

Factors of Undeveloped Economic Democracy Based on the Strategic Advantages of the City in Lampung Province

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Abstract

The purpose of this study was to determine the factors of the undeveloped economic democracy based on the strategic advantages of the city in Lampung Province. The benefits of this research are expected to be able to develop and improve the community's economy based on the future local strategic potential. This research was conducted at the Industrial and Trade SKPD, Cooperatives and SMEs in fifteen (15) districts and cities in Lampung Province, including Bandar Lampung, Metro City, South Lampung, Pesawaran, Pringsewu Regency, Tanggamus Regency, Central Lampung Regency, North Lampung, East Lampung, Tulang Bawang Regency, West Tulang Bawang Regency, Mesuji Regency, Waykanan Regency, West Lampung Regency, and West Coast Regency with a total sample of 270 respondents. The data collection method uses the survey method. The analysis technique used is SEM (Structural Equation Modeling). The test results show that the relationship between Economic Democracy on Local Economic Potential has a positive relationship and significant impact on Local Economic Potential.

Keywords: Economic democracy, The potential of the local economy, Structural equation modeling

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1. Introduction

Today's popular economic empowerment that is urgently needed in the future must continue to be developed and improved as the backbone of the nation's economy. This can be done by exploring the strategic potential of an area to build community independence based on local expertise. An economy based on the strength of the people's economy, where the economic activity or work is to independently manage economic resources that can be cultivated and mastered, hereinafter referred to as micro, small and medium enterprises (MSMEs) including agriculture, animal husbandry, crafts, food, tourism, etc. others that are based on the potential of the social, cultural, and geographical resources of a region.

Previous research

Ferry Duwi Kurniawan Luluk Fauziah (2014) Empowerment of Micro and Small and Medium Enterprises (MSMEs) in Poverty Reduction. The results of this study indicate that the empowerment process that has been carried out by the government is only limited to providing venture capital. The government is also less than optimal in providing assistance for the development of Micro, Small and Medium Enterprises (MSMEs). In empowering MSMEs, the supporting factors are abundant human resources or adequate labor, easily found and inexpensive raw materials, light business capital, support from village officials, current supply of raw materials from suppliers, and the existence of an agreement on the selling price of production among members of the Kembang Waru Circle of Friends business group. The inhibiting factor is inadequate or damaged infrastructure, less than the maximum.

Darwanto (2013) conducted a study on Improving the Competitiveness of MSMEs based on Innovation and creativity (Strengthening the Property Right Strategy on Innovation and Creativity). The result is that MSME issues related to productivity include the lack of protection of copyright for innovation and creativity. This results in plagiarism of a product that is detrimental to MSMEs as product creators. Copyright to the product or product design does not function as a production incentive. Ignored property right creates production disincentives. Therefore there needs to be an incentive for creators of production so that they are still motivated to innovate and continue creativity. The steps that can be taken are appreciation by granting patents to innovative MSMEs. This will encourage further creations and produce products with features and designs that appeal to consumers.

Situmorang, Johnny W. and Janes Situmorang (2008) conducted a study of the SME Business Climate in the Era of Regional Autonomy. The result is that MSMEs in Indonesia have several problems which include: lack of capital, difficulties in marketing, simple organizational structure with poor division of labor, low quality management, limited human resources with low quality, financial statements that are almost not owned by the majority, weak legality aspects, and low quality technology.

Sudaryanto and Hanim, Anifatul (2002) conducted a study on evaluating the readiness of SMEs to welcome the ASEAN Free Market (AFTA). The result is that the existence of MSMEs is proven to provide employment and provide opportunities for SMEs to develop in the community. On the other hand, SMEs also face many problems, namely limited working capital, low human resources, and lack of mastery of science and technology. Economic activities are supported by the regional government together with the community in processing and utilizing available resources to stimulate regional economic development and community welfare. Meeting the needs of the community comes from a variety of products produced. Community economic development aims to increase community participation in various development activities, especially in the economic field. Improving the quality of human resources aims to enable us to process natural resources efficiently and sustainably in order to increase revenue and welfare. Economic activities must also be able to encourage the community, small and medium entrepreneurs to develop and be able to support the development of the regional economy and create jobs and business opportunities (M. Ismail, 2016). To provide direction and guidance for all government, community and business stakeholders in realizing the goals and objectives of sustainable regional development and focusing on the economic development of rural communities in Lampung Province must look for factors that influence the causes of economic development people based on local potential. This is done so that all obstacles encountered can get a solution for the economic progress of society in the future.

2. Literatur Review and Hypothesis

2.1 Frame of Thought

Community Economic Relations (X) is a variable that cannot be directly observed (latent variables) as measured by variables or indicators: Capital (X1), Skills (X2), Education Level (X3), Government Support (X4), Relationships between institutions (X5), and Main Commodities (X6). Latent variables are variables that cannot be directly observed, which can be measured or observed through measurable variables (indicators). Local economic potential (Y) as a latent variable is measured by measured variables or indicators: Natural resources (Y1), Social Culture (Y2) and regional geographic location (Y3), market demand (Y4), and Supporting Facilities (Y5). Thus the factors that influence the undeveloped popular economy and local-based strategic potential are not measured directly, but through several indicators.

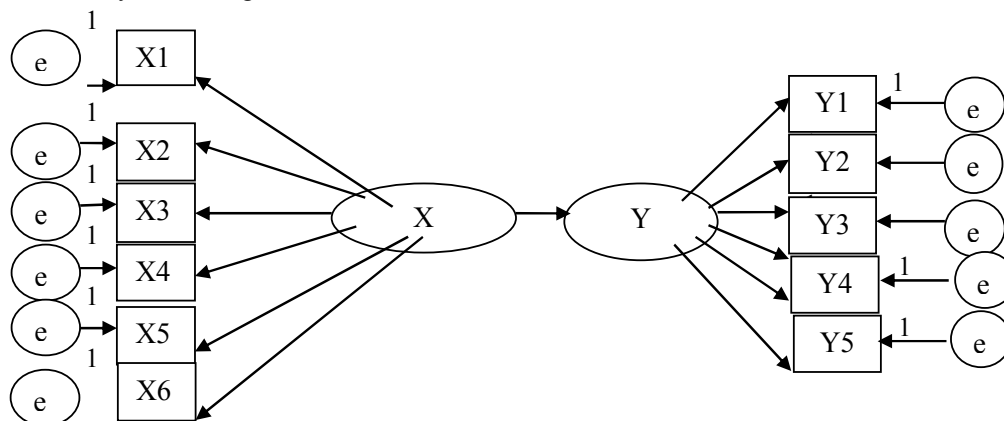


Figure 1: Framework for Thinking of Variable Relationships

Information:

X = People's Economy

X1 : Capital

X2 : Skills

X3 : Educational Level

X4 : Government Support

X5 : Relations between Institutions

X6 : Excellent Commodity

Y = Local economic potential

Y1 : Natural Resources

Y2 : Socio-Culture

Y3 : Geographical Location

Y4 : Market Demand

Y5 : Supporting facilities

Based on the aforementioned framework, a hypothesis can be proposed that the factors that influence the undevelopment of a people's economy are strongly influenced by the potential of the local economy in Lampung Province.

3. Research Method

The research method used was a survey method. Survey method is a research method used for population. Data collection is done on samples taken from the population, and data collection generally uses questionnaires, (Sugiyono, 2015: 771), and secondary data from statistics.

3.1 Place of Research

The study was conducted in 15 (fifteen) districts and cities in Lampung province, namely: Bandar Lampung city, Metro city, south Lampung district, Pesawaran Regency, Pringsewu Regency, Tanggamus Regency, Central Lampung Regency, North Lampung Regency, East Lampung Regency, Tulang Bawang Regency, Tulang Bawang Barat Regency, Mesuji Regency, Way Kanan Regency, West Lampung Regency, and Pesisir Barat Regency.

3.2 Method of Collecting Data

Data collection techniques were carried out using survey / questionnaire methods at the relevant community institutions and local government. Secondary data are taken from government institutions at MSMEs in Lampung Province.

3.3 Population and Sample

The target population in this study is the Regional Office of Industry and Trade, Cooperatives and MSMEs in Lampung Province. The determination was carried out by taking a sample of 270 respondents of MSME entrepreneurs conducted proportionally for each district/city. Sampling uses Slovin's opinion (Sugiono, 2010) with the assumption that the population is normally distributed and the sampling error rate of the population is 10%.

3.4 Data Analysis

The method of analysis used in this study explores the strategic potential of the local economy in each district of the city with the method of data processing, socio-cultural community, and geographic natural resources. The analysis technique used is SEM (Structural Equation Modelling) to formulate local-based community economic development strategies in Lampung Province. The main analysis method in this study was carried out with the Structural Equation Model (SEM). Testing is done with the help of the Smart PLS program. Data processing techniques using SEM method based on Partial Least Square (PLS) is done in 2 stages, namely (1) Assessing the Outer Model or Measurement Model; and (2) Structural Model (Inner Model).

4. Result and Discussion

4.1 Descriptive Analysis

This research is to find inhibiting factors in the empowerment of MSMEs and building a relationship model for MSME Development Strategies. From the results of the analysis that the validity of the convergent which has a value of influencing factors above 0.50, this shows that the populist economic factors (X) are influenced by local economic potential factors in the order of the results of the research dimensions of the following factors:

1. Education Level (X3) : 82,7%
2. Capital (X1) : 82,1%
3. Skills (X2) : 79,6%
4. Government Support (X4) : 79,0%
5. Inter-Institutional Relations (X5) : 74,0%
6. Prime Commodities (X6) : 72,4%

The level of education, capital, and skills are very important factors in building a people's economy (Y). A connectivity relationship between institutions involved in the development of micro small and medium enterprises is very important to be built as in; financial institutions, banks, capital owners, state-owned enterprises / SOEs, private-owned companies, cooperatives, insurance, education and training institutions, universities, and media promotion / entertainment. Synergy as a partner (Partnership) in business in this case must be built.

Full government support must really be given, especially in the budget allocation in the State Expenditure Budget and the Regional Expenditure Budget, supervision, guidance, and facilitators. The people's economy in an area / region of each regency / city has a commodity advantage that must be explored, discovered, so it can be developed in the MSME sector. Each region has a comparative advantage in geography, socio-culture, such as; the fields of agribusiness, tourism, animal husbandry, fisheries, customs, crafts and others that have local abilities. Because there are still low-ranking commodities owned by those owned, they must be sought, found, built, and developed to increase the leading commodities in an area.

The factors that influence the local economic potential (Y) from the research results can be sorted as follows:

1. Social Culture (Y2) : 86,8%
2. Natural Resources (Y1) : 78,2%
3. Market Demand (Y4) : 75,7%
4. Geographical Location (Y3) : 74,8%
5. Supporting Facilities (Y5) : 65,3%

Based on research results, the low supporting facilities (Y5) with a value of 65.3% will be a major inhibiting factor in the growth and development of people's economy, such as infrastructure (markets, roads, electricity,

information, telecommunications, training centres, security, and legal guarantees). Each region has different socio-cultural character values as the value of local wisdom wealth in empowering people's economy. All the respective variables of people's economy and local economic potential have good criteria for building and changing the structure of popular economic progress based on local wisdom. All of these factors have a significant effect and have a positive relationship.

4.2 Measurement Model (Outer Model)

Testing of the outer model aims to see the correlation between item scores and construct scores. To assess the measurement model or Outer Model we use three criteria, namely Convergent Validity, Discriminant Validity, and Composite Reliability.

a. Convergent Validity

Convergent validity is assessed based on the correlation between *item score / component score and construct score*.

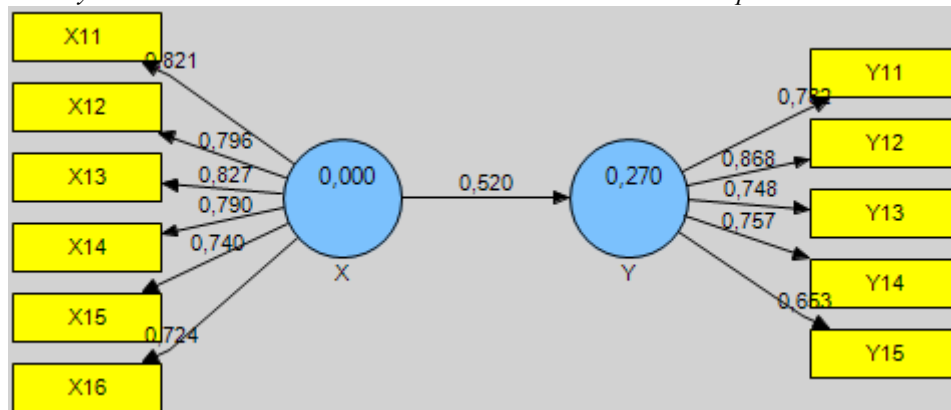


Figure 2. Value of *Outer Model Original Sample*

Based on the estimation results, the Average Variance Extracted value in Figure 5.2, the outer value of the original sample model or the correlation between the construct and the variable as a whole, has a loading factor value above 0.50. This shows that the values are valid. Outer Loadings (Measurement Model) values have a value above 0.50 as shown in the following table.

Table 1: Value of *Outer Loadings (Measurement Model)*

Variable / Indicator	Dimension	Outer Loadings Value (Measurement Model)
Ekonomi Kerakyatan		
X11	Capital	0.821
X12	The skills	0.796
X13	Level of education	0.827
X14	Government Support	0.790
X15	Institutional Relations	0.740
X16	Main Commodity	0.724
Potensi Ekonomi Lokal		
Y11	Natural resources	0.782
Y12	Socio-cultural	0.868
Y13	Geographical location	0.748
Y14	Market Demand	0.757
Y15	Supporting facilities	0.653

b. Discriminant Validity

Discriminant validity is carried out to ensure that each concept of each latent variable is different from the other variables. The model has good discriminant validity if each loading value of each indicator of a latent variable has a loading value greater than the loading value of other latent variables. Another method for assessing Discriminant validity is to compare the square root value of Average Variance Extracted (AVE) of each construct with the correlation between other constructs in the model. If the AVE root value of each construct is greater than the correlation value between constructs and other constructs in the model, then it can be said that the value of this construct has a good Discriminant validity value. The discriminant validity test results are obtained as follows:

Table 2: Value of *Discriminant Validity (Cross Loading)*

INDICATOR	People's Economy	Local Economic Potential
X11	0,821055	0,496327
X12	0,795908	0,378919
X13	0,826758	0,382295
X14	0,789818	0,448125
X15	0,739848	0,331835
X16	0,724163	0,369847
Y11	0,404978	0,782134
Y12	0,440291	0,868438
Y13	0,365694	0,747503
Y14	0,364901	0,757144
Y15	0,400519	0,653169

From table 4, it can be seen that the loading factor value of each latent variable has a loading value greater than the loading value of the other latent variables. This means that each latent variable has good discriminant validity. Another method for assessing Discriminant Validity is to compare the Square Root of Average Variance Extracted for each construct with the correlation between the other constructs in the model. The model has good Discriminant Validity if the root value of AVE (Square Root of Average Variance Extracted) is greater than the correlation value between constructs and other constructs in the model, as shown in the table. 5 and tables. 6 below.

Table 3. *Square Root of Average Variance Extracted dan Communalitiy*

VARIABLE	AVE	COMMUNALITY	SQUARE ROOT AVE
People's Economy	0,614455	0,614455	0,783872
Local Economic Potential	0,584915	0,584915	0,764797

Table 4. *Latent Variable Correlations*

VARIABLE	People's Economy	Local Economic Potential
People's Economy	0,783872	
Local Economic Potential	0,519852	0,764797

In table 3 the communalitiy value of each variable is > 0.05. Likewise, the value of AVE (average variance extracted) also shows value > 0.5. Meanwhile in table 4, the root value of AVE (Square Root of Average Variance Extracted) is greater than the correlation value between constructs and other constructs in the model. Thus, it can be concluded that all constructs in the estimation meet the Discriminant Validity criteria.

c. Evaluating Validity and Reliability

Validity can also be seen from the value of Average Variance Extracted (AVE) of each construct or has a value greater than 0.50. Meanwhile, reliability can be seen from the value of Cronbachs Alpha and Composite Reliability from the indicator blocks governing the construct. Cronbachs Alpha and Composite Reliability are said to be good when viewed from each value having above 0.60 and 0.70.

Table 5. *Cronbachs Alpha, Composite Reliability dan Average Variance Extracted*

VARIABLE	AVE	Cronbachs Alpha	Composite Reliability	Criteria
People's Economy	0,614455	0,874676	0,905117	Good
Local Economic Potential	0,584915	0,819564	0,874818	Good

Based on the table above it can be concluded that all constructs meet valid and reliable criteria. This is indicated by Cronbachs Alpha values > 0.60, composite reliability above 0.70, and AVE above 0.50 as recommended criteria.

d. Structural Model (Inner Model)

The inner model (inner relation or structural model) describes the relationship between exogenous latent variables and endogenous variables based on substantive theory.

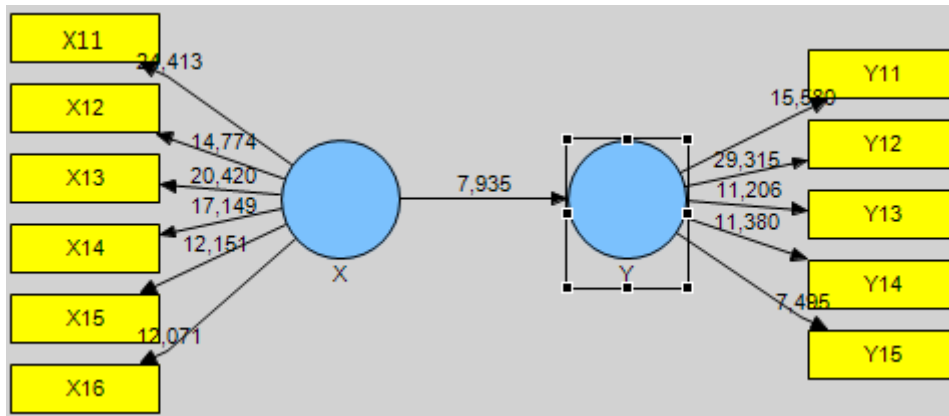


Figure 3. Inner Model Value or Structural Model

The structural model is evaluated using the Goodness of Fit Model. Goodness of Fit Model is measured using R-square dependent latent variable. Stone-Geisser Q-Square predictive relevance is used to measure how well the observation values generated by the model and also the estimated parameters. If the Q-square value > 0, then this shows that the model has predictive relevance; conversely if the Q-Square value is ≤ 0, this indicates that the model lacks predictive relevance. Q-Square calculation is done by the formula:

$$Q^2 = 1 - (1 - R_1^2)(1 - R_2^2) \dots (1 - R_p^2)$$

Where $R_1^2, R_2^2 \dots R_p^2$ is the R-square endogenous variable in the equation model. The quantity Q^2 has a value in the range $0 < Q^2 < 1$, where the closer to 1, the better the model. This quantity of Q^2 is equivalent to the coefficient of total determination in path analysis.

Table 6: R-Square Value

VARIABLE	R Squares
People's Economy	-
Local Economic Potential	0,270246

Table 8 above shows that the structural model obtained an R-square value of 0.270246. This means that the Local Economic Potential variable can be explained by the Popular Economy variable of 27.02% while the remaining 72.98% is influenced by other variables not examined. Next we see how well the observational value produced by the model. Q-Square calculation is as follows:

$$Q^2 = 1 - (1 - 0,270246) = 0,729754$$

The results of the calculation of the Q-square value is 0.729754. The quantity Q2 has a value in the range $0 < Q^2 < 1$, where the closer to 1, the better the model.

Furthermore, hypothesis testing is performed using the bootstrap method of the sample. Bootstrap testing is intended to minimize the problem of research data abnormalities. The bootstrapping test results from the PLS analysis are as follows:

Table 7: Result For Inner Weights

Hypothesis	Relationship	Total Effects Original Sample Estimate (O)	T-Statistics (O/STERR)	Conclusion
H1	People's Economy -> Local Economic Potential	0,519852	7,935357	Accepted

Hypothesis testing results show that the relationship between the variables of Community Economy and Local Economic Potential shows the path coefficient (Total Effects) of 0.519852 with a calculated value of 7.935357. This value is greater than t table 1,960. This result means that the People's Economy has a positive and significant relationship to the Potential of the Local Economy. Thus the Hypothesis is accepted.

5. Conclusion and Suggestion

5.1 Conclusion

Based on the results of an analysis of the people's economy of local economic potential can be concluded as follows;

1. The inhibiting factor for the development of Micro, Small and Medium Enterprises (MSMEs) in Lampung Province is that MSMEs do not yet have superior Commodities so that they do not experience development of the people's economy.
2. Supporting factors in the development of Micro, Small and Medium Enterprises (MSMEs) in Lampung Province are in dire need of Human Resources (HR) who have the level of education and skills in developing

people's economy.

3. From the results of statistical calculations empirically, it is evident that people's economy has a positive and significant effect on the development of the local economy.

5.2 Suggestion

From the results of this study, we provide suggestions for community economic progress based on local potential as follows;

1. For the Government, in the development of MSMEs, it is necessary to have full support for the development of superior commodities and continue to improve Human Resources (HR) who have the level of knowledge and skills in creating superior commodities in each region of Lampung Province and are supported by the budget of the State Revenue and Expenditure Budget, and Regional Revenue and Expenditures Budget, regional banks, infrastructure, and related stakeholders.
2. Competent institutions especially education, training and tertiary institutions should create human resources capable of managing natural resources and superior commodities in each region. Financial institutions (banking), cooperatives, insurance, state-owned companies, private-owned companies, promotion media, etc. together help to develop MSMEs that have superior commodities in each region.
3. Communities in each region find and develop the strategic potential of local wisdom possessed to be a comparative advantage of leading commodities in the development and growth of MSMEs in the region. This will be a superior product in the local people's economic sector.

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