperation
1	Kota Kendari	100,00	100,00	0,00	0,00	0,00	16,67
2	Konawe	88,89	55,56	44,44	0,00	44,44	22,22
3	Konawe Selatan	93,33	46,67	66,67	53,33	46,67	13,33
4	Konawe utara	-	-	-	-	-	-
5	Kolaka	100,00	78,95	10,53	0,00	10,53	5,26
6	Kolaka Utara	100,00	50,00	50,00	18,75	18,75	12,50
7	Bombana	-	-	-	-	-	-
8	Bau-Bau	58,33	75,00	33,33	25,00	50,00	25,00
9	Buton	-	-	-	-	-	-
10	Buton Utara	100,00	42,86	7,14	0,00	7,14	0,00
11	Muna	100,00	0,00	0,00	0,00	0,00	7,14
12	Kolaka Timur	-	-	-	-	-	-
<b>Sulawesi Tenggara</b>		93,33	53,33	27,62	13,33	21,90	11,43

Source: Processed from primary data, 2018

Based on the data in Table 9 it can be stated that 93.33 percent of small industries produce products only to meet the local market with product designs or features that are no different from other similar products produced by competing small industries. Because the results of the study show that 53.33 percent of small industries have relatively many competitors.

In addition, the results of the study show that only about 27.62 percent of small industries produce robust products on the market. This means that around 72.38 percent of small industries produce products that compete with many competitors. Therefore, in order to avoid competition that can be detrimental to each individual, it is better for small industries that produce similar products to work together or built partnerships. With partnerships, benefits will be obtained, including: technology exchange, cost efficiency, as well as marketing costs. Interms of promotions, is only 21% of small industries that carry out promotions. Promotional activities are generally unscheduled, relying solely on production exhibitions carried out by the government. The ability to provide low prices can only be done by 13.33% of the industry. This is due to the high cost of transportation and the small scale of production which makes it difficult for them to make efficiency. To overcome some of these obstacles, actually conducting marketing cooperation is one of the alternatives that can be done by small-scale industry players, but in reality only around 11.43% of small-scale agricultural industry players collaborate in marketing. Even this is mostly done at the initiative of collectors who purchase small industrial products.

The large farm invests in improved facilities using its own equity, the small farm uses a marketing group to spread investment costs and reduce the transaction cost to buyers of monitoring the performance of small units. Small farms that band together in cooperative groups have succeeded in collectively attaining the scale economies needed to remain viable (Okello and Swinton, 2005). As with managerial problems, marketing problems faced by small industries are also not easy to find solutions. Because small industries are constrained by limited marketing costs. On average, small industries, especially those located in villages, do not specifically allocate funding to market their products. The used of electronic media by industrial players is also still very minimal, although access to telephone lines is available.

In addition, in terms of transportation, it is felt that improvements still need to be made. Some respondents of industry players stated that roads in some villages were damaged, especially in Buton Utara District and Muna District. Similarly, transportation equipment used is generally not regular.

Some inputs obtained from respondents stated that marketing facilities still need to be improved. Some of the industry players regretted the lack of facilities to exhibit the industrial products they produced, as well as the lack of activities of small industry results exhibitions held by the government.

Meanwhile, access to financial institutions also needs to be improved including: information and socialization mechanisms to obtain credit from financial institutions, including information and socialization mechanisms to obtain soft loans provided by the government. There is a significant difference between the net income of large-scale poultry farmers who used credit and those who do not. The study revealed that formal credit has a positive effect on the net income of large-scale poultry farmers in the urban and peri-urban Kumasi (Nimoh F., et al, 2011).

#### IV. Industrial Development Policy

The development of industrial development policies is carried out by using a SWOT analysis to determine the strategies for developing small and medium industries. The results of the SWOT analysis in the form of a small industry development strategy, is a policy choice that can be recommended to policy makers, especially in the Southeast Sulawesi province.

The first step in carrying out a SWOT analysis is identifying elements: Strengths, Weaknesses, Opportunities, and Threats. These elements can be grouped into 2 (two) groups, namely elements or internal factors (strengths and weaknesses) of the industry, and external factors (opportunities and threats) of the industry. Based on these elements or factors, a policy development strategy can be determined in the hope of eliminating weaknesses and threats and using the power to obtain or take advantage of opportunities to achieve the objectives.

In identifying SWOT factors (strengths, weaknesses, opportunities and threats) in small and medium industries, this study takes data from industry players, policy makers, and industry association managers through Focus Group Discussions (FGD).

## 1. Internal factors (Strengths and Weaknesses) of small industries

### a. Strengths:

- 1) Technological used
  - In the copra processing industry using permanent roasting.
- 2) The quality of products
  - In the furniture industry, some industries use high quality teak wood.
  - Some small industries produce high quality products, specifically for the food industry (shrimp paste producers) produce products that taste good, are hygienic, and without preservatives.
- 3) Managerial aspects
  - Operational activities of several industries are administered in an orderly manner.
- 4) Product design
  - Design of furniture industry products preferred by customers.
- 5) Marketing
  - Cheap product prices with good service.
  - Some small industries such as patchouli processing business has lack of competitors;
  - Some small industries do marketing cooperation (industrial partnerships)

### b. Weaknesses:

- 1) Business licencing
  - About 68,53 percent of small scale industries do not have complete business licencing.
- 2) Capital
  - Some small scale industries experience a lack of capital and do not have collateral to borrow from the bank.
- 3) Raw material
  - Supply of raw materials sometimes stagnates
  - Raw materials are increasingly scare so that raw material prices are increasing.
- 4) Labour
  - Short of labour always happen If there are many orders
  - Labour creativity is relatively low
- 5) Product design
  - Some small industries have difficulty creating product designs.
- 6) Managerial
  - Management of small industries has not been separated from household
- 7) Marketing
  - The product produced has many competitors
  - The market share of products produced by small industries is limited to meeting the local market

## 2. External Factors (Opportunities and Threats) of Small and Medium Industries:

### a. Opportunities

- 1) Market opportunities increase with increasing of population;
- 2) Trade liberalization (the era of free trade) causes the export market to be wide open;
- 3) The development of production technology and information technology is increasing rapidly;
- 4) Government policies regarding business capital assistance with soft interest (soft loan for the people);

- 5) The government's alignments in small and medium industries are getting bigger with the existence of Law Number 3 of 2014 concerning Industry so that the opportunities for industrial partnerships are increasingly wide open;

- 6) Trimming bureaucracy and business licensing costs.

### b. Threats

- 1) In addition to increasing market share, trade liberalization (the era of free trade) also causes an increase in the number of competitors;
- 2) Transportation facilities are not good;
- 3) Industrial associations do not yet function to serve and contribute to facilitating members to develop.

The SWOT analysis carried out through focus group discussion which engaged small scale industrial players and government officials produces the following strategies:

1. Using information technology for the adoption of production technology with soft interest credit costs to improve the quality and product design and managerial to be able to penetrate the national market and export through industrial partnerships,
2. Complete business licensing and improve the quality of human resources and improve business management to produce products that have good design so that they can penetrate the national market and export. In this case, the quality of the workforce in question is not just skilled, but more than skilled, which is always innovating. If only skills can be obtained when the workforce is working on something that repeats continuously. Therefore, a program to improve the quality of human resources in small and medium industries is still needed.
3. Improved design and product quality so that it has a "brand",
4. Increased market share of products so that they can open business branches,
5. Complete business licensing and improve the quality of human resources and business management to produce products that have good design and have "brand" products so that they can penetrate the domestic markets and export.
6. Improvement of basic infrastructure especially means of transportation.

## V. Conclusion

Policies, programs and activities that need to be established and carried out in the context of developing small and medium industries in Southeast Sulawesi Province if they are simplified will produce a framework of thinking: "Small industrial companies that are legal will get high trust from business relations, and have no problems with administration and government regulations so that it can operate smoothly and gain high trust from business relations in the end they may be able to build partnerships with big industry or received financial aid.

In order to improve the quality of human resources not only can be done through training or formal education, but also through accompaniment, discussion and consultation activities and obtaining information from various sources, including from the social media.

The results of the identification, it indicates that managerial small and medium industries in general are still not good, the indications



are: the industry does not separate industrial management from household management; the industry has not yet divided the work, and has not implemented management functions in an orderly manner. As a result, managerial of many small scale industries are generally poor, the productivity and efficiency of production processes in small agricultural industries is low. As a result, the prices of products are relatively expensive and the products produced cannot compete in the market, especially to be able to enter the national market and export.

In addition, in ability of small scale farm industrial to compete have caused their profits generally low and even loss, and then in the company there is no capital acumulation. As a result, it is no product development activity, causing products to not be able to compete in the market. That is generally the circle of problems that surround small and medium industries in Indonesia. Therefore, in the context of developing small and medium industries, the strategies used cannot only overcome the problems of one aspect but must be done by overcoming the problems of all aspects comprehensively.

### Conflicts of Interest

“The author(s) declare(s) that there is no conflict of interest regarding the publication of this paper.”

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