

CHAPTER 1

INTRODUCTION

1.1 General Overview of Research Product

1.1.1 Rahayu Village

Desa Rahayu is a village in Margaasih district that located in Bandung regency area it has an area of 284.859 ha, with the details of: 210.136 ha/m² settlements, 40 Ha/m² rice fields, 0.051 ha/m² estates, 0.25 ha/m² funeral, 30.801 ha/m² yard, 2 ha/m² garden, 1,122 ha/m² of offices and 0.499 ha/m² other public infrastructure with a distance of 4 Km to the capital district, 12 Km to the district regency, 20 Km to the province capital, and 60 Km to the nation's capital. Rahayu village is divided into 4 village including the total amount of 18 RW and 130 RT (rahayu.desa.id, 2016).

The total population in 2008 was 20.080 consisting of 10.052 males and 10.028 females with high population growth for about 4,41% during 2008. The official website of Rahayu Village stated that 34.72% of the villagers completed education up to senior secondary level, and approximately 20,35% have completed education in universities. It means the quality of Human Resources Rahayu Village as the agent of change and development practitioners have a high enough quality. The industrial centers has 116 business units consisting of 6 union units, 8 units of financial institutions, 79 units of small and medium industries, 12 units of entertainment services and 11 service units law and consulting. The hat-crafting industry are one of the leading commodity with the most various spread of marketing regions in Indonesia, such as Java, Bali, Sumatra, etc (rahayu.desa.id, 2016).

1.1.2 Hat-crafting Industrial, Rahayu Village

Rahayu village that located in Bandung regency area known as the largest hat-crafting center; The village headman, Rahayu H. Dadang Suryana, said that the hat-crafting and convection industry centered already known since dozen years ago. The hat-crafting and convection cap industry has been selling many kinds of hats to the entire island in Indonesia and even to overseas. It shows the readiness of the villagers in facing the MEA (bandungekspres.co.id, 2016).

According to Dadang Suryana as the Rahayu village's headman, the hat-crafting are already exporting abroad to Asia and Europe. The most requested hat are bucket hats and school caps and the material provided for the manufacture of caps ranging from matador, royal, twill, drill, rafel raw polyester, and cotton or twill Rafel 7. Customer can also customize their own design of hat with a good quality (www.bandungekspres.co.id, 2016). For marketing their business, besides the direct selling finished hats to the shops in the village Rahayu, they also sell it online through a website and instagram with the domain name of www.sentratopi.com and @industri_topi for instagram account (kampungukmdigital.com, 2016).

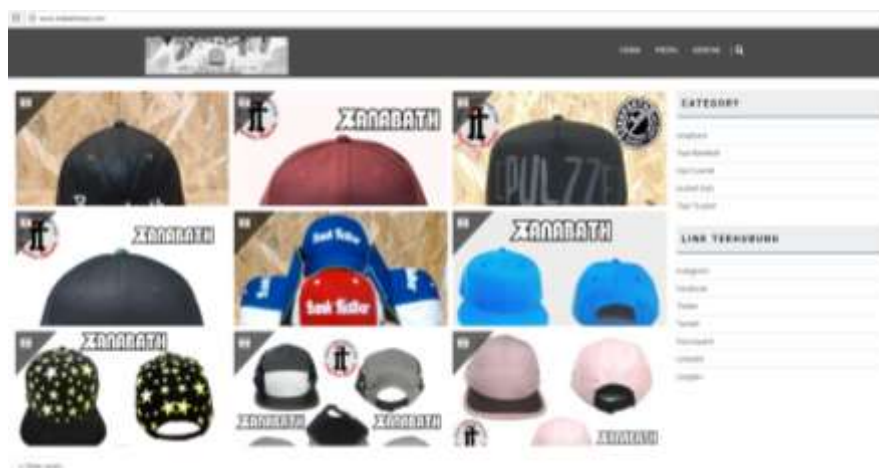


Figure 1.1 Sentra topi website display

Source: www.sentratopi.com, 2016

1.2 Background

The ASEAN official website have explained ASEAN Economic Community (AEC) was formed in 2015, The AEC blueprint 2025 is made to provides comprehensive strategic of the AEC from 2016 to 2025. It is aimed to achieve the AEC goals in 2025 which is highly integrated and cohesive; competitive, innovative and dynamic; with enhanced connectivity and sectoral cooperation; and a more resilient, inclusive, and people-oriented, people-centred community, integrated with the global economy (asean.org, 2016)



Figure 1.2 AEC Blueprint Pillar

Source: *AEC-2015 Progress and Key Achievement Published Report*

The AEC Blueprint has 4 pillars: (a) a single market and production base (b) a highly competitive economic region, (c) a region of equitable economic development, and (d) a region fully integrated into the global economy. Each of the pillar has a different focus and purposes. As stated in AEC-2015 Progress and Key Achivement Published Report, the SME development is also included in the

3rd pillar, Equitable Economic Development, to encourage the SMEs in ASEAN to expand their market reach and in 10 years more business player are expected to give a contribution an participation in it including SMEs in Indonesia.

Taken from the website of the presidential staff, ksp.go.id, during a visit to the United States on 15-17 February 2016, Jokowi Dodo as the president of Indonesia released the imperative policy that covered the short, medium, and long-term plan in order to make Small and Medium-sized Entrepreneurs (SMEs) can achieve digitalization as early as possible. The 6 points of the policy are listed as follows:

- a. Replacing game-strategic plan by focusing on SME, with the intention of influencing SMEs to establish national economic growth.
- b. E-commerce path that synchronize 31 strategies initiated by eight ministers to ensure the implications growth of technopreneur, aiming to reach the estimated transactions through e-commerce in Indonesia as much as \$ 130.
- c. Friendly policies of Foreign Domestic Investment (FDI) to attract technology investation and creating strong companies in Indonesia.
- d. Maximizing the funding access to SMEs in order to implementing digitalization towards SMEs and the rapid growth of SMEs, such as *Kredit Usaha Rakyat* (KUR) program.
- e. Provide the effective and convenient strategy through liquidify capital markets for technology methodology.
- f. Adopting the professional innovation policy, such as the initiation of creating 1000 digital technopreneur and safe-harbor rules to protect all the participants in e-commerce.

Tempo.co (2016) as Tempo official website also stated that Jokowi Widodo, as a president of Indonesia, explained that the establishment of collaboration of SMEs development and technology utilization can boost the emergence of the sources of economic growth in ASEAN communities as well as in Indonesia

Kampung Digital is the utilization of information technology in a comprehensive and integrated to support business processes running in SMEs (Smart Medium Enterprise) that are concentrated in a particular location in order to achieve millions of modern and advanced of SMEs as well as the AEC goals in 2025.

Initiation of SME Digital Village is part of the *BAGUS Indonesia (Bina Aspirasi Gerakan Sejuta UKM Seluruh Indonesia)* program and is a form of corporate social responsibility of PT Telekomunikasi Indonesia; PT Telekomunikasi Indonesia or known as Telkom Group which is the telecommunications and network service providers state-owned telecommunications enterprise in Indonesia that serves millions of customers all over Indonesia. This program aims to help SMEs in modernizing and improving the competence of SMEs through ICT (kampungukmdigital.com, 2016)

Through ICT, SMEs are expected able to be competitive in a global level and participate and contribute to economic growth in Indonesia (www.kampungukmdigital.com, 2016). The implementation of Kampung Digital SMEs is characterized by several parameters such as:

1. The availability of telecommunications infrastructure networks that reach all areas of SMEs village
2. The availability of a place for community or SMEs' volunteer.
3. Utilization of technology solution and services in the Kampung SMEs neighborhood.

Implementation of Digital SME Kampung be done in stages with the involvement of pentahelix stakeholders such as the government, community, business performer, academia and media. All parties are expected to collaborate to promote SMEs through the use of ICT that has been conducted. (kampungukmdigital.com, 2016) The implementation stages of Kampung SME Digital including:

1. Initiation of cooperation with pentahelix stakeholders (Government, Community, Business Performer, Academia and Media)

2. Retraction of network infrastructure to locations of Kampung SMEs
3. Training and Development of ICT for Kampung SMEs performer
4. Implementation of ICT services and solutions (online portal, bostoko, and other ICT services) in SMEs village's environment.
5. Collaboration with other SMEs communities and relevant stakeholders for business development.
6. Development or duplication implementations Digital SMEs in SMEs village that have not been utilizing ICT.
7. The provision of other products and services for extending services to SMEs in the particular business environment.

The concept of digital index is lately discussed in relation to digital maturity. The figure shown below is the digital business maturity model, aiming to measure the digital technology sucessfulness in applying onto business.

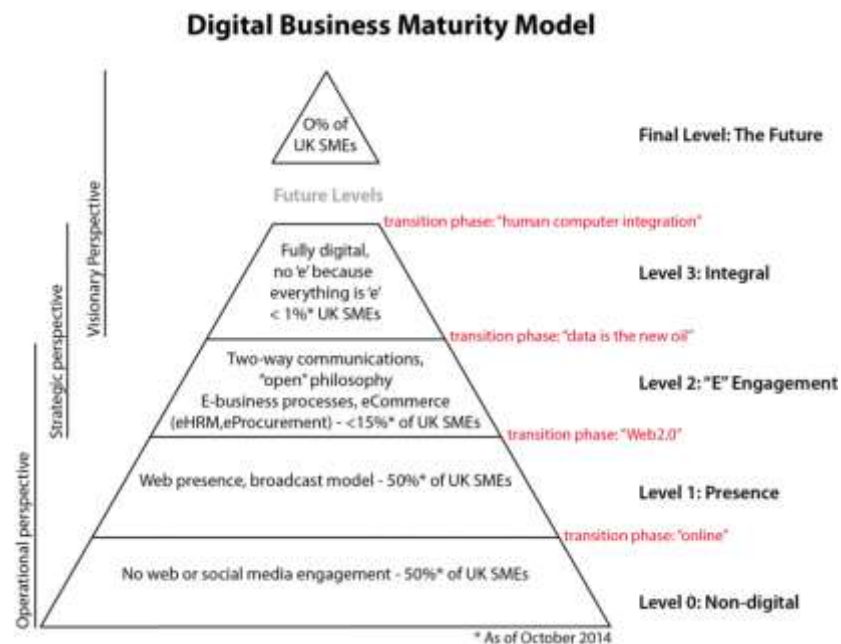


Figure 1.3 Digital Business Maturity Model

Source: *blogs.salford.ac.uk*, 2014

From the figure 1.2 shown that there are 5 level including in the digital business maturity model: Level 0 - Digital Business Maturity Model, Level 1 –

Presence, Level 2 – Engagement, Level 3 – Integral, and Final Level – The future as the final level in the model.

At level 0 organisation is not applying any digital involvement in any form of business, the business still likely applying the traditional approachment such as paper based invoicing and accounting methods with a little impelentation of technology to recording the busines activity (Gordon Fletcher, 2014).

Level 1 is when the presence of digital is began to appear in the business by starting to sell the goods or services on the internet via e-commerce sales services such as Lazada, Bukalapak.com and Tokopedia. Eventhough the digital methods already started to be applied in the business, on the operational side organisations level 1 are still passively used (blogs.salford.ac.uk, 2014).

The E in Engagement phase level 2 means two way of communication, eBusiness process, eCommerce, eProcurement and eHRM are already applied in the business such as search engine optimisation (SEO) and social media marketing. Operationally, at this level an integration operational information system has been implemented in the organisation to achieve operational efficiencies.

The term that applied by the businessman nowadays, data is the new oil, is applicable to the digital economy organization means that data is essential and valuable to the organisation's business. A huge opportunity such as create new product and servicess can be achieved by combining internal and external data (wired.com, 2014). In level 3 everything is digitalized, but there are still many other innovations can be done by the organization.

On the final level there is the future, it is claims that non of the organization has reach level 4, on blog.salford.ac.uk Gordlon Fletcher said at level 4 operational substances turn out to be so firmly connected to visionary developments that co-creation and co-plan with customer obscures conventional limits and connections completely.

Apart from a model that has been described above, there are other different types of digital maturity models existed on the internet created by different organizations such as Dell, dStrategy and NTT Data. The figure below shown the digital business maturity model from dStrategy.

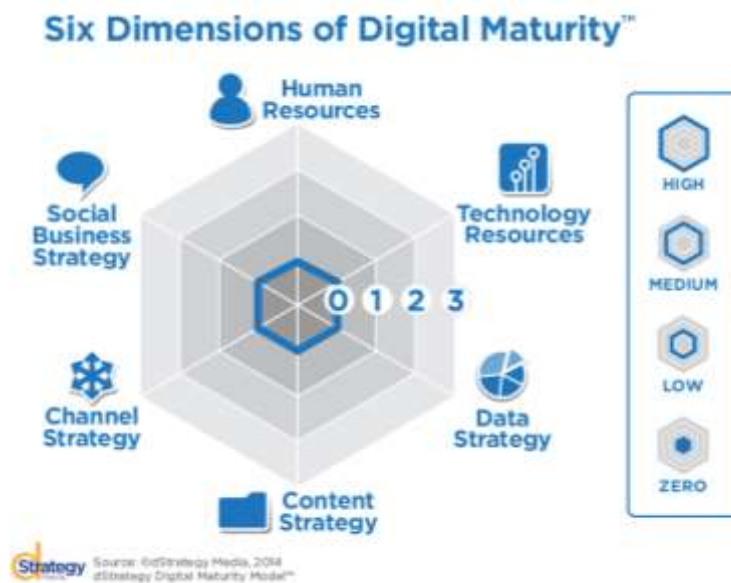


Figure 1.4 dStrategy Digital Business Maturity Model

Source: *onlineauthority.com*, 2012

It shown that human resources, technology resources, data strategy, content strategy, channel strategy and social business strategy are 6 necessary dimensions in the model to achieved the goal of a sucessfull digital strategy. Knowing the digital initiatives is important to the organization to know whether the organization already involving the right people in order to achieve the sucessfulness of digital strategy, thats why human resources is one of the 6 crucial dimensions. The first dimension is technology resources, the organization must know if they already use the right technologies to make sure the digital business goals can be achieved.

Data strategy is the second dimension, the organization must put the attention in assessing the level of maturity in data strategy: the technique of collecting data, the way of using data and the frequent of using the data. (onlineauthority.com, 2012).

The third dimension of digital maturity is content strategy, as a digital analyst and president of Online Authority Kelly Kubrick has a definition of the content strategy as follows “Content strategy is a comprehensive process that builds a framework to create, manage, deliver, share and archive or renew content in reliable ways.” (Kelly et al., 12).

Channel Strategy as the fourth dimension of the digital maturity business model also plays an important role in the digital business, Kelly Kubrick define channels into 3 categories, there are:

- Digital marketing and communication subdivided into 3 channels including advertising as paid channel, website and mobile application as owned channel, and social or public relation that can be earned by the organization.
- Digital transaction-enabling subdivided into 2, financial and non-financial, eCommerce and membership sales are included in the financial aspect while accepting jobs or grant application are on side of non-financial aspect.
- Digital distribution channels such as consumer, retailer, supplier, wholesale and partners

In order to have a sucessfull digital business strategy, organization must put the attention to the channel strategy by finding the most suitable approachment to its channels strategy (Kelly, 2013).

The last dimension is social business strategy, social business plays an important role to how the organization maintain the social media tools to support the external customer engagement and internal employee collaboration. The social

business also facilitating the interaction and collaboration in 3 directions: Externally (organization to customer), internally (within the organization) and between customer (Kelly, 2013).

Dell as an American multinational computer technology company has also released their type of digital business maturity model. It has 5 stages from physical to digital. The model can be seen on the figure below.

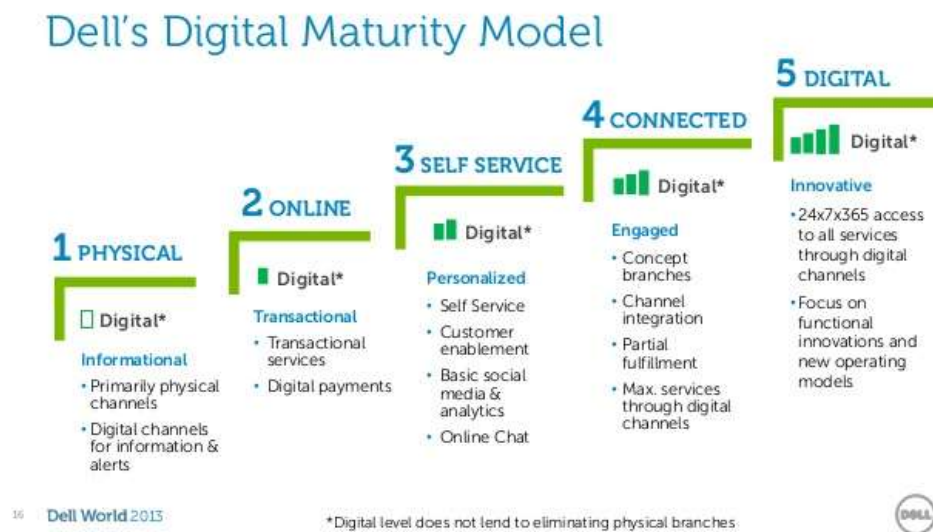


Figure 1.5 Dell's Digital Business Maturity Model

Source: *dell.com*, 2013

- Physical: The utilization of physical channels and digital channels services
- Online: Digital channels used to transactional services by online or mobile
- Self-service: Provides the technology to enabling customers in making their own decision, customers can also contact the organization digitally through online chat
- Connected: The integrated branches with maximum services through digital channels

- Digital: 24x7x365 access are provided by the organization through digital channels, the organization is focusing on functional innovations and new operating models.

There are the 5 stages to achieve digital 2.0 according to Dell digital business maturity model (dell.com, 2013).

Up to now there is no solid agreement among scholars concerning digital maturity, there are several other types of models that proposed by scholars. Therefore, the author decided approached to using exploratory methodology. Exploratory research has the opportunity to involving a literature search or conducting interviews in getting the information. The researcher must do the exploration of new phenomena in order to have a better understanding on the research because there are not much available information (Sekaran and Uma, 2011:104). The research may be used to test the feasibility of a wider study or determine the best method to use in further research. Identify the key issues and key variable are the objective of exploratory research; therefore, exploratory research has a comprehensive focus and infrequently resulting the definitive answers to specific research problems.

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In exploratory research, author seek to use Porter's value chain to attract factors of transformation into digital company.

1.3 Problem Statement

The lack of discussion and study about digital maturity added with the lack of agreement on digital maturity model among scholars resulting the tools or model in measuring successfulness of SMEs in adopting digital technology in the business process is also not yet known.

1.4 Research Question

1. What is the condition of digital capability in medium enterprises or SMEs?
2. Are there partial effect between the variables of the organization or store presence, support, knowledge management and decision making, marketing or sales, customer relationship, internal communication, ecosystem management, and digital revenue towards business growth?
3. Are there simultaneous effect between the variables of the organization or store presence, support, knowledge management and decision making, marketing or sales, customer relationship, internal communication, ecosystem management, and digital revenue towards business growth?

1.5 Research Purpose

1. To know the condition of digital capability in medium enterprises or SMEs.
2. Find out and explain the partial effect of variable organization or company, store presence, support, knowledge management and decision making, marketing or sales, customer relationship, internal communication, ecosystem management, and digital revenue towards business growth.
3. Find out and explain the simultaneous effect of variable organization or company, store presence, support, knowledge management and decision making, marketing or sales, customer relationship, internal communication, ecosystem management, and digital revenue towards business growth.

1.6 Research Benefit

1.6.1 Theoretical Aspect

The output of the research is expected to add the insight and knowledge about digital maturity. It can also be used as reference for further research with similar topic.

1.6.2 Practical Aspect

The results of the study are expected to provide information, as well as reference to the digital business player. This research is also expected to give the information whether Telkom Indonesia have successfully made the Rahayu village as a successful digital village or not.

1.7 Scope of Research

This research is about measuring digital capabilities in Rahayu Village, as one of the digital village fostered by PT. Telkom Indonesia, using 9 indexes (organization/ firm, store presence, support, knowledge development and decision making, marketing and sales, customer relationship, internal communication, ecosystem management, and digital revenue) that was adopted from the value chain created by Michael E. Porter.

1.8 Writing System

CHAPTER 1 INTRODUCTION

This section contains a general overview of the research object, background, problem formulation, research objectives, the benefits of research, and systematic writing.

CHAPTER 2: LITERATURE REVIEW AND SCOPE OF RESEARCH

In this chapter contains the theories related to the study, the literature that is used, the framework thought that support problem solving in research that is being conducted, research hypotheses, and the scope of the study.

CHAPTER 3: RESEARCH METHODS

In this chapter the subject matters are the type of research, the operationalization of variables, the analysis stage, the population and sampling data collection methods, validity and reliability, and data analysis techniques.

CHAPTER 4: RESULTS AND DISCUSSION

This section contains the results and discussion of the characteristics of the respondents viewed from various aspects, data analysis, and discussion on the results of data processing that can be answered picture problems occurred and alternative solutions to problems encountered.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

Consist of the final conclusions of the analysis and discussion in the previous chapter and recommendation for further research.