

# The Influence of Entrepreneurship on Ability and Success of Small Business of Woven Sarong in Samarinda – Indonesia

Mulyadi<sup>1\*</sup> Sukisno S. Riadi<sup>2</sup> Eny Rochaida<sup>2</sup> Ardi Paminto<sup>3</sup>

1 Student of Doctoral Program of Economic and Business Faculty, Mulawarman University, Indonesia

2 Professor of Economic and Business Faculty, Mulawarman University, Indonesia

3 Lecturer of Economic and Business Faculty, Mulawarman University, Indonesia

## Abstract

Small businesses are the economic pillar of the society and the backbone of the national economy which are independent and able to survive during the crisis. This research aims to analyze the effect of entrepreneurship on the ability and success of small business of woven sarong in Samarinda, Indonesia. The study was conducted through a survey of 61 managers as well as business owners. Analysis of the data was done by using the approach of partial least square (PLS). The result shows that entrepreneurship increases business success. There is a tendency that entrepreneurship and good business ability will enhance the business success. Empowerment strengthens the influence of entrepreneurship to business success. Nevertheless, empowerment does not increase the effect of the ability on business success.

**Keywords:** business ability, business success, empowerment, entrepreneurship, small business

## 1. Introduction

Economic globalization is a worldwide connection of economic activity. Globalization changes the structure of the world economy fundamentally. The interdependency is not only among developed countries, but also the developing countries. Indonesia as a developing country faces significant constraints that is quite complicated. Business opportunities through entrepreneurship are still urgently needed in Indonesia. Leibenstein (1979) argued that entrepreneurship includes activities required to create and run a company when the market has not been clearly identified, or the components of the production function has not been completely known. Entrepreneurship is very helpful to develop products and improve the economy of the community. Even small and medium enterprises (SME) can survive and save the Indonesian economy during the crisis attack in Asia during 1997 and 2008. SME also can absorb labor and have a role in developing leading commodity areas to increase the local revenue.

In general, the obstacles encountered in the development of SME are the capital problem, administration, technology, research market, and inefficiency. These problems require good solution to provide an opportunity for the public to actively participate in building the nation's economy. So far, the empowerment of small industry tends to be more generous and it leads to the dependence of small industry. The availability of adequate data of the obstacles encountered in each region also needs to be mapped so the right solution can be provided.

Samarinda has 67,754 SMEs and is the largest amount in the province of East Kalimantan. One of the famous products that become souvenirs of Samarinda is the woven sarong. This home-based business has existed since decades ago and run for generations.

Recognizing the important role of the SME, the entrepreneurs need to increase the knowledge through training, both formal and informal. Education and training as well as work experience can form a business ability to influence the business success. The business ability is affected by the level of education, skills, work experience, as well as individual characteristics (inner background). The success of small business is influenced by various factors, e.g. capital, product marketing, abilities and skills of entrepreneurs in production, education, business experience, number of employees, operation time every day, and so forth (Ellyawati and Susilo, 2001).

Rachim (2009) conducted research on the factors that influence the generation of income and employment in small embroidery industry in East Java. The results showed that the social, economic, cultural, and management factors (human resources, production, marketing, capital) affect the increasing of income and employment. Capital factor dominantly influences the increasing of income and employment.

According to above explanation, it shows that small industries are very interesting to be studied. Small business is very strategic in society life if we are able to manage it properly. This research aims to analyse the effect of entrepreneurship on the ability and success of small business of woven sarong in Samarinda, East Kalimantan. The results of this study are expected to become inputs for the SME entrepreneurs concerning the role of human resources empowerment in improving the performance of small business.

## 2. Literature Review

### 2.1 Human Resources Management and Organizational Behavior

Any organization or company needs resources to achieve its objectives, one of which is human resources. Gomes

(2003) gave the sense that the human resource management (HRM) is a recognition of the importance of the human element as a potential resource that needs to be developed to provide the maximum contribution to the organization and to the development of oneself. Mathis and Jackson (2006) stated that HRM is the design of the formal systems within an organization to ensure the use of human talent effectively and efficiently in order to achieve organizational goals. According to Dessler (2009), HRM is the policy and practices relating to the human aspects, including recruitment, screening, training, and assessment.

Organizational behavior is the study of what is always done by the people in the organization and how does that behavior create an organizational culture. The behavior of individuals includes business, skills, abilities, time and loyalty.

## 2.2 Entrepreneurship

Suryana (2011) said that entrepreneurship is the ability to create something new and different through creative thinking and innovative action. Entrepreneurship is essentially the spirit, attitude, behavior, and ability to handle a business or activity that leads to searching, creating, and implementing the ways of working, new technologies and products to improve efficiency in order to provide better service or gain high profits. Winarto (2004) said that entrepreneurship is the process of doing something new and different with the aim of creating prosperity for individuals and adding value to the society. Along with that, Hisrich and Peters (1995) explained that entrepreneurship is the process of creating something with value by devoting the necessary time and effort, assuming company financial, psychic, and social risk, as well as receiving the resulting rewards of monetary, personal satisfaction, and independence. Since the managers of small businesses are also the owners, they are in a position of taking decisions on their own and perform many functions such as planning, organizing, staffing, budgeting, coordinating, and controlling (Urwick, 1933).

## 2.3 Empowerment

Community empowerment is an economic development concept that summarizes the social values. This concept reflects the new paradigm of development, namely participatory, empowering, and sustainable (Chambers, 1995). According to Noe, *et al.* (2007), empowerment is an assignment of responsibilities and authority of the workers to make decisions regarding all product development and decision-making. Meanwhile, according to Khan (1997), empowerment is an ongoing relationship among personnel to build trust between employees and management. Byars and Rue (1997) gave the sense that empowerment is a form of decentralization that involves the assignment of responsibilities to subordinates in decision making.

Empowerment intended in this research is the empowerment of small and medium enterprises sector, as part of the community that requires special handling by the government. Empowerment is concerned with improving the quality of the resources owned by small business. The goal is improving business performance as contribution to the regional economy.

## 2.4 Business Abilities

The business abilities consist of marketing, production, and financial capabilities. Kotler (1997) expressed the relationship between the marketing powers with the marketing mix, known as the 4Ps (product, place, price, promotion), which are the marketing tools available to influence shoppers.

The production capability consists of the ability to get the goods, workforce skills, technology, quality, and ability to compete. The ability to provide the goods is the ability to get cheaper supplier with the same quality. Companies must also have the ability to provide goods quickly when they are needed by the shopper. Companies must have a workforce that is able to market their goods and have a good moral ethics. Companies that are able to follow the development of technology will be able to sustain their lives. Quality of service and competitive ability are also important factors for the company's performance.

## 2.5 Business Success

Performance of small business can be defined as the level of business success of a company, that is viewed from various aspects, such as financial performance and the company's reputation. Henry (2007) suggested that the business success is essentially the success of achieving the business purpose. A business is successful when there is profit.

Mathis and Jackson (2006) stated that the factors that influence the success of an individual effort are their ability, motivation, support, the existence of the work, and their relationship with the organization. In relation with the concept of business success, it appears that individual characteristics such as personality, age and gender, level of education, ethnicity, socio-economic circumstances, the experience of the past circumstances, will determine the behavior of employment and labor productivity, both individuals and organizations. Besides being affected by the environment, the individual characteristics are also influenced by the characteristics of organizations, such as the reward system, selection, training, organizational structure, vision and mission of the

organization and leadership, job characteristics, job descriptions, job design and work schedule.

### 3. Hypotheses

Based on the previous explanations, this research aims to test the following hypotheses:

1. Entrepreneurship influences small business success.
2. Business ability as the mediator of the influence of entrepreneurship to small business success.
3. Empowerment as the moderator of the influence of entrepreneurship to small business success.
4. Empowerment as the moderator of the influence of business ability to small business success.

### 4. Research Method

#### 4.1 Population and Sample

The population in this research is all small businesses in Samarinda that produce kinds of woven sarong. Samarinda has woven industrial district association consisting of 116 entrepreneur traditional woven sarong. From this amount, there are 61 eligible small businesses. Criteria for small businesses of woven sarong in this research is the number of workers who perform production activities at most 19 people (including the owner of the company), it has been operating for more than three years, it has a wealth of a maximum of one billion Rupiahs (excluding the value of land and buildings), and the entrepreneur is the owner who acts as manager.

#### 4.2 Research Variables

This research uses the following variables:

##### 1. Independent Variable: Entrepreneurship ( $X_1$ )

Entrepreneurship has a meaning as human actions which are able to be observed and measured, performed with courage; virtue and courage in fulfill the needs and solve the problems with the ability and the strength that comes from one self. Specifically in this paper, the means of fulfilling the needs and solving the problems are very closely related to the activities in producing products in accordance with market demand. The indicators used as a measure of entrepreneurial spirit in this study are:

- a. Praying ( $X_{1.1}$ )
- b. Surrendering to Lord ( $X_{1.2}$ )
- c. Being adaptive ( $X_{1.3}$ )
- d. Taking the opportunities ( $X_{1.4}$ )
- e. Being creative ( $X_{1.5}$ )
- f. Being innovative ( $X_{1.6}$ )

##### 2. Moderating Variable: Empowerment ( $X_2$ )

According to Noe, *et al.* (2007), empowerment is a relief, responsibilities and authority of local government for employers to take decisions on all decision-making of product development. From these definitions, it can be taken several indicators of empowerment as follows.

- a. Commitment from the local government ( $X_{2.1}$ )
- b. Local government conducts training for small business ( $X_{2.2}$ )
- c. Local government provides assistance in obtaining venture capital convenience for small business ( $X_{2.3}$ )
- d. Local government provides assistance to market products for small business ( $X_{2.4}$ )

##### 3. Mediating Variable: Business Ability ( $Y_1$ )

The ability of a business is determining production policies, marketing and financing before starting the production process until the goods is used by consumers. The indicators are:

- a. Having a skilled workforce ( $Y_{1.1}$ )
- b. Having a persistent workforce ( $Y_{1.2}$ )
- c. Growing of venture capital ( $Y_{1.3}$ )
- d. Increasing of assets from year to year ( $Y_{1.4}$ )
- e. Being able to achieve production targets set ( $Y_{1.5}$ )
- f. Being able to complete the product in accordance with the customer time demand ( $Y_{1.6}$ )
- g. Developing new products for customers ( $Y_{1.7}$ )

##### 4. Dependent Variable: Business Success ( $Y_2$ )

Measuring the business success is through determining the performance of a company that can be formulated through a comparison of the value produced by the company and the expected value of its resources. The indicators are:

- a. The market share increases (expands) from year to year ( $Y_{2.1}$ )
- b. The volume of sales increases from year to year ( $Y_{2.2}$ )
- c. Profit of the business increases from year to year ( $Y_{2.3}$ )

## 5. Results and Discussion

### 5.1 Statistic Descriptive

The following tables describe the results of the analysis and interpretation of descriptive scale.

Table 1: Descriptive Analysis of Entrepreneurship Variable ( $X_1$ )

No.	Indicator	Mean	Remark
1	Praying ( $X_{1.1}$ )	2.3796	Good
2	Surrendering to Lord ( $X_{1.2}$ )	2.3967	Good
3	Being adaptive ( $X_{1.3}$ )	2.4111	Good
4	Taking opportunities ( $X_{1.4}$ )	2.1177	Moderate
5	Being creative ( $X_{1.5}$ )	2.1236	Moderate
6	Being innovative ( $X_{1.6}$ )	2.1254	Moderate
Variable $X_1$		2.2857	Good

Table 2: Descriptive Analysis of Empowerment Variable ( $X_2$ )

No.	Indicator	Mean	Remark
1	Commitment from the local government ( $X_{2.1}$ )	1.4531	Moderate
2	Local government conducts training for small business ( $X_{2.2}$ )	1.9854	Moderate
3	Local government provides assistance in obtaining venture capital convenience for small business ( $X_{2.3}$ )	1.1712	Low
4	Local government provides assistance to market products for small business ( $X_{2.4}$ )	1.4544	Moderate
Variable $X_2$		1.5160	Moderate

Table 3: Descriptive Analysis of Business Ability Variable ( $Y_1$ )

No.	Indicator	Mean	Remark
1	Having a skilled workforce ( $Y_{1.1}$ )	1.2905	Low
2	Having a persistent labor ( $Y_{1.2}$ )	1.5753	Moderate
3	Growing of venture capital ( $Y_{1.3}$ )	2.4423	Moderate
4	Increasing of assets from year to year ( $Y_{1.4}$ )	1.7442	Moderate
5	Being able to reach the production targets set ( $Y_{1.5}$ )	2.3971	Good
6	Being able to complete the product in accordance with the customer time demand ( $Y_{1.6}$ )	1.0668	Low
7	Developing new products for customers ( $Y_{1.7}$ )	1.2140	Low
Variable $Y_1$		1.6757	Moderate

Table 4: Descriptive Analysis of Business Success Variables ( $Y_2$ )

No.	Indicator	Mean	Remark
1	The market share increases (expands) from year to year ( $Y_{2.1}$ )	1.6415	Moderate
2	The volume of sales increases from year to year ( $Y_{2.2}$ )	2.3828	Good
3	Profit of the business increases from year to year ( $Y_{2.3}$ )	2.1366	Moderate
Variable $Y_2$		2.0536	Moderate

### 5.2 Hypothesis Testing Results

The result of hypothesis test is presented in Table 5.

Table 5. Hypothesis Test

No	Relation between Variables		Path Coefficient	p-value	Remark
1	Entrepreneurship ( $X_1$ )	Business Success ( $Y_2$ )	0.359377	0.0001*	Significant
2	Entrepreneurship ( $X_1$ )	Business Ability ( $Y_1$ )	0.129848	0.0318*	Significant
3	Business Ability ( $Y_1$ )	Business Success ( $Y_2$ )	0.204311	0.0381*	Significant
Moderating Variable Test					
4	Empowerment ( $X_2$ )	Business Success ( $Y_2$ )	0.012756	0.8742 <sup>is</sup>	
5	$X_2 * X_1$	Business Success ( $Y_2$ )	0.437631	0.0000*	Pure moderator
6	$X_2 * Y_1$	Business Success ( $Y_2$ )	-0.01551	0.8777 <sup>is</sup>	Not moderator

Note: \* = significant for  $\alpha = 5\%$ ; is = insignificant

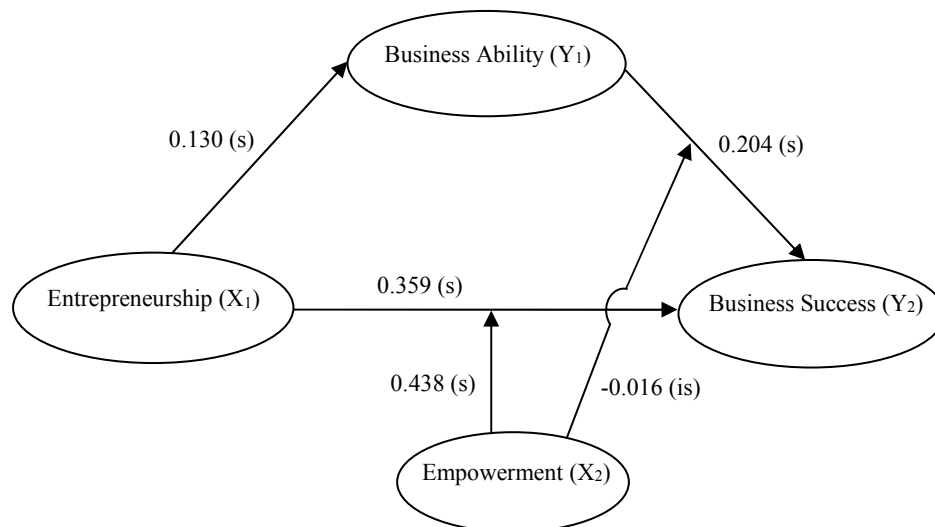


Figure 1: Relationships between Variables

Testing of mediating variable is conducted by Sobel test. The calculation process is done by software ADSTAT and the results can be seen in Table 6.

Table 6. Result of Mediating Variabel Testing

No	Independent Variable	Mediating Variable	Dependent Variable	Path Coefficient	p-value	Remark
1	Entrepreneurship (X <sub>1</sub> )	Empowerments (Y <sub>1</sub> )	Business Success (Y <sub>2</sub> )	0.0265	0.127 <sup>is</sup>	Not mediator

Note: is = insignificant

The results of hypothetical testing are as follows:

1. Entrepreneurship affects the success of small businesses. The PLS analysis obtained path coefficient of 0.359 and  $p = 0.0001$  (significant), so the hypothesis is accepted. The better the entrepreneurial spirit of woven sarong entrepreneur in Samarinda, the business success will increase.
2. Business ability as the mediator of the influence of entrepreneurship to business success. The results of PLS analysis continued with Sobel test give the path coefficients of the indirect effect is 0.0265 with  $p = 0.127$  (insignificant). Thus, the business ability is not the mediating variable for the influence of entrepreneurship to the business success. However, given that this study does not control strictly the research object, with significant level  $\alpha = 0.15$  there is a tendency that if the entrepreneurial spirit of woven sarong entrepreneurs are getting better, followed with the business abilities as well, the business success will increase.
3. Empowerment is a moderating variable for the influence of entrepreneurship to business success. The results of PLS analysis gives path coefficients of 0.013 with  $p = 0.874$  (insignificant). On the other hand, the path coefficient of interactions between empowerment and entrepreneurship ( $X_2 * X_1$ ) is 0.438 with  $p = 0.000$  (significant). Thus, empowerment is a pure moderator variable for the influence of entrepreneurship to the business success. Given both path coefficients are positive, the nature of the moderation is strengthening. It means that the better the entrepreneurial spirit and supported with good empowerment, the higher the business success.
4. Empowerment is a moderating variable for the influence of business abilities to business success. The results of PLS analysis gives path coefficients of 0.013 with  $p = 0.874$  (insignificant). On the other hand, the path coefficient of interactions between empowerment with business ability ( $X_2 * Y_1$ ) is -0.0156 with  $p = 0.878$  (insignificant). Thus, empowerment is not a moderating variable for the influence of business ability to business success.

## 6. Conclusion

Based on the analysis that has been presented, it can be deduced as follows:

1. Entrepreneurship affects the business success. The better the entrepreneurial spirit of woven sarong entrepreneurs in Samarinda, the higher the business success.
2. Business ability is not a mediating variable for the influence of entrepreneurship to business success. However, there is a tendency that if the entrepreneurial spirit of woven sarong entrepreneurs is getting better, followed with the business abilities as well, the business success will increase.
3. Empowerment is a pure moderator variable for the influence of entrepreneurship to the business success. Better entrepreneurial spirit and supported with good empowerment, will enhance the business success.
4. Empowerment is not a moderating variable for the influence of business ability to business success. Good or

bad empowerments are unable to encourage the influence of business ability to business success of woven sarong entrepreneurs in Samarinda.

This research is expected to give a contribution for the development of small industries of woven sarong in Samarinda. It is a policy that should be done by the government for promoting the small business products. The woven sarong business has a competitive advantage because the value of the products can compete both locally and abroad. It also has a comparative advantage because of its ability to absorb a large workforce. The business strategy development can be done by looking at the internal factors that affect the success of the business.

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