



Are SME's Product and Local Government Programs (OVOP) Coherent?

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Abstract

In the developing countries, the government has a vital role in supporting the development of SME's as one of economic pillars. There are studies which state that the government has played an active role in supporting the development of SME's, either from policy or implementation, but several studies argue that government failure in supporting and creating business climate has caused business stagnation for SME's. This study aims to analyze the coherence between government policy through Regional Superior Products development (under OVOP) program with SME's main product choice in Central Java province. The analysis using analytic hierarchy process (AHP), on the data collected through focus group discussion (FGD), questionnaire, and secondary data. The result of this study shows weak evidence that there is coherence between government program and SME's/SME's main product choice, there are only 6 districts/cities that have coherence SME's: Grobogan district, Blora, Rembang, Magelang (city), Brebes, and Banjarnegara, while the rest districts/cities have no coherence between SME's and government policy. Supply side policy, volume orientation, partial support, and several other factors are the cause of in-coherence. The implication of this finding is that there is a need of evaluation, downstream policy, business link (including education field) that support SME's will develop.

Key words : Superior Product, OVOP and Coherence.

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INTRODUCTION

The development of superior products and services under one village one product (OVOP) concept becomes one of the government priorities in increasing economic activities and community welfare. This concept put forward the role of local community, cultural and geographical characteristics, and regional resources in producing goods and services, therefore, this concept emphasizes local roles which in turn will create primordial/geographic brand congruency (GBC) product image. Products and place of origin have a strong relationship. GBC generates higher consumer evaluation compared to geographic incongruence products (Sloan, Aiken, & Mikkelsen, 2018). Brand or a product tend to be perceived according to the regional associations from which the products come from (Spielmann, 2016), a product region-of-origin will have a positive effect on the market/consumers because they will have the sense of belongings (Ittersum, Meulenberg, & Trijp, 2003). Besides, brand original (BO) will have a positive effect on consumers brand image (D'Antone & Merunka, 2015). As an example, in Indonesia, cassava products (gapek) is identical to Wonogiri, cow's milk from Boyolali, rattan from Sukoharjo and Cirebon, herbal beverages (jamu) from Sukoharjo and Wonogiri, which is in line with the characteristics and association of the region.

Besides that, the local brand/region as an identity is a driving factor for regional economic development especially in the rural area (Messely, Dessein, & Lauwers, 2009). Local and traditional products are important driving factors for regional economic growth

population characteristics, and point of views (Zalesko, 2017).

It has the ability to promote the region to the national and international market (Adamczuk, 2013) and (Kozak, O & Bezenar). Local products are a part of the regional transformation process and as the unifier factor between the people and their region (KAŠKOVÁ & CHROMÝ, 2014). Geographical products and brands (regional) have major implications on the development of the regional economy. Therefore, the government has an important role in supporting economic agents (SME's specifically) in order to produce goods and services that meet local characteristics (Smallbone & Welter, 2001); (Nakagawa, 2012); (Niskha & Vesala, 2013); and (Sambajee & Dhmun, 2015) through various methods, such as Human Resource Development, sponsorship and managerial training (Huang, 2009) and (Haddoud, Jones, & Newbery, 2017), the problems concerning products and production process (Onyido, Boyd, & Thurairajah, 2016), financial (Bilal, Naveed, & Anwar, 2017), and OVOP program (Schumann, 2016).

However, the development of regional products faced several problems, among others; the quality that generally considered as lower or not comparable to the national products and imports (Henchion & McIntyre, 2000). Local products tend to have a high price (Salisbury, Curtis, Pozo, & Durward, 2018) and (Donaher & Lynes, 2017) due to the simple production process that produces low-quality products and the use of the natural production process, for example in organic farming products. Consumers will compare local products they want to consume, they want to see the safety guarantee of using a product. Therefore, local products from SME's need certain product

certificate or origin (Ittersum K. V., Meulenberg, Trijp, & Candel, 2002) in order to be accepted and compete in the market. Besides that, the accessibility in the form of regional product information is needed for the market (Meulenberg, Ittersum, Trijp, & Koert, 2003). It can be created from the relationship between regional-product information and the types of products/brands and unique products (Collins & Elizabeth, 1975); and (Krishnan, 1996). The government has a big role in increasing regional economic performance through the development of SME's to create regional products. This, in turn, will become the local superior product and have the ability to provide impulse so that the products are accepted in the market.

The development of regional superior product cannot be separated from Small and Medium Enterprises' (SME's) role as an industry entity in a region. SME's have a significant role in economics cycle, as the source of continuous economic growth and development through job creation, reduction of poverty, and improvement of skilled labor (Karadag, 2016), facilitate industrial development and improvement and development production capacity (Oduntan, 2014) and a product's value added (Hobohm, 2017). Therefore, an empowerment is needed for all society members that covers various aspects such as, *first*, improvement of skill/competency in technical and business aspect for local SME's as a new source of income; *second*, facility and ease of access on financial sources especially for local supplier; *third*, reinforcement of distribution network and local supply as well as production basis (World Bank, 2004) and (Bennett & Robson,

2004). Moreover, SME's empowerment should meets several criteria *first*, expansion of economic activity in production process by referring to a developed superior product in a certain region, which will affect other micro and macro economics growth; *second*, the existence of product independency on customer sovereignty will be developed as a part of welfare improvement (Becker, 2004 in Soetarto et.al, 2011). However, SME's empowerment should be based on entrepreneurship and competitive business, because it will lead to the creation of an superior product of innovation, overall production growth, and business expansion for the SME's through various business diversification, which will create employment (Beck et.al, 2005). SME's effectiveness should be able to provide innovation, appropriation mechanism of the goods produced, and establishment of a cluster as a part of supply chain system. This innovation includes new product and service implementation, value added, production process, marketing method, design, business practice and organizational, as well as product and service development in accordance with the characteristic of the culture or local resource, thus creating an superior local and national product (Beer et al, 2013).

By considering the significance of SME's, especially its relevance on local economics, in term of job creation and production value added, *first* SME's are labor intensive in nature thus it will leads to more equally distributed income; *second*, SME's have more efficient resource allocation compared with big industry; and the last SME's can create more systematic production system through the utilization of all productive resource with dynamic and elastic characteristic (Hobohm, 2017). Moreover, SME's

have more elastic vulnerabilities on economics turmoil and have bigger comparative advantage compared to big industry (Chambwera et al., 2011). Therefore, supports from various parties, especially government, in empowering and developing SME's role in various aspects are needed. Furthermore, SME's also have a direct effect on Locally Generated Revenue (Pendapatan Asli Daerah-PAD) as a benchmark of national economics development.

In Indonesia, the empowerment and development of MSME (Micro, Small, and Medium Enterprise) by the government is implemented through Law Number 9 of 1995 concerning Small Enterprises. The supports and concepts concerning regional superior product are implemented after the regional autonomy policy in 1999 by the issuance of Minister of Home Affairs Decree Number 9 of 2014 concerning the Guidelines of Regional Superior Product Development. Central Java province consists of 35 districts/cities and based on the data from Statistics Indonesia (Badan Pusat Statistik-BPS), there are 4.17 million SME's at the end of 2017, in which only 133,679 SME (dominated by commerce and production) or about 3.2 percent got coaching from the government that year (DINKOP-UKM(a), 2017). While in 2018, the number of SME's that that received assistance increased to 140,868 (5.4%). The total regional superior products produced by SME's in Central Java province is 175 products (DINKOP-UKM(a), 2017). This shows that there is a lack of local government role in stimulating and supporting SME's productivity as an economic basis, especially in Central Java province. There are works of literature which discuss the role of government in motivating

SME's. Government has an important role in SME's' internationalization process (Shamsuddoha, Ali, & Ndubisi, 2009) through the improvement in regulation in order to create conducive business climate, to encourage innovation and financial access from banking industry to the

external parties (non-bank financial institution and sponsorship) (Wonglimpiyarat, 2015); (Du, Bian, & Gan, 2017) and (Xiang & Worthington, 2017), government contract (Fee, Erridge, & Hennigan, 2002), macro-micro level (overseas market and individual assistance programs) (Crick & Lindsay, 2015), institutional support (Dimitriadis & Simpson, 2005) and (Bennett & Robson, 2004), market knowledge (Dominguez & Mayrhofer, 2017); and (Sinkovics, Kurt, & Sinkovics, 2018), and government support to market (both domestic and international) (Leonidou, 2004) and (Wright, ul-Haq, & Oktemgil, 2005).

However, in other previous studies in developing countries, government failure in supporting SME's and the lacks government proactiveness has caused SME's to find difficulties to develop their business and thus, they prefer bootstrapping model to sustain their business (Sambajee & Dhomon, 2015). Government policy tends to pay more attention to the business that is larger than SME's (Wyrick, Natarajan, & Eseonu, 2013). It fails to provide access to financial institutions (Beck T. , 2013), provide insufficient services such as consultation; and provide insufficient assistance (Yusoff & Zainol, 2012). Therefore, even though the government has a role as the agent of advice, they have no significant effect on the development of SME's (Robson & Bennett, 2000). Alienation of local government/hidden role has caused the failure in the mergers and acquisitions in medium-sized companies (Wang

& Han, 2008) which is influenced by economic and political benefits, although it is performed by individual and do not represent the local government. Other study are government's alignments to large industries (Fuller, 2005) and (Smallbone & Welter, 2001); supply side policy, corruption, goal disorientation (Xheneti, 2005); Government support is not in accordance with SME problems (Berry, Sweeting, & Goto, 2006) and (Smallbone D. , 2010); and Bureaucracy, unstable policy climate, unfriendly customs and trade regulations, strict monetary and credit policies, excessive tax regulations hinder SME's (Nyarku & Oduro, 2018) and (Fonseca, Michaud, & Sopraseuth, 2007).

This study focuses on whether Central Java government programs are in line with the development of SME's. The program in question is the OVOP policy stated in the Head of Cooperatives, Small, and Medium Enterprises Department of Central Java province Decree No. 910/2661 of 2018, and not on the government failure in supporting the development of SME's (Yusoff & Zainol, 2012); (Robson & Bennett, 2000); and (Beck T. , 2013). Analytical Hierarchy Process (AHP) and Fuzzy Comprehensive Evaluation are the methods used to determine regional superior products. This paper consists of five parts, the second part is the literature review which discusses the concept of regional superior products refers to the concept of OVOP and theories concerning informal sector/UKM. The next section discusses the methods and data used in the study. The fourth section describes the result and discussion and lastly is the conclusion and implication of the result of the study.

Product development into a regional superior product by an SME becomes an emerging issues to be discussed, especially in Indonesia. This mainly as a form of synergy between local government, stakeholders (SME's), and society in establishing various business opportunities, employment, and encouraging regional economic development. The basic concept of regional economic development is a development policy with a region's specific characteristic as its focus, in which the main focus of a region distinct characteristic lies on the resource utilization, endowment factor, institutional, human resource, and cultural nature. An initiative that encourage the implementation of this program is the goal to establish each region into a production basis in regional development, thus will have an impact on expansion and creation of new employment, expansion of economics activities, and welfare improvement for society.

The concept of regional superior product (PUD) is a diversification of OVOP program, in which the prototype of such movement is first introduced in Oyama, Japan in 1961 for agricultural sector, especially plum and chestnut, which known as "Oita Prefecture". The objective of the program is to gradually revitalize society's economics condition in a long term through policy formulation by local leaders (Natsuda et al., 2011). The prototype of OVOP movement is initiated by Japanese in 1961 through a local movement to revitalize society's condition in a long term. The movement is adopted by China, in 1983 with a one village one treasure (OVOT), one township one sector (OTOS), and one cooperative one product (OCOP) concept (Yonggong, 2016); Malawi in 1993 (however an OVOP secretariat is established in 2003) through a concept of

human resource and finance development in improving production (Haraguchi, 2008); Thailand with a model of One Tambon One Product (OTOP) in 2001 with an objective to revitalize and restructurisation of rural economics as a part of national economy (Kurokawa, Tembo, & Velde, 2010); Malaysia in 2002 with one town one industry/SDSI or one village one industry/SKSI concept (Latif, 2009); Nepal in 2006 with a concept of one district one product (ODOP) through a local product commercialization and partnership (Ghimire, 2014); by Kyrgyz in 2006 that adopt OVOP model using human resource competency development and empowerment based on local and traditional approach (Dadabaev, 2016); and in Indonesia the implementation of OVOP is started in 2008 with an objective to promote small and medium industries (Triharini, Larasati, & Susanto, 2014).

The development of region-based small and medium enterprises (SME's) become a supporting factor in improving society's welfare, including superior product of small and medium enterprises in Central Java.

The main objectives of OVOP program consist of (i) improvement of local products' value added in a country, thus it will resulted in an increase of local community welfare, (ii) an increase of regional attraction for local community, national, and tourist through a local wisdom-based environment change (Claymone & Jaiborisudhi, 2011). The approach implemented in this program is a rural community empowerment through an improvement of participation, potential, creativity, and regional/local leaders role in

improving human resource capacity in producing superior product with a value added and appeal to the public and both local and international market. Rural community revitalization by regional leaders is expected to increase regional development, governance development and local community organization, as well as improving local community's income and welfare, which contributes to national development

Institutional system in this program is non-formal because it uses society-led approach, thus there is no detailed institutional organizational business structure. Coordination as an organizational action is conducted collectively on the technique in production, technology implementation, and market information provided by the members to the organization.

Meanwhile, government has a role in providing policy to support various program activities through dissemination and assistance, training and human resource development, production technique, market information and marketing strategy, network expansion, capital assistance in the form of equipment, ease of access on financial system, and product promotion. Simple and non-formal institutional management, compliance on the organization and internal leader, members' initiative, commitment cooperation among members are several factors that affect OVOP successfulness (Haraguchi, 2008). Figure 1 explains the relationship pattern and the main actors in OVOP program.

The main key in this program is commitment and collectivity among the members, thus this relationship pattern will

leads to initiative and information openness for the organization. Moreover, stakeholder's support, association, international organization, other non-profit organizations in a form of market information, technical and non-technical assistance also affect the establishment of this program.

Other actors in the successfulness of this program are non-governmental organization, banking sector, information media (printed and electronic), network service provider, academics, and business associations or institutions that focused on SME's development (the association for advancement of small business/PUPUK and others). Governance enforcement, problem solving, production process improvement, characters development into entrepreneurial spirit, promotion and marketing are the form of support toward this program. Those supports is expected to encourage creativity from each member, which will bring innovation and market expansion.

Indonesia's economic downturn as an effect of economic crisis in 1997/1998 encourage the government to find a solution to ensure development sustainability and to improve the economic condition immediately. The policy taken by Indonesia's government is by promoting rural area development based on bottom up principle, which will improve the capability and independence of local community (Claymone & Jaiborisudhi, 2011). This policy is in line with OVOP principle namely local community resource, independence, and local wisdom-based economy. In Indonesia, the superior product

development program as an implementation of OVOP program has been conducted after the issuance of local autonomy policy in 2004. The legal basis for the implementation of OVOP is Presidential Instruction (Inpres) Number 6 of 2007 concerning the Acceleration of Real Sector, and Small and Medium Enterprise (SME's) Development, which instruct that development of business center should be conducted through OVOP approach, and the Regulation of the Minister of Internal Affairs Number 9 of 2014 concerning the Guidelines for Economics Regional Superior Product. Competitiveness level, product innovation and promotion or sales system, access to finance and micro-finance, high logistic cost and political risk (long-winded bureaucratic system, corruption, extortion, import policy as a result of temporary and seasonal demand) are several problems that should be faced by SME's in developing their business especially in the context of ASEAN Economic Community (AEC) implementation (Rahadi, 2016).

Medium and skilled expatriate labor migration flow into Indonesia as well as a high import rate (Southiseng & Bartels, 2016).. However, this product will be more plagiarism-prone, which in fact has larger capital. Meanwhile, internally, the development of this program is hampered by several problems such as: (i) lack of concern from the society toward potential product; (ii) lack of coordination among local communities; (iii) lack of financial information or research on local product, marketing technique, and how to increase buying behavior of local or

regional product (Wardoyo & Humairoh, 2016) support from government; and (iv) lack of.

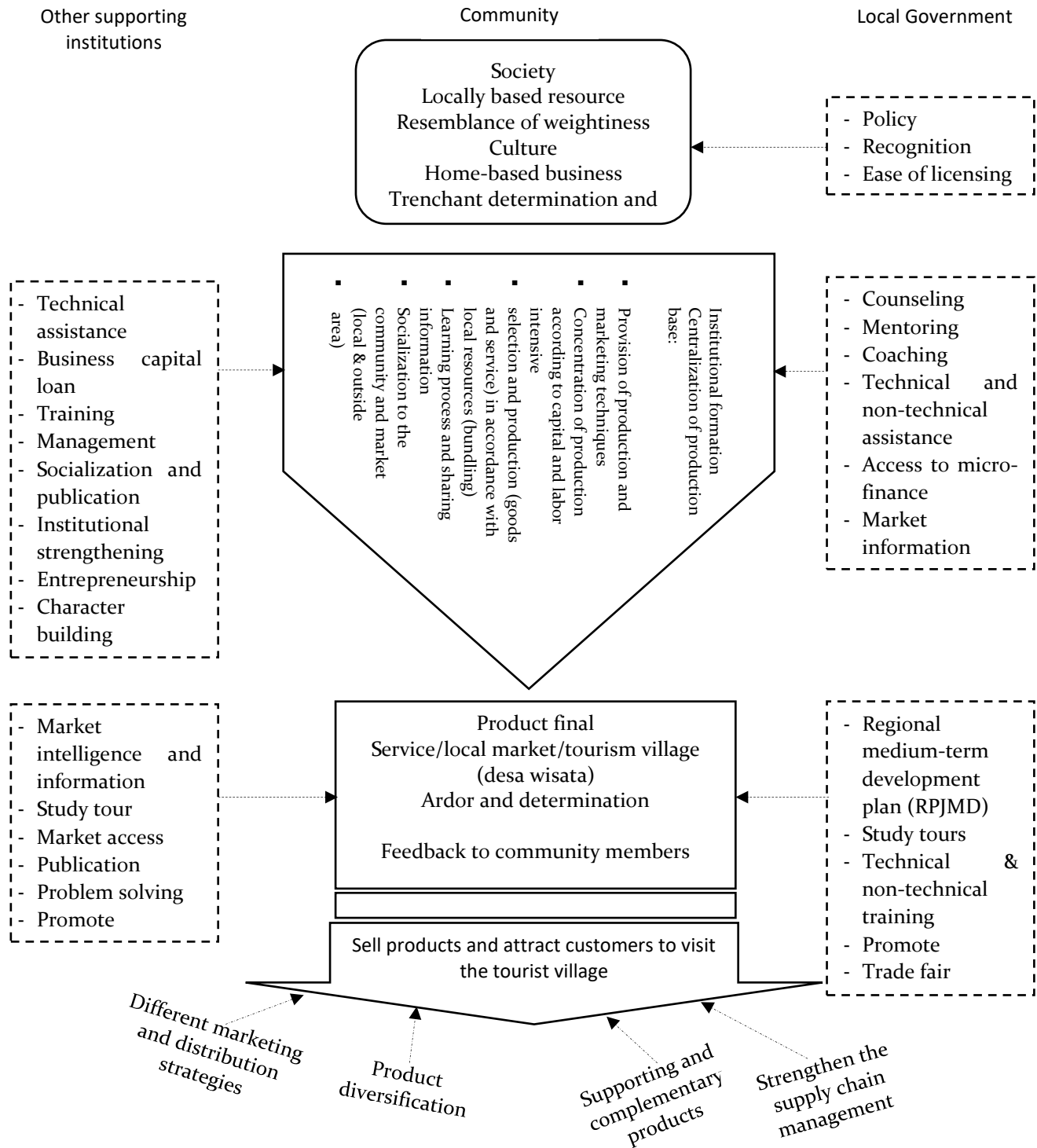


Figure 1. Pattern of Relationships and Key Actors in the OVOP Program
 Source: Haraguchi (2008), Author modification

Local government has a role in supporting superior product that can be implemented through a Medium-term Development Plan (Rencana Pembangunan Jangka Menengah-RPJMD), which prepared based on field identification. The basic principle of superior product development based on OVOP consist of: (i) invention of new product based on local resource that accepted in global market; (ii) development of human resource; and (iii) independence and creativity of local community (JICA-ODI, 2008; Kurokawa), (Tembo, & Velde, 2010); (Laymone & Jaiborisudhi, 2011); (Bennett & Robson, 2004); (Dimitriadisô & Simpson, 2005); (OECD, 2004) and (Schumann, 2016). Meanwhile, according to Latif (2009), the criteria of superior products based on OVOP are: (i) utilize local resource; (ii) generate income for local community; (iii) has the ability to provide employment for local community; (iv) aims for more established industry; and (v) has the ability to utilize the young labor force as innovation source.

According to the Regulation of the Minister of Internal Affairs Number 9 of 2014, the development of superior product should meet several criteria as follows: (i) utilization of labor force from the surrounding area, in which the region selected as the basis of superior product production should be able to provide employment; (ii) the produced product should provide benefits and multiplier effect on the economy; (iii) is a regional product as a basis of contribution to the PDRB; (iv) utilization of environment-friendly and renewable raw material; (v) using the potential

and local community institution based on local wisdom and culture; (vi) market availability, both local, national, and global market; (vii) raw material availability and competitive price; (viii) capital availability and adequacy; (ix) the availability of accessible (easy) infrastructure; (x) efficient technology; (xi) business management that utilize local resource and institution; and (xii) higher price as the basis of value added in a product or service.

RESEARCH METHOD

The data analysis in this research is hierarchical, which based on the products produced by SME's in the whole area of Central Java Province. The SME's (both cluster and business group/KUB) chosen as research object are those incorporated in the Forum for Economic Development and Employment Promotion (FEDEP), which lies under the coordination of Central Java Provincial Government with 199 business types in 2018. The data in this research are primary and secondary data obtained through focus group discussion (FGD), questionnaire, RPJMD, and strategic planning (Rencana Strategis/Renstra) of Central Java Province, and Central Bureau of Statistic (BPS). While the variables of analysis are consist of the number of SME's in each Municipality/City government in Central Java, the number of business unit, the number of employee, output, product uniqueness, material availability and business growth.

The analysis of superior product in Central Java uses the analytic hierarchy process (AHP), which first introduced by Saaty 1970 and published in 1980 (Saaty_(a), 1980).

AHP as a sophisticated mathematical model is a method that implemented in a decision making process for multi-criteria problem (multi criteria decision making/MCDM). This model is conducted through a pairwise comparison between selection criteria and hierarchical aggregation of a priority that based on a pairwise comparison matrix.

AHP model has been applied in various business model since 1987 such as: portfolio investment selection risk (Saaty_(b), 1987); corporate forecasting, new product determination strategy, corporate business marketing, market selection, and technology selection (Saaty & Vargas, 2012); production process evaluation (Cannavacciuolo et al., 2012); new product development priority for electronic industry (Salgadoa et al., 2012); product quality evaluation (XiXi, 2013); and product development for SME's (Harnovinsah & Utami, 2017).

AHP analysis refers to seven main foundations namely ratio scales, proportionality and normalized ratio scales, reciprocal paired comparisons, sensitivity of the principal right eigenvector, homogeneity and clustering, rank preservation and reversal, group judgments (Saaty & Vargas, 2012). The analysis process using AHP method is explained as follows: *First*, define the problem and determine the hierarchy structure. The main component in AHP decision consist of three elements that are main objective, valuation criteria, and alternative options. The main objective of this research is to determine the business type conducted by SME's in Central Java as superior product, the valuation criteria consist of output, employment absorption, and the number of business unit, while the alternative options is various industry or business type conducted by SME's.

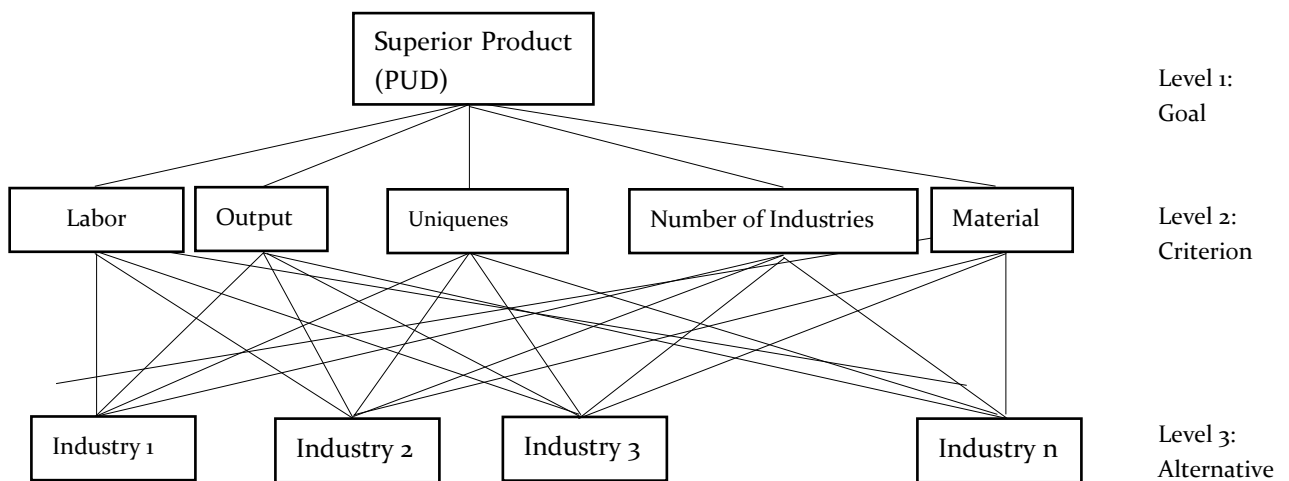


Figure 2. Hierarchy Best Choice of Superior Product

Table 1. Saaty's Pairwise Comparisons Scale

| Intensity of importance | Definition | Explanation |
|-------------------------|---------------------------|--|
| 1 | Equal importance | Two factors contribute equally to the objective |
| 3 | Somewhat more important | Experience and judgment slightly favor one over the other |
| 5 | Much more important | Experience and judgment strongly favor one over the other |
| 7 | Very much more important | Its importance is demonstrated in practice |
| 9 | Absolutely more important | The evidence favoring one over the other is of the highest possible validity |
| 2,4,6,8 | Intermediate values | When compromise is needed |

Second, prepare a pairwise comparison matrix based on criteria focus. The next stage is determining the pairwise comparison to determine the weight of each criteria. Pairwise comparison is implemented to calculate the weight of criteria and alternative weight on valuation criteria. Suppose there are n criteria with a number of N and m alternatives with a number of M , pairwise comparison will be conducted between each member of m criteria and m alternative for each n criteria. Weighting criteria in pairwise comparison is a preference in decision making process for each criteria taken show in table 1. In AHP analysis, there are three axioms (i) reciprocal, for example $PC \rightarrow (\epsilon I, \epsilon J)$ is a pairwise comparison between the element of J and I , and I as parent element, thus it shows the total value owned by I on J , thus $PC(\epsilon J, \epsilon I) = 1/PC(\epsilon I, \epsilon J)$ and vice versa; (ii) homogeneity, the compared elements have almost the same value and have a lag that relatively small; and (iii) interdependency, that is when the priority element in the

hierarchy does not dependent on the lower element, thus allowing for hierarchical composition

The next step is conducting a consolidation of pairwise comparison into 'a' pairwise comparison matrix, $A = (A_{ij})_{n \times n}$ thus the matrix would become as follows,

$$A = \begin{bmatrix} a_{11} & a_{12} & \dots & a_{1n} \\ a_{21} & a_{22} & \dots & a_{2n} \\ \vdots & \vdots & \ddots & \vdots \\ a_{n1} & a_{n2} & \dots & a_{nn} \end{bmatrix}$$

According to Saaty theory, $a_{ij} > 0$ (positive) shows preference of the element of i and j thus nearing the ratio between two weights, $a_{ij} = \frac{w_i}{w_j}, \forall i, j$. If the ration between the weights is matched, thus matrix A can be re-arranged as follows :

$$A = (w_i/w_j)_{n \times n} \\ = \begin{bmatrix} w_1/w_1 & w_1/w_2 & \dots & w_1/w_n \\ w_2/w_1 & w_2/w_2 & \dots & w_2/w_n \\ \vdots & \vdots & \ddots & \vdots \\ w_n/w_1 & w_n/w_2 & \dots & w_n/w_n \end{bmatrix}$$

Based on the two matrixes, thus by using multiplicative reciprocity axiom under a condition of $a_{ij} = \frac{w_i}{w_j}, \forall i, j$, the matrix can be simplified into :

$$A = \begin{bmatrix} 1 & a_{12} & \dots & a_{1n} \\ \frac{1}{a_{12}} & 1 & \dots & a_{2n} \\ \vdots & \vdots & \ddots & \vdots \\ \frac{1}{a_{1n}} & \frac{1}{a_{2n}} & \dots & 1 \end{bmatrix}$$

The last step is evaluating the consistency ratio (CR) of the pairwise comparison matrix criteria. If the CR value > 0.1 thus the pairwise comparison should be repeated until the CR value < 0.1 . CR is calculated using consistency index (CI) divided by random consistency index, while CI is determined using the formula of $CI = \frac{A_{max} - n}{n - 1}$.

RESULTS AND DISCUSSION

The main purpose of this study is to analyze the coherence between SME's product and regional superior product (produk unggulan daerah-PUD) in Central Java province using OVOP approach. This study also discusses various problems experienced by SME's in Central Java province. Based on the result of FGD, observation, questionnaire, and discussion, the total number of SME listed in this study is 38,618 units located in 30 district/city in Central Java Province with sales up to Rp 3,462 billion or Rp 9.35 million sales per capita per year. In order to facilitate the coordination of supervision, Central Java Province that consists of 35 districts/cities is categorized into 3 Regional Coordinating

Agency/Bakorwil (see table 2). Most of the SME's are in the form of cluster and joint business group (KUB) because this form can promote partnership and connectivity, especially in supply chain management among SME's and speed up the agglomeration process in industry/business.

The implementation of PUD in Central Java Province refers to the OVOP concept according to Oita Prefecture; the utilization and development of local resources based on local characteristics and culture. This is reflected in the products from each region that put forward local characteristics and matched it with the topography of each region. The region with the dominant factor tends to create products/services that closely related with the region. The region with water topography tends to have sea/water related products, while region with high altitude topography tends to produce agricultural, plantation, and related industry products.

The utilization of the local work force is starting to be optimized. The existing 38,782 SME's has created employment for 370,183 people during 2018 and will probably continue to grow.

Table 2 shows the superior product (SME's side) from each district/city in Central Java Province during 2018 based on the analysis using AHP. The product from SME's in each district/city has different characteristics even though the type of products is similar. The SME's main product choice is dominated with Batik product, Handicraft, Processed Food, Agriculture and Farming, Furniture, Fisheries and Tourism Village.

Table 2. Superior Products by Small and Medium Enterprises (SME's) in Central Java

| | | | | | | | |
|--|-------------------|----------------------------|----------------------------|---------------------------|---------------------------|-----------------------------|--------------------------|
| Regional Coordinating Agency (Bakorwil) 1* | Grobogan | Product | Furniture | Batik | Corn | Tile crafts | Processed food |
| | | IC | 0.32 | 0.21 | 0.20 | 0.14 | 0.13 |
| | Blora | Product | Desa Wisata | Batik | Crafts (ceramics & brick) | Processed food | Handycraft and Furniture |
| | | IC | 0.31 | 0.23 | 0.22 | 0.14 | 0.10 |
| | Rembang | Product | Gula Tumbu | Brick and Tile | Paper (Notebooks) | Beef cattle | Salt |
| | | IC | 0.28 | 0.25 | 0.21 | 0.17 | 0.09 |
| | Pati | Product | Paper (Notebooks) | Cotton (Kapuk randu) | Milkfish | Processed fisheries | Fruits |
| | | IC | 0.32 | 0.29 | 0.17 | 0.12 | 0.10 |
| | Kudus | Product | Metal, Copper and Brass | Gebyok dan Rumah Adat | Processed food | Convection | Handycraft |
| | | IC | 0.35 | 0.24 | 0.19 | 0.12 | 0.11 |
| Demak | Product | Desa Wisata(include | Processed food | Batik | Agriculture | Fisheries (Smoked, | |
| | IC | 0.30 | 0.22 | 0.21 | 0.15 | 0.12 | |
| Semarang (City) | Product | Metal crafts | Handycraft | Milkfish | Desa Wisata | Processed food | |
| | IC | 0.28 | 0.20 | 0.18 | 0.17 | 0.16 | |
| Regional Coordinating Agency (Bakorwil) 2** | Wonosobo | Product | Batik | Sheep farm | Carica | Processed food (Cassava) | Palm sugar |
| | | IC | 0.35 | 0.32 | 0.17 | 0.10 | 0.06 |
| | Klaten | Mebel | Batik (Lurik) | Desa Wisata (Minapolitan) | Furniture | Processed food | Ceramics |
| | | IC | 0.27 | 0.25 | 0.18 | 0.16 | 0.14 |
| | Sukoharjo | Product | Handicraft (Guitar) | Herbal | Processed food | Batik (Lurik) | Furniture (Wood and |
| | | IC | 0.37 | 0.24 | 0.16 | 0.14 | 0.10 |
| | Wonogori | Product | Cassava (Gaplek) | Tile crafts | Batik | Medicinal plants (herbal) | Processed food |
| | | IC | 0.30 | 0.21 | 0.19 | 0.17 | 0.13 |
| | Sragen | Product | Organic agriculture (rice) | Household appliances | Convection | Batik | Furniture |
| | | IC | 0.37 | 0.25 | 0.16 | 0.12 | 0.10 |
| | Temanggung | Product | Coffee | Clay craft | Batik | Processed food | Horticulture |
| | | IC | 0.32 | 0.29 | 0.16 | 0.14 | 0.09 |
| | Purworejo | Product | Desa Wisata | Bamboo crafts | Coconut sugar | Processed food | Agriculture (Corn) |
| | | IC | 0.34 | 0.21 | 0.17 | 0.17 | 0.11 |
| | Boyolali | Product | Dairy farm (Cow's milk) | Furniture | Desa Wisata | Freshwater fisheries (Lele) | Metal crafts |
| | | IC | 0.29 | 0.22 | 0.19 | 0.19 | 0.11 |
| Magelang (City) | Product | Plants and proc foods | Convection | Handicraft | Processed food | Slondok dan Puyur | |
| | IC | 0.35 | 0.34 | 0.15 | 0.08 | 0.08 | |
| Magelang (District) | Product | Stone chisel | Slondok dan Puyur | Batik | Freshwater fisheries | Salak | |
| | IC | 0.30 | 0.29 | 0.24 | 0.09 | 0.08 | |
| Surakarta | Product | Bird cage craft | Handicraft (shuttlecock) | Desa Wisata (Kampung | Furniture | Jewelry and gemstones | |
| | IC | 0.30 | 0.27 | 0.18 | 0.14 | 0.11 | |
| Regional Coordinating Agency (Bakorwil) 3*** | Banjarnegara | Product | Ceramics (Klampok) | Batik (Handmade) | Processed food | Desa Wisata | Coconut sugar (Crystal) |
| | | IC | 0.31 | 0.22 | 0.21 | 0.16 | 0.11 |
| | Batang | Product | Leather products | Desa Wisata | Processed food | Cattle farm | Batik |
| | | IC | 0.32 | 0.27 | 0.19 | 0.13 | 0.08 |
| | Brebes | Product | Salted egg | Batik | Seaweed | Desa Wisata (Agrotourism) | Red onion |
| | | IC | 0.48 | 0.15 | 0.14 | 0.13 | 0.11 |
| | Cilacap | Product | Batik | Desa Wisata | Processed food (Banana) | Sugar (Gula Semut) | Processed fisheries |
| | | IC | 0.29 | 0.28 | 0.16 | 0.16 | 0.11 |
| | Pekalongan (City) | Product | Metal crafts | Weaving (Tenun ATBM) | Batik | Textile industry (printing) | Garment |
| | | IC | 0.38 | 0.21 | 0.16 | 0.15 | 0.10 |
| Purbalingga | Product | Exhaust industry | Organic agriculture | Handycraft | Desa Wisata | Coconut sugar (organic) | |
| | IC | 0.50 | 0.20 | 0.18 | 0.08 | 0.03 | |
| Tegal (District) | Product | Organic agriculture (rice) | Horticulture | Batik | Metal crafts | Shuttlecock | |
| | IC | 0.32 | 0.27 | 0.18 | 0.12 | 0.10 | |

Source: Author calculation

Note:

*) exclude Semarang (District), Salatiga, Jepara and Kendal

**) exclude Temanggung and Kebumen,

***) exclude Banyumas, Pemasang, Tegal (City), and Pekalongan (District)

IC: consistency index

Consistency ratio (CR): 0.05

Batik is one of the prima donnas for SME's, this industry has created employment for 32,683 people or 8.9% of total employment and generates sales of 867.7 billion rupiahs or 25.1% of total sales from SME's in Central Java Province. Pekalongan city is the region with the highest absorption with 58% of total workforces who work in the sector. Based on the processed data from 25 recorded districts/cities, there are 18 districts/cities (except Kudus, Semarang city, Purworejo, Boyolali, Magelang city, Surakarta and Purbalingga) that make Batik industry as their SME's main product choice, some of the regions even show the first position with highest consistency index.

The availability of raw materials and crafter's creativity are a few factors that lead to the rapid development of this business. The total sales of the business reach 134.03 billion rupiahs annually, or 4% of total sales from all SME's in Central Java Province.

The home industry that provides a big contribution to the creation of jobs is the Processed Food industry. There are 16 districts/cities that choose this industry as their local product excellence. Even though it is not the SME's main product choice, this industry has contributed to 15.51% on the job creation. The access to raw materials, simple production process, low capital requirement, and high market demands, makes this industry develop steadily. The processed foods produced by SME's are mostly from their own farms or agriculture, taken from nature/ primary product, and only a few are intermediate goods. This product is highly dependent on geographical condition and

area typographic condition. This industry has a competence level of 0.08 – 0.29, with the highest score generated by Magelang District and the lowest in Magelang City.

Central Java has many active volcanoes and the number of natural springs has made the area to have fertile agricultural soil. This makes agriculture and farming become the alternative of businesses. Agriculture and farming are one of the choices for SME's to run business. There are 33,936 people or 9.17% of the population works in this sector, with annual sales of Rp. 489.7 million or 14.14% from total SME's sales in Central Java during 2018. The interesting phenomenon from this sector is that several SME's focused on organic agriculture. This due to the high bargaining power of organic products compared to non-organic products. Besides, technically, organic plants have better resistance toward pest, therefore businessmen can minimize their cost while maximizing the profits.

Another industry that contributes to SME's main product choice is fisheries/marine products and the like. The coastal areas which are dominated by waters covered area are the main producers of this product. The number of SME's in this sector reach 2,020 units that employ 18,707 local labors (5.05% of the total workforce). The demand for this product reaches Rp. 4,109.4 billion annually. Magelang District is the region in which this industry becomes the largest SME's superior product with total income reached Rp. 222.15 billion or 54.13% of the total sector (CI=0.09) and followed by Cilacap (25.29%), Pati (14%), and Brebes

(3,65), consistency index 0.11, 0.17 and 0.14 respectively. The majority of this industry is still at the primary and traditional level, therefore limiting the variation of output and added value produced by this industry. Besides that, the constraint of tools and weather leads to less continuous product flow and lack product quality.

Furniture as one of the primary industries is a choice for businessmen to create products added values. Creativity and availability of raw materials are the factors that boost the development of this industry. Based on the data of SME's captured in this study, this industry generates Rp. 662.8 billion sales or around 19.14% from total SME's sales. However, the openness of global market still gives obstacle for the sustainability of the industry. Importer, which is mostly a wholesaler, prefers to choose foreign agent in Indonesia. This way they can find products from the craftsmen easily and they are provided facilities or down payment as business capital. In the short-term, this activity is good for the sustainability of SME's, but on the long-term, the craftsmen cannot create added value except on their production.

Tourism Village is one of the SME's products in Central Java in the form of service/tourism. This product is iconic as a result of integration among attraction, accommodation, local culture, and supporting facilities, including local communities' way of life. Tourism Village product greatly emphasizes authenticity, local traditions, attitude and values, and conservation and carrying capacity so that local communities become objects

(community-based tourism) of tourism activities. The Tourism Village managed by SME's in Central Java Province consists of 2 forms, natural and made-up/setting by the local community.

There are 11 districts/cities in Central Java Province select Tourism Village as their SME's main product choice; Blora District; Demak; Semarang (City); Klaten; Purworejo; Boyolali; Surakarta; Banjarnegara; Batang; Brebes; and Purbalingga with consistency index of 0.31; 0.30; 0.17; 0.25; 0.34; 0.19; 0.18; 0.16; 0.27; 0.13, and 0.08, respectively. This sector employs more than 18,000 people with total sales of Rp. 170.56 billion. Even though this sector does not open as many jobs and generates profit as high as other sectors, steady development is observed together with the improvement in people welfare to enjoy leisure activities.

The sales and jobs computed in this study are limited to primary products, the direct output of the sector, in the computation of output. Based on this analysis, Sragen has its own attractiveness compared to other districts/cities. It has 2 products or industries that capable of absorbing the largest labors and generating the highest sales. Handicraft (household appliances) absorbs 54,340 labors or 14.68% of total workforces, and it has consistency index of 0.25 (ranked second). The second industry, Batik, generates sales of Rp. 642.47 billion with 8,925 labor (consistency index 0.12). This low consistency index is caused by the industry (Batik) only capable of less job create so that the high output produced is not followed by the optimal number of workforces that can be absorbed.

Table 3. Comparison of SME's Main Product between AHP and SAW Method

| AHP Method | | SAW Method | | AHP Method | | SAW Method | | | | |
|---|---------------------------------|---------------------------|---------------------------------|---------------------------|---|---|-----------------------------|-----------------------------|-----------------------------|--------|
| Regional Coordinating Agency (Bakorwil) 1 | Grobogan | Furniture | 0.32 | Furniture | 0.74 | Purworejo | Desa Wisata | 0.34 | Desa Wisata | 0.80 |
| | | Batik | 0.21 | Tile crafts | 0.39 ↑ | | Bamboo crafts | 0.21 | Coconut sugar | 0.51 ↑ |
| | | Corn | 0.20 | Processed food | 0.36 ↑ | | Coconut sugar | 0.17 | Processed food | 0.47 ↑ |
| | | Tile crafts | 0.14 | Corn | 0.28 ↓ | | Processed food | 0.17 | Bamboo crafts | 0.45 ↓ |
| | | Processed food | 0.13 | Batik | 0.24 ↓ | | Agriculture (Corn) | 0.11 | Agriculture (Corn) | 0.34 |
| | Blora | Desa Wisata | 0.31 | Desa Wisata | 0.85 | Boyolali | Dairy farm (Cow's milk) | 0.29 | Dairy farm (Cow's milk) | 0.56 |
| | | Batik | 0.23 | Batik | 0.67 | | Furniture | 0.22 | Furniture | 0.53 |
| | | Crafts (ceramics & brick) | 0.22 | Handycraft and Furniture | 0.62 ↑ | | Desa Wisata | 0.19 | Freshwater fisheries (Lele) | 0.49 ↓ |
| | Rembang | Processed food | 0.14 | Processed food | 0.33 | Magelang Civ | Freshwater fisheries (Lele) | 0.19 | Desa Wisata | 0.39 ↑ |
| | | Handycraft and Furniture | 0.10 | Crafts (ceramics & brick) | 0.31 ↓ | | Metal crafts | 0.11 | Metal crafts | 0.23 |
| Gula Tumbu | | 0.28 | Gula Tumbu | 0.92 | Plants and processed foods | | 0.35 | Plants and processed foods | 0.88 | |
| Brick and Tile | | 0.25 | Brick and Tile | 0.61 | Convection | | 0.34 | Convection | 0.79 | |
| Paper (Notebooks) | | 0.21 | Beef cattle | 0.59 ↑ | Handicraft | | 0.15 | Handicraft | 0.38 | |
| Pati | Beef cattle | 0.17 | Paper (Notebooks) | 0.46 | Magelang District | Processed food | 0.08 | Slondok dan Puyur | 0.25 ↑ | |
| | Salt | 0.09 | Salt | 0.35 | | Slondok dan Puyur | 0.08 | Processed food | 0.22 ↓ | |
| | Paper (Notebooks) | 0.32 | Paper (Notebooks) | 0.98 | | Stone chisel | 0.3 | Stone chisel | 0.65 | |
| | Cotton (Kapuk randu) | 0.29 | Cotton (Kapuk randu) | 0.73 | | Slondok dan Puyur | 0.29 | Slondok dan Puyur | 0.63 | |
| | Milkfish | 0.17 | Processed fisheries | 0.51 ↑ | | Batik | 0.24 | Batik | 0.47 | |
| Kudus | Processed fisheries | 0.12 | Milkfish | 0.38 ↓ | Surakarta | Freshwater fisheries | 0.09 | Freshwater fisheries | 0.28 | |
| | Fruits | 0.10 | Fruits | 0.36 | | Salak | 0.08 | Salak | 0.24 | |
| | Metal, Copper and Brass | 0.35 | Metal, Copper and Brass | 0.87 | | Bird cage craft | 0.3 | Bird cage craft | 0.66 | |
| | Gebyok dan Rumah Adat | 0.24 | Gebyok dan Rumah Adat | 0.61 | | Handicraft (shuttlecock) | 0.27 | Handicraft (shuttlecock) | 0.63 | |
| | Processed food | 0.19 | Processed food | 0.45 | | Desa Wisata (Kampung Batik) | 0.18 | Desa Wisata (Kampung Batik) | 0.43 | |
| Demak | Convection | 0.12 | Convection | 0.31 | Banjarnegara | Furniture | 0.14 | Furniture | 0.31 | |
| | Handycraft | 0.11 | Handycraft | 0.31 | | Jewelery (Kampung Jayengan) | 0.11 | Jewelery (Kampung Jayengan) | 0.20 | |
| | Desa Wisata(include) | 0.30 | Desa Wisata(culinary) | 0.71 | | Ceramics (Klampok) | 0.31 | Ceramics (Klampok) | 0.67 | |
| | Processed food | 0.22 | Processed food | 0.60 | | Batik (Handmade) | 0.22 | Batik (Handmade) | 0.61 | |
| | Batik | 0.21 | Agriculture | 0.45 ↑ | | Processed food | 0.21 | Processed food | 0.35 | |
| Semarang Civ | Agriculture | 0.15 | Fisheries (Smoked, Catfish etc) | 0.42 ↑ | Batang | Desa Wisata | 0.16 | Desa Wisata | 0.34 | |
| | Fisheries (Smoked, Catfish etc) | 0.12 | Batik | 0.35 ↓ | | Coconut sugar (Crystal) | 0.11 | Coconut sugar (Crystal) | 0.34 | |
| | Metal crafts | 0.28 | Metal crafts | 0.65 | | Leather products | 0.32 | Leather products | 0.66 | |
| | Handycraft | 0.20 | Milkfish | 0.49 ↑ | | Desa Wisata | 0.27 | Desa Wisata | 0.60 | |
| | Milkfish | 0.18 | Handycraft | 0.47 ↓ | | Processed food | 0.19 | Processed food | 0.48 | |
| Regional Coordinating Agency (Bakorwil) 2 | Wonosobo | Desa Wisata | 0.17 | Processed food | 0.35 ↑ | Brebes | Cattle farm | 0.13 | Cattle farm | 0.34 |
| | | Processed food | 0.16 | Desa Wisata | 0.30 ↓ | | Batik | 0.08 | Batik | 0.24 |
| | | Batik | 0.35 | Batik | 0.65 | | Salted egg | 0.48 | Salted egg | 0.89 |
| | | Sheep farm | 0.32 | Sheep farm | 0.59 | | Batik | 0.15 | Batik | 0.48 |
| | | Carica | 0.17 | Carica | 0.25 | | Seaweed | 0.14 | Seaweed | 0.29 |
| | Klaten | Processed food (Cassava) | 0.10 | Palm sugar | 0.18 ↑ | Cilacap | Desa Wisata (Agrotourism) | 0.13 | Desa Wisata (Agrotourism) | 0.28 |
| | | Palm sugar | 0.06 | Processed food (Cassava) | 0.16 ↓ | | Red onion | 0.11 | Red onion | 0.20 |
| | | Batik (Lurik) | 0.27 | Batik (Lurik) | 0.77 | | Batik | 0.29 | Batik | 0.67 |
| | | Desa Wisata (Minapolitan) | 0.25 | Desa Wisata (Minapolitan) | 0.74 | | Desa Wisata | 0.28 | Desa Wisata | 0.61 |
| | | Furniture | 0.18 | Processed food | 0.53 ↑ | | Processed food (Banana) | 0.16 | Processed food (Banana) | 0.35 |
| Sukoharjo | Processed food | 0.16 | Ceramics | 0.49 ↑ | Pekalongan Civ | Sugar (Gula Semut) | 0.16 | Processed fisheries | 0.34 ↑ | |
| | Ceramics | 0.14 | Furniture | 0.39 ↑ | | Processed fisheries | 0.11 | Sugar (Gula Semut) | 0.34 ↓ | |
| | Handicraft (Guitar) | 0.37 | Handicraft (Guitar) | 0.90 | | Metal crafts | 0.38 | Metal crafts | 0.78 | |
| | Herbal | 0.24 | Herbal | 0.79 | | Weaving (Tenun ATBM) | 0.21 | Weaving (Tenun ATBM) | 0.37 | |
| | Processed food | 0.16 | Processed food | 0.53 | | Batik | 0.16 | Textile industry (printing) | 0.35 ↑ | |
| Wonggiri | Batik (Lurik) | 0.14 | Batik (Lurik) | 0.43 | Purbalingga | Textile industry (printing) | 0.15 | Batik | 0.33 ↓ | |
| | Furniture (Wood and Rattan) | 0.10 | Furniture (Wood and Rattan) | 0.30 | | Garment | 0.1 | Garment | 0.19 | |
| | Cassava (Gaplek) | 0.30 | Cassava (Gaplek) | 0.82 | | Exhaust industry | 0.5 | Exhaust industry | 0.87 | |
| | Tile crafts | 0.21 | Tile crafts | 0.62 | | Organic agriculture | 0.2 | Organic agriculture | 0.60 | |
| | Batik | 0.19 | Medicinal plants (herbal) | 0.44 ↑ | | Handycraft | 0.18 | Desa Wisata | 0.56 ↑ | |
| Sragen | Medicinal plants (herbal) | 0.17 | Batik | 0.42 ↓ | Tegal District | Desa Wisata | 0.08 | Handycraft | 0.47 ↓ | |
| | Processed food (Cashew) | 0.13 | Processed food (Cashew) | 0.39 | | Coconut sugar (organic) | 0.03 | Coconut sugar (organic) | 0.18 | |
| | Organic agriculture (rice) | 0.37 | Organic agriculture (rice) | 0.53 | | Organic agriculture (rice) | 0.32 | Organic agriculture (rice) | 0.67 | |
| | Household appliances | 0.25 | Household appliances | 0.42 | | Horticulture | 0.27 | Horticulture | 0.62 | |
| | Convection | 0.16 | Batik | 0.33 ↑ | | Batik | 0.18 | Batik | 0.51 | |
| Temanggung | Batik | 0.12 | Convection | 0.30 ↓ | Regional Coordinating Agency (Bakorwil) 3 | Metal crafts | 0.12 | Shuttlecock | 0.36 ↑ | |
| | Furniture | 0.10 | Furniture | 0.21 | | Purhalingga | Shuttlecock | 0.10 | Metal crafts | 0.34 ↓ |
| | Coffee | 0.32 | Coffee | 0.65 | | | Exhaust industry | 0.5 | Exhaust industry | 0.87 |
| | Clay craft | 0.29 | Clay craft | 0.64 | | | Organic agriculture | 0.2 | Organic agriculture | 0.60 |
| | Batik | 0.16 | Batik | 0.34 | | | Handycraft | 0.18 | Desa Wisata | 0.56 ↑ |
| Processed food | 0.14 | Horticulture | 0.32 ↑ | Desa Wisata | 0.08 | | Handycraft | 0.47 ↓ | | |
| Regional Coordinating Agency (Bakorwil) 2 | Horticulture | 0.09 | Processed food | 0.23 | Tegal District | Coconut sugar (organic) | 0.03 | Coconut sugar (organic) | 0.18 | |
| | | | | | | Regional Coordinating Agency (Bakorwil) 3 | Organic agriculture (rice) | 0.32 | Organic agriculture (rice) | 0.67 |
| | | | | | | | Horticulture | 0.27 | Horticulture | 0.62 |
| | | | | | | | Batik | 0.18 | Batik | 0.51 |
| | | | | | | | Metal crafts | 0.12 | Shuttlecock | 0.36 ↑ |
| | | | | Shuttlecock | 0.10 | | Metal crafts | 0.34 ↓ | | |

Note: *) ↑ ↓ = level change

Source: Author calculation

Table 4. Compatibility between SME's Main Product Choice and Regional Superior Products/OVOP (Government Side)

| SMEs Main Product | | OVOP | SMEs Main Product | | OVOP | SMEs Main Product | | OVOP | |
|---|--------------------|---|---|--|--------------------------------------|----------------------|--|--------------------------------|------------|
| Regional Coordinating Agency (Bakorwil) 1 | Grobogan | Furniture Batik Corn Tile crafts Processed food | Wonosobo | Batik Sheep farm Carica Processed food (Cassava) Palm sugar | Coffee | Banjarnegara | Ceramics Batik (Handmade) Processed food Desa Wisata Coconut sugar (Cryst) | Processed food (Banana)* | |
| | Blora | Desa Wisata Batik Crafts (ceramics & brick) Processed food Handycraft and Furniture | | Kalen | | | Batik (Lurik) Desa Wisata (Minapolitan) Furniture Processed food Ceramics | | Convection |
| | Rembang | Gula Tumbu Brick and Tile Paper (Notebooks) Beef cattle Salt | Sukoharjo | Handicraft (Guitar) Herbal Processed food Batik (Lurik) Furniture (Wood and Rattan) | Mushroom cultivation | Brebes | Salted egg Batik Seaweed Desa Wisata Red onion | Milkfish* | |
| | Pati | Paper (Notebooks) Cotton (Kapuk randu) Milkfish Processed fisheries Fruits | Wonogiri | Cassava (Gapek) Tile crafts Batik Medicinal plants (herbal) Processed food (Cashew) | Agriculture (Melon) | Clacap | Batik Desa Wisata Processed food Sugar (Gula Semut) Processed fisheries | Handicraft (Water hyacinth) | |
| | Kudus | Metal, Copper and Brass Gebyok dan Rumah Adat Processed food Convection Handycraft | Sragen | Organic agriculture (rice) Household appliances Convection Batik Furniture | Processed fish | Pekalongan (City) | Metal crafts Weaving (Tenun Batik Textile industry Garment | Gypsum | |
| | Demak | Desa Wisata (culinary) Processed food Batik Agriculture Fisheries (Smoked, Catfish) | Temanggung | Coffee Clay craft Batik Processed food Horticulture | Bamboo craft | Purbalingga | Exhaust industry Organic agriculture Handycraft Desa Wisata Coconut sugar | Processed food (Pineapple) | |
| | Semarang (City) | Metal crafts Handycraft Milkfish Desa Wisata Processed food | Purworejo | Desa Wisata Bamboo crafts Coconut sugar Processed food Agriculture (Corn) | Nursery | Tegal (District) | Organic agriculture Horticulture Batik Metal crafts Shuttlecock | Handicraft (Bandol) | |
| | | | Regional Coordinating Agency (Bakorwil) 2 | | | | | | |
| | | | Boyolali | Dairy farm (Cow's milk) Furniture Desa Wisata Freshwater fisheries (Lele) Metal crafts | Bamboo craft | | | | |
| | | | Magelang (City) | Plants and processed foods Convection Handicraft Processed food Slondok dan Puyur | Decorative plants (Tanaman hias)* | | | | |
| | | | Magelang (District) | Stone chisel Slondok dan Puyur Batik Freshwater fisheries Salak | Processed bamboo (Handicraft) | | | | |
| | | | Surakarta | Bird cage craft Handicraft (shuttlecock) Desa Wisata (Kampung Batik) Furniture Jewelery (Kampung Jayengan) | Household appliances | | | | |
| | | | Regional Coordinating Agency (Bakorwil) 3 | | | | | | |

Source: Author calculation

To test the accuracy of the Analytical Hierarchy Process (AHP) result, robustness test is conducted using Fuzzy Multi-Attribute Decision Making (FMADM) with Simple Additive Weighting (SAW) method. A method that considers fuzzy logic and several alternatives can be measured through various alternatives. The complexity of this method is caused by the normalization process and fuzzy numbers ranking. The model uses the defuzzification approach that is decision making through the determination/ computation of alternative score using fuzzy arithmetic and compared it using the fuzzy ranking technique (see appendix). Table 3 provides the comparison of PUD SME's in Central Java based on AHP and SAW method.

Mathematically, the result of both methods is strikingly different, which is caused by the weighting for each criterion is computed using a different approach. However, based on the rank and qualitative analysis, SAW method supports the decision in AHP model. The main PUD (with the highest score) as product leader between both methods has a similarity (first place) in all SME's in 22 districts/cities in Central Java Province. However, several products in certain region experience position/rank shift. In Grobogan District, Tile Craft and processed Food which are formerly (AHP model) ranked 4th and 5th respectively, climbed up to 2nd and 2nd respectively position, replacing Batik and Corn; in Blora, Crafts (ceramics & brick) slumped to 5th position from 3rd position replacing Handycraft and Furniture; in Rembang (Paper/Notebooks dropped from 3th position to 4th and replaced by Beef Cattle); in Pati District (Processed Fisheries climbed from

4th position to 3rd position replacing Milkfish); in Wonosobo (Processed Food/Cassava dropped from 4rd to 5th and replaced by Palm Sugar); in Wonogiri (Batik dropped from 3rd to 4th and replaced by Medicinal Plants/Herbal); in Sragen (Convection dropped from 3th position to 4th and replaced by Batik); in Magelang City (Processed Food dropped from 4rd to 5th and replaced by Slondok & Puyur); in Cilacap (Sugar/Gula Semut dropped from 4rd to 5th and replaced by Processed Fisheries); in Boyolali (Desa Wisata is replaced by Freshwater Fisheries/Lele); and several district/city (Prubalingga, Pekalongan City, and Tegal District). The largest shift took place in Purworejo District, Demak, Grobogan, Klaten, and Semarang City, wich have 4 products experiencing shift in the ranking

In order to develop SME's, full, simultaneous, continuous, and structural support from both the central and local government is needed. Government policy has to focuses on the needs of SME's (demand side) and not only on dead policy or government side. This means that there should be a coherence or compatibility between good government programs (especially local government) and SME's decision to produce goods and services. Table 4 shows how the coherence between SME's main product choice and government program (Office of Cooperatives, Small and Medium Enterprises, Central Java) through OVOP concept based on the Regulation of the Head of Cooperative, Small and Medium Enterprises, Central Java No. 910/2661/2018 concerning regional superior product based on OVOP. Grobogan district, Blora, Rembang, Magelang (city), Banjarnegara, and Brebes are the regions that have the coherence between SME's main product choice and local government program or on the other words,

coherence between government policy and SME's needs or the suitability of local government policies with the needs of SME's only 24% of the representation level. Rembang is a district that has the highest coherence/consistency index. This shows that SME's main product becomes the regional superior product, it is ranked first for sugar production (Gula Tumbu), and Magelang (city) for plants products.

There is no coherence on the other 19 districts/cities even on the lowest level. This shows the lack/miss between government program and SME's needs in increasing and developing their business. This is caused by various factors; *first*, the support from local government program (Office of Cooperatives, Small and Medium Enterprises, Central Java) is not on target and cannot reach most of SME's, especially targeted SME's. This condition leads to the inefficiency of government budget allocated for SME's development programs. The indicator only set for the quantity of the assistance not on the implementation of the assistance afterward. This finding supports the argument from Hashi (2001) who state that proliferation and fragmentation of various supporting programs for SME's that do not reach most of the SME's and not as intended lead to business stagnation.

Second, based on the result of FGD and discussion, government support (especially local government) is still partial and implemented separately. Local government consists of several institutions (Office of Cooperatives, Small and Medium Enterprises; Trade Service, Industrial Service, Development Planning Agency at Sub-National Level, etc.) work separately in tern

of SME's development programs, therefore, this causes a mismatch in the development for SME's. Besides that, the implementation and overlapping inter-local government support will cause confusion for SME's, this condition will cause inefficiency and ineffectiveness of government programs. Therefore, inter-governmental support both in term of policy and implementation have to be integrated and coordinated in order to avoid mismatch among SME's support programs. Besides that, synergy among local governments and stakeholders in supporting SME's development is needed OECD (2004). Government has not been able to perform effective framework in supporting SME's and productive and independent entrepreneurial spirit, which in line with Smallbone (2010) statement on the relationship between Government and entrepreneurship in service business.

Third, even though the implementation of local government (Central Java Province) has been stated in the Central Java Medium-Term Development Plan (RPJMD) 2013-2018 objective. However, the support is still in policy level and has not reached the implementation level and even if it reaches implementation level, it is still focusing on the quantity of supports, not the quality. This makes the businessmen, which are unskilled labor, has low understanding and are not capable to implement the policy at the technical level. Implementation support, as an example, local government provides support in term of training on "how to enter export market" and "corporate financial management" for the targeted SME's. The target (local government) is how many active entrepreneurs who join the training, they tend to ignore the follow-ups of the training. Therefore, the participants/ entrepreneurs tend to act as

audience, not as the subject of business development process. This result support the argument from (Xheneti, 2005) that is evaluation of training is based on how many people attend it, there is “no values” that are attached in the training.

Local government policy tends to side to business with economic superiority (large industry) than isolated/informal/ small industries. Thus, it causes unhealthy interrelation. The unhealthy relationship is reflected on the reluctance in joining government programs, so that they tend to be apathetic toward the government. This policy will bring disincentive for SME's and they are only capable of survive, not growing. This condition is aggravated by the plan of tax collection for the SME's sector, while small entrepreneurs should receive incentive to grow their business. Besides that, the allocation of government budget for the development of local business usually has a bigger portion for large industry than small industry. This is reflected from the budget allocated for SME's related agencies (Office of Cooperatives, Small, and Medium Enterprises, Central Java) is Rp 19.7 billion, while for the agencies concerning large industry (Trade and Industrial Service) is Rp 113.8 billion (illustration of budget in Semarang City). Based on the allocation of budget, it is possible that there is partiality of policy in large industries. This finding supports the argument from Fuller (2005) and Smallbone & Welter (2001).

Based on the SME's side, local government policy tends to be static and supply side (government side) in nature, that is the government set a policy in such a way (usually in the beginning of fiscal year) and then implement it on the SME's without

evaluation/input from business people. This will cause ‘lack’ between the needs of businessmen/ SME's and what received from the local government. Various forms of assistances have been provided by the government without considering the specific needs faced by businessmen. The perception that SME's are homogenous will result in an assistance system that is poorly targeted, unspecific, and supply oriented. Businessmen will act as receiver/ consignee from all government programs. Thus, what they receive cannot/ inappropriate when implemented in the business world. Therefore, what they receive is not a solution for the problems the faced, but instead will bring new problems for them. This finding is in line with the argument from Xheneti (2005); Smallbone & Welter (2001); and Berry, Sweeting, & Goto (2006).

Most of SME's act as production basis, which means they only produce the goods and services/artisans, but the marketing brings another problem for them. SME's that operate in the service sector is less than 1%, or 0.82% to be more precise, and absorb around 0.67% of the workforce. In business, marketing is the spearhead for the survival of the company. Knowledge and understanding of the market is an important factor for the success of the marketing process. Promotional media, owners/workers who understand the market and promotion are the most important factors in the marketing process. But for SME's, these three factors are basic and traditional obstacles in accessing markets. Understanding of market demand can be known through a research process and market survey by someone who is competent. Based on the survey results, 72% of respondents stated that they did not have workers who were experts in marketing both locally and internationally. This implies that,

SME's in Central Java do not have managerial skills in terms of marketing, so understanding and knowledge of the market is crucial to solve. These results are in line with Xheneti (2005); Dominguez & Mayrhofer (2017); and Synovics, Kurt, & Synovics (2018). This has met the Central Java Medium-Term Development Plan (RPJMD) 2013-2018 objective, which aims SME's in the service sector to reach 0.12% of total SME's. Therefore, most of the SME's are just supplier for wholesalers and large-scale companies. This prevents them from generating maximum profits, sales are limited to wholesalers/agents and information is lost up to the end costumers, branding by other company or large industry which prevents SME's ability to intervene price in the market or end user.

The orientation of SME's is on short-term results; therefore, they do not care or have less interest in the continuity and development of their business. They tend to implement cost plus mark up for their production practice. This means main production cost is covered and they get profit no matter how small, some even do not consider labor as production cost. This is one of the factors that makes SME's have low competitiveness either in the local, national, and global level. Added to this, the factor of low Human Development Index (HDI) in Central Java Province with a score of 69.49 and below national HDI level. Another factor is a less coordinated institutional system. In the cluster system, communication and coordination are the key factors for the development of cluster. Even though in the cluster system, large business/industry tends to have broader and more established market

and access. Thus, a strong institutional and organizational system is needed to ensure that industry and business can be run together. The strong institutional system will have a positive impact on the company supply chain which starts with raw materials and ends on logistics and marketing. Besides that, 79.20% of existing SME's do not have legality/legal entity which hinders them from expanding their market, limit their access to the financial institution, and weak SME's brand/image in the public eye. These results are in line with OECD (2004); Bennett & Robson (2004); and Xheneti (2005).

Product quality is another problem faced by SME's in Central Java. The absence of product standardization and the traditional production process have resulted in uncompetitive products in the market. Support from production equipment, competent human resource management, and raw material become the key factors in creating a quality product. Besides that, simple product packaging has caused the product to find difficulty in competing with branded products. Therefore, innovation and creation from the business owner are needed in order to make products with distinct product's characteristics. Based on this problem, an active role from local labor that is not owned by other regions is necessary to create a product with different characteristics and values. Local resources as production input have to be supported by standardization in the production process and skilled trained human resources in order to create quality products (Xheneti, 2005) and (Ellerman, 2001).

Managerial ownership, entrepreneurial spirit, and capital also pose problems for SME's in Central Java. This leads to ineffective management of the company, which in turn brings limitation in the access to market and

network/supply chain (raw materials, market, and capital). Non-optimum and uncoordinated government support make SME's attract less interest from people, which leads to the low trust of the people.

Based on the results of discussions with entrepreneurs (SME's), it showed that 48 SME's or 72% of the have never received any form of assistance either from the local government or from the central government. This condition was clearly very unfavorable for the growth and development of SME's, especially for areas that have geographical/physical difficulties in access. The help from government tends to be more stable and large in size and in business groups/clusters

. This has led to an unfavorable assessment of the government regarding this matter. 43.75% of them gave a very poor assessment of the government's role in supporting SME's to continue to grow and develop as one of the pillars of the national economy role model. These results support the findings of Sear & Hamilton (2004); Leonidou (2004) and Wright, ul-Haq, & Oktemgil (2005) who emphasized the importance of the role of government in encouraging and supporting SME's to be able to go-international through empowerment, assistance, guidance and development.

Besides that, the high competition level has caused less conducive business climate for them. To address this problem, a synergy and collaboration between the government, academicians (universities and secondary education), financial institution, private institution, and industry association is needed to increase SME's role through empowerment, integrated coaching, mentoring, and technical and publication

support, so that SME's products are competitive in the market, increased people trust toward SME's as one of the economic pillars, and become PUD (superior products) which will provide significant contribution on the economic development.

CONCLUSION

OVOP is a concept of economic empowerment that involves local resources (human resource and natural resources) to achieve regional independence. This concept brings forward the topic of how local people and culture, geographical, and social characteristics are capable of producing goods and services that will improve welfare. This program is a form of regional independence and is expected to create goods and services with the image/brand of the local region so that the product can become PUD and increase people income.

Local government (Office of Cooperatives, Small and Medium Enterprises) program through OVOP in Central Java has not fully and optimally implemented for SME's. This is reflected of SME's main product less coherence with superior product (OVOP) in almost but six regions, Grobogan district, Blora, Rembang, Magelang (city), Banjarnegara, and Brebes. This is caused by several factors, *first*, government policies are supply side, support system is not in line with SME's problems, not involved in the preparation of government programs and the inadequate role of the government in empowering, mentoring, and supporting SMEs. *Second*, internal constraint from SME's/businessmen itself which consists of low managerial skill, entrepreneurial, institutional system, capital, limited market and raw materials access, lack of skilled labor, business

disorientation, and lack of standardization of products and processes. *Lastly*, less conducive business environment due to a high level of competition and the practice to topple other business owners. The implication of this study is the need of synergy between the government as policy-maker, academicians as the agent of excellence in creating entrepreneur candidates, financial institution as the provider of access to capital, private institution and industry association as the supporting factor in the creation of a business climate, and media as a means to create brand in order to support the role and performance of SME's in the society and the market. Thus, SME's will continue to grow while promoting the entity of local resources in producing goods and services for the community, as well as increasing local and national economic performance.

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