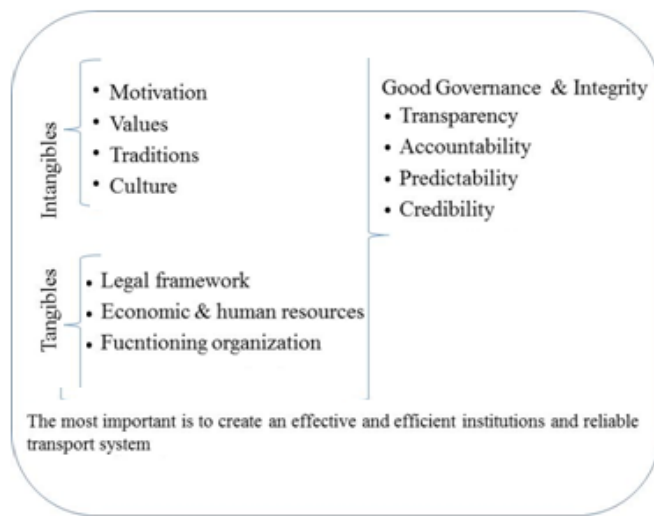






The following figure is a relationship between good governance and integrity with tangible and intangible factors in the institutional capacity building.



Source: Odeck, James. 2007 p 9.

**Figure 1:** Relationship between ICB and Good Governance & Integrity

### 2.3 Institutional and Organization Concept

Generally, many experts argued that the institution formed for reducing risk and uncertainty that occur in social life due to the bounded capacity (limited capacity) of human beings which can be divided into two terms: bounded of rationality and bounded of information/asymmetric information/lack of information. In the process, reducing risk and reducing uncertainty will drive humans to interact with each other, and in the process of this interaction is needed 'rule of the game' are made to provide clarity of rights and responsibilities of each, in human interaction. It is as stated by Schmid, who defines institutions as "are human relationships that structure opportunities via constraints and enablement. A constraint on one person is opportunity for another. Institutions enable individuals to do what they cannot do alone". [26]

North stated that institutions are rules of the game that exist in society, or more formally, are the constraints that humans made to interact between them in a community, in terms of political, social, and economic. North also explained that institutions reduce uncertainty by providing a structure to everyday life. This structured rule of the game that guide the interaction between humans, for example: say hello to friends in the street, driving a car, buy something, borrow money, establish a business, burying the dead, or anything else in our lives, so that with the structured rule of the game, we can easily learn to do it. [27] North also argued that the institutions, including various forms of constraints, are designed or created by humans for their interactions. The draft can be formal, such as rules or legalities are human arranged, or informal, such as conventions or code of behavior (behavior-code). It also is able to contain both the formal and informal rules [28]. The same opinion stated by Ollila, that institution is the rule. But the rule that argued by Ollila, tend to aspects of economic interactions (transactions), as institutional definition stated by Ollila that:

"Institutions are the rules. The rules are made for saving interactions (transactions). The rules predict the behavior of the other things in different situations." [29]

Another opinion, Young, stated about institutions that in general, institutions are constellation of rules, decision-making procedures, and programs that define social practices, assign roles to the participants in the social practices and regulate the interactions between role holder. [30] To clarify the definition, further Young stated that: marriage is a social institution that regulates the relationship between family members; the market is the economic institutions that deal with the interactions between buyers and sellers of goods and services; and the electoral system is a political body that guides the interactions of voters and elected officials. [31] While Ferriero and Serrano stated that "An institution can be defined as a set of formal and informal rules, including their enforcement arrangements." [32]

On the other side, North explained that the institutional are institutions that already have the goals (objectives) and the obvious place. Institutional boundaries include what should not to be done individually, but under certain conditions, there are individual who are allowed to do so. Therefore, the institutional framework is defined also as human beings to interact in a certain place. Institutional consists of a written formal rules or codes of conduct, which are usually not written that underlies and complements to the formal rules. Both formal rules and codes of conduct is sometimes violated, therefore an important part of the functions of an institutional is also to make sure the shape violations and penalties." [33]

The diversity of defining institutions is caused by the difference in perspectives is used, related with the context of issues (problems) that they discussed. In this study, reference that used by researcher is the definition of institutions in its capacity for reducing risk and uncertainty in conducting business activity and the institutions as a 'rule of the game' of human social interaction in business activity. Furthermore, about the understanding of the organizations and its relationship with institutions. North explained that: "Like institutions, organizations provide a structure to human interaction. Indeed when we examine the costs that arise as a consequence of the institutional framework we see they are a result not only consequence of that framework." [34]

Conceptually, the difference between institutions and organizations are described by the North that the institutions is "Rule of the game" or the rules made by human with the intent "to define the way how the game is played." The organizations is "Role from the players," that regulate the action of people who get together and interact in a group that has the same goals [35]

### 2.4 Institutional of Micro & Small Enterprises in Indonesia

There are several institutional grouping of enterprises in Indonesia, depending on the perspective of that grouping. One is based on the Act No.20/2008 which breaks it down

by the scale of enterprises; there are Micro, Small, and Medium enterprises. This study covers the Micro and Small

enterprises (MSEs). Table 1 showed the criteria of Micro and Small Enterprises base on the Act No.20/2008.

**Table 1:** The criteria of Micro and Small Enterprises base on the Act No.20/2008.

Criteria		Definition	Group
<b>Maximum Total Omzet</b>	<b>Maximum Total Asset</b>		
Rp.300.000.000, - (three hundred million rupiah).	Rp.50.000.000,- (fifty million rupiah)	Productive economic activities owned by individuals and or individual business entities that fulfill the criteria of micro enterprises.	Micro
>Rp.300.000.000, - (three hundred million rupiah) until Rp2, 5 billion (two billion five hundred million rupiah).	>Rp.50.000.000, - (fifty million rupiah) until Rp.500.000.000, - (five hundred million rupiah).	Productive economic activity of its own, which is done by the individual or business entity that is not a subsidiary or branch company not owned, controlled by, or be part of, either directly or indirectly from Medium or Large Enterprises that fulfill the criteria for Small Enterprises.	Small

Source: The Act No.20/2008

### 3. Research Methodology

This study using qualitative method with case study strategy, which investigated carefully to the events, activities and processes, from individual, groups, or communities that involved in the processes[36] of MSEs institutional capacity building conducted by Telkom CDC. Data collecting technique have done through observation, documentation, and interviews with informants who are directly involved in this process, [37] there are: the informant from Telkom CDC Unit, includes Senior General Manager (SGM) as the top leader. Senior Manager (SM) Partnership Program, related Telkom CDC Manager, Manager of Telkom Community Development Area (Telkom CDA) for West Java region, and Officer Telkom Community Development Sub-Area (Telkom CDSA) Tasikmalaya, Garut, and Bandung. Then, from MSEs partner, researcher took nine successful MSEs as an informant, as the purposive sample for measuring the institutional capacity building result. Validation have done through triangulation of data sources, whereas data analysis conducted through exploratory descriptive, which describe, express, and explained the process thoroughly researched (holistic).

### 4. Result & Discussion

#### 4.1 Institutional Capacity Building of MSEs Partners at Telkom CDC Unit

Implementation of institutional capacity building program at Telkom CDC Unit conducted through Partnership Program between Telkom CDC with MSEs Partners. The aim of this program is to increase/improve the institutional capabilities of Micro and Small enterprises in order to become strong and independent institutions [38]

Management of PT. Telkom has a high commitment to implement this program, with formed special unit: Telkom Community Development Unit (Telkom CDC) and set the operational implementation of this program through issuance the Decree of the Board of Directors, number: KD.21/PR000/COP-B0030000/2010 dated April 19, 2010 about Management of Partnership Program and Environment Development Program. The technical implementation mechanism of partnership program, conducting according duties, responsibility, and authority between: 1) Community Development Center Unit/Telkom CDC (Center) as policies

maker, procedures maker, set the action plan, and set the budget for all of partnership program, and also grant approval on the proposals from Telkom CDA/CDSA, and do transfer loan funds directly to prospective MSEs partners approved ; 2) Community Development Area/Telkom CDA (Region) as an evaluator on the proposal submitted by the CDSA and process the candidates who pass the evaluation and submitted to Telkom CDC for get an approval; and 3) Community Development Sub-Area/Telkom CDSA (Local) as a front liner who will conduct all of technical and routine tasks in the implementation of this programs.

In realizing the MSEs Partners institutional capacity building, Telkom CDC has oriented on directing MSEs Partners to have good governance and Integrity in the running business. These efforts is conducted by integrating tangible and intangible factors into attempts which oriented to the Skill upgrading, procedural improvements, and organizational strengthening, which realized into two main programs: Distribution the funding of Capital Loan Assistance Program (Dropping & Collecting) and Program Development.

The realization of both main program, conducted with the basis of five principles: 1) Accountability, objective achievement: clarity of functions, implementation and accountability in the management of funds as well as the benefits of the program are realized, so that the effective and efficient management will be done. 2) independency, fund management of partnerships program undertaken in a professional manner without any conflict of interest , influence and pressure from any party that is not in accordance with applicable regulations, 3) Fairness, giving the same treatment to a society and does not lead to give benefit to certain parties in with the anyway and for any reason, 4) Transparency, all the decision-making process in the expressed terms and information, of all procedures, evaluation and determination are open to people who are interested in the Partnership Program, and 5) responsibility, the suitability of the responsibilities in managing Partnership Program with regulations.

All of these principles are translated into two main programs: Distribution the funding of Capital Loan Assistance Program (Dropping & Collecting) and Program Development. Dropping & Collecting program is conducted to build the capacity of MSEs institutional from the capital

side, while the coaching program is conducted to equip and encourage SMEs to have the economic ability of social interaction on each business entity.

Based on the result of this study, all the three of these activities in detail, are: **1) Dropping** or distribution of soft loan to the partnership program Partners, generally conducted by Telkom CDC in three periods scheme. The whole Partners which has been selected administratively and eligibility (based on survey by Telkom CDSA, qualify of Telkom CDA evaluation and proposed by to Telkom CDA to Telkom CDC), can be apply the loan for maximum three times in three periods. Every period maximum for two years. Second and third loan can be submitted and considered by Telkom CDC if the previous loan has been completed properly (no problem/no loss). For business processes technically, dropping mechanism is distinguished by its status, are: Regular Partnership Program, Special Partnership Program, or Synergy with other SOEs based on the MOU between the Ministry of SOEs with PT. Telkom; **2) Collecting**, is the repayment of the Partnership Program loan by the Partners which to be done a timely and appropriate amount according to the agreement agreed. Acceptance of collecting loan payments, carried by Telkom CDSA, which is located at the technical/CDSA operational level; **3) Development Programs**, are activities pursued Telkom CDC to improve all MSEs Partners ability become became a strong and independent institutional businesses.

The main activities of the Development of Telkom CDC Partnership Programs include: a) Preparatory, is a Telkom CDC guidance to all MSEs Partners who will get the partnership program loan. In general, a briefing was held at the time of signing the contract would be cooperation loan, b) education and training, are the activities carried out by increasing Business knowledge, Management and Technical Skill in accordance with the SMEs Partners business, c) Apprenticeship, are activities carried out by means of Practice or Business Internship at an institution/professional institutions or on certain professionals individual business, d) assistance, with bring in certain experts to guide SMEs Partners accordance with the condition and needs of MSEs Partners, e) Marketing Support and promotion, are activities that bring prospective buyers to MSEs Partner, with the aim of demonstrating or showing goods as the result of productions, and f) exhibitions by involving SMEs Partners in relevant exhibitions with the MSEs Partners product, both domestically and abroad. Especially for institutional capacity building through the exhibition, Telkom CDC not only involves SMEs Partners in the domestic scale but also in the international scale. Table 2 shows one of the MSEs Partners development activities by Telkom CDC Unit in national exhibitions activities during 2012.

These performance achievement mentioned above used by researcher as a confirmative aspect towards the result of the study on achievement of institutional capacity building by Telkom CDC conducted by researchers in West Java area: Garut, Tasikmalaya, and Bandung. The result of the study mentioned, are as follows: 1) MSEs Partners feel have more opportunities and able to interact more effectively in running the business, so that they have better capacity to imagine the lives of their businesses change towards. The whole

informants have literacy levels (can read and count) are good, because all informants have completed basic education (elementary). The facts obtained from informants who educated scholars, researchers obtain a description that they have a better power analysis in looking at opportunities, particularly for the development of their businesses; 2) An increase incapability, which allows them to pick up and use a better choice than ever before, and more courageous in managing their organization business. All of this they feel after they get more information from various sources that they think is relevant. And 3) Ease of informants to realize the wishes and expectations, is a logical consequence from increase in revenue.

**Table 2:** National Scale Exhibition – MSEs Partners Product Year 2012

NO.	NAME OF EXHIBITION	REALITATION	
		LOCATION	DATE
1	Adikriya	JCC Jakarta	07-11 March
2	Dekranas	JCC Jakarta	20-22 March
3	Agrinex	JCC Jakarta	31 Maret - 1 April
4	Climate Change	JCC Jakarta	19-22 April
5	Inacraft	JCC Jakarta	24-29 April
6	Hari Kartini	Bali	20-21 April
7	Festival Pemersatu Nusantara	Manado	23-26 May
8	Pesona Produk Nusantara	JCC Jakarta	18-24 June
9	Harkopnas	Kalimantan	12-15 July
10	Fashion & Craft	JCC Jakarta	8-12 August
11	GKPM	JCC Jakarta	28 Sept-01 October
12	Indocraft	JCC Jakarta	3-7 October
13	Sulam Bogor	JCC Jakarta	4-7 October
14	ICC	JCC Jakarta	10 Agt-10 November
15	IPPKINDO	SMESCO	22-25 November
16	Small Business Expo ICMI West Java	Jawa Tengah	14-18 November
17	ICMI Silaknas	JCC Jakarta	17-21 December

### Performance of Implementation Programs

The result of this study during in period 2010-2012 shows that the achievement of this program, are as follows: 1) Realization of Dropping reached average of 98.33% and Collecting 106.34% per year, 2) The results of survey conducted by Telkom CDC to assess the performance of implementation of development programs covering processes, benefits, effectiveness, and quality of service aspects, showed the following results:

- Process:** Very Good (91%) and Very Important (92%);
- Benefits:** Very Helpful (91%), and Benefits Very Important (92%);
- Effectiveness** : Highly Effective (81%), 85% Increase Total Revenue and Increase Number of Employees 71%; and
- Quality of service:** Excellent (90%), Very Important (93%), and Highly Satisfactory (97%).

### 5. Conclusion

The important thing in the MSEs Partners institutional capacity building by Telkom CDC, are: 1) Clarity of the institutional capacity building program directed focus to MSEs Partners ability improvement in business management by education and training, apprenticeship, assistance, Marketing Support and promotion, and involving the MSEs Partners in exhibitions, as tangible factors, and improve MSEs Partners in social skill, experience, creativity,

bonding/social cohesion, and values & motivations, as intangible factors; 2) Commitment PT. Telkom to this program with establishing special unit and making company rule particularly for conducting and realizing partnership program in order to good program governance.

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