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Effect of the Moderation of Economic Institution on Local Economic Development

Yoyok Hendarso, Zulfikri Suleman
Faculty of Social and Political Science
Sriwijaya University
Palembang, Indonesia

Supriyanto Supriyanto
Faculty of Education Science
Sriwijaya University
Palembang, Indonesia

Maulana Ali
Post Graduate Department
Universitas Tamansiswa Palembang
Palembang, Indonesia
maulana@unitaspalembang.ac.id

***Abstract*—Local economic development is a process in which local governments and community organizations are involved to encourage, stimulate, maintain, business activities to create jobs through increasing human resource capacity to create better products and fostering industry and business activities on a local scale. This study aims to find the appropriate concept approach in overcoming the problem. The Local Economic Independence approach was used in building this model by using 167 coconut farmer respondents, and path analysis was used as a data analysis tool. Research finding showed that 1) together and partially the local economic development variables ; human resource development, capital development, market development, development of economic institutions, simultaneously and partially have a significant effect on Local Economic Development; 2) Direct development of economic institutions has effect on Local Economic Development; 3) development of economic institutions have interactive effect on Local Economic Development of coconut farmer in the Sri Tiga village of Banyuasin district. The results of the study show that partially the variables of human resource development, capital development, market and social development have a significant effect on the development of community economic institutions. It is necessary to pay attention to 5 (five) factors, including: human resource factors, factors of capital, marketing factors, social (cultural) factors, as well as factors of community economic institution development. As for some factors that still have problems developing the business of coconut farmers in managing coconut waste in the village of Sri Tiga, among others, marketing factors, capital factors, and human resource factors.**

Keywords—local economic development; local economic independence

I. INTRODUCTION

Economic progress is one of the goals of development that represents the welfare of society. Economic perspectives tend to dominate the way of thinking about the definition of development and welfare. Conceptually, development can be referred to as growth and expansion, change, improvement, and transformation and modernization [1-5]. Therefore, it is often interpreted that an advanced city is a city with a high rate of economic growth as manifested in the form of skyscrapers, luxury shopping centers, luxury transportation, and so on. Cities such those are a heaven for consumptive people like those found in big cities in Indonesia. As it turns out, economic development is also a cultural process because the economy itself is part of the cultural reality that can shape economic sense as stated by Michael McPherson [6].

The success of local economic development can be seen from several indicators, namely: 1) expansion of opportunities for small communities in employment and business opportunities; 2) expansion for the community to increase income; 3) the empowerment of micro and small business institutions in the production and marketing processes; and 4) empowerment of partnership network institutions between the government, the private sector and local communities [7]. In relation to the theory of economic growth, the investment in human resources becomes more important in its development role [8]. Quality human resources for developing countries are an important factor in efforts.

Economic institutions are regarded as fundamental causes of economic growth [9,10]. The contribution of economic institutions to economic growth far outweighs the availability of natural resources, the supply of factors of production and technological progress [11,12]. Several reasons have been advanced for the importance of economic institutions in stimulating economic growth. One of the reasons is that economic institutions determine the incentives given to the main performers in the economy; the outcomes of economic processes are influenced by the economic institutions. Through these incentives, economic institutions influence investment in

physical and human resources, research and development (R&D), technology and the organization of production [13-15].

Sri Tiga is one of the villages in Sumber Marga Telang Sub district, Banyuasin District - South Sumatra Province. It has a population of 1500 inhabitants covering 543 households, where most of the population professions (40%) are coconut farmers. In an effort to increase people's income, not only sourced from the sale of coconuts, it is necessary to establish a model of local economic development, especially the management of production waste, namely coconut fiber as an effort to increase the Sri Tiga villagers'.

The objectives of the research are; 1) to analyze effect of human resource development, capital development, market development on development of economic institutions; 2) to analyze effect of human resource development, capital development, market development on Local Economic Development; 3) to analyze effect of development of economic institutions on Local Economic Development; 4) to analyze effect of human resource development, capital development, market development and development of economic institutions; on Local Economic Development.

A. *Hypotheses*

- Human Resource Development, Capital Development, Market Development and Social Community have effect on development of economic institutions;
- Human Resource Development, Capital Development, Market Development and Social Community, equations effect model affects Economic Independence (EI);
- Economic Institution Development has effect on Economic Independence;
- Human Resource Development, Capital Development, Market Development and Social Community and Development of Economic Institutions, equations have effect on Economic Independence (EI).

II. METHOD

The location of the study was the village of Sri Tiga, Sumber District, Marga Telang, Banyuasi Regency, South Sumatra Province and the number of samples was 167 coconut farmers. Study using multivariate analysis must have the number of samples more than 10 times as analyzed variables and the number of samples for the research is more than 30 and less than 500 units [16,17].

Data processing collected from the results of questionnaires and secondary data collection was done in 4 steps which were editing, entry, tabulation, and analysis of data using Microsoft Excel 2007 and SPSS 16 version and Amos 18 version. The design of this research was causality research design (cause and effect). Statistical test equipment was used in this research to test the hypothesis. Before testing the data, validity and reliability were tested. Furthermore, differential statistical analysis was performed by using path analysis.

III. RESULTS AND DISCUSSION

A. *Path Analysis of Local Economic Development*

After analyzing the level of validity and reliability of the tested latent variable, the next analysis was path analysis in full model. The results of data processing for full path analysis model are described at figure 1.

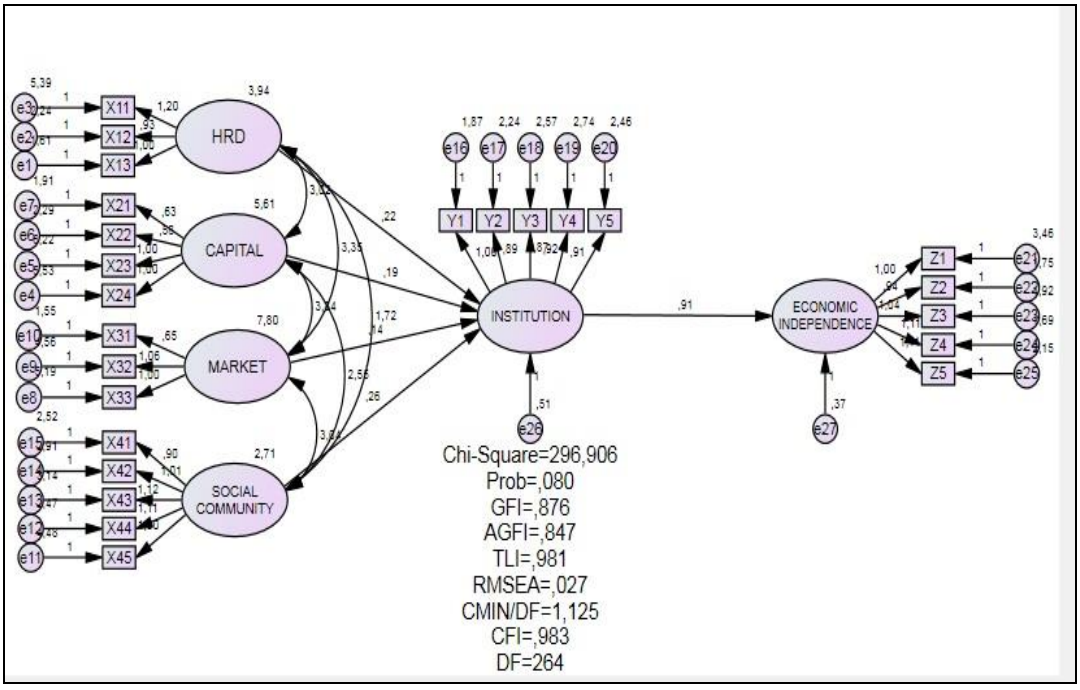

Fig. 1. Local economic development model.

TABLE I. INDEX OF FEASIBILITY TESTING OF STRUCTURAL EQUATION MODELING (SEM)

Goodness of Fit	Cut off value	Results	Decisions
χ2 - Chi-Square	≤ 293.2478	296.906	Good Fit
Probabilities Chi Square	≥ 0.05	0.08	Good Fit
CMIN/DF	≤ 2.00	1.125	Good Fit
CFI	≥ 0.90	0.983	Good Fit
TLI	≥ 0.90	0.981	Good Fit
NFI	≥ 0.90	0.870	Marginal Fit
IFI	≥ 0.90	0.984	Good Fit
RMSEA	≤ 0.08	0.027	Good Fit
GFI	≥ 0.90	0.876	Marginal Fit
AGFI	≥ 0.90	0.847	Marginal Fit

It is shown in table 1 that the value of χ^2 Chi-Square was 296.906 on cut-off value at ≤ 293.2478. The probability value was 0.08 under the terms of greater than 0.05. The probability value that is under 0.05 can be ignored, because to determine whether the model is suitable or not can also be seen from the values of other criteria such as GFI, AGFI, TLI, CFI which preceded the standard ≥ 0.90 [18]. In addition, the fit model is also seen from the RMSEA value of 0.000 in accordance with the terms fit ≤ 0.08. The results of this test show that the model is well received because it has a good goodness-of-fit value, so testing the hypothesis of causality can be done with this model.

B. Hypotheses Testing

The hypotheses were tested after assessing the assumptions. Analyzing the value of Critical Ratio (CR) and probability of a causality relationship was done to test the hypotheses. The required *critical ratio* value was more than 1.96 and the probability value was below 0.05. If the results of data processing met these requirements then the hypotheses in the proposed research were considered acceptable.

1) The effect of human resource development, capital development, market development and social community on development of economic institutions:

TABLE II. STANDARDIZED REGRESSION WEIGHTS: (GROUP NUMBER 1 - DEFAULT MODEL)

			Estimate
INSTDEV	←	***HRD***	0.272
INSTDEV	←	***CAPITAL DEV***	0.277
INSTDEV	←	***MARKET DEV***	0.246
INSTDEV	←	***SOCIAL COMMUNITY***	0.267

Results of data processing as illustrated in table 2 shows that the value of standardized Regression Weights, so that the partially variables of Human Resource Development, Capital Development, Market Development and Social Community, equations effect model affects Economic Institution Development (EID) = 0.272HRD + 0.277CD + 0.246MD +0.267SC. Furthermore, the magnitude of effect was indicated by the value of the coefficient of determination which was 0.800. Based on these results, the research hypothesis of the effect of partially variables namely Human Resource Development, and Social Community on Development of Economic Institutions was accepted.

2) The effect of human resource development, capital development, market development and social community on economic independence:

TABLE III. STANDARDIZED REGRESSION RESULT FOR PARTIAL EFFECT

			Estimate
EI	←	***HRD***	0.252
EI	←	***CAPITAL DEV***	0.256
EI	←	***MARKET DEV***	0.227
EI	←	***SOCIAL COMMUNITY***	0.247

Results of data processing as illustrated in table 3 shows that the value of standardized Regression Weights, so that the partially variables of Human Resource Development, Capital Development, Market Development and Social Community, equations effect model affects Economic Independence (EI) = 0.252HRD + 0.256CD + 0.227MD +0.247SC. Furthermore, the magnitude of effect was indicated by the value of the coefficient of determination which was 0.853. Based on these results, the research hypothesis of the effect of partially variables namely Human Resource Development, Capital Development, Market Development, and Social Community on Local Economic Development was accepted.

3) The effect of development of economic institutions on economic independence:

TABLE IV. STANDARDIZED REGRESSION RESULT FOR INDIRECT EFFECT

			Estimate
EI	←	***Development of Economic Institutions***	0.923

Results of data processing as illustrated in table 4 shows that the value of standardized Regression Weights, so that the partially Economic Institution Development, equations effect model affects Economic Independence (EI) = 0.923 INSTDEV. Furthermore, the magnitude of effect was indicated by the value of the coefficient of determination which was 0.800. Based on these results, the research hypothesis of the effect of variable Economic Institution Development on Economic Independence was accepted.

4) The effect of human resource development, capital development, market development, social community and development of economic institutions; on economic independence:

TABLE V. STANDARDIZED REGRESSION FOR DIRECT EFFECT

			Estimate
EI	←	***HRD***	0.252
EI	←	***CAPITAL DEV***	0.256
EI	←	***MARKET DEV***	0.227
EI	←	***SOCIAL COMMUNITY***	0.247
EI	←	***DEVELOPMENT OF ECONOMIC INSTITUTIONS***	0.923

Results of data processing as illustrated in table 5 shows that the value of standardized Regression Weights, so that the partially variables of Human Resource Development, Capital Development, Market Development and Social Community and Development of Economic Institutions, equations effect model affects Economic Independence (EI) = 0.252HRD + 0.256CD + 0.227MD +0.247SC +0.923 INSTDEV. Furthermore, the magnitude of effect was indicated by the value of the coefficient of determination which was 0.877. Based on these results, the research hypothesis of the effect of partially variables namely Human Resource Development, Capital Development, Market Development, Social Community and Development of Economic Institutions on Economic Independence was accepted.

C. Discussion

The results of the study show that partially the variables of human resource development, capital development, market and social development have a significant effect on the development of community economic institutions. Partially, it is also seen that the development of economic institutions influences economic independence. In total, the influence can be seen that the development of human resources, capital development, market development, social (culture) and development of economic institutions have a significant effect on economic independence.

The results of this study are in line with implicitly or explicitly, cultural values represent abstract ideas about what goods, rights, and desires in society [19]. These cultural values (such as freedom, welfare, security) are the basis for specific norms that show what is appropriate in diverse situations. The function of social institutions (such as the family system, education, economy, politics, religion), the purpose and form of activities, is to express the priorities of cultural values.

The most important representatives of the local community models and theories of endogenous development are Romero, Slee and Thorbecke [20-22]. The difference between endogenous growth models and theories of growth occurs as a result of changes in work organization. Endogenous growth models and development usually refer to areas surrounding cities, but are not well connected to a city. Industrial district model is an example of such type of theories. In that system, the agglomeration of small and mid-size companies exchanges semi-finished products what can be described as a collective production process. The relations between enterprises and people in a local system are not determined by regulations only, but largely depend on local rules and customs rooted into tradition and culture of that region [23-24]. The other kind of premises in local milieu theories is development theory based on labor organizational changes. Starting assumption in this theory is that the workforce structure in a sense of skills, costs, mobility, numbers and alike, varies from region to region. Those differences in workforce can influence a decision on a company location: areas with conditions for profitable production attract investments, while the lack of them takes place in areas where possibilities for profitable productions were exhausted.

IV. CONCLUSION AND SUGGESTION

A. Conclusion

Based on the analysis and discussions that have been done previously, it can be concluded that in order to develop the business of coconut farmers in managing coconut waste, especially coconut fiber by using the LED concept to realize economic independence, it is necessary to pay attention to 5 (five) factors, including: human resource factors, factors of capital, marketing factors, social (cultural) factors, as well as factors of community economic institution development. As for some factors that still have problems developing the business of coconut farmers in managing coconut waste in the village of Sri Tiga, among others, marketing factors, capital factors, and human resource factors.

B. Suggestion

Local governments are advised to optimize the implementation of education, training, counseling and coaching of farmer groups in local economic development activities. The central government through institutions related to community empowerment is advised to provide a package of facilities and infrastructure to support the improvement of local economic development and the availability of systematic, directed, scheduled and sustainable programs.

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