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Study on Strengthening Economic Community Institutions in the Economy of MSME in Riau, Indonesia

Zulkarnain

Department of Management, Faculty of Economy, University of Riau, Indonesia

Abstrak: Purpose: The aim of this study design for the purpose of knowing the factors that affect economic empowerment KUMKM in Meranti Islands District.

Design/methodology/aproach: The population in this study is the SME which are in five districts in the archipelago Meranti. for each sub-district sample taken MSME SME with a total of 20 samples taken as many as 100 SME. The data used are primary data and secondary data using observation. Methods of data collection and analysis of data to be used in conducting the survey is a descriptive-quantitative method using SWOT analysis.

Findings: The results of the analysis states that the development strategy, economic empowerment of the people is a strategy to implement economic democracy that production is done by all for all, and under the leadership and members of the inspection, community. Public welfare precedence over the individual prosperity.

Originality: Originality of this study shows that never been testing this kind of relation in Riau coastal, Indonesian.

Keywords: SWOT, UMKM, Leadership, Economic

INTRODUCTION

The existence of Micro, Small and Medium Enterprises (SME) have an important role in realizing the economic and industrial growth of a country, economic growth from the contributions of SME. In addition to contributing to the local revenue it also contributes to employment opportunities. Where SME can absorb considerable manpower. The economic conditions globally, require SME to make changes in a comprehensive manner in order to increase their competitiveness. One important factor that will determine the competitiveness of SME is the implementation of information technology (IT). The use of IT as needed can boost business transformation through speed, accuracy and efficiency of information exchange in large numbers as well as improvement of service to customers. SME are said to have global competitiveness if it is able to run its business operations as a reliable, balanced, and high standards.

Bharadwaj et al., (1993, p83-84) explains that the competitive advantage is the result of the implementation of strategies that takes advantage of the various resources of the company. Expertise and unique assets is seen as a source of competitive advantage. The unique expertise is the company's ability to make its employees as the important part in achieving competitive advantage.

Poverty is a description of a phenomenon and social problems that occur in the community, with the complex and multidimensional forms. Development issues in Indonesia also put poverty, intergroup inequality, regional disparities, and social violence as an issue that is critical to achieving long-term goals in 2025. The importance of these issues is not only on the scale of Indonesia but also on the international scale. Failure to overcome the problems of poverty and inequality will be able to threaten the sustainability of the increase in social welfare.

Various indicators and parameters to measure poverty and determinants of poverty have long been formulated and developed by experts in the field of economics and the other social. The combination of measuring, calculating, mapping, and determinants of poverty is expected to provide a clear picture of the various aspects related to the problem of poverty itself as a "base" of decision-making (decision making) that is right in conducting policies intervention in order to increase the intensity of poverty reduction efforts and solving the problem of poverty, especially at the local level.

Meranti Islands District is the youngest district which has the highest poverty rate in the province of Riau however, it has the small and medium enterprises which are quite attractive for economic development when seen from the comparative advantage of the region. By region located in the coastal area, Meranti Islands District has competitive advantages.

Various theories have to explain the causality of poverty and why the process of economic empowerment of the poor must be carried out. Some theories of poverty (the theory of the cycle of poverty, cultural theory poverty, and several other theories of poverty) uncover the causes of poverty, both from external factors (such as the imperfections of the market, access to capital which is low, and others) and internal factors (such as low level of education, culture tatanilai, and others).

Understanding and identification of regional economic potential and competitiveness SME is a major challenge in the implementation of regional autonomy. At the macro level, the economic potential of the area and MSME usually also become one of the indicators of SME competitiveness in the area. That is because the economic potential of a region will help shaping the complexity of local SME competitiveness. Therefore, in this study we distinguish between the concept of regional economic potential with the concept of local SME competitiveness. The concept of regional economic potential is understood as one of the indicators of local MSME competitiveness. In accordance with the above background, the purpose of this research is to know the factors that influence MSME economic empowerment in Meranti Islands District.

THEORITICAL BACKGROUND

The concept of Cooperatives and SME

SME and cooperatives proved to contribute no little to sustain the national economy in times of crisis that struck the country. Therefore, it is appropriate if SME and cooperatives continue to be encouraged and empowered included in marketing their products to the domestic market and the international market.

Trade has three important elements, namely products, markets and actors. Products can be all kinds, ranging from primary products, processed products, to the 'hi-tech' products, and services. The market also vary, ranging from the level of barter, the traditional market, the national market, the regional market, to the world market. While traffickers, who are also businessmen, are individuals, micro, small businesses, medium businesses, to large companies and multinationals. A country will be successful if the free trade deal could organize and coordinate the three elements of the trade became to be a force to deal with other countries in free trade.

Historically, the cooperative is actually not a typical business organization comes from Indonesia. The activities of cooperatives and cooperative organizations initially introduced in the UK. At that time the main mission of cooperatives is to help the workers and farmers who face economic problems by mobilizing the power of their own. Then in France driven by the movement of the workers oppressed by capitalist forces throughout the 19th century with the ultimate aim of building an alternative economic cooperative associations replace capitalist-owned enterprises (Moene and Wallerstein, 1993). The cooperative idea then spread to the US and other countries in the world. In Indonesia, the cooperative was introduced in the early 20th century.

Strengthening cooperatives as economic enterprises based on democracy must be sustainable and able to survive by constantly adapting to economic and business conditions that continue to change. Thus, the need for an understanding of business and business units in the cooperative to be one of necessities, so that cooperatives can compete with other sectors. Hence the cooperative needs to improve its sense of bussines as expressed by Prahalad and Hamel (1990) as the core competencies (core competencies) in business activities.

Experience in some countries that are quite advanced cooperative movement points to the fact that the active involvement of the cooperative movement led to the increase of production and value-added production on the one hand, while on the other side the marginalized are protected by efforts to improve their welfare. It all in turn affects the the burgeoning economic activity int he region, particularly in the village. This fact is additional evidence to the weak competitiveness of Indonesian cooperatives. Thus, urgent problems to be studied is how to improve and develop the competitiveness of Indonesian cooperatives in the era of globalization? One of the indicators used to measure the performance of the cooperative is the development of business volume and operating results (SHU).

Internal problems on Cooperatives and SME

In more detail the issues related to human resources of SME and cooperatives that need attention in order to face the ACFTA, can be described as follows: (1) The low quality of human resources that allegedly arising from the lack of capacity building for SME and cooperatives, as indicated from the followed problems; (2) Knowledge in the field of production technology and business management and entrepreneurship are relatively low, so that SME and cooperatives are often difficult to relate the business and dealing with the bureaucracy, and leads to lower creativity and innovative capabilities of SME and cooperatives; (3) SME and cooperatives are not able to perform business analysis, so in doing business often lose or do not enter the workforce in the calculation of production costs; (4) of SME and cooperatives are not ready to bear the risk of business failure, so it is hard to get in a business activity that is actually profitable and has the potential to be developed into productive ventures that can provide greater benefits

to them; (5) A taste of fast satisfaction at what has been obtained led SME to rarely think to expand its business; lack of knowledge of SME and cooperatives in the production, causing MSME difficult to develop.

External problems on Cooperatives and SME

External problems SME consist of: (1) macroeconomic policies, namely (i) fiscal policy in the form of subsidies and taxes; (II) Monetary policy in the form of the exchange rate against foreign currencies and interest rates on bank loans. (2) The business climate is composed of business opportunities and access to productive resources as well as the condition of input and output markets. (3) national and global economic conditions consist of global market conditions (Supply and Demand global market), competitive local market conditions and competitors as well as the exchange rate of the product); (4) The government policy in the empowerment of cooperatives and SME which consists of programs, systems program manager, socialization program, legal protection and monitoring and evaluation.

MATERIAL AND METHOD

A study conducted in SME at 5 Districts in Meranti Island region. The Population in this study is the SME which are in five districts in the Meranti island. For each district MSME samples taken as many as 20 SME. So the total samples taken as many as 100 SME. In this study conducted a survey in the district that has been determined as well as the departments / agencies that are in the district capital of Meranti Island, and as a key informant at district level stipulated by SME and related institutions (subdistrict and village heads). The data used are primary data and secondary data using observation. Methods of data collection and analysis of data to be used in conducting the survey is a descriptive-quantitative method using SWOT analysis.

RESULT AND DISCUSSION

Results of research conducted by Zulkarnain (2014b) to SME District Meranti Islands looks as follows:

Table 1
SWOT Analysis Results Small and Medium Enterprises
Matrik Faktor Internal

<i>Strength</i>	<i>Weight</i>	<i>Rating</i>	<i>Weighted Score</i>
1 Using quality raw material in accordance with the standards.	0.09	3.00	0.28
2 Planning and production control.	0.05	3.00	0.14
3 Utilization of raw materials.	0.17	3.00	0.50
4 The use of local labor.	0.05	3.00	0.14
5 Ability in terms of solvency and liquidity.	0.07	2.00	0.15
6 Business growth	0.08	3.00	0.23
Weakness			
1 Variation products are still slightly.	0.05	1.00	0.05
2 Not to have a obvious market	0.06	1.00	0.06
3 Labor costs are still below the minimum wage standard.	0.04	1.00	0.04
4 Never conduct workforce training.	0.07	2.00	0.14

contd. table 2

5	Working capital slightly.	0.07	1.00	0.07
6	The advantage of the turnover is still relatively small.	0.07	2.00	0.14
7	Never perform promotional activities.	0.07	2.00	0.14
8	Experience and Insights	0.07	2.00	0.14
				3.21

Matrix External Factors

<i>Chance</i>		<i>Weight</i>	<i>Rating</i>	<i>Weighted Score</i>
1	Goods replacement (substitution) of products produced slightly.	0.06	3.00	0.17
2	Support of local regulations is quite good.	0.15	3.00	0.45
3	Stable political conditions.	0.10	3.00	0.29
4	Support new technologies to the production.	0.08	3.00	0.23
5	Social good condition.	0.12	2.00	0.25
Threat				
1	Tight business competition.	0.13	2.00	0.25
2	Public income is still low.	0.15	1.00	0.15
3	People's purchasing power is still low.	0.10	1.00	0.10
4	Low labor costs.	0.13	2.00	0.25
				2.53

The results of the SWOT analysis in the table above, shows that internal factors of SME in Meranti Island district have upside with obtained total score amounted to 3:21 while external factors have downside with obtained total score amounted to 2:53

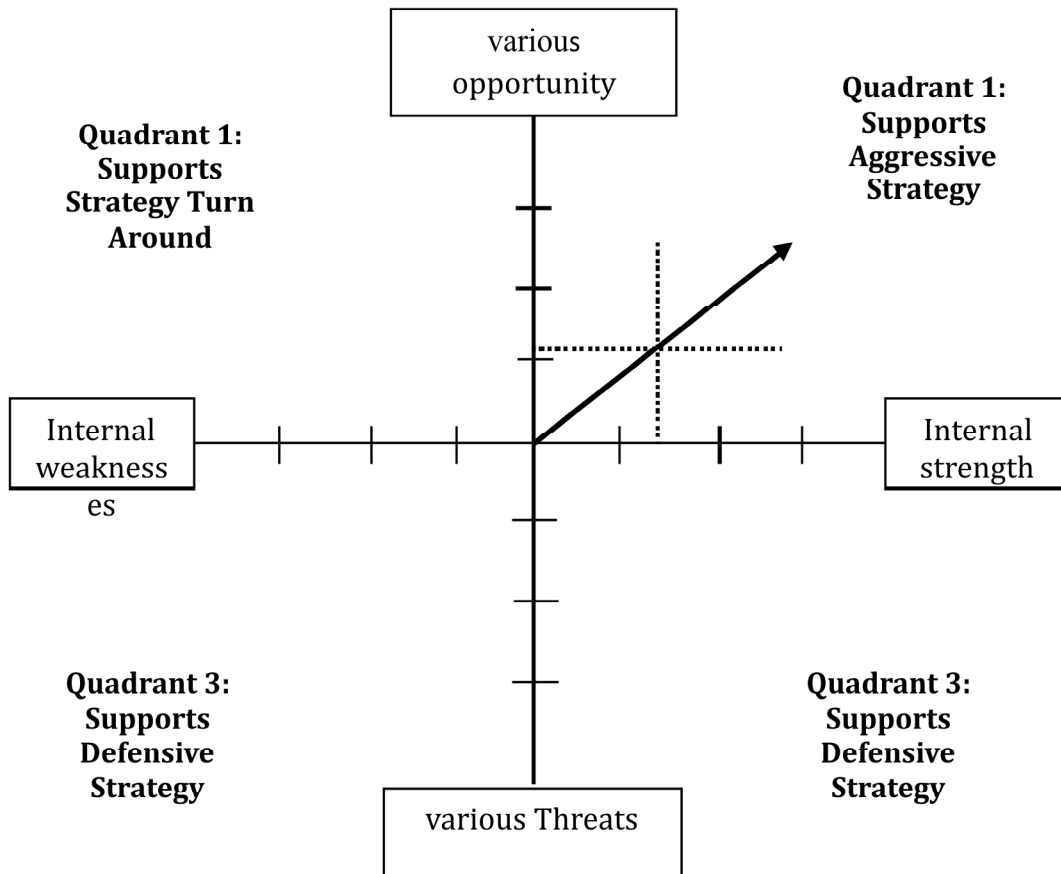
Table 2
Strategic Position of Small and Medium Enterprises (SME)

[4]		Pull Power Enterprises		
		<i>Highb [3]</i>	<i>Medium [2]</i>	<i>Low [1]</i>
Relative strength	[3] High	Growth	Identify the growth segment	Retaining all the positions
		Seek domination	Massive investment	Looking for cash flow
		Maximization profit	Maintaining a position anywhere	Investment in maintenance phase
Competition	[2] Average	Evaluating the potential to support leadership through segmentation	<i>Identify the growth segmen</i>	Trim line
		identify weaknesses	<i>Specialization</i>	Minimizing investment
		Building on strengths	<i>Invest selectively</i>	Position for release
Competition	[1] Weak	Specialization for niche	Specialization	Time out and divestments
		Considering the acquisition	Looking out a niche Consider	

The table 2 has shown that Small Medium Enterprises position (SME) in Meranti Island District is on high appeal and moderate competition. This condition shows Small Medium Enterprises growth in Meranti Island District still needs to evaluate strategies of excellent products and determine market segmentation and build its strength. Development strategy with several alternatives such as joint ventures or cooperate with stream-entry of raw materials to support the creation of specialized products the steps that are needed to taken is to develop products and market and enhance the business activities then give standarisisation to the product and consider the customer.

While the SME strategy of Meranti Island regency in the face of competition is the positioning of SME through quadrant alternative strategy calculated through:

Internal Factor Evaluation	Strength	1.44
	Weakness	0.78
Total		0.66
Eksternal Factor Evaluation	opportunity	1.39
	Threats	0.75
Total		0.64



Based on IE matrix result that SME Meranti district was on Quadrant I, Quadrant 1 illustrates that a very good situation because no force is utilized to achieve profitable opportunities. It can be used for alternative development strategies one that is (aggressive strategy).

Business Development Strategy

Micro, Small and Medium Enterprises become one of the efforts that are popular in Indonesia. Meranti Island District SME have started to grow and be creative in its strive for SME so that it can be known from national to global. This sector has a major contribution to the velocity of money in the community because the amount is quite large at 55.2 million. SME from various business fields scattered throughout Indonesia contributes to economic growth in the country reached 60 percent. There are ways to expand its MSME Indonesia through 5P, namely Product, Price, Place, Promotion and People. We will discuss explanations one by one.

1. **Product :** In terms of products, SME have to determine the right product to be marketed. Products made must also be innovative, creative and exciting. To get a product that favored market, survey around to obtain a realistic picture of the product. The more observant and the harder you innovate products and services, then you will be able to conduct business development and win the competition. Should look for products that have not been sold on the market but benefit to the buyer.
2. **Price :** To determine the selling price of products, you should carefully calculate the costs incurred during the production process. Costs that are foremost within SME are the cost of capital and operating costs. Capital costs include financial institutions or parties that provide credit facilities for your business. Meanwhile, operating expenses include employee salaries, cost of raw material and production costs. The selling price will be higher if the costs are reaching a nominal high. Few tips for SME entrepreneurs which need capital costs, look for microfinance institutions that provide credit facilities with interest cost, fast processing and long periods of time. Financial Services Authority, for example, will provide full support by asking the bank to distribute 20 percent of credit to SME with a low interest rate is 12 percent per year.
3. **Place :** Location of MSME would largely determine market interest. By selecting a strategic and ideal location, your SME will quickly publicly known and it is quite likely the product will be sold out. About the location, try opening SME in traditional markets or other crowded locations and densely populated. Had not find a strategic location then consider the following things when opening SME, which make sure that every minute is always a vehicle passing if it opens at the curb, consider the level of consumptive society to see many similar efforts around the site, equip your business with the permission of License, HO and TIN, etc and most importantly adjust to your budget.
4. **Promotion :** Some SME are already implementing promotion through social media and this is a good first step. Because, now becomes one of social media promotional materials that are cheap, easy and fast. Promotion can be done by putting photos of the product along with product details and price. If there are more funds, create web with interesting and informative

display so that consumers can know all kinds of products offered. If you want to target buyers as much as possible and spread throughout Indonesia, social media services, web and business forum is a step in the right promotion.

5. **People :** When you open the SME, ensure that Human Resources is involved in your business are the ones who understand the business. You do not hesitate to make the process of recruiting employees well. Both the scale and type of your business. Although you are still micro-scale enterprises, but the employee selection process should follow the recruitment process that has been modern and tested, do not just rely on references acquaintances or relatives. It is better to select employees, you have to prioritize business-oriented human character, are able and dare to take risks of measurable business, having a business and understand financial statements and be able to create and run a cost effective posting.

Market Penetration Strategy

Market penetration is the name given to a strategy of growth in which the company focuses on selling products in markets that have no market before. Market Penetration strives to achieve four main objectives: (1) Maintain or increase the market share of these products, this can be achieved by a combination of competitive pricing strategies, advertising, sales promotion, and perhaps more personal resources dedicated to selling. (2) Safe domination of the market growth. (3) Restructuring mature markets from maneuver of the competitors, this would require a vigorous aggressive promotional campaign, supported by a pricing strategy designed to make the market “less attractive” for competitors. (4) Increasing use by existing customers, for example: to introduce customer loyalty programs Implementation of market penetration as in conditioning your marketing strategy as “business as usual”. Market penetration must be executed on a business that focuses only on the markets and products that are understood by the marketers. marketing intelegent also required to obtain information about competitors and customer needs. Therefore, this strategy will require a lot of new investment in its application because it must be preceded by a market research

Basic usage of market penetration is a strategy developed to expand the market by increasing the marketing efforts which consists of spreading advertising and product offering extensive services where SME provide information on products and services provided to consumers via Internet as the use of the Internet has an extensive network. It aims to introduce products and services that are owned by SME to the public both companies and ordinary citizens.

Product Development Strategy

Product development is the name given to a strategy of growth in which a business unit introduces new products to markets that already exist. This may require strategy development of new competencies and require new marketing program which is also to develop products that can be changed / developed into existing markets. Product development strategy is part of a corporate strategy (corporate strategy). In the product development strategy there are potential benefits and risks of product development activities, and the many factors that cause an organization to consider developing new products. Almost all organizations have found that the approach of managerial strategy on new product development activities will increase the chances of success and minimize the cost and risk..

The strategy of SME in the development of this product can be carried out in two areas:

- (a) **Promote local cultivation which is the Main Raw Material**
By cultivating local plants, it can increase the quantity of the crop which is the main raw material. But it is expected not only optimized quantity, quality plants also need to be improved in order to get a better refined products. Cultivation of plants seems quite easy to do so by encouraging the cultivation the plants are able to develop products of SME so as to encourage the public economy.
- (b) **Socializing MSME products**
This can be done by improving the taste of SME products can be achieved by improving the quality / quality of raw materials which are efficacious in order to compete with products outside. In addition steps can be taken to improve the quality of the products is to attract the attention of consumers through packaging. Because the packaging is the first thing seen when the product is marketed. If the packaging is good and interesting then the product does not rule out the possibility to increase the resale value.
- (c) **Socializing MSME products**
The next Strategy to do is to disseminate these products through exhibitions, fairs, especially for the younger generation, because young generation is the foundation of a nation, if we are able to invite young people to love and choose the products in the country, especially SME products such as sale of bananas and coconut sugar so that it is they who we will expect to continue efforts to develop and distribute such products to the next generation.
- (d) **Promoting SME products through technological means**
In the modern era, everything we do can be helped by technological advances, including one to promote SME products. By means of adequate technology SME can eat the products we develop existence. For example, we can promote SME products through blogs, websites, social media, radio advertising, and it is possible for us to promote it through the tv by advertising related SME products such as bananas and coconut sugar sale. With the technological means to promote the SME products then the product can be known by all people without exception so that the existence of the product can compete with foreign products.
- (e) **Mobilize the exports of SME products**
One of the problems that hinder the development of SME products is not their domestic industry's ability to export these products to foreign countries, or their sense of "fear of losing competitiveness" against products from outside. Therefore we should be able to overcome the obstacles and be able to demonstrate that the MSME product deserve to compete in international markets even able to compete with products from outside the team to face the first ASEAN free market that is already underway.

Problems External and Internal SME Development

External issues of SME development is the rules and regulations, access to sources of finance, and human resource capacity. On the other hand, internal problems related to the development of SMEs

terms of the financial, marketing, production technology, mental attitude and creativity, as well as the lack of competitiveness is presented as follows:

1. Financial, generally use their own capital to be dominant compared to loan capital. Almost 35% of SMEs have difficulties in terms of capital and require support from financial institutions. Empirically demonstrated access to financial resources is very important to overcome the limitations of SMEs that require urgency the government to operate the formal and informal financial institutions by extending credit. Banks should be able to be an agent to do the loan on time (Kadiri, 2012).
2. Marketing, in general, to overcome difficulties in SME marketing program should be described as a process pendefenisian, pengatisipasian, creation, as well as fulfilling the needs and desires of consumers for products and services (Zulkarnain, 2012) by 7 marketing function; a). Analysis of consumers, b) sales of products / services, c) planning products / services, d) pricing, e) distribution, f). Marketing research, and g) analysis of opportunities (David, 2010).
3. Production Technology, the most fundamental problem in creating quality products that are related to production technology using simple machinery and equipment so as not qualified and quality standards expected. Technological change from simple to semi-mechanically into demands to enhance the quality standards of production that can be accepted by the market (Zulkarnain, 2006).
4. Mental Attitude and Creativity, global competition is so tight require SMEs to have a good mental attitude to examine the circumstances that took place and must be oriented and well interpreted more broadly related to consumption or marketing such as; product, class of products, brands, services, possession, use of the product, advertising, website, price and retail merchants. Similarly, with creativity should be owned in acting and doing, without creativity everything will work as it should, there is no renewal, rigid, out of style, does not appeal in accordance with the demands of consumers (Zulkarnain, 2014a).
5. Low Competitiveness, based on the results of the study (Zulkarnain, 2014a) that the position is in a position moderate and average. In other words a superior product that is still dominated by large-scale enterprises, while SMEs are still in the development stage that will play a role in the long term.

CONCLUSIONS AND RECCOMENDATIONS

The development of micro, small and medium enterprises become something must be made by all development actors, because SME become a pillar development of the national economy with a buffer-based social economy. Economic development strategy, which empowers people implement a strategy of economic democracy that the production is done by all for all, and under the leadership and members of the inspection, community. Public welfare precedence over prosperity by an individual.

SME as the main actor in economic activity, the provider largest employer, an important player in the development of local economy and community empowerment, creator of new markets and sources of innovation, as well as contribution to the balance of payments must be supported in term of its

development through policies in favor of SME. Microfinance institutions (MFIs) become indispensable to provide working capital for SME at a low rate so that SME do not get stuck on renternir with high interest rates. Provision of complete and accurate market information be used by SME to make their business planning appropriate.

The competitive position of SMEs in Prov. Riau is in a position of moderate or average that increases strength, despite the appeal of business was relatively high at evaluating the potential to support leadership through segmentation and its development must involve multiple stakeholders (government, business and community leaders). (Zulkarnain, 2014b). It is therefore recommended to enhance the management capabilities of SMEs, which institutionally coordinated and supported by institutions and agencies concerned. (Osad and Andrew, 2010) .Faktor affecting SMEs external SCARA include regulatory Besides, it also can be seen that for the existence of SMEs required the integration of the various activities of formal and informal institutions, develop infrastructure so that the government develop infrastructure such; roads, water, electricity and conducive environment (Kadiri, 2012) In the end, the problems of SMEs influenced by external factors such as; regulation, access to sources of finance and human resource capacity, whereas in internal like; entrepreneurial characteristics, capacity management, marketing expertise and technological capacity (Bouazza, et al, (2015). How companies can improve competitive advantage by using the resources and capabilities of the organization through activities of value chain by considering the rules by managers, senior and middle level managers to make decisions about how to obtain, allocate and resources are wasted. (Carpenter and Sanders, 2009), SME was greatly Affected by the increasing level of competition and technology (Ocloo, Akaba and Brown, 2014)

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