

Research article

MICROFINANCE INSTITUTIONS: THE EXISTENCE IN STRENGTHENING INTERNAL RESOURCES AND THE OPERATIONAL PERFORMANCE OF RURAL MICRO AND SMALL ENTERPRISES

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ABSTRACT

Micro and small scale enterprises had strategic role in national economic development, because of their role in economic growth, expanding employment, income enhancement, equalization process, economic service, and national stability. During the economic crisis happened a few years ago that affected to the collapse of many big scale enterprises, MSEs proved tougher in facing the crisis. The purpose of this research was to analyze the programs were implemented by Microfinance Institutions (MFI) to develop rural micro and small enterprises (RMSEs) in the form of funding and establishment in South Sumatera. Survey and interview technique were implemented among 200 samples, data was analyzed by using both one way anova test and structural equation modeling. The result of analysis showed that all of the programs implemented by the Microfinance Institutions had supported the strengthening of internal resources and operational performance of rural micro and small enterprises. Further analysis indicated that all of proposed research hypothesis were not rejected. **Copyright © WJ CER, all rights reserved. USA**

Key words: microfinance institutions, rural micro and small enterprises, operational performance

INTRODUCTION

In order to maintain the existence of the products in the market segments into which require that every business person at every level of business has sufficient access to the market demand and the ability to modify product so that the product can still be requested and well absorbed. It is important to understand, because with its existence that consumers demand the products, it means the sustainability of business and the continuity of production can be answered. On going working capital and has an important role in the realization of desires and address these market conditions demanded. The availability of sufficient capital allows the business person to conduct the market research, to comprehend what is desired by the consumers and if it is necessary to make modifications immediately to the products so that the products are still demanded.

As one of the factors of production, capital can be said to be an important or even the most important aspect in business. In the theoretical order in which the development of a business activity of a company, it absolutely needs adequate funding sources to fund operations to improve the operational performance of the company to benefit in accordance with specified target and time (Yao and Alles, 2006). Accordance with it, Kaplan and Schoar (2005) also mention that the problem of capital is one of the main reasons for entrepreneurs to delay the development of enterprises.

Establishment and growth of rural micro and small enterprises (RMSEs) that are the topics of research should be developed. The importance of RMSEs in developing countries such as Indonesia is often associated with social and economic problems in these countries as a high poverty rate, a large amount of unemployment especially for low-educated society, the foreign debt crisis, deficit balance of payment, unequal distribution of income, the process of uneven development between urban and rural, as well as the problems of urbanization with all kinds of negative aspects. This means that, the development and growth of RMSES in developing countries are expected to contribute positively and significantly in order to overcome the social and economic problems well above.

Although many development efforts have been done by the government in the development of rural micro and small enterprises, but in some ways about RMSES are still facing some problems in business. Capital shortage, for example, mainly due to their lack of direct access to financial services and facilities provided by the formal financial institution (bank) or a non-bank financial institution. This means that most or all of the fund necessary investment (expansion or improvement of production volume) and working capital comes from informal sources. Funding sources vary widely, can be from personal saving (owner or entrepreneur), loan or financial assistance from family or acquaintances, borrowing from suppliers of raw material, in the form of payment later, the money in the form of advance payment (partial or total) of the buyer, until the part of the profit is invested. With limited capital that belongs effort to be done in order to improve both quality and productivity to be locked. Product quality is sometimes improvised with a limited number of goods produced resulting in market opportunities that they achieved can be missed. Capital support that can provide wider opportunities for entrepreneurs to develop their business (Yusi, 2014).

In addition the limited managerial capability of human resources is also an obstacle for many RMSEs, especially in the aspects of entrepreneurship, management, techniques of production, product development, engineering design, quality control, organisation of business, accounting, processing of data, techniques of

marketing and market research. These proficiencies are needed to maintain or improve the quality of product, increase efficiency and productivity in production, expand market share and penetrate new markets (ibid).

Often said that to address the problem of human resources, providing direct training to entrepreneurs is very important and this is the most effective way, but the RMSEs are sometimes not able to bear their own costs of training. Indeed so far there have been a lot of training and education provided by the government to RMSEs entrepreneurs, especially from the State Ministry Cooperatives and Small and Medium Enterprises, the Ministry of Industry and Trade, and the Ministry of Labor. But its effectiveness is still questionable because a lot of entrepreneurs who had attended training from the government complained that the training is often too theoretical, time is too short, there is no follow-up, and not suited to their needs. Human resources limitation is one of the serious threats to Indonesian RMSEs to compete both in domestic and international markets later in the era of free trade, even at that time the human resources together with the technology will be more important than the capital as the main factor of RMSEs to improve its global competitiveness.

Capital support and improving of the quality of human resources workers and employers can provide a wider opportunity for any RMSEs to strengthen internal resources and develop their business. Furthermore, internal resources will affect the competitive advantage (Ferreira and Azevedo, 2007). The availability of sufficient working capital in addition to a strong commitment to grow, management skill in reading market effectively, plays an important role in business development (Kotler, 2005). Otherwise with limited capital and limited management skills, efforts should be made in order to fulfil the market demand either the delivery of products with excellent quality, on demand product modification, or becomes constrained that this condition can impact on the sales and business continuity.

The capital problem and limitations of human resources is also faced by the majority of and almost all rural micro and small enterprises (RMSEs) in South Sumatera, so that the problem nowadays RMSEs is relative constant from time to time (Yusi, 2012). Previously, Nasuhim (2006) also explained that in the business sector micro, small and medium-sized enterprises in South Sumatera there were four obstacles that are dealt with. *First*, carrying capacity capital expenditure was very weak; *second*, marketing production that had not been widely; *third*, high competition with other products; *forth*, quality of human resources were limited. The financial crisis and monetary that struck Indonesia in 1997 and 1998 many big business experience stagnation and even stopped operating, but in fact MSEs can survive and not influenced by this crisis. This shows that partiality in big business (conglomerates) by ignoring micro and small enterprises is an act that it is ironic. RMSEs need to be encouraged to move forward, assisted in every sense, particularly in the capital expenditure and strengthening human resources who is still a major dilemma from time to time to RMSES can survive in providing the handling of the increase the income of the community village and the economic growth.

After The Act No. 1 of 2013 about Microfinance Institutions (MFI) is one of the government's efforts to encourage the development RMSEs in this capital expenditure and increase its operational performance, because during this RMSEs hindered access funding to formal financial institutions and human resources limitations organizer. According to the law, MFI is a specialized financial institution established to provide business development services and empowerment of the community, either through loans or financing in micro scale businesses to the public, the management of deposits, as well as providing consulting services business development which is not only looking for profit. From the scriptural definition implies that MFI profit motive

is an institution that is also social motive, that their activities are more community development with no set aside his role as intermediary financial institutions (Baskara, 2013).

Specifically in rural economic development context that is still dominated by agricultural sector, the potential of this can be played by MFI in spur economic growth is very big. There are at least five reasons to support that argument. *First*, MFI generally is or at least close to rural areas so that they can easily accessed by economic actors in the village. *Second*, the villagers prefer a very short time process and without many procedures. *Third*, Business characteristics village economy typically need credit ceiling that there may even feel too great that financial ability in accordance with MFI. *Fourth*, close location MFI and the perpetrators village economy enables management of MFI understand right into their characteristics so it can be extending loans in time and correct in number; and *fifth*, correlation between the ensuing harmful socio-cultural relations and personal-emotional is expected to be able to reduce the moral hazard in return credit (Susila, 2007).

Based on the explanation above, it will be relevant when there was a research about existence MFI in a way to strengthen internal resources and operational performance especially in RMSEs in South Sumatera. Research on people's economic applicative is expected to provide information that is useful for synergy business that is each other in business development for the better. Developing RMSEs in rural areas and city outskirts at least will give impact to the people who spread evenly. In developed countries, many small businesses have important role as a driving force of economic growth, national stability, employment absorption, the source of creation, and innovation in productive business activities (Handayani, et.al., 2010).

LITERATURE REVIEW

Microfinance Institutions

For Indonesia, microfinance is not a new thing. Managed by Microfinance Institutions have been developing since a long time ago and has become a topic of discussion of experts and populist economic professionals. Momentum discussion of MFI always related to efforts to eradicate poverty particularly in rural areas. Microfinance institution if it is accordance in The Act No.1 of 2013 is defined as financial institutions which was established to provide special services business development and community empowerment, both through loans or financing in micro scale business to its members and the community, deposit management consulting services, as well as the development is not confined to a gain.

According to Asian Development Bank (ADB), microfinance institution is an institution that provides storage, paying transaction services, and transfer money intended for the poor and small-scale enterprises. While microcredit according to the definition used in microcredit summit (1997), is a program of granting credit to small to poor tenants to finance itself in order to generate income, allowing them to care for themselves and their families. While the central bank defined the microcredit is credit given to productive efforts, the perpetrators of both individuals and groups that have the most sales results a hundred million rupiah per year (Wijono, 2005).

Based on its shape, the MFI are divided into: (1) formal institutions such as rural banks and cooperatives, (2) semi formal institutions such as non-governmental organizations, (3) informal sources, such as moneylenders. The Central Bank of Indonesia divides MFI into two categories namely: (1) The MFI takes the form of a bank, such as Indonesian People Bank (BRI) rural unit, rural banking, and rural credit bank, (2) MFI which is tangible non-bank, such as co-operatives savings and loans, the rural credit funds, savings and loans

unit, *baitul mal wattanwil*, community-based organizations, and credit union. The difference of this category can happen because there are differences criteria that is used, whether on the legality and procedure in their respective operation MFI (ibid).

According to Krishnamurti (2005), even though there were many definitions of MFI, but in general there were three key elements of various definitions. *First*, provides various kinds of financial services; *second*, serves the poor people and *third*, use the procedures and mechanisms that contextual and flexible. This is a consequence of community groups that are served, so procedures and mechanisms that are developed for microfinance will always be contextual and flexible.

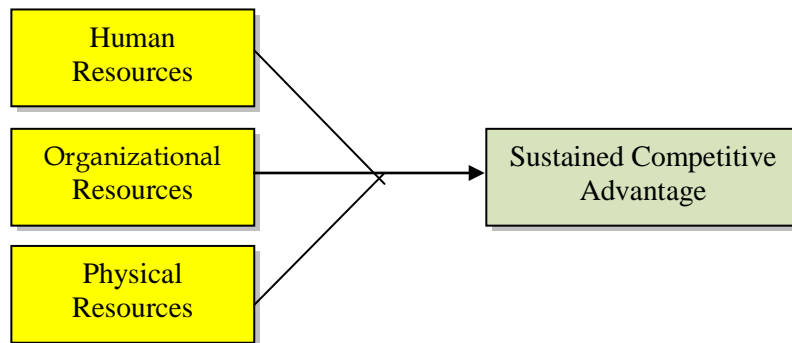
MFI implement financial sector activities in the form of gathering together the funding and lending or financing in micro scale with a simple procedure to the poor and or low income. Internationally, the term micro-scale financing refers to the given financial services to small entrepreneurs or small businesses that typically do not have access to the associated high cost of banking transactions charged by banking institutions (Baskara, 2013).

The existence of a relatively MFI are able to respond to the difficulties in terms of the capital turned out to be in harmony with the development of the RMSEs. Although the contributions in the financing of the national scale is still small compared with the role of formal banking institutions, but there is a great potential which can be utilized to increase its role in MFI financing RMSEs shown with still a lot of unfinished RMSEs utilize access financing from financial institutions and the difficulty of access to financing from banking institutions. So the largest concentration is MFI (Wijono, 2005).

In a more macro scale, existence of MFI in the countryside can be a critical factor in poverty reduction efforts are effective in rural areas. According to Krishnamurti (2003) the increase access and procurement storage facilities, funding and insurance that efficient can build the empowerment the poor and their chance to get out from poverty, through: (1) consumption level that even more certain and not fluctuate, (2) manage risks better, (3) have the opportunity to build assets gradually, (4) developing micro business activities, (5) strengthen the capacity of its revenue gains, and (6) can feel high a better life.

Resource-based Theory

To be able to grow and develop a sustainable basis, companies should try to nurture capability of all resources in corporate optimally and it can be changed into a unique opportunity for productive. One of the important element in efforts to develop business is strengthening internal resources company. Internal resources are factors or general conditions that are within an organization, that affect the management of the organization in achieving the objectives. According to Wright, et.al. (1996) there were at least three factors that affect internal resources could influence the competitive advantage of the organization, namely: human resources, organizational resources, and physical resources. The relations between factors in the internal resources to competitive advantage can be seen in the Picture 1.



Picture 1: Internal Resources and Competitive Advantage of Organization (Wright, et.al., 1996: p.52)

The increase expertise to human resources is the phase that is important to create abilities, thinking, communicating, technical skills, and take advantage of the opportunity. The ability of creative thinking, business insight, and courage take advantage of opportunities is an important factor in running a business, because they are the elements of entrepreneurship. Organizational resources that develop a positive and dynamic such as financial resources, business strategy, organizational culture, management of raw materials, research and development, marketing strategies, information systems, and surveillance system is just as important as the internal resources. Lastly, physical resources such as facilities and infrastructure, strategic location, access to raw materials, distribution network, as well as technology also an important factor in supporting the sustainability of the business.

In the context of global competition as now, MSEs must shift strategy on the use internal resources. Enterprise development strategy should lead to a specific skill internally that can create superior products to enlarge its share of the production. The share of production, i.e. the company that appears on a wide range of products with various components of the same importance and no longer seeking market share at end-consumer products such as the past. With the resource-based theory, it can be concluded that in the context of free competition as now, employers are required to use its business management strategies. Development strategies of companies both new and old should lead to the use of internal resources. With these strategies, business can better flourish either in local competition, national, and international level (Suryana, 2001).

METHODS

This research is explanatory research survey which aims to explain the causal relationships between variables in research and hypothesis testing. The research method is used by combining qualitative and quantitative approaches. Glaser and Strauss (Moleong, 2004) said that both forms are required rather than quantitative qualitative test, but both forms are used together. The population of the research was the RMSES in South Sumatera which amounted to 2,000,986 business units. From 17 regencies and cities that have joined RMSEs, selected Ogan Komering Ilir, Ogan Komering Ulu, Muara Enim, dan Musi Banyuasin. The number of samples were 200 entrepreneurs. With the details 50 entrepreneurs in Ogan Komering Ilir regency, 50 entrepreneurs in Ogan Komering Ulu regency, 50 entrepreneurs in Muara Enim regency, and 50 entrepreneurs in Musi Banyuasin regency.

Technical Data Collection

Data collection was conducted in July, 2014 to December 2014. Primary data was collected through a covered questionnaire that was given to the respondent, while secondary data obtained from relevant agencies, or from some previous research results that have relevance to the study being done. Other data acquisition is performed through direct observation and observation involved that gives a lot of possibilities for researcher to find the actual phenomenon. This in turn can give an idea about the object of study in more depth.

Operationalization of Variables

Exogeneous variable assignment is based on the MFI program contained in The Act No. 1 of 2013 are: funding (X_1) is providing a source of funds that should have been returned in accordance with the enforced by dimensions: the availability of funding sources ($X_{1.1}$), the type and source of funding allocation ($X_{1.2}$), concession requirement in funding ($X_{1.3}$), simplification how to get fund ($X_{1.4}$), and speed availability of funds ($X_{1.5}$). Establishment (X_2) is the coaching efforts and development of MFI on his efforts in running the RMSEs with dimensions: financial aspects ($X_{2.1}$), production aspects ($X_{2.2}$), marketing aspects ($X_{2.3}$), human resources aspects ($X_{2.4}$), and technology aspects ($X_{2.5}$).

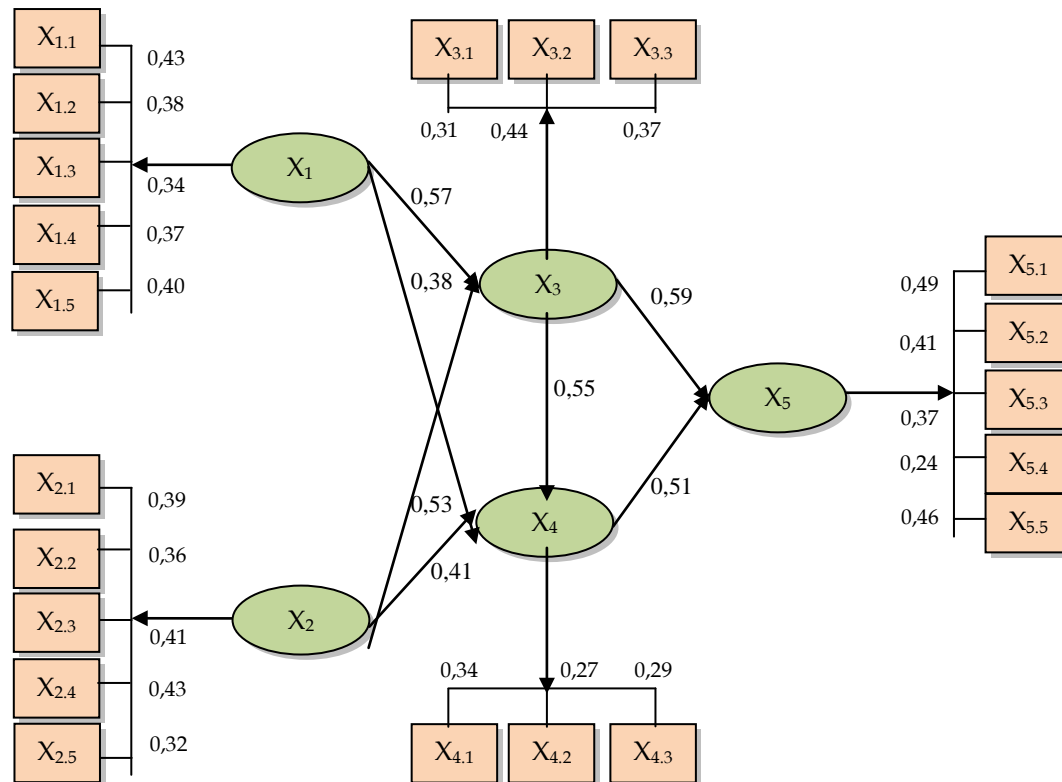
The determination of endogeneous variables of internal resources (X_3) is based on the concept of Wright et.al. (1996), i.e. an increase of internal resources of the company after receiving facilities from the MFI with dimensions: human resources ($X_{3.1}$), organizational resources ($X_{3.2}$), and physical resources ($X_{3.3}$). The determination of competitive advantage variable (X_4) is based on the concept of Porter (2001), i.e. the creation of added value to achieve competitive advantage, with dimensions: cost advantage strategy ($X_{4.1}$), differentiation strategy ($X_{4.2}$), and focus strategy ($X_{4.3}$). The company's performance variable (X_5) is based on the concept of Wiklund & Sphepherd (2003), i.e. the situation improved the work accomplished by entrepreneur with dimensions: market positioning ($X_{5.1}$), sales growth ($X_{5.2}$), customer loyalty ($X_{5.3}$), the increase of labor ($X_{5.4}$), dan financial result ($X_{5.5}$).

The primary research data is obtained from respondents by using a list of closed questions that its validity and reliability have been tested in advance, the interview was conducted to obtain information that is more profound than a number of questions whose existence is considered important. To test the hypothesis and confirm the theoretical models which are formed, analysis of the model that is used is different from the average anova test and structural equation formulated to reveal the relationship of causality between the different variables involved. Secondary data is obtained by studying the relevant reports.

RESULT AND DISCUSSION

Until this time in South Sumatera there are 604 unit MFI which serve RMSEs and community in need. Empirical data showed an increasing trend from RMSEs utilizes a program provided by the MFI. The study only observed the influence of existence of MFI towards programs that are given to RMSEs. The existence of the effect will be observed through the existence of variables included in the model of research. There are two main variables used in this study, i.e. exogeneous variable and endogeneous variable. The analysis used is structural equation modeling, in the structural equations method can occur exogeneous variables become endogeneous variables for other variables. Exogeneous variables and endogeneous variables are formed in the structural

equations shows that there is a total of the influence of each variable in the models processed by using AMOS program version 16. Framework of the concept of influence between the variables involved can be seen in Picture 2 below.



Picture 2: Framework Concept that Stated the Relatedness between Variables

The Influence of X₁ towards X₃ and X₄

The results of calculation by using the SEM analysis showed, that funding granted by MFI (X₁) gave positively affect to the internal resources (X₂) and competitive advantage (X₄) of RMSEs. This showed that the funding programs with the dimensions: the availability of funding sources (X_{1.1}), the type and source of funding allocation (X_{1.2}), concession requirement in funding (X_{1.3}), simplification how to get fund (X_{1.4}), and speed availability of funds (X_{1.5}) have an influence in the internal resources and strengthen the efforts to create an competitive advantage of the company.

In national economic order, RMSEs is a source of economic livelihood from the largest part of people scattered throughout the villages and towns of the region, which includes almost all types of existing business field. RMSEs toughness as one of national economic actors has been proven, because this sector is able to survive and compete in the midst of the economic crisis, while many great businesses that are experiencing severe crises. But despite that, in fact many of the problems still to be faced by his efforts in running the RMSEs, ranging from the availability of working capital for everyday activities as well as capital for investment

is still the main problem. With this limitations, some important things that should be done. Such as market research, modernisation of production technology, facilities and infrastructure increased effort being constrained.

Capital shortage due to the generally RMSEs is an individual business or firm that is closed, which rely on owners' capital which were extremely limited. This capital limitations caused by their lack of direct access to financial services and facilities provided by formal financial institutions (banks). This means that most or all of the funds necessary to invest (expansion or increased production volume) and working capital is of an informal sources.

Capital is a prime mover for a total for business development. Capital can: (1) help in overcoming the limitations of the RMSEs capital with interest rate which is relatively small, and (2) reduce dependence on entrepreneurs to intermediary traders and moneylenders. The availability of capital for businessmen is a must. The function of capital not only as one of the factors of production, but also play a role in capacity building of employers in adopting the technology (Ashari, 2009).

Based on these phenomenon, funding for this RMSEs should remain given in the future, considering that there are still many RMSEs that has not been able to get any credit because it had not been bankable (Kuncoro, 2008). Access to capital is often seen as the key to success in setting up and developing a business venture (Efrata and Herdinata, 2012). The role of the capital is an important, strategic factors, being one of the key factors in the process of economic development and are very influential with the volume of business, business results (production), and an increase in the earnings of a business economy (Riniwati, 2011).

In creating a competitive advantage the existence of the capital is also the dominant influence, a company will not be able to form the superior competence that can be used in performing the differentiation is required in competitive advantage, both cost advantage strategy, a strategy of differentiation, as well as the strategy's focus. With superior competence will enable the company to obtain what information is needed and desired by its customers. Thus, companies that have employees with high competence will be better able to provide products and services which match the needs and desires of consumers (Absah, 2008).

Based on the above research findings, it can be concluded that the funding of the programme by the existence of MFI to MSEs allows RMSEs make improvements-increased, either an increase in internal resources in the form of increased financial resources, the capabilities of physical resources, human resources, technological resources, as well as resources to reputable organizations. Thus, the results of this research are in line and can reinforce some of the findings of the study that has been done before.

The Influence of X_2 towards X_3 and X_4

Establishment (X_2) with coaching dimension and development at: financial aspects ($X_{2.1}$), production aspects ($X_{2.2}$), marketing aspects ($X_{2.3}$), human resources aspects ($X_{2.4}$), and technology aspects ($X_{2.5}$) also a positive effect against internal resources (X_3) and competitive advantage (X_4). Establishment conducted by MFI to RMSEs aims to foster a spirit of entrepreneurship and the improvement of managerial skills to employers, the introduction and cultivation of the spirit of entrepreneurship is becoming an important factor in solidifying the company's internal resources in order to survive and be successful in this endeavor.

Empirical data showed one of the problems to weak competitiveness of RMSEs in the research area was mindset of entrepreneurs a relatively traditional and still tend to cover themselves against the changes and

innovation, this was caused by low levels of formal education is still that belonged to. Indeed in one thing, still its dominating with cheap low-education workers means small businesses can maintain one of its traditional comparative advantages. But in the era of globalization which is characterized by the existence of free trade that will be more prominent factors is competitive advantage, including the quality of human resources, ranging from workers and employers. Low level of education will lead to low ability and quality of human resources, both in the aspect of self-confidence, courage innovative taking risks, trying, as well as in understanding and anticipating the business activities, both in the field of production management, marketing strategy, business technology.

Whereas these conditions are incompatible with the concept of the creation of the entrepreneurial spirit which is indispensable for the corporate world that raises the courage of creative thinking, and knows how to develop internal resources (Suryana, 2001). In education and this mindset, it is very clear that creative mindset will create expertise (skill) in all fields, ranging from labor to entrepreneurs determine the success of a business (Hafsah, 2004). It is different from other countries that have very strong small business as Taiwan, South Korea, Japan, AS, and Western European countries, the level of education the majority of RMSEs entrepreneurs in Indonesia is still very low.

In the concept of entrepreneurship, an entrepreneurs will always has a commitment in doing his job until it is success. He is willing to take a risk for his work because he has had the base that has been considered. Entrepreneurs are always oriented to the future by studying and seeing existing opportunities to be implemented in business run. Future orientation of the entrepreneur is the characteristic and value which is embraced, which is the nature of relentlessness, dare to take the risk, appropriate in calculation, quick response, and flexibility in making business decisions (Liao and Sohmen, 2001).

It can be concluded, that MFI's mentoring program provided to the RMSEs entrepreneurs in the area of research has a positive influence on the business being run to strengthen the internal resources and have an influence on the competitive advantage of RMSEs. This is in line with the findings of the research by Ferreira and Azevedo (2007), that entrepreneurial orientation gave positive and significant influence on the strengthening of the organization's resources and sustained excellence compete on the growth of small businesses.

With continuous establishment which is in accordance with the needs of business management, businessmen can better understand what should be done and be proactive in absorbing chance and new opportunities. The importance of being proactive towards new opportunities supports RMSEs's ability to create products, not only a step ahead of competitors, but also a step to understand consumer desires (Zhou, et.al., 2005).

From the development programs which was given and done by MFI, there was also the increase in the knowledge that will belong from that existed before, especially in skills are needed in business activities. In competitive advantage concept, someone with special skills that are owned by the company will be the excellence of the strategy and as the basis for the performance exceeds its competitors. Hatch and Dyer (2004) explained, that competitors were unable to replicate or replace the value of human resources who have special skills of the competitor quickly and inexpensively . In his research, Pace, et.al. (2005) also found out that competency was difficult to emulate had a positive relationship with a competitive advantage and performance.

The Influence of X_3 towards X_4

Next, from the results of the calculation with the SEM analysis (Picture 1 above), seen that there was a positive influence on the internal resources (X_3) with dimensions between human resources ($X_{3,1}$), organizational resources ($X_{3,2}$), and physical resources ($X_{3,3}$) against competitive advantage (X_4). This gives an indication that competitive advantage can be achieved if it is supported by a strong internal resource availability. Funding program (X_1) can be used both for the improvement of production technology as well as efforts in strengthening the means of internal resources that demonstrate a positive influence. This result is in line with findings from Haryanto (2008), and Rakib (2011) where funding in the form of credit is needed to build strengthen internal resources and to encourage business activities.

Similarly with development that is sustainable (X_2), it will bring a positive influence on improving the quality of human resources and capability of various short comings faced so far. As it known that most of small businesses have traditionally grown and they are family businesses that is hereditary. The limitations of human resources business manager, both in terms of formal education as well as the knowledge and skills that is very influential to the management business management, so that it is difficult to develop business optimally. In addition, with limited human resources, he business unit is difficult to adopt new technology development to improve the competitiveness of products produced (Hafsah, 2004). Ritchie and Brindley (2005) also confirmed that an adoption barrier technology by RMSEs become strategic and organizational barriers because it is not supported by the availability of a human resources professional, capacity, and fear of risk.

The company occupies a position of competitive advantage due to comparative advantages in resources, generate superior value at a lower cost. Competitive advantage can not be understood by looking at the company as a whole. Competitive advantage comes from many different activities undertaken by the company to design, produce, market, hand over, and supports its products. This can be done when internal resources have the capability for it (Porter, 2001).

Empirical observations show that the mentoring programs had been conducted by MFI to RMSEs brought fundamental change from all the internal resource shortages that impact positively on the creation of competitive advantage of the company. This is in line with the findings of the (Auw, 2009) concluded that human capital and skills that belonged to has a relationship with competitive advantage.

The Influence of X_3 , X_4 towards X_5

Next, the results of the analysis also showed a positive influence of internal resources (X_3) and the competitive advantage (X_4) of the business's operational performance (X_5). This indicates that the existence of the MFI with programs offered in the form of funding (X_1) and establishment program (X_2), had provided a meaningful sense on the development of internal resources and competitive advantage. Internal resource typified by the managerial skills, which include conceptual skills include the ability to diagnose complex situations, technical skills include the ability to apply knowledge and skills of humanity, as the ability to socialize and communicate can give positive impact in operational performance improvement of small businesses (Hafid, 2014). It also provides compete that is based on internal resources allows RMSEs to obtain superior performance on a specific time period (Pitts and Lei, 2003; Istanto, 2010). The research results of Fernandez,

et.al. (2005) and Red (2009) also explained that changes and retaining organizations that invest in human resources will improve the organization's performance changes.

Thus, it can be concluded that the implications of all the variables involved in the research model, both as exogeneous variable or endogeneous variables does not differ from the findings of several theories, concepts and results of the research that has been done before. MFI-policy either in the form of funding programs as well as establishment influence on retaining internal resources and be able to form a MFI's competitive advantage that was ultimately positive implications on operational performance. In a simple, results of analysis showed that efforts should be made in order to improve the RMSE's operational performance is none other than strengthening the presence of internal organization resources, in both aspects of the financial resources, physical resources, human resources, technological resources, reputation of the organization resources. This retaining effort cannot be done alone by the RMSEs because of the number of factors of internal constraints facing. The active role of the government with law and all the regulations are absolutely necessary in an effort to improve RMSE's operational performance at a later date. MFI with programs that have been implemented has given no small role in realizing the positive condition.

Policy Implication

The existence of the Microfinance Institutions (MFI) in helping poor rural households and capital for the development of rural micro and small entrepreneurs (RMSEs) cannot be doubted its existence, there had been a lot of empirical evidence which described the contribution of the MFI's existence. Krishnamurti (2003) mentioned, that without sufficient access to microfinance institutions, almost all poor households and rural micro-entrepreneurs will depend on the ability of its own financing or on informal financial institutions like loan sharks, the middlemen or moneylenders. This condition will certainly limit the ability of the poor to participate in and get benefit from development opportunities.

The existence of the MFI to be one of the solutions in funding activities of poor households and RMSEs because of its strategic role as a liaison in the economic activity of the community, the MFI also invigorate institutional village economic business that can not be separated from weak of their access to various productive resources, i.e., capital, technology and market information.

In particular the establishment of MFI in rural aims to: (1) improve the ease of access of farmers and their economic efforts to skim the financing provided by the government or other parties; (2) increase productivity in order to encourage the achievement of a value-added business; (3) encourage the development of rural economy and rural economy institutions (Hermawan and Andrianyta, 2010). The existence of these MFI are so important, so its existence needs to be maintained and enhanced in order to always be able to provide added value, particularly for poor households and economic actors who still have limited capabilities.

Empirically analysis results showed that funding and establishment program which is facilitated by the MFI in the region of research can provide a positive impact against internal resources at RMSEs that serve as objects of research. Analysis by using SEM method had shown the existence of a relation between variables included in the model. The results of the study above is in accordance with the findings of Vetrivel and Kumarmangalam (2010) where their research aims to know the role of MFI in rural micro enterprise

development. Their findings, that MFI had a major role in the development of the rural micro enterprises which provide additional funds or capital.

The existence of internal resources which have the competence as a result of the existence of funding and sustainable development program had been a positive impact on the competitive advantage that finally gives the direct influence on the performance of the company's operations. This result is also in accordance with the findings of O'Regan and Ghobadian (2004), they explained that internal company resources competencies had a positive influence on the strategy and the achievement of overall performance.

In his research, too, (Absah, 2008) found that the competencies possessed by the human resources organization had a strong influence on the performance of the company. Businesses that have the management team with the optimum skills and competitive method based on core competence will be able to achieve higher performance than companies that don't do it. Similarly with Zhou, Brown and Dev (2009) in his research found the existence of a positive and significant relationship between market-oriented entrepreneur management skills against the competitive advantage and performance.

From the analysis of the variables involved above can be inferred that, research findings were identical and supports the theory, concept, or the results of previous research how the necessity of retaining the internal resource efforts in order to create competitive advantage and materialize a high operational performance of RMSEs as perpetrators of the rural economy. Therefore, the mandate set forth in The Act No.1 of 2013 about Microfinance Institutions is not wrong that in all its facets, RMSEs as economic actors still need conditions as it has been mandated by the law.

CONCLUSION AND SUGGESTION

Conclusion

This research aims to analyze the existence of MFI as mandated in The Act No.1 of 2013 in solidifying internal resources and operational performance of the RMSEs in South Sumatera. It is important because empirically RMSEs that grow and develop in the countryside play an important role in building the national economy fundamentals. Growing MSEs in rural areas and suburbs will at least make an impact on the spread of the population more evenly.

Based on the results of research using a sample of as many as 200 RMSEs entrepreneurs as the respondents determined from 4 selected regencies, it was known that the mandate of The Act No.1 of 2013 about the role of MFI covering the funding and establishment programs as the variables included in the model had given a positive influence in shaping the conducive internal resource and businesses's competitive advantage.

In advanced, internal resources and competitive advantage of belonging became the basis for the operational business performance improvements, i.e. the existence of the position of RMSEs in the market, sales growth, customer loyalty, increase manpower, and financial results. This proves that the existence of the MFI community-recognised has a strategic and vital role as the economic activity of intermediation that had not reached a public banking institution services.

Suggestion

RMSEs as public economy means that the national economy is rooted in the potential and the power of community widely in administering their own economy. Public economy is indigenous economics, not the activity of the economy that are coming from the outside of the community. Public economy is the economy of the community group that is growing slowly because there are many obstacles faced, therefore this public economy must be developed especially in its operational performance improvements so they can still endure in trying and give the maximum contribution on gross domestic product.

Funding programs in the form of the availability of funding sources, the type and source of funding allocation, relief requirements in funding, simplification of the procedures for obtaining funding, and speed of availability of funds, should always be given in order to make RMSEs do not have to worry about the existence of his capital. Establishment programs that include aspects of: financial, production, marketing, human resources, and technology should always be done in order to increase entrepreneurial ability and managerial qualities of entrepreneurs and their employees.

This study was intended as the efforts to understand The Act No.1 of 2013 existence about MFI by seeing some MFI's programs which are provided as variable impact on internal resources and operational performance of existing RMSEs in South Sumatera as the research location. Results of this study may not have been fully intact because other issues outside the model still make it possible for other researchers to observe it in more depth. Further research is still needed that problem has not yet been revealed in research can be observed, This is important because RMSEs is public economy that provide enough participation to increase people's income and the growth of national economy.

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