II Uzbek-Indonesian Joint International Conference

Economics and Management Towards Nation Character Development

September 2012
II UZBEK-INDONESIAN JOINT INTERNATIONAL CONFERENCE

Economics and Management Towards Nation Character Development

September 2012

- Economic science, education and formation of human capital
- Social policy and labor market
- World economy and development of national economic system
- Financial system and financial and credit institutes

Tashkent - Jakarta, 2012
Edited by: prof. Dr. E.S. Margianti, S.E. MM, Rector of Gunadarma University

prof. Dr. Kalandar Abdurakhmanov – director of Branch of Federal State Budget Educational Establishment of Higher Professional Education “Russian Economic University after G.V. Plekhanov” in Tashkent

“II Uzbek-Indonesian Joint International Conference”
Economics and Management Towards
Nation Character Development
Tashkent-Jakarta, 2012
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FOREWORD

Dear participants of international conference!

On behalf of staff and students of the branch of Russian economic university after G.V. Plekhanov in Tashkent allow me to greet all the participants of the international conference and express gratitude to the rector of Gunadarma University professor E. Margiante for participation in this event.

Representatives of Indonesia have been to the Branch many times. A large-scale "Uzbekistan-Indonesia" culture forum was organized and held at our university. Regular meetings with students of our university is an indicator of importance of such events in deepening and developing bilateral cooperation between Uzbekistan and Indonesia in various areas, in particular in education sphere. These aspects were the basic theme of negotiations with the Branch authorities during the visit of Ambassador of Indonesia in Uzbekistan. During his visit Extraordinary and Plenipotentiary Ambassador of Indonesia in Uzbekistan Mr. Mohammad Asruchin made a report on the issues of economy development of Indonesia for the students of the Branch. It is very important for the university to expand outlook of our students.

Meetings of such level, certainly, help to learn more about the country, its culture and history, and especially national economy. During the meeting students of Branch asked the Ambassador of Indonesia a lot of different questions on education system, opportunity of training in universities of the country, organization of joint seminars, symposiums and discussions of projects and programs representing mutual interest and student's exchange programs as well.

The delegation of Gunadarma University headed by the rector of university prof. E. Margiante visited the Branch several times. Gunadarma University specializes in the sphere of information technologies. There are 1300 teachers in the University. The university has partner programs with universities of the USA, France, England and etc. University consists of twelve departments in the capital city Djakarta and it takes the fifth place according to the rating in Indonesia. Gunadarma University was founded in 1981 and successfully functions in the sphere of education and scientific and research works. During the meetings there also signed Cooperation agreement between Gunadarma University and the Branch of REU after G.V. Plekhanov in Tashkent.

The given agreement provides bilateral cooperation between two universities in sphere of carrying out the research works which represent a mutual interest, short-term exchange of teachers and scientists for implementing scientific researches, consultations promoting scientific personnel education, organization of joint seminars, symposiums and discussions of projects and programs representing a mutual interest and students' exchange as well.

Within the limits of the given agreement the delegation of the Branch of Russian economic university after G.V. Plekhanov in Tashkent visited Indonesia in October, 2011 and took part in the work of Uzbek-Indonesian joint international conference organized by Gunadarma University. Extraordinary and Plenipotentiary Ambassador of Uzbekistan in Indonesia in Uzbekistan Mr. Shavkat Djomalov took part and made a report at the conference.

While visiting Indonesia we admire this country and its hospitable people every time. Gunadarma University and its staff impressed us greatly; it is a great honor for us to be partners of one of the largest and well-known universities of Indonesia.

In 2012 Russian economic university celebrated its 105 anniversary from the date of its foundation. During its activity the University trained more 150 thousand highly qualified specialists, about 2300 specialists are from Tashkent Branch in the Tashkent Branch. They work successfully in Russia, Uzbekistan and in the countries of the near and far abroad. Achieving high results in various spheres of activities, the graduates of the University rank the leading positions in politics and economy, business and science, continue renowned teaching traditions at the universities of Russia and abroad. We do our best for our students to do well in studying.

At the University training is conducted on 22 educational programs of higher professional education, three sets of programs of additional professional education. We have made contracts on students' exchange and cooperation on programs of double and triple diploma with the higher educational institutions of 17 countries of the far and near abroad. High level of education in our University is known far of Russia boundaries. For more than 105 years of its existence REU after G.V. Plekhanov has always been famous for its teaching staff. For the period of its functioning the Branch in Tashkent has steadily ranked the place on the market of educational services of the Republic of Uzbekistan. Hundreds of applicants annually compete for the right to study in our Branch.

On September, 21-22 In the Branch of Russian economic university after G.V. Plekhanov in Tashkent there conducted II Uzbek-Indonesian joint international conference Economics and Management Towards Nation Character Development jointly with Gunadarma University and with the support of Embassy of Indonesia in Uzbekistan. The collection of theses of participants' reports has been published on the basis of researches materials of leading and young scientists, who have perspective views on innovative development of national economy at the beginning of the conference. Conference, its total documents and recommendations become a practical basis of consolidation of our universities with the purpose of development of higher education.

I wish all the participants fruitful and constructive work.

Director of the Branch of "Russian Economic university after G.V. Plekhanov" in Tashkent, Doctor of economic sciences, professor Kalandar Abdurakhmanov
FOREWORD

First of all, I am honourer and pleased to present my foreword for the Proceedings of "II Uzbek-Indonesian Joint International Conference on Economics and Management Towards Nation Character Development".

This conference was obviously became the culmination of the vision, dedication and the cooperation of Gunadarma University, Jakarta, Indonesia and Branch of Russian Economic University after G.V.Plekhanov in Tashkent, Uzbekistan. The conference is planned to be held alternately in Indonesia and Uzbekistan in the time series. The first conference of October 18-19, 2011 has been organized in Jakarta, Indonesia is the first event in this plan series.

"II Uzbek-Indonesian Joint International Conference on Economics and Management Towards Nation Character Development" that will be held in Branch of Russian Economic University after G.V.Plekhanov in Tashkent, Uzbekistan on September 21-22, 2012 as the next steps of the collaboration and cooperation as well others occasion in the future, I belif will bring us to be closer in some aspects.

In the first conference has been presented 38 papers which cover a broad spectrum topics of economics and management towards nation character development. These papers captured the spirit of the Conference and reflect its major focus and objectives. The articles provide an overview of critical research issues reflecting on past achievements and future challenges, while for the second conference, Gunadarma University will send a fullteam delegation of Economic Faculty included Rector, and Vice Rector IV of Collaboration and Cooperation, Dean of Economic Faculty, Head of Department and Center as well Head of Departments and senior researchers from Diponegoro University, Semarang to convey the research articles and paper covering many aspects of insightful, inspirational messages, scholarly analysis of critical policy, programs issues of economics and management as well as experienced-based notes for practice. I belif that can provided a significant contribution to the development of knowledge in this interested area.

In this special occasion, I'd like to take this opportunity to expressed my gratitudes and thanks to all people who made this first conference the success as it was. Firstly, allowed me to give my special appreciation and gratitude to leaders of Branch of Russian Economic University after G.V.Plekhanov in Tashkent, Uzbekistan in their trust to Gunadarma University in building cooperation for mutual benefit. I took this opportunity to make a ballance situation of inviting Rector of Branch of Russian Economic University after G.V.Plekhanov in Tashkent, Uzbekistan, Prof Dr Abdurakhmanov K. Kh to become Honorary Profesor in Gunadarma University, Jakarta, Indonesia as well I was in Branch of Russian Economic University after G.V.Plekhanov in Tashkent.

I encourage the continuation and development of cooperation programs and services which serve to strengthen economics and management in both countries and the relationships between Branch of Russian Economic University after G.V.Plekhanov in Tashkent, Uzbekistan and Gunadarma University, Jakarta, Indonesia.

In this ocassion, please allowed me also to express my appreciation and gratitude to all of the organizing team including scientific committee, program chairs, session chairs, and others, for their commitment, effort and dedication in undertaking their own task to bring the success of this conference.

Finally, I owe our gratitude to all the conference participants for their contributions to the intellectual discourse during the conference and for the overall success of it. The conference would not have been successful without the support and active contribution from all participants.

As closing remarks, Let's say thanks to the Lord Almighty God for all His blessing on us.

Prof. Dr. E.S. Margianti, S.E. MM
Rector of Gunadarma University
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PART I

We would like to acknowledge these following names for contributing their paper(s) in “II Uzbek-Indonesian Joint International Conference Economics and Management Towards Nation Character Development“:

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Partial Test (test t count)

T test results are presented in Table 5. Based on the test results, it can be concluded that all the independent variables have a significant effect partially dependent variable.

Based on the results of multiple linear regression analysis t test calculated for each variable, the model can be made linear regression equation as follows:

\[ Y = 2.334 + 0.506X_1 + 1.320X_2 + 0.747X_3 - 0.331X_4 \]

Conclusion

Based on the results of research and discussion that has been described previously, this study can be summarized as follows.

1. Simultaneous independent variables are sales growth (SLG), net profit margin (NPM), return on equity (ROE), and the cost of funds (COF) have positive and significant impact on the capital structure. To achieve an optimal capital structure, the company needs to increase sales growth (SLG), net profit margin (NPM), return on equity (ROE), which is owned by the company.

2. Partially Sales Growth (X1) have positive and significant impact on capital structure (Y). This shows if Sales Growth increases the capital structure will also increase. To achieve an optimal capital its structure encourages companies to use a greater amount of debt to increase sales growth.

3. Net Profit Margin (X2) provide a positive and significant impact on the capital structure (Y). Increased NPM will increase their profits, thereby increasing the value of the company. Increased NPM of cost of capital will require capital investment pendanaanya met through debt sourced from outside the company. Thus increasing NPM will lead to increased capital structure.

4. Return on Equity (X3) and a significant positive effect on capital structure (Y). This condition reflects the interest rate is lower than the earnings power (rate of return on operating assets increase), then the integration of foreign capital increase, due to ROE on the withdrawal of foreign capital will be higher than the ROE on equity withdrawal. Fulfillment of foreign capital was the fulfillment of an optimal capital structure.

5. Cost of Fund (X4) and significant negative effect on capital structure (Y). Decrease in COF a positive signal for the company to get a loan from a bank. In this condition the company can optimize its capital structure by increasing foreign capital As with alternative sources of additional funding needs if the cost of debt or long-term interest rate lower than the rate of return the company in connection with the addition of foreign capital.

Table 5. Regression coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1 (Constant)</td>
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<td>.191</td>
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</table>

Reference


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**STRATEGY FOR DEVELOPING MICRO-SMALL-MEDIUM-ENTERPRISES OF BATIK INDUSTRY IN PEKALONGAN, CENTRAL JAVA, INDONESIA**

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**Abstract**

One of the centres of batik industry in Central Java is Pekalongan. It is known as an industrial city for batik and also fisheries products. It lies in the western-north coast of Central Java Province, Indonesia. More than three-fourth of the batik industry and fisheries sector are operating in the scale of small and medium enterprises (SMEs). The main objective of the study is to formulate the empowerment strategy for SMEs batik in the study area. In addition, the specific objectives are to: (1) analyze the factors influence towards batik production, (2) estimate the efficiency of inputs used for batik production, and (3) identify the level of powerment of SMEs batik industry.

There were 150 respondents selected from SMEs batik in the study area using multi-stage sampling. In addition, in-depth interview had been carried out with 15 keypersons who competents with the industry activities. Descriptive statistics was used to analyze profiles and the powerment level of respondents. Production behavior and efficiency of SMEs batik had been analyzed accordingly. FGD and in-depth interview were used as media for constructing the strategy of empowerment to
enhance the performance of the SMEs. Further, analysis of Hierarchy Process was employed to provide the empirical evidence of the empowerment strategy as prioritized by the study.

The study found that variables of raw-and supplement-materials, labor, kerosine and wooden fuels were positively significant towards the batik production. Equipments and scale of firm were found as variables which did not significantly influent the batik production. The average of technical efficiency was 0.867 and it implies that the inputs used in production was inefficient. The level of powerment found relatively low. The strategy should be outlined to improve the SMEs batik performace among others are through the four drivers, namely: (1) access in credits and/ or facilitations to run the business, (2) access in market, (3) access in lobbying, and (4) access in technology.

Keywords: empowerment, strategy, small-scale, batik, production, Pekalongan, Indonesia.

1. INTRODUCTION

Good performance of small and medium enterprises (SMEs) will help in implementation of partnership with big companies. Dally (2000) indicated many big companies has been supported by SMEs as their strategic partners. In Indonesia, the role of SMEs is more related to the government efforts for reducing unemployment, poverty, and increasing equity as compared to be as engine of export, investment, and regional development economy (Tambunan, 2001).

Central Java Province is known as the centre of SMEs in Indonesia, which is about 30% of SMEs existed (Industry and Trade Office, 2003). At 2008, textile is a larger contributor of non-oil export in the province, with the value of US$ 839,590 or 36.14%. It is indicated that textile and its products has a larger share. Batik is one of the dominant products of textile in Central Java, especially in Pekalongan. Since more than a decade, the centre of batik has been grown vastly, including small-scale industry.

Batik’s product was exported to several countries such as Australia, USA, Middle East, Japan, Malaysia, Korea, and Singapore. In Pekalongan, there are batik’s markets either at retail as well as grocery levels. There are a number of clusters of batik (hand-made and printed batik) with the different prices. The industry has provided a significant contribution to the economic development in Pekalongan (Agency of Cooperation and SMEs, 2006).

SMEs batik has special characteristic since the product is one of the cultural products of Indonesia which still be maintained. At national level, the value of batik’s production was 2.9 trillion rupiah (equal USD 290 million) at 2007. There were 48,300 units of SMEs which employed 792,300 workers. Since the recognition from UNESCO to Indonesian batik as one of the world heritage, has made this industry grow rapidly. Indonesian batik is now facing competition with same product from China, especially after the implementation of Asean China Free Trade Area (ACFTA) per 1 January 2010.

As consequences of free trade in Asean-China countries has made batik’s industry to compete with similar product, especially from China, which has lower price. It is because domestic industry has slow improvement in the technology, which less efficient and able to produce standard quality. Therefore, cost of production will be more expensive due to inefficiency, less-creative in pattern or model, and the use of traditional technology. It is found that batik producers still operate with traditional technology or practices since a couple of decades. The existing problem, therefore, what is the strategy for improving small-scale batik industry. The research questions posed by the study are: (1) what are the factors influencing batik industry?, (2) how is the efficiency of batik production?, and (3) how is the empowerment level of batik industry?

Materials and method

There are 3 barriers in developing SMEs at many developing countries, namely: (1) insufficient infrastructure, (2) under qualified of human resources, and (3) inadequate cooperation and collaboration. Consequently, the SMEs have low competency and technology adoption. Similar condition is also existed in the SMEs batik in the study area. The approach done by Susilowati et al. (2004; 2005); Susilowati & Mayanggita (2008); Battese and Coelli (1995); Greene, W.H. (1993) and Saaty & Niemira (2006) with necessary modification were adopted by the study.

The study utilised mostly on primary data from the survey. The data were gathered from interviewing respondents and also Focus Group Discussion (FGD) and in-depth interview with key persons. The study was carried out in the central of SMEs batik in Pekalongan for the period of February 2009 to 2010.

Samples of batik producers were withdrawn by multistage quota sampling (Waridin, 1999; Susilowati et al., 2005) with the number of 150 respondents, which is expected to be normally distributed (Hair et al., 1998). The sampling method has been outlined together with the leader of batik producers association. Fifteen key persons were determined purposively as it was practiced by Susilowati and Mayanggita (2008). Analysis of hierarchy process was employed for benchmarking in determining priority in empowerment strategy. Descriptive analysis (Mason et al., 2003) was employed to describe the profile of respondents. Stochastic Frontier Production Function was used to determine the level of technical efficiency.

Results and discussion

Production and Efficiency

In order to outline the empowerment strategy to improve the batik enterprise in the study area, then the level of its powerment was determined with respect to the access in: market, technology, human resources (lobbying), relationship to stakeholders and continuity of the business activity. An analysis on technical and allocative efficiencies were done at the same time to verify the efficiency in using inputs of production.

The batik enterprises were found not efficient in using the inputs combination as shown by Stochastic Frontier Production Function in Appendix 1. There were two variables - tools and size of firm – found statistically not significant and have inappropriate sign. However, the rest variables of inputs found remain significant and have a right sign. There were negative relationships between of variables tools and firm’s size towards batik production. This indicates that the production of batik industry observed might approaching to saturated point. Nevertheless, the production function of batik is remain
marginaly elastic (E=1.102) or in condition of increasing return to scale. Furthermore, the value of technical efficiency is on the average of 0.8675, therefore batik enterprises were no longer inefficient in using production inputs.

Level of Powerment

Level of powerment in the batik industry could be analyzed with respect to the access towards market, lobbying skills, and technology. Only 37 out of 150 respondents (25 percent) were provided credit/loan from several financial institutions. The powerment level of batik producers in utilizing market information is still low (42 percent). Most of batik production is sold for regional/national market (59.32%), local market (39.21%), and only small amount (1.47%) for export. Respondents who exported their products are only 26 producers (17.3%) with market of Japan, Singapore, and Malaysia. About 70 percent of batik producers still traditional or conventional in using technology without considering to the clean production concept. This is due to high cost to re-set the existing investment towards the modern technology. In overall, ability of respondent for lobbying to stakeholders (government officers, private sector, academicians, and other related persons) in operating their business is still low (29 percent). Most of respondents (40.7%) did not recognize obstacles facing their business. It is because they are low in education and experience. More than three-fourth (80%) of batik producers has about 8-12 years of education and experience of less than 20 years.

Level of powerment for the respective aspect is summarized at Table 1. It is indicated that SMEs batik have not efficient with low-level of powerment (with the score of 50 percent). Hence, it is necessary to develop or improve SMEs batik in the study area.

The empowerment strategy was designed rely on from brainstorming and focus group discussion (FGD), then confirmed with the necessary in-depth interview with the competent key persons. From those approaches, researchers reconstructed the strategy of empowerment. Further, analysis of hierarchy process (AHP) was employed to provide a quantitative prove as a complementary portion to cover the unfulfilled substance of qualitative approach done in the earlier stage. Lastly, the combination results gained from mixed between qualitative and quantitative approaches, then used to formulate the empowerment strategy and the details is as follow:

There are three priorities in developing SMEs batik in the study area as recommended by the AHP results, namely: (1) opening market opportunity (score 0.158), (2) training for creating entrepreneurship (score 0.129), and (3) availing trading house and marketing workshop (score 0.132). Entrepreneurship will improve creativity and capability to sustain in facing economics instability. Availability of trading house will help products’ marketing and promotion. The score of inconsistency ratio is 0.03 < 0.1 (maximum score).

Empowerment of SMEs batik

Based on FGD, in-depth interview with key persons, efficiency and AHP analysis indicated that batik enterprises did not operate efficiently. They were relatively powerless in the aspects of market, human resources (lobbying skills), and technology. Therefore, it is necessary to improve their capacity by empowering stakeholders, namely: government (G), private sector such as business, financial institutions, etc (B), academician/NGOs (A), and community (C) or abbreviated as ABGC. This can be implemented by creating and facilitating market opportunity, training, extension, and other efforts for making batik producers will be able to compete with others. The efforts to improve batik industry through empowerment are required an active involvement of stakeholders. Strategies for each aspect are prescribes in bellows.

(1) Empowerment strategy for running business

It can be implemented through capital and production powerment. It is suggested when there is (are) problems encountered related to the market access then should be discussed with Business Consultation Unit (BCU). From efficiency analysis, it is verified that the use of supporting materials, labour, kerosene, and wood were efficient, while raw materials, tools, and size of firm were inefficient. It is recommended to implement for: (a) socialization/dissemination of BCU, (b) activate a guarantee unit, (c) diversification, quality assurance, and Intellectual Property Rights, and (4) business training, collaboration/networking, and improving production technique.

Stakeholders who needed to involve in the empowerment activity, among other are: government, private sector, financial institution, and batik community. Actions need to be implemented in the short run is training in management, production creativity, training, supervision, and monitoring on production process. While, in the long run, it is necessary for designing or planning of efficient production and also managing for Intellectual Property Rights (IPR) or patent.

(2) Empowerment strategy to get through the market access

Batik industry in Pekalongan has a low level of powerment in market access (42 percent). Empowerment strategies to overcome these conditions are as follows:

a. Decreasing sales tax and market opportunity.

<table>
<thead>
<tr>
<th>Table 1 Summary of Powerment Level for SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
</tr>
<tr>
<td>1. Access to credit (capital)</td>
</tr>
<tr>
<td>2. Access to market (market information)</td>
</tr>
<tr>
<td>3. Access to technology (technological improvement)</td>
</tr>
<tr>
<td>4. Ability to lobby (skills/expertise for having network)</td>
</tr>
<tr>
<td>5. Role of stakeholders for helping/facilitating industry (score 1-10)</td>
</tr>
<tr>
<td>6. Sustainability (adaptive with environment)</td>
</tr>
<tr>
<td>Phenomena of existing condition</td>
</tr>
</tbody>
</table>

Note: high level of empowerment if the score > 50%
b. Accelerate the information and trade expo by arranging tracking event (domestic and international) and networking with business partner.

c. Establish and extensify the availability of small trading-house (outlet), enhance the collaboration/ cooperation in capital formation.

d. Utilizing market opportunity by collaboration with stakeholders at the local as well as national level to maket the batik products progressively.

e. Management training of ISO, clean production and waste/ disposal management.

f. Market information concerning to product price, tastes (quality, product design or pattern, etc), information of product availability on market (leaflet, catalog, layer, web), and information concerning to competitors.

(3) Empowerment strategy on upgrading the human resources

From the aspect of human resources, the level of empowerment of SMEs batik was low (29%). Strategy for empowering SMEs batik might be implemented through education (formal and informal) and training. Stakeholders involved in this program are government, private sector, NGO, and university. Priorities in the short run for instance are: training for managerial skills and entrepreneurship, marketing and distribution, possibility to implement Corporate Social Responsibility. In the long run, the government needs to provide an extension officers and well-trained persons as creative team with the tasks on design and motive for batik and eligible marketer to breakthrough global market. In addition, the government or batik community might be established special institution of vocational education.

(4) Empowerment strategy on technological access

For this strategy is offered the two designs as follows:

a. Applied technology

Almost all respondents utilized simple or applied technology for producing batik. Empowerment strategy for technological access is more focused on the improvement of technological use. Action plan in technological access cover, among others are:

1) Facilitation on extension for the application of innovative technology, for example: in good colour-mixing and batik design by applying electronic technology.

2) Administering and well manage for IPR or Patent for batik.

3) Maximizing the implementation of Corporate Social Responsibility, for instance conducting training for producers, especially related to production process and managerial skills.

4) Training for new technology application

b. Modern technology

For changing from the application of traditional to modern technology, it requires establishment of Business Consultation Unit. The unit is responsible for discussing and deciding the transfer of technology. The works require involvement of the government, private sector, and academicians. In the short run, the process covers activity such as training for the implementation of new technology, while in the long run related to guidance and consultation for IPRs and facilitation of production equipments.

Conclusions

Factors influencing batik production are raw materials, supporting materials, labor, kerosine, wood, tools (equipments), and size of firm. Results from production function (frontier stochastic) verified that there are 5 variables which positively influencing SMEs batik production. These are raw material, supporting materials, workforce, kerosine, and wood.

a. SMEs producing batik are still using supporting material without considering to its quality. It is necessary to provide extension concerning to the quality improvement.

b. Equipment (tools) and firm size have negative signs, however it did not significant to batik production since equipments used by batik firms or industry have not operated maximum or under utilized.

c. Empowerment level of SMEs batik in the study area is still low. It is verified that the indicator is under standard (less than 50 percent). These indicators cover access on batik business, market, human resource development (HRD), particularly for lobbying capacity, and technology.

d. The SMEs batik in Pekalongan need to be improved for the following aspects:

1) Business access: implementing training on management and production (creativity), ease on raw material availability, credit provision (soft-loan).

2) Market access: establishing trading-house, opening market opportunity, reducing sales taxes for small industry.

3) HRD access: conducting training to improve technical skills, entrepreneurship, providing extension officers, special education institution for batik.

4) Technological access: providing appropriate technological assistance, IPRs guidance and supervision, facilitating waste/disposal technology.

Acknowledgement

We would like to express our thanks to Dr. Efriyani Sumastuti and Himawan for sharing a knowledge in gathering and analysing the data.

References


APPENDICES

**Estimated Frontier Production Function**

<table>
<thead>
<tr>
<th>No</th>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-ratio</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Constant</td>
<td>-2.0297</td>
<td>0.3625</td>
<td>-5.598***</td>
</tr>
<tr>
<td>2</td>
<td>$LX_1$ (Raw material)</td>
<td>0.5800</td>
<td>0.0511</td>
<td>11.351***</td>
</tr>
<tr>
<td>3</td>
<td>$LX_2$ (Supporting materials)</td>
<td>0.0670</td>
<td>0.0171</td>
<td>3.909***</td>
</tr>
<tr>
<td>4</td>
<td>$LX_3$ (Labor/Workforce)</td>
<td>0.1344</td>
<td>0.0622</td>
<td>2.161**</td>
</tr>
<tr>
<td>5</td>
<td>$LX_4$ (Equipments - tools)</td>
<td>-0.0168</td>
<td>0.0275</td>
<td>-0.612</td>
</tr>
<tr>
<td>6</td>
<td>$LX_5$ (Kerosene)</td>
<td>0.2135</td>
<td>0.0452</td>
<td>4.715***</td>
</tr>
<tr>
<td>7</td>
<td>$LX_6$ (Wood)</td>
<td>0.2042</td>
<td>0.0494</td>
<td>4.133***</td>
</tr>
<tr>
<td>8</td>
<td>$LX_7$ (Firm size)</td>
<td>-0.0131</td>
<td>0.0280</td>
<td>-0.469</td>
</tr>
<tr>
<td>9</td>
<td>$\gamma$</td>
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<tr>
<td>10</td>
<td>$\sigma^2$</td>
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<td>1.273***</td>
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<td>11</td>
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<td>13</td>
<td>Mean TE</td>
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<tr>
<td>14</td>
<td>Mean Inefficiency</td>
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</tr>
<tr>
<td>15</td>
<td>N</td>
<td>150</td>
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</tbody>
</table>

Notes:
- $LY$ = dependent variable (production)
- *** at 99% level of significance
- ** at 95% level of significance
- $TE$ = Technical Efficiency

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**Hierarchy Process for Decision Making**

*Development Program of SMEs in Pekalongan*

**PRODUCTION**
- A1 = Training on Management and Production Creativity
- A2 = Raw materials availability
- A3 = Providing credit (soft loan)
- A4 = Establishing trading-house and marketing (workshop)
- A5 = Opening market opportunity
- A6 = Reducing sales tax for SMEs

**MARKETING**
- A7 = Training for improving technical skills
- A8 = Training for creating entrepreneurship
- A9 = Availability of extension officers (for batik)
- A10 = Establishing education institution (for batik)
- A11 = Providing technological assistance
- A12 = Providing guidance and counselling for IPRs
- A13 = Technical assistance for waste/ disposal

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Notes:
- A1 = Determined by FGD with keypersons, 2009
- Source: (Saaty, 1993; Saaty & Niemira, 2006; Sukarto, 2006) with modification
Appendix 3

Priority and Alternative for Developing SMEs *Batik*

Note:
A1 = Training for Management and Creativity in production
A2 = Providing supply for raw materials
A3 = 1 low-interest and soft loan
A4 = Availability of trading house and marketing (workshop)
A5 = Functioning market opportunity
A6 = Reducing sales tax for SMEs *batik*
A7 = Training for improving technical skills
A8 = Training for developing entrepreneurship
A9 = Preparing extension officers for *batik*
A10 = Establishing education institution for *batik*
A11 = Technical assistance
A12 = Guidance and consultation for Intellectual Property Rights
A13 = Waste and disposal technology management

OVERALL INCONSISTENCY INDEX = 0.03
Maximum INCONSISTENCY INDEX = 0.1

THE IMPLEMENTATION OF CORPORATE SOCIAL RESPONSIBILITY (CSR)
AND ITS IMPACT ON FIRM'S OPERATING EFFICIENCY, INCOME TAX,
AND STOCK PRICE

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Abstract

The primary objective of the firm is to earn maximum profit or to maximize shareholder wealth. Profit, in accordance with the principle of going concern, was required to maintain firm’s existence and, in turn, firm’s expansion and development. One way that can be accomplished by a firm in order to achieve a satisfactory level of profit is to make a positive contribution to the social environment, or better known as corporate social responsibility (CSR). This study generally aims to analyze the effect of the implementation of CSR on stock prices and income taxes either directly and indirectly through operating efficiency. In particular, objectives of this study were to analyze (i) the direct effect of CSR implementation on corporate stock prices, (ii) the indirect effect of CSR implementation on corporate stock prices through corporate operating efficiency, (iii) the direct effect of CSR implementation on corporate income tax, and (iv) the indirect effect of CSR implementation on corporate income taxes through corporate operating efficiency.

Samples of this study were 198 companies which implemented corporate social responsibility (CSR) in 2009 and 2010. Data which consist of corporate social responsibility indices, operating efficiencies, income taxes, and stock prices were obtained from the Indonesia Stock Exchange. Path analysis was performed to analyze causal relationships amongst investigated variables.

Results of the study indicate that the implementation of corporate social responsibility (CSR) directly affects corporate stock prices and indirectly affects income taxes through corporate operating efficiency.

**Keywords:** Corporate Social Responsibility (CSR); operating efficiency, stock price; corporate income tax.

Background to the Study

Basically the company's goal is to earn profit. With a profit, then the company can maintain the survival and can continue to develop and deliver a profitable return for its owners. To earn a profit, the company conducts its operational activities in order to achieve that goal. However, along with the activities of the company to earn profit collisions sometimes occur on the surrounding environment, both natural and social environment. As evidence, many series of cases concerning