Role of the Government, Resource Competency, and Local Culture toward Performance and Business Competitiveness of Wood Craft Industry throughout Sarbagita, Bali Province Indonesia

[1]Gede Santanu, [2]I Gede Sudjana Budiasa, [3]Dewa Putu Meles Arta

[1]Doctoral Student of Economic Science, Udayana University Denpasar Bali Indonesia
[2]Lecturer of Economic Faculty, Udayana University Denpasar Bali Indonesia
[3]Doctoral Student of Economic Science, Udayana University Denpasar Bali Indonesia

Abstract: **This study aims to gain a clear description of the government policy toward business performance, the potency of local culture in supporting the existence of social capital, and small-to-middle industrial competency (IKM: industri kecil menengah) in Sarbagita area, Bali province. The result shows that role of the government policy has been proven to positively and significantly impact on business competitiveness. Intermediation from the government policy has positively and impacted on business competitiveness through business performance. The competency of business resource has positively and significantly impacted on business competitiveness. There is social capital potency on local culture at Sarbagita area. The role of social capital found on local culture and impacting on business performance has shown that local culture has significantly and positively impacted on business performance. Local culture has also positively and significantly impacted on both business performance and business competitiveness. This study provides a recommendation that local culture will strengthen business competitiveness among global markets especially in the field of export-based wood craft industries.**

Keywords: **the government role, resource competency, local culture, performance, business competitiveness, and wood craft industry.**

1. INTRODUCTION

Social capital has been popular lately as the business supporter especially for little-to-middle businesses. Social capital has also been a determinant for developing them, since the problems of capital shortage and market networking can be supported through development of human capital, which is togetherness in developing market and business network with a cooperative effort.

DiMaggio and Powell (2001) propose the role of social capital in supporting small-to-middle business to develop network and expansion of export market shares. Through the development of social capital included on it is network quality, trust development as a transparent and certifiable communication model in building the commitment of co-business development interest and the reinforcement of business communities through common share in the togetherness to unify the view of company's vision and mission known as norm; it is a social capital to be built in term of supporting and increasing small-to-middle business competitiveness including wood craft industries in Bali area which is the main focus of this study.

Once social capital has been successfully aroused as human capital to add value on wood craft business, in the next step, hopefully it may be supported by a proper formulation of the government policy. In this sense, the presence of the government may be a stimulant to strengthen the presence of social capital as the development trigger of craft business competitiveness.

In the idea model developed by business world in its first level, it focus to develop its independency through cooperation appliance process in the togetherness, formulation of common steps, building production network and export-oriented market shares. The second step of the development model is to invite the government presence as a facilitator and guider in order to strengthen the fast growing social capital in the earlier level of the management.

DiMaggio and Powell (2001) propose the integration between the concept of RBV and new institutional theory to focus on institution role in defining social behavior. This perspective may be relevant with the atmosphere of little-to-middle industries (IKM) in Indonesia since the resulted changes from their business performance cannot be separated from the atmosphere of culture, political interest, and dynamical condition of the society.

Based on the abovementioned background description, the research problems can be formulated as: (1) how far has the government impacted on the business performance? (2) How far has the government impacted on the business competency? (3) How far has the government impacted on continuous competitiveness? (4) How far has the IKM competency impacted on business performance? (5) How far has the business competency impacted on the continuous competitiveness? (6) How far has the local culture impacted on business performance? (7) How far has the local culture impacted on continuous competitiveness? (8) How far has business performance impacted on the continuous competitiveness? (9) How far has the government policy impacted on business performance through business competency mediation? (10) How far has the government policy impacted on business competitiveness through business performance mediation? (11) How far has business competency impacted on business competitiveness through business performance mediation? (12) How far has local culture impacted on business competitiveness through business performance mediation?

2. LITERATURE OVERVIEW

Competitiveness is a general concept commonly used in the economic term, referring into commitment of market competition in the term of companies' business, and the success of international competition in term of nations.

With the increasingly globalized world economy and the existence of free market, competitiveness has been one of key concepts for companies, nations, and areas to be successful in their participation within globalization and world free market (Markovics, 2005).

Applying the concept of competitiveness, Man (2002) generates a conceptual model to connect some characteristics from mangers or the IKM owners and the company performance in long term. Conceptual model for competitiveness consists of: the scope of company's competitiveness, organization capability of the company, businessmen/business owners' competencies, and performance. Competitiveness is company capability, local/national/or inter-local industries to generate relatively high and continuous earning and vocation factors in order to confidently encounter international competition.

Three characteristics are found within competitiveness i.e. potency, process, and performance. Other than those contributing factors, competitiveness has been also characterized by long-term orientation, controllability, relativity, and dynamics. In addition, there are three important aspects affecting the IKM competitiveness i.e.: company's internal factors, external environment, and businessmen/business owner's impact. Competitiveness of the company may reflect from the competitiveness of the actual products itself. The company's competitiveness is defined by seven important factors, among which are skill or employee's education level, businessmen's skill, capital availability, organization system, and the proper management (appropriate with the business needs), technology availability, information availability, and other inputs such as energy and raw material (Tambunan, 2009).

According to Tambunan (2008), the highly competitive IKM is characterized by: (1) the continuously increasing growth level of its production volume, (2) the more and more increasing domestic and/or export market shares, (3) domestic market in particular does not only serve local market, but national market as well, and (4) export market in particular does not only serve single nation market, but multiple-nation market as well. The superiority of competitiveness is the

company's capability to consistently win in a long term of competitive situation. To be able to compete in the market, the most important effort to be focused on is to empower the IKM businessmen themselves to be fully responsible and increase cooperation with government apart from possessing sufficient capability and skill.

The concept of Balinese local culture keeps some value potencies to regulate social institution, norms, and custom law (Koentjaraningrat, 1987). Democracy values, peaceful life, tolerance, and brotherhood spirit (*menyama-braya*) are also included. Democracy values in the concept of brotherhood spirit (*menyama-braya*) are believed as a beneficial social, religious, and cultural capital whenever its appliance is extended to the aspect of business management.

The local wisdom to be tracked through Balinese culture potency with the symbol of *menyama-braya* includes togetherness spirit within it as described by Zuhro (2009) and Gaffar (2004). In the dynamical global life, the global market competition may bring about social change in Bali society which may finally strengthen the endurance of local wisdom or even weaken it (Plano, 1982).

The local wisdom of Balinese culture found in the *menyama-braya* spirit such as appreciation for individual rights, the spirit of cooperation, tolerance toward diverse perspectives is a basic capital to be increased as the foundation of social capital as formulated by Putnam (1978). The social change in society as the impact of global market is a dynamical process which may further affect on opportunity, challenge, and success of social change toward empowerment of local values in supporting social structure.

It is common that communication facility is highly required to develop business activity to connect one party to others. Businessmen as individual also have to push their effort to develop sufficient ability to adapt themselves to cooperate in an organization. The organized and managed cooperation pattern based on specific purposes to connect each other is strongly defined by how deep such relation pattern connects each other (Corodanu, 2000).

Trust is one aspect of social capital to be basic foundation in order to close the gap between communities and put it in togetherness in which all joining members in the community will have their portion of benefit themselves on the business activities they conduct. This may be a trigger and finally bear a good impact in the form of wealth for the communities. Social capital approach is run by conducting human resource development through networking potency including bonding, bridging, and linkage.

One form of communities to be developed as a social capital to support production and additional values is the norm of mutual cooperation organization. The businessmen's perspective toward this kind of norm is that businessmen's social power can be realized in the production and infestation activities so that potency of the mutual cooperation norm can be real power as a capital for organization development.

Government's role to serve small industrial entrepreneur in some countries, particularly the United States, has been noticed since Thomas Jefferson run the office, far from the moment of Indonesia independence. One of the prominent roles of the government function is to support the growth of small industry by aiding facilities and technology development. Government function has been patterned in a particular function which permanently supports the growth of small industry. This policy, in fact, has contributed to strengthen the growth of small industry to develop bigger with other type of business (Phillips, 2002).

Government regulation toward small industry has also been developed by some considerably thorough policies such as placing small industry collaboration in the economy area zone in which the model of such zone is intended to be a strategy to integrate market shares, capital aid (funding), training center, and partnership cooperation from many industries in such zone area with the bigger enterprise as the foster father of those small industries joined in the small industrial cooperation area. The government can also regulate the taxation rules through stimulus fiscal aiming to provide state's protection to the existence of small industries (Spiegel, 2002).

DiMaggio and Powell (2001) propose a concept of new institutional approach as an external factor to define success of company's resources in increasing and maintaining their competitiveness to be held still at its performance turning. New institutional approach is considered relevant with the condition of developing countries in which norms, tradition, culture, and politic have been deeply rooted to the society order. This may be determinant actor to play revolution toward industry with the support of highly competitive resources. When the resources is developed by synchronization with norms and local culture, revolution can be directed correctly and combined harmonically to create integration of local culture values to provide support for the change of traditional culture pattern toward competitive industrial revolution.

3.   RESEARCH METHODOLOGY

Population in this research consists of all businessmen of wood craft industry in Sarbagita area, Bali province numbered to 890. Sampling is applied randomly (random sampling method) and the sampling technique applies Slovin formulation (in Riduwan, 2007). The sample for this research amounts to 276 people.

Research variable is divided into two groups, i.e.: 1) latent Variable; this type of variable is formed through observed indicators in the real world or, in other words, the unobservable variable. The latent variables in this research consist of: government role (X_1), competency role (X2), social capital role (X3), performance (Y1), and competitiveness (Y2); 2) measured variables or indicator variables are those which can be measured directly, and the indicator variables are those which form latent variables (Widarjono, 2010).

Data collecting technique will be done by followings: (1) observation, which is non-behavior observation method to collect secondary data from the concerned institution; (2) interview, which is the interview to be done in both structural and depth interview. The structural interview will be applied to collect primary data through interview with respondents using the previously prepared questionnaires. In depth interview applied to gain primary data from the concerned and competent vices of government officials provides information in accordance with purposes of this research.

Data analysis technique is applied both qualitatively and quantitatively. When analyzed quantitatively, the data analysis applies Partial Least Square Path Modeling (PLS-PM).

Conceptual Framework:
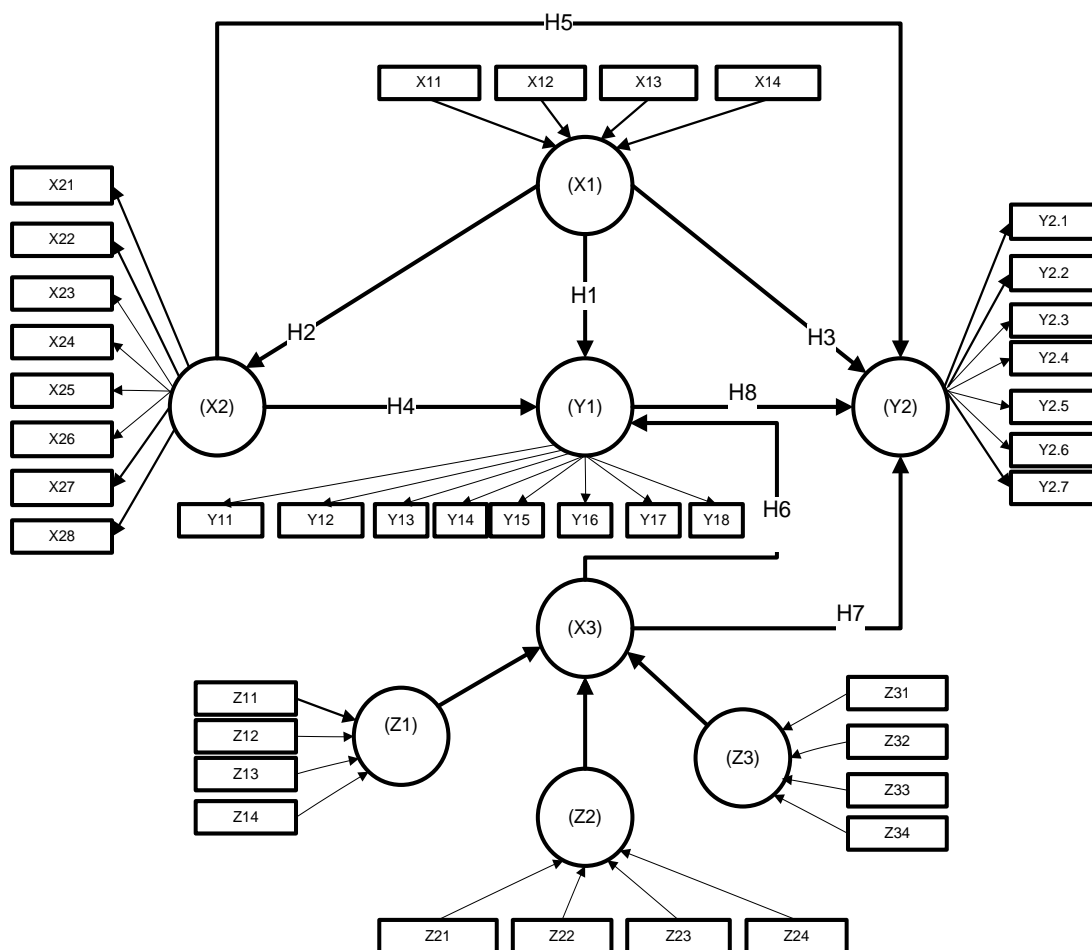
Hypothesis:

The hypotheses of this research are:

H1: government variable has positively impacted on business performance

H2 : government variable has positively and significantly impacted on business competency

H3 : government variable has positively and significantly impacted on continuous competitiveness in Sarbagita area, Bali province

H4 : competency has positively ad significantly impacted on business performance

H5 : competency has positively and significantly impacted on continuous competitiveness.

H6 : local culture has positively and significantly impacted on business performance

H7 : local culture has positively and significantly impacted on continuous competitiveness

H8 : business performance has positively and significantly impacted on continuous competitiveness

H9 : government policy has positively and significantly impacted on business performance through business competency mediation

H10 : government policy has positively and significantly impacted on business competitiveness through business performance mediation

H11 : business competency has positively and significantly impacted on business competitiveness through business performance mediation

H12 : local culture has positively and significantly impacted on business competitiveness through business performance mediation

4. RESULT AND DISCUSSION

Structural model is developed on two steps. First step is first order to gain some answer on the already formulated research goals. First step has not answered all needs of the research goals which have been formulated from the beginning, among which is the role of each social capital component in shaping local culture potency expected to have sufficient perception not only in supporting business performance (Y1), but directly impacting on business competitiveness as well (Y2).

In order to answer all purposes of this research to be escalated as the research hypotheses, we will need analysis model development of *second order hierarchy model* as suggested by JorgHenseler (2010), Hsin Lin (2005) and Christian M. Ringle, (2013). Some reflective latent variables have no co-vary character, making it irrelevant to be used as information to support the research result, since the spread values of loading factor which has no co-vary show that latent reflective character has no single dimensional character.

First order procedure shown on all latent variables has spread indicator on first step without gradualness. Second order model to be developed is by re-decreasing to the arrangement level of second level's latent variable, i.e. for latent variable of local culture (X3) constructed by some components such as *trust* (Z1), *network* (Z2) and *norms* (Z3).

Latent variable of local culture (X3) directly decreases as much as 12 indicators which can be described as first latent order to draw situation that local culture (X3) is affected simultaneously by three local culture components without classifying based on local culture component, making us hard to recognize perception contribution to role of each social capital component such as trust (Z1), network (Z2), and norm (Z3) on local culture potency.

As many as 12 variables are defined to be hypothetical formula, four of which are intermediation to describe process of indirect impact relationship through variable role of business performance (Y1) and intermediation process from local culture (X3), business competency (X2) and the role of government policy (X1) to further shaping its ending goal, which is the business competitiveness (Y2).

From the prediction between the correlating variables one another, in fact, there is only one parameter to have negative sign, which is the impact of local culture (X3) on business competitiveness (Y2).

Based on analysis result of statistic t, we gain 3 non-significant research goals based on mistake level of 5 percents. The rest of 9 research goals can be answered on this research. Table 1 is re-quoted to gain analysis result of bootstrapping more closely for number of sampling as much 276 unit analysis.

Tabel 1 *Second Order Latent* **:** *Bootstrapping PATH COEFFICIENT*

Variable Names	Original Sample	Sample Mean	Standard Deviation	Standard Error	T Statistics
X1 -> X2	0.1808	0.1731	0.1322	0.1322	1.36764
X1 -> Y1	0.0013	0.0796	0.2085	0.2085	0.00611
X1 -> Y2	**1.2506**	**1.045**	**0.5026**	**0.5026**	**2.4883***
X1 * X3 -> Y1	**-2.0509**	**-1.9605**	**0.5118**	**0.5118**	**4.0072***
X2 -> Y1	0.1777	0.1704	0.1345	0.1345	1.32111
X2 -> Y2	**2.3635**	**2.2503**	**0.4421**	**0.4421**	**5.3459***
X2 * X1 -> Y1	**1.7813**	**1.6367**	**0.3855**	**0.3855**	**4.6204***
X3 -> Y1	**3.0618**	**2.9022**	**0.4991**	**0.4991**	**6.1341***
X3 -> Y2	**-3.0789**	**-3.1123**	**0.9921**	**0.9921**	**3.1035***
X3 * X2 -> Y1	**-1.9058**	**-1.7655**	**0.4534**	**0.4534**	**4.2032***
Y1 -> Y2	**2.1703**	**1.6841**	**1.0027**	**1.0027**	**2.1646***
Y1 * X1 -> Y2	**-1.7842**	**-1.4513**	**0.9577**	**0.9577**	**1.8631***
Y1 * X2 -> Y2	**-3.2129**	**-3.028**	**0.606**	**0.606**	**5.3017***
Y1 * X3 -> Y2	**3.8298**	**4.0966**	**1.8716**	**1.8716**	**2.0463***

*) t.05 = 1.650

* **The role of government policy toward IKM performance:**

The role of government policy (X1) has actually had a positive and significant impact on business performance (Y1), based on mistake level of 5 percent, making the role of government policy toward development of business performance able to be further developed into the level of this research development. The business performance of wood craft in Sarbagita may be increased through the active role of the concerned local/regency government. The prediction of government policy i.e. 0.0013 is actually positioned far under the value of sample average 1.0706 (see table 5.1). This indicates that people perception is still far under sample average value. Based on this data, we may state that the government performance based on people average perception has actually proven   bigger than prediction gained from the statistical analysis.

* **The government policy toward IKM competency:**

The role of government policy (X1) toward IKM competency has actually proven non-significant; which is t value = 1.36764 still smaller than t table value = 1.650 (5 percentage of mistake level). Herewith, this research is unsuccessful in providing research result in relation to government policy on IKM competency to the research recommendation level. Based on interview result with some respondent samples through advancing in-depth interview, there is description that businessman perception toward businessman empowerment is quite weak, indicated by the communication lack between the businessmen and the local government, in relation with opportunity of training development in relation with the importance of business development, such as providing skill of craft product technique.

* **The impact of government policy on competitiveness:**

The role of government policy (X1) has actually impacted on business competitiveness (Y2) both significantly and positively, based on 5 percentage of mistakes, making the role of government policy toward business competitiveness can be continued further into the level recommended by this research. The business performance of wood craft industries in Sarbagita area can be increased by the active role city/regency government. The prediction of government role as 1.045 has actually still been smaller than sample average value, amounting to 1.2506 (see Table 5.1) indicating that people perception has still been under sample average. This indicates that government performance based on people average perception has been proven bigger than the prediction gained from statistical analysis.

* **The Impact of Competency toward IKM Performance:**

The role of IKM competency (X2) toward IKM performance (Y1) actually is not significant by the value of t = 1.32111. This value has actually still been smaller than the value of table t amounting to 1.650 (5 percents of mistake level). Conclusively, this research cannot prove the impact relationship between IKM competency role and IKM performance so

this research does not give any research recommendation. Based on interview result with some respondent samples through in-depth interview, there has been a description indicating that businessmen perception toward competency is ignored, in which the businessmen has no selection strategy to be used as reference to recruit new employees. Conclusively, competency is not an important variable that supports the improvement of business performance.

∗ **Business competency and Business Competitiveness Usaha:**

The competency of business world reflects activity process in generating quality-oriented products to be exported. Conclusively, competency becomes one of important keys to produce export market share products.

∗ **The role of Local Culture Toward Business Performance:**

Local culture is mapped as a derived construct to be the second order. In fact, based on test criteria with the mistake percentage of 5 percents, we have value of t statistical table which is smaller than counted t value amounting to 6.1341. Based on that statistical partial test, we may conclude that local culture has positively and significantly impacted on IKM business performance.

∗ **Local Culture Toward Competitiveness:**

The role of local culture (X3) constructed from social capital components (trust, network and norms) has actually impacted on business competitiveness (Y2) with negative and significant statistical test result based on mistake level of 5 percents, in which t value = 3.1035 has actually been higher than t table of 1.650. Based on the analysis result of that statistic, we may conclude that local culture toward business competitiveness can be further carried on to the level of this research recommendation.

∗ **IKM Performance Toward Competitiveness:**

IKM performance (Y1) actually has positively and significantly impacted on business competitiveness (Y2) with positive and significant statistic test result with mistake level of 5 percent, in which t value = 2.1646 has actually been still higher than t table value amounting to 1.650. Based on that statistical analysis result, we may conclude that the role of business performance toward business competitiveness can be further carried on to the level of this research recommendation.

∗ **Government Policy Intermediation Toward Business Performance:**

Government policy has not successfully been proven to impact significantly on IKM business competency in Sarbagita area. However, seen from the process, there has been an indirect impact from the role of government policy toward business performance through business competency. This actually has t statistic value of 4.6204 which has actually been higher that t table value amounting to 1.645.

∗ **Government Policy Intermediation Toward Business Competitiveness Through Business Performance:**

The impact of business competency (X2) on business performance (Y1) is not significant based on t test criteria with mistake level of 5 percent. However, the investigation on indirect impact of business competency on business competitiveness (Y2) through business performance (Y1) actually has shown that it has a positive and significant impact. The government plicy has also indirectly impacted on business competitiveness (Y2) through business performance (Y1). If so, the government role can be strategic power for increasing IKM role in maintaining their export market shares in the international market.

∗ **Business Competency Intermediation Toward Business Competitiveness Through Business Performance Mediation:**

Business competency (X2) has indirect impact relevance on business competitiveness (Y2) through business performance (Y1). Such indirect impact is positive so the increase of business competency does not only increase business performance, but business performance reinforcement to support business competitiveness as well.

∗ **Local Culture Intermediation Toward Business Competitiveness Through Business Performance Mediation:**

Local culture has its own specific position to observe the problem of IKM performance in Sarbagita area. The local culture to be constructed as second latent order has shown that the local culture is formed from network, norm and trust components which actually have the same important role in shaping IKM local culture.

5. CONCLUSION

Conclusion to be delivered in regard of this already described discussion result is: (1) the role of government policy actually has positively and significantly impacted on business performance. This indicates that the research is able to answer the research goals. (2) The role of government policy toward IKM competency actually is not significant. This indicates that this research has failed to answer the research goals. An in-depth interview with respondents shows that IKM businessmen have no close relationship with development run by the government. (3) The role of government policy has a positive and significant impact on business competitiveness, bringing us to conclude that government presence can provide reinforcement for IKM business competitiveness. (4) IKM competency actually has not significantly impacted on IKM performance indicating that this research cannot put the relationship between IKM competency and IKM performance in place. Interview result with some respondent samples shows that there has been description of strongly ignored businessmen's perception on competency, in which they have no selection strategy to be applied as a reference in recruiting new employees. This indicates that competency is not an important variable to support business performance improvement. (5) The competency of business world reflects activity process in producing potentially exported products with quality-oriented criteria. This makes competency become one of important keys to produce potential export market share products. Local culture is mapped as a construct to be derived as the second order. In fact, based on statistical test, local culture has positively and significantly impacted on IKM business performance. This indicates that local culture has an important role in defining IKM business performance. (7) The local culture actually has positively and significantly impacted on business competitiveness, making local culture as strategic variable define IKM business competitiveness. (8) IKM performance actually has positively and significantly impacted on business competitiveness. This brings us to conclude that IKM performance is the determinant in reinforcing business competitiveness. (9) Government policy has positively and significantly impacted on business performance through role of IKM competency mediation. Based on this research result, the government policy is proven to keep an important role through IKM performance mediation. (10) The government policy has positively and significantly impacted on IKM business competitiveness through the role of business performance mediation. Based on this research result, it is proven that the government policy has an important role in reinforcing business competitiveness trough IKM performance mediation. (11) Business competency has positively and significantly impacted on business competitiveness through IKM business performance. This indicates that the clear competency in its position toward performance variable, in fact, directly needs mediation effort to define business competitiveness. (12) Local culture has positively and significantly impacted on business competitiveness through the role of business performance. This indicates that local culture is able to reinforce business competitiveness indirectly by reinforcing business performance on the first process, and further impacting on reinforcing of business competitiveness on the next step.

6. RECOMMENDATION

Some recommendations to be delivered in regard of the result of already described discussion are as followings: (1) Local culture consisting of trust, norm and network components has been proven to provide support for performance and IKM business competitiveness. Such positive perception should be able to be implemented by IKM business. (2) The local government (regency/town) has heterogeneous guiding patterns between one government and the others. This, in one side, makes cohesiveness in guidance able to get government togetherness even closer with IKM businesses in the effort of developing local culture-based business power (3) this research shows that business perception in developing cooperation has been proven by the role of local culture inside which are dimensions of trust, norms and network. Therefore, implementation on local culture power is highly required as a social capital to be developed in the IKM businessman level in order to empower business competitiveness among the fully competing global markets.

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