IMPROVING REGIONAL ECONOMY THROUGH TOURISM INDUSTRY OPTIMIZATION
(The Case Study of Malang Raya, Indonesia)

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Abstract

Malang tourism industry has the potential to be developed. It is because the potential has not been seriously and optimally managed; the management tends to be implemented partially. The greatest potential of the tourism industry identified so far is shopping tourism in Kota Malang, agro tourism and artificial tourist attractions in Batu, and agro tourism in Kabupaten Malang. Optimization on the development of tourism industry in Malang Raya can be done based on the existing situation. Based on the observations, there are several factors affecting the improvement of the economy of local people namely: natural resources, business climate, culture, public facilities, and access to funding. Optimization on the development of the tourism industry must also be based on synergy concept for the three areas involved; thus, the tourism industry of those three areas can grow synergically and in mutual manner, and support each other. Based on the statistical analyses, it is known that through the support given by the government, the natural resources, business climate, culture, public facilities, and access to funding have significant impact toward increasing the economy of the local people. The results of the study indicate the needs for the government to play such big and important role in the development of tourism industry and in the effort to increase the economy of the people.

Keywords: tourism industry, local economy, role of government

1. INTRODUCTION

1.1 Background of the Study

The Government of Indonesia through the Ministry of Tourism and Creative Economy is currently disseminating the goal of optimizing the role of tourism as one of the main sectors to help improving the country’s economy. The huge potential market in Indonesia is one of the reasons for the government to increase the contribution of the tourism sector. Publication issued by the World Economic Forum has revealed that one of the most prominent pillars of Indonesia’s competitiveness is its high market potential. The high market potential in Indonesia has motivated the government, through the Ministry of Tourism and Creative Economy, to look at the tourism sector as a strategic asset to encourage development in certain areas possessing potential tourist attractions so the development of the tourism sector is expected to spur economic growth and development in particular regions. The development of tourism industry in particular regions is also expected to suppress urbanization to cities. Based on this argument, then the development of tourism sector is expected to cover three aspects to contribute to the national development, namely (a) the economic aspect, (b) the social aspect and, (c) the cultural aspect.

Along with the policy set by the central government which seeks to increase the role of the tourism sector to contribute to national economic growth, East Java provincial government also seeks to increase the growth of the tourism sector in the region. East Java provincial government holds the opportunity to improve the optimization of the tourism sector. There are several factors expected to have a major contribution to the improvement of the tourism sector in East Java. First, East Java Province is one of the provinces that have considerable contribution to the Gross Domestic Product of the country. According to the publication by BPS, East Java occupies the second position in term of contribution to the Gross Domestic Product, right after the capital city of Indonesia, Jakarta. Relatively High Gross Regional Domestic Product in particular regions reflects the relatively high average of income levels. Secondly, according to data released by East Java BPS, cumulatively, the number of tourists visiting the province from January to September 2011 reached 134,876 people, which shows 7.78% increase compared to the number of tourists in the same period of 2010 which reached only 125,145 people. Thus, optimization on the development of tourism sector in East Java seems to be yet very limited to accommodate the number of
tourists and the development program has not covered areas that actually have the potential to be developed. Third, the potential factor to help to increase the growth of the tourism sector in East Java is the diversity of attractions it offers. Some of the popular tourist destinations in East Java are Mount Bromo, Ijen Craters, Plengkung Beach in Banyuwangi, East Java Amusement Parks, Marine Tourism in Lamongan and so on.

One of the areas in East Java province which is famous for its diversity of attractions is Malang Raya, which consists of three areas, namely Malang Kota, Malang Kabupaten, and Batu. Malang, and its surrounding areas, is a very comfortable place to stay, so it was transformed into a reliable center of education, industry, culture, and tourism. The region of Malang Raya is dominated by highland areas surrounded by mountain ranges allowing Malang to have a diversity of attractions. The greatest potential of the tourism industry identified so far is shopping tourism in Kota Malang, agro tourism and artificial tourist attractions in Batu, and agro tourism in Kabupaten Malang. This study uses three different tourism areas with such different characters as well as the aim of generalizing the optimization model applied to the development of the tourism industry.

1.2. Research Problem

From the background of the problems described previously, the following issues become the focus of this study: Have the factors affecting the development of tourism industry in Malang been optimized in order to support the development of the regional economy?

1.3. Initial Hypothesis

The initial hypothesis or research problem is as follows: Malang Raya, a region covering Malang Kota, Malang Kabupaten, and Batu, has tourism potential that is relatively better than other regions in East Java, so our initial hypothesis is that optimization of the factors supporting tourism industry in Malang by the government will create potential support to the development of regional economy.

2. LITERATURE REVIEW

2.1. Previous Studies

According to Soekadijo (1997), tourism is any activity in the community associated with tourists. All hotel development activities, restoration of cultural heritage, creation of a recreation center, the organization of tourism week, the provision of transportation and so forth can be called tourism activities along with activities done to attract tourists to come.

Wahab in Yoeti (2008) states that tourism is one kind of new industries that can generate rapid economic growth to provide employment, increase in income as well as living standards, and stimulate the productivity of other sectors. It is complex sector covering classic actual industries, such as handicraft and souvenir industry (Pendit, 1999:35). Rovert Mcintosh and Shashikant Gupta assert that tourism is a combination of symptoms and a combination arising from the interaction of tourists, business, government, hosts and the host communities in the process of attracting and serving tourists (Pendit, 1999).

According to Yoeti (1997), there are several aspects to note in elation to the development of tourism industry, namely (1) tourists—we must consider their characteristics, from which country they come, age, hobbies, and what season they travel; (2) transportation—some research on the availability of means of transportation and its related facilities to take tourists to their intended destination; (3) tourist attractions—what kinds of attractions can be provided, whether they meet the following three conditions of what can be seen, what can be done, and what can be purchased by tourists in the areas visited; (4) service facilities—what are available in the tourist area, how is the condition of the existing hospitality accommodation, restaurant, public services such as banks / money changers, post office, communication service in the areas visited by tourists; and (5) information and promotion—this refers to the need of publication or promotion, when advertisement should be installed, where leaflets/brochures should be distributed in order to inform prospective tourists of the available tour packages to help tourists to make decisions.

Based on the results of the research conducted by Praja (2012) using observations, field surveys, and in-depth interviews as the method of data collection, it has been found out that the development of tourism object in East Java Amusement Park 2 has brought good socio-economic impact for the people living in the surrounding areas. Local residents refer to groups of people who live in the same geographical area and utilize the existing natural resources, in the case of East Java Amusement Park 2 this refers to the villagers of Oro-Oro Ombo sub-district Batu, Batu. The observation results showed that 88% of the direct involvement of the local people can increase their income level. Of the 88%, the majority is generally derived from the population that makes their live by depending on the activities related to East Java Amusement Park 2. All the earned income is used to meet the needs of families because they do not have fixed income before the operation of East Java Amusement Park 2. The 68% of the population who are indirectly involved also get the benefit of the extra income. These findings indicate a positive impact of tourism development toward the economy.
of the people living around East Java Amusement Park 2, especially the villagers of Oro-Oro Ombo, although the impact has not been able to increase the economy in such quick manner.

2.2. Tourism and Tourism Industry

As one of the development sectors that can spur economic growth in a region, tourism is considered as a strategic asset to encourage development in certain areas having a potential tourist attraction. Referring to the Act No. 10 of 2009 concerning tourism, tourism business is a business that provides goods or services to meet the needs of tourists and tourism providers, which include (a) business related to tourist attraction, (b) business related to management of tourism area, (c) business related to transportation services, (d) travel agency, (e) business related to food and beverages, (f) business related to accommodation, (g) business related to entertainment and recreation activities, (h) business related to provision of meetings, incentive travel, conferences and exhibitions, (i) business related to tourism information services, (j) business related to tourism consultation services, (k) business related to tour guide services, (l) business related to water tourism, and (m) business related to provision of spa.

Based on these descriptions, then tourism is a trip undertaken for a certain period of time from one place to another place having tourism object and tourist attractions to be enjoyed as a recreational or entertainment activity to gain personal satisfaction. The Act No. 10 of 2009 defines a tourist as a person who does the excursion, that is every person who travels and transit outside his or her residence to visit a particular place for the purpose of recreation, personal development or studying the uniqueness of the visited tourist attraction.

Tourism development cannot be separated from the role of the government especially the tourism organizations, such as the tourism office whose duty, authority, and obligation is to develop and utilize the asset of the government in form of tourist attractions. As an organization authorized in the development of tourism in the region, local governments must implement the most favorable policies to the area and the region because the functions and duties of an tourism organization in general are (1) to satisfy, with all the facilities and the potentials the region has, travelers coming to the region; (2) to coordinate the various businesses, institutions, agencies and existing departments to develop the tourism industry; (3) to promote understanding of tourism to local community so they know the advantages and disadvantages of tourism developed as an industry; (4) to conduct research program that aims to improve tourism products and develop new products in order to gain bigger market in the future; (5) to provide all equipment and facilities for tourism marketing activities, so as to set a marketing strategy throughout the region; and (6) to formulate policies on the development of tourism based on the research that has been conducted regularly and carefully (Yoeti, 1997). This shows the role of the tourism organizations which belongs to the government, in this case refers to the Department of Tourism and Culture, in the development of tourism sector in certain regions. In addition, a few things such as availability of resources, readiness of human resources, and other supporting aspects to satisfy tourists should also be prepared.

2.3 Research Method

This study used a quantitative research method, descriptive analytical with emphasis on the analysis of data from field surveys, interviews, observations, questionnaires, and documentation. Quantitative analysis was conducted using analysis of Structural Equation Modeling (SEM). Structural Equation Models or SEM is a collection of statistical techniques that enable testing of a relatively complex set of relationships simultaneously. This equation describes the relationship between the constructs involved in an analysis. Analysis of SEM (Structural Equation Modeling) was conducted to determine the factors affecting the optimization of the tourism industry by the government in improving the economy of the region.

The study area chosen for the study was Malang Raya based on several considerations as outlined in the background of the problem. The areas included were Malang Kota, Malang Kabupaten, and Batu. The population was those running micro, small, and medium-sized enterprises (MSMES) to operationalize the principle of homogeneity. The population of MSMES supporting the tourism industry in Malang Kota, Malang Kabupaten, and Batu is not known for certain, so samples were determined by multiplying the research indicators, which was then multiplied by five. Based on the calculations, as many as 135 units were chosen as the samples for the study area.

3. RESULTS AND DISCUSSION

3.1. Discussion on the Results of Quantitative Study

I have done several research stages to analyze whether my initial hypothesis can be accepted and supported by the data or not. It starts with examining the factors affecting the optimization of the tourism industry, derived from early observations made. Then, I determined the variables associated with the factors to be studied. This stage was followed with formation of a research model to be tested, and conducted the test. Ther research model is described in Figure 1.
The definitions for each operational variable used in the study are as follows:

1. Exogenous variables (X). The exogenous variables in this study are (a) natural resources \([X_1]\), (b) the business climate \([X_2]\), (c) culture \([X_3]\), (d) facilities and infrastructures \([X_4]\), and (e) funding access \([X_5]\). Operational definition of each of the exogenous variables is as follows:
   a. Natural resources is the presence of beautiful and maintained natural environment to support the tourism industry;
   b. Business climate is an atmosphere of competition and business conditions in the tourism industry;
   c. Culture is a way of life or habits that exist and life in the community, in which the way of life or habits have been passed down from one generation to the next;
   d. Facilities and infrastructure refer to any things that can be used directly to support the tourism industry; and
   e. Access to funding is the availability of information and convenience to the public to gain funding.

2. Endogenous variable (Y) in this study are (a) the role of government \([Y_1]\), and (b) improvement in the economy of the local people \([Y_2]\). Operational definition of each of the endogenous variables is as follows:
   a. The role of government is the government's contribution to developing the tourism industry; and
   b. Improvement in the economy of the local people is a positive result or the real impact of the tourism industry, in which tourism clusters can improve the welfare of the community.

Since these variables are still abstract in nature, they need to be operationalized into indicators and items, and instruments testing must also be done. This is done in order to test whether the instruments used in this study meet the requirements of a good measurement instrument that are in accordance with the standard of the research method. An instrument is said to be good if it meets three key requirements of (1) validity, (2) reliability, and (3) practicality. Therefore, to test the questionnaire as the research instrument, I used validity test and reliability test. On the validity and reliability tests, I took 134 respondents from the observed population.

Structural Equation Modeling (SEM), preceded by test on assumption of data normality, in this study included an evaluation on the normality of the data, evaluation on outliers, multicollinearity evaluation, and residual testing. The results of the analyses can be explained as follows:

1. Testing the Assumption of Normality is used as a requirement to process data using Maximum Likelihood (ML) estimation. The results of the study were compared with these criteria and it can be concluded that the data distribution was not normal, multivariately, and when referring to the Central Limit Theorem which states that observational data with a sample size greater than 30, then it is very close to a normal distribution, so the assumption can be ignored.

2. Testing the Assumptions of Outliers is unique in nature, in which the characteristics differ much from other observations. Based on the analysis, the greatest value of Mahalanobis Distance obtained on observation 67 was 67.772, while the comparative value obtained
was 152.094. Mahalanobis Distance value that is smaller than the comparison value explains that there are no outliers observed in all observations, so no observations were removed from the model.

3. Confirmatory Factor Analysis aims to ensure that the indicators used properly define the latent variables observed. The results of the analysis are as follows: a confirmatory factor analysis on Natural Resources Variable (X1), Business Climate Variable (X2), Cultural Variable (X3), Facilities and Infrastructure Variables (X4), Funding Access Variable (X5), Government Role Variable (Y1), and Economy Improvement of the Local People Variable (Y2) resulted in factor loading of each indicator on top of 0.5 and a probability value below 0.05; this explains that these variables have a valid indicator and can form the variables well.

4. Analysis Models, in this study a relationship model stating various relationships between the observed variables was formed. The results of a fit test on a full model in this study showed that there were 11 observed causal relationships, namely Natural Resources (X1), Business Climate (X2), Culture (X3), Facilities and Infrastructure (X4), and Funding Access (X5), the Role of Government (Y1); and the causal relationship between Natural Resources (X1), Business Climate (X2), Culture (X3), Facilities and Infrastructure (X4), and Funding Access (X5) toward Economy Improvement of the Local People (Y2) ; and the Role of Government (Y1) toward Economy Improvement of the Local People (Y2)

5. Discussion on the Hypothesis Testing based on the results of the statistical tests is as follows:

a. Natural Resources (X1) on the Role of Government (Y1). From the results of the analysis, H0 is accepted and it can be concluded that there is positive but not significant effect of Natural Resources toward the Role of Government with an alpha value of 5% and the error rate probability of 6.9%. The positive direction means that high and low factor of Natural Resources will not increase the factor of the Role of Government.

b. Business Climate (X2) on the Role of Government (Y1). From the results of the analysis, H0 is rejected and it can be concluded that there is positive and significant effect of Business Climate toward the Role of Government with an alpha value of 5% and the error rate probability of 0.2%. The positive direction means that the higher the factor of Business Climate, the bigger the factor of the Role of Government will be.

c. Culture (X3) on the Role of Government (Y1). From the results of the analysis, H0 is accepted and it can be concluded that there is positive but not significant effect of Culture toward the Role of Government with an alpha value of 5% and the error rate probability of 17.2%. The positive direction means that high and low factor of Culture will not increase the factor of the Role of Government.

d. Facilities and Infrastructure (X4) on the Role of Government (Y1). From the results of the analysis, H0 is accepted and it can be concluded that there is positive but not significant effect of Facilities and Infrastructure toward the Role of Government with an alpha value of 5% and the error rate probability of 17.4%. The positive direction means that high and low factor of Facilities and Infrastructure will not increase the factor of the Role of Government.

e. Funding Access (X4) on the Role of Government (Y1). From the results of the analysis, H0 is rejected and it can be concluded that there is positive and significant effect of Funding Access toward the Role of Government with an alpha value of 5% and the error rate probability of 0.0%. The positive direction means that the higher the factor of Funding Access, the bigger the factor of the Role of Government will be.

f. Natural Resources (X5) on Economy Improvement of the Local People (Y2). From the results of the analysis, H0 is accepted and it can be concluded that there is positive but not significant effect of Natural Resources toward the Economy Improvement of the Local People with an alpha value of 5% and the error rate probability of 87.3%. The positive direction means that high and low factor of Natural Resources will not increase the factor of the Economy Improvement of the Local People.

g. Business Climate (X2) on Economy Improvement of the Local People (Y2). From the results of the analysis, H0 is accepted and it can be concluded that there is positive but not significant effect of Business Climate toward the Economy Improvement of the Local People with an alpha value of 5% and the error rate probability of 86.6%. The positive direction means that high and low factor of
**Business Climate** will not increase the factor of the **Economy Improvement of the Local People**.

h. Culture (X3) on Economy Improvement of the Local People (Y2). From the results of the analysis, H₀ is accepted and it can be concluded that there is positive but not significant effect of Culture toward the **Economy Improvement of the Local People** with an alpha value of 5% and the error rate probability of 75.2%. The positive direction means that high and low factor of Culture will not increase the factor of the **Economy Improvement of the Local People**.

i. Facilities and Infrastructure (X4) on Economy Improvement of the Local People (Y2). From the results of the analysis, H₀ is accepted and it can be concluded that there is positive but not significant effect of Facilities and Infrastructure toward the **Economy Improvement of the Local People** with an alpha value of 5% and the error rate probability of 16.7%. The positive direction means that high and low factor of Facilities and Infrastructure will not increase the factor of the **Economy Improvement of the Local People**.

j. Funding Access (X4) on Economy Improvement of the Local People (Y2). From the results of the analysis, H₀ is rejected and it can be concluded that there is positive and significant effect of Funding Access toward the **Economy Improvement of the Local People** with an alpha value of 5% and the error rate probability of 0.3%. The positive direction means that the higher the factor of Funding Access, the bigger the factor of the **Economy Improvement of the Local People** will be.

k. The Role of the Government (Y1) on Economy Improvement of the Local People (Y2). From the results of the analysis, H₀ is accepted and it can be concluded that there is positive but not significant effect of the **Role of the Government** toward the **Economy Improvement of the Local People** with an alpha value of 5% and the error rate probability of 23.1%. The positive direction means that high and low factor of the Role of the Government will not increase the factor of the **Economy Improvement of the Local People**.

Based on the test results of the indirect influence among variables can be seen that natural resources, business climate, culture, facilities and infrastructure, as well as funding access are factors having a significant influence on the economy of the local community, through the role of the government. The findings show that government has a very important role to facilitate natural resources, business climate, culture, facilities and infrastructure, as well as funding access, so that the local community can improve its economy. The interesting findings of this study, business people state that increasingly low natural resources and culture at tourist attractions, and the lower availability of infrastructure and worsening business climate will improve the economy of the business people, if there is an optimal role of the government.

The statistical results have also strengthened this argument—that increasingly low natural resources and culture at tourist attractions, and the lower availability of infrastructure will require optimal role of the government. Other statistical results show that increasingly low natural resources and culture at tourist attractions, and the lower availability of infrastructure and worsening business climate will improve the economy of the local community, if there is an optimal role of the government. Another interesting finding is that business people can independently access the funding resources to fund their business. Business people also tend to not wanting any intervention from the government, relating to direct funding access, as they prefer to obtain funding from the private sector.

Based on the discussion of these findings, it can be seen that factors of natural resources, culture, business climate, as well as facilities and infrastructure are indicated as insignificant factors in increasing the economy of the local people. In order to enhance the role of natural, resources, culture, business climate, facilities and infrastructure, it is necessary to optimize the role of the government in order to increase the contribution of these factors to be able to boost the economy of the local people. This indicates that the government should be more active in inducing natural resources, culture, business climate, facilities and infrastructure, so that these factors can have a stronger role to boost the economy of the local community.

4. **CONCLUSION**

Based on the findings, conclusions can now be drawn:

1. The government tends to have more roles in MSMES in the tourism industry if the business climate in MSMES is in good condition. Good business climate here refers to the business climate that has the following characteristics: (a) the business people feel they have a common identity in the tourism areas, (b) business people in tourism areas have similar interests to develop tourist attractions, (c) business people have togetherness in managing
tourist attractions, and (d) any business people complement each other in managing tourist attractions. Such business climate in general exists in famous tourism objects or tourist attractions which have been widely recognized by the public. The government is likely to have a role in the tourism objects, that will lead to the possible existence of good prospects in the tourism objects.

2. The government also tends to have more roles in MSMES, if MSMES have better access to funding. This is likely to happen because MSMES located in the well-known tourist attractions will be considered more eligible to be funded as it is considered more profitable, so it is easier for MSMES to get funding. The ease of access to funding will make it easier to build and develop MSMES.

3. Ease of access to funding is also an important factor for the local community to improve the welfare of the community. Ease of access to funding also becomes the causative factor to be initiate businesses in the tourism industry.

Based on the research findings, the suggestions can be given are as follows:

1. The results of this study indicate that the government has a very important role in the development of the tourism industry and economy development of the local community. Another indication is that the government is still not optimizing the potential of tourism. Based on these indications, the government is expected to increase their role in developing the tourism industry in order to increase the economy of the local community.

2. Further studies are expected to examine the methods employed by the government in increasing their role in developing tourism industry.

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