The Analysis of Craft SMEs Performance and Prosperity in Denpasar

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Abstract

The purpose of economic development is to improve people's prosperity. National economic growth is largely determined by the dynamics of regional economy, while regional economy is generally supported by MSME-scale of economic activities, one of them is the sector of handicraft. The empowerment of MSMEs is aimed at making prosperous lives of MSME subject. To obtain a prosperous life, small and medium enterprises in Denpasar have many limitations, therefore this business has not been able to be optimally developed, especially during COVID-19 pandemic. The purpose of this research is to analyze (1) the influence of financial performance and capital expenditure on economic performance; (2) the influence of financial performance, capital expenditure and economic performance on people's prosperity; and (3) analyze indirect effect of financial performance and capital expenditure on people's welfare through economic performance in districts and cities of Bali. This research was conducted toward 97 samples and data collection was carried out through questionnaire. The analysis was done by SEM-PLS method. The results of research and data analysis indicated that (1) the role of government has positive and insignificant effect, while social capital has significant positive effect on business performance; (2) the role of government, social capital, and business performance have positive and significant impact on business prosperity and (3) the role of government does not have an indirect effect, while social capital has indirect effect on business prosperity through business performance. Government plays an important role in empowering MSMEs. Government has not been able to improve business performance

however they are able to improve the prosperity of a business subject. Social capital is able to improve business performance and business subject prosperity, moreover, business performance is able to mediate the relationship of social capital to the people prosperity in Denpasar.

Keywords

Government Role, Social Capital, Business Performance, Entrepreneur's Prosperity.

Introduction

Government Role, Social Capital, Business Performance, Entrepreneur's Prosperity.

National economic growth is largely determined by the dynamics of regional economy, while regional economic supported by micro, small and medium scale economic activities. Business units that categorized as micro, small and medium enterprises (MSMEs) are the main business of regional and national economy (Hamid, 2010). The role of MSMEs in economic can be seen through several point include (1) its position as a major player in economic activities of various sectors; (2) the highest contribution of Job provider; (3) important subject in the development of local economic activities and community empowerment; (4) new market creators and sources of innovation; and (5) its contribution in maintaining the payments balance through the activities of export (Putra & Djalante, 2016).

Handcraft is one of MSMEs business. The developed crafts in Denpasar are a form of blending hand skills with artistic values as an inseparable Balinese culture. This is the comparative advantage of Balinese handicrafts as one of the sub-sectors of creative industry in Indonesia, it has the potential to be improved and developed into an export commodity that has high competitiveness in a free market.

The export performance of handicrafts from Denpasar for 2015-2019 experienced a fluctuation, it means that there was a decrease and an increase in the value of exports. The export value of handicrafts in 2015 was recorded at 1,976,515 million rupiahs and it experienced a successive increase from 2016 of 2,115,180 million rupiahs and in 2017 with 2,440,392 million rupiahs. However, the realized value of handicraft exports decreased in 2018 to IDR 2,295,146 million and continue to drastically decrease to IDR 1,945,296 million in 2019. This decrease in export performance needs more attention because the contribution of handicraft exports is very influential on economic growth of Denpasar. Therefore, it is necessary to conduct research to examine and analyze the

problems that can cause the decline in export performance as an evaluation therefore, the exports from Denpasar remain competitive during the era of globalization and the export performance will have direct effect on handicraft SMEs prosperity.

This research has an aim to analyze (1) the influence of financial performance and capital expenditure on economic performance; (2) the influence of finance performance, capital expenditure and economic performance toward people prosperity; and (3) analyze the indirect effect of financial performance and capital expenditure on people's prosperity through economic performance in districts and cities of Bali.

Literature Review

People Prosperity

Munawar et al (2015) stated that prosperity is the abstract concept, because the existence directly related to the value of life and personal ideology. Prosperity is not only defined as a measure of material availability, however it needs to be linked to the nation's view of life. Prosperity is not only the goal of individuals, but also the goal of a group gathered in one country to emerge two kind of prosperity, which called as individual and community prosperity. According to Friedlander (1980) prosperity is an organized system that has done through the services and social institution. It has a purpose to help individual or group to achieve a better level of life value and health, personal and social relationships that provide opportunities to develop every abilities and improve their prosperity related to the needs of their families and society.

The main point of prosperity according to Sen (2006) is capability. The development of human capabilities related to the improvement of life expectancy, illiteracy freedom, health and education. Capabilities enable humans to live in a more meaningful life. Subjective prosperity can be known from the presence or absence of the feeling of happiness (Luthans, 2007). When someone assesses the work environment as an interesting, fun and full of challenges, it can be said that he feels happy and provide an optimal performance (Wright & Bonett, 2007). A person can be said to have high subjective well-being if they are satisfied with his life conditions, often feels positive emotions and rarely feels negative emotions. When someone characterizes a good life, most of people will talk about happiness, health, and a long life (Diener & Chan, 2011). Siedlecki et al (2013) defines subjective prosperity as the notion of cognitive decisions that reflect personal life satisfaction and an evaluation of emotions that classified into positive emotions and negative emotions.

According to the OECD/Organization for Economic Co-operation and Development (2013), Subjective prosperity indicators can be seen, from the fulfillment of life necessities, medical expenses (health), life goals; fulfillment of personal security, have good interpersonal relationships, have good relations with others, have savings for the future, and able to carry out religious activities.

Work Performance

Keats & Hitt (1988) stated that the assessment of performance has an important value besides being able to be used as a measure of the institution success in a certain period, Performance appraisals can also be used as feedback for the future improvements. Therefore, performance assessment of institution needs to be done, because the assessment result can be used as a basic information to do a better work performance in the future. Company performance is something produced by company in a certain period with reference to the settled standards.

Company performance appraisal is a process related to the assessment of the organization's work performance based on certain standards (Barsky et al., 2011; Brandon & Drtina, 1997). The performance of entrepreneur refers to the level of entrepreneur's ability to carry out his work. Business actors can be said to have good performance if it fulfilled the certain standards. Based on this model, motivation factor and ability is the important factor to decide a performance of business (Dukat & Yuniatie, 2015). According to Munizu (2010) There are several performance indicators that can be used to measure business performance in this study included (1) sales growth is an increase in the number of sales from the previous period; (2) Profit growth is an increase in the number of profits from the previous period; and (3) market share growth, an increase in the number of customers from the previous period.

Research related to the influence of MSME performance on the welfare of MSME entrepreneur has been carried out by several researchers which stated that business performance has positive and significant effect on prosperity, it can be said that improving business performance with its indicators will have direct effect on improving welfare (Eddy, 2020; Gandhiadi et al., 2018; Irviani, 2017).

Government Role

Government's role in development activities has a purposes to provide services and technical assistance and external support of society. Government services and support delivered to the community have made major contribution to economic development,

infrastructure, and the quality of people's lives. However, this technical assistance needs to be handled carefully, because it has negative side which can limit community capacity and lead to dependence and pressure of local organizations and leadership (Kretzmann & McKnight, 1993)**.** According to Sudaryanto (2011), Empowering MSMEs in the midst of globalization and high competition has forced MSMEs to be able to face global challenges, such as increasing product and service innovation, developing human resources and technology, and expanding the marketing area. It needs to be done to increase the selling value of MSMEs, especially to compete with foreign products that will increase the industrial value as manufacture centers of Indonesia, consider that MSMEs are an economic sector which is able to absorb the largest workforce in Indonesia.

The role of government in this study is defined as the role to provide external services and support for community. The role of government is expected to be able to raise the prosperity of entrepreneur. The government's role in empowering MSMEs is provided as a regulator, dynamist and facilitator (Gulbrandsen, 2014; Nurdin et al., 2014; Steurer, 2010). The analysis of Korry (2013) stated that government policies have an important role in business performance of Village Unit Cooperatives in Bali. The improvements in the quality of government distributive and regulatory policies are able to fasten the business performance. Likewise, the results of the research by Lee & Tsang (2001) and Munizu (2010) stated that government policies have strategic influence on business performance. Different explanation are produced by research by Arjawa et al (2016) which was conducted on Handicraft SMEs in Bali which stated that Government's role directly has no significant effect on business performance.

The government has a strategic role in empowering MSMEs in Indonesia. MSMEs have an important role in the economic growth process of a country and for this reason, an effort to develop MSMEs need to be carried out by government. Therefore, government role become an important aspect to improve MSMEs performance to compete in global market and improving the prosperity of entrepreneurship (Adi, 2017; Agustina, 2019; Simamora & Sinaga, 2016; Swastika et al., 2017).

Social Capital

Nowadays, in globalization era and economic in free market, it can be seen that the role of human capital in economic system keep decreased. Social capital is the ability of people to work together to achieve common goals for groups and organizations (Coleman, 1988). Social capital can have an impact on entrepreneurship and prosperity and increase the

prosperity of companies, it can be seen by the opinion of (Farsi et al., 2013), a survey toward senior managers at an auto parts factory in Iran. Durojaiye et al (2013) conducted a study on the impact of social capital on the profit growth of grocery stores in Nigeria and indicated that social capital plays an active and important role on increasing the profit from selling Nigerian food. The result of the research by Yuliarmi et al (2021) concluded that social capital and cooperative empowerment have a positive and significant effect on cooperative member's prosperity in Denpasar. Fukuyama (1999) defines social capital as an informal set of values or norms that enable group members to share and collaborate. Putnam (1993) provide a definition of social capital is the emergence of social organizations such as trust, reciprocity, and networks that able to increase the efficiency of society by facilitating coordination and collaboration for mutual benefit. Riddell (1997) stated that there are three indicators of social capital: (1) trust, (2) norms, and (3) networks that can be used to measure the social capital of business entrepreneur.
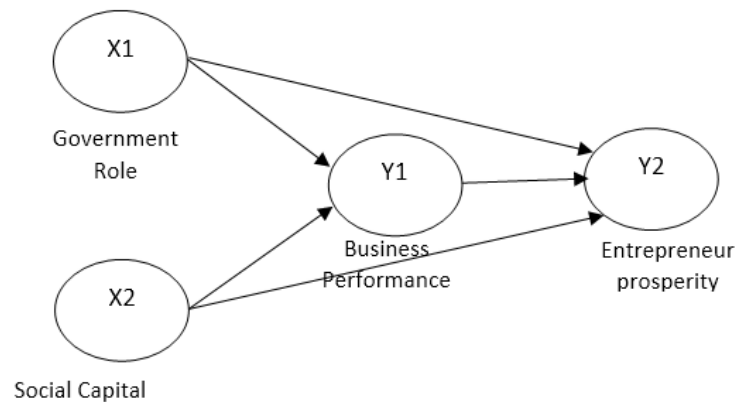

Figure 1 Research Concept Framework

Therefore the hypotheses are provided as below:

H1: The role of government and social capital has positive effect on the business performance of SMEs entrepreneur in Denpasar.
H2: The role of government, social capital and business performance have positive effect on the prosperity of small and medium enterprises (SMEs) crafts in Denpasar.
H3: Business performance mediates the relationship between the role of government and social capital on small and medium enterprises prosperity of handicrafts in Denpasar.

Methodology

The population in this study was 97 units of handicraft SMEs in Denpasar, Bali. The data used in this study is primary data, the data obtained directly from respondents. The data

collection of this study used survey method through questionnaire. *Software Smart PLS* was used to process and analyze the data.

Table 1 Variable Identification

No	Variable type	Variable Name	Indicator	
1.	Exogenous	Government Role (X1)	X11:	Regulator
			X12:	Dynamist
			X13:	Facilitator
2.	Exogenous	Social Capital (X2)	X21:	Trust
			X22:	Norm
			X23:	Network
3.	Mediation	Business Performance (Y1)	Y11:	Sale
			Y12:	Profit
			Y13:	Market share
4.	Endogenous	Entrepreneur Prosperity (Y2)	Y21:	Basic needs requirements
			Y22:	Fulfilling the main requirements education
			Y23:	able to carry out religious activities

Source: Processed Data (2021)

Results

Construct Validity Test

In convergent validity test based on the loading factor, it is shown in Figure 1, it can be seen that every indicators have loading factor above 0.7 for the intended construct.
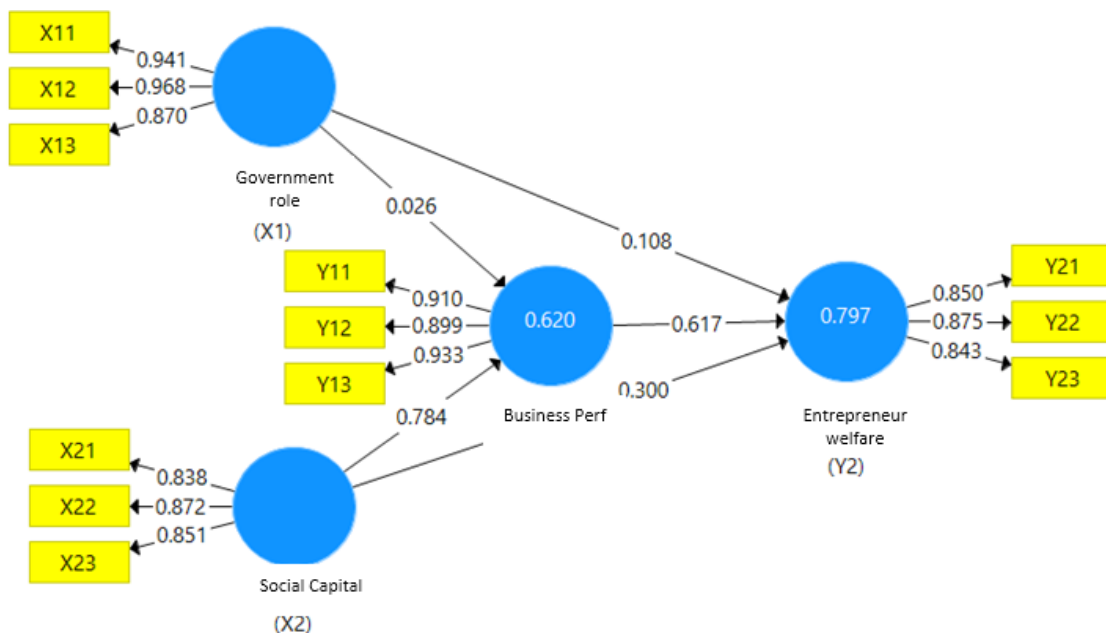

Figure 2 Structural Full Model

c. Loadings Factor Test

Table 2 Loading Factor

	Original Sample	Standard Deviation	T Statistics	P Values
X11 <- X1	0.941	0.063	15.047	0.000
X12 <- X1	0.968	0.065	14.981	0.000
X13 <- X1	0.870	0.111	7.830	0.000
X21 <- X2	0.838	0.040	20.766	0.000
X22 <- X2	0.872	0.029	29.847	0.000
X23 <- X2	0.851	0.027	31.458	0.000

In Table 2 it can be seen that all indicators for every constructs have a loading factor (original sample) above 0.7. Thus, it can be stated that every valid indicators reflect their respective constructs.

d. Fornell-Larcker Criterion Test

Table 3 Fornell-Larcker Criterion Test

	X1	X2	Y1	Y2
X1	0.927			
X2	0.120	0.854		
Y1	0.121	0.787	0.914	
Y2	0.219	0.798	0.866	0.856

Table 3 shows that the value of AVE on variable is higher than the correlation of other latent variables. Thus, from the results of Fornell-Larcker Criterion test above, it can be stated that the construct declared as valid.

e. Cross Loadings Test

Table 4 *Cross Loading* test of research variable

	X1	X2	Y1	Y2
X11	0.941	0.097	0.087	0.211
X12	0.968	0.137	0.160	0.241
X13	0.870	0.087	0.050	0.105
X21	0.135	0.838	0.666	0.675
X22	0.157	0.872	0.588	0.650
X23	0.027	0.851	0.748	0.713
Y11	0.157	0.697	0.910	0.790
Y12	0.135	0.715	0.899	0.831
Y13	0.038	0.747	0.933	0.750
Y21	0.191	0.623	0.692	0.850
Y22	0.212	0.726	0.783	0.875
Y23	0.157	0.695	0.743	0.843

Table 4 indicated that each indicator has the highest cross loading value of latent variable. It shows that every indicators meet discriminant validity in Cross Loading test. It means that every indicators are eligible to be included in further analysis.

Construct Reliability Test

Table 5 Construct Reliability Test

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
X1	0.923	0.948	0.860
X2	0.815	0.890	0.729
Y1	0.901	0.938	0.835
Y2	0.818	0.892	0.733

Table 5 shows that the values of Cronbach's Alpha, Composite Reliability and Average Variance Extracted (AVE) for each construct are all higher than 0.70 and AVE is higher than 0.5, thus every variables in this study are reliable.

Model Fit Test (Goodness of Fit Inner Model Evaluation)

Structural model of PLS processing results needs to be evaluated using R-square for each dependent variable and Q-square predictive relevance to observe the effect of exogenous latent constructs on endogenous variables. For the purposes of evaluating Goodness of Fit Inner Model, it is shown in Table 6 which contains R-square coefficient for each endogenous variable.

Table 6 R-square Variable Score

Variable	R Square
Business Performance (Y1)	0,620
Business Entrepreneur Prosperity (Y2)	0,797

Based on the two R^2 coefficients in Table 6, it can also be calculated the magnitude of Q^2 coefficient or *Stone Geiser Q-Square test* (Ghozali, 2011).

$Q^2 = 1 - \{(1 - R_1{}^2)(1 - R_2{}^2)\}$
$Q^2 = 1 - \{(1 - 0{,}620)(1 - 0{,}797)\}$
$Q^2 = 0{,}923$

Based on the results of the calculation of predictive relevance (Q^2) above, it obtain a value of 0.923. In this research model, endogenous latent variable has predictive relevance value (Q^2) which is greater than 0, therefore exogenous latent variable is suitable as an

explanatory variable. It is able to predict the endogenous variable or proves that this model is considered to have good predictive relevance and used to obtain predictions.

Direct and Indirect Effect

To find out the direct influence between construct variables, it can be seen from the results of path coefficients analysis values shown in Table 7 below.

Table 7 Path Coefficients, T-Statistics, P-Values

	Original Sample	T Statistics	P Values	Significance
X1 -> Y1	0.026	0.329	0.742	Not Significant
X1 -> Y2	0.108	2.124	0.034	Significant
X2 -> Y1	0.784	18.022	0.000	Significant
X2 -> Y2	0.300	3.611	0.000	Significant
Y1 -> Y2	0.617	8.582	0.000	Significant

To determine indirect effect among construct variables, it can be seen from the results of indirect effects value analysis shown in Table 8 below:

Table 8 Indirect Effects Score

	Original Sample	T Statistics	P Values	Significance
X1 -> Y1 -> Y2	0.016	0.323	0.747	- Not Significant - Not Mediated
X2 -> Y1 -> Y2	0.483	8.044	0.000	- Significant - Partial Mediation

Hypothesis Test

1. **Hypothesis 1: The role of government and social capital has positive effect on the performance of SMEs business in Denpasar.**

Based on the results of data processing, it is known that (1) the influence of government's role on business performance has regression coefficient of 0.026, and significance level in form of P-value of 0.742. It is indicated that the role of government has positive and insignificant effect on the performance of SMEs business in Denpasar and the hypothesis is rejected; (2) the effect of social capital on business performance has regression coefficient of 0.784, and significance level of P-value of 0.000. It obtain that social capital has positive and significant effect on SMEs business performance in Denpasar, thus, the hypothesis is accepted.

2. **Hypothesis 2: Government role, social capital and business performance has positive influence toward MSMEs business prosperity in Denpasar.**

Based on the processed data, it is known that (1) the influence of government's role on business prosperity obtain regression coefficient of 0.108, and significance level P-value of 0.034. It is indicated that government role has positive and significant influence toward MSMEs business prosperity in Denpasar. Therefore, the hypothesis is accepted; (2) the influence of capital on business entrepreneur prosperity has regression coefficient of 0.300, and significance level in form of P-value is 0.000. It shows that social capital has positive and significant effect on business SMEs prosperity in Denpasar. Thus, the hypothesis is accepted; and (3) the effect of business performance on entrepreneur prosperity has regression coefficient of 0.617 and significance level of P-value is 0.000. It shows that business performance has positive and significant effect on the business prosperity of MSME entrepreneurs in Denpasar City, thus the hypothesis is accepted.

3. **Hypothesis 3: Business performance mediates the relationship between the role of government and social capital on MSMEs prosperity in Denpasar.**

Based on the results of data processing, it is known that (1) the indirect influence of government's role on business prosperity through business performance has a regression coefficient of 0.016 and a significance level P-value of 0.747. It means that, indirectly the role of government has positive and insignificant effect on entrepreneur prosperity through the performance of MSME business in Denpasar, thus the hypothesis is rejected. The role of government has direct and insignificant effect on business performance, business performance has direct and significant effect on the prosperity of entrepreneurs and the role of government has direct and significant effect on the prosperity of entrepreneurs. The characteristic of mediation in this relationship is no mediation. It shows that business performance does not mediate the relationship between the role of the government and the prosperity of business entrepreneur; (2) the indirect effect of social capital on the prosperity business entrepreneur through business performance with a regression coefficient of 0.483 and a significance level P-value of 0.000. Indirectly social capital has positive and significant effect on entrepreneur prosperity through the performance of the business entrepreneur in Denpasar. Thus, the hypothesis is accepted. Social capital has direct and significant effect on business performance, business performance has direct and significant effect on business entrepreneur prosperity and social capital has direct and significant effect on the business entrepreneur prosperity. The type of mediation in this relationship is partial mediation. It shows that increasing social capital on entrepreneur prosperity can be done directly or through the mediation of business performance.

Discussion

The Direct Influence of Government's Role on Business Performance

The results of hypothesis test of this study indicated that the role of government has positive but not significant effect on business performance. This finding justifies that the role of government has not been able to significantly improve the performance of MSME business prosperity in Denpasar. The role of government is reflected most dominantly by the facilitator, followed by regulators and dynamists. Sales indicators has the most dominant role in reflecting the construct of business performance, the rest indicators determined by profits and market share. The results of this study indicate that the functions and roles of government have not been able to give a meaning on business performance of MSME entrepreneur in Denpasar. The lack of significant influence of government's role on the performance of handicraft SMEs business in Denpasar does not mean that the government is not needed. The role of government is still needed and it can be seen from the results of data processing which indicated that the role of government has significant outer loading value.

This research is in line with the analysis of Yuliarmi et al (2012) which concludes that the role of government through related agencies has not been able to directly influence the empowerment of SMEs in Bali it is supported with the research by Arjawa et al (2016) which conducted towards SMEs business in Bali, it has a result that the role of government has no direct significant effect on business performance.

Research Findings and Contributions

The findings of this study indicated that government has not been able to improve business performance, however it is able to improve the prosperity of small and medium enterprises in Denpasar City. Business performance does not mediate the relationship between the role of government and entrepreneur prosperity. Empirically, the results of this study prove that the conception of business performance can mediate social capital on the MSME business prosperity in Denpasar. The results of this study can be used as a basis for developing programs, policies, and strategies for public prosperity.

Research Limitation

The limitations that can be identified related to this research are as following below.

1. This research only valid for a period at the time of the study therefore the results of this study could not describe the same behavior in upcoming year and for this reason, longitudinal data research is needed in the future.
2. The relationship between government's role and social capital is not discussed in this study, therefore, there is no description of the relationship between government's role on social capital and vice versa.

Conclusion and Suggestion

Conclusion

Based on the results and discussion of this research, the following conclusions can be drawn.

1. The role of government has positive and significant effect while social capital has a significant positive effect on the business performance of MSME in Denpasar.
2. The role of government, social capital and business performance have positive and significant impact on the small and medium enterprises (SMEs) crafts prosperity in Denpasar.
3. Business performance does not mediate the relationship of government role however it mediates the relationship between social capital and the prosperity of small and medium enterprises of handicrafts in Denpasar.

Suggestion

Government role has not been able to make a contribution to the business performance of MSME entrepreneur in Denpasar and the market share indicator gets the lowest appreciation from respondents. Therefore, it needs to be improved to provide further contribution in the future. Social capital needs to increase the role of trust indicators, therefore it can continue to give contribution to improve small and medium enterprises (SMEs) handicraft entrepreneur prosperity in Denpasar.

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